

**Frequently Asked Questions (FAQs) – Part 2**  
**Distressed Asset Fund - Subordinated Debt for Stressed MSMEs (DAF-SDSM) /**  
**Credit Guarantee Scheme for Subordinate Debt (CGSSD)**

**1) Whether funding under CGSSD scheme can be given to the entity concerned?**

No. The Scheme provides funding to Promoters of the MSME unit, and not to the entity concerned.

**2) Whether the present scheme envisages additional funding to MSMEs with aggregate exposure limit above Rs 25 crore?**

All accounts can be restructured on down-gradation of asset class. An NPA account is already downgraded and can therefore be restructured, even above Rs.25 Crore.

**3) How to arrive at eligibility for borrowers who are not required to obtain Audited Balance sheet as per statute?**

For entities which are not mandated to get their balance sheets audited, lenders may obtain a CA's certificate or the latest ITR return for calculating the equity /debt contribution of the promoter.

**4) Whether accounts which are SMA 2 or NPA as on February 29, 2020 and not irregular on April 30, 2020 can be considered for additional finance under this scheme?**

Only accounts which are classified as SMA-2 or NPA as on April 30, 2020 are eligible under the scheme.

**5) Whether NPA account can be restructured through CGSSD Scheme ?**

Yes

**6) If NPA MSME unit having economic & technical viability; but Bank has not allowed operations in his/her NPA account due to overdrawing in the account; is eligible under the scheme or not?**

Such accounts would be eligible in cases where the Bank has disallowed operation in the NPA account. In such cases based on bank's due diligence and lending policy guidelines, the bank may consider allowing operations in the NPA account after disbursement of the sub-debt facility.

**7) Whether other legal entities such as Trust/ Society etc. are eligible under the scheme?**

Loans under sub-debt scheme can be extended to management committee executives of trust /Society or the Karta of the HUF as per the extant by-laws /resolutions passed by the entity concerned based on the commercial judgement of the banks. Provided such Trust /Societies /HUF are registered as a MSME and fulfil the eligibility criteria stipulated under the Scheme.

It may, however, be noted that management committee executives of the Trust / Society may not be willing to take a personal loan and invest it as equity in the Trust / Societies would normally be ' not for Profit' and hence, payment of dividend on equity contribution would normally not be permitted in their case.

**8) Whether the promoter has to bring in 10% of the loan amount as cash collateral only?**

Yes. Borrower's own contribution of 10% has to be as cash collateral.

**9) Please clarify as to which RBI guidelines is required to be referred viz. Notification no./Date for sanction of loan under CGSSD Scheme.**

MSMEs with aggregate exposure (including non-fund based facilities) not exceeding Rs. 25 crore and classified as standard are eligible under RBI's one-time restructuring scheme for MSMEs subject to certain conditions as per circular DBR.No. BP.BC.18/21.04.048/2018-19 dated 1.1.2019, as amended on 11.02.2020 and 06.08.2020. MSMEs with aggregate exposure exceeding Rs.25 crore or MSMEs classified as NPA will be eligible for restructuring as per RBIs guidelines provided in circular DBR.No. BP.BC. 45/21.04.048/2018-19 dated 7 June 2019 titled "Prudential Framework for Resolution of Stressed Assets" and as revised from time to time.

**10) Whether grant of sub-debt under CGSSD would amount to a restructuring of the entity concerned?**

Credit under CGSSD is to be provided to the promoter, and not to the entity concerned and hence grant of sub-debt under CGSSD would not amount to a restructuring of the entity concerned.

**11) What is the guideline for NPA classification post restructuring of account under the scheme?**

Post restructuring, NPA classification of the accounts shall be as per the extant RBI guidelines.

**12) In case of partnership /Pvt Ltd/Public Ltd/LLP firm, whether NOC is required from the partner not willing to avail the Sub-debt facility. If Yes, what is the NOC format?**

As per the Scheme, the sub-debt facility may be extended to all partners/promoters in proportion to their shareholding in a particular entity. Alternatively, sub-debt facility to the extent of upto 15% of the aggregate promoters / partner contribution (with a cap of Rs.75 Lakhs), may also be provided to any of them subject to submission of NO Objection Certificate (NOC) by other partners /promoters.

**13) In case of partnership /Pvt Ltd/Public Ltd/LLP firm, please clarify whether the personal loan sanctioned under Subordinate Debt Scheme will be sanctioned in the name of individual or more than one partner/promoter (jointly) or partnership/Pvt Ltd/Public Ltd/LLP firm?**

A single CGSSD loan for the eligible amount of all promoters together can also be sanctioned by taking all promoters as co-borrowers of the CGSSD loan. The sub-debt facility, to the extent of upto 15% of the aggregate promoters / partner contribution (with a cap of Rs.75 Lakhs), may also be extended to any of the partners / promoters subject to submission of NOC by other partners /promoters.

