

## CREDIT GUARANTEE SCHEME FOR CO-LENDING MODEL (CGSCL)

### I. INTRODUCTION

Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), had framed a Scheme for the purpose of providing guarantees in respect of credit facilities extended by eligible Banks & NBFCs jointly to Micro and Small Enterprises (MSEs) borrowers under Co-Lending models. Details of the scheme are as under:

#### 1. Title and Date of Commencement of CGSCL

The Scheme known as the "Credit Guarantee Scheme for Co-Lending (CGSCL) will come into operations w.e.f. February 25, 2022. The same shall cover eligible credits sanctioned under Co-Lending arrangement by pair of lending institutions to eligible borrowers under MSE sector.

#### 2. 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 lending institution(s) to the eligible borrowers.
- (ii) **"Amount in Default"** means the principal and interest amount outstanding in the account(s) of the borrower in respect of term loan and amount of outstanding working capital facilities (including interest), as on the date of the account becoming NPA, or the date of lodgement of claim application whichever is lower or such other date as may be specified by CGTMSE for preferring any claim against the guarantee cover subject to a maximum of amount guaranteed.
- (iii) **"Member Lending institution(s)"(MLIs)** under the Scheme means a pair of Bank and NBFC already registered with CGTMSE as MLI under CGS-I and CGS-II respectively. NBFC is required to be registered with RBI under Section 45-IA of the Reserve Bank of India Act, 1934 and a scheduled commercial bank (excluding SFBs, RRBs, UCBs and LABs) for the time being included in the second Schedule to the Reserve Bank of India Act, 1934, meeting the eligibility norms as may be specified by the Trust from time to time, or any other institution(s) as may be directed by the Government 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.
- (iv) **"Scheme"** means the Credit Guarantee Scheme for Co-Lending by a pair of eligible NBFCs and Scheduled Commercial Banks. There are following two options/models to operate under Co-Lending:

#### **"Option/Model-1" – Joint Lending by Banks and NBFCs**

Under this arrangement, the partner Bank and NBFC will jointly lend to the borrower through an escrow account. The due diligence and appraisal will be done by both institutions. There will be irrevocable commitment on the part of the bank to take into its books its share of the individual loans as originated by the NBFC.

**“Option / Model 2” - Direct Assignment**

Under this arrangement, the partner Bank can exercise its discretion regarding taking into its books the loans originated by NBFC as per the Agreement.

- (v) **“Eligible Pair”** means a pair of Scheduled Commercial Bank and NBFC for Co-Lending arrangement. As per the RBI circular RBI/2020-21/63 FIDD.CO.Plan.BC.No.8/04.09.01/2020-21 dated November 05, 2020 stating “Scheduled Commercial Banks are permitted to co-lend with all registered NBFCs based on a prior agreement”, only the MLIs registered with CGTMSE will be eligible as a pair for CLM arrangement under CGSCL.
- (vi) **“Dealing Institution for the Trust”** means either of the Institutions of the eligible pair. Unless specified otherwise, the Trust will recognise registered NBFC within the eligible pair as the dealing institution for CGSCL.
- (vii) **“Credit facility”** means any financial assistance by way of term loan and / or working capital facilities extended by the Member Lending Institution to the eligible borrower. For the purpose of calculation of guarantee fee, the “credit facility extended” shall mean the amount of financial assistance committed by the member lending institution to the borrower, whether disbursed or not. For the purpose of the calculation of Guarantee Fee, the credit facility extended shall mean the credit facilities (both fund and non-fund based) covered under CGSCL and for which guarantee fee has been paid, as at March 31<sup>st</sup>, of the relevant year.
- (viii) **“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.
- (ix) **“Eligible borrower”** means new or existing Micro and Small Enterprises to which credit facility has been provided by the lending institution without any collateral security and/or third-party guarantees.

