Microfinance Loan Policy

Meghalaya Rural Bank

DEPARTMENT: ADVANCES DEPARTMENT

VERSION CONTROL

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1. Introduction:

1.1 Reserve Bank of India (RBI) had issued Master Directions/guidelines on "Regulatory Framework for Microfinance Loans" vide Circular RBI/DOR/2021- 22/89-DoR.FIN.REC.95/03.10.038/2021-22 dated 14/03/2022 and updated on 10.10.2024.

2. Definition of Microfinance Loan

2.1 A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.

2.2 All collateral-free loans, irrespective of end use and mode of application/ processing/ disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to ₹3,00,000, shall be considered as microfinance loans.

2.3 To ensure collateral-free nature of the microfinance loan, the loan shall not be linked with a lien on the deposit account of the borrower.

The loans are being disbursed/utilised irrespective of the availability of a Micro Credit Plan, and the end-use in terms of asset creation is not being specifically ascertained. Accordingly, the facility may be classified as a purpose-neutral loan, and margin stipulation may be considered as not applicable (NIL).

2.4 The Bank shall have the discretion to structure the repayment periodicity of microfinance loans based on the borrower's repayment capacity and preference. While determining the repayment frequency, the components of household income shall be duly assessed, and the primary income source—constituting more than 50% of the total monthly household income—shall be the basis for fixing the repayment cycle. Repayment periodicity may be set on a weekly, fortnightly, or monthly basis.

In cases where the repayment schedule is structured on a weekly or fortnightly basis, the monthly instalment amount shall be apportioned accordingly. The Bank shall ensure that all repayment-related terms are transparently disclosed to the prospective borrower at the time of sanction.

2.5 The repayment tenure for microfinance loans shall not exceed 36 months, inclusive of a maximum permissible moratorium period of up to 2 months. ***An internal loan limit of ₹2,00,000.00 per borrower shall be fixed under the microfinance segment, in line with the Reserve Bank of India's norms. The microfinance product should be structured as a term loan with a fixed repayment schedule rather than as a cash credit facility. Accordingly, the product code assigned to microfinance loans shall reflect a term loan-based facility to facilitate proper monitoring and repayment tracking.***

3. Assessment of Household Income

3.1 Household income shall be assessed in accordance with the indicative methodology outlined in Annex I.

3.2 Bank shall mandatorily submit information regarding household income to the Credit Information Companies (CICs). Reasons for any divergence between the already reported household income and assessed household income shall be specifically ascertained from the borrower/s before updating the assessed household income with CICs.

4. Limit on Loan Repayment Obligations of a Household

4.1 *The total monthly loan repayment obligations of a household shall not exceed 50% of the household's verified monthly income, in line with the prescribed indebtedness cap.*

4.2 The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50 per cent of the monthly household income shall include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration.

4.3 Existing loans, for which outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income exceed the limit of 50 per cent, shall be allowed to mature. However, in such cases, no new loans shall be provided to these households till the prescribed limit of 50 per cent is complied with.

4.4 Bank shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness. Besides, the Bank shall also ascertain the same from other sources such as declaration from the borrowers, their bank account statements and local enquiries.

The Bank already has already in place system to collect data of MFI borrowers in the required format and share it with Credit Information Companies (CICs).

5. Pricing of Loans

5.1 Bank will put in place a separate and distinct product for Micro-finance Loans, covering pricing of microfinance loans which shall, inter alia, cover the following:

(i) A well-documented interest rate model/ approach for arriving at the all- inclusive interest rate;

(ii) Delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters;

(iii) The range of spread of each component for a given category of borrowers; and

(iv) A ceiling on the interest rate and all other charges applicable to the microfinance loans.

(In line with the illustration set forth in Annex II.)

5.2 Interest rates and other charges/ fees on microfinance loans should not be usurious.

5.3 The Bank shall provide pricing-related information to prospective borrowers through a standardized, simplified factsheet, as per the illustration provided in Annex III. ***The Key Fact Statement must be issued in both Khasi and Garo languages, apart from English, to ensure that borrowers clearly understand the terms and conditions of the loan in their native language.***

5.4 Any fees levied on microfinance borrowers by the Bank and/or its partner/agent shall be clearly disclosed in the factsheet. The borrower shall not be charged any amount that is not explicitly mentioned in the factsheet.

