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

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The RBI recently announced Reserve Bank of India (Pre-payment Charges on Loans) Directions, 2025, prohibiting banks and other regulated lenders from charging prepayment penalties on floating-rate loans availed by individuals for non-business purposes.

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

- It **prohibited banks** and other **regulated lenders from charging prepayment penalties on floating-rate loans** availed by individuals for non-business purposes.
- It benefits borrowers of home loans and other floating-rate loans, allowing them to **repay loans ahead of schedule without additional fees.**

- These new rules will be **enforced on all loans** which are **sanctioned or renewed on or after January 1, 2026.**
- The directive will **apply to commercial banks and regulated entities (REs) such as NBFCs**, **excluding specific banks like Small Finance Banks and Regional Rural Banks unless they issue loans up to Rs 50 lakh.**
- The exemption **applies regardless of whether the loan is repaid fully or partially,** the **source of funds, or the presence of co-obligants.**
- It also **includes dual and special rate loans if they are on a floating rate at the time of repayment.**
- **No minimum lock-in period is required.**
- For **loans not covered under this r**ule, **lenders must disclose any prepayment charges in the sanction letter, loan agreement, and Key Facts Statement.**
    - Should a bank fail to include this information, it cannot levy any prepayment charge.

Source: LMINT
