Ref. No. CGTMSE / June 22, 2023

Credit Guarantee Scheme - I & II

All Member Lending Institutions (MLIs) of CGTMSE

Circular No.228/2023-24

Dear Madam / Sir,

Tamil Nadu Credit Guarantee Scheme (TNCGS)

We are pleased to inform that CGTMSE in collaboration with State Government of Tamil Nadu, has launched a special guarantee scheme 'Tamil Nadu Credit Guarantee Scheme (TNCGS)' for the MSEs situated in the State of Tamil Nadu. Under the Scheme, 75% -85% of guarantee coverage for all credit facilities will be provided by CGTMSE as hither to, and balance guarantee coverage would be by State Government of Tamil Nadu depending upon the category and loan amount with a maximum coverage upto 90%. The claims of the respective MLI will be settled maximum upto 10% NPA level of crystallized portfolio (portfolio will be crystallized every FY).

The Scheme is made effective for credit facilities extended to manufacturing MSMEs from September 01, 2022. However, the ceiling for availing credit guarantee under TNCGS would be ₹200 lakh for proposals covered till March 31, 2024. Further, verification of property ownership details before extending guarantee coverage is not applicable for the given period i.e., till March 31, 2024. This coverage may be extended by issuance of specific notification in this regard. All the existing MLIs under CGS – I and CGS – II shall be eligible under TNCGS.

The guarantee is extended by CGTMSE in partnership with Government of Tamil Nadu. Annual guarantee fee for the portion guaranteed by the State Government of Tamil Nadu is nil till further notification. All other terms and conditions of the Credit Guarantee Schemes (CGS – I for banks and CGS – II for NBFCs) shall be applicable, mutatis mutandis, under TNCGS. The Scheme guideline is given at *Annexure.*

MLIs are required to inform the date on which the account was classified as SMA0, SMA1, SMA2 and NPA in a particular calendar quarter by end of subsequent quarter on the TNCGS digital platform.

This initiative will support meeting the needs of financial assistance to the MSMEs in the State of Tamil Nadu. We look forward to you for popularizing TNCGS & ensuring that the benefit of the Scheme is properly extended. The contents of this circular may please be brought to the notice of all your offices located in the State of Tamil Nadu.

Yours faithfully,

Sd/-

(Dhiraj Kumar)

Encl: as above

Deputy General Manager

सूक्ष्म एवं लघु उद्यम क्रेडिट गारंटी फंड ट्रस्ट (भारत सरकार एवं सिडबी द्वारा स्थापित)
1ली मंजिल, सिडबी स्वावलंबन भवन, एवेन्यू 3, लेन 2, बांद्रा कुर्ला कॉम्पलैक्स, बांद्रा (पू.), मुंबई - 400 051.
Credit Guarantee Fund Trust for Micro and Small Enterprises (Set up by Government of India & SIDBI)
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Annexure

Government of Tamil Nadu
Tamil Nadu Credit Guarantee Scheme "TNCGS"

Guidelines for operation of TNCGS

I. INTRODUCTION

1. Title and date of commencement

1) The Scheme shall be known as the Tamil Nadu Credit Guarantee Scheme (TNCGS) for MSME manufacturing units, and it is implemented in collaboration with CGTMSE and Government of Tamil Nadu (GoTN), as appropriate.

2) The Scheme is implemented on a pilot mode from August 2022 on standalone basis by Govt of TN and shall operate on full-scale from January 2023 in collaboration with CGTMSE. The Scheme can operate in collaboration with CGTMSE or on standalone basis by GoTN for the cases otherwise not eligible under CGTMSE.

2. Definitions

For the purposes of this Scheme –

1) **"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 lodgment 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.

2) **"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.

3) **"Credit Facility"** means any financial assistance by way of term loan and/ or fund based working capital (e.g., overdraft facility as a part of working capital) facilities extended by the 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 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 covered under CGS of CGTMSE and for which guarantee fee has been paid, as of March 31st, of the relevant year. This applies for cases covered on standalone basis by GoTN even where no guarantee fee is applicable for credit facility covered under TNCGS**.**

4) “**Eligible Borrower”** means new or existing Micro, Small and Medium Manufacturing Enterprises to which credit facility has been provided by the lending institution with or without any collateral security and/ or third-party guarantees.

