



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA

RBI/2025-26/64  
DoR.MCS.REC.38/01.01.001/2025-26

July 2, 2025

**Reserve Bank of India (Pre-payment Charges on Loans) Directions, 2025**

Availability of easy and affordable financing to Micro and Small Enterprises (MSEs)<sup>1</sup> is of paramount importance. However, Reserve Bank's supervisory reviews have indicated divergent practices amongst Regulated Entities (REs) with regard to levy of pre-payment charges in case of loans sanctioned to MSEs which lead to customer grievances and disputes. Further, certain REs have been found to include restrictive clauses in loan contracts/ agreements to deter borrowers from switching over to another lender, either for availing lower rates of interest or better terms of service. Accordingly, as announced in the Statement on Developmental and Regulatory Policies dated October 9, 2024, a draft circular in this regard was issued on February 21, 2025 for public consultation.

2. Based on a review of the supervisory findings and public feedback received on the draft circular, the Reserve Bank, in exercise of the powers conferred by Sections 21, 35A and 56 of the Banking Regulation Act, 1949, Sections 45JA, 45L and 45M of the Reserve Bank of India Act, 1934 and Section 30A of the National Housing Bank Act, 1987, hereby issues the Directions hereinafter specified.

3.(i) These Directions shall be called the Reserve Bank of India (Pre-payment Charges on Loans) Directions, 2025.

(ii) These Directions shall be applicable to all loans<sup>2</sup> and advances sanctioned or renewed on or after **January 1, 2026**.

<sup>1</sup> As defined in Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

<sup>2</sup> The term 'loans', for the purpose of this circular, shall include term loans as well as demand loans

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4. These Directions shall apply to all commercial banks (excluding payments banks), co-operative banks, NBFCs and All India Financial Institutions.

5. An RE shall adhere to the following Directions regarding levy of pre-payment charges on all **floating rate** loans and advances:

(i) For all loans granted for purposes other than business to individuals, with or without co-obligant(s), an RE shall not levy pre-payment charges;

(ii) For all loans granted for business purpose to individuals and MSEs, with or without co-obligant(s):

(a) A commercial bank (excluding Small Finance bank, Regional Rural bank and Local Area bank), a Tier 4 Primary (Urban) Co-operative bank, an NBFC-UL, and an All India Financial Institution shall not levy any pre-payment charges.

(b) A Small Finance bank, a Regional Rural bank, a Tier 3 Primary (Urban) Co-operative bank, State Cooperative bank, Central Cooperative bank and an NBFC-ML shall not levy any pre-payment charges on loans with sanctioned amount/ limit up to ₹50 lakh.

(iii) The Directions at paragraphs 5(i) and 5(ii) above shall be applicable irrespective of the source of funds used for pre-payment of loans, either in part or in full, and without any minimum lock-in period.

(iv) Applicability of above Directions for dual/ special rate (combination of fixed and floating rate) loans will depend on whether the loan is on floating rate at the time of pre-payment.

6. In cases other than those mentioned at paragraphs 5(i) and 5(ii) above, pre-payment charges, if any, shall be as per the approved policy of the RE. However, in case of term loans, pre-payment charges, if levied by the RE, shall be based on the amount being prepaid. In case of cash credit/ overdraft facilities, pre-payment charges on closure of the facility before the due date shall be levied on an amount not exceeding the sanctioned limit.

7. In case of cash credit/ overdraft facilities, no pre-payment charges shall be applicable if the borrower intimates the RE of his/ her/ its intention not to renew the facility before the period as stipulated in the loan agreement, provided that the facility gets closed on

the due date.

8. An RE shall not levy any charges where pre-payment is effected at the instance of the RE.

9. The applicability or otherwise of pre-payment charges shall be clearly disclosed in the sanction letter and loan agreement. Further, in case of loans and advances where Key Facts Statement (KFS) is to be provided as specified in the Reserve Bank's circular dated April 15, 2024 on 'Key Facts Statement for Loans and Advances', the same shall also be mentioned in the KFS. No pre-payment charges which have not been disclosed as specified herein shall be charged by an RE.

10. An RE shall not levy any charges/ fees retrospectively at the time of pre-payment of loans, which were waived off earlier by the RE.

#### **11. Repeal Provisions**

With the issue of these Directions, the instructions contained in the circulars/ Master Directions mentioned in Annex, issued by the Reserve Bank, shall stand repealed from the effective date of these Directions. All the repealed circulars shall be deemed to have been in force during the relevant periods, prior to the coming into effect of these instructions.

(Veena Srivastava)  
Chief General Manager



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RESERVE BANK OF INDIA



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RBI/2024-25/111

DoR.RET.REC.57/12.01.001/2024-25

February 07, 2025

All Banks

Madam / Dear Sir,

**Change in Bank Rate**

Please refer to our circular DOR.RET.REC.101/12.01.001/2022-23 dated February 08, 2023 on the captioned subject.

2. As announced in the Monetary Policy Statement 2024-25 dated February 07, 2025, the Bank Rate is revised downwards by 25 basis points from 6.75 per cent to 6.50 per cent with immediate effect.

3. All penal interest rates on shortfall in reserve requirements, which are specifically linked to the Bank Rate, also stand revised as indicated in the Annex.

