

Credit Bureaus Help Micro Lenders Bring Down Defaults

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Microfinance institutions (MFIs) have been able to bring down the rate of loan defaults three years after an Andhra Pradesh crackdown led to a crisis in the industry. Lenders have become more cautious about disbursements as they seek out borrowers' credit histories before deciding on an application.

The information is sourced from credit bureaus Equifax and High Mark India, which have access to around 11 crore loan accounts sourced from different lenders that are their members.

In the last two years, data for about 8 crore MFI borrowers have been added, said Chandra Shekhar Ghosh, chairman and managing director of Kolkata-based micro-lender Bandhan, adding that this was a "world record".

Delinquency, or defaults by number of loan accounts older than 30 days, nearly halved to around 0.8% in October from more than 1.5% in the year-ago period, according to the latest data supplied by Equifax India to ET.

According to High Mark India data, in comparison with 2012, delinquencies seen as a function of portfolios that are 60 days overdue, have fallen by a good 2% on the whole. The 2010 crackdown in Andhra Pradesh, which dominated the MFI business at the time, followed complaints of coercion being used to get borrowers to repay their loans and reports that some of them committed suicide because of this. In response, the state government enacted a law to rein in the micro lenders, which led to a surge in defaults. Many smaller micro lenders went under. Hyderabad-based SKS Microfinance, the only listed MFI, underwent a management change.

The credit information bureaus have come as a boon to micro lenders as it allows them to check the record of borrowers, most of whom are poor people who are unable to get short-term bank loans of small amounts.

The two "bureaus have been enabling 92% of MFIs to use credit information reports for disbursements," said MR Rao, MD and CEO of SKS. "At SKS, we run checks on each loan application with credit bureaus. This is playing a significant role in avoiding over-indebtedness." The southern state is now the source about ₹6,000 crore of bad loans that commercial banks lent to the micro-lenders.

The Reserve Bank of India's norms stipulate that a borrower can take loans up to ₹50,000 from MFIs but cannot do so from more than two institutions. The central bank has also mandated a lender cannot charge more than 26% interest on such loans. The average ticket size of MFI loans is around ₹10,000 and is usually for a period of 12-18 months.

After the Andhra Pradesh debacle, the industry appears to have sought to clean up its act. Sector fundamentals have begun to look stronger with a comprehensive regulatory framework put in place by the Reserve Bank, they said.

"The credit bureau culture for MFIs is gaining popularity," said Sanjay Patel, MD and CEO at Equifax India. "It is a win-win for both credit bureaus and MFIs. They provide us authentic data and we supply them transparent borrower credit history."

At the end of October, the total number of active MFI loans amounted to ₹20,500 crore from 24 million accounts, an Equifax official said.