Business Key Parameter

Loans Disbursed:

In microfinance, **Loans Disbursed** refers to the total Amount or number of loans that a microfinance institution (MFI) has issued to borrowers during a specific period. It is a key metric used to measure the outreach and operational performance of the institution.

Key Aspects of Loans Disbursed:

1. **Definition**:
    a. Represents loans that have been approved, and processed, and the funds released to borrowers.
    b. Includes loans disbursed for various purposes like business, agriculture, education, or personal needs.
2. **Measurement**:
    a. **Number of Loans Disbursed**: Tracks the total count of loan accounts disbursed.
    b. **Amount of Loans Disbursed**: Reflects the total monetary amount issued to borrowers.
3. **Time Period**:
    a. Often reported quarterly, annually, or for a custom period to track performance trends.

Due :

This refers to a loan installment or payment that is scheduled to be paid by a certain date. When the due date arrives, the borrower is expected to make the payment as per the agreed terms.

Example:

Schedule of a borrower with 6 month EMI Loan:

Due Date	Due Amount
05-Jan-2024	1000
05-Feb-2024	1000
05-Mar-2024	1000
05-Apr-2024	1000
05-May-2024	1000

05-Jun-2024	1000

Past Due / Overdue / Arrears :

When a payment is not made by the due date, it becomes past due. This indicates that the borrower has missed the scheduled payment deadline.

Overdue refers to any payment that has not been paid after the due date has passed.

Example:

Let's say there are total 4 customers in a bank

Borrowers	Due Amount	Paid Amount	Overdue
Lalita	1000	1000	0
Narmada	2000	1900	100
Chandana	1500	0	1500
Sitara	2000	2000	0

Total Overdue of the Bank = 0 + 100 + 1500 + 0 =2000

Days Past Due (DPD) :

DPD (Days Past Due) is a key metric in microfinance used to measure the number of days a payment is overdue from its scheduled due date.

DPD=Current Date−Due Date

Example:

Let's Assume Current Date = 30-Nov-2024

Borrowers	Due Amont	Due Date	Paid Amount	Overdue	DPD
Asima	1000	05-Nov-2024	900	100	25
Samira	1500	10-Nov-2024	1500	0	0
Bijoya	1200	20-Nov-2024	1500	0	0
Rinki	2000	05-Dec-2024	0	0	0
Jhuma	1000	15-Nov-2024	0	1000	15
Sabira	1200	10-Oct-2024	100	1100	51

DPD Buckets:

DPD Bucket in microfinance refers to the classification of overdue loans based on the number of Days Past Due (DPD).

DPD buckets typically follow these ranges, though the exact classification may vary by institution:

0 DPD (Current):

Loans with no overdue payments. Borrowers are up to date with their repayments.

1–30 DPD:

Loans overdue by 1 to 30 days. These are in the early-stage delinquency bucket.

31–60 DPD:

Loans overdue by 31 to 60 days. These are considered medium-risk loans.

61–90 DPD:

Loans overdue by 61 to 90 days. These fall under high-risk delinquency.

90+ DPD (Non-Performing Loans):

Loans overdue by more than 90 days are typically classified as Non-Performing Assets (NPAs) or bad debts.

POS:

Principal Outstanding refers to the remaining unpaid portion of the principal loan amount that a borrower owes to the lender (microfinance institution). It does not include interest, fees, or penalties, but only the unpaid part of the principal loan amount.

Key Features of Principal Outstanding:

- **Dynamic Value:** As borrowers make repayments, the principal outstanding decreases.
- **Excludes Interest:** It represents the actual borrowed amount yet to be repaid, excluding interest accrued.
- **Basis for Interest Calculation:** Many microfinance institutions calculate interest on the reducing balance of the principal outstanding.