However, a “Hybrid / Partial Collateral Security” product allowing guarantee cover on credit facilities having collateral security, for the portion of credit facility not covered by collateral security (unsecured portion), has also been introduced by CGTMSE. In the partial collateral security model, the MLIs will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining part of the credit facility, can be covered under Credit Guarantee Scheme of CGTMSE

- (x) **‘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.
- (xi) **“Tenure of guarantee cover”** means the maximum period of Guarantee cover from guarantee sanction date which shall run through agreed tenure of the term loan and for the period of 5 years block or block of 5 years from guarantee start date where working capital facilities alone are extended or loan termination date whichever is earlier, or such period as may be specified the trust.
- (xii) **“Material date”** means the date on which the annual guarantee fee on the amount covered in respect of eligible borrower is credited to the Trust by the Member lending institution.

- (xiii) **"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.
- (xiv) **"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 project or business for which the credit facility has been extended.
- (xv) **"SIDBI"** means the Small Industries Development Bank of India, established under Small Industries Development Bank of India Act, 1989 (39 of 1989).
- (xvi) **"Micro and Small Enterprises"** As per the MSMED Act, 2006 an "enterprise" means an industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services; and "Micro and Small Enterprises" are defined in 7.1.a.i) and ii) & in 7.1.b.i) and ii) of the said Act .
- (xvii) **"Third Party Guarantee"** means any guarantee obtained by a Member Lending Institution in connection with the credit facility extended by it to a borrower except from Sole-Proprietor in case of Sole Proprietary concern, Partners in case of partnership / limited liability partnership, Trustees in case of Trust, Karta & Coparceners in case of HUF and promoter directors in case of private/ public limited companies and owner of the immovable property in case of guarantee under Hybrid / Partial collateral security model.
- (xviii) **"Blended Interest Rate"** means weighted average rate of Interest charged to the MSE borrowers under CLM arrangement for the credit facility sanctioned. Only those credit facilities where the effective interest rate charged to the MSE Borrower under CLM arrangement is upto a maximum of 18% shall be available for coverage under CGSCL. As per (Circular no. 235/ 2023-24 dated December 18, 2024) blended rate of interest (interest rate to be charged) to the MSE borrower should not be more than 21%.
- (xix) **"Payout cap"** means the maximum amount that would be available for Claim settlement as per the terms stipulated by the Trust.
- (xx) **"Material date"** means the date on which the guarantee fee on the amount covered in respect of eligible borrower is paid/ credited to the Trust by the Member lending institution.
- (xxi) **"Annual Guarantee Fee (AGF)"** means Guarantee Fee which would be charged annually till the tenure of the loan.
- (xxii) **"Non-Performing Assets" (NPA)** 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.
- (xxiii) **"Lock-in-Period"** for lodgment of claims is a period of 18 months from the guarantee start date.
- (xxiv) **"Any-time Guarantee"**: MLIs can apply for guarantee cover anytime during the tenure of the loan provided the credit facility was not restructured/ remained in SMA2 Status in the last 1 year from the date of submission of application.

## **II. SCOPE AND EXTENT OF THE SCHEME**

### **3. Guarantees by the Trust**

- (i) Subject to the other provisions of the Scheme, the Trust undertakes, in relation to credit facilities extended to an eligible borrower from time to time by an eligible institution which has entered into the necessary agreement for this purpose with the Trust, to provide a guarantee on account of the said credit facilities.
- (ii) The Trust reserves the discretion to accept or reject any proposal referred by the lending institution which otherwise satisfies the norms of the Scheme.

### **4. Credit facilities eligible under the Scheme**

The Trust shall cover credit facilities (Fund based and/or Non fund based) extended by Member Lending Institution(s) to a single eligible borrower in the Micro and Small Enterprises sector for credit facility (i) not exceeding ₹500 lakh for credit facility secured by Primary Security; and (ii) not exceeding ₹200 lakh for unsecured credit facility by way of term loan and/or working capital facilities on or after entering into an agreement with the Trust, without any collateral security and/or third party guarantees or such amount as may be decided by the Trust from time to time.

The cap of ₹500 lakh & ₹200 lakh is the maximum guarantee coverage limit per borrower based on the outstanding credit facilities extended by one or more than one bank and/or financial institution jointly and/or separately to eligible borrower and the borrowers can avail incremental credit facilities (i.e. to the extent of reduction in the outstanding exposure limit) under Credit Guarantee Scheme of CGTMSE, subject to maximum cap of ₹500 lakh & ₹ 200 lakh as applicable for secured and unsecure loans respectively.

