# RBI proposes to lift interest rate cap on microfinance institutions

written by iasexam.com | 16/06/2021


The Reserve Bank of India (RBI) recently proposed to lift the interest rate cap on microfinance institutions (MFIs), and said all micro loans should be regulated by a common set of guidelines irrespective of who gives them.

Proposing a debt-income ratio cap, the RBI said the loans should be given in such a way that the payment of interest and repayment of principal for all outstanding loans of a household at any point of time should not cross 50 per cent of the household income.

### Key Highlights

- This debt-income cap, the RBI felt, would obviate the need for having multiple restrictions being faced by MFIs only.
- There are no micro loans-specific structures for lenders such as banks and non-banking financial institutions (NBFCs), even as they are responsible for extending 70 per cent of the microfinance loans.
- In a consultative paper on its website, the RBI, therefore, proposed a uniform set of rules for micro loans. This is also because, even as banks have a much lower cost of funds, they charge the same interest rate for such loans as MFIs do, which has become the industry standard, defeating the purpose of such loans.
- The RBI sought to lift this cap altogether as a cap on indebtedness negates the impact of such multiple lending.
- Under the RBI rules for MFIs, a microfinance borrower is identified by annual household

income not exceeding Rs 1.25 lakh for rural and Rs 2 lakh for urban and semi-urban areas.
- The RBI said the same criterion should be extended to all regulated entities for the purpose of the common definition.

**SOURCE:** *Business Standard*