Example-1:

Borrower	Loan Amount	Payment1	POS after Payment-1	Payment2	POS after Payment-2	Payment3	POS after Payment-3
Asima	30000	1000	29000	1000	28000	800	27200
Rima	50000	2000	48000	2000	46000	2000	44000
Bijaya	45000	1500	43500	0	43500	1000	42500
Sita	60000	2000	58000	2000	56000	2500	53500
Rama	40000	1000	39000	1000	38000	2000	36000
Sampa	30000	1000	29000	1000	28000	0	28000

Portfolio At Risk (PAR):

Portfolio at Risk (PAR) is a key performance indicator in microfinance that measures the Amount of an MFI's principal loan portfolio that is at risk of default. It reflects the total outstanding principal balance of loans that are overdue (not paid on time)

Key Features of PAR:

1. **Indicator of Risk**: It shows the percentage of the loan portfolio that is not performing as expected.
2. **Time Sensitivity**: PAR is calculated for different time periods, commonly PAR>30 (loans overdue by more than 30 days), PAR>60, or PAR>90.
3. **Portfolio Quality**: A higher PAR indicates a greater risk of non-repayment, signaling poor portfolio quality.

Example:

Let's Consider A bank have following members only

Current Date = 30-Nov-2024

Borrowers	Loan Amt	Due Date	Due Amount	Paid Amount	Overdue	DPD	POS	PAR
Samira	30000	05-Nov-24	1000	800	200	25	29200	29200
Asima	50000	10-Nov-24	1500	1200	300	20	48800	48800

Borrowers	Loan Amt	Due Date	Due Amount	Paid Amount	Overdue	DPD	POS	PAR
Salini	30000	03-Nov-24	1200	0	1200	27	30000	30000
Jhuma	50000	20-Nov-24	2000	3000	0	0	47000	0
Rima	20000	06-Dec-24	1000	800	0	0	19200	0
Sampa	20000	10-Oct-24	2000	1500	500	51	18500	18500
Hema	30000	15-Nov-24	1500	1200	300	15	28800	28800

Total POS of the Bank = 29200 + 48800 + 30000 + 47000 + 19200 + 18500 + 28800

= 2,21,500

Total PAR of the Bank = 29200 + 48800 + 30000 + 0 + 0 + 18500 + 28800

= 1,55,310

Total OD = 200 + 300 + 1200 + 0 + 0 + 500 + 300 = 2,500

Total Defaulter = 5

Default Loan: Number of Loans having Overdue

PAR% = (1,55,310 / 2,21,500) *100 = 70.12%

PAR% = Total PAR Amount of a organization / Total POS Amount of a organization

PAR SMA Bucket:

In microfinance and banking, **PAR SMA Buckets** refer to the classification of overdue loans into specific categories based on the number of days the payments are overdue. **SMA** stands for **Special Mention Account**, which is used to identify accounts that show early signs of stress and may require intervention to prevent default.

1. **SMA-0 / PAR 1-30 (Early Warning)**:
    a. Loans overdue by **1–30 days**.
    b. Indicates early signs of repayment stress.
    c. Borrowers may need follow-up or counseling to ensure payments are made on time.

2. **SMA-1 / PAR 31-60 (Moderate Risk)**:
    a. Loans overdue by **31–60 days**.
    b. Suggests borrowers are facing financial challenges that may lead to default.
    c. Requires stronger recovery efforts, such as reminders, field visits, or restructuring options.
3. **SMA-2 (High Risk) / PAR 61-90**:
    a. Loans overdue by **61–90 days**.
    b. Represents a significant risk of the loan becoming a Non-Performing Asset (NPA).
    c. At this stage, most institutions intensify recovery actions to prevent a total loss.
4. **NPA / PAR 90+(Non-Performing Asset)**:
    a. Loans overdue by **90+ days**.
    b. These loans are considered in default and typically require write-offs, legal action, or other drastic measures.

Regular / PAR 0 / Current:

- Loans with no overdue payments.
- Represents loans where borrowers are paying on time.
- Ideally, the majority of the portfolio should be in this bucket.

Active Borrower(AB):

In microfinance, an **Active Borrower** refers to a client who currently has at least one outstanding loan with the microfinance institution (MFI). Active borrowers are a key metric for understanding the operational scale and outreach of an MFI.

