# RBI Norms for Co-origination of Loans

The Reserve Bank of India (RBI) has released the guidelines on co-origination (a form of loan participation where two or more lenders lend money to a borrower) of loans by banks and non-deposit taking non-banking financial companies (NBFC-ND) in the priority sector.

- Under new norms, **all scheduled commercial banks (excluding regional rural banks and small finance banks)** may engage with non-banking financial companies- non-deposit taking-systemically important (NBFC-ND-SIs) to co-originate loans for the creation of priority sector assets.
- The arrangement should entail joint contribution of credit at the facility level by both lenders.
- The bank and NBFC will open a common account for pooling of respective loans contributions for disbursement and loan repayments from borrowers.
- It should also involve the sharing of risks and rewards between the bank and the NBFC for ensuring appropriate alignment of respective business objectives, as per the mutually decided agreement between the bank and the NBFC.
- The purpose of the move is to use ground-level reach of NBFCs to help scheduled banks to reach their priority sector lending targets.

**Priority Sector Lending (PSL)**
Reserve Bank of India has prescribed that a portion of bank lending should be used for developmental activities, which it calls the priority sector. Both the public and private sector banks have to lend 40 % of their net bank credit (NBC) to the priority sector and foreign banks have to lend 32% of their NBC.

- Categories under Priority Sector
  - Agriculture
  - Micro, Small and Medium Enterprises
  - Export Credit
  - Education
  - Housing
  - Social Infrastructure
  - Renewable Energy
  - Others like loan up to Rs. 50,000 to an individual whose annual income is less than Rs. 1 lakh per annum in the rural area or Rs. 1.6 lakh in the non-rural area.

**Non-banking Financial Companies**

- As per the RBI, NBFC is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/ stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities.
- Some of the features marking them different from banks are
  - NBFCs cannot accept demand deposits.
  - NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself.
  - Deposit insurance facility is not available to depositors.
- NBFCs whose asset size is of Rs. 500 cr or more as per last audited balance sheet are considered as systemically important NBFCs.