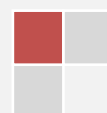


2022

# HOUSEHOLD INCOME ASSESSMENT

Hindusthan Microfinance Pvt. Ltd.  
(HMPL)



## **Foreword**

This **Household Income Assessment policy** records in detail the approach to identifying and recording household income and credit assessment for microfinance loans under the new RBI guidelines dated 14<sup>th</sup> March 2022.

All organisational staff working under the microfinance programme of **HMPL** are required to adhere to the above pricing policy.

The **Household Income Assessment policy** has been approved by the Board of Directors of HMPL in its meeting held on 3<sup>rd</sup> June 2022 as a guide to refer to and follow any issue related to the pricing of microfinance loans disbursed by HMPL.

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## Acronym Glossary

HMPL	Hindusthan Microfinance Pvt Ltd
LIHs	Low-Income Households
KYC	Know Your Customer
RBI	Reserve Bank of India
RE	Regulatory Entity
SROs	Self-regulatory organisations
CICs	Credit Information Companies
VID	Voter Identification Card
eKYC	Electronic know your customer

## 1. BACKGROUND

Customers of micro-credit loans are low-income households (LIHs), mostly earning livelihoods in the informal economy, as self-employed or wage earners. Key characteristics of such LIHs are volatile cashflows (income and expenses), high dependence on cash transactions, lack of access to formal finance, safety nets and collaterals. They are also likely to come from socially backward classes and have lower education levels.

Such attributes and the absence of documented income and assessment records make traditional household income or credit assessment methods inadequate for lending to LIHs. Micro-credit regulation in India defines the micro-credit customer using an income yardstick.

Considering the above and ground realities, this policy suggests an approach to household income and credit assessment. The policy is organised across four themes:

- Personal information or know your customer (KYC) includes indicators and pointers about capturing the borrower and co-borrower's key identity/address information who are part of the household as defined by RBI in its circular dated March 14, 2022 on "Regulatory Framework for Microfinance Loans 2022".
- Income assessment proposes a three-step approach combining profiling of household, income and expense assessment.
- Ground rules laying down the foundational aspects underlying the entire process

The Annex provides the model with indicators, weightages, explanation, which we will be adapting for assessing the household income.

### **Relevant extracts on definition of microfinance loan, assessment of indebtedness limits from RBI Master Direction on "Regulatory Framework for Microfinance Loans 2022"**

- **Definition of microfinance loan**

#### Clause 3.1:

A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to ₹3,00,000. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.

#### Clause 3.2:

All collateral-free loans, irrespective of end use and mode of application/ processing/ disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income up to ₹3,00,000, shall be considered as microfinance loans.

#### Clause 3.3:

To ensure collateral-free nature of the microfinance loan, the loan shall not be linked with a lien on the deposit account of the borrower.

#### Clause 3.4:

The REs shall have a board-approved policy to provide the flexibility of repayment periodicity on microfinance loans as per borrowers' requirement.

### **Assessment of Household Income**

## **Household Income Assessment policy –HMPL**

### **Clause 4.1:**

Each RE shall put in place a board-approved policy for assessment of household income. An indicative methodology for assessment of household income is provided in Annex I.

### **Clause 4.2:**

Self-regulatory organisations (SROs) and other associations/ agencies may also develop a common framework based on the indicative methodology. The REs may adopt/ modify this framework suitably as per their requirements with approval of their boards.

### **Clause 4.3:**

Each RE shall mandatorily submit information regarding household income to the Credit Information Companies (CICs). Reasons for any divergence between the already reported household income and assessed household income shall be specifically ascertained from the borrower/s before updating the assessed household income with CICs.

## **Limit on Loan Repayment Obligations of a Household**

### **Clause 5.1:**

Each RE shall have a board-approved policy regarding the limit on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. This shall be subject to a limit of maximum 50 per cent of the monthly household income.

### **Clause 5.2:**

The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50 per cent of the monthly household income

### **Clause 5.3:**

Existing loans, for which outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income exceed the limit of 50 per cent, shall be allowed to mature. However, in such cases, no new loans shall be provided to these households till the prescribed limit of 50 per cent is complied with.

