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**PRESS RELEASE**

**Microfinance Industry Network (MFIN) takes proactive steps for strengthening underwriting of microfinance loans**

Micro Finance Industry Network (MFIN), an industry association of banks, NBFC-MFIs, SFBs & NBFCs involved in microfinance and an RBI-recognised self-regulatory organization, has released guidelines for its members to help strengthen underwriting of microfinance loans. These guidelines pertain to a more accurate assessment of the monthly repayment obligations of the borrowers.

The microfinance sector serves the low-income borrowers below an annual household income of up to INR 3 lacs. Due to the specific borrower profile, customer protection including guarding against over-indebtedness is the responsibility of the microfinance lenders. While the RBI regulations and the Industry Code of Conduct (CoC) form the bedrock of responsible microfinance, as a self-regulatory organization (SRO) of microfinance lenders, MFIN is responsible for taking additional steps to ensure that microfinance continues its high focus on client centricity.

The extant RBI regulations mandate an accurate estimation of the outflows on account of repayment of monthly loan obligations of the borrower household. The regulations also stipulate that monthly repayment obligations should not exceed 50% of the monthly household income. Lenders make use of the credit reports obtained from the credit bureaus for the purpose of estimating the outflows on account of loan repayments.

An accurate estimation of these outflows faces two hurdles:

1. It is often found that the EMI value for a particular loan is not mentioned in the credit report. This mostly happens in the case of consumer/retail loans since submission of EMI data by the lenders to the credit bureaus is not mandatory for such loans.
2. In case of loans which are not repaid monthly but are paid in one 'bullet repayment' at the end of the tenure (like gold loans or Kisan credit cards), there is no 'monthly outflow' value in the report.

As such, there are varying practices followed by lenders to overcome these issues. To bring about a uniformity in the treatment of such cases and to help the lenders be compliant with the RBI regulations, MFIN has issued guidelines to assist member Regulated Entities in having a robust underwriting policy dealing with cases of bullet repayments/missing EMIs.

These guidelines have evolved over multiple rounds of engagement with all stakeholders over the last 6-8 months. More than 12 crore loan records available were analysed in collaboration with a credit bureau for this purpose.

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