Dipen D Shah & Associates
CHARTERED ACCOUNTANTS

ANALYSIS OF THE BANNING OF UNREGULATED LENDING ACTIVITIES BILL

(BULA): DETAILED OVERVIEW

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Draft Bill of The Banning of Unregulated Lending Activities (BULA), issued by the central government on 13th December 2024, marks a crucial regulatory step toward eliminating exploitative lending practices in India. By targeting unauthorized and unregulated lending activities, the Bill aims to safeguard borrowers while imposing stringent compliance requirements on lenders.

A. Purpose of the Bill

The primary intent of BULA is to:

Safeguard Borrowers

The Bill aims to protect borrowers from predatory lending practices, often characterized by exorbitant interest rates, unethical recovery methods, and exploitative terms.

Regulate Lending Ecosystem

By restricting lending activities to entities authorized by the Reserve Bank of India (RBI) or other designated regulators, BULA establishes a structured framework for lending in India, ensuring fair practices.

Perspective:

The Bill's approach is both preventive and corrective, focusing on banning unregulated activities and penalizing violators to create deterrence. It acknowledges the growing need for systemic control over lending practices, particularly in a digital-first economy where unregulated online lending has surged.

B. Key Highlights of the Bill

01

Applicability and Exemptions

- The Act applies nationwide, ensuring uniform enforcement across states.
- Loans between relatives are exempt, recognizing familial borrowing as a private matter that doesn't fall within the purview of public lending for profit.

Perspective:

The nationwide applicability resolves conflicts with state laws, establishing a central standard for lending regulation. However, clarity is needed on what constitutes "relatives" and whether loans between distant family members qualify for exemption.

02

Definitions

- Public Lending Activity: Refers to lending for profit, distinguishing commercial lending from personal transactions.
- Unregulated Lending: Defined as lending activities not governed by any of the 21 Acts listed in the First Schedule of the BULA Act.

Perspective:

The inclusion of a First Schedule ensures clarity on permitted frameworks, but this also creates compliance challenges for entities that previously operated without registration. Unregulated digital lenders, for instance, may need to restructure their operations to align with the listed Acts.

03

Provisions for Prohibition and Penalty

- The Bill prohibits advertising, promoting, or engaging in unregulated lending activities.
- Violators face imprisonment ranging from 2 to 10 years and fines between ₹2 lakh and ₹1 crore, with enhanced penalties for repeat offenders.

Perspective:

These provisions establish a strict deterrent against non-compliance. However, implementing such stringent measures requires robust enforcement mechanisms, which may strain regulatory resources.

04

Regulatory Mechanism

- Competent authorities and courts are designated for oversight and dispute resolution.
- The creation of a central database for registered lenders ensures transparency and accountability.

Perspective:

A central database is a progressive step that aligns with the digital transformation of financial services. However, effective implementation will require coordination among regulators, lenders, and law enforcement.

