

Frequently asked questions (Updated as on March 27, 2023)

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

- A) Micro loans up to Rs. 10 lakhs under Manufacturing /Services sector including retail trade and loans for allied agricultural activities are eligible to be covered under the credit guarantee fund.
- B) Micro loans up to Rs.10 lakhs set up under Joint Liability Group (JLG) framework, individually or jointly falling under any sector covered under PMMY or as defined in the MSMED Act, 2006, accounts shall also be eligible to be covered under credit guarantee fund. Specified limit of the loan shall be Rs. 10 lakh or such other amount as may be decided by the fund from time to time
- C) 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.
- D) Collateral free (third party guarantee allowed) loans between Rs.10 lakh and Rs.20 lakh granted to Self Help Groups (SHGs) on or after April 01, 2020 are also eligible for coverage.

3. What is the 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. What is the Credit Guarantee available on loans 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 to the extent of

75% of amount in default, 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 utilized the total exposure limit of Rs.10 lakh eligible to be covered under CGFMU. You may also take loan under ECLGS, as per eligibility.

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 -as decided by the Fund from time to time.

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. What is the Standard rate of Guarantee Fee for availing coverage under the scheme.

Guarantee fee would be charged at the Standard Basic Rate (SBR) of 1% p.a. of sanctioned amount on Micro Loans. 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 only. This has been omitted for portfolios of FY 2022-23 onwards.

From April 01, 2023 onwards -

For base year - Guarantee fee would be charged at the Standard Basic Rate (SBR) of 1% p.a. of sanctioned amount on Micro Loans.

For subsequent years - Guarantee fee shall be charged on the outstanding amount as on April 01 of the Financial Year except in case of working capital accounts where it shall continue to be charged on sanctioned amount.

The Guarantee Fee for the SHGs 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.

Besides, the above, risk based guarantee fee shall be chargeable based on risk assessment of the MLI.

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. The maximum pay out cap of 15% stipulated for micro loans shall not be applicable on SHG portfolio.

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 (Principal outstanding as on date of NPA less Recovery amount till the date of claim lodgment)	100	100	100
C	First Loss to be borne by MLI	50 (5% of A)	30 (3% of B)	0 (No first Loss)
D	Maximum Cap on Claim 15% of A	150	150	No Max. Cap with effect from 2021-22 onwards
E	Balance amount in default (B-C)	50	97	100
F	Eligible Claim Pay out	25 (50% of E)	72.75 (75% of E)	75 (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 (Principal outstanding as on date of NPA less Recovery amount till the date of claim lodgment)	250	250	250
C	First Loss to be borne by MLI	50 (5% of A)	7.5 (3% of B)	0 (No first Loss)
D	Maximum Cap on Claim 15% of A	150	150	No Max Cap with effect from 2021-22 portfolio
E	Balance amount in default (B-C)	200	242.5	250
F	Eligible Claim Pay out	100 (50% of E, subject to D)	150 (75% of E, subject to D)	150 (75% of E, subject to D for portfolio upto 2020-21) 187.50 (75% of E with no max cap for portfolio 2021-22 onwards)

17. Who is an Eligible Borrower under the Scheme ?

"Eligible borrower" means new or existing micro unit / enterprise, including micro unit/enterprise set up under Joint Liability Group (JLG) framework, individually or jointly (irrespective of the availability of guarantee under JLG), falling under any sector covered under PMMY or as defined in the MSMED Act, 2006 (as amended from time to time), who meets eligibility criteria prescribed by the Fund and whose credit requirement does not exceed the specified limit under PMMY. Specified limit of the loan shall be Rs.10 lakh or such other amount as may be decided by the Fund from time to time. Further, Overdraft loan amount of Rs.10,000/- sanctioned under PMJDY accounts shall also be eligible to be covered under Credit guarantee Fund. Eligible borrower would also mean Self Help Groups who meet eligibility criteria prescribed by the Fund and whose loan amount is above Rs.10 lakh and upto Rs.20 lakh.

18. Does the Maximum payout Cap of 15% of the Crystallized Portfolio apply for guarantee cover extended to Self Help Groups above Rs. 10 lakh and upto Rs. 20 lakh?

No. The criteria of the Maximum Cap of 15% is not applicable for the SHG portfolio above Rs. 10 lakh & upto Rs. 20 lakh.

19. Can Collateral Security be taken in respect of SHG portfolio covered under CGFMU?

No. Credit facility to SHGs being covered here should not be backed by any collateral.

20. How is collateral security and Primary Security defined under CGFMU ?

"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).

21. Is the group guarantee of the SHG/JLG members considered as collateral security under CGFMU?

No.

