भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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The Chairman and
Managing Directors /
Chief Executive Officers of
All Scheduled Commercial Banks
(Excluding RRBs & LABs)

Dear Sir,

Credit Support to Micro Finance Institutions (MFIs)

The Reserve Bank of India had held discussions with select banks on December 22, 2010 to get an assessment regarding the ground level situation in the microfinance sector in Andhra Pradesh and other States and the need for any interim measures. The banks informed that collections by MFIs in Andhra Pradesh had deteriorated considerably and there were some incipient signs of contagion spreading to other States. Subsequently, IBA based on the feedback received by them from banks had come up with a proposal that there is a need for extending certain relaxations in the restructuring guidelines of RBI for the MFI sector. They had observed that bank loans to MFIs are mostly unsecured but to avail of the regulatory asset classification benefits under the present restructuring guidelines of RBI, the accounts have to be fully secured. As far as the banks' exposures to MFIs were concerned, the banks stressed on the need to work out an interim arrangement involving, *inter alia*, rescheduling of exposures to MFIs subject to certain covenants such as MFIs agreeing to reduce their leverage and growth projections.

2. In terms of paragraph 6.2.2 of our circular DBOD.No.BP.BC.No.37/21.04.132/2008-09 dated August 27, 2008 on 'Prudential Guidelines on Restructuring of Advances by Banks', special regulatory asset classification benefits are available to restructured accounts provided, inter alia, the dues to the banks are fully secured. Considering the fact

that the current problems afflicting the Micro Finance Institutions (MFIs) sector are not necessarily on account of any credit weakness *per-se* but are mainly due to environmental factors, it has been decided that the special regulatory asset classification benefit could be extended to restructured MFI accounts, which are standard at the time of restructuring, even if they are not fully secured. This relaxation is granted purely as a temporary measure and would be applicable to Standard MFI accounts restructured by banks up to March 31, 2011. The other conditions specified in the above mentioned circular for getting the special asset classification benefits would remain unchanged. It is advised that a consortium approach for restructuring may be preferred and all the banks financing a MFI unit should come together and decide on the course of action to be pursued for that unit.

3. The above measure is likely to impart some liquidity support to MFIs and facilitate a ‘holding on’ operation for some time till the Malegam Committee submits its report and measures are taken to bring about long term and structural changes in the functioning of MFIs. Banks are advised that they should endeavour to recycle the collections to MFIs so as to ensure that the intended ‘holding on’ operation is successful.

Yours faithfully,

(B. Mahapatra)
Chief General Manager-in-Charge