

NBFC CREDIT RISK MANAGEMENT REFORMS



The RBI, via notification **RBI/2025-26/179 issued on January 5, 2026**, has amended the Master Direction on Credit Risk Management to specifically address the risks arising from Related Party Transactions (RPTs). This update mandates that NBFCs can no longer treat loans to directors, senior officers, or their relatives as "routine" business. Instead, such transactions must be treated as high-priority credit risks requiring a formal governance framework, explicit board oversight, and a secure reporting system to prevent unfair lending to people with close ties to the company.

The Shift: Old vs. New

- **Approval Authority:** Previously, related-party loans were often treated like any other business loan. Now, the RBI treats them as "High Risk." Any loan crossing the materiality threshold is no longer a management decision—it is a **governance decision**. The Board must now certify that the loan is being given on an "Arm's Length" basis (the same terms you would give to a stranger).
- **Recusal Rules:** This is the most significant change. In the past, a "Specified Employee" or Director might have influenced a loan just by being in the meeting. Now if you have even a tiny personal interest, you must **step away yourself**. **The Scope:** This isn't just for the first "Yes." You must also step away if the borrower later asks for a "One-Time Settlement" (OTS) or a "Write-off." You cannot help your relative get a discount on their debt.
- **Monitoring:** The old system was "reactive" (checking mistakes after they happened). The new system is "proactive." By requiring Quarterly Internal Audits, the RBI ensures that if an NBFC is favouring its owners, the mistake is caught within 90 days rather than at the end of the year.

Affected Regulations

- **Primary Regulation:** Reserve Bank of India (Non-Banking Financial Companies - Credit Risk Management) Directions, 2025.
- **Secondary Impact:** Consequential amendments have also been issued for the RBI (Non-Banking Financial Companies Financial Statements: Presentation and Disclosures) Directions, 2026.

Key Compliance Action Points

- **Define Materiality:** NBFCs must set materiality thresholds in their credit policy, which cannot exceed ₹10 crore (Upper/Top Layer), ₹5 crore (Middle Layer), or ₹1 crore (Base Layer).
- **Policy Update:** Update the Credit Policy to include specific provisions for lending to "Specified Employees" and their relatives.
- **Maintenance:** Establish a mechanism to maintain and periodically update a comprehensive list of all related persons and their sanctioned loans.
- **Timeline:** While the rules are effective from April 1, 2026, existing loans that don't comply are allowed to run-off until maturity but cannot be renewed or enhanced unless they meet the new standards.

Regulatory Impact

This reform significantly increases the accountability of the Board and senior management, effectively stops the practice of hiding risky loans behind confusing paperwork. By capping individual and group limits within existing regulatory safety ceilings, the RBI aims to prevent the concentration of risk within corporate groups and eliminate preferential 'favor-for-a-favor' lending arrangements.

[Click Here](#)

KNOWLEDGE DESK

~**Abutalib Syed**

(Knowledge Executive)

~**Jamal Chatriwala**

(Partner)