

Key Facts Statement (KFS) for Loans & Advances

Vinod Kothari and Anita Baid
Vinod Kothari Consultants P. Ltd

Kolkata:

1006-1009, Krishna
224 AJC Bose Road
Kolkata- 700 017
Phone: 033 2281 3742

Email: info@vinodkothari.com

New Delhi:

A-467, First Floor,
Defence Colony,
New Delhi-110024
Phone: 011 41315340

Email: delhi@vinodkothari.com

Mumbai:

403-406, Shreyas Chambers
175, D N Road, Fort
Mumbai
Phone: 022 2261 4021/ 3044 7498

Email: bombay@vinodkothari.com

Bangalore:

4, Union Street, Infantry Rd, Shivaji
Nagar, Bengaluru, Karnataka 560001
Phone: 022 2261 4021/ 022 6237
0959

Email: info@vinodkothari.com

Website: www.vinodkothari.com

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Outline

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Background

- Requirement flowing from the Statement on Developmental and Regulatory Policies dated February 24, 2024
- Aims at harmonizing existing regulations on issuance of KFS
 - Para 2(b) Display of information by banks
 - Para 5.1 and 5.2 of the Guidelines on Digital Lending
 - Para 6.3, 6.4 and 6.5 of the RBI (Regulatory Framework for Microfinance Loans) Directions, 2022
- Applicable from: **October 1, 2024**
- The intent is to have simple transparent, and comparable (STC) terms of the loan communicated to the customer upfront.
- KFS is standardised- it enables borrowers to make comparison with terms offered by other lenders.

What is Key Fact Statement (KFS)?

- KFS is a **standardized** format is to be provided to the borrower
- At-a-glance view of the loan terms and includes:
 - all-in-cost of the loan,
 - interest rates, fees, charges, etc.
 - repayment terms, and
 - other qualitative information
- Summarises the terms of the loan
- Similar to MITC and Sanction Letter
- Allows loans terms to be compared in a simple, transparent and comparable (STC) manner
- Any fees, charge, etc., not mentioned in the KFS cannot be charged at any stage during the term of the loan, without explicit consent of borrower.
- Lender bound by terms of loan under the KFS in case KFS accepted within validity period
- KFS to include :
 - a computation sheet of APR
 - amortisation schedule of the loan over the loan tenor
- KFS shall also be included as a summary box to be exhibited as part of the loan agreement

Scope of Applicability

- Lenders who are covered-
 - All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks, excluding Payments Banks)
 - All Primary (Urban) Co-operative Banks, State Co-operative Banks and Central Co-operative Banks
 - All Non-Banking Financial Companies
 - All Housing Finance Companies
- Almost all Regulated Entities are covered
- Loans that are covered:
 - Retail Lending by all REs
 - Term loans to MSME by all REs
 - Loans by SCBs to individual borrowers
 - Digital lending by any regulated entity
 - Microfinance loans whether by MFIs or other REs
- Is it applicable to an LSP displaying a loan information?
 - Yes, LSP is acting on behalf of the lender, and on the authority of the lender. what is applicable to the lender applies to the LSP as well

Applicability date

- Applies to all loans extended post the applicability date
- All new retail and MSME term loans sanctioned on or after **October 1, 2024**, including fresh loans to existing customers
- Sanction made before 1st October, however, loan agreement executed after 1st Oct
 - Does not seem applicable
- Applicability to existing loans:
 - Is the existing loan being renewed? that is, existing loan limit, existing loan terms
 - Does not seem applicable
 - assuming there is no restructuring, no new terms
 - Is the existing limit being revised, or new terms being agreed:
 - effectively amounts to a new loan; hence, KFS should be applicable
- Generally, if there is a question of fresh disclosure of terms, and fresh acceptance from the customer, the KFS norms should be adhered to

Meaning of Retail Lending

- Circular does not provide a specific definition for "Retail Lending".
- Master Direction on Interest Rate on Advances (2016) implies retail loans include housing loans, auto loans, etc.
- Study on Retail Credit Portfolios of SCBs under Retail Credit Trends - A Snapshot states “*retail credit refers to all loans given to the individual customers/ households for various purposes.*”
- Dynamics of Credit Growth in the Retail Segment: Risk and Stability Concerns analyses retail credit flows and asset quality dynamics therein across the supervised entities provides that personal or retail loans are used interchangeably in this study, and they **refer to loans given to individuals for housing, loans against property, purchase of vehicles, consumer durables, loans against gold jewellery, personal loans, educational loans, credit cards, etc.** (Credit card loans are excluded under the KFS circular)
- Retail loans may include all types of loans to individuals, including the following :
 - Vehicles/Auto loans
 - Educational loans
 - Home Loans
 - Loan against shares
 - Loan against property
 - Loan against fixed deposit, etc.
- Retail loan does not include:
 - Business loans
 - Lines of credit - as the circular specifically refers to term loans
 - Loans to corporates (other than MSMEs)
 - Dealer financing (other than individuals)
 - Builder Finance (other than individuals)
- Principle of interpretation - we do not see reason to construe the expression narrowly

