RBI's Co-lending model

December 14, 2021

In news– Several banks have entered into co-lending 'master agreements' with NBFCs following November 2020's RBI approval of co-lending model.

About Co-lending model (CLM)-

- The CLM, which is **an improvement over the co-origination of loan schemes announced by the RBI in September 2018**, seeks to provide greater flexibility to the lending institutions.
- **The primary focus of the 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.
- Under CLM **banks can provide loans along with NBFCs(including HFCs) to priority sector borrowers** based on a prior agreement.
- Under priority sector norms, banks are mandated to lend a particular portion of their funds to specified sectors, like weaker sections of the society, agriculture, MSME and social infrastructure.
- 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% share of the individual loans** on their books (This means 80 per cent of the risk will be with the banks – who will take the big hit in case of a default).
- As per a notification by RBI, NBFCs will be the single point of interface for the customers and shall enter into a loan agreement with the borrowers.
- 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.

- **All transactions (disbursements/ repayments) between the banks and NBFCs relating to CLM have to be routed through an escrow account** maintained with the banks, in order to avoid inter-mingling of funds.
- **With regard to grievance redressal,** suitable arrangements must be put in place by the co-lenders to resolve any complaint registered by a borrower with the NBFC within 30 days.
- If the complaint is not resolved, 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.