

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

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## Synopsis

- The Reserve Bank of India (RBI) has revised its approach to co-lending, moving from a focus on specific priority sectors to a broad, all-segment framework with the new "Reserve Bank of India (Co-Lending Arrangements) Directions, 2025," effective January 1, 2026. This change signifies a significant departure from the November 2020 circular on "Co-Lending by Banks and NBFCs to Priority Sector," which mainly aimed to boost credit flow to specific underserved sectors.
- The issuance of these new Directions reflects the RBI's strategic goal to formalise and expand co-lending as a key method for credit dissemination, beyond its original use for fulfilling priority sector targets. This move seeks to promote collaborative lending to enhance credit reach and financial inclusion across all economic segments, demonstrating an acknowledgement of co-lending as a mature and valuable instrument for systemic credit growth.
- Major updates include establishing a consistent minimum retention share of 10% across all Regulated Entities (REs) and strictly following Co-Lending Model 1 (CLM1) principles. This also involves implicitly reclassifying CLM2 structures, formalising Default Loss Guarantee (DLG) provisions, and enforcing strict borrower-level asset classification standards. These measures are intended to standardise, increase transparency, and enhance resilience in the co-lending ecosystem, thereby improving credit flow and strengthening prudential oversight. Lowering the minimum retention ratio from 20% to 10% is anticipated to promote co-lending, leading to reduced capital requirements.
- The final guidelines also enhance disclosure requirements for REs, including prominent display of active CLA partners on websites and detailed aggregate disclosures in financial statements. This will significantly improve market transparency.
- Building on the draft's foundational principles, the August 2025 Directions on co-lending arrangements (CLA) by the RBI introduce important updates related to implementation timelines, scope, operational mandates, and disclosure obligations. While the draft emphasised co-lending model 1 (CLM 1) by mandating immediate recognition of loans under CLA, the final guidelines offer a grace period and allow Reserve Entities (REs) to adopt co-lending model 2 (CLM-2) well.

This report presents a detailed comparative analysis of the Reserve Bank of India's (RBI) Co-Lending Arrangements (CLA) Directions with current guidelines on co-lending guidelines and practices. The report also covers a comparison of the April 2025 draft guidelines with the final Directions issued on August 6, 2025.

## 1. Key Comparative Analysis: RBI Co-Lending Guidelines (April 2025 Draft vs. August 2025 Final)

### Exhibit 1: Comparison of final guidelines on co-lending arrangements with current guidelines and practices

Feature	Previous guidelines (2020)	Final guidelines (2025)	Implications
<b>Applicability/ Scope</b>	Limited to co-lending by Banks and NBFCs (including HFCs) for <b>Priority Sector Lending (PSL)</b> only. Excluded foreign banks with < 20 branches.	Broadened to all loan segments (secured or unsecured). Applicable to Commercial Banks (excluding SFBs, LABs, RRBs), All-India Financial Institutions, and NBFCs (including HFCs).	Wider scope, comprehensive framework for all segments AIFIs are also covered under the guidelines Earlier, banks were required to have a larger share (80%); however, revised guidelines are more flexible as they allow REs to decide the sharing ratio mutually.
<b>Minimum share retention</b>	NBFCs are required to retain a minimum of <b>20%</b> of individual loans on their books.	Each RE (originating or partner) is required to retain a minimum of <b>10%</b> share of individual loans.	Enables expansion of co-lending across entities
<b>Treatment of CLM1</b>	Implicitly supported; "each loan...shared among funding REs right from first disbursement" based on ex-ante agreement.	Explicitly aligned; "irrevocable commitment...to take into its books, on a back-to-back basis, its share...not later than 15 calendar days from disbursement". This reinforces CLM1 principles.	Implied guidelines around CLM2 will drive greater standardisation in this space. REs previously operating under CLM2 will need to transition their models to adhere to the stricter CLM1-like requirements or adhere to timelines under the CLM-2 model, or reclassify such arrangements as direct assignments. This will require significant changes to IT systems, operational workflows, and inter-party agreements to ensure near real-time data exchange and simultaneous booking.
<b>Treatment of CLM2</b>	Prevalent in practice; allowed funding RE discretion to pick loans after origination, involving periodic transfers.	Not explicitly defined or permitted, and implicitly shifted to MD-TLE if shares are not reflected within 15 days. This effectively disincentivises CLM2.	
<b>Default Loss Guarantee (DLG)</b>	Not explicitly covered or regulated within the co-lending framework.	Originating RE may provide DLG up to <b>5%</b> of loans outstanding. Governed mutatis mutandis by MD-DLD.	Formal introduction of DLG requirement brings prudential oversight to risk-sharing arrangements. This is over and above the minimum share retention requirement of 10%.