Meaning of Digital lending

- Remote and automated lending process
- Access of credit intermediation services largely over digital channel or assisted by digital channel
- Largely by use of digital technologies for:
 - customer acquisition,
 - credit assessment,
 - loan approval,
 - disbursement,
 - recovery, and
 - associated customer service
- Every form of digitally originated credit facility is not a “lending” transaction
- The parts of a lending transaction that need to be digital or contactless in order to be called digital lending is **subjective** but must involve, at least to a significant (‘major’) extent, the use of digital technologies as part of lending processes

Parties involved:

- **Lender:** Who extends the Loan
- **Digital Lending Application (DLA):** Mobile and web-based applications with user interface that facilitate digital lending services
- **Lending Service Provider (LSP)**
 - Agent of Lender
 - Can be regulated entity as well as unregulated
 - Does customer acquisition on behalf of lender and/or services the loan

Meaning of MSME Loan

- Loans fulfilling the following requirements are MSME loans:

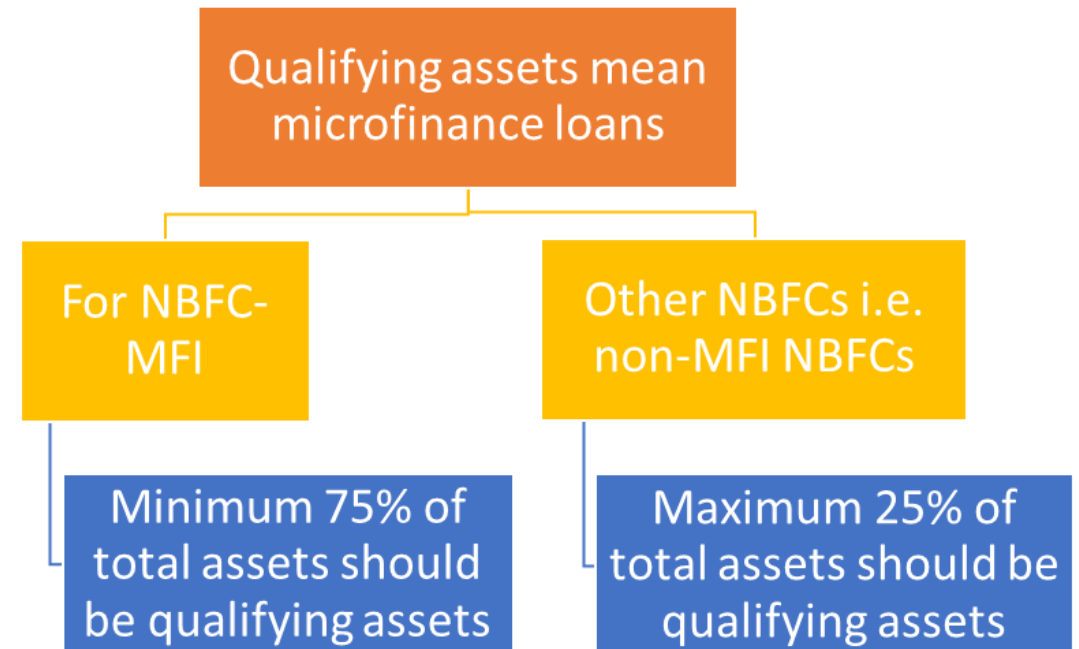
| Nature of enterprise | Investment in Plant & Machinery | Investment in Equipment |
|----------------------|---------------------------------|-------------------------|
| Micro enterprise | Upto 25 lakh | Upto 10 lakhs |
| Small enterprise | 25 lakh - 5 crore | 10 lakhs - 2 crore |
| Medium Enterprise | 5 crore - 10 crore | 2 crore - 5 crore |

- Circular extends only to MSME **term loans**, hence following loans extended by REs to MSMEs are excluded:
 - working capital loans or
 - lines of credit

Meaning of Microfinance loan

- Elements of microfinance loans:
 - Collateral free loans
 - Given to household with annual income < ₹3,00,000/PA
 - Limit on household indebtedness
 - Prepayment without penalty
- Meaning of Household
 - Individual family unit- husband , wife and unmarried children
- Loan repayment
 - Total outflows on account of repayment of monthly loan obligations of the Borrower shall not exceed 50% of monthly household income

- Microfinance loans may be extended by MFIs or by any other lender



Where all does the circular not apply?

- The Circular shall not be applicable in following types of loans -
 - Banks - Loans given to corporates other than MSMEs in brick and mortar mode
 - NBFCs - Loans given to corporates other than MSMEs in brick and mortar mode
 - HFCs - Loans given to corporates other than MSMEs in brick and mortar mode
 - Business loans (except MSME)
 - Dealer financing (other than individuals)
 - Builder Finance (other than individuals)
 - Working capital loans or lines of credit loans extended to MSME
 - Bill discounting
 - Lease transaction

Is it applicable on credit facilities provided by a merchant?

- No, because not a regulated entity

Is it applicable on a bundled product, eg., BNPL?

- Yes, the loan part is provided by an RE; hence applicable

If the loan is bundled with some other offering, say, investment services?

