RBI on Foreclosure Charges

Why in News?

The Reserve Bank of India (RBI) floated a consultation paper seeking to waive foreclosure charges, and prepayment penalties, on loans taken by micro and small enterprises (MSEs).

- **Recent Changes -** RBI has proposed that banks and NBFCs must not levy foreclosure charges or prepayment penalties ***on loans taken at floating rates*** by MSEs for business purposes.
- At present, the provision only exists for loans *taken by individuals* for purposes other than business.
- The proposed regulation thus extends the purview of the guideline.
- **Eligibility -** This shall apply to all MSE borrowing up to Rs.7.5 crore
    - Barring an exception for Tier 1 and Tier 2 Primary (Urban) Co-operative Banks and base layer NBFCs, that is, those with asset sizes of below Rs.1,000 crore.
- RBI also underlines that banks and NBFCs ***cannot stipulate any minimum lock-in period*** for the proposed guidelines to become applicable.
- Furthermore, it underlines that regulated entities *cannot levy any retrospective charges* which were waived off earlier and/or not disclosed in advance to the borrowers.
- **Objectives -** The primary objective of the proposed measures is to provide for easy and affordable financing to MSMEs.
- The waiver would bring more borrowers into the formal system (of credit).
- It mitigates the risk of hidden charges and offers better ability for MSMEs to plan their cash flows and incentivises borrowers to repay.
- The proposed measures are meant to help small businesses to clear their debts without penalties.

Reference

The Hindu | RBI on foreclosure charges