CREDIT GUARANTEE FUND SCHEME FOR NBFCs - (CGS-II)

I. INTRODUCTION

The Board of Trustees of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) had framed a Scheme for the purpose of providing guarantees in respect of credit facilities extended by eligible NBFCs to the borrowers in Micro and Small Enterprises (MSEs). The details of the Scheme are given below:

1. Title and date of commencement

i) The Scheme known as the **“Credit Guarantee Fund Scheme for NBFCs (CGS-II)”** was launched w.e.f. January 25, 2017. Subsequently, the same has been modified and shall cover eligible credit facility sanctioned by the NBFCs to eligible borrowers under MSE sector with effect from April 01, 2018.

ii) The scheme was modified from time to time for ease of operations, enhancement of credit flow to the MSE sector and to meet the requirements of the MSEs as well as Lending Institutions. The current document /scheme is updated as on **August 31, 2024**.

2. Definitions

For the purposes of this Scheme-

i. **"Trust"** means the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) set up by the Ministry of MSME, the Government of India and SIDBI with the purpose of guaranteeing credit facility(ies), extended by the Member Lending Institution (MLIs) to the eligible borrowers.

ii. **"Member Lending institution(s)" (MLIs)** means a NBFC registered with RBI under Section 45-IA of the Reserve Bank of India Act, 1934 and meeting the eligibility norms as may be specified by the Trust from time to time, or any other institution(s) as may be directed by the Government of India from time to time. The Trust may, on review of performance, remove any of the lending institutions from the list of eligible institutions.

iii. **"SIDBI"** means Small Industries Development Bank of India, established under Small Industries Development Bank of India Act, 1989 (39 of 1989).

iv. **"Micro and Small Enterprises"**- As per the MSMED Act, 2020, an "enterprise" means an industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services; and "Micro and Small Enterprises" are defined in 7.1.a.i) and ii) & in 7.1.b.i) and ii) of the said Act and amended from time to time.

v. **"Scheme"** means the Credit Guarantee Fund Scheme for NBFCs (CGS-II).

vi. **"Guarantee Cover"** means maximum guarantee cover available against the amount in default in respect of the credit facility extended by the lending institution.

vii. **"Amount in Default"** means principal amount outstanding in the account(s) of the borrower in respect of financial assistance as on the date of the account becoming NPA, or the date of lodgment of claim application, whichever is lower, or such date as may be specified by CGTMSE for preferring any claim against the guarantee cover subject to a maximum of amount Guaranteed.

viii. **"Credit facility"** means any financial assistance by way of Term Loan, etc. extended by the lending institution to the eligible borrower. For the purpose of calculation of guarantee fee, the "credit facility extended" shall mean the amount of outstanding of financial assistance as on the date of coverage.

ix. **"Eligible borrower"** means new or existing Micro and Small Enterprises (MSEs) to which credit facility has been provided by the lending institution without any collateral security and/or third party guarantees.

However, a “Hybrid / Partial Collateral Security” product allowing guarantee cover on credit facilities having collateral security, for the portion of credit facility not covered by collateral security (unsecured portion), has also been introduced by CGTMSE. In the partial collateral security model, the MLIs will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining part of the credit facility, can be covered under Credit Guarantee Scheme of CGTMSE.

x. **"Exposure Limit"** means the limit fixed by CGTMSE for a particular NBFC to avail guarantee cover under CGS-II for a period of one year from the date of sanction of Exposure Limit by CGTMSE or any other date as specified by Trust. On a review / completion of one year, new Exposure Limit can be fixed as per the requirement / performance of the NBFC.

xi. **"File I.D./ Portfolio"** means a cumulative built up of eligible sanctions which are fully disbursed by a Member Lending Institution which are standard and regular (not SMA) as per RBI guidelines in the books of the Member Lending Institution at the time of applying for guarantee cover. The first File I.D./Portfolio would, however, cover the loans sanctioned on or after January 01, 2018. Coverage of loan accounts under one Portfolio/File I.D. would not be covered in the subsequent Portfolios.

xii. **"Any Time guarantee":** Member Lending Institutions (MLIs) can apply for guarantee cover anytime during the tenure of Loan provided the credit facility was not restructured / remained in SMA2 status in last 1 year from the date of submission of application.

xiii. **"Effective Interest rate"** means the interest rate (inclusive of cost of guarantee cover) charged by that lending institution for the relevant time period / duration for which the credit facility has been extended.

xiv. **"Tenure of guarantee cover/Currency of the Portfolio"** means the period from Guarantee start date till the date of validity of guarantee for a Portfolio, as mutually agreed between the MLI and CGTMSE.

xv. **"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.