- Yes, on the loan part

Applicability on housing loans

- The circular is applicable to HFCs as well
- “Retail lending” includes home loans
 - It is lending to individuals
- HFCs required to provide MITC as per para 85.8 read with Annex XII of HFC Master Directions
- MITC provided in case of housing loans is akin to KFS

KFS Vs. MITC

- Format of KFS is more focused on interest rate and other charges as well as a few qualitative terms of the loan, whereas MITC provides several other relevant details.
- Lenders to prepare MITC as well as KFS in case of home loans.
- **Do HFCs solely need to furnish the KFS, or is there still an obligation to supply the MITC to borrowers as per the HFC Directions?**

Snapshot of Applicability

| Mode of Lending | Individuals (incl. home loans) | | Corporates (other than MSMEs) | | MSME | |
|-----------------|-----------------------------------|----------|----------------------------------|-------------|---------|----------|
| | Digital | Physical | Digital | Physical | Digital | Physical |
| Bank | Covered | Covered | Covered | Not Covered | Covered | Covered |
| NBFC | Covered | Covered | Covered | Not Covered | Covered | Covered |
| HFC | Covered | Covered | Covered | Not Covered | Covered | Covered |
| MFI | Covered | Covered | NA | | | |

Covered

Not Covered

NA

How is the KFS given?

■ When is the KFS given?

- KFS to be provided **prior to** execution of loan agreement and disbursement
- In case of DL, before the digital signature on the agreement

■ In what form will the KFS be given?

- Based on the mode of lending- physical or digital
- In a language understood by such borrowers

■ Timeline of providing KFS:

- In Digital Lending, there is no tangible time gap between application and execution of loan agreement. Hence, may be disclosed along with the communication of sanction:
 - confirmation on KFS and execution of the loan agreement may also be done immediately, though the loan agreement should preferably say that the KFS has been communicated and accepted.
- In non-digital loans, the KFS may be shared along with the Sanction Letter

■ Who will issue?

- KFS should be issued by the lender and not the LSP/ platform
- KFS needs to be displayed and additionally sent to via verified email id/SMS
- In case of co-lending KFS is issued on behalf of joint lenders
 - Blended rate of interest to be disclosed in KFS

■ Acknowledgement of the KFS

- Contents of KFS shall be explained to the borrower and an acknowledgement shall be obtained that he/she has understood
- In DL, the acknowledgment can be digitally obtained, by way of click wrap signature

Binding force of KFS?

- KFS is only the terms of the loan.
- The binding force of the KFS during the “validity period” is only on the terms, and not on the grant of the loan itself.
- If the conditions precedent for availing the loan have been satisfied, the lender will be bound by the terms as contained in the KFS.
- The fact that grant of loan is based on conditions precedent may form part of the sanction letter
- If the borrower fails to accept the KFS terms during the validity period, the RE reserves the right to change the terms after the end of such period.
- Can the KFS include repudiation clauses like “*this is not a sanction letter; the grant of the loan is eventually subject to sanction by the lender’s internal credit committee*”, or similar conditionalities?
 - In our view, no

What about Sanction Letter?

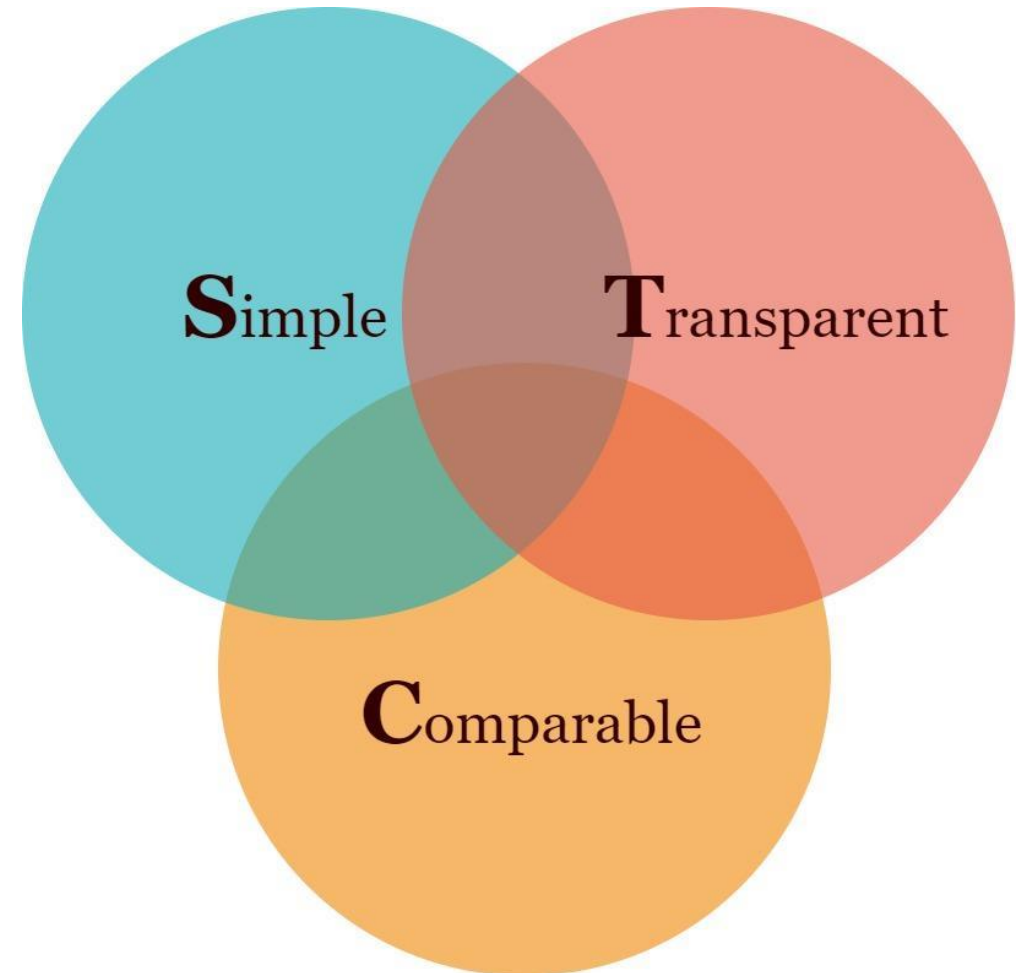
- The KFS is a summarised version of the terms of the loan that cannot be changed during the validity period
- However, the grant of the loan itself may have several conditions, typically comprised in the sanction letter
- The RBI's Fair Practices Code refers to a sanction letter to be provided before loan agreement execution
- Sanction letter **does not become redundant**
 - If there are conditionalities or compliances relating to the loan, the same may be contained in the sanction letter
 - There are normally several conditions subsequently, commonly called “post-disbursement conditions”. Each of these may be contained in the sanction letter.
 - Validity period of KFS may also be disclosed in the sanction letter

