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RESERVE BANK OF INDIA

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Reserve Bank of India (Small Finance Banks - Interest Rates on Advances) Directions, 2025

Table of Contents

In exercise of the powers conferred by Sections 21 and 35A of the Banking Regulation Act, 1949, 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 (Small Finance Banks - Interest Rates on Advances) Directions, 2025.

2. These Directions shall come into effect immediately upon issuance.

B. Applicability

3. These Directions shall be applicable to Small Finance Banks (hereinafter collectively referred to as 'banks' and individually as a 'bank').

C. Definitions

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

(1) 'Advance against own deposit' means advance granted against Rupee/ FCNR(B) term deposit and the deposit stands in the name of:

- (i) the borrower, either singly or jointly.
- (ii) one of the partners of a partnership firm and advance is made to the said firm.
- (iii) the proprietor of a proprietary concern and advance is made to such concern.
- (iv) 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.

(2) 'Benchmark Prime Lending Rate (BPLR)' means internal benchmark rate used to determine the interest rates on advances / loans sanctioned upto June 30, 2010.

(3) 'Benchmark rate' means the reference rate used to determine the interest rates on loans.

(4) 'External benchmark rate' means the reference rate which includes:

- (i) Reserve Bank of India policy Repo Rate;
- (ii) Government of India Three-months and Six-months Treasury Bill yields published by Financial Benchmarks India Private Ltd (FBIL);

(iii) Any other benchmark market interest rate published by FBIL.

(5) ‘Fixed rate loan’ means a loan on which the interest rate is fixed for the entire tenor of the loan.

(6) ‘Floating rate loan’ means a loan on which interest rate does not remain fixed during the tenor of the loan.

(7) ‘Internal benchmark rate’ means a reference rate determined internally by the bank.

(8) ‘Microfinance loan’ shall have the same meaning as assigned in Reserve Bank of India (Small Finance Banks – Credit Facilities) Directions, 2025.

(9) ‘Rests’ refers to periodicity of charging interest to borrowers.

(10) ‘Short term borrowing’ means borrowing of tenor up to but less than one year.

(11) ‘Term loan’ means a loan which is repayable after a specified term period.

(12) 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. Interest Rate Framework

5. A bank shall charge interest on its loans and advances on the terms and conditions specified in these directions.

(1) There shall be a comprehensive policy duly approved by the Board of Directors or any committee of the Board to which powers have been delegated, in respect of interest rates on advances, including the pricing of microfinance loans

(2) All floating rate loans, except those mentioned in paragraph 44, shall be priced with reference to a benchmark as mentioned in paragraphs 9 to 26.

(3) A bank shall have the freedom to offer all categories of advances on fixed or floating interest rates.

(4) When the floating rate advances are linked to a reference benchmark rate, a bank shall determine its actual lending rates by adding the components of spread to the reference benchmark rate.

(5) The reference benchmark rate used for pricing the loans shall form part of the terms of the loan contract.

(6) Interest rates on fixed rate loans of tenor below three years shall not be less than the benchmark rate for similar tenor and shall be as per directions contained in paragraph 44(4)(v).

(7) Interest shall be charged on all advances at monthly rests.
Provided that interest on agricultural advances and advance to farmers shall be charged by a bank as per below instructions:

- (i) Total interest debited in short term loan should not exceed the principal amount for advances to small and marginal farmers.
- (ii) A bank may charge interest on agricultural advances at annual rests for long duration crop only.
- (iii) As regards other agricultural advances in respect of short duration crops and allied activities, a bank may take into consideration due date/s fixed on the basis of fluidity with borrowers and harvesting / marketing season while charging interest and compound the same if the loan / instalment becomes overdue.

(8) Interest chargeable on rupee advances shall be rounded off to the nearest rupee.

(9) Interest charged on small value loans, particularly, personal loans and such other loans of similar nature shall be justifiable having regard to the total cost incurred by the bank in extending the loan and the extent of return that could be reasonably expected from the transaction.

(10) In case of takeover of bank branches in rural and semi urban centres from one bank to another bank, transfer of borrowal accounts of the existing branch to the branch of acquiring bank shall be on mutually agreed terms of contract.
Provided that the existing borrowers shall not be put into any disadvantage and shall have the option of continuing with the existing bank or the acquiring bank.

