

## LENDING TO MICRO, SMALL & MEDIUM ENTERPRISES (MSME) SECTOR (AMENDMENT) DIRECTIONS, 2026



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### 1. The Update

The Reserve Bank of India (RBI) has amended the Master Direction on Lending to the MSME Sector to significantly boost credit access. The primary change is the doubling of the mandatory collateral-free loan limit for Micro and Small Enterprises (MSEs) from ₹10 lakh to ₹20 lakh.

### 2. Key Lending Framework Updates

- **Mandatory Collateral-Free Threshold:** Banks are now strictly prohibited from requiring collateral for loans up to ₹20 lakh extended to Micro and Small Enterprise (MSE) units. This also applies to all units financed under the Prime Minister Employment Generation Programme (PMEGP).
- **Performance-Linked Higher Limits:** For MSE units demonstrating a strong financial position and a "good track record," banks are empowered to increase the collateral-free limit to ₹25 lakh at their discretion, governed by internal bank policies.
- **Risk Mitigation:** To support these higher unsecured limits, banks are encouraged to utilize the Credit Guarantee Scheme cover to protect against potential defaults.
- **Voluntary "Gold & Silver" Provision:** The RBI clarified that if a borrower voluntarily pledges gold or silver as security for a loan within the collateral-free limit (up to ₹20/25 lakh), it will not be treated as a violation of the mandatory collateral-free directive.

### 3. Operational Changes

- **Regulatory Simplification:** Paragraph 6.5 of the Master Direction has been deleted.
- **Timeline for Implementation:** These revised norms apply to all new loans and renewals sanctioned **on or after April 1, 2026.**

### 4. Impact

This update aims to strengthen "last-mile credit delivery." By removing the collateral hurdle for larger loan amounts, the RBI is making it easier for small businesses, who often lack traditional assets like land or buildings to get formal bank funding instead of relying on expensive informal credit. [Click here to read the RBI notification](#)

### KNOWLEDGE DESK

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