RBI Lifts Default Loss Guarantee Curbs for NBFCs

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CREDIT PUSH NBFCs can cut buffers, lend more; boost for digi lending

RBI Restores Default Loss Guarantees for NBFCs

Sangita Mehta

Mumbai: In a move that could support stronger credit expansion, the Reserve Bank of India (RBI) has restored the use of default loss guarantees (DLGs) for non-bank lenders, rolling back last year's curbs that had forced them to make higher provisions on loans sourced through fintech partners.

Non-banking finance companies (NBFC) can now factor in DLGs when setting aside buffers for potential loan losses, provided the guarantee forms an integral part of the loan arrangement, the RBI said last week. The regulator also said lenders must update their loss estimates each time the guarantee is invoked, as the protection available reduces with every use.

For NBFCs, this change reduces provisioning pressure, improves profitability, and frees up balance-sheet capacity for fresh lending. For fintechs, meanwhile, it would encourage greater loan origination.

The revised framework takes effect immediately.

"This is a significant relief for NBFCs like us that are engaged in digital lending partnerships with Fintech Lending Service Providers (LSPs)," said Ravi Narayanan, MD & CEO, SMFG India Credit. "This regulatory clarity will support the industry in safely scaling digital lending, enabling NBFC–fintech partnerships to expand access to under-penetrated retail customer segments," he added.

Balancing Act

THE ROLLBACK reverses the May 2025 directive

THE ORDER had raised provisioning and credit cost burdens for NBFCs

THE MOVE is expected to free up capital and improve profitability

The move marks a reversal from the central bank's May 2025 directive. Back then, the regulator had instructed NBFCs to exclude DLGs offered by fintech lending service providers when calculating the loss buffers required for stressed or risky loans. The earlier stance, mandatory from March 31, 2025, had led lenders to build full provisions on these portfolios, raising credit costs and dampening the appeal of fintech-originated loans.

THE PROVISIONING POSER

The earlier rules had forced several NBFCs to take sizable additional provisions in the March quarter, **ET** had reported on May 27 last year. SMFG India Credit reported a 44% fall in FY25 profit after booking Rs 115 crore in extra DLG-related buffers, while Credit Saison India's profit dropped 22% following ₹178 crore in additional provisioning.

Northern Arc Capital also reported an impact of ₹80 crore and had provided ₹63 crore on its books as of March 31, 2025. The RBI had mandated NBFCs to make provisions across the March, June and September quarters of 2025.

"This amendment shall result in reversal of additional provisions carried thus far by the entities and free up the capital. This will be favourable for lending partners in such loan arrangements and support overall credit expansion. It is also timely considering that the revised co-lending guidelines are effective from January this year," said AM Karthik, co-group head, financial services, Icra Ratings.

DLGs — usually capped at 5% and often backed by fixed deposits provided by digital lending partners — had been widely used in digital lending and co-lending structures. The 2025 rules had effectively neutralised their benefit, leading to a pullback in origination volumes for fintechs and higher credit costs for NBFCs.

With the latest amendment, the RBI aims to harmonise the treatment of DLGs across digital lending, co-lending and credit-risk transfer guidelines, while ensuring lenders do not overstate the protection offered by such guarantees.