

Digital Lending Guidelines

[Guidelines on Digital Lending were issued vide [Circular DOR.CRE.REC.66/21.07.001/2022-23 dated September 02, 2022](#)]

Q 1: Whether a lending transaction would fall under the definition of digital lending only if all the processes in the life cycle of a loan, viz., customer acquisition, credit assessment, loan approval, disbursement, recovery, and associated customer service, are carried out digitally or some of the aforesaid processes can be carried out in physical mode also?

Ans: The phrase 'largely by use of seamless digital technologies' has been used in the Digital Lending definition to accord operational flexibility to REs in 'Digital Lending'. Therefore, even if some physical interface with customer is present, the lending will still fall under the definition of Digital Lending. However, while doing so, the REs should ensure that the intent behind the Guidelines is adhered to.

Q 2: Whether any service provider to whom RE has outsourced some of its credit intermediation activities would fall within the definition of Lending Service Provider (LSP) even if the lending transaction in question does not fall under the definition of 'Digital Lending'?

Ans: Para 1 of the Annex I to the [Circular dated September 02, 2022](#) specifies that these Guidelines are applicable to 'Digital Lending'. Hence, only if a lending transaction qualifies under the definition of 'Digital Lending', will the service provider facilitating such lending be designated as LSP.

Q 3: Whether all LSPs need to appoint Grievance Redressal Officers?

Ans: Only those LSPs which have an interface with the borrowers would need to appoint a nodal Grievance Redressal Officer. However, it may be reiterated that the RE shall remain responsible for ensuring resolution of complaints arising out of actions of all LSPs engaged by them.

Q 4: Will EMI programmes on Credit Card undertaken in accordance with the [Master Direction on Credit Card and Debit Card – Issuance and Conduct, 2022](#) be covered within the ambit on Digital Lending Guidelines?

Ans: EMI programmes on Credit Card are governed specifically by Para 6(b)(iii)¹ of the [Master Direction on Credit Card and Debit Card – Issuance and Conduct, 2022](#). Such transactions shall not be covered under the Guidelines on Digital Lending. However other loan products offered on Credit Cards which are not covered/ envisaged under the aforesaid para of the Master Direction shall be governed by the stipulations laid down under the Guidelines on Digital Lending. Further, the Guidelines will also be applicable to all loans offered on Debit Card, including EMI programmes.

Q 5: How to disclose APR in case of floating rate loans?

Ans: In case of floating rate loans, APR may be disclosed at the time of origination based on the prevailing rate as per the format of KFS. However, as and when the floating rate changes, only the revised APR may be disclosed to the customer via SMS/ e-mail each time the revised APR becomes applicable.

Q 6: Is it mandatory to include insurance charges in the calculation of APR?

Ans: The insurance charges shall be included in the computation of APR only for the insurance which is linked/integrated in loan products as these charges are intrinsic to the nature of such digital loans.

Q 7: Whether the flow of funds between the bank accounts of borrower and lender in a lending transaction can be controlled directly or indirectly by a third-party including LSP?

Ans: No

Q 8: Can the services of Payment Aggregators (PA) be used for loan disbursements and repayments?

Ans: The principle underlying the Digital Lending Guidelines is that a LSP should not be involved in handling of funds flowing from the lender to the borrower or vice versa. While entities offering only PA services shall remain out of the ambit of 'Guidelines on Digital Lending', any PA also performing the role of an LSP must comply with the Digital Lending Guidelines.

Q 9: In case of delinquent loans, recovery/ servicing of digital loans may be undertaken by a recovery agent collecting cash from borrowers. Will such cases be exempted from the requirement of direct repayment of loan in the RE's bank account?

Ans: In case of delinquent loans, REs can deploy physical interface to recover loans in cash, where absolutely necessary. In order to afford operational flexibility to REs, such transactions are exempted from the requirement of direct repayment of loan in the RE's bank account. However, any recovery by cash should be duly reflected in the borrower's account and REs shall ensure that any fees, charges, etc., payable to LSPs are paid directly by them (REs) and are not charged by LSP to the borrower directly or indirectly from the recovery proceeds.

Q 10: In certain cases, such as loan products involving advances against salary, though the loan is disbursed directly to the bank account of the borrower, the repayment is from the corporate employer, which deducts the EMI amount from the salary. Whether in such cases, it still has to be ensured that repayment is directly from the bank account of the borrower?

Ans: Such repayments 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. Further, REs should ensure that LSPs do not have any control over the flow of funds directly or indirectly in such transactions. It has also to be ensured that repayment is directly from the bank account of the employer to the RE.

Q 11: For co-lending transactions, exemption has been granted from direct disbursement to the bank account of the borrower to the extent of flow of money between REs. Is such exemption available only for co-lending transactions undertaken for priority sector lending?

Ans: The exemption can be extended to 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 should have direct or indirect control over the flow of funds at any point of time.

Q 12: Whether the Guidelines are also applicable for corporate including MSME loans?

Ans: The Guidelines are applicable to all transactions meeting the definition of 'Digital Lending' as per Digital Lending Guidelines.

Q 13: Whether the Guidelines are also applicable to mobile banking apps/websites of banks where, as an additional feature, personal loans or loans against deposits are being offered on the applications?

Ans: The Guidelines are applicable to 'digital loans' offered over any digital platform which meet the definition of 'Digital Lending Apps/Platforms' (DLAs) as per our [circular dated September 02, 2022 on Guidelines on Digital Lending](#).

Q 14: Para 4.2 of the Digital Lending Guidelines mandate that penal interest/ charges levied shall be based on the outstanding amount of the loan. Whether penal interest/ charges can be levied on a lower base?

Ans: The amount under default shall act as the ceiling on which the penal charges can be levied.

Q 15: Cheque bounce or mandate failure charges are levied on per instance/occurrence basis. Is it mandatory to annualize these charges also?

Ans: Penal charges such as cheque bounce/mandate failure charges, which are necessarily levied on a per instance basis may not be annualized. However, these charges must be disclosed separately in the KFS under 'Details about Contingent Charges'.

Q 16: Is processing fees required to be refunded if customer exits the loan during cooling-off period?

Ans: Reasonable one-time processing fee can be retained if the customer exits the loan during cooling-off period. This, if applicable, should be disclosed to the customer upfront in KFS. However, the processing fee has to be mandatorily included for the computation of APR.

Q 17: Recovery agents are assigned by the lenders only when they turn delinquent. How can the lender then specify the details at the time of sanction?

Ans: At the time of sanction of loan, the borrower may be conveyed the name of empaneled agents authorized to contact the borrower in case of loan default. However, if the loan turns delinquent and the recovery agent has been assigned to the borrower, the particulars of such recovery agent assigned must be communicated to the borrower through email/SMS before the recovery agent contacts the borrower for recovery.

Q 18: If APR is disclosed in KFS, is there a need to also disclose annualised rate of interest to the borrowers as required under Fair Practices Code applicable to NBFCs?

Ans: Yes.

¹ Card-issuers shall ensure complete transparency in the conversion of credit card transactions to Equated Monthly Instalments (EMIs) by clearly indicating the principal, interest and upfront discount provided by the merchant/card-issuer (to make it no cost), prior to the conversion. The same shall also be separately indicated in the credit card bill/statement. EMI conversion with interest component shall not be camouflaged as zero-interest/no-cost EMI.