

CO-LENDING GUIDELINES BY RBI: ECONOMY

RBI mandates 10% loan retention for banks, NBFCs under co-lending deals

The RBI's revised co-lending guidelines (effective January 1, 2026) mandate 10% loan retention, 5% cap on Default Loss Guarantee, uniform NPA classification, and near real-time credit information sharing to enhance transparency, risk-sharing, and financial stability. While strengthening discipline and Priority Sector Lending outreach, the rules pose challenges of technology integration, capital strain, and transition risks for NBFCs and banks.

Co-Lending

Co-lending refers to the joint loan funding arrangement where two lending institutions – typically a bank and an NBFC – collaborate to finance borrowers.

Objective

Combines the low-cost capital base of banks with the last-mile reach and specialised borrower insights of NBFCs/fintechs.

Evolution

1. 2018: RBI introduced the Co-origination of Loans framework.
2. 2020: Framework revised and renamed as Co-Lending Model (CLM).
3. 2026: New guidelines tighten regulations to improve transparency, asset quality management, and customer protection.

Key Highlights of Revised Co-Lending Guidelines

1. Mandatory Loan Retention

All regulated entities (REs) like banks, NBFCs, HFCs must retain at least 10% of every loan on their own balance sheet. Prevents the practice of "loan pass-through" and ensures that lenders have a genuine stake in loan quality.

2. Default Loss Guarantee (DLG) Cap

Loan-originating entity may provide a DLG (first loss cover) to the co-lender. Capped at 5% of the outstanding loan amount, preventing excessive risk transfer. Protects financial stability by avoiding moral hazard.

3. Uniform Asset Classification

If one partner classifies a loan as SMA (Special Mention Account) or NPA (Non-Performing Asset), the other partner must follow suit. Eliminates regulatory arbitrage and ensures uniform risk recognition across institutions.

4. Credit Information Sharing

Both entities must share relevant credit data on a near real-time basis, with a hard deadline of end of next working day. Promotes early stress detection and prevents evergreening of loans.

5. Internal Policy Requirements

Lenders must prepare detailed internal guidelines, covering

1. Target borrower segments (rural, MSME, retail, agriculture, etc.)
2. Internal portfolio limits for risk diversification
3. Fee-sharing structures between partners
4. Due diligence protocols for partner selection
5. Customer service and grievance redressal mechanism

Significance of the New Guidelines

1.Improved Transparency & Accountability

Uniform NPA classification prevents double standards. Borrower-level disclosures reduce information asymmetry and misreporting.

2.Boost to Priority Sector Lending (PSL)

Banks can meet PSL targets by leveraging NBFC/fintech networks. NBFCs with deep rural and MSME penetration become stronger partners.

3.Regulatory Discipline

Near real-time credit info sharing ensures early red flags are detected. Prevents loan evergreening (rolling over bad loans to show healthier books).

4.Enhanced Financial Stability

Caps on DLG and mandatory loan retention force risk-sharing discipline. Strengthens long-term trust in the co-lending model.

Implementation Challenges

1.Technology Integration

Real-time data sharing requires sophisticated IT integration. Small NBFCs and rural lenders may face high costs and technical complexity.

2.Capital Constraints

10% mandatory retention reduces the ability of NBFCs to free up capital. Could impact small-ticket loans and rural credit.

3. Operational Coordination

Uniform asset classification requires process alignment across institutions. Governance frameworks must be strengthened to prevent disputes.

4. Transition Period Risks

Existing co-lending agreements need renegotiation. Risk of confusion and litigation during transition to new rules.

Way Ahead

1.Gradual Phase-In

RBI could adopt a phased increase in retention requirements for smaller NBFCs. Avoids sudden liquidity shocks for financially weaker players.

2.Regular Independent Audits

Third-party audits should review compliance with NPA classification, DLG limits, and retention norms. Builds credibility in the co-lending framework.

3.Stakeholder Forums

RBI should set up an industry working group including banks, NBFCs, and fintechs. Helps resolve operational bottlenecks and transition issues in real time.

Co-Lending Guidelines: Old vs. New (Effective Jan 1, 2026)

Aspect	Old Guidelines (2018 / 2020 CLM)	New Guidelines (2026 Onwards)
Framework Name	Co-origination of Loans (2018), renamed Co-Lending Model (CLM) in 2020	Revised Co-Lending Guidelines (2026)
Loan Retention	No fixed minimum loan retention required	Mandatory 10% of each loan to be retained by every Regulated Entity (RE)
Default Loss Guarantee (DLG)	Flexible arrangements allowed; no strict cap	Capped at 5% of outstanding loan – prevents excessive risk transfer
Asset Classification	Each partner could classify assets independently	Uniform classification – if one lender marks SMA/NPA, the other must do the same
Credit Information Sharing	Data sharing was periodic; not standardised	Near real-time sharing (latest by next working day) mandated
Operational Policies	General co-lending agreement with broad rules	Detailed internal guidelines required: borrower segments, fee structure, grievance redressal, partner due diligence, etc.
Transparency & Disclosures	Limited disclosures to borrowers	Clear borrower-level disclosures on roles, charges, grievance redressal mechanisms
Regulatory Focus	Focused on promoting co-lending for Priority Sector Lending (PSL)	Stricter focus on risk management, transparency, financial stability
Risk of Evergreening	Higher risk due to delayed/partial reporting	Controlled via near real-time data exchange and uniform NPA tagging
Implementation	Easier for NBFCs; lighter compliance burden	Higher compliance costs (IT integration, audits, capital retention requirements)

Conclusion

The revised co-lending guidelines represent a tightening of regulatory norms to ensure discipline, risk-sharing, and transparency. While they strengthen the co-lending framework's credibility and align it with financial stability goals, successful implementation will depend on technology integration, phased adoption, and active stakeholder coordination.

Source: https://www.business-standard.com/finance/news/rbi-revises-co-lending-norms-mandates-10-loan-retention-loss-guarantee-125080601927_1.html