Key Characteristics of Active Borrowers:

1. **Outstanding Loan**: A borrower is considered active as long as they have not fully repaid their loan or have a valid agreement with the MFI.
2. **Excludes Fully Repaid Accounts**: Borrowers who have fully settled their loans and are not currently engaged in any financial relationship with the MFI are not included.
3. **Includes Multiple Loans**: If a borrower has more than one active loan, they are still counted as a single active borrower.

Active Loans:

In microfinance, **Active Loans** refer to the total number of loan accounts that are currently active or outstanding. An active loan is any loan that has been disbursed and has not yet been fully repaid, including loans in good standing, overdue loans, or those in default.

Key Characteristics of Active Loans:

1. **Loan Account Focus**:
    a. Each loan account is counted separately, even if a single borrower has multiple active loans.
2. **Excludes Closed Loans**:
    a. Loans that have been fully repaid or written off are not included in the count of active loans.
3. **Status**:
    a. Active loans include accounts at various stages, such as:
        i. Loans under regular repayment.
        ii. Overdue loans.
        iii. Loans in the process of restructuring or recovery.

Difference Between Active Loans and Active Borrowers:

- **Active Loans**: Focuses on the number of loan accounts. A single borrower with multiple loans contributes to multiple active loans. (Key identifier: LAN)
- **Active Borrowers**: Counts unique borrowers, regardless of how many loans they hold. (Key identifier: CIF Id, Client ID, Borrower ID, CRN)

Example:

Client ID	Loan Account Number	POS
1001	743292541245	0
1001	753894612852	15,000
1001	757984621369	25,800
1002	759786412159	0
1003	715936418936	30,000
1004	753258963147	200
1004	789456321852	10,000

Active Loan = 5

Active Borrower = 3

Demand Amount:

The Demand amount is the total unpaid EMI amount (Current + OD) need to be paid in a month or in a specific time period.

Regular Demand: unpaid EMI in a current Month or in a specific time period.

OD Demand: unpaid EMI of Previous Month or before specific time period

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Collection Amount:

Collection Amount is the Total Amount Collected from borrowers regarding in a specific time Period.

Regular Collection: Collection Regarding unpaid EMI in a current Month or in a specific time period.

OD Collection: Collection Regarding unpaid EMI of Previous Month or before specific time period.

Advance Collection: Advance Collection refers to payments made by borrowers ahead of their scheduled repayment due dates.

Collection Rules:

- Interest deducted first then principle amount deducted
- If a person have more than 1 EMI due, then oldest EMI deducted first and so on.

Repayment Rate:

In microfinance, the **Repayment Rate** is a key performance metric that measures the proportion of loan repayments collected within a specified period compared to the total amount due during that period exclude any advance payment.

In Simple word, RR the proportion of total collection excluding any advance payment regarding Total demand within a specified time period including overdue demand.

Repayment Rate=((Total Amount Collected – Advance Collection if any) / Total Amount Due)×100

Example:

Total Demand and Total Collection of a Bank given Below:

Total Demand	Total Collection	Repayment Rate
1000	800	80%
1500	1600	100%
2000	2000	100%
1000	0	0%
1200	1200	100%
1000	900	90%

Repayment Rate of the bank =((800 + 1600 + 2000 + 0 + 1200 + 900) / (1000 + 1500 + 2000 + 1000 + 1200 + 1000)) * 100

= (6500 / 7700)*100

= 84.14%

On-Time Repayment Rate (OTR):

On-Time Repayment (OTR) Rate is a key performance metric in microfinance that measures the percentage of loan installments that are paid by borrowers on or before their scheduled due date.

OTR Rate=(Number of On-Time Payments / Total Scheduled Payments)×100

Where:

- **Number of On-Time Payments:** The count of payments made on or before their due dates.
- **Total Scheduled Payments:** The total number of payments that were due within the reporting period.

Example:

Let’s Calculate the OTR of the month Nov-2024.

