

## DIGITAL LENDING RULES FOR EXISTING LOANS

# RBI sets Nov 30 deadline to comply with norms

Guidelines applicable to new and existing customers taking fresh loans

SUBRATA PANDA

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The Reserve Bank of India (RBI) on Friday said that regulated entities engaged in credit delivery through digital lending will have time till November 30 to comply with the lending norms for existing digital loans.

However, for new and existing customers availing fresh loans, these norms will be applicable immediately.

“In order to ensure a smooth transition, regulated entities shall be given time till November 30, to put in place adequate systems and processes. It is to ensure that ‘existing digital loans’ (sanctioned on the date of the circular) are also in compliance with these guidelines,” the central bank said in a circular.

The RBI also pointed out that obligations of the regulated entities will not diminish even if they enter into outsourcing arrangements with lending service providers (LSPs)/digital lending apps (DLAs). And, it is the regulated entities’ duty to ensure that these entities follow the guidelines prescribed by the regulator. RBI has come out with detailed guidelines on recommendations of the working group that were accepted for immediate implementation last month.

The guidelines are applica-



## TIGHTENING THE NOOSE

▶ The RBI has come out with guidelines on the recommendations of the working group on digital lending

▶ Guidelines are applicable to commercial banks, NBFCs, urban co-operative banks, and state co-operative banks

ble to all kinds of digital loans extended by commercial banks, non-banking finance companies (NBFCs), and primary, state, and district-level central co-operative banks. Among the recommendations accepted were that all loan disbursements and repayments are required to be executed only between the bank accounts of the borrower and the regulated entities. It should be without any pass

▶ Loan disbursements and repayments are required to be executed only between the bank accounts of the borrower and the RE

▶ Under no circumstance, is a disbursement to be made to a third-party account, including the accounts of LSPs and their digital lending apps

through/ pool account of the LSP or any third party.

The central bank has clarified that disbursements have to always be made into the bank account of the borrower.

The exceptions are for disbursements covered exclusively under statutory or regulatory mandate, flow of money between regulated entities for co-lending, and disbursements for specific end-use, provided the loan is disbursed directly into

the bank account of the end-beneficiary.

The RBI has categorically stated that in no case, disbursement is to be made to a third-party account, including the accounts of LSPs and their DLAs.

Regulated entities have to ensure that fees that are required to be paid to LSPs are paid directly by them. They should not be charged by LSP to the borrower directly. The central bank has also clarified that penal interest on borrowers should be based on the outstanding amount of the loan.

The rate of such penal charges should be disclosed upfront on an annualised basis to the borrower in the key fact statement (KFS). A KFS will consist of the annual percentage rate (APR), the recovery mechanism, details of grievance redressal officers designated to deal with digital lending/ fintech-related matters and the cooling-off/look-up period.

The central bank has specified that the regulated entities cannot charge the borrowers any fees that are not mentioned in the KFS. Further, regulated entities have to publish a list of their DLAs and LSPs engaged by them on their website. They will have to ensure that the borrower is made aware of all the information related to the product.