Provided further that, as on the material date:

- (i) Credit facility(ies) is/are standard and regular (not SMA) as per RBI guidelines; and / or
- (ii) The business or activity of the borrower for which the credit facility was granted has not ceased; and / or
- (iii) The credit facility has not wholly or partly been utilized for adjustment of any debt deemed bad or doubtful of recovery, without obtaining a prior consent in this regard from the Trust.

Under “Hybrid Security” product the MLIs will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining unsecured part of the credit facility, upto a maximum of ₹500 lakh, can be covered under CGSCL. CGTMSE will, however, have notional second charge on the collateral security provided by the borrower for the credit facilities extended. Under the hybrid security product, there is no requirement for MLIs to create security / charge in favour of CGTMSE by way of legal documentation.

Any MLI is allowed to lodge guarantee application under Credit Guarantee Scheme for Co-Lending or its share of loan to MSEs, even if the other MLI chooses not to lodge the application for guarantee for its share of loans subject to the lodging MLI being contact point for CGTME for lodgement of guarantee application, payment of guarantee fee, initiation of legal action and lodgment of claim if the account turns into NPA.

All proposal for sanction of guarantee approvals for credit facility(ies) above ₹50 lakh will have to be rated internally by the MLI(s) and should be of investment grade.

#### **5. Credit facilities not eligible under the Scheme**

The following credit facilities shall not be eligible for being guaranteed under the Scheme: -

- (i) Any credit facility in respect of which risks are additionally covered under a scheme operated / administered by any other Credit Guarantee organisation, Government or by any general insurer or any other person or association of persons carrying on the business of insurance, guarantee or indemnity or the Reserve Bank of India, to the extent they are so covered.
- (ii) Any credit facility, which does not conform to, or is in any way inconsistent with, the provisions of any law, or with any directives or instructions issued by the Central Government or the Reserve Bank of India, which may, for the time being, be in force.
- (iii) Any credit facility granted to any borrower, who has availed himself of any other credit facility covered under this scheme or under the schemes mentioned in clause (i) and (ii) above, and where the lending institution has invoked the guarantee provided by the Trust or under the schemes mentioned in clause (i) and (ii) above, but has not repaid any portion of the amount due to the Trust or under the schemes mentioned in clause (i) and (ii) above, as the case may be, by reason of any default on the part of the borrower in respect of that credit facility.
- (iv) Any credit facility which has been sanctioned by the lending institution against collateral security and / or third-party guarantee. However, after the introduction of Hybrid Security model MLIs can cover the unsecured part of the credit facility(ies) under CGTMSE upto to an overall exposure of ₹200 lakh.
- (v) Any credit facility which has been sanctioned by MLI(s) where the blended interest rate charged to the MSE borrowers under CLM arrangement is exceeding 21%.

#### **6. Agreement to be executed by the lending institution**

An eligible pair shall not be entitled to a guarantee in respect of any eligible credit facility granted by the pair of MLI's unless the pair of MLI,s has entered into an agreement with the Trust in such form as may be required by the Trust from time to time under the scheme.

**7. Responsibilities of lending institution under the scheme:**

- (i) 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.
- (ii) The lending institution shall closely monitor the borrower account.
- (iii) The lending institution shall safeguard the securities taken from the borrower in respect of the credit facility in good and enforceable condition.
- (iv) 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.
- (v) 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.
- (vi) 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.
- (vii) 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. 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.

### III. ANNUAL GUARANTEE FEE

#### 8. Annual Guarantee Fee (AGF)

AGF will be charged on the guaranteed amount for the first year and on the outstanding amount for the remaining tenure of the credit facilities as detailed below on all the guarantees approved/ renewed on or after April 01, 2025 including enhancement in existing working capital account already covered under Guarantee Scheme.

Credit Facility Amount	Guarantee Fee
0 - ₹10 lakh	0.37% p.a.
Above ₹10 lakh and upto ₹50 lakh	0.55% p.a.
Above ₹50 lakh and ₹1 crore	0.60% p.a.
Above ₹1 crore and ₹2 crore	0.85% p.a.
Above ₹2 crore and ₹5 crore	1.00% p.a.