KFS and MITC

- The HFC Master Directions require MITC to be provided to all borrowers for home loans.
 - KFS is more or less similar to MITC, however MITC contains certain additional declarations which are not included in KFS
 - Additionally, para 85.8 read with Annex XII of the HFC Master Directions which mandates furnishing of MITC, has not been repealed.
 - Therefore, until further regulatory clarity is provided on the subject, HFCs are obligated to furnish both MITC and KFS to borrowers.
- List of some additional disclosures under MITC-
 - Purpose of Loan
 - Security/ Collateral details
 - Features of insurance policy
 - Conditions for disbursement
 - Procedure to be followed for recovery of dues

Standardised form- What does it imply?

- The standardised format provided is **simple** and **concise** and has all the necessary details of the loan - annual percentage rate, fees, recovery mechanism, and associated risks in a straightforward format
 - KFS is expected to remain limited to the fields given in the standardised format
- It enables borrowers to make **comparison** with terms offered by other lenders.
 - The comparability of the KFS will be compromised if it was loaded with new details or subjectivities not envisaged in the standard format.
- Hence, KFS should remain standard, that is, as per the format



Computation of APR

■ What all is included

- Based on an all-inclusive cost and margin
- cost of funds,
- credit cost and operating cost,
- processing fee,
- verification charges,
- maintenance charges, etc
- **Third-party charges**

■ What all is not included

- Any contingent charges
- penal charges,
- late payment charges, etc
- Cross Sell or third party product payments directly to the third party
- Security deposit
- **Is the timing of the payment from the borrower relevant - for example, payable in arrears or payment in advance?**
- **Is it XIRR, or annually compounded rate? - No**



APR is same as Annualised Rate of Interest?

Will APR cover broken-period interest as well? Will broken period interest will be at loan IRR, or all-inclusive APR?

Will prepayment charges be a part of APR?

Charges to be included as part of APR (1/2)

| Nomenclature | Nature or purpose of the charges |
|---|---|
| Administrative Charge | Related to the provision of credit. Therefore, should be included in APR |
| Credit Verification Charges or Field Investigation Charge | This may be - (a) one time, as the verification is required at the inception of the facility, to decide whether the borrower is acceptable or not; (b) proportional (that is, connected with the actual cost incurred); (c) chargeable irrespective of whether the facility is granted or not. Should be a part of the APR, if not contingent |
| Documentation Charge | The cost for drafting of legal agreements/documents. Should be a part of APR. |
| Mandate registration Charges | Mandate is a mode of collection by the lender - collection of receivables is an integral part of credit function. In our view this should be a part of the APR |

Charges to be included as part of APR (2/2)

| Nomenclature | Nature or purpose of the charges |
|---|---|
| Processing Charges | Charges payable by the Customer to cover the processing cost for the application of the loan process. This is a part of the APR. |
| NeSL Charges | The Charges levied by NeSL for authenticating debt of the Customer before availing the Loan. Will be a part of APR, if collected by Lender. |
| Stamp Duty/ Stamping/ Franking Charges | The stamp duty payable by the Customer while availing the loan to be engrossed in the Loan agreement executed by the Customer. Agreements typically say, stamp cost is on the borrower. If borrower incurs the cost for paying to stamp authority, it is not a payment collected by the lender. |
| CERSAI Charges (Applicable if Secured Property) | Amount charged on actual basis by Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI) for registration of pledge against the property with financial institution. Will be a part of APR if collected by lender. |
| Valuation Charges (If Applicable) | The Charge incurred by the Company to determine the value of the assets proposed to be financed. If paid to lender, forms part of APR |