(11) There shall be no lending below the benchmark rate for a particular maturity for all loans linked to that benchmark.

6. The directions contained in paragraph 5 above shall also be applicable to Rupee advances granted against FCNR(B) deposits to a third party or out of resources mobilised under the FCNR(B) scheme.

B. Pricing of Microfinance Loans

7. A bank shall put in place a Board-approved policy regarding pricing of microfinance loans which shall, *inter alia,* cover the following:

(1) A well-documented interest rate model / approach for arriving at the all-inclusive interest rate.

(2) Delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters.

(3) The range of spread of each component for a given category of borrowers.

(4) A ceiling on the interest rate and all other charges applicable to the microfinance loans.

8. Interest rates and other charges / fees on microfinance loans should not be usurious. These shall be subjected to supervisory scrutiny by the Reserve Bank.

Chapter III - Benchmark

A. Internal Benchmark

A.1 Base Rate

9. All floating rate rupee loans sanctioned and renewed between July 1, 2010 and March 31, 2016 shall be priced with reference to the Base Rate which will be the internal benchmark for such purposes.

10. Base Rate shall include all those elements of the lending rates that are common across all categories of borrowers.

11. There can be only one Base Rate for each bank.

12. A bank shall have the freedom to calculate cost of funds either on the basis of average cost of funds or on marginal cost of funds or any other methodology in vogue, which is reasonable and transparent, subject to it being consistent and made available for supervisory review / scrutiny as and when required.
Provided that where the card rate for deposits of one or more tenor is the basis, the deposits in the chosen tenor/s shall have the largest share in the deposit base of the bank.

13. A bank shall review the Base Rate at least once in a quarter with the approval of the Board or the Asset Liability Management Committees (ALCOs) as per the bank's practice.

A.2 Marginal Cost of Funds based Lending Rate (MCLR)

14. All floating rate rupee loans sanctioned and renewed w.e.f. April 1, 2016 shall be priced with reference to the Marginal Cost of Funds based Lending Rate (MCLR) which will be the internal benchmark for such purposes subject to the provisions contained in paragraphs 24 to 26.

15. The MCLR shall comprise of:
(1) Marginal cost of funds;
(2) Negative carry on account of CRR;
(3) Operating costs;
(4) Tenor premium.

A.2.1 Marginal Cost of funds

16. The marginal cost of funds shall comprise of Marginal cost of borrowings and return on networth. The detailed methodology for computing marginal cost of funds is given in the **Annex.**

A.2.2 Negative Carry on CRR

17. Negative carry on the mandatory CRR which arises due to return on CRR balances being nil, will be calculated as under:

Required CRR x (marginal cost) / (1- CRR)

The marginal cost of funds arrived at paragraph 16 above shall be used for arriving at negative carry on CRR.

A.2.3 Operating Costs

18. All operating costs associated with providing the loan product including cost of raising funds shall be included under this head. It shall be ensured that the costs of providing those services which are separately recovered by way of service charges do not form part of this component.

19. A bank shall calculate all operating costs as a percentage of marginal cost of funds for computing MCLR.

A.2.4 Tenor premium

20. These costs arise from loan commitments with longer tenor. The change in tenor premium should not be borrower specific or loan class specific. In other words, the tenor premium will be uniform for all types of loans for a given residual tenor. Since floating rate loans are subject to periodic resets, the tenor premium will be the appropriate premium for the residual period up to the next reset date.

21. The tenor of the MCLR calculated as per the **Annex** shall correspond to the following:

(1) the tenor of the funds in the single largest maturity bucket, provided it is more than 30 percent of the entire funds (other than equity) reckoned for determining the MCLR, or

(2) the weighted average tenor of two or more maturity buckets that together account for more than 30 percent, if no single maturity bucket accounts for more than 30

percent of the funds. The maturity bucket shall be arrived at by calculating the cumulative weightage based on the descending order of the maturity time buckets. The below illustration, where no single maturity bucket accounts for more than 30 percent of the funds, is provided for the guidance of banks:

Sr. No.	Original Maturity	Balance outstanding as a percentage of total funds (other than equity)	Cumulative weightage (in percent)
1	5 years & above	15.1	15.1
2	3 years & above but less than 5 years	11.8	26.9
3	2 years & above but less than 3 years	9.3	36.2
4	1 year & above but less than 2 years	16.9	53.1
5	6 months & above but less than 1 year	24.3	77.4
6	91 days & above but less than 6 months	10.5	87.9
7	Up to 90 days	12.1	100
	Total	100	

For above-mentioned maturity profile of borrowings, the MCLR shall correspond to the weighted average of tenor of the first three time buckets.

