

State Bank expands loan limits for small borrowers

KARACHI: The State Bank of Pakistan (SBP) on Monday allowed microfinance banks to increase the limits of housing finance and loans after vetting their capacity to manage higher loan sizes.

The limits for housing finance and microenterprise loans were increased up to Rs3 million from the existing limit of Rs1 million for borrowings from the microfinance banks. Likewise, the maximum size of general loans has been enhanced from Rs150,000 to Rs350,000.

Annual income eligibility for general loans and housing loans has been increased up to Rs1.2 million and Rs1.5 million, respectively, to commensurate with enhanced loan sizes. Moreover, the limit for lending against gold collateral to meet borrowers' immediate domestic or emergency needs has also been enhanced.

The SBP said the decision to increase the limit of housing finance loans has been made in view of the fact that the existing loan limit was insufficient to promote low cost housing finance through microfinance banks.

"Similarly, limits for lending to microenterprises needed to be enhanced considering the large unmet demand from micro and small enterprise," the SBP said in a statement. "These initiatives would further support the micro borrowers and enterprises and an early revival of economic activities in the current challenging times."

However, the enhanced loans sizes for housing and microenterprises would be allowed to those microfinance banks (MFBs), which are on sound footing and have the capacity to successfully cater the higher loan sizes in order to ensure sustainability.

SBP relief package for microfinance banks, which included deferment of principal and restructuring of microfinance loans to deal with the adverse implications of the ongoing Covid-19 pandemic, have now been expanded with three measures.

First, the relief measures that were earlier available from February 15, 2020 have now been allowed to borrowers who were regular on December 31, 2019.

"This would allow more borrowers to avail the regulatory relief who were previously not eligible," said the SBP. "Second, to facilitate MFBs during these testing times, the provisioning requirements have been extended by 2-months and third client's consent through recorded lines has been allowed to facilitate the customers to avail the relief package."

Since mid-March the SBP delivered a cumulative reduction of 650 basis points in the benchmark interest rate to 7 percent with the last cut was announced in late June without preannouncing the schedule as per the standard procedures.

Considering the economic impacts of coronavirus crisis, the State Bank shunned its usual practice of holding monetary policy committee meeting every two months. Last month, it had decided not to hold the meeting before September. The SBP announced a score of other measures to support the financially-stressed segments amid the five-month apocalyptic shutdown of economic activities due to the COVID-19.