

CREDIT GUARANTEE SCHEME FOR SUBORDINATE DEBT (CGSSD)

1. Introduction

Ministry of Micro, Small and Medium Enterprises, has framed a Scheme for the purpose of providing guarantees in respect of credit facilities extended by eligible and registered scheduled commercial banks to borrowers in Micro, Small and Medium Enterprises (MSMEs). The scheme will be operationalized through a special window created for this purpose under Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). Details of the scheme are as under:

2. Name of the Scheme

The Scheme is named as 'Distressed Assets Fund - Subordinate Debt for Stressed MSMEs' and the credit product for which guarantee would be provided under the Scheme shall be named as 'Credit Guarantee Scheme for Subordinate Debt (CGSSD)' (hereinafter referred as the 'Scheme')

3. Purpose of the Scheme:

To provide guarantee coverage for the CGSSD to provide Sub-Debt support in respect of restructuring of MSMEs. 90% guarantee coverage would come from scheme/Trust and remaining 10% from the concerned promoter (s). The objective of the scheme is to provide personal loan through banks to the promoters of stressed MSMEs for infusion as equity / quasi equity in the business eligible for restructuring, as per RBI guidelines for restructuring of stressed MSME advances.

4. Date of commencement

The Scheme shall come into force from the date of notification by the Government of India or such other date as may be specified by the Trust.

5. Definitions

For the purposes of this Scheme –

- i. **"Trust"** means the Credit Guarantee Fund Trust for Micro and Small Enterprises set up by Government of India and SIDBI with the purpose of guaranteeing credit facility(ies), extended by the Member Lending Institution to the eligible borrowers.
- ii. **"Distressed Assets Fund"** means a fund of Rs 4000 crore created by Government of India for providing guarantee coverage to the loans given/ credit extended to the promoters of the eligible MSME units under the scheme.
- iii. **"Amount in Default"** means the principal and interest amount outstanding in the account(s) of the borrower in respect of Sub-debt facility as on the date of the account becoming NPA, or the date of lodgment of claim application whichever is lower for preferring any claim against the guarantee cover subject to a maximum of amount guaranteed.

- iv. **“Credit facility”** means financial assistance provided under the scheme by way of sub-debt facility extended by the lending institution to the Promoters of the MSME units upto **50 %** of promoter’s stake or Rs. 75 lakh whichever is lower. This personal loan shall not exceed the original debt of the beneficiary. Further, the Equity shall be calculated on the basis of the last available audited balance sheet of a Financial Year.
- v. **“Eligible borrower”** means the promoters of MSME units which are stressed, viz. SMA-2, and NPA accounts as on 30.04.2020 and can become commercially viable as per the assessment of the lending institutions. The Scheme is applicable for those MSMEs whose accounts have been standard as on 01.01.2016 and have been in regular operations, either as standard accounts, or as NPA accounts during financial year 2018-19 and financial year 2019-20. However, fraud accounts and willful defaulters will not be considered under the proposed scheme. In cases where recovery proceedings are underway and banks assess that with the facilities provided under the scheme the account would be viable, the banks shall kept on hold/ kept under suspension the recovery proceedings before going ahead with restructuring etc.
- vi. **‘Guarantee Cover’** means maximum cover available per eligible borrower of the amount in default in respect of the credit facility extended by the lending institution. For this scheme, 90% guarantee coverage would come from scheme/Trust and remaining 10% from the concerned promoter (s). The credit will be extended by MLIs as part of the scheme to the promoters of the stressed MSMEs to be infused by them in the form of equity/Quasi equity/ Sub debt in the MSME which are commercially viable. However, as these are small loans, separate TEV study should not be undertaken/ insisted upon and each bank will have to go by its Board approved guidelines with regard to ascertaining the viability. The guarantee cover would be uncapped, unconditional and irrevocable credit guarantee.
- vii. **“Lending institution(s)”** or **“Member Lending institution(s) (MLIs)”** means all Scheduled Commercial Bank for the time being included in the second Schedule to the Reserve Bank of India Act, 1934, or any other institution(s) as may be directed by the Govt. of India from time to time. The Trust may, on review of performance, remove any of the lending institution from the list of eligible institution.
- viii. **“Non-Performing Assets”** means an asset classified as a non-performing based on the instructions and guidelines issued by the Reserve Bank of India from time to time.
- ix. **“Primary Security”** in respect of a credit facility shall mean the assets created out of the credit facility so extended and/or existing unencumbered assets which are directly associated with the projector business for which the credit facility has been / was been extended.
- x. **“Interest Rate”** for a lending institution means the rate so declared by that lending institution from time to time as per Reserve Bank of India guidelines based on which interest rate applicable for the loan will be determined.