All loans disbursed to the same customer by the pair of MLIs will be charged as per the fee structure stated above, basis their cumulative credit facility amount. Hence, fee for any subsequent loan to the same borrower by the same pair of MLIs will be charged as per the respective slab considering cumulative sanction of credit facilities to the borrower.

In case of term loans, AGF would be calculated on outstanding amount as on 31<sup>st</sup> December or any date decided by the Trust against each guarantee account and for working capital, AGF would be calculated on the amount as requested by MLI within the working capital limit availed by the borrower/enterprise and the guarantee amount will be restricted to the amount of working capital on which fee is paid.

Online module for updating the outstanding/working capital amount in respect of eligible guaranteed loan accounts is made available.

The Guarantee fee shall be demanded in respect of all live covered accounts excluding the accounts where claim has been lodged in the system.

#### 8.1 Payment of AGF

##### 1) Charging of AGF

- (i) Annual Guarantee fee (first time fee) shall be paid to the Trust by the member lending institution availing of the guarantee within 30 days from the date of Demand Advice of guarantee fee OR the date of first disbursement in case of Term Loan, whichever is later ***or such date as specified by the Trust.***

*Credit Guarantee Scheme for Co-Lending Model (CGSCL)*

Based on Circular no. 235/ 2023-24 dated December 18, 2024, relaxation in fee by 10% on applicable rate to target group as per Social Category, Geographic & MSE Status

Category	Social Category (Weaker Section/ Underserved Section)	Geographic	MSE Status
Target Group	Women/SC/ST / Person with disability (PwD)/ Agniveers	NER incl. Sikkim, UT of Jammu & Kashmir & UT of Ladakh (Upto ₹50 Lakh)/ Aspirational District	ZED Certified
Relaxation/ Concession in Rate	10%	10%	10%

- a. Women entrepreneurs/ SC/ST/ Person with disability (PwD) Borrowers would be given the discount of 10%. Guarantee to the MSEs promoted by Agniveers shall also carry 10% relaxation in Annual Guarantee Fee. In case of PwD, the MLIs would require to obtain Disability Certificate(s) with regard to the promoter(s) issued by the competent authority while applying for guarantee coverage.
  - b. Units in North East Region (incl Sikkim) upto ₹50 lakh would be given discount of 10%.
  - c. MSEs situated in Aspirational District would be given discount of 10%
  - d. ZED Certified MSEs would be given discount of 10%. e. An MSE falling in all the above three categories viz. Social, Geographic, MSE Status shall be eligible for maximum discount of 30%
- (ii) The Annual Guarantee fee (subsequent to first time fee) at specified rate (as specified above) ***on pro-rata basis for the first and last year and in full for the intervening years*** would be generated by 1<sup>nd</sup> week of February every year. AGF so demanded would be paid by the MLIs on or before 31<sup>st</sup> March each year or any other specified date by CGTMSE, of every year.
- 2) The guarantee cover will start from the date of realisation of payment of guarantee fee by the trust and shall run through the agreed tenure of guarantee cover subject to timely payment of annual guarantee fee.
  - 3) In the event of non-payment of annual guarantee fee within the stipulated time, the guarantee under the scheme shall not be available to the lending institution/eligible pair unless the trust agrees for continuance of guarantee and the lending institution pays penal interest on the guarantee fee and unpaid for the entire period of delay at such rates specified the trust from time to time.
  - 4) Further provided that,  
  
In the event of non payment of annual guarantee service fee/ guarantee fee within the stipulated time or extended time that may be agreed to by

the Trust on such terms, or in case expiry of the guarantee coverage liability of the trust to guarantee such credit facility would lapse /cease to exist in respect of those credit facility(ies) against which the service charges/fees are due and not paid or guarantee coverage has expired.

Provided further that, the trust may consider renewal/revival of guarantee cover for such of the credit facility upon such terms and conditions as the Trust may decide.

