

## **DRAFT CIRCULAR**

RBI/2024-25/

DoR.MCS.REC. /01.01.001/2024-25

XXXXXX XX, 2025

All Scheduled Commercial Banks (excluding Payments Banks)

All Local Area Banks

All Primary (Urban) Co-operative Banks

All State Co-operative Banks and Central Co-operative Banks

All NBFCs (including HFCs)

All India Financial Institutions (AIFIs)

Madam/ Dear Sir

### **Responsible Lending Conduct – Levy of Foreclosure Charges/ Pre-payment Penalties on Loans**

In terms of the extant instructions, certain categories of Regulated Entities (REs) are not permitted to levy foreclosure charges/ pre-payment penalties on the floating rate term loans sanctioned, for purposes other than business, to individual borrowers with or without co-obligant(s).

**2.** 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 REs with regard to levy of foreclosure charges/ pre-payment penalties 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.

**3.** Based on a review of the supervisory findings and industry feedback received, it has been decided to issue revised regulations to all REs regarding levy of foreclosure charges/ pre-payment penalties on loans<sup>2</sup>. Accordingly, REs are advised to adhere to the following instructions in this regard:

**3.1** REs shall permit foreclosure/ pre-payment of all floating rate loans sanctioned for purposes other than business to individuals, with or without co-obligant(s), without

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<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 cash credit/ overdraft facilities.

levying any charges/ penalties.

- 3.2** REs, other than Tier 1 and Tier 2 Primary (Urban) Co-operative Banks and Base Layer NBFCs, shall not levy any charges/ penalties in case of foreclosure/ pre-payment of floating rate loans granted to individuals and MSE borrowers, with or without co-obligant(s), for business purpose. However, in case of MSE borrowers, these instructions shall be applicable up to the aggregate sanctioned limit of ₹7.50 crore per borrower.
- 3.3** The above instructions shall be applicable irrespective of the source of funds used for foreclosure/ pre-payment of loans, whether partial or in full.
- 3.4** Applicability of above instructions for dual/ special rate (combination of fixed and floating) loans will depend whether the loan is on fixed or floating rate at the time of foreclosure/ pre-payment.
- 3.5** In other cases, foreclosure charges/ pre-payment penalties, if charged, shall be as per the Board approved policy of the REs. However, in such cases, foreclosure charges/ pre-payment penalties levied by the REs shall be based on the outstanding amount in case of term loans and sanctioned limit in case of cash credit/ overdraft facilities.
- 3.6** REs shall permit foreclosure/ pre-payment of loans without stipulating any minimum lock-in period.
- 3.7** REs shall not levy any charges/ penalties in cases where foreclosure/ pre-payment is effected at the instance of the RE.
- 3.8** The applicability or otherwise of foreclosure charges/ pre-payment penalties shall be appropriately mentioned in the Key Fact Statement<sup>3</sup> for applicable loans and advances.
- 3.9** REs shall not levy any charges retrospectively at the time of foreclosure/ pre-payment of loans, which were waived off by the REs/ not disclosed in advance to the borrowers, under any circumstances.

**4.** These instructions are issued 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.

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<sup>3</sup> As specified in [RBI Circular DOR.STR.REC.13/13.03.00/2024-25 dated April 15, 2024](#) on 'Key Facts Statement (KFS) for Loans and Advances'

5. The revised instructions shall be applicable to the eligible loans/ advances which are foreclosed on or after a date to be indicated in the final circular.

6. With the issue of these instructions, the instructions contained in the circulars/ Master Directions mentioned in the [Annex](#), issued by the Reserve Bank, shall stand repealed from the effective date of this circular. 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.

Yours faithfully,

(Veena Srivastava)  
Chief General Manager

## List of circulars/ instructions in Master Directions repealed

Sr. No.	Circular No.	Date	Subject
1.	<a href="#">DBOD.No.Dir.BC.107/13.03.00/2011-12</a>	June 5, 2012	Home Loans-Levy of Foreclosure Charges/ Pre-payment Penalty
2.	<a href="#">RPCD.CO.RCBD.BC.No.84/03.03.01/2011-12</a>	June 15, 2012	Home Loans - Levy of Foreclosure Charges/ Pre-payment Penalty
3.	<a href="#">RPCD.CO.RRB.BC.No.85/03.05.03/2011-12</a>	June 18, 2012	Home Loans - Levy of Foreclosure Charges/ Pre-payment Penalty
4.	<a href="#">UBD.BPD.(PCB)CIR.No.41/12.05.001/2011-12</a>	June 26, 2012	Home Loans-Levy of Foreclosure Charges/ Pre-payment Penalty by Urban Co-operative Banks (UCBs)
5.	<a href="#">DBOD.Dir.BC.No.110/13.03.00/2013-14</a>	May 7, 2014	Levy of Foreclosure Charges/ Pre-payment Penalty on Floating Rate Term Loans
6.	<a href="#">UBD.CO.BPD.PCB.Cir.No.64/12.05.001/2013-14</a>	May 26, 2014	Levy of Foreclosure Charges/ Pre-payment Penalty on Floating Rate Term Loans
7.	<a href="#">RPCD.CO.RCBD.RRB.BC.No.102/07.51.013/2013-14</a>	May 27, 2014	Levy of Foreclosure Charges/ Pre-payment Penalty on Floating Rate Term Loans
8.	<a href="#">DBR.Dir.BC.No.08/13.03.00/2019-20</a>	August 2, 2019	Levy of Foreclosure Charges/ Pre-payment Penalty on Floating Rate Term Loans
9.	<a href="#">Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021</a>	February 17, 2021 (as amended from time to time)	Paragraphs 85.6(a) and 85.7
10.	<a href="#">Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023</a>	October 19, 2023 (as amended from time to time)	Paragraph 45.7.4