### **Clause 5.4:**

Each RE shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness. Besides, the RE shall also ascertain the same from other sources such as declaration from the borrowers, their bank account statements and local enquiries

## **2. PERSONAL INFORMATION OR KYC**

The starting point of household assessment is knowing and confirming the identity and address of the borrower and co-borrower. Refer to Annex (Sheet 1 – Personal information) for the list of minimum indicators the lender must capture. Points to be considered in this regard are:

1. The personal information will be captured from a valid RBI approved list of documents.
2. Wherever possible, validate information will be captured using verifications available for VID, eKYC.

3. Standard catalogue value will be used for gender, marital status, education, location, state, district and pin code. If possible, available technical solutions will be used to capture KYC information directly from KYC Document.
4. Wherever possible, validations will be implemented such as the KYC numbers, mobile number, email, DoB, state/district combination, pin code, etc.
5. If required, the address will be validated by looking at additional documents like utility bills, bank account statements, visiting the borrower house, or verification from the neighbourhood.
6. Employees will be trained and incentivised to accurately capture information and identify manipulations. There will be a system of maker-checker to ensure accuracy.
7. A sound framework will be implemented to maintain the integrity, confidentiality and privacy of the information.

### **3. INCOME ASSESSMENT**

Given the challenges of income assessment in low-income segments, we are adopting the following 2-step approach.

- **Step 1 (Household Profiling):**

The first and cardinal principle of micro-credit is identifying the right customer based on the target segment a lender wants to serve. For example, the usual target group are households that are low-income but actively employed in the informal economy as wage earner/self-employed/ salaried, excluded from formal credit, has low education and belongs to socially/economically disadvantaged communities and needs credit to improve income and deal with vulnerabilities. Focusing on positive discrimination ensures the lender sources a genuine customer, and micro-credit remain focused on LIHs (with annual household income up to ₹3,00,000 as defined by RBI in the new regulations).

A simple questionnaire will be used for profiling the customers. The questionnaire includes indicators such as household composition, type of accommodation access to assets and education to understand the customer profile. Refer to Annex (Sheet 2-Household Profile) for the list of indicators and associated score.

- **STEP 2 (INCOME AND EXPENSE ASSESSMENT):**

As LIHs cashflows are still mostly embedded in cash and lack evidence trail, a four-fold approach to cashflow assessment as under will be used for the same:

1. Capture self-reported income from customers (earning members of the household considered for micro-credit). However, incomes fluctuate, and customer recall is prone to inaccuracy and inconsistency. Therefore, a suitable adjustment in arriving at the household's average monthly income, through triangulation method (discussed in point 2 below). Refer to Annex (Sheet 3, Income Assessment) for the income assessment format.
2. Self-reported income may be triangulated with the profile of household (Step 1) and household expenses (discussed in point 4 below), by studying the household's living conditions, including accommodation and access/ownership to physical assets. If the household scores low on living conditions (compared to reported income), the lender should make a downward correction in the income by a suitable factor and vice versa.

3. Further, household income may also be verified from other sources (bank account statements of the borrowers, group members, other references in the vicinity, etc.).
4. Capture the household expenses (refer to Annex – Sheet 4, Expense Assessment) to triangulate the income reported by the customer, as mentioned above.

#### **4. GROUND RULES**

##### **1. SUITABILITY**

1. Know your customer accurately – personal information (identity and address) should be captured and verified as much as possible.
2. Take reasonable inquiries/efforts to estimate income, expenses, and credit needs to arrive at household repayment capacity. Do not lend beyond the repayment capacity.
3. Assess the credit risk using data from the credit bureau, household risk factors and macro-level data available for similar location/customer and product segments.

##### **2. FAIRNESS AND TRANSPARENCY**

1. Stay cautious not to pack bias or discrimination in the model.
2. Assign risk weights or score across attributes such as age, occupation, location based on evidence (using retro data for statistically relevant customer base or industry data).
3. Transparently document the model, underlying calculation and verify it periodically for attributions.
4. Keep records of household income assessment, including notes and inquiries made to ensure that credit meet the customer's need and customer will not face any hardships in repaying the debt obligation

##### **3. EMPLOYEE ORIENTATION**

1. Skill the employee undertaking household income assessment through personal interviews and group/centre/neighbourhood verification along the following lines:
  - Understanding the nuances of the model and doing a prudent assessment.
  - Explaining and communicating rationale and context for taking requisite information from customers.
  - Awareness and sensitivity about asking specific information
  - Building trust and confidence with the customer
  - Dealing with customers' resistance/hesitancy or inability to provide accurate information.
  - Understanding of social-cultural context to seek such information from the customer and verify from group members/neighbours.
  - Maintaining the confidentiality of the information.
2. Train, orient, incentivise and monitor the employee to fill accurate data.
3. Allocate sufficient time to undertake judicious and quality assessments.



