

GRC BULLETIN

JULY - 2025, VOLUME: II

RBI

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

[Click Here to Read Full Bulletin](#)

CORPORATE LAWS

Authority

Drugs Technical Advisory Board (DTAB)
Under the Central Drugs Standard Control Organization (CDSCO)
Ministry of Health & Family Welfare,
Government of India

Circular Date

Jun 24, 2025

Circular Number

F. No. DC-DT-13011(11)/1/2025-eoffice
Comp. No. 21508

Effective Date

Jun 24, 2025

RBI NOTIFIES RESERVE BANK OF INDIA (PRE-PAYMENT CHARGES ON LOANS) DIRECTIONS, 2025

Applicability:

- All Commercial Banks (excluding Payments Banks), Co-operative Banks, Non-Banking Financial Companies (NBFCs), and All India Financial Institutions.
- Applicable to all loans and advances (term and demand) sanctioned or renewed on or after January 1, 2026.

Expanded Summary: RBI's 2025 Directions on Pre-payment Charges for Loans

On July 2, 2025, the Reserve Bank of India (RBI) issued a comprehensive regulatory framework titled the Reserve Bank of India (Pre-payment Charges on Loans) Directions, 2025, via Circular No. RBI/2025-26/64 [Ref: DoR.MCS.REC.38/01.01.001/2025-26]. These Directions will come into effect from January 1, 2026, and apply to all commercial banks (excluding payments banks), co-operative banks, Non-Banking Financial Companies (NBFCs), and All India Financial Institutions.

Purpose and Background

The Directions were introduced in response to inconsistent and often unfair practices among Regulated Entities (REs) concerning the levy of pre-payment charges. RBI's supervisory reviews found that some REs were disincentivizing borrowers—especially individuals and Micro and Small Enterprises (MSEs)—from switching to better loan options by including restrictive clauses in loan agreements and imposing foreclosure penalties. This led to customer dissatisfaction and impeded competition in the lending sector.

Key Provisions of the Directions

1. No Pre-payment Charges for Certain Categories

No pre-payment charges shall be levied on floating-rate loans to:

- Individuals (for purposes other than business), and
- MSEs (for business purposes)
- This applies regardless of the source of repayment, whether partial or full, and with no minimum lock-in period.

2. Cap for Certain Lenders

- For Small Finance Banks, Regional Rural Banks, Tier 3 Primary Urban Co-operative Banks, State and Central Co-operative Banks, and NBFC-MLs, the waiver applies only to loans sanctioned to MSEs up to a limit of ₹50 lakh.

CORPORATE LAWS

Authority

Drugs Technical Advisory
Board (DTAB)
Under the Central Drugs
Standard Control
Organization (CDSCO)
Ministry of Health &
Family Welfare,
Government of India

Circular Date

Jun 24, 2025

Circular Number

F. No. DC-DT-
13011(11)/1/2025-
eoffice
Comp. No. 21508

Effective Date

Jun 24, 2025

3. Mandatory Disclosure Requirements

All regulated entities must disclose the applicability or exemption of pre-payment charges in:

- Sanction letters,
- Loan agreements, and
- Key Facts Statements (KFS), where applicable (as per RBI circular dated April 15, 2024).

4. No Hidden or Retrospective Charges

Pre-payment charges cannot be levied retrospectively or where the charges were previously waived.

5. Pre-payment Initiated by Lender

No charges shall be imposed if the pre-payment is initiated at the instance of the lending institution.

6. Special Rate and Dual-Rate Loans

These Directions shall apply if the loan is on a floating rate at the time of pre-payment.

7. Cash Credit and Overdraft Facilities

Borrowers who inform the RE in advance and close the facility on the agreed date will not attract any pre-closure fees.

Head Quarters:

Vasudha, 2nd Floor, No. 2, 38th Main Rd,
Rose Garden, JP Nagar Phase 6, J. P. Nagar,
Bengaluru, Karnataka 560078

Ph: 080 41673023

Email: info@ricago.com

Website: www.ricago.com

Subscribe to the Newsletter:

Subscribe

Disclaimer: This newsletter is prepared by Clonect Solutions Pvt. Ltd. and contains information about the statutory compliance updates for general information only. No claim is made as to warrant or represent that the information contained in this document is correct. Also, it should not be considered as legal or financial advice and under no circumstances Clonect Solutions Pvt. Ltd. shall be held responsible for any kind of damages arising there to.