

CREDIT GUARANTEE FUND SCHEME FOR MICRO AND SMALL ENTERPRISES

I. INTRODUCTION

The Board of Trustees of 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 Lending Institutions to the borrowers in Micro and Small Enterprises (MSEs). The details of the Scheme are given below:

1. Title and date of commencement

- (i) The Scheme shall be known as the Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGS-I) [earlier known as Credit Guarantee Fund Scheme for Small Industries (CGFSI)]. Subsequent to the enactment of MSMED Act-2006, the Trust was renamed as Credit Guarantee Fund Trust for Micro and Small Enterprises and scheme as Credit Guarantee Fund Scheme for Micro and Small Enterprises.
- (ii) The Scheme had come into force from August 1, 2000 and had covered eligible credit facilities extended by the lending institutions to eligible borrowers effective from June 1, 2000.
- (iii) The scheme was modified from time to time for ease of operations, enhancement of credit flow to MSE sector and to meet the requirements of the MSEs as well as Lending Institutions. The current document /scheme is updated upto **August 20, 2018**.

2. Definitions

For the purposes of this Scheme -

- (i) **"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.
- (ii) **"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.
- (iii) **"Credit facility"** means any financial assistance by way of term loan and / or fund based and non-fund based working capital (e.g. Bank Guarantee, Letter of credit etc.) 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 (both fund and non-fund based) covered under CGS-I and for which guarantee fee has been paid, as at March 31, of the relevant year.
- (iv) **"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.

- (v) **'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
- (vi) **"Lending institution(s)"** 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 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 institution from the list of eligible institution.
- (vii) **"Material date"** means the date on which the annual guarantee fee on the amount covered in respect of eligible borrower becomes payable by the Member lending institution to the Trust.
- (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 extended.
- (x) **"Scheme"** means the Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGS-I)
- (xi) **"SIDBI"** means the Small Industries Development Bank of India, established under Small Industries Development Bank of India Act, 1989 (39 of 1989).
- (xii) **"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 .
- (xiii) **"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 (for a maximum period of 10 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.
- (xiv) **"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.
- (xv) **"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.

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 ₹50 lakh (Regional Rural Banks/Financial Institutions);(ii) not exceeding ₹200 lakh (Scheduled Commercial Banks, select Financial Institutions and Non Banking Financial Companies (NBFCs); (iii)not exceeding ₹50 lakh for Small Finance Banks (SFBs)byway 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.

Provided that the lending institution applies for guarantee cover in respect of credit proposals sanctioned in the quarter April-June, July-September, October-December and January-March prior to expiry of the following quarter viz. July-September, October-December, January-March and April-June respectively.

Provided further that, as on the material date

- (i) Credit facility is standard and regular (not SMA) as per RBI guidelines (refer Circular No. 151/2018-19 dated July 12, 2018); 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.

CGTMSE had included the MSE Retail Trade under its ambit for fresh credit facilities eligible for guarantee coverage by MLIs on or after February 28, 2018 for cases from ₹10 lakh to ₹100 lakh. (Refer Circular No.141 / 2017-18 dated February 28, 2018).

CGTMSE had also introduced a new "Hybrid Security" product where 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 ₹200 lakh, can be covered under CGS-I. CGTMSE will, however, have pari-passu charge on the primary security as well as 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. (Refer Circular No.142A, 142B / 2017-18 dated February 28, 2018 and June 11, 2018 respectively).

Credit facilities extended by more than one bank and/or financial institution jointly and/or separately to eligible borrower up to a maximum of ₹200 lakh per borrower subject to ceiling amount of individual MLI or such amount as may be specified by the Trust.

