

Draft Reserve Bank of India (All India Financial Institutions- Responsible Business Conduct) Directions, 2025

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Reserve Bank of India (All India Financial Institutions- Responsible Business Conduct) Directions, 2025

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Introduction

In exercise of the powers conferred by Section 45L of the Reserve Bank of India Act, 1934, the Reserve Bank of India (hereinafter called the Reserve Bank), being satisfied that it is necessary and expedient in public interest to do so, hereby, issues these Directions.

Chapter I – Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (All India Financial Institutions- Responsible Business Conduct) Directions, 2025.
2. These Directions shall become effective from the date of issue.

B. Applicability

3. These Directions shall be applicable to All India Financial Institutions (hereafter collectively referred to as 'AIFIs' and individually as an 'AIFI') viz. Export Import Bank of India ('EXIM Bank'), National Bank for Agriculture and Rural Development ('NABARD'), Small Industries Development Bank of India ('SIDBI'), National Housing Bank ('NHB'), and National Bank for Financing Infrastructure and Development ('NaBFID').

C. Definitions

4. In this Chapter, unless the context states otherwise, the terms herein shall bear the meaning assigned to them below:

- (1) Digital Lending: A remote and automated lending process, largely by use of seamless digital technologies for customer acquisition, credit assessment, loan approval, disbursement, recovery, and associated customer service.
- (2) Digital Lending Apps/ Platforms (DLAs): Mobile and/or web-based applications, on a standalone basis or as a part of suite of functions of an application with user interface that facilitate digital lending services. DLAs shall include applications of the RE as well as those operated by Lending Service Provider

(LSP) engaged by RE for extending any credit facilitation services in conformity with extant outsourcing guidelines issued by the Reserve Bank.

(3) Lending Service Provider (LSP): An agent of a RE (including another RE) who carries out one or more of RE's digital lending functions, or part thereof, in customer acquisition, services incidental to underwriting and pricing, servicing, monitoring, recovery of specific loan or loan portfolio on behalf of RE in conformity with extant outsourcing guidelines issued by the Reserve Bank.

(4) Regulated Entities" (REs) for the limited purpose of this Direction means:

(i) Scheduled Commercial Banks (SCBs)/ Regional Rural Banks (RRBs)/ Local Area Banks (LABs)/ All Primary (Urban) Co-operative Banks (UCBs) /State and Central Co-operative Banks (StCBs / CCBs)/ Small Finance Banks, Payment Banks and any other entity which has been licenced under Section 22 of Banking Regulation Act, 1949,

(ii) All India Financial Institutions (AIFIs)

(iii) Non-Banking Finance Companies (NBFCs) and Housing Finance Companies (HFCs)

Chapter II – Corporate Governance

A. Role of Board

5. The AIFI shall have Board approved policies and review mechanisms in place to ensure better customer service.

B. Board approved policies

6. An illustrative list of Board approved policies to be formulated by the AIFI are as under. The aspects to be covered in these policies are detailed in the paragraphs below.

(1) Fair Practices Code

(2) Grievance redressal mechanism

Note: The grievance redressal mechanism shall ensure that all disputes arising out of the decisions of the AIFI's functionaries are heard and disposed of at least at the next higher level.

C. Reviews to be carried out by the Board

7. An illustrative list of reviews to be carried out by the Board are as under. The aspects to be covered in these reviews are detailed in the paragraphs below.

(1) Compliance to the above-mentioned policies

Chapter III – Fair Practices Code

A. Fair Practices Code

A.1 Disclosure in application forms for loans and processing of loans

8. The AIFI shall disclose all information relating to charges / fees for processing in the loan application forms.

9. The AIFI shall transparently disclose the following to the borrower:

- (1) all information about fees/charges payable for processing the loan application;
- (2) the amount of fees refundable if loan amount is not sanctioned/disbursed;
- (3) pre-payment options and charges, if any;
- (4) penalty for delayed repayments if any;
- (5) conversion charges for switching loan from fixed to floating rates or vice versa;
- (6) existence of any interest reset clause; and
- (7) any other matter which affects the interest of the borrower.