**Annexure- 1 Personal Information**

<b>Personal information (to be captured for the borrower and all earning members of the household)</b>		
<b>#</b>	<b>Indicator</b>	<b>What to fill</b>
<b>A</b>	<b>Borrower</b>	
1	Name	Given/Family
2	KYC	
	Type	From the list (e-KYC/VID/PAN/DL/Other)
	Number	
3	Gender	From the list (Female/Male/Not-specified)
4	DoB	DD/MM/YYYY
5	Marital status	From the list(Unmarried/Married/Separated/Widow/Not-specified)
6	Education	From the list (Illiterate/Primary/Middle/Secondary/Graduate/Postgraduate)
7	Location	From the list (Rural/Semi-urban/Urban)
8	Mobile number	
9	Email	
10	Address	Full address with District, State, Pincode
<b>B</b>	<b>Co-borrower/s*</b>	
1	Relationship with borrower	Spouse/Father/Mother/Son/Daughter/Brother/Sister
2	Name	Given/Family
3	KYC	
	Type	From the list (e-KYC/VID/PAN/DL/Other)
	Number	
4	Gender	From the list (Female/Male/Not-specified)
5	DoB	DD/MM/YYYY
6	Marital status	From the list(Unmarried/Married/Separated/Widow/Not-specified)
7	Education	From the list (Illiterate/Primary/Middle/Secondary/Graduate/Postgraduate)
8	Location	From the list (Rural/Semi-urban/Urban)
9	Mobile number	
10	Email	
11	Address	Full address with District, State, Pincode

**Annexure- 2 Household Profile**

Customer Name	XXXXXXXXXX
Mobile No	XXXXXXXXXX

<b>Household Profile (Based on interviews with all earning members of the household))</b>				
#	Indicator	What to fill	Suggested score (max)	Scoring logic
<b>A</b>	<b>Household Composition</b>		<b>5</b>	
1	Earning	Count		
2	Dependent	Count		
	Total	Count		
	ED (earning to dependent) ratio	Count	5	Max score*ED ratio
<b>B</b>	<b>Accommodation</b>		<b>39</b>	
3	Type	From the list (rent/family/own)	15	Rent: 0, Family: 10, Own:15
4	Construction	From the list (kachcha/tin-oof/concrete-roof)	20	Kachcha:1, Tin:3, Concrete:20
5	Toilet	N/Y	2	N=0, Y=2
6	Electricity	N/Y	2	N=0, Y=2
<b>C</b>	<b>Physical assets</b>		<b>45</b>	
7	Land	From the list (n/agriculture/commercial/other)	5	N=0,Agriculture/Commercial/Other=5
8	Shop	N/Y	5	N=0, Y=5
9	House (other than where residing)	N/Y	5	N=0, Y=5
10	Vehicle	From the list (n/cycle/two-wheeler/three-wheeler/four-wheeler/tractor)	10	N=0, Cycle=1, Two-wheeler=2, Three-wheeler=3, Four-wheeler/tractor=10)
11	Television	From the list (n/basic/LED)	5	N=0, Basic=1, LED/LCD=5
12	Mobile phone	From the list (n/basic/smart)	10	N=0, Basic=1, Smart=10
13	Fridge	N/Y	5	N=0, Y=5

**Household Income Assessment policy –HMPL**

D	Education		11	
14	Borrower	From the list (illiterate/primary/middle/secondary/graduate/postgraduate)	3	Illiterate=0, Primary/Middle: 1, Secondary=2, Graduate/Post Graduate=3
15	Co-borrower	From the list (illiterate/primary/middle/secondary/graduate/postgraduate)	3	Illiterate=0, Primary/Middle: 1, Secondary=2, Graduate/Post Graduate=3
16	Children going to school/college	From the list (na/n/public/private)	5	N=0, Public=2, NA/Private=5
	<b>Household Profile Score</b>		<b>100</b>	