5. Credit facilities not eligible under the Scheme

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

- (iv) 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.
- (v) 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.
- (vi) Any Credit facility for loans upto ₹10 lakh to Micro Enterprises shall not be eligible to 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. (Refer CGTMSE Circular No.117/2016-17 dated November 10, 2016)
- (vii) 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.
- (viii) 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.
- (ix) 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 collateral security under CGTMSE upto to the extent of ₹ 200 lakh.
- (x) Any credit facility which has been sanctioned by the lending institution (all scheduled commercial banks, selected financial institutions and RRBs) with the maximum interest rate not more than 14% p.a. including cost of guarantee cover would be eligible for coverage under CGS (Refer Circular No.121/2016-17dated January 09, 2017 and 131/2016-17 dated July 21, 2017).

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:

- (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 primary 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 sanctioned / renewed to MSEs on or after April 01, 2018 as detailed below (Refer Circular No.139/2017-18 dated February 28, 2018):

Modified AGF Structure – Standard Rate (SR)

Credit Facility	Annual Guarantee Fee (AGF) [% p.a.]*	
	Women, Micro Enterprises and Units covered in North East Region	Others
Up to ₹5 Lakhs	1.00 + Risk Premium as per extant guidelines of the Trust	
Above ₹5 Lakhs and up to ₹50 Lakhs	1.35 + Risk Premium as per extant guidelines of the Trust	1.50 + Risk Premium as per extant guidelines of the Trust
Above ₹50 Lakhs and up to ₹200 Lakhs	1.80 + Risk Premium as per extant guidelines of the Trust	
Retail Trade (₹10 lakh to ₹ 100 lakh)	2.00+ Risk Premium as per extant guidelines of the Trust	
*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.		

In case of term loans, AGF would be calculated on outstanding amount as on 31st December against each guarantee account and for working capital, AGF would be calculated on maximum (peak) working capital limit availed by the borrower/enterprise during the previous calendar year.

For cases covered under Hybrid Security Model Guarantee fee will be charged on the guaranteed amount for the first year and on the proportionate outstanding amount subsequently resulting in lower guarantee fee charged to MSEs.

For cases sanctioned prior to April 01, 2018, the ASF/ AGF will continue to be charged on the guaranteed amount as per the details in the table given below:

Guarantees sanctioned upto 31/12/2012	<table border="1"> <thead> <tr> <th rowspan="2">Credit Facility</th> <th colspan="2">Upfront Guarantee Fee (%)</th> <th rowspan="2">Annual Service Fee (%)</th> </tr> <tr> <th>North East Region (incl. Sikkim)</th> <th>Others</th> </tr> </thead> <tbody> <tr> <td>Upto ₹ 5 lakh</td> <td>0.75</td> <td>1.00</td> <td>0.50</td> </tr> <tr> <td>Above ₹ 5 lakh to ₹ 50 lakh</td> <td>0.75</td> <td>1.50</td> <td>0.75</td> </tr> <tr> <td>Above ₹ 50 lakh to ₹ 100 lakh</td> <td>1.50</td> <td>1.50</td> <td>0.75</td> </tr> </tbody> </table>			Credit Facility	Upfront Guarantee Fee (%)		Annual Service Fee (%)	North East Region (incl. Sikkim)	Others	Upto ₹ 5 lakh	0.75	1.00	0.50	Above ₹ 5 lakh to ₹ 50 lakh	0.75	1.50	0.75	Above ₹ 50 lakh to ₹ 100 lakh	1.50	1.50	0.75	Fixed Rates (GF and ASF) (Circular No. 45 / 2007- 08 dated March 03, 2008)
	Credit Facility	Upfront Guarantee Fee (%)			Annual Service Fee (%)																	
		North East Region (incl. Sikkim)	Others																			
	Upto ₹ 5 lakh	0.75	1.00	0.50																		
Above ₹ 5 lakh to ₹ 50 lakh	0.75	1.50	0.75																			
Above ₹ 50 lakh to ₹ 100 lakh	1.50	1.50	0.75																			
Guarantee sanctioned on or after 01/01/2013	Composite all-in Guarantee Fee as under :-			Standard Rates (AGF) (Circular No. 62/2012-13 dated October 10, 2012)																		
	Credit Facility	Annual Guarantee Fee (AGF) [% p.a.]																				
		Women, Micro Enterprises and units in North East Region (incl. Sikkim)	Others																			
Upto ₹5 lakh	0.75	1.00																				
Above ₹5 lakh and upto ₹100 lakh	0.85	1.00																				
Guarantees sanctioned after 01/04/2016	Credit Facility	Annual Guarantee Fee (AGF) [% p.a.] + Risk Premium (RP)		Standard Rates (AGF) + Risk Premium (Circular 107 / 2015-16 dated January 28, 2016)																		
		Women, Micro Enterprises and units in North East Region (incl. Sikkim)	Others																			
	Upto ₹5 lakh	0.75+RP	1.00+RP																			
Above ₹5 lakh and upto ₹100 lakh	0.85+RP	1.00+RP																				