“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.

5) **‘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.

6) **“Lending Institution(s)” [LI]** means a commercial bank for the time being included in the second Schedule to the Reserve Bank of India Act,1934, Regional Rural Banks, NBFCs, New Age Fin-Tech NBFCs, Scheduled Urban Co-operative Banks and Small Finance Banks as may be specified by the Trust from time to time, 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 institutions from the list of eligible institution. For cases covered on standalone basis by Govt. of TN under TNCGS, TAICO Bank and TIIC are also eligible lending institutions.

7) **Manufacturing MSME Units** means MSME Units engaged in the manufacture or production of goods to any industry specified in the first schedule to the industries (Developed and Regulation) Act 1951. This specifically excludes bill discounting/ receivables funding, trading, and service activities**.**

8) **“Material Date”** means the date on which the annual guarantee fee on the amount covered in respect of eligible borrower is paid / credited to the Trust by the Member lending institution under the TNCGS**.** For the cases covered on standalone basis by GoTN where no guarantee fee is applicable for credit facility covered under TNCGS the Material date will be the date of approval of guarantee by CGTMSE on its portal.

9) **“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.

10) **“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.

11) **Property Ownership details** means land property in the name of the borrower (the sole proprietor, each of the partners in case of partnership/ limited liability partnership, each of the trustees in case of trust, the Karta and coparceners in case of HUF and each of the promoter directors in case of private public limited companies) and the owner of the collateral security.

12) **“Scheme”** means Tamil Nadu Credit Guarantee Scheme (TNCGS)**.** The Scheme shall operate in collaboration with CGTMSE or on Standalone basis by GoTN as under:

a. When the Scheme is operated in collaboration with CGTMSE the financial assistance of up to ₹500 lakh per borrower shall be covered.

b. When the Scheme is operated on standalone basis by GoTN for the cases which are otherwise not eligible for coverage under CGS of CGTMSE, the financial assistance of up to ₹40 lakh shall be covered.

13) **“SIDBI”** means the Small Industries Development Bank of India, established under Small Industries Development Bank of India Act, 1989 (39 of1989).

14) **MSME** means an enterprise defined and classified as follows:

(i) A Micro enterprise where the investment in plant and machinery or equipment does not exceed ₹1 crore (Rupees one crore only) and turnover does not exceed ₹5 crore (Rupees five crore only).
(ii) A Small enterprise where the investment in plant and machinery or equipment does not exceed ₹10 crore (Rupees ten crore only) and turnover does not exceed ₹50 crore (Rupees fifty crore only).
(iii) A Medium enterprise where the investment in plant and machinery or equipment does not exceed ₹50 crore (Rupees fifty crore only) and turnover does not exceed ₹250 crore (Rupees two hundred fifty crore only) as accepted to be in effect from 01.07.2020 under the MSMED Act, 2006 as per extant amendment/modification to the same under the said Act from time to time.

For the purpose of TNCGS, the above definition relates to manufacturing units only.

15) **“Tenure of Guarantee cover”** means the maximum period of guarantee cover from Guarantee sanction date which shall run through the agreed tenure of the term credit and for a period of 5 years or block of a 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 by the Trust.

16) **“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. It also will mean TNCGS, whenever the institutional arrangement made by Government of Tamil Nadu for TNCGS eventually, whenever it is set up, whenever relevant.

17) **“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 & Co parceners 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.

18) **“Portfolio”** means the cumulative built up of credit facility extended by the lending institution to the borrower which shall get crystallized at the end of each financial year. This includes financial assistance by way of term loan and/ or fund based working capital (e.g., overdraft facility as part of working capital)

19) **“Date of Crystallization of the Portfolio”** would be at the end of the financial year in which the portfolio is built up and the guarantee cover is issued.

