



E-Serve No.: 126 of 2025 | Date: July 08, 2025

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

Dear Member,

Reserve Bank of India (RBI) has issued Notification No. RBI/2025-26/64 dated 02/07/2025 ([enclosed](#)), introducing the Reserve Bank of India (Pre-payment Charges on Loans) Directions, 2025.

These new guidelines aim to promote transparency and borrower flexibility. Under the directives, banks and other regulated entities are prohibited from levying pre-payment charges on floating rate loans availed by individuals for non-business purposes.

The directive will apply to all loans and advances sanctioned or renewed on or after 01/01/2026, and are applicable across commercial banks (excluding payment banks), co-operative banks, Non-Banking Financial Companies (NBFCs) and All India Financial Institutions.

Exemption from pre-payment charges applies in following cases:

- Irrespective of the loan being repaid in full or in part
- Regardless of the source of funds used for repayment
- Covers loans with or without co-obligants

Other Features include:

- No pre-payment charges shall be levied on floating rate loans taken by individuals for non-business purposes.
- This applies even to dual or special rate loans, if the loan is on a floating rate at the time of repayment.
- There is no minimum lock-in period for availing this benefit.

RBI has issued these directives by exercising its powers under the Banking Regulation Act, 1949, the RBI Act, 1934, and the National Housing Bank Act, 1987. This move combines and replaces earlier instructions and circulars related to foreclosure and

pre-payment charges, creating a complete and unified regulatory framework.

In cases where pre-payment charges are permitted—such as fixed-rate loans or loans not covered under the new norms—the following conditions must be followed:

- Charges must be clearly disclosed in the sanction letter and loan agreement.
- Where applicable, they must also be included in the Key Facts Statement (KFS).
- No undisclosed or retrospective charges shall be levied.

Furthermore, no charges shall be imposed if the pre-payment is initiated by the lender.

RBI had earlier noticed that some lenders were adding restrictive conditions in loan agreements to stop borrowers from moving to other lenders who offered lower interest rates or better terms. The new Directions have been issued to stop such unfair practices and to build greater trust and protection for borrowers.

Members may kindly make a note of the above.

Regards,

Dr. Siddhartha Rajagopal
Executive Director

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