- xi. **"Tenure of Guarantee Cover"** means the maximum period of guarantee cover from the guarantee avilment date by the lending institution, which shall run through the agreed tenure of the Sub-debt facility between borrower and lending institution basis the assessment of debt serviceability or for a maximum period of 10 years whichever is earlier.
- xii. **"Collateral security"** means the security provided in addition to the primary security, in connection with the credit facility extended by a lending institution to a borrower.
- xiii. **"Scheme"** means the 'Distressed Asset Fund - Subordinated Debt for Stressed MSMEs scheme.
- xiv. **"SIDBI"** means the Small Industries Development Bank of India, established under Small Industries Development Bank of India Act, 1989 (39 of 1989).
- xv. **"Micro, Small and Medium Enterprises"** as MSMEs as defined in the MSMED Act, as amended from time to time.
- xvi. **Existing stake** means the total contribution of the Promoter in the form of equity as well as debt. The detailed operational guidelines on the matter will be shared with MLIs of the scheme.
- xvii. **"Senior Debt"** means main debt already availed by the MSME that takes priority over other debt / unsecured debt owed by the issuer. The seniority status of any debt raised subsequent to implementation of the scheme will be governed by the guidelines issued by Reserve Bank of India from time to time.
- xviii. **"Subordinate Debt"** means credit facility extended to the Promoter(s) of the Stressed Units for infusion in the units as Equity including Quasi Equity/Sub-Debt.
- xix. **"Stressed MSME Unit"** means MSME Units which are stressed, viz. SMA-2 and NPA accounts as on 30.04.2020 as per the guidelines issued by the Reserve Bank of India from time to time.

SCOPE AND EXTENT OF THE SCHEME

6. Eligible MLIs

- All the Members Lending Institution (MLIs) registered under CGS-I of the Credit Guarantee Scheme for Micro and Small Enterprises as eligible MLIs may act as MLIs under Credit Guarantee Scheme for subordinate Debt as well.

7. Duration

- The Scheme would be applicable to all credit facilities sanctioned under CGSSD for a maximum period of 10 years from the guarantee avilment date or March 31, 2021 whichever is earlier, or till an amount of Rs 20,000 crore of guarantee amount is approved.

8. Eligible Borrowers

- i. The Scheme is applicable for those MSMEs whose accounts have been standard as on 01.01.2016 and have been in regular operations, either as standard accounts, or as NPA accounts during financial year 2018-19 and financial year 2019-20.
- ii. Fraud/ Willful defaulter accounts will not be considered under the proposed scheme.
- iii. Personal loan will be provided to the promoters of the MSME units. The MSME itself may be Proprietorship, Partnership, Private Limited Company or registered company etc.
- iv. The Scheme is valid for MSME units which are stressed, viz. SMA-2 and NPA accounts as on 30.04.2020 who are eligible for restructuring as per RBI guidelines on the books of the Lending institutions.

9. Loan Amount eligible under the Guarantee Coverage

- i. The guarantee coverage will be provided to the eligible borrower for the credit facilities extended under this scheme. Under this arrangement, promoter(s) of the MSME unit will be given credit equal to 50 % of his/her stake (equity plus debt) or Rs 75 lakh whichever is lower.
- ii. 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.
- iii. Any guarantee approved under this scheme shall be over and above the existing loan / guarantee sanctioned by the trust (over and above the eligible limit of Rs.200 lakh).
- iv. In case a borrower has existing limits with more than one lender, the CGSSD can be availed by the borrower through one lender only. 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.
- v. MLIs shall carry out their own due diligence to assess the viability, need and requirement of sub-debt facility in respect of restructuring of stressed MSME units.
- vi. Post-restructuring, NPA classification of these accounts shall be as per the extant IRAC norms.
- vii. 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.

10. Interest Rate of Credit under the scheme

Interest Rate on CGSSD shall be capped as under:

- i. As per RBI guidelines dated September 04, 2019 and February 26, 2020, all loans to MSMEs must be benchmarked to one of the external benchmark rates. Banks are free to decide the spread over the external benchmark as per their approved policies. Accordingly, loans under the scheme must adhere to the above-mentioned guidelines and linked to the external benchmark rates.

