

Draft Reserve Bank of India (Urban Co-operative Banks - Interest Rates on Advances) Directions, 2025

DRAFT FOR COMMENTS

RBI/2025-26/--

DOR.CRE.REC.No./00-00-000/2025-26

XX, 2025

Reserve Bank of India (Urban Co-operative Banks - Interest Rates on Advances) Directions, 2025

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Introduction

In exercise of the powers conferred under Sections 21 and 35A read with Section 56 of the Banking Regulation Act, 1949, and all the powers enabling it in this behalf, the Reserve Bank of India (hereinafter referred to as the 'Reserve Bank' or 'RBI') being satisfied that it is necessary and expedient in the public interest to do so, 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 (Urban Co-operative Banks - Interest Rates on Advances) Directions, 2025.
2. These Directions shall come into effect on the day it is placed on the official website of the Reserve Bank of India.

B. Applicability

3. These Directions shall be applicable to Urban Co-operative Banks (hereinafter collectively referred to as 'banks' and individually as a 'bank').

In this context, 'Urban Co-operative Banks (UCBs)' shall mean Primary Co-operative Banks as defined under Section 5 (ccv) read with Section 56 of Banking Regulation Act, 1949.

C. Definitions

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

(1) 'Microfinance loan' shall have the same meaning as assigned in Reserve Bank of India (Urban Co-operative Banks – Credit Facilities) Directions, 2025.

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

(3) 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 is permitted to determine its lending rates taking into account its cost of funds, transaction costs etc. with the approval of its Board. It should be ensured that the interest rates charged are transparent and known to all the customers. A bank shall, therefore, publish the minimum and maximum interest rates charged by it, and display this information in every branch. Though interest rates have been deregulated, rates of interest beyond a certain level may be seen to be usurious and can neither be sustainable nor be conforming to normal banking practice. Board of a bank shall lay down appropriate internal principles and procedures in this regard.

6. Interest shall be charged on all advances at monthly rests.

Provided that instructions on charging interest at monthly rests shall not be applicable to agricultural advances and a bank shall continue to follow the existing practice of charging / compounding of interest on agricultural advances linked to crop seasons. A bank should charge interest on agricultural advances for long duration crops at annual rests. As regards other agricultural advances in respect of short duration crop and allied agricultural activities such as dairy, fishery, piggery, poultry, bee-keeping, etc., a bank may take into consideration due dates fixed on the basis of fluidity with borrowers and harvesting / marketing season while charging interest and compounding the same if the loan / instalment becomes overdue.

7. In laying down principles and procedures for determining lending rates by a bank in respect of small value loans, particularly, personal loans and such other loans of similar nature, it may take into account, *inter-alia*, the following broad guidelines:

(1) An appropriate prior-approval process should be prescribed for sanctioning such loans, which should take into account, among others, the cash flows of the prospective borrower.

(2) Interest rates charged by a bank, *inter-alia*, should incorporate risk premium as considered reasonable and justified having regard to the internal rating of the borrower. Further, in considering the question of risk, the presence or absence of security and the value thereof should be taken into account.

(3) The total cost to the borrower, including interest and all other charges levied on a loan, should be justifiable having regard to the total cost incurred by the bank in

extending the loan, which is sought to be defrayed and the extent of return that could be reasonably expected from the transaction.

(4) An appropriate ceiling may be fixed on the interest, including processing and other charges that could be levied on such loans, which may be suitably publicised.

(5) The total interest debited to an account should not exceed the principal amount in respect of short term advances granted to small and marginal farmers. The small and marginal farmers for the purpose shall include those with land holding of 5 acres and less.

B. Pricing of Microfinance Loans

8. 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.

9. 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 - Repeal and Other Provisions

A. Repeal and saving

10. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to Interest Rates on Advances as applicable to Urban Co-operative Banks stands repealed, as communicated vide notification dated XX, 2025. The Directions, instructions and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

11. 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.

B. Application of other laws not barred

12. 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

13. 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.