# CO-LENDING MODEL BETWEEN BANKS AND NBFCS

# Co-Lending in India

## Objectives:

**Improve credit flow** to unserved/underserved sectors of the economy.

By **merging banks' low-cost funds with NBFCs'** wider reach and operational efficiency, the co-lending model delivers credit to end-borrowers at a more affordable rate.

**Enhance financial inclusion** by bringing more people/businesses into the formal financial system.

# Priority Sectors and Assets Under Management

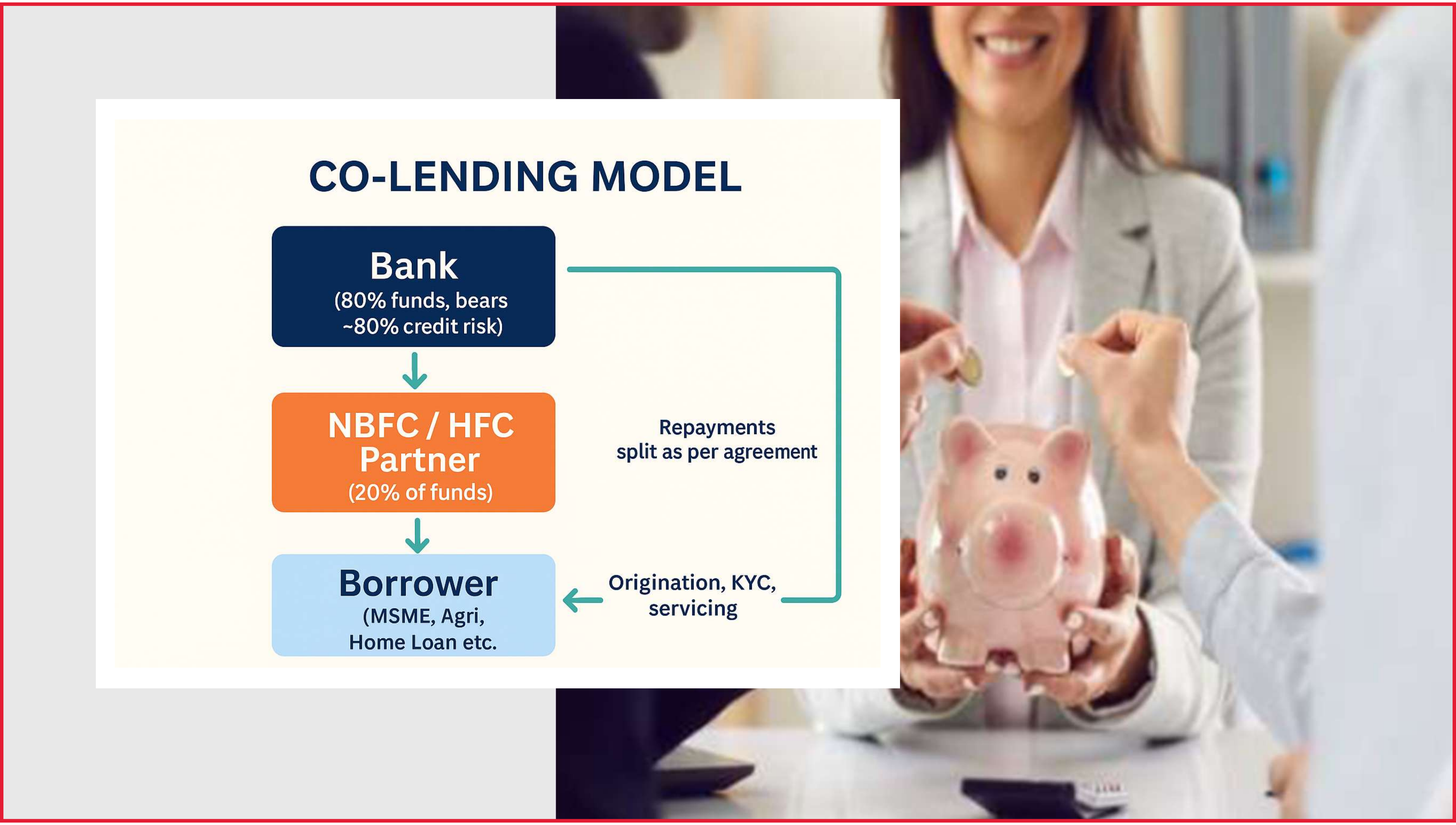
## Priority Sectors in Co-Lending (Banks + NBFCs)

- Agriculture & Allied Activities (farm credit, agri infra, KCC)
- MSMEs (working capital & term loans)
- Export Credit
- Education Loans
- Housing / Affordable Housing (schools, healthcare, sanitation)
- Renewable Energy (solar, wind, biomasse, hydro)
- Others (weaker sections, SHGs distressed persons, SC/ST orgs)

## Co-Lending Market Size (AUM)

**Co-lending AUM of NBFCs ~₹1 lakh crore** (2024)

- Key asset classes driving growth:
  - MSME Loans
  - Home Loans
- Shift towards these segments due to higher risk weights on personal loans


CO-LENDING MODEL
Bank
(80% funds, bears
~80% credit risk)
NBFC / HFC
Partner
(20% of funds)
Borrower
(MSME, Agri,
Home Loan etc.
Repayments
split as per agreement
Origination, KYC,
servicing

# Regulatory Evolution

**2018**

**RBI introduced Co-origination framework**
Allowed banks + NBFCs to jointly lend to priority sector borrowers.

**2020**

**RBI introduced Co- Lending Model(CLM)**
- Included Housing Finance Companies(HFCs)
- Provided greater operational flexibility.