22. Since MCLR will be a tenor linked benchmark, a bank shall arrive at the MCLR of various maturities by incorporating the corresponding tenor premium / discount to the sum of Marginal cost of funds, Negative carry on account of CRR and Operating costs. Accordingly, a bank shall publish the internal benchmark for the following maturities:

(1) overnight MCLR,
(2) one-month MCLR,
(3) three-month MCLR,
(4) six month MCLR,
(5) One year MCLR.

In addition to the above, a bank shall have the option of publishing MCLR of any other longer maturity.

A.2.5 Review of Marginal Cost of Funds based Lending Rate (MCLR)

23. A bank shall review and publish its MCLR of different maturities every month on a pre-announced date with the approval of the Board or any other committee to which powers have been delegated.

B. External Benchmark

24. All floating rate personal or retail loans (housing, auto, etc.), and floating rate loans extended by banks to Micro, Small and Medium Enterprises (MSME) shall be benchmarked to an External Benchmark Rate.

25. A bank is free to offer such external benchmark linked loans to other types of borrowers as well.

26. In order to ensure transparency, standardisation, and ease of understanding of loan products by borrowers, a bank must adopt a uniform external benchmark within a loan category; in other words, the adoption of multiple benchmarks by the same bank is not allowed within a loan category.

Chapter IV - Other aspects of lending rates

A. Spread

27. A bank shall have a Board approved policy delineating the components of spread charged to a customer. The policy shall include principles:

(1) To determine the quantum of each component of spread.

(2) To determine the range of spread for a given category of borrower / type of loan.

(3) To delegate powers in respect of loan pricing.

A.1 Spread under Base rate system

28. In addition to the conditions laid down in paragraph 27 of these Directions, a bank shall adhere to the following conditions:

(1) The credit risk premium charged to an existing borrower shall not be increased except on account of deterioration in the credit risk profile of the customer or change in tenor premium.

Provided that the stipulation contained in paragraph 28(1) above shall not be applicable to loans under consortium / multiple banking arrangements.

(2) The change in tenor premium on loans sanctioned under Base rate system shall not be borrower specific or loan class specific. In other words, the change in tenor premium shall be uniform for all types of loans for a given residual tenor.

Provided that the spread guidelines mentioned above shall not apply to loans granted under BPLR system, which continue till date. Such loans shall be covered under the terms of the loan agreements.

A.2 Spread under Marginal Cost of Funds based Lending Rate (MCLR) system

29. In addition to the conditions laid down in paragraph 27 of these Directions, a bank shall adopt the following broad components of spread:

(1) Business strategy

The component shall be arrived at taking into consideration the business strategy, market competition, embedded options in the loan product, market liquidity of the loan etc.

(2) Credit risk premium

The credit risk premium charged to the customer representing the default risk arising from loan sanctioned shall be arrived at based on an appropriate credit risk rating / scoring model and after taking into consideration customer relationship, expected losses, collaterals, etc.

30. The spread charged to an existing borrower shall not be increased except on account of deterioration in the credit risk profile of the customer. Any such decision regarding change in spread on account of change in credit risk profile shall be supported by a full-fledged risk profile review of the customer.
Provided that the stipulation contained in paragraph 30 above shall not be applicable to loans under consortium / multiple banking arrangements.

31. The components of the spread i.e. business strategy and Credit risk premium shall have either a positive value or be zero. In other words, the spread components cannot be negative.

A.3 Spread under External Benchmark

32. A bank is free to decide the spread over the external benchmark. However, credit risk premium may undergo change only when borrower's credit assessment undergoes a substantial change, as agreed upon in the loan contract. Further, other components of spread including operating cost could be altered once in three years.
Provided that the other spread components may be reduced by banks for a loan category earlier than three years for customer retention, on justifiable grounds, in a non-discriminatory manner, and in terms of the bank's policy.

