CASHPOR Micro Credit

(a poverty-focused, not-for-profit, financially-sustainable MFI with significant outreach to BPL households in eastern UP and Bihar)

Compliance with the New RBI Regulations for MFI Portfolios to get Priority Sector Status

New Regulation 1. Not less than 85% of the total assets of MFI (other than cash, balances with banks and financial institutions, government securities and money market instruments), are in the nature of "qualifying assets", which satisfy the following criteria:

i) The loan is to be extended to a borrower whose household annual income in rural areas does not exceed Rs.60,000/- while for non-rural areas it should not exceed Rs.1,20,000/-.
CMC uses its well-known CASHPOR Housing Index (CHI) and the new the Progress-Out-of-Poverty Index (PPI) derived from the periodic socio-economic surveys of the NSSO (please see the website www.progressoutofpoverty.org) to identify eligible clients. We us the US$2 per person per day International Poverty-line which converts to an annual income of Rs.36,938 for an average household of 5.5. persons, with purchasing power parity at 1US$=Rs.9.2. As we accept new client only if they score less than 35 points on the PPI, statistically we can be 93.7% certain that our clients are having annual income of not more than Rs.36,938 which is well below the new RBI household income caps for rural and urban areas. In addition, we ask for the Ration Card and record the household income stated on it, and also have started taking a written declaration from its clients that at the time of entry, on their total household income from all sources.

ii) Loan does not exceed Rs.35,000/- in the first cycle and Rs.50,000/- in the subsequent cycles
CMC does not disburse loans exceeding Rs.15,000/-

iii) Total Indebtedness of the borrower does not exceed Rs.50,000/-
CMC's practice is that the total indebtedness, including the loan being applied for, must not exceed Rs.50,000/-; and we take a written declaration to this effect from the borrower.

iv) Tenure of the loan is not less than 24 months when the loan amount exceeds Rs.15,000/-, with right to borrower of prepayment without penalty.
CMC does not disburse loans of more than Rs.15,000/-. CMC has never imposed a penalty upon prep-payment.

v) The loan is without collateral. CMC has never taken collateral on any of its loans.

vi) Loan is repayable by weekly, fortnightly or monthly installments at the choice of the borrower.
CMC has adopted this practice as of 21 June 2011.

New Regulation 2. The banks have to ensure that MFIs comply with the following caps on margin and interest rate as also other 'pricing guidelines', to be eligible to classify these loans as priority sector loans.

i) Margin cap of 12% for all MFIs. The interest cost is to be calculated on average fortnightly balances of outstanding borrowings and interest income is to be calculated on average fortnightly balances of outstanding loan portfolio of qualifying assets. As CMC's current margin may be slightly higher than 12%, we have reduced our effective interest rate to 23.94% (12.5% flat), as of 21 June 2011 to ensure that our margin does not exceed 12%.

ii) Interest cap on individual loans at 26% per annum is to be calculated on a reducing balance basis. The Internal Rate of Return (IRR) on the CMC loans has been 25.76%, but as mentioned above, we have reduced it to 23.94% as of 21 June, to ensure that we meet the margin cap.

iii) Only three components are to be included in the pricing of the loans viz., a) a processing fee not exceeding 1% of the gross loan amount, b) the interest charge and c) the insurance premium. CMC has been in compliance since 21 June 2011.

iv) The processing fee is not to be included in the margin cap or the interest cap of 26%. CMC has been in compliance since 21 June2011.

v) Only the actual cost of insurance i.e. actual cost of group insurance for life, health and livestock for borrower and spouse can be recovered; administrative charges to be recovered as per IRDA guidelines. CMC has been in compliance since 21 June 2011.

vi) There should not be any penalty for delayed payment. CMC has been in compliance since21 June 2011.

vii) No Security Deposit/Margin are to be taken. CMC has never taken any security deposit or margin.

New Regulation 3. The banks should obtain from MFI, at end of each quarter. A Chartered Accountant's Certificate stating, inter alia, that i) 85% of total assets of the MFI are in the nature of "qualifying assets", (ii) the aggregate amount of loan, extended for income generation activity, is not less than 75% of the total loans given by the MFI, and (iii) pricing guidelines are followed. CMC will supply the CA's certificate, and it should be noted that all of our loans are given for income generation.

David S. Gibbons
Chairman, CASHPOR Micro Credit
23 June 2011.