5.5 The factsheet shall also be made available for other loan products (i.e., collateralised loans) extended to borrowers from low-income households.

5.3 There shall be no pre-payment penalty on microfinance loans. Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount.

5.4 Bank shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its Branches/offices, in the literature (information booklets/ pamphlets) issued by it and details on its website. This information shall also be included in the Supervisory returns and will be subjected to supervisory scrutiny.

5.5 Any change in interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.

5.6 Bank would make available information regarding interest charged by Bank on microfinance loans to the regulators (RBI).

6. Guidelines on Conduct towards Microfinance Borrowers

6.1 General Guidelines

6.1.1 Bank has a Fair Practices Code (FPC) towards its customers, which shall be updated suitably based on above directions. The FPC shall be displayed by the Bank in all its Branches/ offices and on its website. The FPC should be issued in a language understood by the borrower.

6.1.2 There shall be a standard form of loan agreement for microfinance loans in a language understood by the borrower.

6.1.3 Bank shall provide a loan card to the borrower which shall incorporate the following:

(i) Information which adequately identifies the borrower;

(ii) Simplified factsheet on pricing;

(iii) All other terms and conditions attached to the loan;

(iv) Acknowledgements by the Bank of all repayments including instalments received and the final discharge; and

(v) Details of the grievance redressal system, including the name and contact number of the nodal officer of the Bank.

6.1.4 All entries in the loan card should be in a language understood by the borrower.

6.1.5 Issuance of non-credit products shall be with full consent of the borrowers and fee structure for such products shall be explicitly communicated to the borrower in the loan card itself.

6.2 Training of Staff

6.2.1 Bank shall in its training programmes for staff ensure training on an ongoing basis on various aspects of banking, including conduct and behaviour towards customers. Bank will ensure that system and procedures regarding their recruitment, including minimum qualifications, training and monitoring are in place.

6.2.2 Field staff shall be trained to make necessary enquiries regarding the income and existing debt of the household.

6.2.3 Training, if any, offered to the borrowers shall be free of cost.

6.3 Responsibilities for Outsourced Activities

6.3.1 Outsourcing of any activity by the Bank does not diminish its obligations and the onus of compliance with these directions shall rest solely with the Bank.

6.3.2 A declaration that the Bank shall be accountable for inappropriate behaviour by its employees or employees of the outsourced agency and shall provide timely grievance redressal, shall be made in the loan agreement with borrower and also in the FPC displayed in its office/ branch premises/ website.

6.4 Guidelines related to Recovery of Loans

6.4.1 Bank shall put in place a mechanism for identification of the borrowers facing repayment related difficulties, engagement with such borrowers and providing them necessary guidance about the recourse available.

The Bank will closely monitor the borrower's repayment cycle and ensure adherence to the schedule. Any instances of delinquency will be promptly identified, and borrowers will be consulted immediately. If necessary, a reassessment of household income will be conducted to identify significant variations in income that may affect the borrower's ability to meet repayment obligations. If required, the repayment tenure may be adjusted through restructuring or a flexible repayment schedule, extending beyond the initial contractual period of 36 months. The repayment tenure may be relaxed based on the revised assessment of household income, within the overall repayment ceiling, with a maximum relaxation of up to 24 months.

Furthermore, the Business Unit (BU) may establish specific guidelines for identifying such borrowers, engaging with them, and exploring available remedies specific to the product when formulating any new product.

6.4.2 *Recoveries may be made at any branch of the Bank or a Kiosk/Customer Service Point of the appointed Banking Correspondent (BC). However, field staff may be permitted to recover payments at the borrower's place of residence or workplace under the following conditions: (a) if the account is irregular, (b) if the borrower fails to appear at the Home Branch or Kiosk on two or more consecutive occasions, or (c) if the borrower requests such an arrangement.*

6.4.3 Bank or its agent shall not engage in any harsh method towards recovery. Without limiting the general application of the foregoing, following practices shall be deemed as harsh:

(i) Use of threatening or abusive language

(ii) Persistently calling the borrower and/ or calling the borrower before 9:00 a.m. and after 6:00 p.m.

