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Market Watch

RBI bans NBFCs from charging loan foreclosure penalties

BY PTI | AUG 02, 2019, 08.32 PM IST

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The Reserve Bank on Friday barred non-banking finance companies from charging pre-payment penalties or **foreclosure** charges from individual borrowers.

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"NBFCs shall not charge foreclosure charges/pre- payment penalties on any floating rate term loans sanctioned for purposes other than business to individual borrowers, with or without co-obligants," the central bank said in a notification, without specifying from when the new ruels will be effective.

The central bank said the relevant rules governing the same have been updated to reflect the change.

Foreclosure charges are part of the fee income for any lender and adds to its bottomline.

These direction covers both deposit-taking and non- deposit-taking NBFCs which are considered systemically important ones.

It can be noted that in May 2014, the **RBI** had barred commercial banks from charging such fees or penalties from individual borrowers with mortgage loans. But banks are free to charge same on non-secured loans like **personal loans**.

The notification, which will take away an income line for these players, comes at a time when NBFCs are struggling with a host of issues, starting with liquidity crisis. The regulator has blamed asset liability mismatch for the troubles.

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