xvi. **"Collateral security"** means the security provided in addition to the primary security, in connection with the credit facility extended by a lending institution to a borrower.

xvii. **"Third Party Guarantee"** means any guarantee obtained by a Member Lending Institution in connection with the credit facility extended by it to a borrower except from Sole-Proprietor in case of Sole Proprietary concern, Partners in case of partnership / limited liability partnership, Trustees in case of Trust, Karta & Coparceners in case of HUF and promoter directors in case of private/ public limited companies and owner of the collateral security in case of loans partially secured by collaterals.

xviii. **"Material date"** means the date on which the guarantee fee on the amount covered in respect of eligible borrower is paid/ credited to the Trust by the Member lending institution.

xix. **"Guarantee start date"** of a Portfolio/File I.D. is the Material date.

xx. **"Annual Guarantee Fee (AGF)"** means Guarantee Fee which would be charged annually till the tenure of the loan.

xxi. **"Non-Performing Assets" (NPA)** means an asset classified as a non-performing based on the instructions and guidelines issued by the Reserve Bank of India from time to time.

xxii. **“Lock-in-Period"** for lodgment of claims is a period of 12 months from the guarantee start date.

xxiii. **"Payout cap”** means the maximum amount that would be available for Claim settlement as per the terms stipulated by the Trust.

II. SCOPE AND EXTENT OF THE SCHEME

3. Guarantees by the Trust

(i) Subject to the other provisions of the Scheme, the Trust undertakes, in relation to credit facilities extended to an eligible borrower from time to time by an eligible institution which has entered into the necessary agreement for this purpose with the Trust, to provide a guarantee on account of the said credit facilities.

(ii) The Trust reserves the discretion to accept or reject any proposal referred to by the lending institution which otherwise satisfies the norms of the Scheme.

4. Credit facilities eligible under the Scheme

The Trust shall cover credit facilities (Fund based and/or Non fund based) extended by Member Lending Institution(s) to a single eligible borrower in the Micro and Small Enterprises sector for credit facility not exceeding Rs.500 lakh by way of Loan on or after entering into an agreement with the Trust, with/without any collateral security/ third party guarantee or such amount as may be decided by the Trust from time to time.

For the guarantee up to ₹200 Lakh, unsecured credit facilities can be covered.

For the guarantee above ₹200 Lakh and up to ₹500 Lakh, credit facilities should necessarily be secured by way of primary security. (Circular No. 234/2023-24) dated December 18,2023.

Provided further that, as on the material date:

(i) The credit facility(ies) is/are standard and regular (not SMA) as per RBI guidelines in the books of the Member Lending Institution; and / or

(ii) The business or activity of the borrower for which the credit facility was granted has not ceased; and / or

(iii) The credit facility has not wholly or partly been utilized for adjustment of any debts deemed bad or doubtful of recovery, without obtaining prior consent in this regard from the Trust.

Trading (Retail / Wholesale Trade) has been made eligible activity under CGTMSE. Also, Trading activity has been aligned with other activities in respect of the extent of coverage, ceiling of credit guarantee coverage and guarantee fee.

Educational / Training Institution also made eligible activity under Credit Guarantee Scheme of CGTMSE and would attract fee, extent of coverage and other terms and conditions as applicable under existing normal Scheme.

“Hybrid Security” product has been introduced where the MLIs will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining unsecured part of the credit facility, upto a maximum of ₹500 lakh, can be covered under CGS-II. CGTMSE will, however, have notional second charge on the collateral security provided by the borrower for the credit facilities extended. Under the hybrid security product, there is no requirement for MLIs to create security / charge in favour of CGTMSE by way of legal documentation.

Credit facilities extended by more than one NBFC and/or bank/ financial institution jointly and/or separately to eligible borrower up to a maximum of ₹500 lakh per borrower subject to ceiling amount of individual MLI or such amount as may be specified by the Trust shall also be eligible for coverage under the scheme.

The guarantee cover will commence from the guarantee start date and shall run through the agreed tenure of the term credit in respect of term credit / composite credit.

Any credit facility which has been sanctioned by the member lending institution with an effective interest rate (including the cost of guarantee cover) not fulfilling RBI guidelines or any other rate as prescribed by the Trust from time to time.

