STUDY NOTES · BASIC CONCEPT

What are RBI's new directives for loans to MSME?

Indian Economy

26 Feb 2010

Background

The Reserve Bank of India (RBI) has instructed banks not to demand collateral security for loans extended up to ₹20 lakh to units within the Micro and Small Enterprises (MSE) sector. This directive, issued on Monday, February 9, 2026, amends the existing 'Lending to Micro, Small & Medium Enterprises (MSME) Sector' directions. The enhanced collateral-free loan limit, previously ₹10 lakh, aims to improve access to formal credit, encourage entrepreneurial activities, and strengthen last-mile credit delivery for MSEs that may have limited assets to offer as collateral. The new provisions will be applicable to all loans sanctioned or renewed for MSE borrowers on or after April 1, 2026.

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Key aspects of the RBI's directive include

1. **Increased Limit**: Banks are mandated not to accept collateral security for loans up to ₹20 lakh provided to MSEs.
2. **PMEGP Inclusion**: This collateral-free limit also applies to all units financed under the Prime Minister Employment Generation Programme (PMEGP), which is administered by the Khadi and Village Industries Commission (KVIC).
3. **Discretion for Higher Limits**: Banks have the option to increase the collateral-free loan limit up to ₹25 lakh for MSE units with a strong track record and sound financial position, in accordance with their internal policies.
4. **Voluntary Gold/Silver Pledge**: The RBI has clarified that if borrowers voluntarily pledge gold and silver as collateral for loans sanctioned up to the collateral-free limit, it will not be considered a violation of the mandate.
5. **Credit Guarantee Scheme**: Banks can also utilize the benefits of the Credit Guarantee Scheme cover, where applicable, for these loans.