RBI DRAFT CIRCULAR: A TERM-LOAN-ONLY FUTURE FOR NBFCS?

The Reserve Bank of India ("**RBI**") proposes, through the attached draft circular titled '*Draft Reserve Bank of India (Non-Banking Financial Companies – Credit Facilities) Amendment Directions, 2026'* ("**Draft Circular**"), to amend the *RBI (Non-Banking Financial Companies – Credit Facilities) Directions, 2025* dated November 28, 2025 ("**Directions**").

<u>What the Draft Circular Does:</u>

(i) <u>Prohibits revolving credit</u>: The Draft Circular introduces a product-level restriction (paragraph 108A), which requires a non-banking financial company ("**NBFC**") to offer only credit products in the nature of term loans and prohibits revolving credit products. It does not apply to an NBFC authorized by the RBI to issue credit cards. This steers NBFC lending away from open-ended limits that borrowers can draw down and redraw indefinitely; a feature the RBI typically associates with perpetual, harder-to-monitor debt.

(ii) <u>New definitions</u>:

- "*Revolving Credit*" means any fund-based credit facility that does not meet the definition of a "*Term Loan*". It includes cash credit, overdrafts, and working-capital lines that let a borrower continuously repay and re-borrow up to a set limit.

  Because this is a residual, catch-all definition, the NBFC may bear the burden of showing that a facility qualifies as a "*Term Loan*". If it cannot, the facility is "*Revolving Credit*" by default and prohibited.

- "*Term Loan*" means a fund-based credit facility with a fixed principal amount that meets both of the following features:

  (a) the sanctioned limit is disbursed in one or more instalments and is repayable under a predetermined amortization schedule, through periodic instalments or a bullet payment; and

  (b) once disbursed, the sanctioned limit cannot be restored or replenished after repayment of all or part of the principal.

(iii) <u>Repeals the Demand/Call Loan Framework</u>: Paragraph 5(5) of Chapter II and Part D ("Demand/Call Loans") of Chapter VIII (Other Regulatory Restrictions) of the Directions are deleted. These deletions remove the framework for demand and call loans, which is inconsistent with the term-loan-only model. The Draft Circular does not address how outstanding demand or call loans will be treated during the transition, so transitional guidance would help.

What This Means for NBFCs:

(i) Compliance timeline risk: The Draft Circular is open for public comments, but the amendments take effect immediately on finalization. The lack of a transition period suggests the RBI expects NBFCs to comply as soon as the final directions are issued.

(ii) Review of existing facilities: Any facility that allows a borrower to redraw or replenish a repaid limit would likely fall within "*Revolving Credit*" and require review. NBFCs therefore need to map their current book for non-conforming facilities; such facilities cannot continue as-is once the Draft Circular is implemented.

(iii) Product restructuring: For NBFCs other than authorized credit card issuers, discontinuing revolving credit products could reshape revenue models built on working-capital and cash-credit lines. They may need to redesign and reprice loan products and revise customer documentation and systems.

(iv) Compliance infrastructure: A term-loan-only model will require changes to loan origination, product approval and monitoring systems, internal policies and staff training to ensure revolving features are not offered inadvertently. Boards and compliance teams should update product governance and controls to demonstrate to the regulator that each facility is a conforming term loan.

What This Means for borrowers:

(i) Approaching banks for working-capital products: Banks may not fully absorb the displaced demand. Their risk models, sectoral exposure limits, and capital or priority-sector considerations may constrain it further. Borrowers seeking cash credit or overdrafts from banks should expect a more stringent sanctioning process and potentially a reduction in the access to flexible credit.

(ii) Shift to term-loan structures: Short-term and fluctuating funding needs may have to be met through fixed-principal term loans with predetermined repayment schedules, which are less well-suited to managing variable working capital cycles.

(iii) Potential impact on borrowing costs and liquidity: Replacing a revolving line with a series of term loans may increase the chances of refinancing. Separately, the change may also alter effective borrowing costs and short-term liquidity management for borrowers that are used to drawing only what they require.

(iv) Compliance timeline risk: As mentioned above, the amendments are stated to take effect immediately on finalization. Borrowers with existing NBFC revolving facilities should seek early clarity from their lenders on whether those facilities can continue to maturity or will need to be restructured.

This is a structural change, not a technical one. If finalized as drafted, it would reshape how NBFCs lend, how a significant segment of borrowers access working capital, and where the competitive line between banks and NBFCs is drawn. What is already clear is that NBFCs, borrowers, and the broader working-capital market all have a stake in the outcome. We will continue to monitor developments and are available to discuss how these changes may affect you specifically.