Yours faithfully,

(Latha Vishwanath)  
Chief General Manager

Encl.: As above

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Recd by DOS through mail = 03-03-2025



## Annex

### Penal Interest Rates which are linked to the Bank Rate

Item	Existing Rate	Revised Rate (With immediate effect)
Penal interest rates on shortfalls in reserve requirements (depending on duration of shortfalls).	Bank Rate plus 3.0 percentage points (9.75 per cent) or Bank Rate plus 5.0 percentage points (11.75 per cent).	Bank Rate plus 3.0 percentage points (9.50 per cent) or Bank Rate plus 5.0 percentage points (11.50 per cent).



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RESERVE BANK OF INDIA

RBI/2024-25/118

DOR.CRE.REC.62/07.10.002/2024-25

February 24, 2025

All Primary (Urban) Co-operative Banks

Madam / Dear Sir,

**Review and rationalization of prudential norms - UCBs**

Reserve Bank has, from time to time, prescribed various prudential norms for Urban Co-operative Banks (UCBs) for enhancing their financial soundness and resilience. Some of these prudential norms have been issued with a view to reducing credit concentration risk, reducing exposures to sensitive sectors, and enhancing provisioning requirements for relatively riskier exposures. These norms, *inter alia*, include the stipulations relating to small value loans, exposure ceilings on housing and real estate loans, and provisioning requirements for investment in Security Receipts (SRs).

2. With a view to rationalizing these norms, and thereby allowing greater operational flexibility to UCBs without diluting the regulatory objectives, the above prudential norms have been reviewed. The revised instructions are given in the following paragraphs.

**A. Small Value Loans**

3. In terms of circular DOR (PCB).BPD.Cir No.10/13.05.000/2019-20 dated March 13, 2020, as revised vide circular DOR.CRE.REC.28/07.10.002/2024-25 dated July 25, 2024, UCBs are required to follow the prescribed glidepath to have at least 50 per cent of their aggregate loans and advances comprising of small value loans – i.e., loans of value not more than ₹25 lakh or 0.2 per cent of their Tier I capital, whichever is higher, subject to a maximum of ₹1 crore per borrower – by March 31, 2026.

4. On a review, it has been decided to revise the definition of small value loans as loans of value not more than ₹25 lakh or 0.4 per cent of their Tier I capital, whichever is higher, subject to a ceiling of ₹3 crore per borrower. All other conditions, as well as the timelines and the intermediate targets remain unchanged. Boards of UCBs, however, shall periodically review the portfolio behaviour and quality under different loan-size categories and where necessary, may consider fixing lower ceilings.

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हिंदी आसान है, इसका प्रयोग बढ़ाएँ

## B. Real Estate Exposure Norms

5. In terms of extant instructions, aggregate exposure of a UCB to housing, real estate and commercial real estate loans is capped at 10 per cent of its total assets. The ceiling of 10 per cent can be exceeded by an additional 5 per cent of total assets for the purpose of grant of housing loans to individuals as per the eligibility limits for priority sector classification, as contained in Master Direction FIDD.CO.Plan.BC.5/04.09.01/2020-21 dated September 04, 2020, as amended from time to time. Further, subject to the above aggregate caps, the ceilings for individual housing loans are prescribed at ₹60 lakh per individual borrower for Tier-1 UCBs, and ₹140 lakh per individual borrower for all other UCBs. It has been decided to revise these prudential limits, as given in the following paragraphs.

### **Aggregate Housing/Real estate Limits**

6. Aggregate exposure of a UCB to residential mortgages (housing loans to individuals), other than those eligible to be classified as priority sector, shall not exceed 25 per cent of its total loans and advances.

7. Aggregate exposure of a UCB to real estate sector, excluding housing loans to individuals, shall not exceed five per cent of its total loans and advances.

### **Individual housing loan limits**

8. Housing loans to individuals shall be subject to the following ceilings.

UCB Tier	Loan amount* per dwelling unit
Tier 1	₹60 lakh
Tier 2	₹1.40 crore
Tier 3	₹2 crore
Tier 4	₹3 crore

\*subject to extant single borrower exposure limits

9. All other provisions regarding grant of loans by UCBs to real estate sector shall remain unchanged.

## C. Provisioning requirement for investment in security receipts (SRs)

10. In terms of paragraph 77A of the Master Direction on Transfer of Loan Exposure ("MD-TLE") dated September 24, 2021, UCBs need to provide for the valuation differential on the SRs held against the assets transferred by them to ARCs. In this regard, a five-year glide path (till FY2025-26) was provided vide circular dated June 28, 2022, in respect of such SRs outstanding as on the date of issuance of MD-TLE, i.e. September 24, 2021 ('specified SRs').

11. On a review, it has been decided to extend the above glide-path for UCBs for additional two years till FY2027-28. However, any provisions already made for the specified SRs shall continue to be maintained.

12. All other provisions of the MD-TLE shall continue to be applicable, as hitherto.

**D. Repeal provisions**

13. These instructions supersede the instructions issued vide extant regulations. Accordingly, circulars consolidated in the Annex stand repealed.

**E. Commencement**

14. The above changes are applicable with immediate effect.

Yours faithfully,

(Vaibhav Chaturvedi)  
Chief General Manager

**Annex – List of circulars that stand repealed with immediate effect**

<b>Sr. No.</b>	<b>Circular</b>	<b>Date of Issue</b>	<b>Subject</b>
1.	<u>DOR.CRE.REC.92/07.10.002/2022-23</u>	December 30, 2022	Individual Housing loans – Revised limits under four-tiered regulatory framework
2.	<u>UBD.BPD.(PCB).Cir.No.31/13.05.000/2011-12</u>	April 26, 2012	Monetary Policy Statement 2012-13 Exposure to Housing, Real Estate and Commercial Real Estate - Primary (Urban) Co-operative Banks