

# Frequently asked questions

## **Credit Guarantee Fund for Micro Units (CGFMU)**

### **1. What is the role and objective of CGFMU Scheme**

Credit Guarantee Fund for Micro Units (CGFMU) is the Trust Fund set up by Government of India, managed by NCGTC as a Trustee, with the purpose of guaranteeing payment against default in Micro Loans extended to eligible borrowers by Banks/ NBFCs/ MFIs/ Other Financial Intermediaries.

The objective of CGFMU is to provide comfort to Lenders so that institutional credit is extended to micro and small enterprises (MSEs) especially without collateral and third part guarantee and to enhance Government's efforts in promoting and developing entrepreneurship.

### **2. What types of businesses are eligible for guarantee coverage under CGFMU**

Micro loans up to `10 lakh under Manufacturing /Services sector including retail trade and loans for allied agricultural activities are eligible to be covered under the credit guarantee fund.

Further, Overdraft facility of ₹10,000/- sanctioned under Prime Minister Jan Dhan Yojana (PMJDY) accounts shall also be eligible to be covered under credit guarantee fund.

Collateral free (third party guarantee allowed) loans between Rs.10 lakh and Rs.20 lakh granted to Self Help Groups(SHG) on or after April 01, 2020 are also eligible for coverage.

### **3. Definition of Self Help Group under CGFMU**

“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.

### **4. Credit Guarantee for loan extended to SHGs**

Loans sanctioned to Self Help Groups (SHGs) between Rs.10 lakh and Rs. 20 lakh during FY 2020-21 and thereafter are eligible for coverage under CGFMU, irrespective of the availability of group guarantee of SHG members, provided collateral is not stipulated.

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.

**5. Are agriculture activities eligible under CGFMU?**

Loan extended for purely agricultural activities are not eligible to be covered under CGFMU. However, Loans up to ₹10.00 lakh extended for **activities allied to Agriculture** such as pisciculture, beekeeping, poultry, livestock, grading, sorting, aggregation agro industries, diary, fishery, Agri clinics and agribusiness centres, Food & agro processing, etc. (excluding crop loans, land improvement such as canals, irrigation, wells) and services supporting these, which promote livelihood or are income generating, are eligible MUDRA loans, then the same will be eligible for coverage under CGFMU.

**6. What are the documents required for submission of a loan guarantee application?**

A Borrower need to approach MLI for sanction of loan. Credit Guarantee Cover is extended to the Member lending Institutions (MLIs). Hence, MLIs at their discretion may apply for guarantee cover against loans sanctioned which are eligible for coverage under CGFMU

**7. I have approached some MLIs but they have refused to entertain Prime Minister Mudra Yojana (PMMY) loan application?**

MLI has the right to decide whether to entertain or not to entertain your application based on the viability of your business, sufficiency of documents as per their guidelines.

**8. If I have an outstanding loan under Mudra Loan scheme, am I eligible to apply for another guarantee with a different FI?**

Yes, as long as you meet the eligibility criteria and you have not fully utilised the total exposure limit of Rs.10 lakh eligible to be covered under CGFMU. However, you have to approach the same MLI for additional term loan or enhancement of working Capital facility with aggregate exposure not exceeding Rs.10 lakh

**9. Can the tenure of loan availed under MUDRA Scheme be extended with guarantee cover**

MLI may consider extension of repayment period within the overall period of PMMY Scheme. Tenure of Guarantee cover under CGFMU is available for base year plus three subsequent financial years. However, MLI may seek renewal of guarantee cover in respect of standard accounts at the end of the tenure of respective Guaranteed Crystallised Portfolio.

**10. Are trading/Manufacturing/Service activities covered under PMJDY scheme**

All kind of income generating activities sanctioned under PMJDY scheme shall be covered under CGFMU

**11. Which lending institutions are eligible for coverage under the scheme**

Bank or a Micro Finance Institution (MFI) / Non-Banking Finance Company (NBFC) / other financial intermediary approved by Mudra Ltd. as member financial institutions.

