



# भारतीय रिज़र्व बैंक

## RESERVE BANK OF INDIA



RBI/DOR/2021-22/89

DoR.FIN.REC.95/03.10.038/2021-22

March 14, 2022

All Commercial Banks (including Small Finance Banks,  
Local Area Banks and Regional Rural Banks) excluding Payments Banks  
All Primary (Urban) Co-operative Banks/ State Co-operative Banks/  
District Central Co-operative Banks  
All Non-Banking Financial Companies (including Microfinance Institutions  
and Housing Finance Companies)

Madam/ Dear Sir,

### **Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022**

Please refer to paragraph 8 of the [Statement on Developmental and Regulatory Policies](#) announced as a part of the [Bi-monthly Monetary Policy Statement for 2020-21 dated February 5, 2021](#), regarding review of the regulatory framework for microfinance.

2. A consultative document on regulation of microfinance loans was issued for public comments on [June 14, 2021](#). Based on the feedback received, it has now been decided to put in place the directions for microfinance loans which are [enclosed](#).

Yours faithfully,

(J.P. Sharma)  
Chief General Manager

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हिन्दी आसान है, इसका प्रयोग बढ़ाइए।

**Master Direction - Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022**

In exercise of the powers conferred by Section 21, Section 35A and Section 56 of the Banking Regulation Act, 1949; Chapter IIIB of the Reserve Bank of India Act, 1934; and Sections 30A and Section 32 of the National Housing Bank Act, 1987, the Reserve Bank, being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the directions hereinafter specified.

**1. Short Title and Commencement**

**1.1** These directions shall be called the Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022.

**1.2** These directions shall be effective from April 01, 2022, subject to stipulations as at paragraphs 5.3 and 9.3.

**2. Applicability**

**2.1** The provisions of these directions shall apply to the following entities:

- (i) All Commercial Banks (including Small Finance Banks, Local Area Banks, and Regional Rural Banks) excluding Payments Banks;
- (ii) All Primary (Urban) Co-operative Banks/ State Co-operative Banks/ District Central Co-operative Banks; and
- (iii) All Non-Banking Financial Companies (including Microfinance Institutions and Housing Finance Companies).

**2.2** The entities mentioned at points 2.1(i) to 2.1(iii) above are hereafter referred to as 'Regulated Entities (REs)' for the purpose of these directions.

**3. Definition of Microfinance Loan**

**3.1** 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.

**3.2** All collateral-free loans, irrespective of end use and mode of application/ processing/ disbursement (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.

**3.3** 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.

**3.4** The REs shall have a board-approved policy to provide the flexibility of repayment periodicity on microfinance loans as per borrowers' requirement.

#### **4. Assessment of Household Income**

**4.1** Each RE shall put in place a board-approved policy for assessment of household income. An indicative methodology for assessment of household income is provided in [Annex I](#).

**4.2** Self-regulatory organisations (SROs) and other associations/ agencies may also develop a common framework based on the indicative methodology. The REs may adopt/ modify this framework suitably as per their requirements with approval of their boards.

**4.3** Each RE 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.

#### **5. Limit on Loan Repayment Obligations of a Household**

**5.1** Each RE shall have a board-approved policy regarding the limit on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. This shall be subject to a limit of maximum 50 per cent of the monthly household income.

**5.2** 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.

**5.3** 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.

**5.4** Each RE 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 RE shall also ascertain the same from other sources such as declaration from the borrowers, their bank account statements and local enquiries.

## **6. Pricing of Loans**

**6.1** Each RE shall put in place a board-approved policy regarding 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.

**6.2** Interest rates and other charges/ fees on microfinance loans should not be usurious. These shall be subjected to supervisory scrutiny by the Reserve Bank.

**6.3** Each RE shall disclose pricing related information to a prospective borrower in a standardised simplified factsheet (in accordance with the illustration provided in [Annex II](#)).

**6.4** Any fees to be charged to the microfinance borrower by the RE and/ or its partner/ agent shall be explicitly disclosed in the factsheet. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet.

**6.5** The factsheet shall also be provided for other loans (i.e., collateralized loans) extended to borrowers from low-income households.

**6.6** 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.

**6.7** Each RE shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its 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 subjected to supervisory scrutiny.

**6.8** 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.

**6.9** As part of their awareness campaigns, SROs/ other industry associations may publish the range of interest rates on microfinance loans charged by their members operating in a district. SROs/ other industry associations may also sensitize their members against charging of usurious interest rates.

