To boost priority sector lending, RBI allows banks to co-originate loans with NBFCs

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In a bid to give a leg-up to priority sector lending, the Reserve Bank of India, on Wednesday, said all scheduled commercial banks will be allowed to co-originate loans with Non-Banking Financial Companies (NBFCs) for creating eligible priority sector assets.

The central bank, however, has excluded regional rural banks (RRBs) and small finance banks (SFBs) from co-origination as most of the loans they originate are priority sector loans. Further, only NBFCs classified as Non-Deposit Taking- Systemically Important can get into co-origination arrangements with scheduled commercial banks.

Priority sector loans include loans given to the agriculture sector (farm credit, agriculture infrastructure and ancillary activities), micro, small and medium enterprises (MSMEs), export credit, education, housing, social infrastructure, and renewable energy, among others.

The RBI said the co-origination arrangement should entail joint contribution of credit by both lenders at the facility-level. It should also involve sharing of risks and rewards between the banks and the NBFCs for ensuring appropriate alignment of respective business objectives as per their mutual agreement.

In its 'Statement on Developmental and Regulatory Policies', which was issued along with the third bi-monthly monetary policy statement, the RBI said the guidelines on co-origination of priority sector loans would be issued by the end of September 2018.

For domestic scheduled commercial banks (excluding RRBs and SFBs) and foreign banks with 20 branches and above, the RBI has set priority sector lending target at 40 per cent of Adjusted Net Bank Credit, or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.

Within priority sector lending, there are sub-targets for agriculture, micro-enterprises, and advances to weaker sections.

MK Jain, Deputy Governor, said: "While it (co-origination) would ensure skin in the game for both parties (lenders), it would benefit the borrowers under the priority sector segment in terms of cost of credit, which, on account of blending, could be substantially lower."

Published on August 01, 2018

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