

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

RAJYA SABHA

QUESTION NO 09.11.2010

ANSWERED ON

CAP ON LENDING RATES CHARGED BY MFIs

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SHRIMATI SHOBHANA BHARTIA

Will the Minister of COALCOALCOALCOALFINANCE be pleased to state :-

- (a) whether Government has asked banks to ensure that Micro-Finance Institutions (MFIs), to whom they lend, lower their lending rates;
- (b) if so, the details thereof and the reasons therefor;
- (c) the response of the MFIs thereto; and
- (d) whether the cap on lending rates would deter the entry of MFIs into rural and remote areas?

ANSWER

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI NAMO NARAIN MEENA)

(a) to (d): The Government of India had in September, 2010 written to all Chief Executive Officers of Public Sector Banks advising them to ensure that the rates of interest charged by the MFIs to the eventual beneficiaries are reasonable. The Banks were also advised to ensure that MFIs do not resort to ever greening of the loans. In this regard, the RBI through its Master Circular on the Fair Practice Code dated July 1st, 2010, advised NBFCs that though Interest Rates are not regulated by the RBI, rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be confirming to normal financial practice. The Boards of NBFCs were therefore advised to lay out appropriate principles and procedures and determine interest rates, processing and other charges. The RBI has in October 2010 set up a Sub-Committee of the Central Board of Directors of the Reserve Bank to study the issues and concerns in the microfinance sector.