8.1 Charging of Annual Service Fee (ASF) / Annual Guarantee Fee (AGF) at differential rates depending upon NPA levels/ Claim Payout ratio of MLIs

The Trust had earlier adopted non-discretionary approach in levying Annual Service Fee (ASF)/Annual Guarantee Fee (AGF) without reference to the level of NPAs reported by the Member Lending Institutions (MLIs) on the CGTMSE portal vis-à-vis the guarantees issued to them as also without reference to the claims paid to the MLIs vis-à-vis the fees and recoveries received from the MLIs. Considering the very high level of NPAs reported by some of the MLIs as also significantly larger amount of claims settled for some of the MLIs, the Trust had introduced risk based pricing structure for cases sanctioned on or after April 01, 2016. The Trust with it's over 18 years of working

in the Credit Guarantee field, has built up adequate data to support the risk bases pricing. Therefore, the Trust had introduced following risk premium structure:

1) Risk premium on NPAs in Guaranteed portfolio		(2) Risk premium on Claim Payout Ratio	
NPA Percentage	Risk Premium	Claim Payout Percentage	Risk Premium
0-5%	SR	0-5%	SR
>5-10%	10% of SR	>5-10%	10% of SR
>10-15%	15% of SR	>10-15%	15% of SR
>15-20%	20% of SR	>15-20%	20% of SR
>20%	25% of SR	>20%	25% of SR

The above Risk premium structure would be governed by the following:

1. The risk premium, wherever applicable, would be charged with prospective effect i.e. credit facilities sanctioned by MLIs on or after April 01, 2016 and covered under the Credit Guarantee Scheme. The existing loans under credit Guarantee will continue to carry the old rates till their maturities or renewal.
2. The rates under this mechanism will be floating and will undergo changes every year based on the NPA level and payout ratios of the concerned Bank.
3. The MLIs having NPA percentage as well as claim payout ratio more than 5%, the risk premium under both the categories shall be applicable to such MLIs.
4. The risk premium structure will also be applicable to renewal cases (i.e. renewals after expiry of guarantee period) in respect of working capital limits.
5. In respect of working capital accounts covered under the Credit Guarantee Scheme where original sanctions are prior to April 01, 2016 and the subsequent enhancements in the limits are on or after April 01, 2016, the earlier fixed rate structure (i.e. pre-revised structure) would continue to apply even for the enhanced portion.
6. The review of risk premium would be an annual exercise and the revised risk premium would be applicable from the first day of each financial year. The subsequent revisions in the risk premium would be applicable to all those guarantees originally approved under differential pricing structure.
7. It is clarified here that while levying the annual guarantee fee for the first time, the fee is collected for the full 365 days from the guarantee start date (i.e. fee payment date) and the second and subsequent year onwards in respect of already issued guarantees, the fee is collected till the end of financial year excepting for the terminal year of guarantee where the fee is collected for the proportionate period. Thus, while the fee applicable for the first year would be for the entire 365 days at applicable rate, the fee at the revised rates in subsequent years, based on revisions in NPA percentage/claim pay-out ratio, would be applicable only for the broken period of the respective year.
8. It is further clarified that the guarantees approved under fixed rate structure i.e. in respect of credit facilities sanctioned by MLIs on or before March 31, 2016 would continue to be governed by the fixed rate structure till the expiry of respective guarantee period or first settlement of claim, whichever is earlier.
9. For working out the percentages of NPAs/claim pay-out ratio with a view to arrive at the risk premium, the data generated as on September 30 of immediately preceding financial year would be relied upon. e.g. for working out the risk premium applicable as effective from April 01, 2016 onwards, the base data for working out the percentage of NPAs/claim pay-out ratio would