**2025**

**Framework extension proposed**
- To cover all regulated entities and all loan categories.

# Co-origination Model

## 2018 Directions

- **Co- origination Model-** Arrangement between Banks and NBFC-Non Deposit taking- Systematic Important.
- Minimum **20% share shall be of NBFC** and rest shall be on Bank's Books.
- **Interest rate:** Blended Interest Rate/ Weighted average rate.
- **KYC Guidelines**
- **Loan Origination**: to be recommended by NBFC to banks subject credit appraisal/ assessment by Lending Partner Banks.

**Escrow account:** Pooling of funds in a separate bank account for disbursal

**Monitoring & recovering** both parties are equally liable to monitor

**One point of contact:** NBFC shall be a single point of contact for customer services and grievance redressal

# Blended Interest Rate Calculation

| Category | Bank | NBFC |
|---|---|---|
| Benchmark Interest rate | 8% | 9% |
| Spread/Margin | 2% | 3% |
| Rate of Interest charged to customer | 10% (A) | 12% (B) |
| Loan Contribution ratio | 80% (C) | 20% (D) |
| Blended interest rate (A*C) + (B+D) = | 10.40% | |

# 2020- Co Lending Guidelines

## New features as compared to 2018 Guidelines

Master Agreement which shall include Terms and Conditions.

CLM-2 model is introduced – as against at the time of disbursement, bank can take its share even after disbursement (i.e. akin to Assignment).

Rate of Interest as agreed between the lending partners – discontinue blended interest rate.

CIC reporting to the extent of their share in a loan account.

Subject to Internal and Statutory audit.

# The two models of CO Lending
# CLM 1 vs CLM 2

| Co-Lending Model 1 (CLM 1) | Co-Lending Model 2 (CLM 2) |
|---|---|
| **Commitment**<br>Bank commits upfront to take its share of its loans | Discretionary participation after loan origination by NBFC |
| **Origination & Disbursement**<br>Both bank and NBFC originate loan, disburse jointly | NBFC originates and disburses, bank reimburses up to 80% |
| **Bookkeeping**<br>Maintained on books of both bank and NBFC | Initially on NBFC's books, then typical Direct Assignment (DA) |
| **Regulatory Guidance**<br>Minimum Holding Period (MHP) applicable | No MHP requirement |

# Draft Co-lending Guidelines

**The Reserve Bank of India (RBI) has issued the Co-Lending Arrangements (CLA) Directions, 2025, effective January 1, 2026, replacing the earlier 2020 Co-Lending Model (CLM)**

RBI has proposed expanding co-lending to all regulated entities and loan segments to enhance credit access and financial inclusion. The material proposals in the draft guidelines are as follows:

- Applicability- Extend to all regulated entities and all loan segments.
- Sector- Remove Distinction between priority and non-priority sector lending.
- Discontinue CLM 2.
- Risk sharing- Remove fixed 80:20 with flexible arrangements between entities.

**Asset Classification** – Borrower classification will be uniform across lenders—if one marks a borrower as SMA/NPA, all must do the same.

**Blended Interest rate-** The customer will be charged a blended interest rate, i.e., the average of all partner lenders' lending rates.

**Third-party service fees** (e.g., Fintechs) are excluded from the blended rate, must be disclosed upfront, and included in the Key Fact Statement (KFS).

**DLG** to apply to all co-lending deals, allowing up to 5% loan pool guarantee, aligned with digital lending norms.

# Final Co-lending Guidelines- effective from January 1,2026

- **Coverage**: Applicable to all sectors, not just priority sectors.
- **Minimum Contribution:** Each partner lender must contribute at least 10% per borrower.
- **CLM Models:** Both CLM-1 & CLM-2 retained, guided by prior agreement.
- **Single Point of Interaction:** One lending partner designated as the borrower's contact face, included in loan agreement.

**Blended Interest Rate:** Rate = average of all partner lenders' rates, as per credit policies.

**Transfer of Loan Exposure**: Loan shares to be reflected in books within 15 days; else remain with originator until transferred as per 2021 guidelines.

**DLG & Asset Classification:** No change from draft proposals**.**

**Disclosures:** All REs must disclose active CLA partners on their websites and include quarterly and annual details in financial statements, covering interest rates, service fees, DLG, and loan performance.

# CHALLENGES

**Regulatory and Compliance Burden**

New disclosure norms mandate detailed quarterly & annual reporting, adding compliance costs.

**Operational &Technological challenges**

NBFCs struggle with 15-day loan transfer compliance, uniform borrower classification, and costly data integration with banks.

**Interest Rate & Pricing Issues**

Reduces flexibility and restricts NBFCs from aligning loan pricing with their own risk models.

## Unequal Risk Sharing

Larger banks often dominate negotiations, leaving NBFCs with higher risk exposure despite smaller balance sheets.

## Capital & Exposure Requirements

Final guidelines require minimum 10% exposure per lender as against no minimum requirement in the Draft.

# Banks' practical diligence requirements

## BANKS ELIGIBILITY

- Can co-lend with all RBI-registered NBFCs (including HFCs)
- Requires a prior agreement outlining terms

## RESTRICTIONS

Banks cannot co-lend with NBFCs from their own promoter group

## NBFCs ELIGIBILITY

- Minimum external credit rating: A (or BBB for agriculture loans)
- Gross NPA thresholds: Housing loans <3%, Others <4%
- Minimum 3 years of operation

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