FIDC

Finance Industry Development Council

(A Representative Body of NBFCs in India)

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The Department of Regulation
Central Office
Reserve Bank of India
Shahid Bhagat Singh Marg. Fort
Mumbai 400 001

Madam,

Kind Attn: Ms Veena Srivatsava – Chief General Manager

SUB: RESPONSIBLE LENDING CONDUCT – LEVY OF FORECLOSURE CHARGES / PRE-PAYMENT PENALTIES ON LOANS

Ref: Draft Circular: RBI/2024-25/DoR.MCS.REC. /01.01.001/2024-25 dated xxxxxx xx, 2025

We refer to the draft circular on the above subject in respect of levy of foreclosure charges for 'floating rate' loans. We submit the following for your kind consideration:

(i) The Regulated Entities (RE) incur a cost to acquire the account and this cost is amortized for recovery over a period of time. In the absence of the option to levy foreclosure / pre-payment charges for the loan, the regulated entity would not be able to recover the cost and hence we request you to permit the levy of foreclosure charges.

(ii) There will be an impact in the revenue from both the existing and new loans due to a decrease in the average tenure on account of the cost.

(iii) The REs should therefore transparently disclose the foreclosure charges applicable to the loan account upfront in the KFS and this would ensure fair practice.

(iv) If the RE is restrained from levying foreclosure charges, only the DSA (which are unregulated entities) would stand to benefit, as they earn income from the RE at the cost of the customer and the lender. The DSA would be advising the borrower to move his loan from one lender to another either on account of reduced rate of interest or higher loan amount and this would only enhance the revenue of the intermediary.

(v) Aggressive marketing by DSAs is one of the key reasons for over-leveraging of customers. Removal of foreclosure charges would do away with the only financial disincentive to such aggressive marketing.

(vi) To ensure recovery of upfront cost and to deter the switch over of loans, it is just and necessary to have a lock-in period for foreclosure. Hence, we request consideration of levy of higher foreclosure charges where the loan is closed within two years and a lesser foreclosure charges where the loan is closed after two years.

(vii) A higher frequency of early repayment could also disrupt asset-liability management (ALM), necessitating improved forecasting and liquidity management to maintain financial stability.

(viii) It is further requested that the foreclosure at the insistence by the RE is purely on account of the performance of the account and hence request your consideration for levy of foreclosure charges as accepted by the customer in the KFS.

The Regulated entities may be permitted to have a Board approved policy to levy foreclosure charges on the "Principal Outstanding', for the above said reasons and request your favourable consideration.

We look forward for your kind consideration to the above observations and suggestions and an opportunity to discuss this further.

For **FINANCE INDUSTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
DIRECTOR GENERAL
9820035553