

Default Loss Guarantees (DLG)

- Understanding default loss guarantees & digital lending
 - Portfolio level guarantees vs. loan-by-loan guarantees
 - Implicit guarantee
 - Structure and forms of DLG
 - Operational guidelines
- Regulatory capital and provisioning
 - Exclusions



Rise, Fall & Subsequent Legitimation of Default Loss Guarantees

The RBI, on June 8, 2023, took the first step in recognising first loss default guarantees ('FLDG'), provided by non-regulated entities, as a valid business practice. Providing some form of structured guarantee has long been a practice, especially for Fintech entities acting as loan sourcing agents for traditional finance as well as new-age lenders. Hence, when the RBI, vide its ["Guidelines on Digital Lending" \('DL Guidelines'\)](#), de-legitimised such practice describing it as "synthetic securitisation" the industry went into a tizzy seeking alternative arrangements and managing the legal and regulatory uncertainty on how to treat such existing arrangements on their books.

Subsequently, in its [Statement on Developmental and Regulatory Policies](#) dated June 8, 2023, the RBI announced its intention to issue a regulatory framework for permitting Default Loss Guarantee arrangements in Digital Lending. And on the same day, the [Guidelines on Default Loss Guarantee \('DLG'\) in Digital Lending \('DLG Guidelines' / 'Circular'\)](#) was published by the regulator.

The DLG Guidelines come as a relief, albeit a highly conditional and limited one, and in our article published on the [Taxmann portal](#), we explore the dispensation provided in the said Circular, the conditions and limitations that come with it and the effect that it may have on lending/ lendingtech industries and lending practices

<https://www.taxmann.com/research/fema-banking-insurance/top-story/10501000000023029/rise-fall-subsequent-legitimation-of-default-loss-guarantees-experts-opinion> .

Other resources on DLG available on our website -
<https://vinodkothari.com/?s=default+loss+guarantee>