(iii) Harassing relatives, friends, or co-workers of the borrower

(iv) Publishing the names of borrowers

(v) Use or threat of use of violence or other similar means to harm the borrower or borrower's family/ assets/ reputation

(vi) Misleading the borrower about the extent of the debt or the consequences of nonrepayment

6.4.4 *The Bank's grievance redressal mechanism, including the Contact Center, Branches, and other Administrative Offices, shall also be available for addressing grievances related to microfinance loans. Contact details, such as phone numbers and email addresses, for raising grievances will be provided to the borrower at the time of loan disbursement.*

6.5 Engagement of Recovery Agents

6.5.1 Recovery agents shall mean agencies engaged by the Bank for recovery of dues from its borrowers and the employees of these agencies.

6.5.2 Bank shall have a due diligence process in place for engagement of recovery agents, which shall, inter alia, cover individuals involved in the recovery process. Bank shall ensure that the recovery agents engaged by them carry out verification of the antecedents of their employees, which shall include police verification. Bank shall also decide the periodicity at which re- verification of antecedents shall be resorted to.

6.5.3 To ensure due notice and appropriate authorization, the Bank shall provide the details of recovery agents to the borrower while initiating the process of recovery. The agent shall also carry a copy of the notice and the authorization letter from the Bank along with the identity card issued to him by the Bank or the agency. Further, where the recovery agency is changed by the Bank during the recovery process, in addition to the Bank notifying the borrower of the change, the new agent shall carry the notice and the authorization letter along with his identity card.

6.5.4 The notice and the authorization letter shall, among other details, also include the contact details of the recovery agency and the Bank.

6.5.5 The up-to-date details of the recovery agencies engaged by the Bank shall also be hosted on the Bank's website.

7. Product Parameter: *Detailed product parameters, in line with the Master Directions, will be formulated and established separately.*

8. NPA:

a) ***Recognition of NPAs:*** *NPAs will be recognized in accordance with the RBI guidelines.*

b) ***Compromise and Settlement:*** *The Bank's existing compromise and settlement policy will apply to microfinance loans.*

9. **Internal Audit:** *Microfinance loans will be included within the scope of internal and statutory audits conducted by the Bank. Additionally, any specific requirements from the Government of India, in cases where loan accounts are eligible for interest subvention, will be adhered to. The Bank's existing RFIA and statutory audit guidelines will be applicable to these loans*

10. Provisioning/Reporting Requirement: *The Bank will follow provisioning norms, including the declaration of accounts as NPAs, as per the applicable regulatory guidelines. The Bank will comply with its reporting requirements, including reporting to Credit Information Companies, in accordance with the relevant laws and regulations for microfinance loans.*

11. Miscellaneous

a) ***Process and SOP****: The General Manager (Operations) of the vertical will be authorized to approve the SOP and processes, as well as any modifications, reviews, or revisions related to microfinance loans.*

b) ***Review/Renewal of the Policy****: This policy will be applicable to all Business Units (BUs) and aligns with the RBI's policy on microfinance loans. It will be reviewed every two years, or earlier if deemed necessary due to significant regulatory or instructional changes from RBI or the Government of India. Any updates to the regulatory guidelines or instructions will be communicated to branches/offices, subject to approval from the Credit Risk Management Committee subject to Board approval, if and when necessary. These changes will be considered part of the policy until the next formal review.*

c) **Authority for Deviation**: The authority to approve any deviation from the policy lies with the Chairman of the Bank.

Annex I
(Para 3.1 of these Directions)

Indicative Methodology for Household Income Assessment

1. For undertaking the income assessment of a low-income household, information related to following parameters may be captured by the lender:

(i) Parameters to capture household profile

a) Composition of the household

i. Number of earning members

ii. Number of non-earning members

b) Type of accommodation (owned/ rented, etc.)

c) Availability of basic amenities (electricity, water, toilet, sewage, LPG connection, etc.)

d) Availability of other assets (land, livestock, vehicle, furniture, smartphone, electronic items, etc.)