**6.10** RBI would also make available information regarding interest charged by REs on microfinance loans.

## **7. Guidelines on Conduct towards Microfinance Borrowers**

### **7.1 General**

**7.1.1** A fair practices code (FPC) based on these directions shall be put in place by all REs with the approval of their boards. The FPC shall be displayed by the RE in all its offices and on its website. The FPC should be issued in a language understood by the borrower.

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

**7.1.3** Each RE 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 RE 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 RE.

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

**7.1.5** 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.

## **7.2 Training of Staff**

**7.2.1** Each RE shall have a board-approved policy regarding the conduct of employees and system for their recruitment, training and monitoring. This policy shall, inter alia, lay down minimum qualifications for the staff and shall provide necessary training tools to deal with the customers. Training to employees shall include programs to inculcate appropriate behavior towards customers. Conduct of employees towards customers shall also be incorporated appropriately in their compensation matrix.

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

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

## **7.3 Responsibilities for Outsourced Activities**

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

**7.3.2** A declaration that the RE 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 and also in the FPC displayed in its office/ branch premises/ website.

## **7.4 Guidelines related to Recovery of Loans**

**7.4.1** Each RE 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.

**7.4.2** Recovery shall be made at a designated/ central designated place decided mutually by the borrower and the RE. However, field staff shall be allowed to make recovery at the place of residence or work of the borrower if the borrower fails to appear at the designated/ central designated place on two or more successive occasions.

**7.4.3** RE or its agent shall not engage in any harsh methods 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 name 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 non-repayment

**7.4.4** Each RE shall have a dedicated mechanism for redressal of recovery related grievances. The details of this mechanism shall be provided to the borrower at the time of loan disbursal.

## **7.5 Engagement of Recovery Agents**

**7.5.1** Recovery agents shall mean agencies engaged by the RE for recovery of dues from its borrowers and the employees of these agencies.

**7.5.2** The REs shall have a due diligence process in place for engagement of recovery agents, which shall, inter alia, cover individuals involved in the recovery process. REs shall ensure that the recovery agents engaged by them carry out verification of the

antecedents of their employees, which shall include police verification. REs shall also decide the periodicity at which re-verification of antecedents shall be resorted to.

**7.5.3** To ensure due notice and appropriate authorization, the RE 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 RE along with the identity card issued to him by the RE or the agency. Further, where the recovery agency is changed by the RE during the recovery process, in addition to the RE notifying the borrower of the change, the new agent shall carry the notice and the authorization letter along with his identity card.

**7.5.4** The notice and the authorization letter shall, among other details, also include the contact details of the recovery agency and the RE.

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

## **8. Qualifying Assets Criteria**

**8.1** Under the earlier qualifying assets criteria<sup>1</sup>, a Non-banking Financial Company - Microfinance Institution (NBFC-MFI) is required to have minimum 85 per cent of its net assets<sup>2</sup> as 'qualifying assets'. The definition of 'qualifying assets' of NBFC-MFIs is now being aligned with the definition of 'microfinance loans' given at paragraph 3 above. The minimum requirement of microfinance loans for NBFC-MFIs also stands revised to 75 per cent of the total assets.

**8.2** Under the earlier guidelines, an NBFC that does not qualify as an NBFC-MFI, cannot extend microfinance loans exceeding 10 per cent of its total assets. The maximum limit

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<sup>1</sup> In order to be classified as a 'qualifying asset', a loan is required to satisfy the following criteria:

(i) Loan which is disbursed to a borrower with household annual income not exceeding ₹1,25,000 and ₹2,00,000 for rural and urban/semi-urban households, respectively;

(ii) Loan amount does not exceed ₹75,000 in the first cycle and ₹1,25,000 in subsequent cycles;

(iii) Total indebtedness of the borrower does not exceed ₹1,25,000 (excluding loan for education and medical expenses);

(iv) Minimum tenure of 24 months for loan amount exceeding ₹30,000;

(v) Collateral free loans without any prepayment penalty;

(vi) Minimum 50 per cent of aggregate amount of loans for income generation activities; and

(vii) Flexibility of repayment periodicity (weekly, fortnightly or monthly) at borrower's choice.

<sup>2</sup> Net assets have been defined as total assets other than cash, bank balances and money market instruments.



on microfinance loans for such NBFCs (i.e., NBFCs other than NBFC-MFIs) now stands revised to 25 per cent of the total assets.