11. Tenor of Credit under the scheme

- i. The tenor of sub-debt facility provided under CGSSD shall be as per the repayment schedule defined by the lender, subject to a maximum tenor of 10 years from the guarantee availing date or March 31, 2021 whichever is earlier.
- ii. The maximum tenor for repayment will be 10 years. There will be a moratorium of 7 years (maximum) on the payment of principal. Till the 7th year, only interest will be paid.
- iii. While the interest on the sub-debt under the scheme would be required to be serviced regularly (monthly), the principal shall be repaid within a maximum of 3 years after completion of moratorium.
- iv. Pre-payment of loan is permitted at no additional charge /penalty to the borrower.

12. Security

- i. The sub-debt facility so sanctioned by MLIs will have 2nd charge of the assets financed under existing facilities for the entire tenor of the sub-debt facility.

13. Guarantee Fee

- i. 1.50% per annum on the guaranteed amount on outstanding basis.
- ii. Guarantee fee may be borne by the borrowers as per the arrangements between the borrower and the MLIs.
- iii. The amount equivalent to the guarantee fee payable by the eligible lending institution may be recovered by it, at its discretion from the eligible borrower.
- iv. The guarantee service fee once paid by the lending institution to the Trust is non-refundable. Guarantee service fee shall not be refunded, except under certain circumstances like –
 - a. Excess remittance;
 - b. Remittance made more than once against the same portfolio.

14. Extent of the Guarantee Coverage

- i. 90% guarantee coverage would come from scheme/Trust and remaining 10% from concerned promoter(s) on the credit extended by MLIs under the scheme. The guarantee cover would be uncapped, unconditional and irrevocable credit guarantee.

15. Corpus Requirement

- i. Ministry of MSME will provide the required corpus of INR 4000 crore for operationalization of the scheme to CGTMSE in phased manner.
- ii. Any unutilized corpus amount left after meeting all the obligations under the Scheme shall be returned to the Ministry.

16. Invocation of guarantee

- i. The Member Lending Institutions (MLIs) are required to inform the date on which the account was classified as NPA within 90 days of the account being classified as NPA.
- ii. The Member Lending Institutions (MLIs) are required to mark a particular case as NPA which is classified as NPA as per RBI guidelines in CGTMSE online portal. The NPA marking needs to be done by the MLIs within next quarter from the time it becomes NPA in the online portal.
- iii. The Trust shall pay 75 per cent of the guaranteed amount on preferring of eligible claim by the lending institution, within 30 days, subject to the claim being otherwise found in order and complete in all respects. The balance 25 per cent of the guaranteed amount will be paid on conclusion of recovery proceedings or till the decree gets time barred whichever is earlier.

17. Appropriation of amount realized by the lending institution in respect of a credit facility after the guarantee has been invoked

- i. Post invocation of the guarantee claim, if any recoveries are made, MLIs shall first adjust such recoveries towards the legal costs incurred by them for recovery of the amount and their outstanding amount. Any amount recovered beyond that then shall be provided to trust up to the extent of amount of claim settled by the trust.

18. Agreement to be executed by the lending institution

- i. MLIs will have to enter an agreement with CGTMSE to avail the benefits under the scheme. Agreement is to be signed by the competent authority as deemed fit by the MLI. There is no requirement of Board Approval Note for registration purpose under this scheme.