(ii) Parameters to capture household income

a) Primary source of income

i. Sector of work (Agriculture & allied activities, trading, manufacturing, services, etc.)

ii. Nature of work (Self-employed or salaried, regular or seasonal, etc.)

iii. Frequency of income (daily/ weekly/ monthly)

iv. Months/ days of employment over last one year

v. Self-reported monthly income

vi. Average monthly income (to be derived from (iv) & (v) above)

b) Other sources of income

i. Remittance

ii. Rent/ Lease

iii. Pension

iv. Government transfer

v. Scholarship

vi. Others (specify details)

c) The income assessment as above may be carried out for all earning members with respect to all sources (primary or secondary) of income. While assessing income of all members from all sources, it may be ensured that there is no double counting of income such as counting of salary income of one migrant member also as remittance income for the household.

d) While the income computation may be done on a monthly basis, the income assessment for all members and sources may be carried out over a period of minimum one year to ascertain the stability of the household income.

(iii) Parameters to capture household expenses

a) Regular monthly expenses (food, utilities, transport, house/ shop rent, clothing, regular medical costs, school/ college fees, etc.)

b) Irregular expenses over last one year (medical expenses, house renovation, purchase of household goods, functions, etc.)

2. Self-reported income at 1(ii) above may be corroborated with the profile of household at 1(i) and household expenses at 1(iii). Further, household income may also be verified from other sources (bank account statements of the borrowers, group members, other references in the vicinity, etc.).

Illustration for Determining the Household Income Assessment							
1	**Parameters to Capture Household profile**						
	a	Number of earning members : 2					
	b	Number of non-earning members : 3					
	c	Type of Accommodation (Owned/Rented etc.)					
	d	Availability of basic amenities (electricity, water, toilet, sewage, LPG Connection etc.)					
	e	Availability of Other Stocks (Land, livestock, vehicle, furniture, smartphone, electronic items etc.)					
2	**Parameters to capture household income**						
		Primary Source of Income:		**Nature of Work:**			
		Source of Income	**Frequency(daily/fortnightly /monthly/Quarterly)**	**Avg. days of employment over a month**	**Avg. months /days of employment over a year**	**Income per day/month (In Rs)**	**Total income during a Year (In Rs)**
		Earning Member 1	**A**	**B**	**C =**	**D**	E=C*D
		Salary	Monthly		8	5000	40000
		Daily Wager	Daily	22	=22*12 =264	300	79200
		(Self-reported monthly income)					
		Pension	Monthly		12	800	9600
		Earning Member 2					
		Salary	Monthly	NIL			

		Daily Wager	Daily	22	=22*12 =264	300	79200
		(Self-reported monthly income)					
		Pension					
		Family Income					
		Remittance	Monthly			2000	24000
		Rent/Lease	Monthly		12	1000	12000
		Government Transfer	Quarterly			1800	7200
		Other (Please Specify)					
		Total					**251200**
		Households Expenses					
		Food	Monthly		12	8000	96000
		Utilities	Monthly		12	3000	36000
		Regular Medical Cost	Monthly		12	2000	24000
		Other Recurring Expesnes	Monthly		12	2000	24000
		(Clothing/transport/fees etc.)					
		Irregular Expenses over last one Year	Yearly		1	25000	25000
		Total Expenses					**205000**

Annex II

Illustration for Determining the Interest Rate on Microfinance Loans interest rates for fixed rate loans of tenor up to three years shall not be less than the sum of following:

Sr. No.	Parameter	Details
(i)	Cost of fund (as on 31.03.2025)	3.36%
ii.	Net Interest Margin (as on 31.03.2025)	4.12%
iii	Operational Cost (towards Servicing of MFI borrowers at 200 basis points over and above the sum of cost of funds and the NIM as on 31.03.2025)	2.00%
	Effective interest rate on MFI loans to be reset after one year and may increase or decrease subject to Bank's discretion from time to time: The maximum interest rate on microfinance loans shall not be more than 20%. If MCLR increase causes the overall rate to go more than 20%, the spread shall be reduced to keep overall interest rate within 20% ceiling.	9.48%