## 9. Exemption for ‘Not for Profit’ Companies engaged in Microfinance Activities

**9.1** The definition of microfinance loans for ‘not for profit’ companies (registered under Section 8 of the Companies Act, 2013) is now aligned with the revised definition of microfinance loans viz., collateral-free loans to households with annual household income up to ₹3,00,000, provided the monthly loan obligations of a household does not exceed 50 per cent of the monthly household income.

**9.2** Exemptions from Sections 45-IA<sup>3</sup>, 45-IB<sup>4</sup> and 45-IC<sup>5</sup> of the RBI Act, 1934 have been withdrawn for those ‘not for profit’ companies engaged in microfinance activities that have asset size of ₹100 crore and above.

**9.3** ‘Not for profit’ companies that are not eligible for the exemptions mentioned at paragraph 9.2 above, are required to register as NBFC-MFIs and adhere to the regulations applicable to NBFC-MFIs. Such companies shall submit the application for registration as an NBFC-MFI to the Reserve Bank within three months of the issuance of this circular. Those companies that currently do not comply with the regulations prescribed for NBFC-MFIs, shall submit a board-approved plan, with a roadmap to meet the prescribed regulations, along with their application for registration.

## 10. Net Owned Fund (NOF) Requirement

Existing NBFC-MFIs shall adhere to the NOF glidepath indicated under paragraph 3.1 (a) of the [Circular dated October 22, 2021](#) on ‘Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs’ as given below:

<b>NBFCs</b>	<b>Current NOF</b>	<b>By March 31, 2025</b>	<b>By March 31, 2027</b>
NBFC-MFI	₹5 crore (₹2 crore in NE Region)	₹7 crore (₹5 crore in NE Region)	₹10 crore

<sup>3</sup> 45-IA: Requirement of registration as an NBFC

<sup>4</sup> 45-IB: Maintenance of a certain percentage of outstanding deposits in approved securities by deposit taking NBFCs

<sup>5</sup> 45-IC: Transfer of 20 per cent of net profit to reserve fund

**Annex I**  
**(cf. Para 4.1 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.).

**Annex II**  
**(cf. Para 6.3 of these Directions)**

**Illustrative Factsheet on Pricing of Microfinance Loans**  
(to be provided in a language understood by the borrower)

**Date:** XXX

**Lender's Name:** XXX

**Applicant Name:** XXX

<b>Sr. No.</b>	<b>Parameter</b>	<b>Details</b>
(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)	3,274
(iii)	Other up-front charges (break-up of each component to be given below) (in Rupees)	400
(a)	Processing fees (in Rupees)	160
(b)	Insurance charges (in Rupees)	240
(c)	Others (if any) (in Rupees)	-
(iv)	Net disbursed amount ((i)-(iii)) (in Rupees)	19,600
(v)	Total amount to be paid by the borrower (sum of (i), (ii) and (iii)) (in Rupees)	23,674 <sup>6</sup>
(vi)	Effective annualized interest rate (in percentage) (computed on net disbursed amount using IRR approach and reducing balance method)	17.07%
(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)	970
<b>Details about Contingent Charges</b>		
(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)	

**Detailed Repayment Schedule**

<b>Instalment No.</b>	<b>Outstanding Principal (in Rupees)</b>	<b>Principal (in Rupees)</b>	<b>Interest (in Rupees)</b>	<b>Instalment (in Rupees)</b>
1	20,000	720	250	970
2	19,280	729	241	970
3	18,552	738	232	970
4	17,814	747	223	970
5	17,067	756	213	970
6	16,310	766	204	970

<sup>6</sup> 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.

<b>Instalment No.</b>	<b>Outstanding Principal (in Rupees)</b>	<b>Principal (in Rupees)</b>	<b>Interest (in Rupees)</b>	<b>Instalment (in Rupees)</b>
7	15,544	775	194	970
8	14,769	785	185	970
9	13,984	795	175	970
10	13,189	805	165	970
11	12,384	815	155	970
12	11,569	825	145	970
13	10,744	835	134	970
14	9,909	846	124	970
15	9,063	856	113	970
16	8,206	867	103	970
17	7,339	878	92	970
18	6,461	889	81	970
19	5,572	900	70	970
20	4,672	911	58	970
21	3,761	923	47	970
22	2,838	934	35	970
23	1,904	946	24	970
24	958	958	12	970