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 extended by Member Lending Institution(s) to a single eligible borrower in the Micro, Small and Medium Enterprises sector for credit facility

1) Not exceeding ₹40 lakh for standalone coverage by GoTN (without collaboration with CGTMSE) under TNCGS with or without collateral security and as follows when TNCGS collaborates with CGTMSE.
2) Not exceeding ₹500 lakh (Scheduled Commercial Banks, select Financial Institutions, by way of term loan and/or working capital facilities on or after entering into an agreement with the Trust, as may be revised by the Trust from time to time.
3) Not exceeding ₹200 lakh for Small Finance Banks (SFBs), Co-operative Banks, as may be revised by the Trust from time to time.
4) Not exceeding ₹50 lakh for Regional Rural Banks, as may be revised by the Trust from time to time.

Coverage under Hybrid model of CGTMSE is also eligible.

The cap of ₹500 lakh is the maximum guarantee coverage limit per borrower based on the outstanding credit facilities 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.

Provided further that, except for the pilot for TNCGS, as on the material date:

(i) Credit facility is standard and regular (not SMA) as per RBI guidelines in the books of the MLI; 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 prior consent in this regard from the Trust.

Non-manufacturing units shall not be eligible for coverage under TNCGS.

Under "Hybrid Security" product, the MLIs are allowed to obtain collateral security for a part of the credit facility, whereas the remaining part of the credit facility, upto a maximum of ₹500 lakh, can be covered under TNCGS. 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.

The information on total exposure of the borrower under CGTMSE and status of the account (NPA/Standard) are made available to the MLIs. Path: MLI Login>> Reports & MIS>> Search History>> Enter IT PAN number of the chief promoter of the unit.

Provision will be made to capture real time data viz. date of sanction, etc. for each loan covered under TNCGS. The TNCGS shall have strict elective eligibility filters to qualify a loan under TNCGS coverage such that there would be no automatic coverage under TNCGS.

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 sanctioned for non-manufacturing units and towards bills discounting / receivables credit facilities.

(ii) Any credit facility in respect of which risks are additionally covered under a scheme operated / administered by Deposit Insurance and Credit Guarantee Corporation or the Reserve Bank of India, to the extent they are so covered.

(iii) Any credit facility in respect of which risks are additionally covered by Government or by any general insurer or any other person or association of persons carrying on the business of insurance, guarantee or indemnity, to the extent they are so covered.

(iv) Any Credit facility for loans upto ₹10 lakh to Micro Enterprises shall not be eligible to be covered under the Scheme if the said credit facility has been covered under MUDRA Guarantee Scheme through NCGTC Ltd. while applying for the guarantee cover for such proposals.

(v) 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.

(vi) 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), (ii) and (iii) above, and where the lending institution has invoked the guarantee provided by the Trust or under the schemes mentioned in clause (i), (ii) and (iii) above, but has not repaid any portion of the amount due to the Trust or under the schemes mentioned in clause (i), (ii) and (iii) above, as the case may be, by reason of any default on the part of the borrower in respect of that credit facility.

(vii) 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 the overall exposure of ₹500 lakh.

6. Agreement to be executed by the lending institution

A lending institution shall not be entitled to a guarantee in respect of any eligible credit facility granted by it unless it has entered into an agreement with the Trust in such form as may be required by the Trust for covering by way of guarantee, under the Scheme all the eligible credit facilities granted by the lending institution, for which provision has been made in the Scheme.

7. Responsibilities of lending institution under the scheme:

1) The lending institution shall evaluate credit applications by using prudent banking judgment 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.

2) The lending institution shall closely monitor the borrower account and make such data available to TNCGS at a frequency as required by TNCGS. The LI's have to make available property ownership details to GoTN as a pre-condition for coverage under the TNCGS. TNCGS shall verify the same before extending guarantee coverage. The lending institution shall safeguard the primary securities taken from the borrower in respect of the credit facility in good and enforceable condition.

3) 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.

4) 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.

5) 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.

6) 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.

