



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA



RBI/2023-24/55

DOR.MCS.REC.32/01.01.003/2023-24

August 18, 2023

All Scheduled Commercial Banks
Regional Rural Banks
Primary (Urban) Co-operative Banks
State Co-operative Banks and District Central Co-operative Banks
Non-Banking Financial Companies (including Housing Finance Companies)

Madam / Dear Sir,

Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans¹

Please refer to our [circular no. DBR.No.Dir.BC.10/13.03.00/2015-16 dated July 01, 2015](#), [Master Directions no. DNBR.PD.007/03.10.119/2016-17 dated September 01, 2016](#), [DNBR.PD.008/03.10.119/2016-17 dated September 01, 2016](#) and [DOR.FIN.HFC.CC.No.120/03.10.136/2020-21 dated February 17, 2021](#) vide which the guidelines pertaining to Fair Practices Code for lenders have been issued to SCBs, NBFCs and HFCs, respectively. In terms of extant instructions of Reserve Bank of India, regulated entities (REs) have the freedom to offer all categories of advances either on fixed or on floating interest rates basis.

2. At the time of sanction of EMI based floating rate personal loans, REs are required to take into account the repayment capacity of borrowers to ensure that adequate headroom/ margin is available for elongation of tenor and/ or increase in EMI, in the scenario of possible increase in the external benchmark rate during the tenor of the

¹ As defined in the [RBI circular No. DBR.No.BP.BC.99/08.13.100/2017-18](#) on "XBRL Returns – Harmonization of Banking Statistics" dated January 04, 2018.

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बैंक हिंदी में पत्राचार का स्वागत करता है

Caution: RBI never sends mails, SMSs or makes calls asking for personal information like bank account details, passwords, etc. It never keeps or offers funds to anyone. Please do not respond in any manner to such offers.

loan. However, in respect of EMI based floating rate personal loans, in the wake of rising interest rates, several consumer grievances related to elongation of loan tenor and/or increase in EMI amount, without proper communication with and/or consent of the borrowers have been received. In order to address these concerns, the REs are advised to put in place an appropriate policy framework meeting the following requirements for implementation and compliance:

- (i) At the time of sanction, REs shall clearly communicate to the borrowers about the possible impact of change in benchmark interest rate on the loan leading to changes in EMI and/or tenor or both. Subsequently, any increase in the EMI/ tenor or both on account of the above shall be communicated to the borrower immediately through appropriate channels.
- (ii) At the time of reset of interest rates, REs shall provide the option to the borrowers to switch over to a fixed rate as per their Board approved policy. The policy, inter alia, may also specify the number of times a borrower will be allowed to switch during the tenor of the loan.
- (iii) The borrowers shall also be given the choice to opt for (i) enhancement in EMI or elongation of tenor or for a combination of both options; and, (ii) to prepay, either in part or in full, at any point during the tenor of the loan. Levy of foreclosure charges/ pre-payment penalty shall be subject to extant instructions.
- (iv) All applicable charges for switching of loans from floating to fixed rate and any other service charges/ administrative costs incidental to the exercise of the above options shall be transparently disclosed in the sanction letter and also at the time of revision of such charges/ costs by the REs from time to time.
- (v) REs shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortisation.
- (vi) REs shall share / make accessible to the borrowers, through appropriate channels, a statement at the end of each quarter which shall at the

minimum, enumerate the principal and interest recovered till date, EMI amount, number of EMIs left and annualized rate of interest / Annual Percentage Rate (APR) for the entire tenor of the loan. The REs shall ensure that the statements are simple and easily understood by the borrower.

3. Apart from the equated monthly instalment loans, these instructions would also apply, *mutatis mutandis*, to all equated instalment based loans of different periodicities. In case of loans linked to an external benchmark under the External Benchmark Lending Rate (EBLR) regime, the banks should follow extant instructions and also put in place adequate information systems to monitor transmission of changes in the benchmark rate to the lending rate.

4. REs shall ensure that the above instructions are extended to the existing as well as new loans suitably by December 31, 2023. All existing borrowers shall be sent a communication, through appropriate channels, intimating the options available to them.

5. The above instructions are issued under sections 21, 35A and 56 of the Banking Regulation Act, 1949, sections 45JA, 45L and 45M of the Reserve Bank of India Act, 1934, and sections 30A and 32 of the National Housing Bank Act, 1987.

Yours faithfully

Santosh Kumar Panigrahy
(Chief General Manager)