

RBI Vide its Circular No. RBI/2023-24 dated Aug 18, 2023 on **“Fair Lending practice”- Penal Charges in Loan Accounts**” has advised banks that any penalty, if charged for non-compliance with material terms and conditions of the loan contract, will be treated as penal charges and not be levied in the form of penal interest that is added to the rate of interest charged on loans/advances. RBI has further advised that there will be no capitalisation of penal charges i.e. no further interest will be computed on such penal charges. However, the aforesaid will not affect the normal procedure for compounding of interest in the loan account.

The Following penal charges are being imposed primarily to act as a deterrent against any breach/default of the facility/loan and is intended to inculcate a sense of financial discipline and discourage borrowers from defaulting on their obligations, as specified in the loan agreement.

Revised Penal Charges Statement with Effective from 3rd December 2025		
No.	Description of Charges	Penal Charges
1	EMI Bounce Charges	INR 500+ applicable taxes
2	Default / Penal Charges	4% per month on the default EMI
3	Prepayment / Foreclosure Charges	Less than 6 months will not be eligible for foreclosure or part payment.
		Foreclosure charges of 7% + GST is applicable for less than 6 months.
		Foreclosure charges of 6% +GST is applicable for loans between 6 -12 month’s tenor.
		After 12 Months- applicable foreclosure Charges is 5%+ GST.
4	Part prepayment charges	4% + GST is applicable