Feature	Previous guidelines (2020)	Final guidelines (2025)	Implications
<b>Asset Classification</b>	Each lender followed its <b>independent</b> provisioning and NPA declaration norms.	Mandates <b>borrower-level asset classification</b> : if one RE classifies as SMA/NPA, the same applies to the other RE's exposure to that borrower. Requires near-real-time information sharing.	This unified approach ensures that all co-lenders have a consistent and immediate view of a borrower's credit health, promoting synchronised risk management and provisioning. Implementing this will require robust technological infrastructure for seamless and timely data exchange between partners, and hence, entities could face operational challenges.
<b>Mandatory Escrow Accounts</b>	Required for transactions between banks and NBFCs to avoid intermingling of funds.	Required for <b>all transactions</b> (disbursements/repayments) between REs <i>and</i> with the borrower.	Enhances transparency and reduces operational risks associated with fund flows
<b>Disclosures</b>	Upfront disclosure to customers, explicit consent.	All details to be disclosed as per KFS. Website disclosure of active CLA partners. Aggregate financial statement disclosures (quantum, rates, fees, performance, DLG).	Enhanced disclosure requirements, including prominent display of active CLA partners on websites and detailed aggregate disclosures in financial statements, will significantly improve market transparency.

## 2. Final co-lending guidelines – key takeaways

**“The transition from the 2020 guidelines to the 2025 Directions represents a significant evolution in the RBI's approach to co-lending. The new framework moves from a specific, targeted model to a comprehensive, standardised, and prudentially robust ecosystem. The following table provides a side-by-side comparison of the key regulatory shifts.”**

- Applicability/Scope:** A notable change from the 2020 guidelines is the broader scope of the 2025 Directions. They now extend beyond priority sector lending to include co-lending arrangements for the "extension of credit to borrowers" in general, covering a portfolio of "either secured or unsecured loans". This expansion means the framework now applies to all loan segments, facilitating a wider use of the co-lending model throughout the financial system. The eligible entities have also been expanded to include Commercial Banks (excluding Small Finance Banks, Local Area Banks, and Regional Rural Banks), All-India Financial Institutions (AIFIs), and Non-Banking Financial Companies (including

Housing Finance Companies). Including AIFIs increases the variety of REs that can participate in co-lending. While digital lending arrangements are mainly governed by the Reserve Bank of India (Digital Lending) Directions, 2025 (MD-DLD), any digital lending involving co-lending by REs must also comply with these Co-Lending Arrangements Directions, without contradicting the MD-DLD. The Directions clearly state they do not apply to loans sanctioned under multiple banking, consortium lending, or syndication. Additionally, no RE is allowed to enter into any CLA that does not follow these Directions unless explicitly permitted.