Third party payments

- **Take the example of a loan against a vehicle - third party payments may include**
 - Cost of bodybuilding
 - cost of furnishing
 - registration costs
 - stamp duty on hypothecation
 - insurance cost
- **Common question: are these charges paid by borrower to lender?**
 - Bodybuilding - done by vendor - lender may finance
 - Furnishing - done by vendor; lender may finance
 - Registration costs - paid to MV authorities - lender may finance
 - Stamp duty - paid directly, with/without lender finance
 - Insurance - is it paid to lender? Lender, in turn, pays to insurance co?
- **Different options for insurance premium**
 - Condition in loan agreement - borrower to insure the asset at borrowers cost; premium paid by lender to insurance co
 - Event of default includes failure to insure; in which case, lender will pay and claim the money from the borrower
 - Paid by borrower to insurance co, but with a loan from lender. Borrower gives instructions for disbursing the premium to insurance co
 - Lender makes payment of insurance premium:
 - first year's payment deducted from disbursement; rest of the years are loaded on EMIs
 - First year premium as well as subsequent premiums are paid by borrower; lender makes payment to insurer

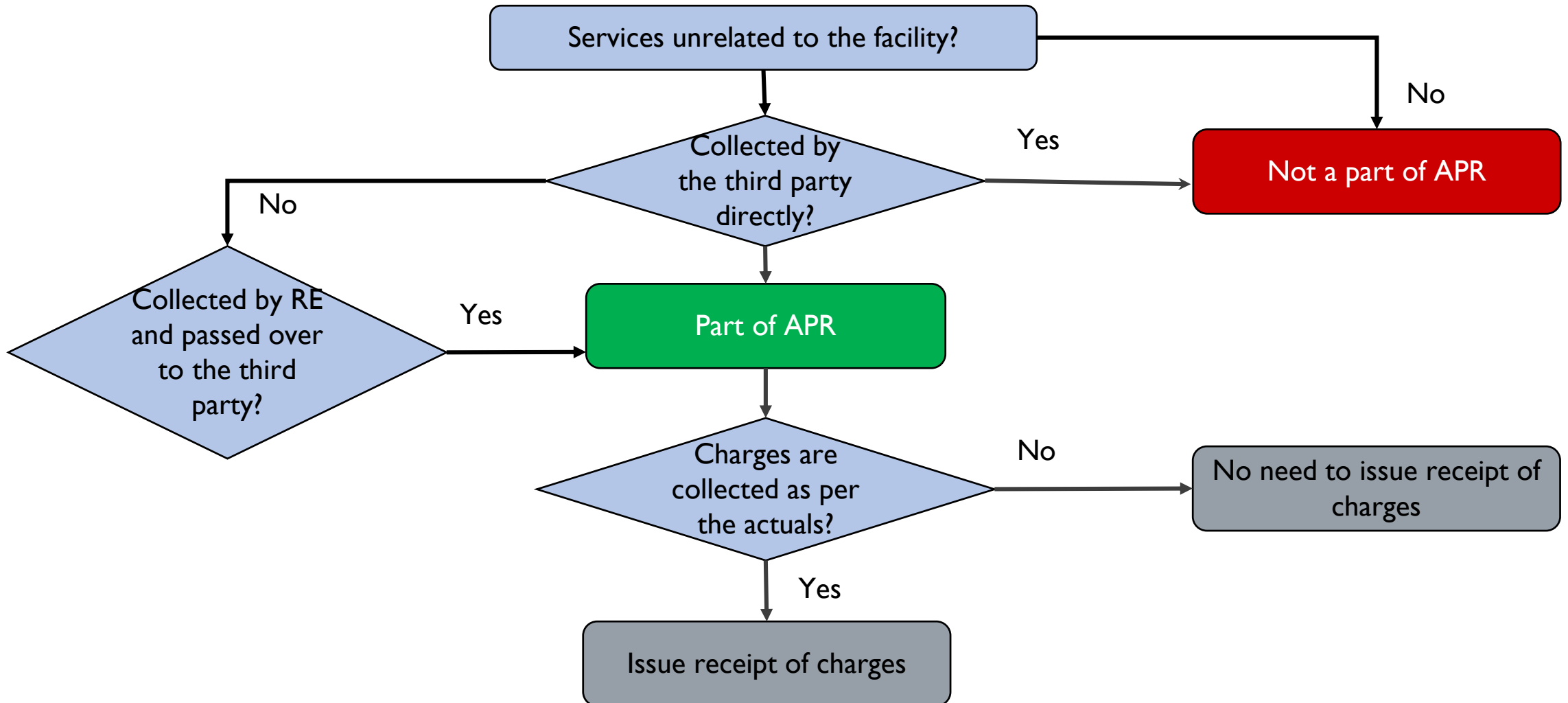
Key elements to include payments as a part of APR

- While computing APR, the focus is on the borrower's cost, and not the lender's cashflows. Therefore, lender's cashflows or their timings are not important
 - If lender collects costs from the third party, should the lender also consider the outflow to the third party?
 - While not collected from the borrower, but the lender may have third party costs pertaining to the loan - say agency fees
- **Considerations:**
 - Is the cost pertaining to the loan or the subject matter of the loan? But for the loan, was the borrower expected to incur the cost, or the cost is collateral to the loan?
 - Is the cost a cost on the borrower?
 - Is the cost recovered by the lender, whether as a part of the loan EMIs, or separately?
 - Is the cost non-contingent?
 - Is the cost collected from the borrower now, or in future?
 - If the lender is collecting the cashflows, does it matter whether the lender is paying the same amount, and at the same time, to the third party?
 - If the payments are made to third party, though as a part of the loan contract, is it a part of the APR?