The interest rate on fixed-rate microfinance loans with a tenor of up to three years is determined by aggregating three key components: the cost of funds, the net interest margin (NIM), and the operational cost. As of 31.03.2025, the cost of funds is 3.36%, and the NIM stands at 4.12%. In addition to these, an operational cost of 200 basis points (i.e., 2.00%) is added to account for the higher servicing and administrative costs associated with microfinance lending. This results in an effective minimum interest rate of 9.48%.

The operational cost component of 200 basis points has been incorporated in recognition of the intensive nature of microfinance operations, which typically require frequent field visits, group meetings, doorstep collections, ongoing borrower engagement, and continuous credit monitoring. These activities necessitate higher resource allocation and thus justify a 2.00% operational cost margin over and above the cost of funds and NIM.

It is important to note that while the effective interest rate is subject to annual review and reset, the maximum permissible rate on microfinance loans shall not exceed 20% which is aligned with industry norms under microfinance services.

Annex III

(cf. Para 5.3 of these Directions)

Illustrative Factsheet on Pricing of Microfinance Loans

(to be provided in a language understood by the borrower)

Date: **Lender's Name:** SBI **Applicant Name:**

Sr. No.	Parameter	Details
(i)	Loan amount (amount disbursed to the borrower) (in Rupees)	20,000
(ii)	Total interest charge during the entire tenure of the loan (in Rupees) (Interest rate charged: 18.00 %)	3,960
(iii)	Other up-front charges (break-up of each component to be given below) (in Rupees) (To be recovered post-sanction and pre-disbursement)	476
(a)	Processing fees (in Rupees) (1.00 % + GST)	236
(b)	Insurance charges (in Rupees)	240
(c)	Others (if any) (in Rupees)	-
(iv)	Disbursed amount (in Rupees)	20,000
(v)	Total amount to be paid by the borrower (sum of (i), (ii) and (iii)) (in Rupees)	24,436[1]
(vi)	Effective annualized interest rate (in percentage) (computed on disbursed amount using IRR approach and reducing balance method)	18.00%
(vii)	Loan term (in months)	24
(viii)	Repayment frequency by the borrower	Monthly
(ix)	Number of instalments of repayment	24
(x)	Amount of each instalment of repayment (in Rupees)	998.48
Details about Contingent Charges		
(xi)	Borrower shall not be charged any penalty on prepayment of loan at any time.	
(xii)	Penal charges in case of delayed payments (if any)	
(xiii)	Other charges (if any)	

[1] The difference in repayment amount calculated from the total of instalments given under the detailed repayment schedule i.e., ₹23,280 (=970*24) (excluding ₹400 (other up-front charges)) vis-à-vis the amount of ₹23,674 (₹20,000 (loan amount) + ₹3,274 (Interest charges) + ₹400 (other up-front charges) mentioned under (v) is due to rounding off the instalment amount of ₹969.73 to ₹970 under the detailed repayment schedule.

Detailed Repayment Schedule

(Amt in Rs)

Instalment Number	Interest	Principal	EMI	Principal Outstanding
0				20,000.00
1	300.00	698.48	998.48	19,301.52
2	289.52	708.96	998.48	18,592.56
3	278.89	719.59	998.48	17,872.97
4	268.09	730.39	998.48	17,142.58
5	257.14	741.34	998.48	16,401.23
6	246.02	752.46	998.48	15,648.77
7	234.73	763.75	998.48	14,885.02
8	223.28	775.21	998.48	14,109.81
9	211.65	786.83	998.48	13,322.98
10	199.84	798.64	998.48	12,524.34
11	187.87	810.62	998.48	11,713.72
12	175.71	822.78	998.48	10,890.95
13	163.36	835.12	998.48	10,055.83
14	150.84	847.64	998.48	9,208.19
15	138.12	860.36	998.48	8,347.83
16	125.22	873.26	998.48	7,474.56
17	112.12	886.36	998.48	6,588.20
18	98.82	899.66	998.48	5,688.54
19	85.33	913.15	998.48	4,775.39
20	71.63	926.85	998.48	3,848.53
21	57.73	940.75	998.48	2,907.78
22	43.62	954.87	998.48	1,952.91
23	29.29	969.19	998.48	983.73
	14.76	983.73	998.48	-