22. Is there any interest rate cap on the loans extended by the MLIs to be covered under CGFMU ?

No interest rate cap has been stipulated on the loans sanctioned under MUDRA for availing guarantee cover under CGFMU.

23. Can the registration done under CGFMU as Member Lending Institutions be revoked at any time during the currency of Guarantee Cover ?

No. The registration done under CGFMU as Member Lending Institution cannot be revoked during the currency of the Guarantee Cover extended by NCGTC under CGFMU.

However, there is a provision that the NCGTC shall review the eligibility of all the MLIs on an annual basis and in case the MLIs fail to comply with the conditions stipulated for registration of the MLIs under CGFMU, the MLI shall become ineligible for the issue of New Credit Guarantee Cover for the subject portfolio year. However, the guarantee cover already extended to such MLIs would continue to be in operation subject to compliance of other conditions. The MLIs would again become eligible for issue of new CG cover when it complies with the conditions of registration of MLIs in subsequent years as examined by NCGTC during the annual review exercise.

24. Can a loan sanctioned under PMMY and covered under CGFMU be restructured by the MLI and what would be the status of the guarantee cover for such loans?

Accounts under CGFMU may be restructured and the guarantee cover would continue to be extended on such existing accounts restructured as per extant guidelines. Under CGFMU, if the account restructured is converted to a new account, it would not be eligible for coverage as it would imply closing the earlier account and seeking fresh cover wherein different guarantee coverage is applicable for fresh accounts. This is so as under normal circumstances, restructuring may cause the account to be downgraded to NPA and NPAs cannot be allowed fresh guarantee cover under CGFMU (existing guarantee cover may continue). The Bank may, therefore, continue the same account under CGFMU with changed repayment schedule for which cover shall be available as per extant guidelines, subject to claims not having **being** submitted for the said NPA account. Additional loans can be provided to units covered under CGFMU as per extant guidelines under PMMY with overall outstanding not exceeding Rs.10 lakh at any point of time (ECLGS being an exception) and such loans shall be eligible for guarantee cover under CGFMU provided the loan is Standard. Guarantee fee as applicable would be payable.

25. Does the MLI need to pay Guarantee Fee for NPA accounts also?

Yes. Guarantee fee with respect to NPA accounts in the portfolio would continue to be paid till lodgment of claim for such NPA accounts.

26. Is there any time limit within which the MLIs have to pay the Guarantee Fee ?

The following shall be followed with effect from April 01, 2023

For Base year - Guarantee fee shall be paid within 16 days from the end of the quarter. (The MLI would need to furnish a Management Certificate within 7 days from the end of the quarter, after which, a Credit Guarantee Demand Advice Note [CGDAN] would be issued by NCGTC within 3 day of receipt of Management Certificate and subsequently, the guarantee fee shall be payable within 3 days from the issue of CGDAN)

For subsequent years - Data of live portfolio of accounts (including NPA accounts) of previous years for which guarantee is sought to be continued during the Financial Year will be furnished by the MLI on or before July 31 and Annual Guarantee fee shall be paid on or before August 31 or such other date as may be decided by NCGTC to enable guarantee cover for the Financial Year.

27. What happens to the guarantee cover if guarantee fee is not paid within the stipulated time period ?

In the event of non-payment of guarantee fee within the stipulated time or such extended time that may be agreed to by the Fund on such terms, liability of the Fund to guarantee such credit facility would lapse in respect of those credit facility against which the fee is due and not paid.

28. Is the guarantee fee paid to NCGTC refundable to MLIs ?

The guarantee fee once paid by the lending institution to the Fund shall be non-refundable, except under certain circumstances like Excess remittance, Remittance made more than once against the same portfolio or Fee paid in advance but application not approved for guarantee cover under the scheme.

29. When does the guarantee cover start under CGFMU ?

The guarantee cover will commence from the date of payment of guarantee fee and shall run through the agreed tenure of the repayment of Micro loan or the termination date of the portfolio, whichever is earlier, subject to yearly renewal of the guaranteed portfolio.

30. When can the guarantee under CGFMU be invoked by the MLIs ?

The lending institution may invoke the guarantee in respect of the 'amount in default' out of the crystallized portfolio of micro loans/JLG loans/SHG loans, subject to the condition of first loss guarantee, after 1 year from the date of crystallization of the portfolio and thereafter, at the end of every financial year.

31. How is the appropriation to be done of the amount realized by the lending institution in respect of a credit facility after the guarantee has been invoked?

a) The Lending institution shall report the recovery amount with the annual Update File and at the time of lodgment 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 MLI for each guaranteed Portfolio.

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.