Some specific issues in APR computation

- If there are charges (other than interest) which attract GST, what happens to GST?
 - The APR will be computed on the charges without considering the GST on the charges
- In case of disbursements in multiple tranches, how will APR be computed?
 - IRR computation to be done based on timing of the disbursement and timing of the EMIs/ other borrower payouts
- How does APR capture the moratorium period?
 - Depends on whether the moratorium period interest is paid or is capitalised
- APR should be computed on EMIs computed by PMT formula, or the EMIs (rounded or rounded up) as per contractual cashflows?
 - For example, if the EMI computed at the target IRR comes to 4324.45, and the lender rounds it up to 4325, should APR be computed on the contractual cashflows?
 - In our view, on the contractual cashflow

Third party payments- How to go about?



EIR and APR

| EIR | APR |
|---|--|
| The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate ,transaction costs, and all other premiums or discounts. | APR is the annual cost of credit to the borrower which includes interest rate and all other charges associated with the credit facility. |
| Third-party payments on actuals are not considered as a part of the loan cash flows in IndAS 109 | Third party payments on actuals are considered as a part of APR |
| EIR is from the perspective of the lender | APR is from the perspective of the borrower |
| Lender's cash outflows, such as loan acquisition cost, are also included | Lender's cashflows have no impact on APR |
| Lender's inflows, such as supplier subvention, may also be included | These are not borrower cashflows - hence, not included |

Content of KFS (1/2)

- **Loan proposal/ account No.** - Specific to the RE and shall be provided to each borrower for each loan
- **Type of loan offered** - Home loan, auto loan, personal loan, etc
- **Sanctioned Loan Amount** - If the sanctioned amount is available for drawdown in tranches, the same may be specified. Similarly, if the sanctioned amount not drawn within a particular date will remain committed, etc. may be specified.
- **Disbursal Schedule** - Disbursement may be linked with acquisition of an asset, or progressive construction (say, in case of home loans).
- **Loan Term** - Digital lenders sometimes offer choice of tenure, and different interest rates for different tenures. The idea of KFS is to provide for maximum comparability - hence, arcane structures or optionalities should be minimised.
- **Instalment details**
 - Type of Installments (Monthly/half-yearly/early)
 - Number of Equated Periodic Instalments (EPIs)
 - Amount of EPI
 - Period after which the EPI will commence post-sanction - For example, 30 days after disbursement. in case a moratorium is provided.
- **Interest Rate and type of interest rate (fixed/floating/hybrid)**
 - For floating interest further disclose Reference Benchmark, Benchmark rate, Percentage of spread, Final rate charged to the borrower, Reset periodicity of benchmark and spread rate, impact of change in reference benchmark
- **Fees/charges (disclose the amount net of any taxes such as GST)**
 - Payable to the RE
 - Payable to third party through RE

Content of KFS (2/2)

- **Annual Percentage Rate** - This is the IRR (note this is not XIRR or effective rate of return after compounding to a year) taking care of all the items of costs included in the APR.
- **Contingent Charges** (in Rs. or %) such as:
 - penal charges,
 - foreclosure charges,
 - charges for switching loan from floating to fixed or vice-versa, etc.
 - Any other charges

These charges are not collected upfront or are not mandatorily imposed on the borrower; these are contingent on happening of certain events, say default. The rates of these charges shall be disclosed. However, shall not be a part of APR, and accordingly, these charges do not have to be converted into an annualised rate.

■ **Qualitative information**

- Clause of loan agreement relating to engagement of recovery agents
- Clause of loan agreement which details grievance redressal mechanism
- Phone number and email id of the nodal grievance redressal officer
- Whether the loan is, or in future maybe, subject to transfer to other REs or securitisation
- Details relating to co-lending - Name of co-lenders, proportion of funding and blended rate of interest
- In case of digital loans - Cooling-off period, details of LSP acting as recovery agent

Erstwhile KFS Format for MFI loans

- Loan amount (amount disbursed to the borrower) (in Rupees)
- Total interest charge during the entire tenure of the loan
- Other up-front charges(break-up of each component to be given below) (in Rupees)
 - Processing fees
 - Insurance charges
 - Others
- Net disbursed amount((i)-(iii))
- Total amount to be paid by the borrower(sum of (i), (ii) and (iii))
- Effective annualized interest rate (computed on net disbursed amount using IRR approach and reducing balance method)
- Loan term (in months)
- Repayment frequency by the borrower
- Number of instalments of repayment
- Amount of each instalment of repayment
- Contingent Charges
 - Borrower shall not be charged any penalty on prepayment of loan at any time.
 - Penal charges in case of delayed payments
 - Other charges
- Detailed repayment schedule

