



BANKING AND FINANCE

REGULATORY

Responsible Lending and Borrower Protection: An Analysis of RBI's NBFC Responsible Business Conduct Directions, 2025

An analysis of the RBI's NBFC Responsible Business Conduct Directions, 2025: fair lending, Key Facts Statements, penal charges, recovery-agent conduct, prepayment charges, release of property documents and gold-loan safeguards.

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Table of contents

- [Introduction](#)
- [Applicability and Regulatory Framework](#)
- [Fair Lending Practices and Transparency in Loan Transactions](#)
- [Key Facts Statement: Strengthening Informed Borrowing](#)
- [Penal Charges and Prevention of Unfair Lending Practices](#)
- [Responsible Loan Recovery and Regulation of Recovery Agents](#)
- [Prepayment Charges and Borrower Flexibility](#)
- [Release of Property Documents and Protection of Borrower Rights](#)
- [Special Protections for Microfinance Borrowers](#)
- [Gold and Silver-Backed Lending: Safeguards for Borrowers](#)
- [Accessibility, Customer Protection and Institutional Accountability](#)
- [Compliance Implications for NBFCs](#)
- [Conclusion](#)

Introduction

The relationship between financial institutions and borrowers extends beyond the mere advancement and repayment of loans. It involves transparency in financial transactions, fair treatment of customers, responsible recovery practices and accountability throughout the lending process. Recognising the importance of these principles, the Reserve Bank of India (RBI) has introduced a consolidated regulatory framework governing the business conduct of [Non-Banking Financial Companies \(NBFCs\)](#).

On November 28, 2025, the RBI issued the Reserve Bank of India (Non-Banking Financial Companies –Responsible Business Conduct) Directions, 2025, subsequently updated as on July 1, 2026. These Directions consolidate various regulatory requirements relating to fair lending practices, disclosure of loan terms, penal charges, recovery procedures, borrower grievances and the release of securities.

The framework seeks to ensure that lending institutions conduct their business in a transparent, responsible and customer-oriented manner while maintaining the ability to recover legitimate dues and enforce contractual obligations.

For NBFCs, the Directions represent an important [compliance framework](#) requiring responsible lending principles to be reflected not merely in loan documentation but also in internal policies, operational procedures and customer interactions.

Applicability and Regulatory Framework

The Directions apply to several categories of RBI-regulated NBFCs, including Investment and Credit Companies, Microfinance Institutions, Factors, Infrastructure Finance Companies and Housing Finance Companies, across regulatory layers, unless otherwise specified.

Certain entities, including Core Investment Companies, Account Aggregators and NBFCs without customer interaction, are excluded from their general application. Specific provisions concerning agents also apply to NBFC Peer-to-Peer Lending Platforms.

The Directions place considerable importance on the responsibilities of the Board of Directors. Every applicable NBFC is required to maintain Board-approved policies relating to fair practices, grievance redressal, interest rates, penal charges and recovery-agent engagement.

The Board must also periodically review compliance with the Fair Practices Code and the functioning of the [grievance redressal mechanism](#).

This approach demonstrates that responsible lending is not limited to the conduct of individual employees. It is an institutional responsibility requiring appropriate policies, supervision and periodic assessment.

Fair Lending Practices and Transparency in Loan Transactions

A fundamental requirement under the Directions is that borrowers must receive clear and understandable information regarding the loans offered to them.

Under the Fair Practices Code, NBFCs must communicate with borrowers in the vernacular language or a language understood by them. Loan application forms must disclose relevant information affecting the borrower's decision, including the documents required for processing the application.

At the time of sanctioning a loan, the NBFC must communicate the sanctioned amount, applicable annualised interest rate, method of charging interest and other important terms and conditions. The borrower's acceptance of these terms must also be maintained on record.

The RBI has emphasised the importance of providing borrowers with copies of loan agreements and their enclosures at the time of sanction or disbursement. Failure to provide these documents may lead to disputes regarding repayment obligations, charges and other contractual conditions.

The Directions further require that any changes in interest rates, service charges, repayment schedules or other contractual conditions be communicated to borrowers. Changes in interest rates and charges must operate prospectively.

These requirements strengthen the principle that borrowers should understand their financial obligations before entering into a lending arrangement and remain informed throughout the loan tenure.

Key Facts Statement: Strengthening Informed Borrowing

One of the most significant borrower-protection measures under the Directions is the requirement to provide a Key Facts Statement (KFS).

The KFS is intended to present the essential features of a loan in a standardised and easily understandable format. It enables borrowers to identify the financial obligations associated with a proposed credit facility without relying exclusively on lengthy loan agreements.

Under Paragraph 29, the KFS requirements apply to new retail and MSME term loans sanctioned on or after October 1, 2024, subject to the prescribed exclusion for credit card receivables.

The KFS must include information regarding the sanctioned loan amount, tenure, interest rate, instalments, applicable fees and charges, and the Annual Percentage Rate (APR). The APR reflects the annual cost of credit, including the interest rate and applicable charges associated with the facility.