- **Minimum Retention Share:** A notable change is that each RE under a CLA is now required to "retain a minimum 10 per cent share of the individual loans in its books". This is a reduction from the 20% minimum retention previously mandated for NBFCs in the 2020 guidelines. The lower "minimum retention share" will encourage co-lending across entities.
- **Credit Policy Integration:** REs' credit policies must suitably incorporate provisions relating to CLAs, covering internal limits for their co-lending portfolio, target borrower segments, due diligence of partner entities, and robust customer service and grievance redressal mechanisms.
- **Agreement Terms:** The agreement established between CLA partners should be thorough, covering terms and conditions, borrower selection criteria, specific product lines, operational areas, fees for lending services, responsibility segregation, timelines for sharing essential information, customer interaction points, customer protection concerns, and grievance redressal procedures mechanisms.
- **Borrower Disclosure:** The loan agreement with the borrower must include an upfront disclosure about the roles and responsibilities (such as sourcing and servicing) of the involved REs, clearly identifying the entity that acts as the single point of contact with the customer. Any future changes to the customer interface must be communicated to the borrower in advance. All necessary details of the CLA should be adequately disclosed to the borrower as specified in the RBI Circular on 'Key Facts Statement (KFS) for Loans & Advances' dated April 15, 2024. This will enhance market transparency, enabling stakeholders to evaluate better the size, performance, and risk profile of co-lending portfolios, thereby fostering greater investor confidence and market discipline. REs will need to establish strong internal reporting systems to accurately capture and share this information consistently.
- **Interest Rate and Other Fees/Charges:** The 2025 Directions introduce a standardised approach to interest rates and fees.
  - **Blended Interest Rate:** The final interest rate charged to the borrower "shall be the blended interest rate," calculated as an average rate derived from the interest rates charged by respective REs. This calculation is based on their internal lending policies and the risk profile of the borrower, weighted by the proportionate funding share of concerned REs under the CLA. This ensures transparency and a single, unified rate for the borrower.
  - **Rate Changes:** Any changes in rates by respective REs under the CLA must be made as per their credit policy and extant regulatory norms, reflected in the updated blended rate, and communicated to the borrower.
  - **APR Inclusion:** Any fees or charges payable by the borrower in addition to the blended interest rate must be incorporated into the computation of the Annual Percentage Rate (APR) and appropriately disclosed in the KFS.

- **Fees for Lending Services:** The RE's credit policy must lay down objective criteria for fees/charges payable for lending services. Crucially, such fees/charges "shall not involve, directly or indirectly, any element of credit enhancement/default loss guarantee unless permitted otherwise".
- **Operational arrangements:** The new framework specifies detailed operational arrangements to ensure seamless and compliant co-lending.
  - **Irrevocable Commitment:** The CLA must entail an "irrevocable commitment on the part of partner RE to take into its books, on a back-to-back basis, its share of the individual loans as originated by the originating RE". This strengthens the joint nature of the arrangement.
  - **Timely Reflection of Shares:** The respective shares of the REs must be reflected in the books of both REs without delay after disbursement by the originating RE to the borrower, and in any case, not later than 15 calendar days from the date of disbursement. This tight timeline effectively aligns with the principles of CLM1, where loans are shared from the first disbursement. Suppose the originating RE is unable to transfer the share of the exposure to the partner RE within 15 calendar days for any reason. In that case, the loan(s) will remain on the books of the originating RE. It can only be transferred to other eligible lenders under the provisions of Master Directions - Transfer of Loan Exposure, 2021 (MD-TLE). This provision implicitly addresses and constrains CLM2-like scenarios where a lag existed, effectively pushing them towards MD-TLE compliance if the 15-day window is missed.
  - **Individual Borrower Accounts:** Each RE must maintain a borrower's account individually for its respective share.
  - **Mandatory Escrow Account:** All transactions (disbursements/repayments) between the REs, as well as with the borrower, "shall be routed through an escrow account maintained with a bank". The agreement must specify the manner of appropriation between the originating and partner REs. This mandatory escrow requirement enhances transparency and prevents the commingling of funds.
  - **Audit Scope:** Loans under the CLA must be included in the scope of internal/statutory audit in each RE to ensure adherence to their respective internal guidelines, terms of the agreement, and applicable regulatory requirements.
  - **Business Continuity Plan (BCP):** REs are required to implement a business continuity plan to ensure uninterrupted service to their borrowers until repayment of the loans, even in the event of termination of the CLA between the REs.
  - **KYC Compliance:** A RE involved under CLA must comply with the prescribed norms under the Master Direction Know Your Customer (KYC) Direction, 2016. The partner RE may rely upon the originating RE for the "Customer Identification Process" as per the provisions of the said Master Directions on KYC.
  - **Fair Practice and Grievance Redressal:** REs must be guided by the fair practice code and grievance redressal mechanism applicable to them.

