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RESERVE BANK OF INDIA

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Reserve Bank of India (Interest Rates on Loans and Advances) Directions, 2026 - Draft for comments

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In exercise of the powers conferred by the Section 21 of the Banking Regulation Act, 1949 read with Section 56 and Section 35A of the Act ibid; Section 45JA, 45L and 45M of the Reserve Bank of India Act, 1934; Sections 30A and 32 of the National Housing Bank Act, 1987; Section 6 of the Factoring Regulation Act, 2011; and all other provisions / laws enabling the Reserve Bank of India ('RBI') in this regard, RBI being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the Directions hereinafter specified.

Chapter I - Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (Interest Rates on Loans and Advances) Directions, 2026.
2. These Directions shall come into effect from April 01, 2027.

B. Applicability

3. These Directions shall be applicable to the following entities, hereinafter individually referred to as Regulated Entity (RE) and collectively as REs, as the context may require:

3.1 Commercial Banks;

For the purpose of these Directions, 'Commercial Banks' mean banking companies (including Small Finance Banks, and Local Area Banks), corresponding new banks, and the State Bank of India, as defined respectively under clauses (c), (da) and (nc) of Section 5 of the Banking Regulation Act,1949.

3.2 Regional Rural Banks (RRBs); as defined under Clause (ja) of Section 5 of the Banking Regulation Act, 1949.

3.3 Urban Co-operative Banks (UCBs); wherein, Urban Co-operative Banks mean Primary Co-operative Banks as defined under section 5(ccv) read with Section 56 of Banking Regulation Act, 1949.

3.4 Rural Co-operative Banks (RCBs); wherein, Rural Co-operative Banks mean

State Co-operative Banks and Central Co-operative Banks, as defined in the National Bank for Agriculture and Rural Development Act, 1981.

3.5 All-India Financial Institutions (AIFIS), viz., Export Import Bank of India ('EXIM Bank'), National Bank for Agriculture and Rural Development ('NABARD'), National Bank for Financing Infrastructure and Development ('NaBFID'), National Housing Bank ('NHB') and Small Industries Development Bank of India ('SIDBI');

3.6 Non-Banking Financial Companies (NBFCs) including Housing Finance Companies.

Provided that, these Directions shall be applicable only to domestic operations of REs.

C. Definitions

4.1 In these Directions, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them below:

(i) 'Benchmark' means the reference rate used to determine the interest rate on a loan or advance.

(ii) 'External benchmark' means an externally determined reference rate, including Reserve Bank of India policy Repo Rate; Government of India Treasury Bill yields, Secured Overnight Rupee Rate (SORR), or any other interest rate benchmark, as published by Financial Benchmarks India Private Ltd (FBIL).

(iii) 'Fixed rate loan' means a loan on which the interest rate is fixed for the entire tenor of the loan.

(iv) 'Floating rate loan' means a loan in which the interest rate does not remain fixed during the tenor of the loan, but changes primarily due to resets in the benchmark.

(v) 'Internal benchmark' means a reference rate determined internally by a RE in terms of these Directions.

(vi) 'Microfinance loan' shall have the same meaning as assigned in Reserve Bank of India (Commercial Banks – Credit Facilities) Directions, 2025 or the corresponding Directions as applicable to other REs.

(vii) 'Micro, Small and Medium Enterprises (MSMEs)' shall mean the enterprises as defined in the MSMED Act, 2006 as amended from time to time.

(viii) 'Personal loans' shall have the same meaning as defined in Banking Statistics I (Harmonised Definitions).

(ix) 'Rests' refers to periodicity of charging interest to borrowers.

(x) 'Reset' means the periodic revision of the interest rate on a floating rate loan due to changes in the benchmark.

(xi) 'Spread' means the mark up added to the benchmark rate to account for costs and risk-premiums associated with a loan or advance. It shall not include any charges or fees.

4.2 All other expressions, unless defined herein, shall have the same meaning as have been assigned to them under the Banking Regulation Act,1949 or the Reserve Bank of India Act, 1934 or any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

Chapter II - General guidelines

A. Board Approved Policy

5. A RE shall have a comprehensive policy on interest rates on loans and advances, approved by the Board of Directors or a committee of the Board to which such powers have been delegated by the Board. This policy shall lay down various aspects related to pricing of loans including microfinance loans. Such aspects shall, *inter alia*, include the methodology for determining interest rates, including defining the internal benchmark, the components of the spread, the loan categories, and the delegation of powers for loan pricing. The policy shall be reviewed at least annually.