**14) Whether debt component in the books of the borrower should include unsecured loan raised from the promoter/s only or from any other sources as well?**

Debt would include any loan provided by the promoter(s) to the MSME unit, including unsecured loans, but would not include loans raised from any other sources. Banks may follow their own internal lending guidelines and conduct appropriate due-diligence to ensure that the unsecured loan given by the promoter(s) to the MSME unit in the books of the MSME unit, and that the terms of the unsecured loans are appropriate.

**15) Whether CGSSD account is also to be classified as NPA as per RBI guidelines (same Customer) if the MSME unit, with constitution as Individual, is classified as NPA?**

Yes. As per RBI's' Income Recognition and Classification (IRAC) norms, asset classification is borrower-wise and not facility-wise. In this case, if the customer ID for both the entity and the promoter is the same, and the borrowers account for the entity is classified as NPA, the CGSSD account will also be classified as NPA as per RBI guidelines. NPA accounts can also be restructured through CGSSD Scheme.

**16) While considering personal loan under sub-debt to the promoters of the MSME Unit, whether overall loans availed by the MSME unit with all the Banks, can be considered to arrive at 15% of the promoter's equity / debt or Rs.75 lakh, whichever is lower and the existing exposure?**

Yes. The overall exposure with all the banks of the MSME unit should be considered for arriving at loan amount. A declaration from the borrower regarding its other banking arrangements and that it has not availed funding under the scheme from the other lenders to be obtained by the lending MLI.

Also, it may be clarified that the borrower here is the promoter(s) of the MSME unit and not the MSME unit. Hence, the banking relationships being referred to are those of the promoter(s), and hence the need for the declaration of other banking arrangements of the promoter(s).

**17) While considering the loan under the scheme, existing account/s of the borrower shall be restructured as per the assessment of viability. Whether asset classification of the existing account/s will be downgraded in case of SMA2 accounts as per IRAC norms of RBI and what will be the asset classification of the newly opened account under the Scheme.**

The loan is given to the promoters of the entity which he infuses as quasi equity in the unit. Asset classification of the newly opened account would be standard until and unless the repayments are serviced as per instalments. This account would turn into NPA as per RBI guidelines, if the monthly payments are not serviced.

In addition, if the Banks decide to restructure the existing account/s of the MSME unit post infusion of equity by the promoter(s), applicable RBIs guidelines for restructuring will apply. MSMEs with aggregate exposure (including non-fund based facilities) not exceeding Rs 25 crore and classified as standard are eligible under RBI's one-time restructuring scheme for MSMEs subject to certain conditions as per circular BR.No.BP.BC. 18/21. 04.048/2018-19 dated 1.1.2019, as amended on 11.2.2020 and 6.8.2020. MSMEs with aggregate exposure exceeding Rs. 25 crore or MSMEs classified as NPA will be eligible for restructuring as per RBIs guidelines provided in circular DBR. No. BP.BC. 45 / 21. 04.048/2018-19 dated 7 June 2019 titled 'Prudential Framework for Resolution of Stressed Assets' and as revised from time to time.

**18) To secure the CGSSD loan, MSME unit has to give corporate guarantee for the said loan. What is the guidelines for creation of second charge over the primary security as there is restriction under the Company's Act regarding corporate guarantee to secure personal loan in the name of directors/promoters of a company.**

Banks may follow their internal lending guidelines to establish linkages between MSME unit and the promoter in order to create second charge over the primary security, including securing a corporate guarantee, if required. Although Section 185 (1) of the Companies Act 2013 restricts directors from obtaining a corporate guarantee to secure

personal loan, as per Section 185 (1) (a) (ii) an exemption is provided in case members of the Board approve the scheme under a special resolution.

Any enforcing NPA assets must also be in accordance with bank's guidelines, including invoking of the corporate guarantee, if necessary, in terms of the exemption granted under Section 185 (1)(a)(ii) of Companies Act, 2013.

**19) Whether Tri-partite agreement with MSME unit, Promoters & bank is required and whether this shall be treated as a 3rd party Guarantee & deprive the MLI (our bank) the Guarantee cover from CGTMSE.**

As per the guidelines of the scheme, there is no requirement of a Tripartite Agreement.

**20) What is the guidelines, if in case, infusion of amount as equity/sub debt/quasi equity into the MSME unit is withdrawn by the promoter(s).**

The financial assistance provided as part of the scheme is to be operated as a separate loan account and the promoter need to infuse the sub-debt / loan amount as promoter's contribution in the form of equity (including sub-debt or quasi equity) into MSME entity. Further, MLI should ensure that the sub-debt /credit released to the promoter is brought back as equity/quasi equity/sub-debt in the MSME unit.

In addition, it may be clarified that Bank may follow their guidelines in terms of internal regular monitoring of the account once a loan has been disbursed.

**21) Whether account opened after 31.03.2018 and fulling other conditions is eligible under CGSSD scheme.**

Accounts that were opened after 31.03.2018 are currently not eligible under the Scheme.

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