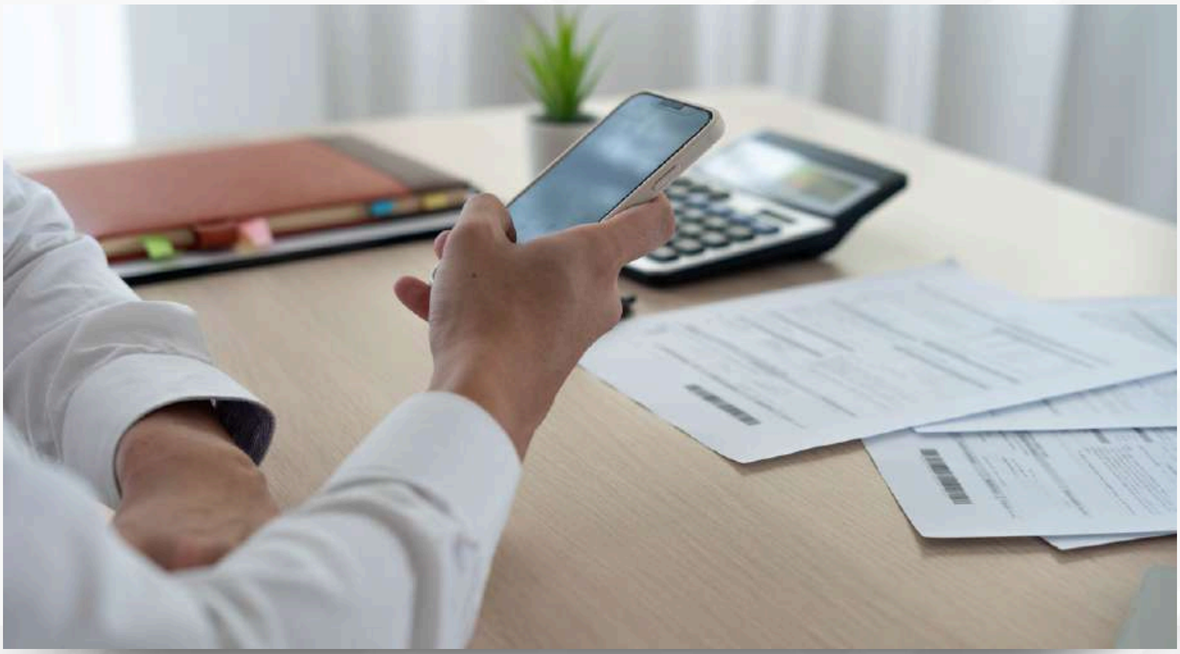
05

Miscellaneous Provisions

- The Act overrides conflicting state laws, ensuring consistency in regulatory enforcement.
- Actions taken in good faith are protected, mitigating concerns of overreach in enforcement.

Perspective:

While overriding state laws ensures uniformity, it may face challenges in states with robust local regulations on lending. The "good faith" clause provides some relief to lenders acting within their understanding of the law.



C. Implications for Stakeholders

01

Small MSMEs

- MSMEs relying on informal credit sources must either transition to regulated channels or risk severe penalties.
- They may face short-term liquidity challenges during this transition, particularly in regions where formal credit access is limited.

Perspective:

Policymakers should consider targeted interventions, such as financial literacy programs or subsidized credit facilities, to support MSMEs during the transition.

02

Individuals

- Personal loans within families are exempt, offering flexibility for private borrowing arrangements.
- Public lending, however, must comply with the regulatory framework, impacting individuals engaged in informal money lending.

Perspective:

Individuals lending informally for profit may need to register or cease operations. This could disrupt traditional lending networks in rural and semi-urban areas.

03

Digital Lenders

- Digital lending platforms must register with the RBI or relevant regulators, ensuring compliance with existing guidelines.
- They may also need to disclose operational details, such as interest rates and recovery practices, to avoid penalties.

Perspective:

While registration promotes transparency, it could stifle innovation in the digital lending space. Clear guidelines balancing compliance with operational flexibility will be essential.

D. Status of Loans Issued Before the Act

01

Applicability to Past Loans

- The Act primarily focuses on future activities, indicating that loans disbursed before its enactment may not be retroactively invalidated.
- However, this assumption is contingent on clarifications provided by regulators.

Perspective:

Past loans should ideally remain valid under general contract laws to avoid widespread disputes. Explicit guidance from authorities will prevent ambiguity.

02

Recovery of Past Loans

- Unregulated lenders may recover outstanding amounts, provided recovery methods align with lawful practices.
- Coercive recovery tactics could attract penalties under the Act.

Perspective:

Lenders must adopt ethical recovery practices to mitigate legal risks. Borrowers, meanwhile, should be educated about their rights under the new framework.

03

Transition Period and Guidance

- A transition period may allow unregulated entities to register or wind down operations.
- Regulators are likely to issue specific rules addressing the treatment of pre-Act loans.

Perspective:

A well-structured transition framework will minimize disruptions, allowing lenders and borrowers to adjust to the new regime.

E. Key Takeaways

1. For Unregulated Lenders

- Document all loans issued before the Act and ensure compliance with general laws during recovery.
- Refrain from extending further credit until registered under the regulatory framework

2. For Borrowers

- Honour repayment obligations for pre-Act loans unless disputes arise under applicable laws.
- Report coercive or exploitative recovery practices to authorities.

3. For Regulators

- Clarify the treatment of pre-Act loans and provide clear guidelines for stakeholders.
- Establish a robust enforcement mechanism to ensure compliance without stifling legitimate credit access.

Conclusion

The BULA Draft Bill is a significant step toward regulating India's lending ecosystem, addressing concerns around unregulated activities and borrower exploitation. However, its success will hinge on effective implementation, stakeholder awareness, and proactive regulatory oversight. While the Bill introduces much-needed structure, careful consideration of its transitional impact, particularly on MSMEs and digital lenders, will be crucial to ensuring a balanced credit eco-system. Unregulated credit is backbone of rural economy, particulary agricultural sector. Steps should be taken to replace the same before banning it to prevent the ill effect of it. Credit to the weeker section should be made available before banning unregulated credit activities.

Thank you

Dipen D Shah & Associates
CHARTERED ACCOUNTANTS

CONTACT INFO

Personal Phone: +91-9825139661
Office Landline: +91-79-40039647
Email:cadipen@gmail.com
cadipen09@outlook.com
Skype: Cadipen
Linkedin: https://www.linkedin.com/in/ca-dipen-d-shah

ADDRESS

813, Shree Balaji Heights C. G. Road, Ahmedabad, Gujarat India-380009

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