B. Interest Rate Framework

6. A RE shall put in place an interest rate framework for its loans and advances in accordance with these directions:

6.1 A RE may offer loans and advances at fixed or floating interest rates.

6.2 If a loan is structured in such a way that the interest rate remains fixed for a specified period(s) of time while a floating interest rate applies in other period(s), the provisions applicable to fixed rate and floating rate loans shall apply to respective periods for which the interest rate is fixed or floating, as the case may be.

6.3 Interest shall be charged on advances at monthly rests. However, in the case of agricultural advances and advances to farmers, interest shall be charged as follows:

- 6.3.1 For a long duration crop, at annual rests.
- 6.3.2 For a short duration crop, based on the due date(s) of repayments taking into account the crop season.
- 6.3.3 Interest shall only be compounded after the repayment becomes overdue, i.e., if it is not paid on the due date.

Explanation (6.3): While a RE shall charge interest on monthly rests in a loan account, or at such other rests applicable to agricultural advances, it may fix the due date(s) for repayment of interest and / or principal in accordance with its policy and the terms agreed with the borrower. Such due date(s) may not coincide with the date of application of interest in the loan account.

6.4 Interest shall be computed on daily reducing balance basis.

6.5 Actual / Actual day count convention shall be followed for computation of interest.

6.6 A RE shall explicitly put a ceiling on the Annual Percentage Rate (APR) inclusive of interest rate and all other charges / fees on microfinance loans and small value loans while ensuring that these are not usurious.

Explanation: (i) Small value loan for the purpose of these directions shall mean a personal loan sanctioned to an individual where the principal amount does not exceed ₹50,000.

(ii) APR shall have the same meaning as assigned to it under the Reserve Bank of India (Commercial Banks – Responsible Business Conduct) Directions, 2025 or the corresponding Directions as applicable to other REs.

6.7 The total interest and all other charges / fees shall not exceed the principal amount for short-term agricultural loans and advances to small and marginal farmers.

Explanation (6.7): short-term loan refers to a loan with original tenor upto one year.

Chapter III - Interest Rate Determination

A. Fixed Rate Loans

7. A RE shall determine the interest rate on a fixed rate loan with reference to its internal benchmark or an external benchmark, plus a risk-based spread.

8. A RE shall not price a loan below the applicable benchmark for that loan.

B. Floating Rate Loans

9. A RE shall determine the interest rate on a floating rate loan with reference to its internal benchmark or an external benchmark, plus a risk-based spread.

10. A RE shall not price a loan below the applicable benchmark for that loan.

11. The benchmark used for pricing a loan, reset periodicity and date of reset of the benchmark shall be explicitly specified in the loan agreement.

12. (i) The benchmark on a floating rate loan shall be reset at a periodicity chosen by the RE, not exceeding three months. Once fixed for a loan, this periodicity shall remain

unchanged for the entire tenor of the loan.

Provided that paragraph 12 (i) shall not be mandatory for RCBs with total deposits upto ₹1000 crore, NBFCs in the Base Layer, and UCBs in Tier 1 and Tier 2.

Explanation: For the purpose of these directions, the total deposits threshold referred to for RCBs shall be reckoned as per the audited balance sheet as of 31st March of the immediately preceding financial year.

(ii) In case the periodicity of reset is less than a month, the benchmark shall be reset on the date on which the reset is due, in terms of the loan agreement.

(iii) In other cases, the benchmark shall be reset on the first calendar day of the month in which the reset is due.

13. Notwithstanding anything contained in paragraph 12 (i), in case of agricultural loans and advances, periodicity of reset shall be linked to crop season but shall not be more than 12 months.

B.1 Internal Benchmark

14. The internal benchmark for a commercial bank, RRB, UCB in Tier 3 & 4, or RCB having total deposits of more than ₹1000 crore shall be based on the marginal cost of funds, and the interest rate referencing this benchmark shall be the marginal cost based lending rate (MCLR).

15. Marginal cost of funds shall be calculated as a moving average of the marginal costs of domestic deposits and borrowings for the bank during the trailing 3-months period. The marginal cost of funds for a month shall be computed as an annualised weighted average interest cost on the volume of fresh deposits and fresh borrowings (should be system generated and independently verifiable). The methodology for computing the marginal cost of funds, along with an illustrative example, is given in **Annex I**.

16. A commercial bank, RRB, UCB in Tier 3 & 4, or RCB having total deposits of more than ₹1000 crore shall publish the internal benchmark on the first calendar day of each month, which shall be the applicable benchmark for all loans and advances which are linked to this benchmark and sanctioned during that month.

17. Any other RE may determine the internal benchmark derived from its marginal cost of funds, based on a methodology documented in its policy. The methodology for determining internal benchmark shall be made publicly available.