10. Such information should also be displayed in the website of the AIFI for all categories of loan products.

11. The AIFI shall disclose 'all in cost' inclusive of all such charges involved in processing/sanction of loan application in a transparent manner to enable the customer to compare the rates/charges with other sources of finance. The AIFI shall ensure that such charges / fees are non-discriminatory.

12. The AIFI shall provide acknowledgement for receipt of all loan applications which shall also indicate the time frame within which loan applications will be disposed of.

13. The AIFI shall verify the loan applications within a reasonable period of time. If additional details / documents are required, they shall intimate the borrowers immediately.

14. The AIFI shall convey in writing, the main reason / reasons which, have led to rejection of the loan applications within the stipulated time for all categories of loans irrespective of any threshold limit.

A.2 Loan appraisal and terms / conditions

15. The AIFI shall ensure that there is proper assessment of credit application by borrowers. It shall not use margin and security stipulation as a substitute for due diligence on credit worthiness of the borrower.

16. The AIFI shall convey to the borrower the credit limit along with the terms and conditions thereof and keep the borrower's acceptance of these terms and conditions given with his full knowledge on record.

17. Terms and conditions and other caveats governing credit facilities arrived at after negotiation between the AIFI and the borrower shall be brought in writing and duly certified by the authorised official.

18. The AIFI shall furnish a copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement to all the borrowers at the time of sanction / disbursement of loans.

19. The loan agreement shall clearly stipulate credit facilities that are solely at the discretion of lenders e.g., approval or disallowance of facilities, such as, drawings beyond the sanctioned limits, honouring cheques issued for the purpose other than specifically agreed to in the credit sanction, and disallowing drawing on a borrowal account on its classification as a non-performing asset or on account of non-compliance with the terms of sanction. The AIFI shall also specifically state that it does not have an obligation to meet further requirements of the borrowers on account of growth in business etc. without proper review of credit limits.

20. In the case of lending under consortium arrangement, the AIFI shall evolve procedures to complete appraisal of proposals in the time bound manner to the extent feasible, and communicate their decisions on financing or otherwise within a reasonable time.

A.3 Disbursement of loans including changes in terms and conditions

21. The AIFI shall ensure timely disbursement of loans sanctioned in conformity with the terms and conditions governing such sanction.

22. The AIFI shall give notice of any change in the terms and conditions including interest rates, service charges etc. The AIFI also ensure that changes in interest rates and charges are effected only prospectively.

A.4 Post disbursement supervision

23. Post disbursement supervision by the AIFI, particularly in respect of loans upto ₹2 lakhs, shall be constructive with a view to taking care of any " lender-related" genuine difficulty that the borrower may face.

24. Before taking a decision to recall / accelerate payment or performance under the agreement or seeking additional securities, the AIFI shall give notice to borrowers, as specified in the loan agreement or a reasonable period, if no such condition exists in the loan agreement.

25. The AIFI shall release all securities on receiving payment of loan or realisation of loan subject to any legitimate right or lien for any other claim it may have against borrowers. If such right of set off is to be exercised, borrowers shall be given notice about the same with full particulars about the remaining claims and the documents under which the AIFI is entitled to retain the securities till the relevant claim is settled / paid.

A.5 General

26. The AIFI shall restrain from interference in the affairs of the borrowers except for what is provided in the terms and conditions of the loan sanction documents (unless new information, not earlier disclosed by the borrower, has come to the notice of the AIFI).

27. The AIFI shall not discriminate on grounds of sex, caste and religion in the matter of lending. However, this does not preclude lenders from participating in credit-linked schemes framed for weaker sections of the society.

28. In the matter of recovery of loans, the AIFI shall not resort to undue harassment viz. persistently bothering the borrowers at odd hours, use of muscle power for recovery of loans, etc.

29. In case of receipt of request for transfer of borrowal account, either from the borrower or from another lender, which proposes to take-over the account, the consent or otherwise i.e., objection of the AIFI, if any, shall be conveyed within 21 days from the date of receipt of such request.

