

Advisory for moratorium on micro-credit loans to customers in the context of Covid-19

May 28, 2020

Background

1. In the background of Covid-19, the Reserve Bank of India (RBI) in its Notification¹ had permitted all categories of lenders to offer moratorium of three months on their term-loans. This moratorium was permitted for installments falling due between March 1, 2020 to May 31, 2020. In view of continued lock down and covid-19 related disruption, RBI has by its Notification² permitted grant of moratorium for further period of three months that is from June 1, 2020 to August 31, 2020.
2. Based on discussion with Lenders and feedback received, and to ensure that uniform approach is adopted, MFIN Board has approved this Advisory³. This Advisory supersedes the previous advisory issued on this matter on April 3, 2020.

Advisory

1. Lender may offer the moratorium up to August 31, 2020 for all installments falling due between March 1, 2020 to August 31, 2020, in line with the RBI Notifications. Accordingly, the repayment schedule for such loans as also the residual tenor, will be shifted across the board.
2. In view of the significant additional interest burden on the customer if moratorium is availed, full disclosure of the lender's moratorium policy and its implications should be given to the customer. This should include all details such as additional interest payable, tenure extension, changes in repayment schedule and amount etc. In essence, customer must be enabled to take an informed decision on whether to take the moratorium or not.
3. Lender must take an explicit consent in writing (preferable in vernacular) from the customer to "opt-in" or "opt-out" for the moratorium. The suggested format for customer consent given in Annex. Format may be adapted by Lender, as per its own requirements.
4. Lender should normally give moratorium for instalments falling due after March 1, 2020, against which payment has not been received. However, if the customer has repaid the March 2020 dues and wants to avail moratorium benefit on March 2020 repayment, this can be considered by the Lender based on its Board approved policy in this regard.
5. Lender may accrue interest on the outstanding portion of the loan during the moratorium period, as permitted by the RBI. This should be not be higher than the interest rate agreed in the original agreement of the loan.
6. Lender should inform the customer who is delinquent on February 29, 2020, that her overdue interest burden will be greater if she avails the moratorium. This aspect should be clearly explained to the customer.

¹ <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11835&Mode=0>

² <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11902&Mode=0>

³ This was done through email circulation on May 28, 2020

7. Accrued interest for the moratorium period may be collected in different ways such as, a) upfront (at the end of moratorium), b) collected proportionally over the residual tenor (with installments amount increasing) or c) as a lump sum payment along with the last installment etc.
8. The loan documents must be suitably updated/modified wherever moratorium is availed by the customer.
9. Lender must strictly follow the industry Code of Conduct (CoC) and Code for Responsible Lending (CRL) with respect to customer engagement (fair interaction, suitability/avoiding multiple-over lending, education and transparency, information and privacy and others). Lender should not use forceful and coercive tactics to recover the repayment.
10. Lender to make suitable changes in their back-end IT system to regenerate loan schedule factoring in changes due to moratorium.
11. Lender can disburse fresh loan to customer who has availed moratorium to support her in rebuilding livelihoods. This should be as per Lender's Board approved policy, aligned to the RBI Directions for NBFC-MFIs and the Industry Code of Responsible Lending (CRL).
12. Lender may extend the coverage of Credit Linked Life Insurance for the extended term of the loan where moratorium is given. Extra premium to cover the extended period should be clearly communicated to customer and collected. If coverage is not extended, Lender should inform the customer about it.
13. All relevant Government directions with respect to social distancing, hygiene and mobility must be observed and Lender must regularly educate its employees and customers about them.
14. In case of a conflict, any RBI or Government notification/directions on this matter would supersede the points in this Advisory.

Annex: Suggested format for Customer Consent Form on Moratorium⁴

To,

Concerned Person, Name of Lender

Dear Madam/Sir,

1. I confirm that (Name of the Lender) has explained me in detail about the option to avail moratorium for loan instalments falling due between 1st March 20 – 31st Aug 20, as per RBI Notification on Covid-19 regulatory package.
2. I understand that moratorium will lead to increased interest cost and will change my repayment schedule such as instalment amount and tenure.
3. Based on this information, I would like to apply for (tick as appropriate)
 - 3.1 Opt-out for the moratorium and will continue to pay instalment as per schedule given by the company and pay interest for the delayed payment, if any
 - 3.2 Opt-in for moratorium and agree to the conditions below:
 - a. Moratorium is taken for the instalments falling due for the following month (tick as appropriate)
 Mar 20 / Apr 20 / May 20 / Jun 20 / Jul 20 / Aug 20
 - b. Accrued interest for the moratorium period will be payable as per revised schedule given by the company.

	Original schedule	Revised schedule
Open date		
Repayment frequency		
Repayment dates		
Instalment amount		
Number of instalments		
Closure date		
Expiry of insurance coverage		

- c. If insurance cover is extended, Rs XX will be additionally payable towards the premium amount.

⁴This is only suggestive format and lender should adapt it suitably to own requirements.

d. Other terms and conditions of the original loan agreement will remain unchanged and this consent form will be considered part of original agreement.

Yours faithfully,

Signature

Customer details

- Name:
- Mobile number:
- Account number:
- Centre ID:
- Group ID:
- Branch ID