19. Responsibilities of lending institution under the scheme:

- i. Once the lending institution sanctions the Sub-debt facility, the lending institution is required to apply to the trust for guarantee coverage for the facility sanctioned. Only after the trust approval, the sub-debt scheme will be under the special window of the trust for the said scheme.
- ii. The lending institution shall evaluate credit applications by using prudent banking judgement and shall use their business discretion / due diligence in selecting commercially viable proposals and conduct the account(s) of the borrowers with normal banking prudence.
- iii. The lending institution shall closely monitor the borrower account. The lending institution shall put in all required efforts to ensure that the account is serviced regularly.
- iv. The lending institution shall safeguard the primary securities taken from the borrower in respect of the credit facility in good and enforceable condition.
- v. The lending institution to ensure that the credit facility sanctioned under the scheme is not to be wholly or partly utilized for adjustment of any previously outstanding debts, over dues to the lending institution including those deemed debts bad or doubtful of recovery.
- vi. The lending institution shall ensure that the guarantee claim in respect of the credit facility and borrower is lodged with the Trust in the form and in the manner and within such time as may be specified by the Trust in this behalf and that there shall not be any delay on its part to notify the default in the borrowers account which shall result in the Trust facing higher guarantee claims. In the event of default, the lending institution shall exercise its rights, if any, to take over the assets of the borrower and the amount realized, if any, from the sale of such assets would be first used to settle senior debt. Any subsequent amount left post settlement of senior debt would be appropriated between trust and Lending Institution in the ratio of extent of guarantee coverage.
- vii. The payment of guarantee claim by the Trust to the lending institution does not in any way take away the responsibility of the lending institution to recover the entire outstanding amount of the credit from the borrower. The lending institution shall exercise all the necessary precautions and maintain its recourse to the borrower for entire amount of credit facility owed by it and initiate such necessary actions for recovery of the outstanding amount, including such action as may be advised by the Trust.
- viii. The lending institution shall comply with such directions as may be issued by the Trust, from time to time, for facilitating recoveries in the guaranteed account, or safeguarding its interest as a guarantor, as the Trust may deem fit and the lending institution shall be bound to comply with such directions.

- ix. The lending institution shall, in respect of any guaranteed account, exercise the same diligence in recovering the dues, and safeguarding the interest of the Trust in all the ways open to it as it might have exercised in the normal course if no guarantee had been furnished by the Trust. The lending institution shall, in particular, refrain from any act of omission or commission, either before or subsequent to invocation of guarantee, which may adversely affect the interest of the Trust as the guarantor. In particular, the lending institution should intimate the Trust while entering into any compromise or arrangement, which may have effect of discharge or waiver of personal guarantee(s) or security.
- x. The lending institution shall also ensure either through a stipulation in an agreement with the borrower or otherwise, that it shall not create any charge on the security held in the account covered by the guarantee for the benefit of any account not covered by the guarantee, with itself or in favour of any other creditor(s) without intimating the Trust. Further the lending institution shall secure for the Trust or its appointed agency, through a stipulation in an agreement with the borrower or otherwise, the right to list the defaulted borrowers' names and particulars on the Website of the Trust.

20. Returns and Inspections

The lending institution shall submit such statements and furnish such information as the Trust may require in connection with any credit facility under this Scheme.

- i. The lending institution shall also furnish to the Trust all such documents, receipts, certificates and other writings as the latter may require and shall be deemed to have affirmed that the contents of such documents, receipts, certificates and other writings are true, provided that no claim shall be rejected and no liability shall attach to the lending institution or any officer thereof for anything done in good faith.
- ii. The Trust shall, insofar as it may be necessary for the purposes of the Scheme, have the right to inspect or call for copies of the books of account and other records (including any book of instructions or manual or circulars covering general instructions regarding conduct of advances) of the lending institution, and of any borrower from the lending institution. Such inspection may be carried out either through the officers of the Trust or of SIDBI (in case of Institutions other than SIDBI) or any other person appointed by the Trust for the purpose of inspection. Every officer or other employee of the lending institution or the borrower, who is in a position to do so, shall make available to the officers of the Trust or SIDBI or the person appointed for the inspection as the case may be, the books of account and other records and information which are in his possession.

21. Modifications and exemptions

- i. The Trust reserves to itself the right to modify, cancel or replace the said scheme so, however, that the rights or obligations arising out of, or accruing under a guarantee issued under the Scheme up to the date on which such modification, cancellation or replacement comes into effect, shall not be affected.
- ii. Notwithstanding anything contained herein, the Trust shall have a right to alter the terms and conditions of the Scheme in regard to an account in respect of which guarantee has not been issued as on the date of such alteration.
- iii. In the event of the Scheme being cancelled, no claim shall lie against the Trust in respect of facilities covered by the Scheme, unless the provisions contained in Scheme are complied with by the lending institution prior to the date on which the cancellation comes into force.

22. Interpretation

If any question arises in regard to the interpretation of any of the provisions of the Scheme or of any directions or instructions or clarifications or necessary changes as required from time to time given in connection therewith, the decision of the Trust / CEO of the Trust, taken in consultation with the Ministry of MSME, shall be final.

23. Supplementary and General provisions

In respect of any matter not specifically provided for in this Scheme, the Trust may make such supplementary or additional provisions or issue such instructions or clarifications as may be necessary for the purpose of the Scheme.