Annex IV

Fair Practices Code (Indicative) Guidelines for Processing Loan Applications

Bank must process a loan application based on the following minimum guidelines:

a) Bank will provide acknowledgement for receipt of all loan applications.
b) Bank will process the loan applications within a reasonable period of time. If additional details or documents are required, it should be intimated to the borrowers immediately. Maximum period for processing a micro loan shall be 15 days.
c) Bank will not discriminate on grounds of sex, caste and religion in the matter of lending. However, this does not preclude lenders from participating in credit-linked schemes framed for weaker sections of the society.

Following additional guidelines are prescribed for borrowers applying for a loan:

1. Loan application forms in respect of priority sector advances (MFI loans) should be comprehensive. It should include the following information to help the borrower make a meaningful comparison with other lenders:

a) Fees/charges, if any, payable for processing.
b) Interest chargeable.
c) Amount of fees refundable in the case of non-acceptance of loan application.
d) Pre-payment options
e) Time frame for process of loan application.
f) Any other matter which affects the interest of the borrower

2. In case of rejection of loan application for a small borrower, then the Bank must convey in writing, the main reason for rejection of loan application.

Guidelines for Appraisal and Loan Terms

The following guidelines have been prescribed for loan appraisal by bank:

1. Banks must properly assess all loan applications and borrower's credit worthiness. Any other parameter should not be used as a substitute for due diligence on credit worthiness of a borrower

2. In case of sanction of loan by Bank, then the following guidelines should be followed while communicating the terms and conditions of the loan:

   a) The Bank should convey to the borrower, the credit limit along with the loan terms and conditions.
   b) A copy of the loan terms and conditions with the borrower's acceptance should be kept on record by the Bank with the full knowledge of the borrower.
   c) A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement should be furnished to the borrower.
   d) In case of any changes in terms and conditions or other caveats governing the loan facility due to negotiations, the same should be in writing and duly certified by the authorised official. A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement should be furnished to the borrower.

e) The loan agreement should clearly stipulate credit facilities that are solely at the discretion of lenders.

Guidelines for Loan Disbursement & Post-Disbursement

1. The following guidelines must be followed during loan disbursement:

   - On sanction of loan and completion of documentation, the Bank should ensure timely disbursement of loans sanctioned, in line with the terms and conditions of the loan.

2. The following guidelines must be followed post-loan disbursement, during the loan collection process:
   - In case of any changes in terms and conditions including interest rates, service charges etc, the Bank should give notice to the Borrower. Also, all changes to interest rates and charges can be effected only prospectively.
   - The bank should restrain from interference in the affairs of the borrowers, except for what is provided in the loan documents.
   - Bank should supervise with a constructive view for taking care of any" lender-related" genuine difficulty that the borrower may face.
   - In case of request for transfer of loan account, consent of the lenders should be conveyed within 21 days from the date of receipt of request.
   - Bank must release all securities on receiving payment of loan or realisation of loan, subject to any legitimate right or lien for any other borrowing of the same borrower. If the bank uses such right for setting off, then the borrower should be given notice about the same with full particulars about the remaining claims.

Guidelines Loan Collection or Recovery

The following guidelines must be followed during loan collection or recover process:

- In case of a decision to recall or accelerate payment or performance under the agreement or seeking additional securities, notice should be given to the borrower, as specified in the loan agreement or a reasonable period.
- Banks should not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans.

Annex V

FREQUENTLY ASKED QUESTIONS
Regulatory Framework for Microfinance Loans

Q1. Is it mandatory for all household members to be borrowers under a microfinance loan?
A: No. As per regulatory guidelines, assessment of income and indebtedness must be conducted at the household level. However, it is not mandatory for all household members to be co-borrowers. A microfinance loan may be sanctioned in the name of an individual household member, based on such assessment. The operational framework for evaluating income and indebtedness of all household members is detailed in the Bank's internal policy.

