

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

LOK SABHA

UNSTARRED QUESTION NO. † 26

ANSWERED ON MONDAY, DECEMBER 1, 2025/ AGRAHAYANA 10, 1947 (SAKA)

Personal Loans

†26. SHRI SANATAN PANDEY:

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government considers advance- loaded amortization of personal loans as structurally unfair to financially responsible borrowers, if so, the details thereof;
- (b) whether the Reserve Bank of India has issued any directives to address ethical and economic concerns related to such practices, if so, the details thereof;
- (c) whether the Government is considering to review current loan amortization structures to ensure transparency, equitable and proportionate to the actual loan term, if so, the details thereof;
- (d) the steps being taken to ensure that borrowers are adequately informed in simple language about the financial implications of loan structures;
- (e) whether the Government proposes to introduce regulations to standardize interest calculations based on outstanding principal rather than predetermined schedules; and
- (f) if so, the details thereof?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) to (f): Credit related matters of regulated entities (REs), including the manner of charging interest, are largely deregulated and the same are governed by the Board approved loan policies of the lenders framed under the ambit of relevant regulatory and statutory requirements and terms and conditions of the loan agreement between the borrower and the REs. Further, Reserve Bank of India (RBI) has issued several guidelines from time to time in order to ensure that the process of fixing and charging of interest rates to the borrowers is fair, transparent, and equitable for both parties. RBI guidelines also mandate that the interest rate must be charged on monthly rests, implying that interest needs to be calculated every month on the outstanding principal balance (including any accrued but unpaid interest).

Commercial banks in India usually follow the standard amortization methodology for repayment of personal loans. In the said methodology, interest is computed and charged only on the outstanding amount of each day. Any excess amount paid by the borrower over and above the scheduled EMI, is adjusted towards the principal, resulting in reduction in

outstanding amount, entailing lower interest outgo. The 'amortized' nature of repayment of personal loans provides flexibility and ensures that borrowers can customize the repayment plan as per their financial strength and repaying capacity.

Further, the Fair Practices Code for lenders, issued by RBI, lenders should ensure that there is proper assessment of credit application and they should furnish a copy of the loan agreement along with a copy of all enclosures quoted in the loan agreement to all the borrowers. Also, as per the notification by the RBI, Regulated Entities need to provide a Key Facts Statement (KFS) (applicable to all new retail and MSME term loans sanctioned on or after 1.10.2024) containing key facts like computation sheet of annual percentage rate (APR), amortisation schedule of the loan over the loan tenor etc. to all prospective borrowers. The KFS enhances transparency and reduce information asymmetry on financial products being offered by different REs, thereby empowering borrowers for making an informed financial decision. The KFS is to be written in a language understood by such borrowers and its contents are to be explained to the borrower and an acknowledgement is to be obtained that he/she has understood the same.

As per RBI's conduct of business regulations/ fair practices code for NBFCs, the regulations on interest rates on advances are based on the principles of fairness and transparency so that an informed decision could be taken by the borrowers before entering into any relationship with NBFCs. The regulatory approach in this regard has evolved towards making the Boards of the respective lending institutions more responsible and ensuring greater transparency for the borrowers.
