



August 2025

Tracking key regulatory changes to the Reserve Bank of India co-lending arrangements

The Reserve Bank of India (“**RBI**”) has released the long-awaited RBI (Co-Lending Arrangements) Directions, 2025 (“**Co-lending Directions, 2025**”) on August 6, 2025. The Co-lending Directions will come into force on January 1, 2026, with an option for an earlier adoption by a regulated entity (“**RE**”) as per its internal policy.

The Co-lending Directions, 2025 are an attempt to regulate and streamline the extant Co-lending Arrangements (“**CLAs**”) being undertaken by banks and Non-Banking Financial Companies (“**NBFCs**”) in terms of the erstwhile circular on Co-Lending by Banks and NBFCs to Priority Sector (“**Co-lending Circular, 2020**”) which has now been repealed. The REs are not allowed to enter into any kind of co-lending arrangement other than as per Co-lending Directions, 2025.

For ease of reference, we have set out the key distinctions between the Co-lending Directions, 2025 and the Co-lending Circular, 2020 in a tabular format hereinbelow:

| Co-lending Circular, 2020 | Co-lending Directions, 2025 | Points to note |
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| 1. Applicability | | |
| <i>“All Scheduled Commercial Banks (Excluding SFBs, RRBs, UCBs and LABs), All Registered Non-Banking Financial Companies (including Housing Finance Companies).”</i> | <i>“These Directions shall be applicable to CLAs entered into by the following REs:</i> <i>a) Commercial Banks (excluding Small Finance Banks, Local Area Banks and Regional Rural Banks);</i> <i>b) All-India Financial Institutions; and</i> <i>c) Non-Banking Financial Companies (including Housing Finance Companies).”</i> | <p>All India Financial Institutions have been included as an RE.</p> <p>Under the erstwhile model, the same was restricted only to banks and NBFCs.</p> |
| 2. Scope of CLA | | |
| <i>“Banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. The co-lending banks will take their share of</i> | <i>“CLA refers to an arrangement, formalised through an ex-ante agreement, between a RE which is originating the loans (‘originating RE’)</i> | The purpose of CLA is no longer restricted or linked only to priority sector lending targets and such arrangements can be |

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| <p><i>the individual loans on a back-to-back basis in their books. [...]"</i></p> <p><i>"The banks can claim priority sector status in respect of their share of credit while engaging in the CLM (co lending model) adhering to the specified conditions."</i></p> | <p><i>and another RE which is co-lending ('partner RE'), to jointly fund a portfolio of loans, comprising of either secured or unsecured loans, in a pre-agreed proportion, involving revenue and risk sharing."</i></p> <p><i>"The credit policy of a RE shall suitably incorporate provisions relating to CLAs, including the internal limit for the proportion of their lending portfolio under CLAs; target borrower segments; due diligence of the partner entities; customer service and grievance redressal mechanism."</i></p> <p><i>"REs engaging in the CLA for loans eligible to be classified under priority sector lending in terms of Master Directions - Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2025 (as amended from time to time), can claim priority sector status in respect of their share of credit under CLA."</i></p> | <p>pursued in accordance with the credit policy of the RE.</p> <p>Further, under the Co-lending Directions, 2025, a bank-to-bank or an NBFC-to-NBFC CLA is clearly specified.</p> <p>RE's engaging in CLAs for loans eligible for priority lending status can claim priority sector status with respect to their share in the loan.</p> |
| 3. Minimum share | | |
| <p><i>"The co-lending banks will take their share of the individual loans on a back-to-back basis in their books. However, NBFCs shall be required to retain a minimum of 20 per cent share of the individual loans on their books."</i></p> | <p><i>"Each RE under a CLA shall be required to retain a minimum 10 per cent share of the individual loans in its books."</i></p> | <p>The minimum share of a participating RE has been reduced from 20 % to 10 %.</p> |
| 4. Loan agreement requirements | | |
| <p><i>"The NBFC shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower, which shall clearly contain the features of the arrangement and the roles and responsibilities of NBFCs and banks."</i></p> | <p><i>"The loan agreement signed with the borrower shall make an upfront disclosure regarding the segregation of the roles and responsibilities (such as sourcing, and servicing) of concerned REs, including clear identification of the entity being the single point of interface with the customer. Any subsequent change in customer interface shall only be done after prior intimation to the borrower. The loan-agreement shall also appropriately disclose suitable provisions related to customer</i></p> | <p>The loan agreements must contain disclosures regarding the roles and responsibilities of each of the RE. The loan agreements are also required to appropriately disclose suitable provisions related to customer protection, and grievance redressal mechanism.</p> <p>This is a notable change in position. The REs may have to reconsider the template of the loan agreements which are used</p> |

