

Credit Guarantee Scheme for MFIs

Operational Guidelines-Updated as on 25.03.2022

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.

The last date of disbursement of loans by the MLIs to NBFC-MFIs/MFIs shall be March 31, 2022.

On sanctions made by the MLIs to NBFC-MFIs/MFIs under the scheme remaining undisbursed as on March 31, 2022 guarantee shall be treated as lapsed.

IV. Definition

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.