8. Annual Guarantee Fee(AGF)

CGTMSE would be charging fee on its share of 75% of guarantee coverage as and Tamil Nadu State Government's share of additional guarantee coverage will not have any fee to begin with. AGF will be charged on the amount guaranteed by CGTMSE for the first year and on the outstanding amount for the remaining tenure of the credit facilities as under:

AGF Structure – Standard Rate (SR)

The applicable Fee Structure is given below (as may be revised by the Trust from time to time)

Slab	Standard Rate (SR)*	Fee Rate after Discount	Fee Rate with Risk Premium			
		(-10%)	15%	30%	50%	70%
0-10 lakh	0.37	0.33	0.43	0.48	0.56	0.63
Above 10-50 lakh	0.55	0.50	0.63	0.72	0.83	0.94
Above 50-1 crore	0.60	0.54	0.69	0.78	0.90	1.02
Above 1-2 crore	1.20	1.08	1.38	1.56	1.80	2.04
Above 2-5 crore	1.35	1.22	1.55	1.76	2.03	2.30
**AGF will be charged on the guaranteed amount for the first year and on the outstanding amount for the remaining tenure of the credit facility.*						

The Risk premium/discount charged to the bank is as applicable under CGS I

In addition to above, following Categories are eligible for additional concession / relaxation in guarantee fee. The details as given in the table below.

Category	**Social Category (Weaker Section/ Underserved Section)**	**Geographic**	**MSE Status**
Target Group	Women/SC/ST / Person with disability (PwD)/ Agniveers	Aspirational District	ZED Certified
Relaxation/ Concession in Rate	10%	10%	10%

Fees for NBFCs will be is as applicable under CGS II

Payment of AGF

(i) Annual Guarantee fee (first time fee) shall be paid to the Trust by the institution availing of the guarantee within 30 days from the date of first disbursement of credit facility **(not applicable for Working capital)** or 30 days from the date of Demand Advice (CGDAN) of guarantee fee whichever is later ***or such date as specified by the Trust.***

(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 first week of February every year. AGF so demanded would be paid by the MLIs on or before 30th March each year or any other specified date by CGTMSE, of every year.

Provided further that in the event of non-payment of annual service / guarantee fee within the stipulated time or such extended time that may be agreed to by the Trust on such terms, liability of the Trust to guarantee such credit facility would lapse in respect of those credit facility against which the service charges / fee are due and not paid.

Provided further that, the Trust may consider renewal 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 of four per cent over and above the Bank Rate, or as may be 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 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.
- In case of pre-closure / request for refund, the refund is as per the existing clause of the Trust.

Payment Process

The existing payment process as applicable under CGS I

9. Revival of closed accounts

If the guaranteed account gets closed due to non-payment of AGF, the guarantee under the scheme shall not be available and request for revival of accounts/ delayed payment will be considered subject to the following conditions:

(i) Request for revival of account will have to be submitted within next financial year.

(ii) Account should be standard and regular as on date of submission of request for revival and the Trust reserves the right to reject the claim if the account turns NPA within 180 days from the date of revival of account.

(iii) Any fee due by the MLI (current and previous FY) will be demanded along with penal interest (@ 4% over Bank Rate, per annum) and additional risk premium @15% of standard rate or at such rates specified by the Trust from time to time, for the period of delay.

The above guidelines for revival are subject to modification by the Trust from time to time, The prevailing guidelines would be applied.

III. GUARANTEE

12. Extent of the Guarantee Coverage

The Guarantee Coverage under TNCGS is eligible for MSME manufacturing units as follows:

Category and Guarantee Coverage ceiling Limit of single borrower	**Maximum extent of Guarantee Coverage of the amount in default for each credit facility, subject to a ceiling of 10% of the crystalised portfolio***		
	CGTMSE	**Tamil Nadu State Government (%)**	**Total Guarantee Cover**
Micro, Small and Medium Manufacturing Units upto ₹40 lakh per borrower, Irrespective of total loan amount	0%	90% of amount in default	90% of amount in default
Cases where GoTN and CGTMSE are collaborating and extending credit guarantee coverage under TNCGS			
Micro and Small Manufacturing Units Upto ₹40 lakh	75% of amount in default	15% of amount in default	90% of amount in default
₹40 – ₹500 lakh	75% of amount in default	5% of amount in default	80% of amount in default
Micro Manufacturing Enterprises upto 5 lakh	85% of amount in default	5% of amount in default	90% of amount in default
Women entrepreneurs / SC/ST entrepreneurs / MSEs situated in Aspirational District / ZED certified MSEs / Person with Disability (PwD) / MSE promoted by Agniveers	85% of amount in default	5% of amount in default	90% of amount in default