## Annexure- 3 Income Assessment

Income of the household (Based on interviews with all earning members of the household)		
#	Indicator	What to fill
<b>A Borrower Income</b>		
<b>Primary source</b>		
1	Employment type	From the list (Self-employed-own enterprise, Self-employed-wage earner, Salaried-Govt, Salaried-Private, Unemployed)
2	Sector	From the list (Agriculture-allied/Manufacturing/ Services/Trade/Other)
3	Income frequency	Daily/Weekly/Monthly/Quarterly/Seasonal
4	Equivalent avg monthly income (Rs)	
<b>Secondary source</b>		
1	Employment type	From the list (Self-employed-own enterprise, Self-employed-wage earner, Salaried-Govt, Salaried-Private, Unemployed)
2	Sector	From the list (Agriculture-allied/Manufacturing/ Services/Trade/Other)
3	Income frequency	Daily/Weekly/Monthly/Quarterly/Seasonal
4	Equivalent avg monthly income (Rs)	
<b>B Co-borrower income ( to be done for all other earning members of the household)</b>		
<b>Primary source</b>		
1	Employment type	From the list (Self-employed-own enterprise, Self-employed-wage earner, Salaried-Govt, Salaried-Private, Unemployed)
2	Sector	From the list (Agriculture-allied/Manufacturing/ Services/Trade/Other)
3	Income frequency	Daily/Weekly/Monthly/Quarterly/Seasonal
4	Equivalent avg monthly income (Rs)	
<b>Secondary source</b>		
1	Employment type	From the list (Self-employed-own enterprise, Self-employed-wage earner, Salaried-Govt, Salaried-Private, Unemployed)
2	Sector	From the list (Agriculture-allied/Manufacturing/ Services/Trade/Other)
3	Income frequency	Daily/Weekly/Monthly/Quarterly/Seasonal
4	Equivalent avg monthly income (Rs)	
<b>C Other sources of household income (monthly average)</b>		
1	Rent/Lease	
2	Government transfer	
3	Pension	
4	Remittances	
5	Other (specify)	
6	Avg monthly income other sources (Rs)	
<b>Total monthly Income</b>		<b>0</b>

**Notes:**

1. Fill this information in personal interview with borrower and co-borrower/s. The income assessment as above may be carried out for all earning members with respect to all sources (primary or secondary) of income.
2. While assessing income of all members from all sources, it may be ensured that there is no double counting of income such as counting of salary income of one migrant member also as remittance income for the household.
3. While the income computation may be done on a monthly basis, the income assessment for all members and sources may be carried out over a period of minimum one year to ascertain the stability of the household income.
4. Add additional rows for additional sources and additional earning members of the household.
5. Spend enough time to understand the income flows and factor business expenses, seasonality, stability to arrive at household income. For example, if borrower has dairy business, understand the number/quality of livestock, output, price of milk, seasonality, maintenance cost (one time and recurring fodder, shed, medication, labour) and then estimate the average monthly income for the year.
6. Verify the income by visiting the business place and making relevant inquiries about occupation.
7. See evidence where relevant and possible, like bank passbook for salaries, DBT, remittances, receipts for sale/purchase.
8. Do not hesitate to ask follow-up questions for doubts and recheck.
9. Do not make any comments on occupation or income and stay professional/objective and focused in capturing the information.
10. Lender can add add/delete elements as required, based on location, their market segment. Lender can also build-in income mapping across region and occupation to assist the income assessment process.

**Annexure- 4 Expenses**

<b>Expense of the household (Based on interviews with all earning members of the household)</b>			
#	Indicator	Fill amount (Rs)	Remarks
<b>Regular expenses (Av. Monthly)</b>			
1	Accommodation/Rent		
2	Food + cooking fuel		
3	Clothes		
4	Regular education expenses		
5	Electricity/phone/data/cable		
6	Regular medical costs		
7	Other (specify)		
<b>Irregular expenses (Over last one year)</b>			
1	Medical/Health		
2	Purchase of household goods		
3	Education		
4	Other (specify)		
<b>Total av. monthly expenses</b>			

**Notes:**

1. Fill this information in personal interview with the borrower and co-borrower/s.
2. Try to verify as much possible for example through utility bills, school fee/rent receipts.
3. Borrower may not have precise recall and assessment for discretionary spends things like clothes, social obligations, entertainment as well as unforeseen expenses like health. Idea, however, is to not too overlook such expenses and factor them when arriving at customers repayment capacity.

Income – Expenses	Xxxx
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Note : Income – Expenses >12500 Not Eligible

<b>Other Loan EMI</b>	
Bank	
MFI	
NBFC	
<b>Total EMI</b>	

Loan EMI Eligible	Xxx
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Loan Amount Eligible	
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