

RBI's New Co-Lending Rules

The Reserve Bank of India (RBI) issued the comprehensive "Co-Lending Arrangements (CLA) Directions, 2025" on August 6, 2025, to strengthen the co-lending framework between banks and non-bank financial companies (NBFCs). These new guidelines, effective January 1, 2026, repeal the previous framework from 2020 and introduce substantial changes to ensure greater transparency, better risk management, and enhanced customer protection.

Major changes under the new guidelines

Broader scope

- The previous 2020 framework for the Co-Lending Model (CLM) was restricted to priority sector lending (PSL). The new guidelines expand this, allowing co-lending across all loan segments, including secured and unsecured loans.
- The framework now applies to more entities, including commercial banks, All-India Financial Institutions (AIFIs), and NBFCs (including housing finance companies). Small Finance Banks and Regional Rural Banks are excluded.
- It also formalizes that co-lending can occur between two regulated entities (REs), such as a bank-NBFC or NBFC-NBFC partnership.

Minimum risk retention

- Each regulated entity (RE) in a co-lending arrangement must now retain a minimum of 10% of each individual loan on its books.
- This is a reduction from the previous 20% minimum retention required only for NBFCs in priority sector lending.

Operational and accounting protocols

- Irrevocable commitment: Co-lending partners must have an irrevocable commitment to fund their agreed-upon share of the loan on a "back-to-back" basis. This ends the discretionary model (CLM-2) where banks could cherry-pick loans after they were disbursed.
- 15-day booking window: The partner RE's share of the loan must be reflected on its books no later than 15 calendar days from the date of disbursement by the originating RE. Failing this, the loan remains on the originating RE's books.
- Escrow account: All financial transactions, including loan disbursements and repayments, must be routed through a dedicated escrow account.

Default Loss Guarantee (DLG)

- The guidelines allow the originating RE to provide a DLG of up to 5% of the outstanding loan portfolio.
- This DLG provision is no longer limited to digital lending but applies to all co-lending, providing an extra layer of risk-sharing for partner lenders.

Asset classification

- A unified, borrower-level asset classification system is mandated. If one co-lender classifies a borrower's account as a Special Mention Account (SMA) or Non-Performing Asset (NPA), the other partner must apply the same classification.
- REs must set up a mechanism for near real-time information sharing regarding a loan's asset classification.

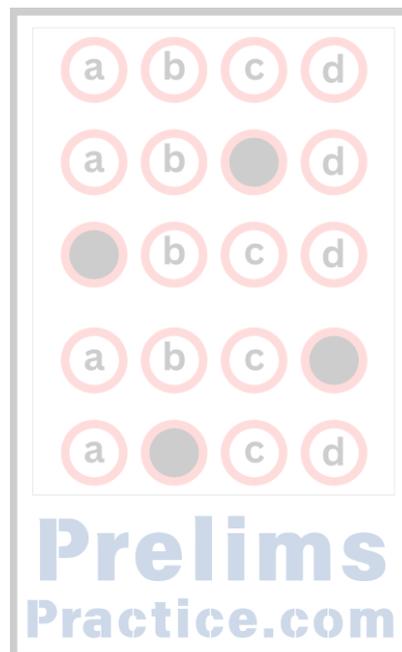
Enhanced borrower protection

- **Blended interest rate:** Borrowers will now be charged a single, blended interest rate, which is a weighted average of the rates charged by each co-lender. This is intended to increase pricing transparency.
- **Key Facts Statement (KFS):** Lenders must provide a KFS disclosing the blended interest rate, any additional fees, and the Annual Percentage Rate (APR).
- **Single customer interface:** A single RE must be designated as the point of contact for the borrower, and any change must be communicated in advance.
- **Mandatory disclosures:** REs must disclose a list of all active co-lending partners on their websites. They must also report aggregate CLA data, including loan volume, interest rates, and fees, in their quarterly or annual financial statements.

Industry impact and challenges

- **Positive outlook:** The revised rules are expected to expand access to credit, particularly in underserved segments like MSMEs, by encouraging more partnerships. The reduction in the minimum risk retention for originating partners gives NBFCs greater capital flexibility.
- **Implementation hurdles:** The new framework introduces technological and operational complexities. Lenders face challenges in integrating systems for near real-time data sharing, managing escrow accounts, and ensuring consistent asset classification.

- **Impact on NBFCs:** While reducing the retention percentage is positive, the shift from discretionary to mandatory funding for partner REs within 15 days will require significant operational adjustments. The blended rate could also impact NBFC profitability in some arrangements.
- **Market stability:** By enforcing stricter rules on risk-sharing, disclosures, and asset classification, the RBI aims to ensure prudent lending practices and greater stability in the co-lending ecosystem.



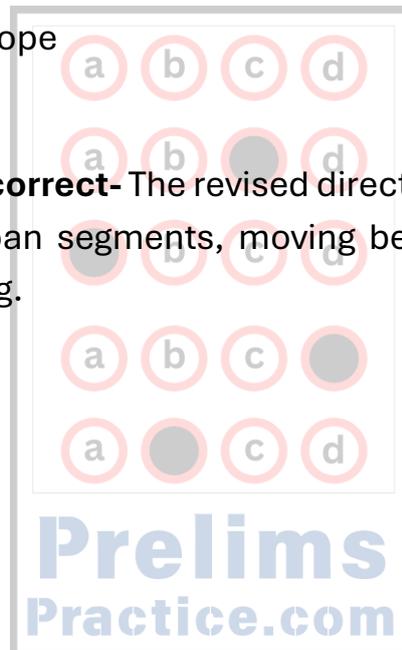
Practice Questions:

1. Which of the following statements regarding the scope of the RBI's revised Co-Lending Arrangements (CLA) Directions, 2025, is correct?

- a) The revised directions expand co-lending to cover all secured and unsecured loan segments, moving beyond the previous framework's focus on priority sector lending
- b) The revised framework is applicable only to co-lending arrangements between banks and NBFCs for priority sector loans
- c) The revised guidelines exclude participation by All-India Financial Institutions and Housing Finance Companies
- d) The new framework includes loans sanctioned under consortium lending and syndication within its scope

Answer: a

Explanation: Statement a is correct- The revised directions expand co-lending to cover all secured and unsecured loan segments, moving beyond the previous framework's focus on priority sector lending.

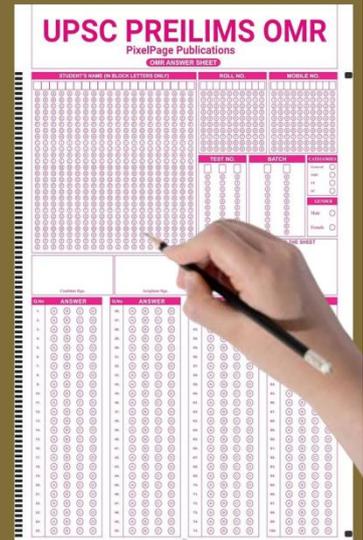


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