



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)¹ 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 loans² and advances sanctioned or renewed on or after **January 1, 2026**.

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

² 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

List of circulars/ instructions in Master Directions repealed

Sr. No.	Circular No.	Date	Subject
1.	DBOD.No.Dir.BC.107/13.03.00/2011-12	June 5, 2012	Home Loans - Levy of Foreclosure Charges/ Pre-payment Penalty
2.	RPCD.CO.RCBD.BC.No.84/03.03.01/2011-12	June 15, 2012	Home Loans - Levy of Foreclosure Charges/ Pre-payment Penalty
3.	RPCD.CO.RRB.BC.No.85/03.05.033/2011-12	June 18, 2012	Home Loans - Levy of Foreclosure Charges/ Pre-payment Penalty
4.	UBD.BPD.(PCB)CIR.No.41/12.05.001/2011-12	June 26, 2012	Home Loans - Levy of Foreclosure Charges/ Pre-payment Penalty by Urban Co-operative Banks (UCBs)
5.	DBOD.Dir.BC.No.110/13.03.00/2013-14	May 7, 2014	Levy of Foreclosure Charges/ Pre-payment Penalty on Floating Rate Term Loans
6.	UBD.CO.BPD.PCB.Cir.No.64/12.05.001/2013-14	May 26, 2014	Levy of Foreclosure Charges/ Pre-payment Penalty on Floating Rate Term Loans
7.	RPCD.CO.RCBD.RRB.BC.No.102/07.51.013/2013-14	May 27, 2014	Levy of Foreclosure Charges/ Pre-payment Penalty on Floating Rate Term Loans
8.	DBR.Dir.BC.No.08/13.03.00/2019-20	August 2, 2019	Levy of Foreclosure Charges/ Pre-payment Penalty on Floating Rate Term Loans
9.	Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021	February 17, 2021 (as amended from time to time)	Paragraph 85.7
10.	Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023	October 19, 2023 (as amended from time to time)	Paragraph 45.7.4