In the event of any error or discrepancy or shortfall being found in the computation of the amounts or in the calculation of the guarantee fee / annual service fee, such deficiency / shortfall shall be paid by the eligible lending institution to the Trust together with interest on such amount at a rate prescribed by the Trust from time to time. Any amount found to have been paid in excess would be refunded by the Trust. In the event of any representation made by the lending institution in this regard, the Trust shall take a decision based on the available information with it and the clarifications received from the lending institution, and its decision shall be final and binding on the lending institution.

- (iii) The amount equivalent to the annual guarantee fee and / or the service fee payable by the eligible lending institution may be recovered by it, at its discretion from the eligible borrower.

The annual guarantee fee and / or annual service fee once paid by the lending institution to the Trust is non-refundable. Annual Guarantee fee / Annual Service Fee, shall not be refunded, except under certain circumstances like –

- Excess remittance,
- Remittance made more than once against the same credit application,
- Annual Guarantee fee & or annual service fee not due,
- Annual Guarantee fee paid in advance but application not approved for guarantee cover under the scheme, etc.

## **8.2 Payment process**

Payment to be made through NEFT/RTGS into the Virtual Account Number generated on CGTMSE Portal. Annual Guarantee Fee (AGF) demanded by the Trust is inclusive of applicable GST. However, trust reserves the right to change mode of payment of AGF.

## IV. GUARANTEES

### 9. Extent of the Guarantee Coverage

The extent of guarantee coverage have been increased maximum upto 90%.

Category (including Trading activity)	Maximum extent of Guarantee Coverage (where guaranteed credit facility is)		
	Upto ₹ 5 lakh	Above ₹ 5 lakh & upto ₹ 50 lakh	Above ₹ 50 lakh & upto ₹ 500 lakh
Micro Enterprises	85%	75%	75%
MSEs located in North East Region (incl. Sikkim, UT of Jammu & Kashmir and UT of Ladakh)	80%		75%
Women entrepreneurs (guarantees issued on or after April 01, 2024)	90%		
SC/ST entrepreneurs / MSEs situated in Aspirational District / ZED certified MSEs / Person with Disability (PwD) / MSE promoted by Agniveers	85%		
Transgender entrepreneurs (guarantees approved on or after March 01, 2025)	85%		
All other category of borrowers	75%		

### Payout Cap

The payout cap for any given year will be calculated at 2 times of the total receipts (i.e. guarantee fee plus recoveries post 1<sup>st</sup> claim settlement paid to CGTMSE under the scheme) of the previous financial year passed to CGTMSE by the lending institution or dealing institution as applicable.

## V. CLAIMS

### 10. Invocation of guarantee

The Member Lending Institutions (MLIs) are required to inform the date on which the account was classified as NPA in a particular calendar quarter, by end of subsequent quarter.

10.1 The lending institution may invoke the guarantee in respect of credit facility within a maximum period of 3 years from the NPA date or end date of lock-in period whichever is later.

#### 10.2 Lock-in Period

The lock-in period of 18 months from either the date of last disbursement of the loan to the borrower or the guarantee start date in respect of credit facility to the borrower, whichever is later.

Claim(s) against default in account can be lodged by MLI if the following conditions are satisfied: -

- a. The guarantee in respect of that credit facility was in force **at the time of account turning NPA**.
- b. Claim can be lodged after completion of Lock-in Period.
- c. The amount due and payable to the lending institution in respect of the credit facility has not been paid and the dues have been classified by the lending institution as Non-Performing Assets. Provided that the lending institution shall not make or be entitled to make any claim on the Trust in respect of the said credit facility if the loss in respect of the said credit facility had occurred owing to actions / decisions taken contrary to or in contravention of the guidelines issued by the Trust.
- d. The credit facility has been recalled and the recovery proceedings have been initiated under due process of law. Mere issuance of recall notice under SARFAESI Act 2002 cannot be construed as initiation of legal proceedings for purpose of preferment of claim under CGS. MLIs are advised to take further action as contained in Section 13 (4) of the SARFAESI Act 2002 wherein a secured creditor can take recourse to any one or more of the recovery measures out of the four measures indicated therein before submitting claims for first instalment of guaranteed amount. In case the MLI is not in a position to take any of the action indicated in Section 13(4) of the aforesaid Act, they may initiate fresh recovery proceeding under any other applicable law and seek the claim for first instalment from the Trust.