B. Reset of interest rates

B.1 Reset of interest rates under Marginal Cost of Funds based Lending Rate (MCLR) system

33. A bank shall, at its option, specify interest reset dates on its floating rate loans. A bank shall have the option to offer loans with reset dates linked either to the date of first disbursement of the loan / credit limits or to the date of review of MCLR.

34. The MCLR prevailing on the date of first disbursement, whether partial or full, shall be applicable till the next reset date, irrespective of the changes in the benchmark during the interim. Future reset dates shall be determined accordingly.

35. The periodicity of reset shall be one year or lower. The exact periodicity of reset shall form part of the terms of the loan contract.

36. The periodicity of the reset under MCLR shall correspond to the tenor / maturity of the MCLR to which the loan is linked.

B.2 Reset of interest rates under External Benchmarks

37. The interest rate under external benchmark shall be reset at least once in three months.

C. Transition to Marginal Cost of Funds based Lending Rate (MCLR) from Base Rate / Benchmark Prime Lending Rate (BPLR)

38. A bank shall continue to review and publish Base Rate as hitherto.

39. Existing loans and credit limits linked to the Base Rate / BPLR shall continue till repayment or renewal, as the case may be.
Provided that existing borrowers shall have the option to move to the MCLR linked loan at mutually acceptable terms.
Provided that the switch-over shall not be treated as a foreclosure of existing facility.

D. Transition to External Benchmarks from Marginal Cost of Funds based Lending Rate (MCLR) / Base Rate / Benchmark Prime Lending Rate (BPLR)

40. Existing loans and credit limits linked to the MCLR / Base Rate / BPLR shall continue till repayment or renewal, as the case may be.
Provided that floating rate term loans sanctioned to borrowers who, in terms of extant guidelines, are eligible to prepay a floating rate loan without pre-payment charges, shall be eligible for switchover to External Benchmark without any charges / fees, except reasonable administrative / legal costs. The final rate charged to this category of borrowers, post switchover to external benchmark, shall be same as the rate charged for a new loan of the same category, type, tenor and amount, at the time of origination of the loan.
Provided that other existing borrowers shall have the option to move to External Benchmark at mutually acceptable terms.
Provided that the switch-over shall not be treated as a foreclosure of existing facility.

Chapter V - Foreign Currency Advances

A. Interest rates on advances in foreign currency

41. A bank shall have the freedom to determine the interest rates on advances in foreign currency as per the comprehensive policy on interest rates on advances duly approved by the Board of Directors or any committee of the Board to which powers have been delegated.

42. The interest rates shall be determined with reference to a market determined external benchmark.

43. The actual lending rates shall be determined by adding the components of spread to the external benchmark.

Chapter VI - Exemptions

44. The following types of loans shall be exempted from the provisions contained under paragraphs 9 to 40 of these Directions:

(1) Loans covered by schemes specially formulated by Government of India wherein a bank has to charge interest rates as per the scheme.

(2) Working Capital Term Loan (WCTL), Funded Interest Term Loan (FITL), etc. granted as part of the rectification / restructuring package.

(3) Loans granted under various refinance schemes formulated by Government of India or any Government Undertakings wherein a bank charges interest at the rates prescribed under the schemes to the extent refinance is available, Interest rate charged on the part not covered under refinance shall adhere to the Base rate / MCLR / External Benchmark guidelines.

(4) The following categories of loans:

(i) Advances to banks' depositors against their own deposits.

(ii) Advances to banks' own employees including retired employees.

(iii) Advances granted to the Chief Executive Officer / Whole Time Directors.

(iv) Loans linked to a market determined external benchmark.

Provided that floating rate loans based on external benchmark sanctioned before April 01, 2016 shall be equal to or above the Base Rate at the time of sanction or renewal.

(v) Fixed rate loans of tenor above three years.

Provided that in case of hybrid loans where the interest rates are partly fixed and partly floating, interest rate on the floating portion be subject to relevant floating interest rate instructions as contained in these Directions.

Provided further that interest rates for fixed rate loans (including fixed rate portion of hybrid loans) of tenor up to three years (except interest rates on bill discounting and factoring facilities) shall not be less than the sum of following:

(a) Marginal Cost of Funds

(b) Negative Carry on CRR

(c) Operating Cost

(d) Tenor premium for corresponding maturity on the date of sanction.

Provided further that fixed rate loans sanctioned before April 01, 2016 shall not be below the Base Rate at the time of sanction or renewal.

