

Colending to be extended to all regulated entities

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All regulated entities can now take part in colending, whose scope will extend beyond segments covered under priority-sector lending (PSL), according to the Reserve Bank of India (RBI).

Banks can enter into such arrangements with one another and not just with non-banking financial companies (NBFCs). Similarly, an NBFC can do colending with another NBFC.

This move is expected to enhance the flow of credit to underserved segments, such as micro, small, and medium enterprises (MSMEs), and ensure stronger customer protection, experts said.

However, experts highlighted the process of forming partnerships and executing colending agreements was lengthy, which may be a challenge. Additionally, regulated entities have to share risks of a client defaulting on payment, therefore posing an additional burden on banks and NBFCs.

"...colending arrangements have helped in PSL. Now, we are expanding to other segments outside PSL as well. Currently, it was the bank and the NBFCs who could enter into this arrangement. Now, two banks can enter into this arrangement as well," said RBI Governor Sanjay Malhotra, adding that under this



Banks can now enter into colending arrangements with each other

arrangement, the borrower got the benefit of lower interest rates as banks received funds at lower rates and NBFCs compensated for the rest. So, it is a win-win for banks and NBFCs.

Kirti Timmanagoudar, head of strategy & co-lending, IIFL Finance, said: "Small NBFCs that were not able to come into a pact with banks can now easily do so, starting with a large NBFC as step 1 and then with banks. In a nutshell, it is a positive move and will help underserved customers."

Colending allows regulated entities to jointly fund a loan portfolio in a ratio agreed upon, involving revenue and risk sharing with or without sourcing and management arrangements.

According to the RBI's revised guidelines, if any regulated entity declares a client a non-performing asset, it will be classified accordingly for all other regulated entities.