



Ref No. 0683/NCGTC/MFI

July 15, 2021

To The Chairman and Managing Directors, Chief Executive Officers all Scheduled Commercial Banks / SIDBI,

Dear Sir,

Credit Guarantee Scheme for MFIs

We are pleased to inform that the Government of India through Ministry of Finance, Department of Financial Services has introduced the Credit Guarantee scheme for MFIs (hereinafter referred to as "the Scheme") to provide guarantee coverage to eligible lending institutions for the funding provided by them to NBFC-MFI or MFIs for on lending to eligible small borrowers in the context of Covid-19 pandemic. The detailed Operating Guidelines relating to the scheme are attached as Annexure I. The Fund and the Scheme will be managed and operated by National Credit Guarantee Trustee Company Limited [NCGTC], which is a wholly owned trustee company of Government of India.

2. In order to seek guarantee cover under the said Scheme, the eligible institutions have to register themselves for the scheme with NCGTC as a Member Lending Institution [MLI] by submitting an Undertaking on stamp paper of the requisite value (to be stamped as an Agreement under the local Stamp Act where the document is executed) to the Registered office of NCGTC at Mumbai. A copy of the Undertaking to be executed in this regard is enclosed at Annexure II. The Undertaking is to be executed by an official authorised by appropriate authority of the lending institution.

3. Kindly arrange for submission of the Undertaking along with relevant documents at the earliest to avail benefits under the scheme.

4. In case of any suggestions/clarifications relating to the scheme guidelines, please feel free to revert to the undersigned at ceo@ncgtc.in.

With kind regards.

Yours faithfully,

[Durgesh Pandey]

Chief Executive Officer

Encl: as above

हम हिन्दी में पत्राचार का स्वागत करते हैं।

नेशनल क्रेडिट गारंटी ट्रस्टी कंपनी लिमिटेड
(वित्त मंत्रालय, भारत सरकार)

NATIONAL CREDIT GUARANTEE TRUSTEE COMPANY LTD.®
(Ministry of Finance, Government of India)

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Credit Guarantee Scheme for MFIs
Operational Guidelines

I. Name of the Scheme

The Scheme shall be named as 'Credit Guarantee Scheme for MFIs' (hereinafter referred as the 'Scheme')

II. Purpose of the Scheme

To provide guarantee coverage to eligible lending institutions for the funding provided by them to NBFC-MFIs or MFIs for on lending to eligible small borrowers in the context of Covid -19 pandemic.

III. Date of commencement and duration

The Scheme shall come into force from the date of issue of these guidelines by NCGTC and shall cover funding provided by the MLIs to MFIs/NBFC-MFIs till March 31, 2022 or till guarantees for an amount of Rs.7,500 crore are issued, whichever is earlier.

IV. Definitions

For the purposes of this Scheme –

- **“Amount in Default”** means the amount (principal + interest upto the date of NPA) outstanding in the books of the MLI.
- **“Eligible small borrower”** means existing or new small borrowers within the regulatory definition of micro finance as prescribed by RBI from time to time. Such borrowers should not be in default for more than 90 days as on the date of sanction/disbursement by the NBFC-MFI/MFI.
- **“Eligible Lending Institution(s)”** - Scheduled Commercial Banks and such other institutions or AIFIs as may be decided from time to time.
- **“Member Lending Institution(s)”** - Such of the eligible lending institutions who submit a duly executed Undertaking as prescribed by NCGTC for the purpose of the Scheme.
- **“Non-Performing Assets”** means an asset classified as non-performing based on the instructions and guidelines issued by the Reserve Bank of India from time to time.
- **“Tenure of guarantee cover”** means the maximum period of guarantee cover.
- **“Incremental Lending”** means fresh loans given by NBFC-MFIs/MFIs to the eligible small borrowers on or after the date of issue of these operational guidelines. This would not include loans utilised for repayment of earlier loans.