Erstwhile KFS Format for loans to individuals by banks

- Loan amount
- Loan term
- Interest type (fixed or floating)
- Interest chargeable (Floating or Fixed Rate Loans)
- Date of reset of interest
- **Mode of communication of changes in interest rates**
- Fee payable
 - On application (PI individually specify all type of fee)
 - During the term of the loan (PI individually specify all type of fee)
 - On foreclosure (PI individually specify all type of fee)
- **Fee refundable if loan not sanctioned/disbursed**
- Conversion charges for switching from floating to fixed interest and vice-versa
- Penalty for delayed payments
- EMI payable
- **Details of security/collateral obtained**
- **Date on which annual outstanding balance statement will be issued**

Erstwhile KFS Format under DL

- Loan amount (amount disbursed to the borrower)
- Total interest charge during the entire tenure of the loan
- Other up-front charges (break-up of each component to be given below)
 - Processing fees
 - Insurance charges
 - Others (if any) (details to be provided)
- **Net disbursed amount ((i)-(iii))**
- **Total amount to be paid by the borrower (sum of (i), (ii) and (iii))**
- Annual Percentage Rate- Effective annualized interest rate (in percentage) (computed on net disbursed amount using IRR approach and reducing balance method)
- Loan term (in months)
- Repayment frequency by the borrower
- Number of instalments of repayment
- Amount of each instalment of repayment
- Details about Contingent Charges
 - Rate of annualized penal charges in case of delayed payments (if any)
 - Rate of annualized other penal charges (if any);
- Other Disclosures
 - Cooling off/ look-up period
 - Details of LSP acting as recovery agent and authorized to approach the borrower
 - Name, designation, address and phone number of nodal grievance redressal officer designated specifically to deal with FinTech/ digital lending related complaints/ issues
- Detailed Repayment Schedule

Loan Journey in case of Physical Lending



Loan application



Identification documents submitted by borrower



KYC checks done by Lender



Credit evaluation is done and loan is sanctioned



Loan is disbursed to the customer



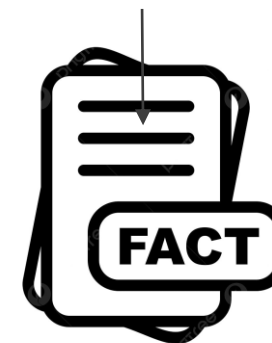
Upon successful verification and acceptance of terms of KFS, loan agreement is executed



Validity Period (3 working days)

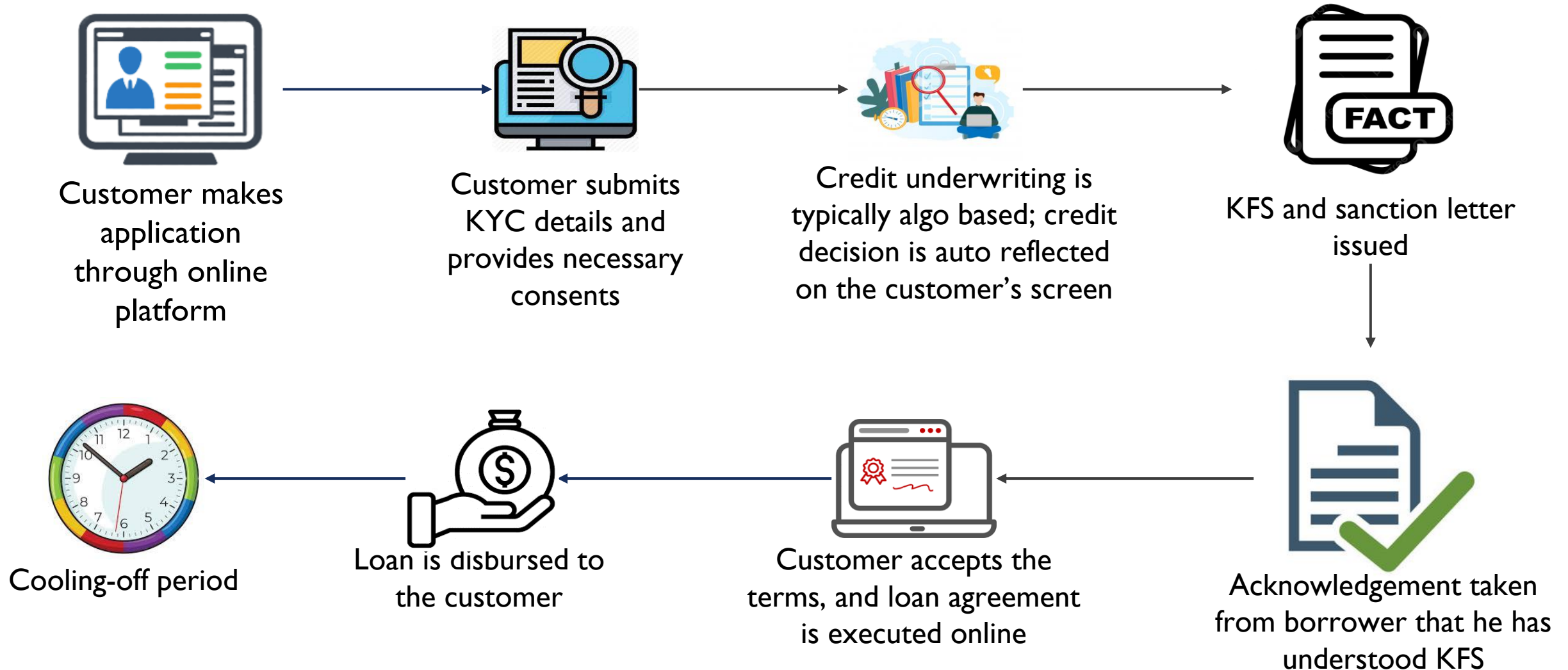


Acknowledgement taken from borrower that he has understood KFS



KFS issued (along with sanction letter)