For illustration, a bank can grant fixed rate loans to long term projects wherein the interest rate are fixed till the loan is due for refinancing. The loan, at the time of refinancing, will be treated as a fresh fixed rate loan with a maturity period equal to the period upto the next date of refinancing.

Chapter VII - Repeal and Other Provisions

A. Repeal and saving

45. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Interest Rates on Advances as applicable to Small Finance Banks stands repealed, as communicated vide circular DOR.RRC.REC.302/33-01-010/2025-26 dated November 28, 2025. The Directions, instructions and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

46. 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 lists shall be deemed as governed by these Directions. Further, the repeal of these 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

47. 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

48. 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.

(Vaibhav Chaturvedi)
Chief General Manager

Annex

(see paragraph 14 to 23)

Sl	*Source of funds (excluding equity)*	*Rates offered on deposits on the date of review / rates at which funds raised (1)*	*Balance outstanding as a percentage of total funds (other than equity) (2) (See note below)*	*Marginal cost (1)x(2)*	*Remarks*
A	**Marginal Cost of Borrowings**				
1	**Deposits**				
a	Current Deposits				The core portion of current deposits identified based on the Reserve Bank of India (Small Finance Banks – Asset Liability Management) Directions, 2025 should be reckoned for arriving at the balance outstanding.
b	Savings Deposits				The core portion of savings deposits identified based on the Reserve Bank of India (Small Finance Banks – Asset Liability Management) Directions, 2025 should be reckoned for arriving at the balance outstanding.
c	Term deposits (Fixed Rate)				Term deposits of various maturities including those on which differential interest rates are payable should be included.
d	Term deposits (Floating Rate)				The rate should be arrived at based on the prevailing external benchmark rate on the date of review.
e	Foreign currency deposits				Foreign currency deposits, to the extent deployed for lending in rupees, should be included in computing marginal cost of funds. The swap cost and hedge cost of such deposits should be reckoned for computing marginal

					cost.
2	**Borrowings**				
a	Short-term Rupee Borrowings				Interest payable on each type of short term borrowing will be arrived at using the average rates at which such short term borrowings were raised in the last one month. For eg. Interest on borrowings from RBI under LAF will be the average interest rate at which a bank has borrowed from RBI under LAF during the last one month.
b	Longterm Rupee Borrowings				Option 1: Interest payable on each type of long term borrowing will be arrived at using the average rates at which such long term borrowings were raised. Option 2: The appropriate benchmark yield for bank bonds published by FIMMDA for valuation purposes will be used as the proxy rate for calculating marginal cost.
c	Foreign Currency Borrowings including HO borrowings by foreign banks (other than those forming part of Tier-I capital)				Foreign currency borrowings, to the extent deployed for lending in rupees, should be included in computing marginal cost of funds. The all-in-cost of raising foreign currency borrowings including swap cost and hedge cost would be reckoned for computing marginal cost of funds.
	Marginal cost of borrowings				**The marginal cost of borrowings shall have a weightage of 92 percent of Marginal Cost of Funds while return on networth will have the balance weightage of 8 percent.**
B	**Return on networth**	Amount of common equity Tier 1 capital required to be maintained for Risk Weighted Assets as per extant capital adequacy norms shall be included for computing marginal cost of funds. Since currently, the common equity Tier 1 capital is (5.5 percent +2.5 percent) 8 percent of RWA, the weightage given for this component in the marginal cost of funds will be 8 percent.			

		In case of newly set up banks (either domestic or foreign banks operating as branches in India) where lending operations are mainly financed by capital, the weightage for this component may be higher, i.e., in proportion to the extent of capital deployed for lending. This dispensation will be available for a period of three years from the date of commencing operations. The cost of equity will be the minimum desired rate of return on equity computed as a mark-up over the risk free rate. A bank could follow any pricing model such as Capital Asset Pricing Model (CAPM) to arrive at the cost of capital. This rate can be reviewed annually.

Marginal cost of funds = 92 percent x Marginal cost of borrowings + 8 percent x Return on networth

Note: A bank shall have the option to reckon the outstanding balances of deposits and other borrowings as on any day, not more than seven calendar days, prior to the date from which the MCLR becomes effective. The chosen time lag shall be maintained consistently for a period not less one year.