भारतीय रिज़र्व बैंक
------------------------------------ RESERVE BANK OF INDIA ----------------------------------
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RBI/2020-21/63
FIDD.CO.Plan.BC.No.8/04.09.01/2020-21

November 05, 2020

The Chairman / Managing Director/
Chief Executive Officer
All Scheduled Commercial Banks
(Excluding SFBs, RRBs, UCBs and LABs)
All Registered Non-Banking Financial Companies (including Housing Finance Companies)

Madam/Dear Sir,

Co-Lending by Banks and NBFCs to Priority Sector

Please refer to the circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018 on co-origination of loans by banks and NBFCs for lending to priority sector. The arrangement entailed joint contribution of credit at the facility level by both the lenders as also sharing of risks and rewards.

2. Based on the feedback received from the stakeholders and to better leverage the respective comparative advantages of the banks and NBFCs in a collaborative effort, it has been decided to provide greater operational flexibility to the lending institutions, while requiring them to conform to the regulatory guidelines on outsourcing, KYC, etc. The primary focus of the revised scheme, rechristened as "Co-Lending Model" (CLM), is to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs. Detailed features of the CLM are furnished in the Annex.

3. In terms of the CLM, 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 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.

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4. The banks and NBFCs shall formulate Board approved policies for entering into the CLM and place the approved policies on their websites. Based on their Board approved policies, a Master Agreement may be entered into between the two partner institutions which shall *inter-alia* include, terms and conditions of the arrangement, the criteria for selection of partner institutions, the specific product lines and areas of operation, along with provisions related to segregation of responsibilities as well as customer interface and protection issues, as detailed in the Annex.

5. The Master Agreement may provide for the banks to either mandatorily take their share of the individual loans originated by the NBFCs in their books as per the terms of the agreement, or to retain the discretion to reject certain loans after their due diligence prior to taking in their books, subject to the conditions specified in the Annex.

6. The banks can claim priority sector status in respect of their share of credit while engaging in the CLM adhering to the specified conditions.

7. The CLM shall not be applicable to foreign banks (including WOS) with less than 20 branches.

8. This circular supersedes the circular FIDD.CO.Plan.BC.08/04.09.01/2018-19 dated September 21, 2018. However, outstanding loans in terms of the circular *ibid* would continue to be classified under priority sector till their repayment or maturity, whichever is earlier.

Yours faithfully,

(Gautam Prasad Borah)
Chief General Manager-in-Charge

ANNEX

Essential Features of Co-Lending Model between Banks and NBFCs

I. Scope

1. The Master Agreement entered into by the banks and NBFCs for implementing the CLM may provide either for the bank to mandatorily take their share of the individual loans as originated by the NBFC in their books or retain the discretion to reject certain loans subject to its due diligence.

   a. If the Agreement entails a prior, irrevocable commitment on the part of the bank to take into its books its share of the individual loans as originated by the NBFC, the arrangement must comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks issued vide *RBI/2014-15/497/DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015* and updated from time to time. In particular, the partner bank and NBFC shall have to put in place suitable mechanisms for *ex-ante* due diligence by the bank as the credit sanction process cannot be outsourced under the extant guidelines.

   b. 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.

   c. However, 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 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.

   d. The MHP exemption shall be available only in cases where the prior agreement between the banks and NBFCs contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

2. Banks shall not be allowed to enter into co-lending arrangement with an NBFC belonging to the promoter Group.

II. Customer related issues

3. 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.
4. All the details of the arrangement shall be disclosed to the customers upfront and their explicit consent shall be taken.
5. 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.
6. The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the banks and NBFCs therein shall be applicable *mutatis mutandis* in respect of loans given under the arrangement.
7. The NBFC should be able to generate a single unified statement of the customer, through appropriate information sharing arrangements with the bank.
8. With regard to grievance redressal, suitable arrangement must be put in place by the co-lenders to resolve any complaint registered by a borrower with the NBFC within 30 days, failing which the borrower would have the option to escalate the same with the concerned Banking Ombudsman/Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

III. Other Operational Aspects

9. The co-lending banks and NBFCs shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between the banks and NBFCs relating to CLM shall be routed through an escrow account maintained with the banks, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the co-lenders.

10. The Master Agreement may contain necessary clauses on representations and warranties which the originating NBFC shall be liable for in respect of the share of the loans taken into its books by the bank.
11. The co-lenders shall establish a framework for monitoring and recovery of the loan, as mutually agreed upon.
12. The co-lenders shall arrange for creation of security and charge as per mutually agreeable terms.
13. Each lender shall adhere to the asset classification and provisioning requirement, as per the respective regulatory guidelines applicable to each of them including reporting to Credit Information Companies, under the applicable regulations for its share of the loan account.
14. The loans under the CLM shall be included in the scope of internal/statutory audit within the banks and NBFCs to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.
15. Any assignment of a loan by a co-lender to a third party can be done only with the consent of the other lender.
16. Both the banks and the NBFCs shall implement a business continuity plan to ensure uninterrupted service to their borrowers till repayment of the loans under the co-lending agreement, in the event of termination of co-lending arrangement between the co-lenders.