*** 2% of the portfolio has to be recovered by MLI from borrowers for the portfolio of the MLI to be eligible for claims. The TNCGS portion of the claim will be released for each borrower's account in proportion to the credit**

realized as a proportion of the 2% of the portfolio. For term loans, 2% is in reference to the principal amount of the loan extended. For the purpose of a revolving fund-based facility, This shall mean 2% is in reference to the financial assistance committed by the MLI to the borrower.

All proposals for sanction of guarantee approvals for credit facilities above ₹50 lakh will have to be rated internally by the MLI and should be of investment grade as prevailing in the existing guidelines of CGS.

The guarantee cover will commence from the guarantee start date and shall run through the agreed tenure of the term credit in respect of term credit / composite credit. Where working capital alone is extended to the eligible borrower, the guarantee cover shall be for a period of 5 years or a block of 5 years or for such period as may be specified by the trust in this behalf.

IV. CLAIMS

13. Invocation of guarantee

TNCGS's total guarantee coverage is restricted to 10% of crystalised cumulative portfolio of MLI after reducing cumulative claims processed. Provided, claim settlement for any financial year will be restricted to 10% of the credit facility extended by the MLI to the borrower in that financial year. The claims for the entire year will be processed for payment by TNCGS after crystallization of the annual portfolio of the MLI with TNCGS

Claims Process:

For CGTMSE portion:

a. For the individual loans, the value to be paid out of the CGTMSE portion will follow the norms of the CGS schemes of CGTMSE.

For TNCGS portion:

b. Claims may be reported on real time basis by the MLI by means of automatic alerts on the TNCGS portal which is connected through APIs with MLI's system for the guaranteed accounts.

c. Claims will be processed after ensuring that 2% of the portfolio is recovered from the borrower, as explained above. The actual funds transfer will take place after the portfolio is crystalised and NPA is marked annually.

d. Overall claim amount under TNCGS will be restricted to 10% of the crystalised portfolio. The loan accounts where the 2% is credited as recovery against principal due, will get first preference while TNCGS releases its guarantee amount.

e. The order of payment within first preference loan accounts and other loan accounts is the chronology of completion of credit of 2%. This will be at an LI level.

f. GoTN shall calculate its portion of claim & intimate CGTMSE to enable it to release the same.

NPA marking

The Member Lending Institutions (MLIs) are required to inform the date on which the account was classified as SMA0, SMA1, SMA2 and NPA in a particular calendar quarter by end of subsequent quarter using the following option in the online system.

(Member Login area >> Guarantee Maintenance >> Periodic Information >> NPA Details)

(i) TNCGS may make this entry real time also covering each loan details real time for the date of sanction. The TNCGS may have strict elective eligibility filters to quantify a loan under TNCGS coverage. So, there would be no automatic coverage under TNCGS.

(ii) The lending institution may invoke the guarantee in respect of credit facility within a maximum period of 3 years from the NPA date or lock- in period whichever is later if the following conditions are satisfied: -

I. The guarantee in respect of that credit facility was in force at the time of account turning NPA.

II. 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/ material date in respect of credit facility to the borrower, whichever is later, has lapsed.

III. 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.

IV. 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/SFC Act 1951 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)/ Section 29(1) of the SARFAESI Act 2002/SFC Act 1951 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)/Section 29(1) 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.

V. However, initiation of legal proceedings as a pre-condition for invoking of guarantees shall be waived for credit facilities having aggregate outstanding up to ₹10,00,000/-,. Where claim is settled in single installment with reduced extent of guarantee by 15% by CGTMSE, the GoTN portion of settlement would be same as applicable in table above.

VI. Claims of the respective MLI will be settled to the extent of 10% of the crystallized portfolio provided 2% of the portfolio is is recovered as explained above. Any claim lodged / received exceeding 10% of the crystallized portfolio will not be eligible for settlement.

