

**Modifications to the scheme guidelines of Credit Guarantee
Fund for Micro Units (CGFMU)**

In partial modification of MINISTRY OF FINANCE (Department of Financial Services) NOTIFICATION New Delhi, dated 18th April 2016 S.O. 1443(E) appearing in the Gazette of India: EXTRAORDINARY PART II–Section 3–Sub-section (ii) publishing the Credit Guarantee Fund for Micro Units (CGFMU), the following changes/alterations (given in italics & underlined) have since been introduced :

- (i) Paragraph at Serial No. 2 x in Chapter I shall read as

"Collateral security" means the security provided in addition to primary security / personal obligation of borrower/co-borrower. *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 (personal assets to be excluded).*

- (ii) Paragraph at Serial No. 2 xiii in Chapter I shall read as

"Guarantee Cover" means maximum cover available per portfolio, based on the amount in default, in respect of the credit facility extended by the lending institution. The first 3% of the amount in default will be borne by the eligible lending institution. The amount in default over and above 3% (if applicable) will be settled by the fund to the extent of 75% on pro-rata basis, subject to the receipt of an Auditors' certificate confirming eligible claim amount.

- (iii) Following paragraph at Serial No. 2 xix in Chapter I shall be inserted

"Self Help Groups (SHGs)"- As may be defined from time to time and including, but not limited to, SHGs as defined by NABARD under two schemes of Gol - Deendayal Antodaya Yojana National Rural Livelihood Mission or DAY-NRLM/SRLM and National Urban Livelihood Mission or NULM.

- (iv) Title at Serial No. 4 in Chapter II shall read as Micro loans and SHG loans eligible under the Scheme and the following paragraph shall be added under it

Loans sanctioned to Self Help Groups (SHGs) between ₹10 lakh and ₹20 lakh during FY 2020-21 and thereafter would also be eligible for coverage under CGFMU, irrespective of the availability of group guarantee of SHG members, from the date of this notification. In respect of this category, first loss guarantee shall be Nil and second loss guarantee shall be 75%. The Guarantee Fee for this group shall be 0.25% p.a. during first year and 0.5% p.a. in subsequent years. The guarantee fee shall be charged on outstanding balance at the time of sanction (on pro rata basis) and thereafter on annual basis for renewals. Credit facility to SHGs being covered here should not be backed by any collateral.

- (v) The following paragraphs shall be inserted under Guarantee Fee at Serial No. 8 i of Chapter III

c) Guarantee fee for SHG - The Guarantee fee would be charged at 0.25% p.a. during first year and 0.50% p.a. in subsequent years. The guarantee fee will be charged on outstanding balance at the time of sanction (on pro rata basis) and thereafter on annual basis for renewals.

d) Guarantee fee for Micro units in Aspirational Districts - The Guarantee fee would be charged against guarantee cover for micro loans located in the Aspirational Districts at lower fees of 0.5% p.a. (on pro rata basis for first year) for guarantees availed on the portfolios of FY 2020-21 & FY 2021-22. This shall be reviewed at the end of two years.

- (vi) Paragraph at Serial No. 9 i of Chapter IV under Extent of Guarantee shall read as :

- i. In the nature of 'First Loss Portfolio Guarantee', wherein first loss to the extent of 3% of the amount in default, will be borne by the MLI

and therefore, will be excluded for the claim. Out of the balance portion, the 'extent of guarantee' will be to a maximum extent of 75% of 'Amount in Default' in the portfolio or such other percentage as may be specified by the Fund from time to time on a pro-rata basis.

Extent of Guarantee Cover in respect of SHGs- First loss Portfolio Guarantee to be borne by MLIs shall be Nil and extent of guarantee will be 75% of amount in default.

(vii) Serial No. 11. ii. under Subrogation of rights and recoveries on account of claims paid of Chapter V shall read as

ii. Every amount recovered and due to be paid to the Fund shall be paid without delay, and if any amount due to the Fund remains unpaid beyond a period of 30 days from the end of FY in which it was recovered, interest shall be payable to the Fund by the lending institution at 2% over and above the prevailing repo rate for the period for which payment remains outstanding after the expiry of the said period of 30 days.

(viii) The paragraph under Appropriation of amount realized by the lending institution in respect of a credit facility after the guarantee has been invoked at Serial No. 1 of Chapter VII shall be replaced by

a) The Lending institution shall report the recovery amount with the annual Update File and at the time of lodgement of each Claim File.

b) The recoveries made post final claim settlement, in excess of legal costs, shall be shared on the same percentage on which final claim amount was settled i.e. Final Claim amount paid / Final Amount in Default for each MLIs for each guaranteed Portfolios.

c) Such recoveries shall be passed on an Annual basis for three years beyond the life time of the Portfolio, within 30 days of each financial year end i.e. by April 30th of Year 5 Year 6 and Year 7. At the end of Year 7, the Portfolio shall be marked as finally closed.