- **Total Scheduled Payments:** 1,000
- **On-Time Payments:** 950
- **Late Payments (before month-end):** 5 (not included in on-time payments)
- **Missed Payments (No payments regarding Demand):** 45

OTR = (950 / 1000) * 100 = 95%

Difference Between RR and OTR:

Metric	Focus	Includes Late Payments?
On-Time Repayment Rate (OTR)	Measures punctuality of repayments	No
Repayment Rate	Measures total repayments collected	Yes

Operating Self-Sufficiency (OSS):

Operating Self Sufficiency (OSS) shows the sufficiency of income (operating income and investment income) earned by MLIs(Micro Lending institutions) to cover the cost like operating cost, loan loss provision and finance cost, incurred for conducting the operations.

OSS = (Total Operating Income / Total Operating Expenses) * 100

Where:

- **Total Operating Income:** Includes revenue from loan interest, fees, and other financial services offered by the MFI.
- **Total Operating Expenses:** Comprises all expenses, such as:
    - Loan loss provisions (to cover bad debts).
    - Financial costs (e.g., interest on borrowed funds).

- Administrative and personnel expenses.

Interpretation:

1. **OSS ≥ 100%:**
   a. The MFI is operationally self-sufficient, meaning it can cover all expenses with its income.
   b. Indicates financial sustainability.
2. **OSS < 100%:**
   a. The MFI is not covering its costs fully and may rely on subsidies, grants, or external funding to sustain operations.
   b. Indicates the need for efficiency improvements or income enhancement.

Example:

Month	Total Operating Income	Total Operating Expenses	OSS
Sep-2024	10000	9000	111%
Oct-2024	9000	9500	94.73%
Nov-2024	10000	10000	100%

Loyalty Rate:

Loyalty Rate in microfinance is a metric that measures the proportion of borrowers who remain with the microfinance institution (MFI) over time by taking repeat loans.

Loyalty Rate = (Number of Clients Who Took Repeat Loans after closing the loans in that specific time frame / Loan closures during the specific time period exclude Pre-closure) *100

Example:

Active Loans at the End of the Year: 1,000 (not directly relevant to the loyalty rate calculation).

Clients Whose Loans Closed During the Year: 100

Clients Who Took Repeat Loans: 20

Loyalty Rate =(20 / 100) *100 =20%

** Cumulative Loyalty Rate = (Total Repeat customer from as on closed loans / As on date total closed loans)*100

Active Borrower Per Credit Officer (ABCO) / Case Load:

Active Borrower Per Credit Officer (ABCO), also known as Case Load, is a key metric in the microfinance and lending industry that measures the workload of a credit officer by assessing the number of active borrowers they are managing.

ABCO= (Total Number of Active Borrowers / Total Number of Credit Officers)

Example:

Month over Month Case Load:

Month	Active Borrowers	Credit Officers	Case Load
Jan-2024	10000	50	200
Feb-2024	12000	50	240
Mar-2024	15000	55	273

Average Loan Size (ALS) / Average Ticket Size (ATS):

Refers to the average amount of loans disbursed to borrowers by the MFI within a specific period.

Average Loan Size (ALS) / Average Ticket Size (ATS)= Total Loan Amount Disbursed / Number of Loans Disbursed

Example:

Month over Month ATS:

Month	Total Amount Disbursed	No of Loan Disbursed	ATS
Jan-2024	160000	4	40000
Feb-2024	1470000	42	35000
Mar-2024	1800000	60	30000

Loan Write-off

Loan Write-off in microfinance refers to the process of officially removing a loan from the books of a microfinance institution (MFI) when it is deemed uncollectible. This typically occurs when a loan is considered as a **bad debt** or is unlikely to be repaid by the borrower. A loan write-off does not mean the borrower is absolved of the debt, but rather that the MFI recognizes the loan as a loss for accounting and reporting purposes.