(iii) Once TNCGS guarantee is invoked, Government of Tamil Nadu reserves the right to proceed under the Revenue Recovery Act against the borrowers, where the collection will happen with interest, as decided by TNCGS. (Usually, 4% above bank rate on 1st April of that year). Full collection of the amount under Revenue Recovery Act, or to the lending Institution (without discounts, etc. under one time settlement, etc.) is necessary before credit bureau scores are set right for the borrowers.

(iv) 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.

(v) The Trust shall pay 75 percent 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 till the decree gets time barred. The balance 25 per cent of the guaranteed amount will be paid on conclusion of recovery proceedings by the lending institution 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.

(vi) 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.

(vii) The lending institution shall be liable to refund the claim released by the Trust together with penal interest stipulated by CGTMSE, if any, if such call 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.

(viii) MLIs can update, allocate and remit the recoveries/ OTS amount received post settlement of first instalment of claim in the CGTMSE portal.

(ix) While online lodgement of first claim, MLIs have to submit the Declaration

& Undertaking (D& U) electronically along with the checklist displayed in the system.

<u>Settlement of second / final instalment</u>

The settlement of second / final instalment will be considered on conclusion of recovery, irrespective of the sanction date of the credit facility. With regards to conclusion of recovery proceedings, following four scenarios as applicable and certified by the concerned authority of the MLI is considered as conclusion of recovery proceedings provided minimum period of 3 years from the date of settlement of first claim has been lapsed.

i. If legal action is initiated only under SARFAESI Act and whatever assets available were sold off and the amount is remitted to the Trust. Also, the borrower is not traceable and the Net worth of the Personal Guarantor is not worth pursuing further legal course.

ii. If amount is recovered through sale of assets under SARFAESI and no other assets are available and legal action is taken under any forum such as RRA, Civil Court, Lok Adalat or DRT where there is no further means to recover the money from the borrower and the Net worth of the Personal guarantor is significantly eroded.

iii. If no assets are available and the borrower is absconding, and the Net worth of the Personal guarantor is significantly eroded.

iv. If no assets are available and the legal action is withdrawn as the borrower is absconding and it may not be worth pursuing legal action.

The balance 25 per cent of the guaranteed amount will be paid on conclusion of recovery proceedings by the lending institution or after three years of obtention of decree of recovery, whichever is earlier. However, in cases where the legal action has been initiated under SARFAESI Act or RRA, the MLIs may be allowed to lodge 2nd claim after the lapse of three years from date of action under Section 13(4) of SARFAESI Act and the date of Recovery Certificate issued by the Tahsildar respectively subject to following confirmation from the MLIs:

I. Personal Guarantees have been invoked and no further recovery is possible.

II. No tangible secured assets have been left for disposal and no further recovery is possible.

III. The entire recoveries made in the account have been duly indicated in the 2nd claim application/have been passed on to CGTMSE.

14. Subrogation of rights and recoveries on account of claims paid

a. 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 for the recovery of dues including takeover of assets, sale of assets, etc., shall rest with the lending institution.

b. 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, 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 by the lending institution 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 the manner in which such payments are actually appropriated.
c. Every amount recovered and due to be paid to the Trust shall be paid without delay, and if any amount due to the Trust remains unpaid beyond a period of 30 days from the date on which it was first recovered, interest shall be payable to the Trust by the lending institution at the rate which is 4% above Bank Rate for the period for which payment remains outstanding after the expiry of the said period of 30days.

V. MISCELLANEOUS

15. 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.

16. 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 in which guarantee has been extended. .

17. Trust's liability to be terminated in certain cases

a. 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.

b. If a borrower becomes ineligible for being granted any credit facilities under the Scheme, by reason of cessation of his activity, 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.

18. 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.

- 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.

- The Trust shall in so far 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 electronic information which are in his possession.

19. 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.

20. 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.

21. 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 there with, the decision of the Trust shall be final.

22. 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.

All covenants of the current CGS-II would apply mutatis mutandis to guarantee proposals of NBFCs with regard to operational modalities etc. as modified from time to time.

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