



Finance Industry Development Council
(A Self Regulatory Organisation for NBFCs in India)

CIN: U91990MH2004NPL146931

City-II, 5TH Floor, CST Road, Near Mercedes Show Room, Kalina, Santacruz (East), Mumbai – 400098

Tel: +91 9910921926 | E-mail: nbfcsro@fidcindia.org.in | Website: www.fidcindia.org.in

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27th August 2026

The Chief General Manager-in-Charge
Department of Regulation (DoR),
Reserve Bank of India (RBI)
Central Office Building
Shahid Bhagat Singh Road
Fort, Mumbai-400 001

Sub: Feedback on Draft Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities” Amendment Directions, 2026

Respected Sir/ Madam,

At the outset, we appreciate RBI’s initiative to issue draft guidelines on “Draft Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities” Amendment Directions, 2026 which deals with revolving credit facilities. We are of view that a firm equivocal regulatory position on such products is required to allow NBFCs to freely operate and confidently serve credit needs of various class of borrowers.

The Draft Guidelines defines Revolving Credit and Term Loan and restricts NBFCs from offering any revolving credit product. While an inclusive definition of Revolving Credit has not been provided, it has been deemed to be a product which is not a Term Loan. A Term Loan is defined as below:

“Term loan” refers to a fund-based credit facility of a fixed principal amount, made available by an NBFC to a borrower with all of the following features:

(a) The sanctioned limit is disbursed in one or more instalments and is repayable in accordance with a predetermined amortization schedule, either as periodic instalments or as a bullet on the stated due date(s).

(b) Once disbursed, the sanctioned limit cannot be restored / replenished upon repayment of either the whole or a part of the principal amount”



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Regulatory Intent derived from Draft Directions – while neither the Press Release nor the Draft Directions contains the concern which the regulator has with respect to Revolving Credit product, from the Paragraph 108A of the Draft Directions, it appears that regulatory intent is to curb products which offer revolving credit line which is akin to a credit card, for which a NBFC has to seek a separate approval from the RBI.

We respectfully submit that there are variety of products which are offered by multitude of NBFCs of all sizes from Base Layer to Upper Layer, which may not completely fall in the definition of Term loan as defined in Draft Directions, however, they are also not revolving credit akin to a credit card or an overdraft facility which is offered by Banks. These products are primarily used to serve Micro, Small and Medium Enterprises (MSME) and individuals – through modes such as Supply Chain Finance including factoring, Working Capital Demand Loans, secured and unsecured MSME loans, vehicle dealer loans through captive and other auto finance NBFCs, Loan Against Securities which is a secured margin linked product, personal loans and products offered by Fintech-based NBFCs. Based on preliminary industry estimates, products representing substantial credit outstanding may potentially be impacted if the Draft Directions are implemented in their present form. FIDC is presently undertaking a detailed member-level exercise to validate the affected portfolio and shall separately submit the underlying data to RBI.

We submit that absolute restrictions of such products shall result in unintended and disproportionate consequences – for the NBFC industry, its investors, lenders & employees, and, more importantly, for end-borrowers who depend upon on this line of credit for their funding requirements and are engaged in useful economic service to the Nation. We accordingly request RBI to reconsider the proposed blanket restriction and, in its place, consider following approach.

There are three limbs of the definition of term loans. We make submissions on all of these limbs as below:

Definition	Submission
“term loan” refers to a fund-based credit facility of a fixed principal amount, made available by an NBFC to a borrower with <u>all of the following features</u> :	We believe that no NBFC has any concern in abiding with the definition wherein a fixed principal amount is made available to a borrower which is reflected in its sanction letter issued to borrower.
(a) The sanctioned limit is disbursed in one or more instalments and is repayable in accordance with a predetermined amortization schedule,	While there may be some products issued by NBFCs which may not meet this requirement, we are of view that accepting this definition will not pose any challenge to the NBFCs. This definition ensures – (a) there is an end-limit to



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either as periodic instalments or as a bullet on the stated due date(s).	the sanction and it is not a form of perpetual credit limit, (b) there is a amortization schedule meaning that there is a pre-defined pathway to extinguishment of term loan and (c) it considers both periodic and bullet paid loans.
(b) Once disbursed, the sanctioned limit cannot be restored / replenished upon repayment of either the whole or a part of the principal amount”	We are of view that curbs should not be placed on restoration or replenishment of principal paid within amortized principal limit. The adverse impact of this limb is provided as below.