In addition to above, Arbitration proceedings will also be considered eligible legal action only under Option-2.

- e. However, initiation of legal proceedings as a pre-condition for invoking of guarantees shall be waived for credit facilities having aggregate outstanding up to ₹1,00,000/-, subject to the condition that for all such cases, where the filing of legal proceedings is waived, a Committee of the Member Lending Institution (MLI) headed by an Officer not below the rank of Assistant General Manager should examine all such accounts and take a decision for not initiating legal action, and for filing claim under the Scheme.
  - f. Claims of the respective MLI will be settled as per payout cap. Any claim lodged / received exceeding the payout cap will be suspended till such time the position is remedied i.e. payout is brought within the payout cap limit.
- 10.3 The claim should be preferred by the lending institution in such manner and within such time as may be specified by the Trust in this behalf.
  - 10.4 The accounts classified by the MLI as Fraud/ Wilful defaulter/ Non- Co-Operative borrower shall not be considered eligible for claim.
  - 10.5 The account slipping into NPA within 90 days from the material date shall not be considered eligible for claim settlement.
  - 10.6 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 Trust shall pay to the lending institution interest on the eligible claim amount at the prevailing Bank Rate for the period of delay beyond 30 days. The balance 25 per cent of the guaranteed amount will be paid on conclusion of recovery proceedings or after three years of obtention of decree of recovery, whichever is earlier. On a claim being paid, the Trust shall be deemed to have been discharged from all its liabilities on account of the guarantee in force in respect of the borrower concerned. MLIs, however, should undertake to refund any amount received from the unit after payment of full guaranteed amount by CGTMSE.

- 10.7 In the event of default, the lending institution shall exercise its rights, if any, to take over the assets of the borrowers and the amount realized, if any, from the sale of such assets or otherwise shall first be credited in full by the lending institutions to the Trust before it claims the remaining 25 per cent of the guaranteed amount.
- 10.8 The lending institution shall be liable to refund the claim released by the Trust together with penal interest at the rate specified by the Trust above the prevailing Bank Rate, if such a recall is made by the Trust in the event of serious deficiencies having existed in the matter of appraisal / renewal / follow-up / conduct of the credit facility or where lodgement of the claim was more than once or where there existed suppression of any material information on part of the lending institutions for the settlement of claims. The lending institution shall pay such penal interest, when demanded by the Trust, from the date of the initial release of the claim by the Trust to the date of refund of the claim.
- 10.9 MLIs can update, allocate and remit the recoveries/ OTS amount received post settlement of first instalment of claim in the CGTMSE portal.
- 10.10 While online lodgement of first claim, MLIs have to submit the Declaration & Undertaking (D& U) electronically along with the checklist displayed in the system.

#### **Settlement of second / final instalment**

The settlement of second / final instalment will be as per the CGS-1 guidelines.

Second/ Final instalment claim can be lodged after the completion of 3 years from the date of settlement of first claim or OTS (after the receipt of full and final OTS amount) whichever is earlier.

#### **Claim Settlement**

All claims of the eligible pair will be settled in the designated escrow account or in the account as informed to the Trust by the pair of MLIs and accepted by the trust.

#### **11. Subrogation of rights and recoveries on account of claims paid**

- (i) The lending institution shall furnish to the Trust, the details of its efforts for recovery, realizations and such other information as may be demanded or required from time to time. The lending institution will hold lien on assets created out of the credit facility extended to the

borrower, on its own behalf and on behalf of the Trust. The Trust shall not exercise any subrogation rights and that the responsibility of the recovery of dues including takeover of assets, sale of assets, etc., shall rest with the lending institution.