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| | <i>protection, and grievance redressal mechanism."</i> | for CLAs and incorporate requisite additions in line with this requirement. |
| 5. Key Fact Statement requirements | | |
| - | <i>"All required details of CLA shall be disclosed appropriately to the concerned borrower as laid down under RBI Circular on 'Key Facts Statement (KFS) for Loans & Advances' dated April 15, 2024, as amended from time to time."</i> | <p>The Key Facts Statement ("KFS") for Loans and Advances was passed subsequent to the Co-lending Circular, 2020. Therefore, there was no explicit reference to KFS in the Co-lending Circular, 2020.</p> <p>This has now been added to the Co-lending Directions, 2025 as a requisite update and the KFS will be provided to the borrower.</p> |
| 6. Interest rate | | |
| <i>"The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both."</i> | <p><i>"The interest rate and any other fees / charges on the underlying loans charged to the borrower shall be based on the contractual agreement, subject to the regulatory norms applicable to the REs. Specifically, the final interest rate charged to the borrower shall be the blended interest rate which is calculated as an average rate of interest derived from the interest rates charged by respective REs, as per their internal lending policies and risk profile of the same or similar borrower, weighted by the proportionate funding share of concerned REs under CLA."</i></p> <p><i>"Any fees / charges payable by the borrower in addition to the blended interest rate shall be incorporated in computation of annual percentage rate (APR) and disclosed appropriately in the KFS as prescribed in the paragraph 14 of these Directions."</i></p> | <p>The interest rate to be charged under the Co-lending Directions, 2025 is required to be in the form of a blended interest rate derived from the interest rate of the REs participating in the CLA. This is further required to be disclosed in the KFS.</p> <p>Additionally, any fees or charges payable by the borrower in relation to the loan will also be required to be disclosed in the KFS.</p> |
| 7. Process of accounting by the REs and transfer of loan exposures | | |
| <i>"If the bank can exercise its discretion regarding taking into its books the loans originated by NBFC as per the Agreement, the arrangement will be</i> | <i>"The CLA shall ensure that the respective shares of the REs are reflected in the books of both REs without delay after disbursement by the</i> | The timeline for exposures to be reflected in the books of the respective REs has been crystallised. There was no similar |

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| <p>akin to a direct assignment transaction. Accordingly, the taking over bank shall ensure compliance with all the requirements in terms of Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities issued vide RBI/2011-12/540 DBOD.No.BP.BC-103/21.04.177/2011-12 dated May 07, 2012 and RBI/2012-13/170 DNBS. PD. No. 301/3.10.01/2012-13 August 21, 2012 respectively, as updated from time to time, with the exception of Minimum Holding Period (MHP) which shall not be applicable in such transactions undertaken in terms of this CLM.”</p> | <p>originating RE to the borrower, in any case not later than 15 calendar days from the date of disbursement.”</p> <p>“If the originating RE is unable to transfer the share of the exposure to the partner RE under CLA within 15 calendar days for any reason, then the loan/s shall remain on the books of the originating RE and can be transferred to other eligible lenders only under the provisions of Master Directions – Transfer of Loan Exposure, 2021 (MD-TLE).”</p> <p>“Any subsequent transfer of loan exposures originated under CLA to third parties, or any inter-se transfer of such loan exposures between REs, shall be strictly in compliance with the provisions of MD-TLE. Such transfers to a third party, however, can be done only with the mutual consent of both the originating and partner REs.”</p> | <p>timeline under the Co-lending Circular, 2020.</p> <p>In the event the originating RE is unable to ensure the above, then any subsequent transfer of the loan will be required to be done under the Master Directions – Transfer of Loan Exposure, 2021 (“MD-TLE”), and accordingly a minimum holding period as per the said directions will be required to be complied with by the originating RE.</p> <p>Separately, it may be noted that while the loans disbursed under the priority sector must comply with applicable guidelines (with the exception of the minimum holding period), there was an ambiguity in the Co-lending Circular, 2020 regarding assignment of the loans under the CLA (other than priority sector lending), as to whether the same should be carried out in compliance with the MD-TLE.</p> <p>Now, the Co-lending Directions, 2025, state that the MD-TLE would not be applicable at the time of disbursement for the loans disbursed under CLA. Having said that, subsequent assignment by a participating RE of its share of the loan will have to comply with MD-TLE.</p> |
| 8. Digital lending | | |
| - | <p>“Digital lending arrangements shall continue to be governed by the Reserve Bank of India (Digital Lending) Directions, 2025 (“MD-DLD”) as amended from time to time.</p> <p>Any digital lending arrangement involving co-lending by the REs shall, without derogation to the MD-DLD, be</p> | <p>In the event that a CLA covers a digital lending transaction, then the Co-lending Directions, 2025 will apply to the extent applicable but without derogation to the RBI (Digital Lending) Directions, 2025.</p> |

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| | <i>guided by the provisions of these Directions"</i> | |
| 9. Default loss guarantee | | |
| - | <i>"Originating RE may provide default loss guarantee up to five per cent of loans outstanding in respect of loans under CLA. Provision of such default loss guarantee shall be governed mutatis mutandis in terms of the MD-DLD as amended from time to time."</i> | There was no such provision under the Co-lending Circular, 2020. The inclusion of this provision affirms the view that partner RE may require the originating RE to provide a default loss guarantee to the partner RE to ensure that the originating RE continues to house the risk in relation to the loans originated by them (over and above 10 %). |
| 10. 'Know Your Customer' requirements | | |
| <i>"The bank shall also be required to comply with the Master Directions - Know Your Customer (KYC) Direction, 2016, issued vide RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 dated February 25, 2016 and updated from time to time, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions."</i> | <i>"RE involved under CLA shall comply with the prescribed norms under the Master Direction - Know Your Customer (KYC) Direction, 2016 as amended from time to time. Partner RE may rely upon the originating RE for "Customer Identification Process" as per the provisions of the said Master Directions on KYC."</i> | The Co-lending Directions, 2025 have removed the ambiguity in relation to 'know you customer' requirements for CLAs under the Co-lending Circular, 2020 wherein it had created a system of 'double KYC', with the responsibility falling on both the bank and the NBFC. |

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