V. Basic Features and Modus Operandi of the Scheme

1. The MLIs shall provide funding to the MFIs or NBFC-MFIs, as per their assessment, for on lending to eligible borrowers;
2. Interest rate on such funding by MLIs shall be capped at 1 year Marginal Cost Based Lending Rate + 2% p.a;
3. Such funding can be one time or in tranches, based on assessment by the MLI;
4. Each MLI shall ensure that at least 50% of the funding made and covered under the scheme goes to lower rated/graded NBFC-MFIs/MFIs (i.e. NBFC-MFIs/MFIs rated/graded MfR 2 or below);
5. Upon sanction, the MLI shall approach NCGTC for Guarantee cover;
6. The funding so provided by the MLIs shall be guaranteed by NCGTC to the extent of 75% of amount in default for a maximum period of 3 years. The loan extended to the NBFC-MFIs/MFIs could be for longer period. However, tenor of NCGTC's guarantee would be for a maximum period of 3 years;
7. The funding so provided by the MLIs to the MFIs/NBFC-MFIs shall be utilized for on-lending to eligible small borrowers. MFIs/NBFC-MFIs should ensure that:
 - (i) 80% of the assistance so extended is utilized for creation of fresh loan assets. These assets should be created within a period of 4 months from the date of disbursement of each tranche of loans;
 - (ii) Interest rate charged on these loans is at least 2% below the maximum rate prescribed by RBI on such loans. To illustrate, if the maximum interest rate that an NBFC-MFI can charge to its eligible small borrowers works out to 22% p.a. as per the formula prescribed by RBI on such lending, then the said NBFC-MFI shall charge 20% p.a. from its eligible small borrowers under the scheme.
 - (iii) A separate account is opened for credit facility extended to the eligible small borrowers under the Scheme;
 - (iv) Assistance extended to the borrowers is as per extant guidelines of RBI;
 - (v) It submits a Statutory Auditor certificate to its MLI confirming compliance with the above within 4 months from the date of disbursement of each tranche of loan by the MLI;
8. MLI shall obtain Bureau report of the incremental lending covered under the scheme on a quarterly basis for compliance with 7(i) above;
9. MLI shall ensure to obtain Statutory Auditor certificate from respective NBFC-MFI/MFI as indicated at 7(v) above and submit a Management Certificate signed by a duly authorized person certifying compliance with the guidelines of

the scheme. If required, NCGTC may also call for Statutory Auditor certificate from the MLI regarding compliance with the scheme guidelines.

10. Upon NBFC-MFIs/MFIs getting classified as NPA in the books of an MLI, the respective MLI shall submit claims on an annual basis in respect of amount in default and claim payment of 75% against the amount in default.
11. No Guarantee Fee shall be charged from the MLIs by NCGTC for the Credit facilities provided under the Scheme.

VI. Responsibilities of MLIs under the Scheme

1. All interested and eligible lending institutions are required to submit the Undertaking to NCGTC for the purpose of this Scheme for registration as MLI.
2. Each MLI shall ensure that at least 50% of the funding made and covered under the scheme goes to lower rated NBFC-MFIs/MFIs (i.e. NBFC-MFIs/MFIs rated/graded MfR 2 or below);
3. MLI would need to collect and submit to NCGTC, on a quarterly basis, the details of loan assets created;
4. Lock in period for the first claim against each tranche of loan sanctioned by the MLI shall be 1 year from the date of issue of guarantee or last date of disbursement out of the sanctioned amount, whichever is later. The second and third claim shall be made in subsequent years. Only 1 claim per year shall be entertained.
5. Claims would be settled based on declaration by the MLI by way of submission of a Management Certificate with overall cap as specified.
6. MLIs shall provide requisite data / information to NCGTC or DFS or its constituents, as it may require from time to time.
7. MLIs shall enable communication of the Scheme by highlighting the Scheme details on their website and linking to Scheme webpage.
8. MLIs shall closely monitor the performance of the MFIs/NBFC-MFIs supported under the scheme.
9. MLIs shall ensure that the guarantee claim in respect of the funding extended to MFIs/NBFC-MFIs under the scheme is lodged with the NCGTC in the form and in the manner and within such time as may be specified by the NCGTC in this behalf.
10. The payment of guarantee claim by the NCGTC to the MLI does not in any way take away the responsibility of the MLI to recover the entire outstanding amount of the credit from the borrower through the MFIs/NBFC-MFIs. The MLI shall exercise all the necessary precautions and maintain its recourse to the borrower for entire amount of credit facility owed by it and initiate all necessary actions for recovery of the outstanding amount, including such action as may be advised by the NCGTC.
11. The MLIs shall comply with such directions as may be issued by the NCGTC from time to time for facilitating recoveries in the guaranteed account, or safeguarding its interest as a guarantor, as the NCGTC may deem fit and the MLI shall be bound to comply with such directions.