The Directions also prescribe a minimum validity period for the KFS. For loans having a tenure of seven days or more, the borrower must receive at least three working days to consider the terms. For loans having a tenure of less than seven days, the minimum validity period is one working day.

Importantly, an NBFC cannot recover fees or charges that have not been disclosed in the KFS during the loan tenure without obtaining the borrower's explicit consent.

The KFS therefore serves as a safeguard against undisclosed charges and promotes informed financial decision-making.

For NBFCs, compliance requires accurate calculation of the APR, proper disclosure of third-party charges and consistency between the KFS, sanction letter and loan agreement.

Penal Charges and Prevention of Unfair Lending Practices

Penal charges have historically been an area of concern in lending transactions, particularly where delayed repayments result in substantial additional liabilities for borrowers.

Paragraph 30 of the Directions establishes a framework governing the levy of penal charges in loan accounts.

The RBI requires penalties imposed for non-compliance with material loan terms to be treated as penal charges rather than additional penal interest. Such charges cannot be added to the principal or outstanding balance for the purpose of charging further interest on the penal charges themselves.

The quantum of penal charges must be reasonable, proportionate to the relevant non-compliance and consistent with the NBFC's Board-approved policy.

The Directions also clarify that penal charges should not operate as an additional revenue-generating mechanism for lenders. Their purpose is to promote credit discipline rather than impose excessive financial burdens.

NBFCs are required to disclose the amount and reason for penal charges in the loan agreement and the Most Important Terms and Conditions or KFS, wherever applicable. Merely referring borrowers to a schedule of charges published on the NBFC's website is insufficient.

These requirements necessitate a review of loan documentation, penalty clauses, customer disclosures and the systems used to calculate and recover charges.

Responsible Loan Recovery and Regulation of Recovery Agents

The [recovery of overdue loans](#) remains a legitimate function of financial institutions. However, such recovery must be conducted within the boundaries of law and accepted standards of customer treatment.

The Directions expressly prohibit NBFCs and their agents from engaging in intimidation, harassment, threatening behaviour, public humiliation or intrusion into the privacy of borrowers and their families.

Paragraph 100 specifically prohibits inappropriate communications, threatening or anonymous calls, persistent harassment and recovery calls before 8:00 a.m. or after 7:00 p.m. for the overdue loans governed by that provision.

A separate framework applies to microfinance borrowers, under which Paragraph 91 prohibits recovery calls before 9:00 a.m. or after 6:00 p.m., along with other harsh recovery methods.

The Directions additionally require appropriate training and supervision of recovery agents. In the context of microfinance recovery, NBFCs must undertake due diligence before engaging recovery agencies, including antecedent verification of individuals involved in recovery activities.

Borrowers must also be informed about the recovery agent authorised to approach them. The agent must carry the necessary notice, authorisation letter and identification.

These provisions reinforce the principle that outsourcing recovery activities does not eliminate the NBFC's responsibility for ensuring compliant conduct.

Accordingly, NBFCs must ensure that recovery-agent agreements, codes of conduct, borrower notices, grievance procedures and operational practices are aligned with the applicable RBI requirements.

Prepayment Charges and Borrower Flexibility

The Directions also address the imposition of prepayment or foreclosure charges, particularly in relation to floating-rate loans.

For loans sanctioned or renewed on or after January 1, 2026, Paragraph 34 prohibits prepayment charges on floating-rate loans granted to individual borrowers for purposes other than business.

The prohibition also extends to specified floating-rate business loans granted to individuals and [Micro and Small Enterprises](#). NBFCs in the Upper Layer cannot levy such charges on the covered business loans, while NBFCs in the Middle Layer are subject to the prohibition for qualifying loans with sanctioned amounts or limits up to ₹50 lakh.

These restrictions apply irrespective of the source of funds used for prepayment and without a minimum lock-in period.

For loans falling outside these categories, prepayment charges may remain permissible, subject to the applicable regulatory requirements and the NBFC's approved policy.

The Directions further require applicable prepayment charges to be disclosed in the sanction letter, loan agreement and KFS, wherever required.

This framework is intended to prevent borrowers from facing undisclosed financial barriers when they wish to repay eligible loans before the scheduled maturity date.

Release of Property Documents and Protection of Borrower Rights

The timely release of original property documents after repayment is another important aspect of responsible lending.

Under Paragraphs 35 to 41, an NBFC must release original movable or immovable property documents and remove registered charges within 30 days after full repayment or settlement of the covered personal loan.

Where the delay is attributable to the NBFC, compensation of ₹5,000 per day is payable beyond the prescribed period.

In cases involving loss or damage to original documents, the NBFC must assist the borrower in obtaining duplicate or certified copies and bear the associated expenses. The Directions provide an additional period for completing this process.

These requirements recognise that retaining property documents after repayment can restrict a borrower's ability to sell, transfer, refinance or otherwise deal with the property.