be as on September 30, 2015 and so on. The MLIs would be advised by January every year about their respective NPA percentage and claim pay-out ratio as per the CGTMSE records and the risk premium applicable to them effective April 01 of subsequent financial year.

10. As regards calculation of NPA percentages and claim pay-out ratio, it may be mentioned that while NPA percentage would be worked on the basis of cumulative NPAs upto September 30 each year as marked by the MLI in CGTMSE portal (net of upgraded accounts and the accounts where the claims would not hit CGTMSE in respect of the NPAs marked) in terms of amount (i.e. Guaranteed amount of the corresponding NPA account) vis-à-vis the cumulative guarantees issued by the Trust as on September 30 every year as indicated above, the claim pay-out ratio would be worked out on the basis of cumulative claims settled by the Trust and the cumulative receipts (includes Annual Service /Annual Guarantee Fee receipts, recoveries out of OTS and recoveries passed on by MLIs after first settlement of claim) as on September 30 each year. The cumulative claims paid upto 1.05 times of the cumulative receipts will not attract any risk premium as indicated in the table above.
11. The MLIs would be intimated by first week of March each year about their respective NPA percentage and claim payout ratio and the applicable risk premium effective from April 01, of succeeding year.

(Refer to circular no.107/2015-16 dated January 28, 2016 available on www.cgtmse.in for more details).

8.2 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 2nd week of February every year. AGF so demanded would be paid by the MLIs on or before 15th April 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 (refer Circular No. 148/2017–18 dated March 22, 2018). 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.
- In case of pre-closure / request for refund, refund of proportionate annual guarantee fee (GF/AGF/ASF) will be allowed only where closure is marked in CGTMSE system / refund request is within 3 months from the date of receipt of fee by CGTMSE. To claim refund in case of pre-closure, it is mandatory to mark closure of account in the system using menu: Guarantee maintenance >> Request for closure. Any pre-closure marked / refund request received after 3 months from the date of receipt of fee by CGTMSE would not be considered.

8.3 Payment process

CGTMSE has introduced new online payment process for receiving the annual guarantee fee payment through NEFT/RTGS to enable the Trust to further improve the guarantee coverage process. The detailed process of fee remittance towards guarantee fee and annual fee is given in Circular No. Circular No.125/2017–18 dated April 12, 2017 and Circular No.127/2017–18 dated April 24, 2017, respectively.

Annual Guarantee Fee (AGF) demanded by the Trust is inclusive of applicable GST.

8.4 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 (Refer Circular No. 139/2017-18 dated February 28, 2018 and Circular No. 152/2017-18 dated July 12, 2018).

IV. GUARANTEES

9. Extent of the Guarantee Coverage

The Trust shall provide Guarantee as under:

Category	Maximum extent of Guarantee where credit facility is		
	Upto ₹ 5 lakh	Above ₹ 5 lakh & upto ₹ 50 lakh	Above ₹ 50 lakh & upto ₹ 200 lakh
Micro Enterprises	85% of the amount in default subject to a maximum of ₹ 4.25 lakh	75% of the amount in default subject to a maximum of ₹ 37.50 lakh	75% of the amount in default subject to a maximum of ₹ 150 lakh
Women entrepreneurs/ Units located in North East Region (incl. Sikkim) (other than credit facility upto ₹ 5 lakh to micro enterprises)	80% of the amount in default subject to a maximum of ₹ 40 lakh		
MSE Retail Trade (from ₹10 lakh upto ₹100 lakh)	50% of the amount in default subject to a maximum of ₹ 50 lakh.		
All other eligible category of borrowers	75% of the amount in default subject to a maximum of ₹ 150 lakh.		