The MLI shall, in respect of any guaranteed account, exercise the same diligence in recovering the dues, and safeguarding the interest of the NCGTC in all the ways open to it as it might have exercised in the normal course if no guarantee had been furnished by the NCGTC. The MLI 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 NCGTC as the guarantor.

VII. Modifications in the Scheme

Any changes to the structure of the Scheme, including but not limited to the eligibility criteria, guarantee fee, rate of interest and tenor of loans under the Scheme, shall be decided by the Management Committee for the Fund.

- VIII.** The scheme guidelines may be read along with the FAQs uploaded on the website from time to time.

Frequently Asked Questions (FAQs) on Credit Guarantee Scheme for MFIs

1. What is Credit Guarantee Scheme for MFIs (CGSMFI)?

CGSMFI is a scheme to provide guarantee by National Credit Guarantee Trustee Company (NCGTC) to Member Lending Institutions (MLIs) for loans extended by them to NBFC-MFIs and MFIs in the country.

2. What is the objective of the Scheme?

The Scheme is a specific response to provide funding to the NBFC-MFIs/MFIs at competitive rates to enable them to extend need based financial assistance to their existing micro enterprises and to support new micro enterprises at reasonable rates.

3. Who are the MLIs under the Scheme?

All Scheduled Commercial Banks (SCBs) are eligible as MLIs.

4. What is the duration of the Scheme?

The Scheme would be applicable to all loans sanctioned by the MLIs under CGSMFI during the period from issue of these guidelines to March 31, 2022 or till guarantees for an amount of Rs.7,500 crore are issued under CGSMFI, whichever is earlier.

5. Which MFIs can get support under CGSMFI?

All NBFC-MFIs/MFIs registered with one of the Self Regulatory Organisations recognized by RBI (presently MFIN & Sa-Dhan) are eligible for support under the scheme, which shall be extended by the MLIs. However, MLIs should ensure that at least 50% of the funding provided and covered under the scheme goes to lower rated NBFC-MFIs/MFIs (i.e. NBFC-MFIs/MFI rated/graded MfR 2 or below).

6. What would be the guarantee coverage under the Scheme?

The funding provided by the MLIs under CGSMFI shall be eligible for credit guarantee coverage by NCGTC upto 75% of the amount in default.

7. How would the funding be extended to NBFC-MFIs/MFIs?

The NBFC-MFIs/MFIs shall approach one of the MLI and submit an application along with such other details as may be decided by the respective MLI. After due assessment and other formalities, the MLI shall extend financial assistance to the applicant NBFC-MFIs/MFIs.

8. What eligibility criteria should NBFC-MFIs/MFIs keep in mind while extending loans under the scheme to the ultimate borrowers?

NBFC-MFIs/MFIs should ensure the following with regard to assistance extended to eligible small borrowers under the scheme :

- (i) 80% of the assistance received by the NBFC-MFIs/MFIs is utilized for creation of fresh loan assets. These assets should be created within a period of 4 months from the date of disbursement of each tranche of loans by the MLIs;
- (ii) Interest rate charged on these loans is at least 2% below the maximum rate prescribed by RBI on such loans. To illustrate, if the maximum interest rate that an NBFC-MFI can charge to its eligible small borrowers works out to 22% p.a. as per the formula prescribed by RBI on such lending, then the said NBFC-MFI shall charge 20% p.a. from its eligible small borrowers under the scheme.;
- (iii) Separate account is opened for the loans extended to eligible small borrowers under the scheme;

- (iv) Assistance extended to the eligible small borrowers is as per extant guidelines of RBI;
- (v) NBFC-MFI/MFI should submit a Statutory Auditor certificate to its MLI confirming compliance with the above within 4 months from the date of disbursement of each tranche of loan by the MLI;

9. What would be the tenor of loans extended by the MLIs and NBFC-MFIs/MFIs?

This would be need based as per assessment. However, the tenor of NCGTC's guarantee would be for a maximum period of 3 years;

10. What would be the procedure followed for issue of guarantee under the scheme?

The MLI, after disbursing financial assistance to an NBFC-MFI/ MFI, shall enter the necessary details with regard to the assistance extended on NCGTC's portal for issue of guarantee, based on which automatic guarantee shall be issued.

