

August 2025



Summary of the Reserve Bank of India (Co-Lending Arrangements) Directions, 2025

The Reserve Bank of India ("RBI") on August 06, 2025 has issued the Reserve Bank of India (Co-Lending Arrangements) Directions, 2025 ("Directions"). Effective from January 01, 2026¹, these Directions aim to lay down a comprehensive regulatory framework to broaden the scope of co-lending arrangements ("CLAs"²), and provide regulatory clarity *inter alia*, on permissibility and prudential concerns in relation to CLAs, which have gained traction under the notification issued by the RBI on Co-Lending by Banks and NBFCs to Priority Sector, dated November 05, 2020 ("2020 Guidelines"), which stand repealed by the Directions.

Applicability and Scope

The Directions shall be applicable to: (a) all commercial banks (excluding small finance banks, local area banks and regional rural banks), all-India financial institutions, and non-banking financial companies (including housing finance companies) (each a "Regulated Entity" or collectively, "Regulated Entities"), (b) all new CLAs entered into post the effective date of the Directions and any existing CLAs inter se the Regulated Entities. The Directions shall not be applicable to loans sanctioned under multiple banking arrangements, consortium lending or syndication. While digital lending arrangements shall continue to be governed by the RBI (Digital Lending) Directions, 2025 ("DLD"), any digital lending arrangement involving co-lending by Regulated Entities shall, in addition to the DLD, be governed by the Directions. No Regulated Entity shall enter into a CLA, except as permitted in the Directions.

Salient Features

- Each Regulated Entity must retain a minimum of 10% (ten percent) of every individual loan under any CLA on the books of the Regulated Entity. The 2020 Guidelines required NBFCs³ to the retain 20% (twenty percent) of the individual loans;
- CLAs require a formal agreement between Regulated Entities specifying terms, borrower selection, fee structure, segregation of responsibilities, and customer interface;
- The final interest rate charged to borrowers must be a blended rate, calculated as a weighted average of the rates of the Regulated Entities acting as co-lending partners;
- All transactions between Regulated Entities and the borrowers must be routed through an escrow account, and each Regulated Entity must maintain its own borrower account for its share;
- In contrast to the 2020 Guidelines, these Directions permit asset classification to be carried out at the borrower level, with a requirement to share default information in near-real time; and
- Originating Regulated Entities may provide a default loss guarantee⁴ of up to 5% (five percent) of the outstanding loans under the CLA.

General Guidelines

- In terms of the Directions, each Regulated Entity shall retain a minimum of 10% (ten percent) of the individual loans in its books;

¹ While the Directions specify that the Directions shall come into force from January 01, 2026, the Directions further enable a Regulated Entity to enforce such directions from an earlier date, as per its internal policy.

² "CLA" or "Co-Lending Arrangement" shall mean an arrangement, formalized through an ex-ante agreement between two Regulated Entities, acting as co-lending partners, to jointly fund a portfolio of loans, comprising of either secured or unsecured loans, in a pre-agreed portion, involving revenue and risk sharing.

³ "NBFC" shall mean a non-banking financial company.

⁴ Default loss guarantee, as defined in the Draft Reserve Bank of India (Co-Lending Arrangements) Directions, 2025 – Draft for Comments, shall mean a contractual arrangement, called by whatever name, between the sourcing Regulated Entity and funding Regulated Entity, under which the former guarantees to compensate the latter, loss due to default up to a certain percentage of the loan portfolio of the Regulated Entity, specified upfront. Any other implicit guarantee of similar nature linked to the performance of the loan portfolio of the Regulated Entity and specified upfront, shall also be covered under the definition of default loss guarantee.