All proposals for sanction of guarantee approvals for credit facilities above ₹50 lakh upto ₹200 lakh will have to be rated internally by the MLI and should be of investment grade. There is increase in the coverage of the eligible credit limit per borrower under the CGS from ₹100 lakh to ₹200 lakh extended by Scheduled Commercial Banks and select Financial Institutions to the units in Micro and Small Enterprises (MSEs) for proposals Sanctioned by the MLIs on or after January 01, 2017. The enhancements in existing guarantee cover beyond ₹100 lakh in respect of working capital facilities, where such enhancements are approved on or after January 01, 2017, would also be eligible for the enhanced coverage up to ₹200 lakh provided the proposal meets the 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, keeping maximum period of guarantee cover of 10 years or for such period as may be specified by the trust in this behalf (Refer Circular No. 149/2018-19 dated June 07, 2018).

V. CLAIMS

10. Invocation of guarantee

- (i) 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 NPA date is on or after 15/03/2018 (Refer Circular No.145/2017-18 dated March 15, 2018).

For NPAs prior to 15/03/2018, time period for claim lodgement will be 1 year for cases sanctioned prior to 01/01/2013 and 2 years for cases sanctioned after 01/01/2013, 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. 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, has lapsed.
 - 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.
 - e. However, in case of claims lodged on or after March 14, 2018, initiation of legal proceedings as a pre-condition for invoking of guarantees shall be waived for credit facilities having aggregate outstanding up to ₹50,000/-, 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 General Manager should examine all such accounts and take a decision for not initiating legal action, and for filing claim under the Scheme (Refer Circular No. 62 and 144 dated October 10, 2012 and March 14, 2018 respectively).
 - f. Claims of the respective MLI will be settled to the extent of 2 times of the fee including recovery remitted during the previous financial year. Any claim lodged / received exceeding 2 times of the total fee including recovery remitted by MLI will be suspended till such time the position is remedied i.e. payout is brought within the payout cap limit (Refer CGTMSE Circular No. 138/2017-18 dated January 19, 2018).
- (ii) 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.

- (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 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. As per CGTMSE circular No 62 and 135, for loans sanctioned on or after 01/01/2013, 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.
- (iv) 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.
- (v) The lending institution shall be liable to refund the claim released by the Trust together with penal interest at the rate of 4% 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.
- (vi) MLIs can update the recoveries/ OTS amount received post settlement of first instalment of claim in the CGTMSE portal. (Refer Circular No.113/ 2016-17 dated May 12, 2016 for more details).
- (vii) While online lodgement of first claim, MLIs have to submit the Declaration & Undertaking (D& U) electronically along with the checklist displayed in the system. Please refer CGTMSE circular No.130/ 2017-18 dated July 14, 2017 for more details.

The Guarantee Claim received directly from the branches or offices other than respective operating-offices of MLIs will not be entertained.

Settlement of second / final installment

The settlement of second / final installment 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.

- a. 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 Networth of the Personal Guarantor is not worth pursuing further legal course.
- b. 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 Networth of the Personal guarantor is significantly eroded.
- c. If no assets are available and the borrower is absconding, and the Networth of the Personal guarantor is significantly eroded.
- d. 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.

As per CGTMSE circular No 62 and 135, for loans sanctioned on or after 01/01/2013, 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 Tehsildar respectively subject to following confirmation from the MLIs:

- a. Personal Guarantees have been invoked and no further recovery is possible.
- b. No tangible secured assets have been left for disposal and no further recovery is possible.
- c. The entire recoveries made in the account have been duly indicated in the 2nd claim application/have been passed on to CGTMSE.

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, 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.
- (iii) 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 30 days.

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.