**12. How can an eligible lending institution be registered and seek coverage under CGFMU**

All eligible lending institution may register itself under the said scheme by submitting a signed undertaking (format given in website) and board resolution. Upon successful registration of the MLI, login credentials of the MLI are created on SURGE based on the Single Point of Contact Form (SPOC) submitted by the MLI. The MLI may thereafter apply and renew credit guarantee coverage on SURGE which is based on B2B Platform.

**13. How is credit guarantee coverage provided for all eligible loans to be covered under CGFMU.**

Guarantee Coverage is provided on NCGTC's B2B online portal SURGE. SURGE covers the complete life cycle of the Credit Guarantee process, from submission of Credit Guarantee request to issuance & renewal of applications (data) for credit guarantee, claim processing & settlement. It also provides all the reports and data w.r.t the CG operations like invoices, receipts & CG reports, data in the excel sheet.

**14. Credit Guarantee Fee For availing the guarantee coverage,**

**Guarantee Fee for Micro Loans**

Guarantee fee would be charged at the Standard Basic Rate (SBR) of 1% p.a. of sanctioned amount on Micro Loans for the initial years. Subsequently, risk based guarantee fee structure would be applicable.

However, for micro loans in aspirational districts, guarantee fee would be charged at 0.5% p.a. (on prorata 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.

**Guarantee fee for SHG** - 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

The amount equivalent to the guarantee fee payable by the MLI may be recovered by it, at its discretion from the eligible borrower.

**15. What would be the tenure of guarantee coverage?**

Every new portfolio would comprise of Base Year plus 3 Currency Years. However, at the end of Currency Year 3 all accounts standard shall be allowed to further continue for 3 Years. Guarantee coverage is valid till the end of each Financial Years. Therefore, MLIs would have to renew the Guarantee coverage every Currency Period.

**16. What is the extent of Credit Guarantee Cover (Example on claim eligibility given in Table below)**

For Micro loans sanctioned up to March 31, 2020

First Loss to the extent of 5% of the crystallized portfolio of the MLI 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 50% of 'Amount in Default', subject to maximum cap of 15% of the crystallized portfolio.

For Micro Loans sanctioned during FY 2020-21 and after

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 75% of "Amount in Default", subject to maximum pay out cap of 15% of the crystallized portfolio.

For Guaranteed Portfolio on Loans extended to SHGs

Extent of guarantee will be 75% of amount in default. No first Loss.

### Example 1

|   |   | For Micro loans sanctioned up to March 31, 2020. | For Micro Loan sanctioned during FY 2020-21 onwards. | For Guaranteed Portfolio on Loans extended to SHGs |
|---|---|--|--|--|
| A | Crystallized Sanctioned Amount (Rs.)  | 1000   | 1000   | 1000   |
| B | Amount assessed to be in default (lower of amount outstanding on date of NPA and date of claim lodgement) | 100  | 100  | 100  |
| C | First Loss to be borne by MLI   | 50<br>(5% of A)                                  | 3<br>(3% of B)                                       | 0<br>(No first Loss)                               |
| D | Maximum Cap on Claim 15% of A   | 150  | 150  | 150  |
| E | Balance amount in default (B-C)   | 50   | 97   | 100  |
| F | Eligible Claim Pay out  | 25<br>(50% of E)                                 | 72.75<br>(75% of E)                                  | 75<br>(75% of second loss)                         |

### Example 2

|   |   | For Micro loans sanctioned up to March 31, 2020. | For Micro Loan sanctioned during FY 2020-21 onwards. | For Guaranteed Portfolio on Loans extended to SHGs |
|---|---|--|--|--|
| A | Crystallized Sanctioned Amount (Rs.)  | 1000   | 1000   | 1000   |
| B | Amount assessed to be in default (lower of amount outstanding on date of NPA and date of claim lodgement) | 250  | 250  | 250  |
| C | First Loss to be borne by MLI   | 50<br>(5% of A)                                  | 7.5<br>(3% of B)                                     | 0<br>(No first Loss)                               |
| D | Maximum Cap on Claim 15% of A   | 150  | 150  | 150  |
| E | Balance amount in default (B-C)   | 200  | 242.5  | 250  |
| F | Eligible Claim Pay out  | 100<br>(50% of E, subject to D)                  | 150<br>(75% of E, subject to )                       | 150<br>(75% of E, subject to D)                    |