

**By e-mail**

HO/DOS/DAK/2026/05245

April 23, 2026

To,  
Managing Director & Chief Executive Officers  
All Registered Housing Finance Companies

Madam/Sir,

**Advisory on levy of Penal Charges by Housing Finance Companies (HFCs)**

Reference is invited to Para 30 of Reserve Bank of India (Non-Banking Financial Companies - Responsible Business Conduct) Directions, 2025 which states that, *"Although no upper limit / cap for penal charges has been prescribed, the NBFC, while formulating its Board approved policy on penal charges, should keep in mind that the intent of levying penal charges is essentially to inculcate a sense of credit discipline and such charges are not meant to be used as a revenue enhancement tool."*

During Supervisory Inspection of HFCs conducted by NHB, the following practices have been observed:

1. Bounce charges are being levied in addition to penal charges for the same instance of non-compliance with the material terms and conditions of loan contract i.e. default in payment of EMIs/loan;
2. Bounce charges are levied to recover the operational costs incurred towards collection/recovery related activities even though operational expenses/costs is one of the key components for determining Prime Lending Rate (PLR) which in turn is linked to final interest rate charged to borrower;
3. In addition to bounce charges, separate charges are also collected towards recovery related expenses in the form of collection follow-up charges, site visitation charges etc;

HFCs are advised to review their Board approved Policies on Penal charges or similar charges on loans, by whatever name called in terms of Reserve Bank of India (Non-Banking Financial Companies - Responsible Business Conduct) Directions, 2025 and ensure that such charges are not used as a revenue enhancement tool.

Yours faithfully,



(Ranjan Kumar Barun)  
General Manager  
Department of Supervision