Key Points of Loan Write-off in Microfinance:

1. **Accounting Treatment**: A loan write-off involves reducing the outstanding loan balance on the MFI's balance sheet. This helps the MFI reflect the actual value of its loan portfolio, which is important for financial reporting, regulatory compliance, and investor confidence.
2. **Impact on Borrowers**: The borrower remains legally responsible for repaying the loan, even if it has been written off. In many cases, the borrower may continue to repay the debt, or the MFI may attempt to recover the amount through legal channels.
3. **Write-off Criteria**: The decision to write off a loan is usually made when:
    a. The loan is severely overdue and it is unlikely that repayment will occur (e.g., after a significant number of missed payments, typically 180 days or more).
    b. The borrower has defaulted and no further collection efforts or negotiations are likely to succeed.
    c. The loan is deemed uncollectible after all recovery efforts, such as restructuring or rescheduling, have been exhausted.
4. **Not the Same as Forgiveness**: A loan write-off is different from loan forgiveness. Loan forgiveness means that the borrower is legally relieved of the obligation to repay the loan. In contrast, a write-off only removes the loan from the institution's financial records but does not absolve the borrower of their debt.
5. **Regulatory and Financial Reporting**: Financial regulators often require MFIs to maintain certain levels of **provisions for loan losses** based on their loan write-off experience. These write-offs impact the MFI's **profitability** and **capital adequacy**.

Loan Settlement

- **Definition**:
  Loan settlement occurs when the borrower negotiates with the lender to pay a portion of the loan amount (less than the full amount owed) as a final resolution to settle the debt.
- **Key Features**:
  - The borrower and lender agree on a reduced repayment amount.
  - Once the agreed amount is paid, the remaining debt is forgiven, and no further repayment is required.
  - Settlement is usually considered when the borrower is facing genuine financial difficulties and is unable to repay the full amount.
- **Impact on Credit Score**:
  - The settlement is reported to credit bureaus as a "settled" account and negatively impacts the borrower's credit score, though typically less severe than a complete default.
- **Reason for Settlement**:
  - Done Borrower's Genuine Financial Distress
    - Borrowers, often from low-income groups, may face unexpected hardships like health emergencies, natural disasters, job losses, or crop failures.
  - Avoiding Complete Loan Default
    - By settling, the MFI recovers at least a portion of the loan rather than writing it off as a total loss.
  - Maintaining Client Relationships
    - Settlement may help preserve goodwill with borrowers who might return for future loans when their financial situation improves.
  - Cost of Recovery Efforts
    - Pursuing legal or collection efforts against low-income borrowers can be expensive and counterproductive for MFIs.
  - Regulatory or Policy Pressure
    - Governments or regulators may encourage settlements for struggling borrowers to prevent widespread financial distress in vulnerable populations.
  - Social Responsibility
    - Many MFIs have a dual objective of financial sustainability and social impact. Helping borrowers in distress aligns with their mission to support economic stability in underprivileged communities.
  - Mitigating Portfolio Risk
    - High levels of non-performing loans (NPLs) can threaten an MFI's financial health and ability to secure funding.
  - External Factors

- Events like pandemics, economic downturns, or natural disasters may lead to widespread inability to repay loans.

Key Differences

Aspect	Loan Write-off	Loan Settlement
Definition	Lender removes the loan from its books as a loss but continues to seek repayment.	Borrower and lender agree on a reduced amount to settle the loan.
Obligation	Borrower still owes the full loan amount.	Borrower is no longer obligated after paying the agreed settlement amount.
Reason	Accounting measure for bad debts.	Negotiation due to borrower's inability to pay in full.
Impact on Credit	Marked as "written-off," significantly lowering credit score.	Marked as "settled," also lowering credit score but slightly less severe.
Lender's Recovery	May pursue repayment via legal or collection actions.	No further action after settlement payment.
Negotiation	No negotiation; lender decides unilaterally.	Involves negotiation between lender and borrower.

Which is Better for the Borrower?

Loan Write-off: Provides no relief to the borrower and negatively affects credit.

Loan Settlement: Offers partial relief but also affects creditworthiness. Settlement is preferable if you want to close the debt with a reduced amount.

Conclusion

A write-off is an internal accounting decision by the lender, while a settlement is an agreement between the borrower and the lender to partially resolve the debt. Both impact credit scores and borrowing capacity negatively.