30. The Fair Practices Code adopted by the AIFI, shall also be placed on its website.

Chapter IV – Penal Charges in Loan Accounts

A. Fair Lending Practice – Penal Charges in Loan Accounts

31. The AIFI shall adhere to following instructions for charging penal charges on loans. These instructions shall be applicable to all credit facilities including Cash Credit, Overdraft, securitisation and co-lending portfolios, etc. However, these instructions shall not apply to Credit Cards, External Commercial Borrowings, Trade Credits (rupee / foreign currency export credit) and Structured Obligations which are covered under product specific directions, as also other foreign currency loans.

(1) Penalty, if charged, for non-compliance of material terms and conditions of loan contract by the borrower shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest' that is added to the rate of interest charged on the advances. There shall be no capitalisation of penal charges, i.e., no further interest computed on such charges. However, this will not affect the normal procedures for compounding of interest in the loan account. Therefore, the AIFI may charge interest on unpaid interest (including on unpaid EMI) at the contracted rate of interest till the date of remediation, and not at the penal rate of interest.

Notes:

- (i) The material terms and conditions shall be defined, if not already done, as per the credit policy of the AIFI and they may vary from one category of loan to another, and also, from lender to lender based on their own assessment.
- (ii) Default in repayment by the borrower is also a type of non-compliance of material terms and conditions of loan repayment contract by the borrower and penalty, if charged, for such default shall only be levied in the form of penal charges and not penal interest. Such penal charges shall be reasonable and levied by the lenders only on the amount under default in a non-discriminatory manner as per their Board approved policy. Further, it shall be ensured that there is no capitalization of the penal charges i.e., no further interest computed on such charges.
- (iii) Additional / Fresh penal charges cannot be levied on the earlier outstanding amount of penal charges.

(2) The AIFI shall not introduce any additional component to the rate of interest and ensure compliance to these guidelines in both letter and spirit.

(3) The AIFI shall formulate a Board approved policy on penal charges or similar charges on loans, by whatever name called.

(4) The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract without being discriminatory within a particular loan / product category.

Notes:

(i) The penal charges can be different within the same product category depending upon the amount of loan and the AIFI may adopt a suitable structure of penal charges subject to adherence to the above stipulations. The structure of penal charges within a particular loan / product category shall have to be uniform irrespective of the constitution of the borrower.

(ii) Although no upper limit / cap for penal charges has been prescribed, the AIFI, while formulating its Board approved policy on penal charges, should keep in mind that the intent of levying penal charges is essentially to inculcate a sense of credit discipline and such charges are not meant to be used as a revenue enhancement tool.

(5) The penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.

(6) The quantum and reason for penal charges shall be clearly disclosed by the AIFI to the customers upfront in the loan agreement and Most Important Terms & Conditions (MITC) / Key Fact Statement (KFS) as applicable, in addition to being displayed on the AIFI's website under Interest rates and Service Charges. Further, providing a reference to the schedule of penal charges displayed on the website of the AIFI in the sanction letter and loan agreement shall not suffice.

(7) Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.

(8) In the case of existing loans, the switchover to new penal charges regime shall be ensured on next review or renewal date.

B. Pre-payment charges on loans

32. The AIFI shall adhere to the following Directions regarding levy of pre-payment charges on all floating rate loans (including term loans and demand loans) and advances:

- (1) For all floating rate loans sanctioned or renewed on or after January 01, 2026 for purposes other than business to individuals, with or without co-obligant(s), the AIFI shall not levy pre-payment charges
- (2) For all floating rate loans sanctioned or renewed on or after January 01, 2026 and granted for business purpose to individuals and MSEs, with or without co-obligant(s), the AIFI shall not levy any pre-payment charges.
- (3) The Directions at paragraphs 32(1) and 32(2) above shall be applicable irrespective of the source of funds used for pre-payment of loans, either in part or in full, and without any minimum lock-in period.
- (4) Applicability of above Directions for dual/ special rate (combination of fixed and floating rate) loans will depend on whether the loan is on floating rate at the time of pre-payment.

