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BANKS, MFIS SEEK TIME TO IMPLEMENT NEW GUIDELINES

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MUMBAI :

Banks and microfinance institutions have sought more time to implement the Reserve Bank of India’s new guidelines for MFIs, said bankers aware of the matter.

The guidelines, issued on 14 March and expected to come into effect from 1 April, allow MFIs to set their own interest rates for loans, provided the rates are not exorbitant.

Besides, the RBI has also revised the definition of MFI loans to a collateral-free loan to households having annual income of up to 3 lakh. Earlier, the cap was at 1.2 lakh for a rural household and 2 lakh for urban borrowers.

MFIs and banks are seeking at least three months to implement the new guidelines that require board approval. “We have requested for a quarter’s time for implementing some of the finer points. We are giving the guidelines on interest calculation and assessment of household income. We have circulated a credit assessment framework. It will take some time to go to the board, and get an approval before we can implement it. Lot of information must also be displayed in branches," said P. Satish, executive director, Sa-Dhan. Besides, collecting income data of household is becoming a challenge considering that banks typically look at an individual’s income, bankers said. “We have to collect data on how many members of a family are working and the income source. This survey is becoming a bit challenging to implement before 1 April," said an executive of a private sector bank. Under the new guidelines, RBI has also put a cap on the maximum repayment value to 50% of the monthly household income to ensure customers are not burdened. Thus, if the household income is 3 lakh, the maximum loan instalment a borrower can pay must not exceed 1.5 lakh per year. Besides, there will be no prepayment penalties on microfinance loans.

“MFIs were expecting strong fresh credit cycle in FY23, which should get a boost from the RBI guidelines, providing enough flexibility and clarity on conducting business. That said, these players will have to maintain credit discipline even at the cost of higher operating expense and also counter-cyclical provision buffers, which may moderate the otherwise high return on equity a bit. Overall, the RBI guidelines are credit-positive for the sector, especially for NBFC-MFIs," Emkay research said.

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