Debt swapping

Hope you would have read about the micro finance or thrift and credit activities of Kudumbashree in ‘Making an Impact’ Article - 32, ‘Making an Impact’ Article - 48, and ‘Making an Impact’ Article -166. Debt swaping or exchange of debt is an innovative idea developed by our micro finance team.

It started with a survey done by us in palakkad district last year. This survey revealed that many NHG members have multiple loans! These loans are from one or more financial institutions or from private money lenders who charge very high rate of interest. In many cases members availed one loan to repay the other loan and this cycle always Kee them in debt trap.

They used to pay interest rate of 24 % to 34 % for loans from private money lenders. The interest of Kudumbashree
s bank linkage loans is only 4% (We give interest subventions to 4%). This led us to the idea of introducing ‘Debt swapping’ where the idea is to swap the loan taken from money lender at higher interest with a bank loan (linkage loan of neighbourhood groups) at lower interest rate.

So, in summary, as per ‘Debt Swapping’, the loans availed by the NHG members from multiple sources (private financial institutions / money lenders) would be merged into one bank loan with lower interest rate. The first step of debt swapping is to collect details of multiple loans taken by members of our NHG. Thereafter this information will be given either to the bank in which the NHG has account or to any other cooperative or nationalised bank. Bank will repay the loan availed from other financial institution and will close all the loan accounts of NHG member in other financial institutions. All these multiple loans will be converted to a bank loan. This is the process of Debt Swaping.

Through this activity, the NHG members are saved from the exploitation of money lenders. Debt swapping will help them avoid paying huge amounts as interest.

At present we have started implementing Debt swapping through Co-operative banks as well as nationalised banks. As of now, we have converted the debts of 873 NHGs through Debt Swaping. We have presented this idea before the State Level Bankers Committee (SLBC). SLBC is considering launching of a new product for debt swapping.

Once this financial product is developed and approved by SLBC, we hope that we will be able to swap the debts of more than 10,000 NHGs in the first phase, helping our members to get rid of exploitation by money lenders. We hope that our Debt Swaping could give a new meaning to the financial empowerment and help the common women from the trap of debts.