Update

- Regulated Entities shall incorporate suitable provisions in the relevant credit policies, including but not limited to the internal limit for the lending portfolio, target borrower segments, due diligence of partner entities, and customer services;
- Regulated Entities shall enter into agreements that cover the terms of the CLA, including criteria for selection of borrowers, fees payable for lending, provisions related to segregation of responsibilities, time periods for exchange of critical information, and customer interface. Further, the agreement shall also clearly specify the manner of appropriation between the originating and partner Regulated Entities and any change in any of these aforementioned roles and responsibilities shall only be done with prior intimation to the borrower.
- The loan agreement executed with a borrower shall make an upfront disclosure of this segregation of responsibilities of each of the Regulated Entities upfront, including a clear identification of the Regulated Entity acting as a point of interface with the borrower.
- originating Regulated Entity, on a back to back basis.
- Regulated Entities shall ensure that the respective shares of the Regulated Entities are reflected in the books of the Regulated Entities without delay upon disbursement by the originating Regulated Entity to the borrower, and in any case no later than 15 (fifteen) calendar days from the date of disbursement. The originating Regulated Entity shall ensure that such transfers in terms of the agreement with the partner Regulated Entity, shall occur within the transfer window of 15 (fifteen) calendar days from the date of disbursement of such loans, failing which the loan shall remain on the books of the originating Regulated Entity and shall only be transferred in terms of the extant Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 (“TLE Directions”). Any subsequent transfer of loan exposures of the Regulated Entities shall be based mutual consent of the Regulated Entities, in compliance with the TLE Directions.
- Regulated Entities shall be required to maintain a borrower’s account individually for its respective share in the CLA and all transactions (disbursements/repayments) between the Regulated Entities, as well as with the borrower, shall be routed through an escrow account maintained with a bank which may also be one of the Regulated Entities involved in the CLA.

Interest Rate and other Fees/Charges

- The interest rate and/or other charges applicable to a borrower shall be based on the CLA, such that the final interest rate charged to a borrower shall be the blended interest rate, calculated as the average of the rates of interest charged by the Regulated Entities (as per their internal lending policies), weighted by the proportionate funding share of concerned Regulated Entities under the CLA. Further, any change in the individual rate of interest of each Regulated Entity shall be as per the relevant credit policy of such entity and shall be reflected in the updated blended rate and communicated to the borrower.
- Any charges payable by the borrower in addition to the blended interest shall be incorporated in computing of an annual percentage rate and disclosed in terms of the extant RBI guidelines.
- The Regulated Entities shall lay down objective criteria for charges payable for lending services in terms of the relevant credit policy, taking into account factors including the nature of the service and quantum of loan, and such charges shall not, either directly or indirectly, include any element of credit enhancement/default loss guarantee unless permitted otherwise in terms of the Directions.
- The loans provided under a CLA shall be included in the scope of internal/statutory audit of each of the Regulated Entities to ensure compliance with internal guidelines, terms of the agreement with the other Regulated Entity, and applicable regulatory requirements.
- Regulated Entities shall implement a business continuity plan to ensure uninterrupted service to the borrowers till repayment of the loans, in the event of termination of the CLA between the Regulated Entities.
- A Regulated Entity shall comply with the prescribed norms under the Master Direction - Know Your Customer (KYC) Direction, 2016, as amended from time to time. A partner Regulated Entity may rely upon the originating Regulated Entity for “Customer Identification Process” as per the provisions of the aforesaid master directions.

Default Loss Guarantee

As a positive update from the existing 2020 Guidelines, these Directions enable the originating Regulated Entity to provide a default loss guarantee for up to 5% (five percent) of the loans outstanding under a CLA.

Operational Arrangements

- Entering into a CLA shall be an irrevocable commitment on part of the partnering Regulated Entities to undertake, the agreed share of individual loans as originated by the

Asset Classification Norms

While lenders were permitted to adhere to asset classification



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and provisioning requirements applicable to such lender, the Directions enable Regulated Entities to apply a borrower-level asset classification for borrowers under a CLA, implying that if either of the Regulated Entities classify a borrower's account as SMA/NPA on account of a default, the same classification shall be applicable to the exposure of the other Regulated Entity to the borrower, with requirement to ensure a robust mechanism for sharing relevant information *inter se* the Regulated Entities on a near-real time basis, and in any case latest by end of the next working day.

Disclosure Requirements

- Each Regulated Entity shall adhere to the extant requirements of reporting to credit information companies for the relevant share of the loan account, as per the provisions of the Credit Information Companies

(Regulation) Act, 2005 and the rules and regulations issued by RBI therein, from time to time.

- In addition to the applicable disclosure requirements under extant regulations, Regulated Entities shall also prominently disclose, a list of all active CLA partners, on the aforementioned entity's website.
- Regulated Entities shall also make appropriate disclosures in financial statements, under 'Notes to Accounts', relating to necessary details of CLAs on an aggregate basis. The details may inter alia include the quantum of CLAs, weighted average rate of interest, fees charged/paid, broad sectors in which a CLA was made, performance of loans under CLAs, and details related to default loss guarantees, if any. The disclosure shall be made on a quarterly/annual basis, as applicable to the Regulated Entities concerned.

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