- (ii) In the event of a borrower owing several distinct and separate debts to the lending institution and making payments towards any one or more of the same, after the account turning into NPA, whether the account towards which the payment is made is covered by the guarantee of the Trust or not, such payments shall, for the purpose of this clause, be deemed to have been appropriated on proportionate basis by the lending institution based on total outstanding amount as on the date of NPA/recovery, to the debt covered by the guarantee and in respect of which a claim has been preferred and paid, irrespective of the manner of appropriation indicated by such borrower or manner in which such payments are actually appropriated. The same will be applicable even for OTS settlement of such accounts.
- (iii) Every amount recovered and due to be paid to the Trust shall be paid by the lending institution on pro-rata basis. In case where legal action has been initiated, legal expense (which includes only court fees and advocate fees) will be netted off from total recovered amount and then, amount on pro-rata basis has to be returned to the Trust. However, if account is settled under OTS, and there are other loan accounts sanctioned by MLI but which are not covered under CGTMSE for the same borrower, then the MLI shall remit the OTS amount on the proportionate basis based on total outstanding amount as on OTS date

## **VI. MISCELLANEOUS**

### **12. Appropriation of amount received from the lending institutions**

The amount received from the lending institutions shall be appropriated in the order in which the service fee / annual guarantee fee, penal interest and other charges have fallen due. If the service fee / annual guarantee fee and the penal interest have fallen due on the same date, then the appropriation shall be made first towards service fee / annual guarantee fee and then towards the penal interest and finally towards any other charges payable in respect of the eligible credit facility.

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

Where subsequent to the Trust having released a sum to the lending institution towards the amount in default in accordance with the provisions contained in the Section 10 of this scheme, the lending institution recovers money subsequent to the recovery proceedings initiated by it, the same shall be deposited by the lending institution with the Trust, after adjusting towards the legal cost incurred by it for recovery of the amount. The Trust shall appropriate the same first towards the pending annual service fee / annual guarantee fee, penal interest, and other charges due to the Trust, if any, in respect of the credit facility towards which the amount has been recovered by the lending institution, and the balance, if any, shall be appropriated in such a manner so that losses on account of deficit in recovery of the credit

facility between the Trust and the lending institution are in the proportion of 50%/75% / 80% / 85% and 50%/ 25% / 20% / 15%, respectively.

**14. Trust's liability to be terminated in certain cases**

- (i) If the liabilities of a borrower to the lending institution on account of any eligible credit facility guaranteed under this Scheme are transferred or assigned to any other borrower and if the conditions as to the eligibility of the borrower and the amount of the facility and any other terms and conditions, if any, subject to which the credit facility can be guaranteed under the Scheme are not satisfied after the said transfer or assignment, the guarantee in respect of the credit facility shall be deemed to be terminated as from the date of the said transfer or assignment.
- (ii) If a borrower becomes ineligible for being granted any credit facilities under the Scheme, by reason of cessation of his activity or his undertaking ceasing to come within the definition of a MSE unit, the liability of the Trust in respect of any credit facilities granted to him by a lending institution under the Scheme shall be limited to the liability of the borrower to the lending institution as on the date on which the borrower becomes so ineligible, subject, however, to the limits on the liability of the Trust fixed under this Scheme. However, notwithstanding the death or retirement of a partner where the borrower is a partnership firm or the death of one of the joint borrowers, if the lending institution is entitled to continue the credit facilities to the surviving partner or partners or the surviving borrower or borrowers, as the case may be and if the credit facilities have not already become non-performing asset, the guarantee in respect of such credit facilities shall not to be deemed to be terminated as provided in this paragraph.

**15. 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.

**16. Conditions imposed under the Scheme to be binding on the lending institution**

- (i) Any guarantee given by the Trust shall be governed by the provisions of the Scheme as if the same had been written in the documents evidencing such guarantee.
- (ii) The lending institution shall as far as possible ensure that the conditions of any contract relating to an account guaranteed under the Scheme are not in conflict with the provisions of the Scheme but notwithstanding any provision in any other document or contract, the lending institution shall in relation to the Trust be bound by the conditions imposed under the Scheme.

**17. Modifications and exemptions**

- (i) The Trust reserves to itself the right to modify, cancel or replace the 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 Clause (i) and (ii) of Section 10 of the Scheme are complied with by the lending institution prior to the date on which the cancellation comes into force.

**18. 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 given in connection therewith, the decision of the Trust shall be final.

**19. 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.

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