



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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

Table of Contents

Chapter I – Preliminary	2
Chapter II – Institutional Framework	3
A. Role of Board.....	3
Chapter III – Responsible Lending Conduct.....	4
A. Fair Practices Code	4
B. Penal Charges in Loan Accounts.....	7
C. Pre-payment charges on loans	9
D. Responsibilities of an AIFI employing Recovery Agents.....	10
Chapter IV – Miscellaneous Instructions	11
A. Compliance with Hon’ble Supreme Court Order dated April 30, 2025 in the matter of Pragya Prasun and Ors. vs Union of India and Ors. (W.P.(C) 289 of 2024) and Amar Jain vs Union of India and Ors. (W.P.(C) 49 of 2025)	11
Chapter V – Repeal and Other Provisions	12
A. Repeal and saving	12
B. Application of other laws not barred	12
C. Interpretations.....	12



In exercise of the powers conferred by Section 45L of the Reserve Bank of India Act, 1934 and all other provisions / laws enabling the Reserve Bank of India (hereinafter called the Reserve Bank) in this regard, the Reserve Bank being satisfied that it is necessary and expedient in public interest so to do, 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 issuance unless indicated otherwise.

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').



Chapter II – Institutional Framework

A. Role of Board

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

A.1 Board approved policies

5. An illustrative list of Board approved policies to be formulated by an AIFI are given below. The aspects to be covered in these policies are detailed in the respective paragraphs of these Directions.

- (1) Fair Practices Code
- (2) Grievance redressal mechanism
- (3) Penal charges

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.

A.2 Reviews to be carried out by the Board

6. The compliance of the Fair Practices Code and the functioning of the grievance redressal mechanism at various levels of controlling offices shall be periodically reviewed. A consolidated report of such reviews may be submitted to the Board at regular intervals, as may be prescribed by it.



Chapter III – Responsible Lending Conduct

A. Fair Practices Code

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

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

8. An 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.

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

10. An 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.

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

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

13. An 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

14. An 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.

15. An 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.

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

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

18. 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.

19. 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

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

21. An 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

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

23. Before taking a decision to recall / accelerate payment or performance under the agreement or seeking additional securities, an 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.

24. An 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

25. An AIFI shall restrain from interference in the affairs of the borrower 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).

26. An 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.

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

28. 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.

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



B. Penal Charges in Loan Accounts

30. An AIFI shall adhere to following instructions for charging penal charges on loans. These instructions shall be applicable to all credit facilities offered by the AIFI but 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.
- (iv) In case of the funded facility created on account of invocation of BG / devolvement of LC, an AIFI may charge an appropriate rate of interest on the devolved amount taking into account the associated credit risk premium as per its credit underwriting policy. However, penalty, if any, on that funded facility on



account of non-repayment by the borrower within the due date may only be levied in the form of penal charges and not penal interest.

- (v) An AIFI shall follow the instructions and clarifications, if any, issued by Central Board of Indirect Taxes & Customs (CBIC) with regard to applicability of GST on penal charges.

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

(3) An 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 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 thereof 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.

C. Pre-payment charges on loans

31. An AIFI shall adhere to the following directions regarding levy of pre-payment charges on loans and advances (term loans as well as demand loans) sanctioned or renewed **on or after January 1, 2026**:

(1) For all floating rate loans granted 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 granted for business purpose to individuals and Micro and Small Enterprises (MSEs), as defined in Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, with or without co-obligant(s), the AIFI shall not levy any pre-payment charges.

(3) The Directions at paragraphs 31(1) and 31(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.

(5) In cases other than those mentioned at paragraphs 31(1) and 31(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.



(6) 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.

(7) The AIFI shall not levy any charges where pre-payment is effected at the instance of the AIFI.

(8) 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.

(9) 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.

D. Responsibilities of an AIFI employing Recovery Agents

32. An 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.



Chapter IV – Miscellaneous Instructions

A. Compliance with Hon’ble Supreme Court Order dated April 30, 2025 in the matter of Pragya Prasun and Ors. vs Union of India and Ors. (W.P.(C) 289 of 2024) and Amar Jain vs Union of India and Ors. (W.P.(C) 49 of 2025)

33. Attention of an 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 and Ors. (W.P.(C) 289 of 2024) and Amar Jain vs. Union of India and 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 V – Repeal and Other Provisions

A. Repeal and saving

34. 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 [circular DOR.RRC.REC.302/33-01-010/2025-26 dated November 28, 2025](#). The Directions, instructions, and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

35. 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. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:

- (1) any right, obligation or liability acquired, accrued, or incurred thereunder;
- (2) any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;
- (3) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

B. Application of other laws not barred

36. 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

37. 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.

(Veena Srivastava)

Chief General Manager