- **Reporting to Credit Information Companies (CICs):** Each RE must adhere to the extant requirements of reporting to CICs for their share of the loan account, as per the provisions of the Credit Information Companies (Regulation) Act, 2005.
- **Default Loss Guarantee (DLG):** The 2025 Directions officially address Default Loss Guarantee (DLG) arrangements. The originating RE can offer a default loss guarantee covering up to 5% of the outstanding loans under CLA. Such DLG provisions are to be governed, with necessary adjustments, by the MD-DLD (Master Directions - Digital Lending Directions, 2025). This explicit regulation of DLG, along with the 5% limit, shows RBI's goal of standardising all credit enhancement methods within co-lending under a consistent, prudent framework. The aim is to prevent hidden risks and promote transparency in risk transfer processes. The phrase "mutatis mutandis" shows that the same prudential standards, disclosure norms, and capital treatment applied in the digital lending guidelines will also cover DLG, ensuring uniformity across lending models. Ultimately, this initiative aims to control excessive risk transfer, secure capital allocation for guaranteed exposures, and improve transparency regarding the actual credit risk retained, thereby bolstering the financial stability of co-lending arrangements.
- **Asset Classification Norms:** A significant enhancement in the 2025 Directions pertains to asset classification. REs "shall apply a borrower-level asset classification for their respective exposures to a borrower under CLA". This means that if either of the REs classifies its exposure to a borrower under CLA as SMA (Special Mention Account) / NPA (Non-Performing Asset) on account of default, "the same classification shall apply to the exposure of the other RE to the borrower under CLA". REs are mandated to put in place a "robust mechanism for sharing relevant information in this regard on a near-real time basis, and in any case, latest by the end of the next working day". The explicit mandate for "borrower-level asset classification" and "near-real time information sharing" directly addresses the fragmentation risk inherent in the 2020 framework's "independent provisioning". This signifies a substantial move towards unified risk assessment and systemic transparency, ensuring that all REs involved in a CLA have a consistent view of the borrower's credit health. This significantly enhances risk management by forcing immediate recognition of stress across all participating entities, preventing regulatory arbitrage, and improving the accuracy of systemic asset quality reporting. It also necessitates robust IT infrastructure and data-sharing protocols between partners, driving greater operational integration.
- **Transfer of Loan Exposures and Disclosures:** Any subsequent transfer of loan exposures originated under CLA to third parties, or any inter-se transfer of such loan exposures between REs, must strictly comply with the provisions of Master Directions - Transfer of Loan Exposure, 2021 (MD-TLE). Such transfers to a third party can only be done with the mutual consent of both the originating and partner REs. In addition to existing disclosure requirements, REs must prominently disclose a list of "all active CLA partners" on their website. Furthermore, REs are required to make appropriate disclosures in their financial statements, under 'Notes to Accounts', relating to necessary details of CLAs on an aggregate basis. These details may inter alia include the quantum of CLAs, weighted average rate of interest, fees charged/paid, broad sectors in which CLA was made, performance of loans under CLA, and details related to default loss guarantee, if any. These disclosures are required on a quarterly/annual basis, as applicable to the concerned REs.

