What is Portfolio Yield?
» Portfolio yield is a percentage (%). It shows the average gross returns as a proportion of the portfolio outstanding. Generally speaking, Portfolio Yield is the initial indicator of an institution's ability to generate revenue with which to cover its financial and operating expenses.

What is the formula for Portfolio Yield?

\[
\text{Portfolio Yield} = \frac{\text{Interest and Fee Income during period}}{\text{Average Outstanding Loan Portfolio}}
\]

What is Portfolio Yield?
» Portfolio Yield measures how much the Microfinance Institution (MFI) actually received in interest payments from its clients during the period.

» It also provides an insight into portfolio quality. If the MFIs use cash accounting here, the Portfolio Yield will not include the accrued (interest and fee) income that delinquent loans should have generated, but did not.

» For Portfolio Yield to be meaningful, it must be understood in the context of the prevailing interest rate environment the MFI operates in.

What minimum records are required for calculating the Ratio?
» Loan ledger with disbursement schedule and repayment data on each individual loan, backed-up by a comprehensive credit policy outlining various terms and conditions.

» Aggregation of the loan ledger data with regard to delinquent and current loans, either a simple ageing table or a comprehensive portfolio report.

» Key financial statements like the balance sheet and income statement appropriately constructed, along with complete details of finances, including sources, repayment schedule and terms, and all other related information.

What can be said with regard to trends for Portfolio Yield?
✓ An increasing Portfolio Yield is considered positive.
Financial Self-Sufficiency is calculated as follows:

Step 1
Portfolio Yield is calculated by dividing total interest and fee income (in other words, all income generated by the loan portfolio), by the average gross outstanding portfolio.

Step 2
From the income statement (adjusted or unadjusted), sum all interest and fee income received by the MFI. These typically would include:

- Interest on Current and Past Due Loans
- Interest on Restructured loans
- Loan Fees and Service Charges
- Late Fees on Loans
- Total Operating Income

GRANT INCOME SHOULD NOT BE INCLUDED

Step 3
From the portfolio report, calculate the average outstanding portfolio during the period (for instance, a year), using the following procedure:

- Divide the period (year) into appropriate sub-periods for example, a year could be divided into 12 sub-periods of a month each;
- Take the actual loans outstanding at the beginning of the period (say April 1, 2001);
- Add to this, the sum of loans outstanding at the end of each sub-period (i.e., month);
- Then, compute Average Loan Outstanding as follows;

Average Loan Outstanding

\[
\text{(During Period)} = \frac{B + E_1 + E_2 + E_3 + \ldots + E_{12}}{13}
\]

Step 4
Divide Interest and Fee Income during the period by Average Loans Outstanding, to get the Portfolio Yield.
What events/activities affect (distort) the Ratio?

» The Ratio is affected by growth in portfolio.

» If the MFI is using accrual basis of accounting, the interest revenue due, but not received, must be subtracted from the numerator.

» Portfolio Yield is very sensitive to the sequence of payments that an MFI uses with regard to repayments from clients. For example, an institution that uses the sequence of principal first and interest last, would have a lower yield than say an institution that uses the conventional sequence of 'interest first and principal last'.

» Portfolio Yield is an easy way to calculate the actual effective interest rate charged by an institution. It cuts through the many strategies used by MFIs to package on-lending rates such as flat rates, training fees, up front fees, discounts from disbursed amount, etc. Thus, Portfolio Yield shows how much, on average, the MFI receives in interest payments on its loans.

» Likewise, it is a good indicator of delinquency as even if PAR is low (as reported by MFIs), if the yield is lower than expected, then there is delinquency.
Reasons for Lower than Expected Yield

Some of the major reasons for lower than expected yield are:

- Large loan disbursements towards end of financial year, which tend to distort average loan outstanding and yield.

- Loan terms which impact effective interest rate and yield.

- Principal first paid vs interest first paid concept.

- Delinquency, re-scheduling, write-offs etc., that shroud a serious delinquency problem.

- A small proportion of total assets as loans outstanding.