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**PRESS RELEASE**

Microfinance Industry Network (MFIN) members take proactive steps for sustainable microfinance -reduction of interest rates and adoption of guardrails

Micro Finance Industry Network (MFIN) is an industry association of banks, NBFC-MFIs, SFBs & NBFCs providing microfinance credit and an RBI-recognised self-regulatory organization.

The Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 of March 2022 led to wide ranging changes in the MF sector. The regulatory approach changed from being prescriptive to principles based and gave flexibility to the Board of Regulated Entities (REs) on critical aspects of business including credit decisioning and pricing.

MFIN as the first Self Regulatory Organisation (SRO) in India has been working with its members to ensure that this flexibility is used responsibly and efficiency gains are passed on to clients. The sector has demonstrated its maturity as reflected by the fact that 10 MFIN members have revised their interest rates downward in the last few months. The reduction in interest rates has been up to 150 basis points. This has been done even at a time when the cost of funds remains elevated for the REs. The reduction has been possible due to the improved credit quality of portfolio created post COVID, increase in efficiency of operational processes & adoption of technology and diversification of the sources of funding.

Review of the portfolio and the interest rates by the lenders is an ongoing process and the sector is committed to passing on the gains across three pillars of pricing matrix – cost of funds, operational cost and credit cost to the client.

Further, MFI members at its 15<sup>th</sup> Annual General Meeting, unanimously agreed to several important steps aimed at tighter self-regulation. These measures pertain to facilitating responsible lending, prioritizing customer protection and promoting a steady and calibrated growth of the sector.

Assessment of the borrower household's income and loan repayment obligations before approving a new loan is an important part of loan underwriting. This ensures that the borrower does not overstretch herself and is able to honor her repayments on time. While all the lenders strictly adhere to the RBI regulations which cap the loan repayment obligations to income ratio at 50%, to further strengthen this process, the members have agreed to the following additional guardrails.

1. Restrict the number of microfinance lenders to a borrower to a maximum of 4.
2. Limit the total microfinance indebtedness to INR 2 lacs. With nearly 80% of the loans having a tenure of 1.5 years or more, a limit of INR 2 lacs effectively ensures much lesser repayment obligation than the permissible regulatory limit.

Speaking on this, Dr. Alok Misra, CEO & Director of MFIN said "These voluntary steps are over and above RBI regulations and Industry Code of Conduct and showcase sector's commitment to responsible lending practices. MFIN as an SRO will continue to watch the sector closely and its adherence to the new guardrails."

