

CAP ON TOTAL INDEBTEDNESS OF THE BORROWER UNDER GROUP LENDING

Background

The Reserve Bank of India (RBI)¹ has raised the limit on total indebtedness of the borrower² to Rs 100,000 and this has brought about certain apprehensions about the ability of the groups (Joint Liability Groups/Self Help Groups) to be able to absorb such a large amount.

The issue was comprehensively debated by MFIN members and based on their feedback MFIN has issued a directive on 5th Aug 2015 that for *'all the loans disbursed, under group (JLG/SHG) liability lending, from 1st September 2015, total indebtedness of the borrower under group (JLG/SHG) liability lending does not exceed Rs 60,000 across rural and urban/semi-urban households'*.

However, in past few months, there have been several feedbacks from members to increase this cap. The MFIN Board, discussed this matter thoroughly including feedbacks received and have decided to increase the cap from Rs 60,000 to Rs 80,000.

Directive

In keeping with this Board decision, the following Directive may kindly be adhered to by all members for all the loans disbursed, under group (JLG/SHG) liability lending, from **1st April 2018**.

1. Total indebtedness of the borrower under group (JLG/SHG) liability lending does not exceed Rs 80,000 across rural and urban/semi-urban households³
2. Total indebtedness of the borrower under group (JLG/SHG) liability lending to be same (i.e. Rs 80,000) for both rural and urban/semi-urban households
3. Any lending above this cap has to be individual lending

¹ RBI Circular dated 1st July, 2015, DNBS.(PD) CC.No. 395/03.10.38/2014-15

² Total indebtedness of the borrower at any point is loan amount outstanding of the borrower

³ To clarify, members, while lending to a borrower under group (JLG/SHG) liability, must ensure that total indebtedness of the borrower under JLG does not breach Rs 80,000. For example,

- a) If a borrower has a group (JLG/SHG) loan outstanding of Rs 40,000, Lender can give group(JLG/SHG) loan of maximum Rs 40,000 to this borrower
- b) If a borrower has a group (JLG/SHG) loan outstanding of Rs 80,000 from, Lender **cannot** give group (JLG/SHG) loan to this borrower. Lender can only give individual loan of maximum Rs 20,000 to this borrower
- c) If a borrower has an individual loan outstanding of Rs 80,000, Lender can give JLG loan of maximum Rs 20,000
- d) If a borrower has an individual loan outstanding of Rs 10,000 from, Lender can either give JLG loan of maximum Rs 80,000 or individual loan of maximum Rs 90,000

4. A valid Credit Information Report (CIR) shall be considered for estimating the total indebtedness level for a borrower
5. All types of loans (individual, JLG, SHG), should be reported in the microfinance Common Data Format (CDF) to the Credit Information Companies (CICs). This would ensure that all types of loans get reported in the microfinance bureaus of the CICs and Credit Information Report (CIR) captures all types (individual, JLG, SHG) of loans for a borrower
6. As per RBI Directions, member NBFC-MFIs must comply with all other criterions prescribed for the 'qualifying assets' including clause that 'not more than two NBFC-MFIs shall lend to the same borrower'