11. What would be the procedure followed for settlement of claims?

The MLI shall, upon an NBFC-MFI/MFI defaulting in repayment of dues and turning NPA, shall approach NCGTC and file claim for eligible amount. The first such claim should be filed 1 year after the date of issue of guarantee or date of disbursement of tranche, whichever is later. The claim shall be restricted to 75% of the amount in default of each tranche of loan disbursed by the MLI to NBFC-MFIs/MFIs.

12. What is the lock in period for invocation of guarantee/submission of claim?

Lock in period for the first claim on each tranche of loan disbursed shall be 1 year from the date of issue of guarantee or date of disbursement to NBFC-MFI/MFI, whichever is later. The second and third claims shall be made in subsequent years. Only 1 claim per year shall be entertained.

13. How will the guaranteed amount be paid by NCGTC to the MLIs on invocation of the guarantee/submission of the claim?

Upon submission of the claim as per details above, the eligible amount shall be paid within 30 days.

14. I am a new micro credit borrower. Am I eligible for assistance under CGSMFI?

Yes, provided you fulfil the conditions stipulated for such borrowers by RBI and meet the guidelines under the scheme and your lender avails assistance under the scheme.

15. I am an existing micro loan borrower in need of additional assistance. Am I eligible under the scheme?

Yes, subject to the maximum loan allowed to such borrowers by NBFC-MFIs/MFIs as per RBI guidelines, other eligible parameters of the scheme and your lender avails assistance under the scheme.

16. Is there any cap on the rate at which MLIs can lend to NBFCs-MFIs/MFIs?

The interest rate on funding provided by the MLIs to the NBFC-MFIs/MFIs shall be capped at MCLR+2% p.a.

17. Is there any moratorium period prescribed under the Scheme for lending by the MLIs to the NBFC-MFIs and by the NBFC-MFIs/MFIs to the ultimate borrower?

This would be as per arrangement arrived at between the MLI & NBFC-MFIs/MFIs and between the NBFC-MFIs/MFIs & the ultimate borrower.

18. Will any guarantee fee be charged under the Scheme by NCGTC?

No, NCGTC will not charge any guarantee fee under the Scheme.

19. Can MLIs ask for any additional collateral of FD margin for the facility sanctioned under CGSMFI?

This is left to the discretion of the MLI. However, guarantee shall be available only on the uncovered portion of the loan (FD margin also to be netted off).

20. Can NBFC-MFIs/MFIs ask for any additional collateral for the facility sanctioned under CGSMFI?

This is left to the discretion of the NBFC-MFIs/MFIs. However, guarantee shall be available only on the uncovered portion of the loan.

21. What would be the nature of guarantee under the scheme?

The Credit Guarantee from NCGTC would be unconditional and irrevocable.

22. What will be the risk weight assigned to the credit extended under the scheme?

Approval of RBI is being requested for assigning zero risk weight to the guaranteed portion of credit amount covered under the scheme.

23. What will be the security on credit extended under CGSMFI?

No security shall be sought by NCGTC. The MLIs may like to enter into such agreement or create such security as per their requirement.

24. Will MLIs be required to enter into any agreement with NCGTC for the purpose of this Scheme?

Yes, MLIs will be required to submit an Undertaking to NCGTC for the purpose of this Scheme.

25. Who will issue detailed operational guidelines for CGSMFI, and who will have the authority to modify provisions of the Scheme/operational guidelines?

NCGTC has issued the detailed operational guidelines for the Scheme. The Management Committee of CGSMFI fund will have the authority to approve any changes to the structure of the Scheme/ operational guidelines.

26. Who would decide the creditworthiness of a borrower for assistance under the Scheme?

It is for the MLI and NBFC-MFIs/MFIs to assess the creditworthiness of their borrowers.

27. I am an NBFC-MFI/MFI having got a micro loan sanctioned under the scheme. Till which date can I avail disbursement?

Time of 4 months has been allowed for creation of fresh assets. Hence, disbursement should be availed within this period.

28. Who can provide answers to any further queries?

Please address your queries/suggestions to ceo@ncgtc.in
