Amendment to the Microcredit Regulation

On July 9 the Banking Authority published its approval of the Dominican Monetary Board's new Microcredit Regulation of May 17, 2018, as its First Resolution.

The regulation overhauls the 2014 Microcredit Regulation, aiming to bring the regulatory framework up to date, bringing it into line with the new provisions in the Asset Assessment Regulations (REA)*. Issues around the granting, assessment and management of microcredits will thus be standardized to prevent unjustified distortions in the methods by which credit risk is measured, but still conserving differential features to tackle specific aspects of a microcredit's lifecycle, as well as the various types of credit.

The most important changes in the Microcredit Regulation are listed below:

Definitions

Inclusion of formal units in the definition of "small-scale activity or business", in order to include those micro-enterprises that are in the formal sector.
Removal from the definition of microcredit of the phrase "*annual sales under RD 8 million*", to be replaced by "*consolidated debts in the financial system that are less than 50 MMWs*" (minimum monthly wage); given that the Regulation sets out the specifications for the microcredit product and not the client type, since it does not specify that it is a micro-enterprise.
Amendment of the definition of "refinancing", to reduce the importance of debt consolidation loans, bearing in mind that this may account for only a small proportion of the new loan and is not necessarily the main reason for the new application. The regulatory body grants greater importance to the punctual recovery of loans by financial intermediation entities (FIEs) within designated deadlines, placing particular emphasis on those cases where interest is paid before the principal.

Term extensions

The Regulation introduces innovations in the features needed to classify a credit transaction as a microcredit. Among others, it extends the term of the loan from 24 to 36 months, and in the case of fixed investments, from 60 to 72 months for greater consistency with the Asset Assessment Regulation (REA) and to give greater flexibility to repayment plans. It will take the increase in the amount as the cut-off point, equivalent to 50 MMWs.

Other important features

The amended regulation includes a series of documents that micro-entrepreneurs must submit in order to access loans. This means they must be duly registered and have properly organized accounts, while FIEs must make changes on their platforms from hard-copy files to electronic ones, as well as a few other updates.

The regulator has also stipulated that when assessing microcredit clients, their debts with FIEs must be consolidated. Nevertheless, another FIE that tries to weight a potential client may not be able tp view their credit rating.

Act 155-17, May 31, 2017, on Money laundering and Financing of Terrorism was taken into account for this new version of the Microcredit Regulation, given the importance of the documents it requires for the Due-Diligence process that FIEs are now obliged to conduct.

The updating of the Microcredit Regulation provides a positive instrument for the micro-entrepreneur, since the obligations inherent to entering the formal economy encourage entrepreneurs to grow, while the State gains better insight into the economic growth of the micro-entrepreneur segment.

* Approved as the Monetary Board’s Second Resolution, September 28, 2017, which came into force on January 2, 2018.