



Guidelines on Penal Charges

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¹ Email for approval sent on 19 Jun 2025.

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Context

1. [Regulations on Penal Charges](#)² require penal charges to be reasonable and proportional to the borrower's defaults /non-compliance and create a sense of credit discipline.
2. Digital loans are diverse, and the lender is the best judge of their customers' drivers and vulnerabilities to nonrepayment. However, as the REs work with multiple LSPs and vice versa, multiple methods may dissatisfy the customers and be operationally difficult for both REs and LSPs. This presents a case for converging on ground rules, with each company defining specifics that fit their customers and business needs.
3. This note guides FACE members on possible approaches to penal charges, covering triggers for penalties and the underlying logic for determining the quantum as they frame their board approval policy within regulatory guidelines.
4. FACE will study the practices for benchmarks and customer response and update the guidance on the experience if necessary.
5. We urge members and industry stakeholders³ to implement these guidelines as necessary for their circumstances. For any suggestions or clarifications, please email sro@faceofindia.org.

Guidelines

6. The two most common penal charges in digital lending are related to the bounce of repayment and delay in repayment due. We outline our guidance on both of these below.

Bounce charges for eNACH/cheque failures due to insufficient balances in the account

7. Trigger: A repayment mandate to customers' bank accounts through e-NACH is not honoured due to the inadequate balance in the customers' bank accounts or any other reason (such as stop payment instruction). Bounce charges can only apply if the customer has given a mandate for e-NACH.
8. Computation logic for reasonability and proportionality: A bounce charge may be applied to the customer to cover the costs incurred for a bounce with a lump sum amount, subject to a cap. Usually, this charge is per occurrence regardless of the amount under consideration. However, the occurrence should be once per instalment and should not apply to retry of the NACH at frequent intervals. If there is an add-on component above the actual costs incurred due to e-NACH bounce, the add-on component should relate to the administrative burden on the RE and apply only once per instalment due. Do not charge interest on non-payment of the bounce charges.
9. Disclosure
 - a. KFS/loan documents/list of charges on website/apps should mention the bounce charges.

² <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12527&Mode=0>

³ FACE has published these guidelines, and we welcome the industry to refer to and adopt with adequate attribution to FACE

- b. Send the customer an advance message/notification to keep sufficient balance, at least two days before every presentation, about the payment amount due, date, and bounce charges.
- c. Inform the customer when bounce charges are levied.

10. Others

- a. Follow the NPCI instructions on informing customers and limits on representation.
- b. Do not apply the bounce charges for technical bounces.
- c. Given the cost to the customer for every bounce, take steps to confirm a sufficient balance in the account before representation.
- d. Define restraints to avoid cumulative charges becoming exorbitant due to repeated occurrences. For example, the policy may restrict the presentation of the mandate on the due date if the previous EMI is still due, or it can cap the cumulative bounce charges to a certain amount per instalment.

Penal charges for no or partial payment of the instalment due

11. Trigger: Customer does not pay or pays partially against the instalment on the due date.

12. Computation logic for reasonability and proportionality: The lender may apply penalty charges in a manner that passes the test of reasonability, proportionality, and uniformity, instilling credit discipline among customers. For example, penal charges can be applied as under, subject to a mandatory maximum amount, as appropriate to the context.

- a. an absolute amount in the slabs of the default amount per instance or per x days of delays
- b. x% of default amount per instance or per x days of delay
- c. x% rate (per annum/per month/per day) on the default amount for the unpaid period (from the due date until paid).

13. Regardless of the approach taken above, the lender should have a cap on cumulative penal charges as an absolute amount or x% of principal or a certain number of consecutive instances of levying, after which the lender should stop levying the penal charges. Do not levy any interest on the penal charges or further charges on unpaid penal charges.

14. Disclosure

- a. KFS/loan documents/list of charges on website/apps should mention the penal charges.
- b. Send a message/notification to the customer to make a timely repayment, at least once, three days before the due date, about the payment amount due, date, and penal charges for partial/no instalment payment on/after the due date.

15. Others

- a. Do not levy the penal charges if the non-payment is due to technical reasons at the lender level, like the payment gateway not working/technical bounce in e-NACH.

- b. Consider giving a grace period of up to 3 days for any delay due to inadvertent delay or compelling reasons like death in family/natural calamities/disasters. However, limit such grace period (for example, once during the tenure of the loan) and keep it as an internal discretionary policy to avoid potential misuse. Further, the grace period is only for the applicability of penal charges. It has no bearing on interest (contractual) and reporting of the account as delinquent in the system and to the CICs.
- c. Consider having a policy/framework for waiver of penal charges on a compassionate ground, such as delayed repayment due to death in the immediate family, and serious illness/accident/natural calamity/disaster impacting the customer's position to repay the instalment on the due date.

Other considerations

- 16. Consider stopping the accrual of the contractual interest as per the company's write-off policy, to restrict compounding after x months/instances of consecutive non-repayment or as the cumulative interest component (from contractual interest) reaches x% of the principal outstanding.

References

- 1. Fair Lending Practice, Penal Charges in Loan Accounts
<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12585&Mode=0>
- 2. FAQs
<https://www.rbi.org.in/Scripts/FAQView.aspx?Id=162>
- 3. Digital lending Guidelines, May 2025
<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12848&Mode=0>
- 4. E-NACH debit returns
[Circular-No-012-Master-Circular.pdf \(npci.org.in\)](https://www.npci.org.in/Circular-No-012-Master-Circular.pdf)
- 5. Guidelines for Relief Measures by NBFCs in areas affected by Natural Calamities
<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10531&Mode=0>



Fintech Association for Consumer Empowerment (FACE) is an RBI-recognised Self-regulatory Organisation in the FinTech sector (SRO-FT). FinTech companies of all kinds come together at FACE to build an industry that enables customer-centric financial services that are safe, suitable, and transparent, delivering positive impacts on society and the economy.