33. In addition to the instructions at paragraph 32, the following shall be applicable to all loans (including term loans and demand loans) and advances sanctioned or renewed on or after January 1, 2026:

- (1) In cases other than those mentioned at paragraphs 32(1) and 32(2) above, pre-payment charges, if any, shall be as per the approved policy of the AIFI. However, in case of term loans, pre-payment charges, if levied by the AIFI, shall be based on the amount being prepaid. In case of cash credit/ overdraft facilities, pre-payment charges on closure of the facility before the due date shall be levied on an amount not exceeding the sanctioned limit.
- (2) In case of cash credit/ overdraft facilities, no pre-payment charges shall be applicable if the borrower intimates the AIFI of his/ her/ its intention not to renew the facility before the period as stipulated in the loan agreement, provided that the facility gets closed on the due date.

- (3) The AIFI shall not levy any charges where pre-payment is effected at the instance of the AIFI.
- (4) The applicability or otherwise of pre-payment charges shall be clearly disclosed in the sanction letter and loan agreement.. No pre-payment charges which have not been disclosed as specified herein shall be charged by the AIFI.
- (5) The AIFI shall not levy any charges/ fees retrospectively at the time of pre-payment of loans, which were waived off earlier by the AIFI.

Chapter V – Digital Lending

A. Conduct and Customer Protection requirements (applicable to all digital lending activities of Regulated Entities (REs))

A.1 Assessing the borrower's creditworthiness

34. The AIFI shall obtain the necessary information relating to economic profile of the borrower with a view to assessing the borrower's creditworthiness before extending any loan, including, at a minimum, age, occupation and income details. The same shall be kept on record for audit purposes.

35. The AIFI shall ensure that there is no automatic increase in credit limit unless an explicit request is received, evaluated and kept on record from the borrower for such increase.

A.2 Disclosures to borrowers

36. As regards penal charges, AIFI shall be guided by the instructions contained in paragraph 31 of this direction.

37. The AIFI shall ensure that digitally signed documents (As per the provisions of the Information Technology Act, 2000, as amended from time to time) (on the letter head of the AIFI) viz., summary of loan product, sanction letter, terms and conditions, account statements, privacy policies of the AIFI / LSP with respect to storage and usage of borrowers' data, etc. shall automatically flow to the borrower on the registered and verified email/ SMS upon execution of the loan contract/ transactions.

38. AIFI shall maintain a website of their own in public domain, which shall be kept up to date, inter-alia, with the following details at a prominent single place on the website for ease of accessibility. AIFI shall also ensure that DLAs / LSPs have links to the above website of the AIFI.

- (1) Details of all of its digital lending products and its DLAs;
- (2) Details of LSPs and the DLAs of the LSPs along with the details of the activities for which they have been engaged for;

- (3) Particulars of AIFI's customer care and internal grievance redressal mechanism;
- (4) Link to RBI's Complaint Management System (CMS) and Sachet Portal;
- (5) Privacy policies and other details as required under extant guidelines of the Reserve Bank.

39. In case of a loan default, when a recovery agent is assigned for recovery or there is a change in the recovery agent already assigned, the particulars of such recovery agent authorised to approach the borrower for recovery shall be communicated to the borrower through email/ SMS before the recovery agent contacts the borrower for recovery.

A.3 Loan disbursement, servicing and repayment

40. Disbursement of loan by the RE shall always be made into the bank account of the borrower except for disbursements covered exclusively under statutory or regulatory mandate (of RBI or of any other regulator), flow of money between AIFIs for co-lending transactions and disbursements for specific end use, provided the loan is disbursed directly into the bank account of the end-beneficiary. AIFI shall ensure that in no case, disbursement is made to a third-party account, including the accounts of LSP, except as provided for in these Directions.