Q2. Are consumption loans (e.g., for gadgets, ceremonies, etc.) without collateral eligible to be classified as microfinance loans?
A: Yes. All collateral-free loans extended to individuals from low-income households (i.e., with annual household income up to ₹3,00,000) qualify as microfinance loans, irrespective of end-use, including consumption purposes.

Q3. Will loans secured by hypothecation of assets (e.g., gold, equipment, white goods) be treated as collateral-free and hence classified as microfinance loans?
A: No. Loans secured through hypothecation of any asset shall be treated as collateralized and hence shall not qualify as microfinance loans under the regulatory framework.

Q4. Does the 50% cap on household repayment obligations relative to monthly household income apply to non-microfinance loans as well?
A: Yes. When extending any loan (including non-microfinance loans) to low-income households, the Bank must ensure that the cumulative monthly repayment obligations (including all microfinance and non-microfinance borrowings) do not exceed 50% of the household's verified monthly income.

Q5. How should credit facilities without an EMI structure be treated for computing monthly household repayment obligations?
A: For such facilities, annual repayment obligations may be evenly distributed over twelve months to estimate monthly debt servicing burden for the household.

Q6. Can anticipated income from the asset or activity being financed through a microfinance loan be considered while estimating household income?
A: No. Only verified existing sources of income may be considered. Prospective income from the asset or activity funded by the loan shall not be factored into household income estimation.

Q7. Which insurance charges should be disclosed in the factsheet and included in the calculation of effective annualized interest rate?
A: Only charges related to credit-linked insurance products, which are tied directly to the loan, should be disclosed in the factsheet and considered in the interest rate calculation. Charges for non-credit products must be disclosed separately, in line with Para 6.1.51 of the directions. Furthermore, non-credit products must be offered solely on a voluntary basis, without being made a pre-condition to the loan sanction.

Q8. Are banks permitted to revise interest rates on existing microfinance loans during the loan

tenure?
A: Yes, banks have the discretion to review and revise interest rates applicable to existing loans, in accordance with internal policies and applicable regulatory guidelines. This excludes restructured loans and is subject to prior written communication to borrowers.

Q9. Is it considered a coercive practice to contact borrowers before 9:00 AM or after 6:00 PM for any loan-related matter?
A: This restriction applies exclusively to recovery-related interactions with borrowers having overdue accounts. For regular operations such as group meetings or collections in standard accounts, lenders may continue their engagement as per mutually agreed schedules and borrowers' convenience.

Q10. Why is there a need for a dedicated grievance redressal mechanism specifically for recovery-related complaints?
A: A dedicated mechanism ensures timely resolution of grievances arising from recovery practices. While a separate mechanism is not mandated, banks should internally structure or reorganize their customer grievance redressal system to promptly identify and address such complaints distinctly from other service-related issues.

Q11. What key information should a borrower be aware of while availing a microfinance loan?

A: Borrowers should note the following:

a) No deposit, margin, collateral, or primary security is required at any stage.
b) A loan card must be provided in a language understood by the borrower, containing:
c) Borrower identification details.
d) Simplified pricing factsheet.
e) All terms and conditions.
f) Acknowledgment of repayments and final closure.
g) Contact details for grievance redressal, including the designated nodal officer.
h) Non-credit products, if offered, are purely optional.
i) Any training provided by the lender shall be free of cost.

Q12. What charges are payable by a borrower under a microfinance loan?
A: Only those charges explicitly stated in the factsheet are payable. Additional borrower rights include:

a) No prepayment penalty.
b) Any penal charges for delay shall apply solely on the overdue portion and not on the outstanding loan amount.
c) Changes in interest rates or charges must be communicated in writing and applied prospectively only.

Q13. How can a borrower ascertain the current interest rates on microfinance loans?
A: Lenders are mandated by the RBI to publicly display the minimum, maximum, and average interest rates applicable to microfinance loans across all branches, in printed informational materials, and on their official websites.