Explanation: All disclosures mandated in these directions shall be made available in RE's digital interface (website and mobile, as may be applicable). If a RE does not have a digital interface, such disclosures shall be made in their banking outlets / branches.

B.2 External Benchmark

18. All floating rate personal loans and floating rate loans extended to MSMEs by commercial banks shall be linked to an External Benchmark.

19. Commercial banks may, at their discretion, offer external benchmark linked loans to other categories of borrowers.

20. The requirement at paragraph 18 shall not be mandatory for RRBs, UCBs, RCBs, NBFCs and AIFIs. Such REs may, at their discretion, choose to offer external benchmark linked floating rate loans to any category of borrowers.

C. Spread

21. A RE shall determine the spread and its components in accordance with its policy. The policy shall lay down the methodology for determining the quantum of each component of the spread and the range of spread for different loan categories. The spread shall comprise of credit risk premium and one or more other components. An illustrative list of spread components is as follows:

21.1 Credit Risk Premium (CRP): It may represent the credit risk associated with the borrower and the credit facility. It shall be arrived at based on an appropriate credit risk rating / scoring methodology, taking into account factors such as the probability of default, expected losses, collateral security available, if any, and other risk mitigants.

21.2 Operating Cost: It may represent the operating costs incurred by the REs in raising resources, originating, servicing and administering the loan.

21.3 Term Premium: It may represent the premium associated with tenor of the loan.

21.4 Business strategy premium: It may represent the RE's business strategy considerations, including competition, liquidity, expected returns, and other commercial considerations.

Explanation (21): Loan category shall be defined by a RE in accordance with its policy. It could be based on the product (e.g., housing loans, vehicle loans, and working capital loans) or borrower category (e.g., MSME loans, mid-corporate loans and large corporate loans), or a combination of both (e.g., MSME working capital loans and MSME loans against property), and / or any other criteria such as interest rate type (fixed / floating), duly documented and approved as per its policy.

22. The components of the spread may be positive or zero. However, the CRP shall be positive (*i.e.,* it shall not be zero).

23. CRP shall be revised only when the borrower's credit profile undergoes a change, in accordance with its policy and terms of the loan agreement. It shall also be preceded by a comprehensive review of the borrower's credit risk profile in accordance with the RE's policy.

24. Components of the spread other than the CRP shall not be revised before three years for a floating rate loan.

24.1 A RE may, for customer retention, reduce such components of the spread for a loan category before the said three year period, on justifiable grounds, in a non-discriminatory manner, in accordance with its policy.

24.2 The three year period shall be reckoned from the date of the first disbursement of the loan or the date of the last revision (increase or decrease) of the spread, whichever is later.

24.3 The provisions of paragraph 24 shall not be mandatory for RCBs with total deposits upto ₹1000 crore, NBFCs in the Base Layer, and UCBs in Tier 1 and Tier 2.

Chapter IV - Special Cases and Transition

A. Special Cases

25. Working Capital Demand Loans

For Working Capital Demand Loans (WCDLs), including those extended as part of a working capital facility, where each drawdown that has a fixed tenor, may be treated as a separate loan for the purpose of determining the interest rate, including the spread in terms of its policy.

26. Transfer of Loan Exposure

26.1 In case of transfer of loan *exposures* in accordance with the Reserve Bank of India (Commercial Banks - Transfer and Distribution of Credit Risk) Directions, 2025, or the corresponding Directions as applicable to other REs, where the lender on record for the borrower does not change post such transfer, the interest rate applicable to the transferred loans, including the benchmark, spread and reset mechanism in the case of floating rate loans, shall continue to be governed by the contractual terms agreed between the transferor and the borrower.

26.2 Where a new agreement is entered into between the transferee and the borrower due to change in the lender on record for the borrower post such transfer, the interest rate after transfer shall be governed by the interest rate framework of the transferee.

27. Co-lending Arrangements

In case of Co-lending Arrangements, a RE shall, in addition to the instructions contained in these directions, adhere to the instructions contained in the Reserve Bank of India (Commercial Banks - Transfer and Distribution of Credit Risk) Directions, 2025, or the corresponding Directions as applicable to other REs.

28. Foreign Currency Loans

A RE shall determine the interest rate on a loan or advance in foreign currency as per its policy. The interest rate shall be determined with reference to a market determined external benchmark, plus a risk-based spread.

29. Acquisition, Merger or Amalgamation

29.1 In the event of an acquisition, merger or amalgamation of REs, either in part or full, the transferee RE shall undertake a one time mapping of the loans and advances transferred to it, and determine the applicable interest rate, including the benchmark and spread, wherever applicable, in accordance with its policy.