(1) **Explanation:** Co-lending transactions refers to Co-lending arrangements that shall be governed by the extant instructions, as amended from time to time. This shall also cover co-lending arrangements between REs for non-PSL loans subject to the condition that no third party other than the REs in a co-lending transaction shall have direct or indirect control over the flow of funds at any point of time.

(2) **Explanation:** Advances against salary, where the loan is disbursed directly to the bank account of the borrower but the repayment is from the corporate employer, can be allowed subject to the condition that the loan is repaid by the corporate employer by deducting the amount from the borrower's salary. It must, however, be ensured that LSPs do not have any control over the flow of funds directly or indirectly in such transactions and that repayment is directly from the bank account of the employer to the RE.

41. The AIFI shall ensure that all loan servicing, repayment, etc. is executed by the borrower directly in the AIFI's bank account without any pass-through account/ pool account of any third party, including the accounts of LSP.

42. The flow of funds between the bank accounts of the borrower and the AIFI shall not be controlled either directly or indirectly by a third-party, including the LSP.

43. The AIFI shall ensure that any fees, charges, reimbursements, etc. payable to LSP are paid directly by the AIFI and are not charged to or collected from the borrowers separately by LSP.

44. In case of delinquent loans, the AIFI may deploy physical interface to recover loans in cash, wherever necessary. In order to afford operational flexibility to AIFI, such transactions are exempted from the requirement of direct repayment of loan in the AIFI's bank account. However, any recovery by cash shall be duly reflected in full in the borrower's account on the same day and AIFI shall ensure that any fees, charges, etc., payable to LSPs for such recovery are paid directly by the RE and are not charged by LSP to the borrower either directly or indirectly from the recovery proceeds.

A.4 Cooling-off period

45. The borrower shall be given an explicit option to exit a digital loan by paying the principal and the proportionate APR without any penalty during an initial "cooling-off period". The cooling off period shall be determined by the Board of the AIFI as laid down in their loan policy, subject to the period so determined not being less than one day. For borrower continuing with the loan even after cooling-off period, pre-payment shall continue to be allowed as per applicable RBI guidelines.

46. The AIFI may retain a reasonable one-time processing fee, if the customer exits the loan during the cooling-off period. This, if applicable, shall be disclosed to the customer upfront in KFS.

Chapter VI – Miscellaneous Instructions

A. Outsourcing of Financial Services - Responsibilities of regulated entities employing Recovery Agents

47. The AIFI shall strictly ensure that it or its agents do not resort to intimidation or harassment of any kind, either verbal or physical, against any person in its debt collection efforts, including acts intended to humiliate publicly or intrude upon the privacy of the debtors' family members, referees and friends, sending inappropriate messages either on mobile or through social media, making threatening and/ or anonymous calls, persistently calling the borrower and/ or calling the borrower before 8:00 a.m. and after 7:00 p.m. for recovery of overdue loans, making false and misleading representations, etc. This direction shall not be applicable to microfinance loans provided as per Reserve Bank of India (All India Financial Institutions – Credit Facilities) Directions, 2025.

B. Providing bank facilities to persons with disabilities : Compliance with Hon'ble Supreme Court Order dated April 30, 2025 in the matter of Pragya Prasun and Ors. vs Union of India (W.P.(C) 289 of 2024) and Amar Jain vs Union of India & Ors. (W.P.(C) 49 of 2025)

48. Attention of the AIFI is drawn to the Order of the Hon'ble Supreme Court dated April 30, 2025 in the matter of Pragya Prasun and Ors. vs. Union of India (W.P.(C) 289 of 2024) and Amar Jain vs. Union of India & Ors. (W.P.(C) 49 of 2025). The AIFI shall undertake appropriate measures to ensure compliance with the above Supreme Court Order, as applicable.

Chapter VII – Repeal and Other Provisions

A. Repeal and saving

49. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Responsible Business Conduct as applicable to All India Financial Institutions stand repealed, as communicated vide notification dated XX, 2025. The Directions, instructions, and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

50. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

B. Application of other laws not barred

51. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

C. Interpretations

52. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.