### 3. April 2025 Draft co-lending guidelines vs. August 2025 final guidelines

#### Exhibit 2: Comparison of final and draft guidelines on co-lending arrangements

Feature	Proposed guidelines (April 2025)	Final guidelines (August 2025)	Implications
<b>Effective date</b>	Immediately from the date of final issuance	Effective from January 1, 2026 (with voluntary early implementation option)	Shift from immediate to deferred, flexible implementation date, allowing REs time for preparation. Implementing changes to internal systems, processes, and agreements requires substantial lead time.
<b>Applicability</b>	a. All Commercial Banks (excluding Small Finance Banks, Local Area Banks and Regional Rural Bank) b. All All-India Financial Institutions c. All Non-Banking Financial Companies (including Housing Finance Companies) These Directions shall not apply to <b>loans exceeding ₹100 crore</b> , sanctioned under multiple banking, consortium lending, or syndication.	a. All Commercial Banks (excluding Small Finance Banks, Local Area Banks and Regional Rural Bank) b. All All-India Financial Institutions c. All Non-Banking Financial Companies (including Housing Finance Companies) These Directions shall not apply to loans sanctioned under multiple banking, consortium lending, or syndication.	This change keeps loans under multiple banking, consortium lending, or syndication outside the scope of co-lending guidelines.
<b>Minimum share retention</b>	-No mention-	Each RE under a CLA shall be required to retain a minimum 10 per cent share of the individual loans in its books.	Introduction of mandatory 10% retention for each RE, ensuring some "skin in the game" and shared accountability.
<b>Fee/charges</b>	Any fees/charges payable to the sourcing or servicing entity shall be part of a separate arrangement and shall not be included in the calculation of the blended interest rate. All such additional charges, together with the blended interest rate charged to the borrower, shall be	Any fees/charges payable by the borrower in addition to the blended interest rate shall be incorporated in the computation of the annual percentage rate (APR) and disclosed appropriately in the KFS.  As part of the credit policy, the RE shall lay down the	Subtle shift; fees still in APR, but removal of explicit exclusion from blended rate calculation may imply more holistic cost view.

Feature	Proposed guidelines (April 2025)	Final guidelines (August 2025)	Implications
	incorporated in the computation of the annual percentage rate (APR) and disclosed appropriately in the key facts statement (KFS).	objective criteria for fees/ charges payable for lending services, depending upon relevant factors such as the nature of service provided, quantum of loan, etc. Such fees/ charges shall not involve, directly or indirectly, any element of credit enhancement/ default loss guarantee unless permitted otherwise.	
<b>Timeline for recognising loans on the books of REs</b>	Each single loan under the arrangement shall be shared among the funding REs right from the time of first disbursement.	The CLA shall ensure that the respective shares of the REs are reflected in the books of both REs without delay after disbursement by the originating RE to the borrower, in any case, not later than 15 calendar days from the date of disbursement.	Introduces a specific 15-day deadline for loan reflection, enhancing operational ease.
<b>Loans not recognised within 15 calendar days</b>	-Not applicable-	Suppose the originating RE is unable to transfer the share of the exposure to the partner RE under CLA within 15 calendar days for any reason. In that case, such loan(s) shall remain on the books of the originating RE. It can be transferred to other eligible lenders only under the provisions of Master Directions – Transfer of Loan Exposure, 2021 (MD-TLE).	Provides clear guidance and a fallback mechanism for non-compliance with transfer timelines, preventing regulatory grey areas.
<b>Default loss guarantee (DLG) provisions</b>	Permitted REs, involved in a particular CLA transaction either as a sourcing or funding entity, shall be allowed to provide a default loss guarantee up to five per cent of loans outstanding in respect of loans under CLA or sourcing arrangement.	Originating RE may provide a default loss guarantee up to five per cent of loans outstanding in respect of loans under CLA. Provision of such default loss guarantee shall be governed mutatis mutandis in terms of RBI's	Largely similar guidelines; however, funding REs are not allowed to provide DLG.

Feature	Proposed guidelines (April 2025)	Final guidelines (August 2025)	Implications
	<p>Provision of such default loss guarantee shall be governed mutatis mutandis in terms of the guidelines on default loss guarantee issued for digital lending vide circular dated June 08, 2023, as amended from time to time.</p> <p>Unless specifically permitted by the Reserve Bank, default loss guarantee in any form by other REs or non-REs shall not be permitted.</p>	Digital Lending Guidelines as amended from time to time.	
<b>Asset classification norms</b>	Both the draft and final guidelines consistently mandate a borrower-level asset classification for REs' respective exposures under CLAs. This means that if either of the REs classifies its exposure to a borrower under CLA as SMA (Special Mention Account) or NPA (Non-Performing Asset) due to default, the same classification must be applied to the exposure of the other RE to that borrower under the CLA.		-No change-
<b>Transfer of loans under CLA</b>	Both the draft and final versions consistently state that any subsequent transfer of loan exposures originated under CLA to third parties, or any inter-se transfer of such loan exposures between REs, must strictly comply with the provisions of Master Directions - Transfer of Loan Exposure, 2021 (MD-TLE). Furthermore, both versions maintain the requirement that such transfers to a third party can only be done with the mutual consent of both the originating and partner REs.		-No change-

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