29.2 Such mapping shall be carried out without placing the borrower in a disadvantageous position, i.e., the revised interest rate shall not exceed the interest rate applicable to the borrower with the transferor RE immediately before the acquisition, merger or amalgamation.

B. Transition

30. All existing loans and advances linked to any internal or external benchmark shall be migrated to the interest rate framework prescribed in these Directions by April 1, 2029, through a one time mapping exercise.

30.1 Such mapping shall be carried out with the consent of the borrower without putting the borrower in a disadvantageous position in terms of interest rate applicable to the borrower. The RE shall ensure that, upon such transition, the revised interest rate does not exceed the interest rate applicable to the borrower immediately before such transition. Further, the RE shall not levy any charges for such migration.

30.2 In the event of discontinuation of a benchmark during the currency of a floating rate loan, the RE shall change the benchmark without putting the borrower in a disadvantageous position in terms of interest rate applicable to the borrower. The RE may incorporate a fallback mechanism in the loan agreement with the borrower to address such scenarios.

Chapter V - Exemptions

31**.** The following types of loans and advances extended by a RE shall be exempted from the provisions contained in these Directions:

31.1 Loans and advances covered by schemes, including refinance schemes, formulated by Government of India or a Government Undertaking wherein interest rates are required to be charged as per the schemes.

31.2 Loans and advances sanctioned as part of a resolution plan.

31.3 Lending in Term Money market.

31.4 (i) Advances extended to depositors against their Rupee / FCNR(B) term deposit and the deposits standing in the name of:

(a) the borrower, either singly or jointly.
(b) one of the partners of a partnership firm and advance is made to the said firm.
(c) the proprietor of a proprietary concern and advance is made to such concern.
(d) a ward whose guardian is competent to borrow on behalf of the ward and where the advance is made to the guardian of the ward in such capacity.

(ii) Advances to its employees including retired employees.
(iii) Advances to its Chief Executive Officer / Whole Time Director(s).

Chapter VI - Repeal and Other Provisions

A. Repeal and saving

32. With the issue of these Directions, the existing Directions relating to Interest Rates on Advances, as specified in **Annex II** and applicable to the REs, stands repealed. The Directions, instructions and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

33. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed instructions shall be deemed as governed by such directions, instructions or guidelines as may be the case. Further, the repeal of those directions, instructions, or guidelines shall not in any way prejudicially affect:

(1) any right, obligation or liability acquired, accrued, or incurred thereunder;

(2) any, penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;

(3) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted,

continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

B. Application of other laws not barred

34. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

C. Interpretations

35. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.

(Dr. Sudarsana Sahoo)
Chief General Manager

Annex I
(see paragraph 15)

Description	Calculation	Example
Total Fresh Deposits raised during the month (A)		₹900
Total Fresh Borrowings raised during the month (B)		₹100
Interest expended on (A) during the month (C)		₹3
Interest expended on (B) during the month (D)		₹0.4
Cost of deposits (E)	E = C ÷ A	3 ÷ 900 = 0.0033
Cost of borrowings (F)	F = D ÷ B	0.4 ÷ 100 = 0.004
Annualized weighted average cost of funds for the month (G)	G = $\left[\left(E \times \frac{A}{A+B}\right) + \left(F \times \frac{B}{A+B}\right)\right] \times 12$	$\left[\left(0.0033 \times \frac{900}{900+100}\right) + \left(0.004 \times \frac{100}{900+100}\right)\right] \times 12$ = 4.04 %
Annualised weighted average cost of funds for the 2nd preceding month	G_{t-1}	
Annualised weighted average cost of funds for the 3rd preceding month	G_{t-2}	
Marginal Cost of Funds = Average of the 3 months' annualised cost of funds as above	$(G + G_{t-1} + G_{t-2}) \div 3$	

Note: Illustratively, in case of commercial banks, deposits and borrowings shall have the same meaning as prescribed in schedule 3 and 4 of the Balance Sheet, respectively. Interest expended shall have the same meaning as prescribed in schedule 15 of the P&L statement.

Annex II

(see paragraph 32)

List of Directions repealed with the issuance of this Direction

S No.	Directions
1	Reserve Bank of India (Commercial Banks – Interest Rates on Advances) Directions, 2025
2	Reserve Bank of India (Small Finance Banks - Interest Rates on Advances) Directions, 2025
3	Reserve Bank of India (Local Area Banks - Interest Rates on Advances) Directions, 2025
4	Reserve Bank of India (Urban Co-operative Banks - Interest Rates on Advances) Directions, 2025
5	Reserve Bank of India (Rural Co-operative Banks - Interest Rates on Advances) Directions, 2025
6	Paragraph 60 and 61 of Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Directions, 2025