Loan Journey in case of Digital Lending



Validity Period

- Validity period refers to the timeframe within which the borrower, upon receiving the KFS from the RE, can agree to the loan terms.
- In case the borrower accepts the terms in the KFS during this validity period, RE is bound by these terms.
- Duration of Validity Period -
 - Minimum **three working days** for loans with a tenor of seven days or more,
 - **One working day** for loans with a tenor of less than seven days.
- If the borrower fails to accept the KFS terms during the validity period, the RE reserves the right to change the terms
- No requirement to mention the validity period in the KFS.
- However, to ensure that the borrower is aware, the validity period can be mentioned in the **covering note or sanction letter.**

Cooling-off Period

- During the cooling off period, the borrower can exit the digitally obtained loan
 - Prepayment without penalty
- Option to exit the loan without attracting any penalty.
- WG Report definition:
 - The period of time from the date of the purchase of the good or service from a distance (e.g., online over phone or email order) within which the purchaser can change her/his mind with return or cancellation of the purchase, as part of Terms and Conditions of the purchase contract.
- On cancellation of loan during cooling period, the borrower is required to pay only principal amount and proportionate APR only
- Duration of Cooling period
 - WG Report or the Press Release has not stipulated the no. of days for the cooling off period
 - WG Report noted globally ranges between 3 to 14 days
 - Erstwhile requirement under DL Guidelines:
 - Not less than 1 day for loans up to 7 days
 - Not less than 3 days for loans above 7 days
 - Current requirement:
 - **Not less than 1 day for any tenure**
 - No restriction on charging prepayment

Is interest free period same as cooling-off period?



Difference between Validity Period and Cooling-off Period

| Validity Period | Cooling off Period |
|--|--|
| Applicable for digital as well as physical loans. | Applicable only for digital loans. |
| Pre-disbursement phase | Post-disbursement phase |
| Provided to the borrower to accept the terms of the loan as indicated in the KFS | Provided to the borrower for exiting digital loans without any pre-payment penalty in case a borrower decides not to continue with the loan. |
| The RE is bound by the terms of the loan if accepted by the borrower during the validity period. | Grants the borrower the right to repay the principal and the proportionate APR during this period. |

Applicability in specific situations

■ Co-lending -

- Specific details of co-lending arrangements are required to be shared with the borrower
- The borrower interface is typically done by the originating co-lender
- The originating co-lender should be making the requisite disclosures.
- Funding co-lenders may ensure that the originating co-lender is making the requisite disclosures.
- Disclosure of name of co-lender and blended rate of interest in KFS is required

■ Loan sourcing arrangements -

- KFS should be issued by the lender and not the LSP/ platform
- KFS needs to be displayed and additionally sent to via verified email id/SMS

Actionables

- Determine the applicability of the Circular based on the loan products offered by the RE
 - Systems need to be capacitated to make an all-inclusive computation of APR *
 - The Board is to consider and take note of the Circular in the upcoming board meeting
 - System for capturing acknowledgement
- To formulate a plan for implementation of the Circular by October 1, 2024, in terms of the following:
 - The loan journey (physical or digital, as the case may) be shall be reviewed to ensure the implementation of the requirements under the circular (acknowledgement of KFS, including KFS as a part of loan agreement)
 - The draft of KFS to be considered and adopted for sharing with the customers
 - System changes for APR computation to be implemented in the systems
 - The implementation of the validity period in the systems and as a part of the loan process

*APR computation may be different from the EIR as used for accounting purposes - for example, third-party payments on actuals are not considered as a part of the loan cash flows in IndAS 109. Nor will this be relevant for amortisation of the loan for accounting purposes - if third party payments are not reported as income.

Other Requirements

- **Additional disclosures along with KFS -**

- Computation sheet of APR
- Amortisation schedule of the loan over the loan tenor
- Validity Period of KFS

- Contents of KFS shall be explained to the borrower
- Acknowledgement shall be obtained from the borrower that he/she has understood the contents of KFS
- KFS shall also be included as a summary box to be exhibited as part of the loan agreement.



Speak to us!

Kolkata

1006-1009 Krishna Building
224 AJC Bose Road Kolkata - 700 017
Phone: 033- 2281 7715/ 3742/
40010157
E: finserv@vinodkothari.com

Delhi

A-467, First Floor
Defence Colony,
New Delhi - 110 024
Phone: 011- 4131 5340
E: delhi@vinodkothari.com

Mumbai

403-406,
175, Shreyas Chambers,
D.N. Road, Fort, Mumbai - 400 001
Phone: 022 - 2261 4021 / 6237 0959
E: bombay@vinodkothari.com

Connect with us!



VINOD KOTHARI CONSULTANTS
Kolkata | Delhi | Mumbai