Adverse Impact of bar on restoration / replenishment

- Loss of flexibility & higher interest burden – these loans are utilized by borrowers for working capital and other needs. Such fund requirements are not fixed and are fluctuating as they are requirement driven. If a borrower is forced to obtain a full-term loan in advance then it will lead to higher interest burden and mismatch in his cash flows. Even if a borrower chose to withdraw funds in tranches – he will lose the benefit of repaying the principal and reducing his interest cost – usually largest cost component for small business owner. The product which is inherently of a nature of term loan with stated end date, and gives flexibility to ensure there is reduced interest burden is needed by small business owner. Further, the proposed restriction may also create an unintended incentive for a borrower not to prepay a loan despite having temporary surplus liquidity. Where repayment permanently extinguishes the borrower’s ability to access the repaid amount, a prudent MSME may prefer to retain the borrowing and continue paying interest merely to preserve liquidity for future working-capital requirements. Permitting redraw within a fixed sanctioned amount, predetermined amortisation schedule and original maturity would, on the contrary, encourage borrowers to repay surplus funds earlier and thereby reduce their overall interest burden.
- Operational Consequences & Higher cost– if multiple term loans are to be availed by a Borrower for meeting his working capital and other needs then it will need to higher operational activity at the NBFC end, more documentation, higher turn around time, stamp duty charges and consequently will place higher administrative cost on the Borrower and increase financing cost. This will consequently increase working capital costs across key manufacturing and distribution sectors.
- Impact on Credit Score – the requirement to originate multiple separate term loans for meeting recurring working-capital requirements may increase the number of credit enquiries and loan accounts reported to Credit Information Companies and may consequently affect the borrower’s assessed indebtedness and credit profile



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- d) Exit from formal channels of finance – it has been a stated and continued goal in the country to curb informal channel of finance and promote formalization of credit. However, closure of such products offering by NBFCs and inability of smaller MSME or retail borrowers to obtain finance from Banks will force them to approach informal money lenders.
- e) Loss of Investor / Public Funds and employment – there are many small and medium NBFCs, including captive NBFCs, who are dealing in only such products which will be prohibited by these Draft Directions. Consequent to such prohibition the economic rationale for their continued existence shall be severely dented leading to loss of investor / public funds and employment to personnel working in such NBFCs.

The consequence of prohibition of such product would therefore not be a marginal product realignment at NBFC end; it would be material contraction in the participation of NBFCs in India's trade and working-capital finance market, particularly for MSMEs and borrowers who have relatively limited access to bank-based working-capital facilities.

We believe a distinction should be made between replenishment of a credit limit within sanction limit and roll-over or extension of an individual loan. FIDC fully appreciates the regulatory objective of preventing perpetual or evergreen credit facilities, automatic renewal of credit without appropriate assessment, or fresh drawdowns being utilised to regularise overdue exposures. Our submission is not intended to permit any such practice. We respectfully submit that a distinction may be made between (i) restoration / replenishment of an amount within an originally sanctioned facility having a fixed sanctioned amount, predetermined amortisation schedule and fixed final maturity, and (ii) renewal, rollover or evergreening of a credit facility resulting in enhancement of the sanctioned amount or extension/reset of its original maturity. The former provides liquidity flexibility to the borrower while retaining a defined pathway for extinguishment of the facility.

Special Note on Supply Chain Finance & Loan Against Securities

While we have placed general comments for all types of term loans which offer a re-draw facility we wish to place on record a special note on Supply Chain Finance & Loan Against Securities product. There are many NBFCs, mostly Base layer and Middle layer, which offer only this product and which meets specific credit requirement of a class of Borrowers. Note is as below:

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Supply Chain Finance	This facility is majorly used by MSMEs and has following distinct features: • A Master Loan Facility is granted where total exposure limit is set and Master documentation is executed with the Borrowers, • Series of independent short-term loans which are specific — usually tied to a procurement, invoice or identified supply-chain transaction; funds flow to or from the anchor, not the borrower ensuring 100% end-use tracking • Principal and interest are mandatorily payable within the defined tenor and on repayment extinguishes that specific invoice loan • Not a revolving credit but a fresh drawdown against a fresh transaction, fresh checks on invoice each time • New drawdowns can be withheld where an existing tranche shows stress The above parameters are by and large followed by all such NBFCs and clearly demonstrates that the intent is to meet genuine working capital requirement of the MSMEs with a clear end-use. Some of the NBFCs have also been issued Factoring Certificate of Registration by RBI. . Upon prohibition of this facility, NBFCs would not be able to carry out factoring services on platforms such as TReDS to the detriment of MSMEs and others who get access to funds at very competitive rates. The Govt of India has been pushing PSUs and encouraging other corporates to enrol themselves on TReDS and this guideline will defeat the purpose of providing cash flow relief to MSMEs We further request RBI to clarify that where an NBFC sanctions a master facility/exposure limit and each utilisation thereunder represents a separate and identifiable transaction-specific loan against an invoice, procurement or underlying trade transaction, having its own specified amount and maturity and which stands extinguished upon repayment, subsequent utilisation against a fresh underlying transaction within the master sanctioned exposure limit shall not be regarded as restoration/replenishment of the earlier loan or as a revolving credit facility.
Loan Against Securities	These secured loans are given against securities which are marketable. Strict LTV restrictions are placed on these loans which are further strengthened with mark to market margin requirements as specified in regulations. There is clear repayment date which is informed to the Borrowers and overdue period starts from non-payment. The facility benefits from liquid marketable collateral and

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	prescribed LTV controls, while remaining exposed to market volatility, concentration, liquidity and borrower-conduct risks.. There has been increased retail participation in the capital market and equity shares and mutual funds are emerging as a major asset class for investment by the younger population. They leverage these assets for obtaining a term loan which is flexible to meet their various needs. FIDC requests that NBFCs be permitted to offer LAS facilities with a fixed sanctioned ceiling and fixed contractual maturity, subject to applicable LTV and margin requirements, daily or appropriate mark-to-market monitoring, suspension of further drawdown upon margin shortfall or overdue, and no enhancement or automatic renewal without fresh credit assessment.
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Request:

We request that definition of term loan may be modified to as below:

“term loan” refers to a fund-based credit facility of a fixed principal amount, made available by an NBFC to a borrower with all of the following features:

(a) The sanctioned limit is disbursed in one or more instalments and is repayable in accordance with a predetermined amortization schedule, either as periodic instalments or as a bullet on the stated due date(s).

(b) Once disbursed, the sanctioned limit cannot be restored / replenished upon repayment of either the whole or a part of the principal amount”

Provided that restoration/replenishment may be permitted to the extent of principal repaid in excess of the principal contractually due under the predetermined amortisation schedule, subject to the condition that such restoration/replenishment shall not:

(i) result in the outstanding principal exceeding the amount permissible under the original amortisation schedule;

(ii) result in enhancement of the originally sanctioned principal amount;

(iii) extend or reset the original final maturity of the facility; or

(iv) be permitted where any amount under the facility is overdue.”



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As an additional prudential safeguard, FIDC submits that no redraw/restoration may be permitted for the purpose of repayment or regularisation of an overdue amount under the same facility, and an NBFC shall retain the right to suspend further drawdowns upon deterioration in the credit profile of the borrower. We believe that the above modification shall meet the purpose of RBI while ensuring continued existence of products which are meeting the genuine needs of the end-borrowers.

We submit that recommendation submitted by us addresses perpetual credit line, automatic renewal, maturity extension and possible use of fresh drawdowns to regularise stressed exposures. We request RBI to not to treat limited redraw within a declining contractual ceiling, or a fresh transaction-specific loan within a master exposure limit, as equivalent to evergreening.

We additionally submit that at present all such loans and NBFCs are abiding by various extant guidelines of RBI with respect to prudential norms, credit information reporting and liquidity requirements. These NBFCs are also subject to supervisory review of RBI wherein any deviant behaviour is detected, and punitive measures are imposed by RBI. NBFCs as a whole are showing generational best asset quality and are primarily serving the underserved borrowers.

We hereby seek a meeting to discuss the concerns and our suggestions thereon in detail.

We look forward to a positive consideration of our submission. Assuring you of our full cooperation always and thanking you in anticipation.

Yours Sincerely,

For FINANCE INDUSTRY DEVELOPMENT COUNCIL

RAMAN AGGARWAL

Chief Executive Officer

Email: ramanaggarwal@fidcindia.org.in

Mobile: +91-98100 16667