For lenders, compliance requires an effective system for tracking loan closure, identifying the custody of original documents, removing registered charges and completing the release process within the prescribed timelines.

Special Protections for Microfinance Borrowers

The Directions contain additional safeguards for microfinance borrowers, recognising the financial vulnerability that may arise in small-value lending arrangements.

NBFCs engaged in microfinance lending are required to maintain a Board-approved Fair Practices Code, provide standard loan agreements in a language understood by borrowers and issue loan cards containing essential information about the credit facility.

The loan card must contain borrower identification details, simplified pricing information, repayment acknowledgements and grievance redressal particulars.

The framework prohibits prepayment charges on microfinance loans and requires delayed-payment charges to apply only to the overdue amount rather than the entire loan.

It also imposes specific obligations regarding employee training, appropriate borrower engagement and the avoidance of coercive recovery practices.

The objective is to ensure that microfinance lending remains consistent with responsible financial inclusion rather than exposing financially vulnerable borrowers to unfair contractual terms or aggressive collection practices.

Gold and Silver-Backed Lending: Safeguards for Borrowers

The Directions establish detailed conduct-related requirements for NBFCs providing loans against gold and silver collateral.

These provisions address the assessment of collateral purity and weight, valuation procedures, secure storage, documentation, release of pledged articles and auction practices.

NBFCs are required to maintain appropriate records identifying the pledged collateral and its assessed value. Borrowers must receive the prescribed certificate containing relevant details of the articles deposited as security.

Upon full repayment or settlement, the pledged collateral must ordinarily be released on the same day and, in any event, within seven working days.

Where a delay attributable to the NBFC extends beyond the prescribed period, the Directions provide for compensation of ₹5,000 per day.

The auction process must also be transparent, with appropriate notice to borrowers and safeguards governing reserve prices, auction procedures and the return of surplus proceeds.

These requirements are particularly significant because gold and silver jewellery may carry personal and financial importance beyond their monetary value.

Accessibility, Customer Protection and Institutional Accountability

The Directions also recognise the importance of ensuring that financial services remain accessible to persons with disabilities.

NBFCs are required to avoid discrimination against physically or visually challenged applicants and provide appropriate assistance in accessing financial products and services.

The framework further draws attention to the Supreme Court's order dated April 30, 2025, in [Pragya Prasun and Others v. Union of India and Others](#) and *Amar Jain v. Union of India and Others*, requiring applicable compliance measures.

The July 2026 update additionally provides that NBFCs may, at their discretion, extend relief through waiver or reduction of fees and charges for customers in areas where a [calamity has been officially declared](#), for a period not exceeding one year.

Together, these provisions illustrate the RBI's broader emphasis on customer protection, accessibility and responsible institutional conduct.

Compliance Implications for NBFCs

The Responsible Business Conduct Directions have significant implications for the internal compliance and operational structures of NBFCs.

Compliance cannot be achieved merely by inserting prescribed provisions into loan agreements. NBFCs must ensure that their actual lending and recovery operations function consistently with the regulatory framework.

This requires alignment between the Fair Practices Code, loan documentation, KFS, grievance redressal policies, penal-charge structures, recovery-agent arrangements and internal monitoring systems.

The Board of Directors must exercise effective oversight through approved policies and periodic compliance reviews. Employees, direct sales agents and recovery personnel must also receive appropriate training regarding borrower communication, privacy, disclosure obligations and permissible recovery practices.

Particular attention must be given to the consistency of borrower-facing documents. Differences between the KFS, sanction letter and loan agreement may create uncertainty regarding the applicable terms and increase the risk of customer complaints or regulatory scrutiny.

The Directions also highlight the importance of technology-enabled compliance systems capable of tracking customer disclosures, loan modifications, repayment defaults, recovery communications and the timely return of securities.

Therefore, the framework should be understood not merely as a set of documentation requirements but as an operational standard governing the entire lending lifecycle.

Conclusion

The RBI's Non-Banking Financial Companies – Responsible Business Conduct Directions, 2025 represent an important step towards strengthening transparency, accountability and fairness in India's non-banking financial sector.

By consolidating requirements relating to loan disclosures, fair pricing, penal charges, recovery practices, borrower grievances and release of collateral, the Directions establish a comprehensive framework for responsible customer treatment.

A significant feature of the regulatory approach is its emphasis on the actual conduct of NBFCs rather than formal contractual compliance alone. Financial institutions are expected to ensure that fair practices are embedded in their internal policies, operational procedures and interactions with borrowers.

For NBFCs, this calls for continuous review of their lending practices, effective oversight of third-party service providers and consistent implementation of borrower-protection measures.

Ultimately, responsible lending is not limited to extending credit on commercially acceptable terms. It requires financial institutions to ensure that borrowers are treated fairly, remain adequately informed and are protected from unreasonable or coercive practices throughout the lending relationship.

The effectiveness of the Directions will therefore depend not only on their formal adoption by NBFCs but also on their consistent implementation across the entire lending lifecycle.