5. Credit facilities not eligible under the Scheme

The following credit facilities shall not be eligible for being guaranteed under the Scheme:

i. Any credit facility in respect of which risks are additionally covered under a scheme operated / administered by Deposit Insurance and Credit Guarantee Corporation or the Reserve Bank of India, to the extent they are so covered.

ii. Any credit facility in respect of which risks are additionally covered by Government or by any general insurer or any other person or association of persons carrying on the business of insurance, guarantee or indemnity, to the extent they are so covered.

iii. Any Credit facility shall not be eligible to covered under the Scheme if the said credit facility has been covered for guarantee through NCGTC Ltd.

iv. Any credit facility, which does not conform to, or is in any way inconsistent with, the provisions of any law, or with any directives or instructions issued by the Central Government or the Reserve Bank of India, which may, for the time being, be in force.

v. Any credit facility granted to any borrower, who has availed himself of any other credit facility covered under this scheme or under the schemes mentioned in clause (i), (ii) and (iii) above, and where the lending institution has invoked the guarantee provided by the Trust or under the schemes mentioned in clause (i), (ii) and (iii) above, but has not repaid any portion of the amount due to the Trust or under the schemes mentioned in clause (i), (ii) and (iii) above, as the case may be, by reason of any default on the part of the borrower in respect of that credit facility.

vi. Any credit facility which has been sanctioned by the lending institution against collateral security and / or third party guarantee. However, after the introduction of Hybrid Security model, MLIs can cover the unsecured part of the credit facility(ies) under CGTMSE upto the overall exposure of ₹500 lakh.

vii. Any credit facility which has been sanctioned by the member lending institution with effective interest rate (including the cost of guarantee cover) not fulfilling RBI guidelines or any other rate as prescribed by the Trust from time to time.

6. **Agreement / Undertaking to be executed by the lending institution**

A lending institution shall not be entitled to a guarantee in respect of any eligible credit facility granted by it unless it has entered into an agreement/undertaking with the Trust in such form as may be required by the Trust for covering by way of guarantee, under the Scheme all the eligible credit facilities granted by the lending institution, for which provision has been made in the Scheme.

7. **Responsibilities of lending institution under the scheme:**

(i) The lending institution shall evaluate credit applications by using prudent banking judgement and shall use their business discretion / due diligence in selecting commercially viable proposals and conduct the account(s) of the borrowers with normal banking prudence.

(ii) The lending institution shall closely monitor the borrower account.

(iii) The lending institution shall safeguard the securities taken from the borrower in respect of the credit facility in good and enforceable condition.

(iv) The lending institution shall ensure that the guarantee claim in respect of the credit facility and borrower is lodged with the Trust in the form and in the manner and within such time as may be specified by the Trust in this behalf and that there shall not be any delay on its part to notify the default in the borrowers account which shall result in the Trust facing higher guarantee claims.

(v) The payment of guarantee claim by the Trust to the lending institution does not in any way take away the responsibility of the lending institution to recover the entire outstanding amount of the credit from the borrower. The lending institution shall exercise all the necessary precautions and maintain its recourse to the borrower for entire amount of credit facility owed by it and initiate such necessary actions for recovery of the outstanding amount, including such action as may be advised by the Trust.

(vi) The lending institution shall comply with such directions as may be issued by the Trust, from time to time, for facilitating recoveries in the guaranteed account, or safeguarding its interest as a guarantor, as the Trust may deem fit and the lending institution shall be bound to comply with such directions.

(vii) The lending institution shall, in respect of any guaranteed account, exercise the same diligence in recovering the dues, and safeguarding the interest of the Trust in all the ways open to it as it might have exercised in the normal course if no guarantee had been furnished by the Trust. The lending institution 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 Trust as the guarantor. In particular, the lending institution should intimate the Trust while entering into any compromise or arrangement, which may have effect of discharge or waiver of personal guarantee(s) or security. The lending institution shall also ensure either through a stipulation in an agreement with the borrower or otherwise, that it shall not create any charge on the security held in the account covered by the guarantee for the benefit of any account not covered by the guarantee, with itself or in favour of any other creditor(s) without intimating the Trust. Further the lending institution shall secure for the Trust or its appointed agency, through a stipulation in an agreement with the borrower or otherwise, the right to list the defaulted borrowers' names and particulars on the Website of the Trust.

III. ANNUAL GUARANTEE FEE

8. Annual Guarantee Fee (AGF)

Under CGS II, CGTMSE has engaged the services of an external rating agency to carry out the Risk based Pricing Analysis. (Circular No. 226/ 2023-24 dated May 19, 2023).

Risk based Pricing Analysis of each MLI would be an annual exercise or at such interval as decided by the Trust. The fee accordingly derived shall be made applicable to that MLI for all the new Portfolios/ File I.Ds. uploaded for guarantee coverage in that particular financial year.

The AGF derived on the basis of Risk based Pricing Analysis are governed by the following:

(i) MLIs are given a concession in Guarantee Fee if their MSE borrowers fall in any of the categories as mentioned below that are identified for additional concession/ relaxation in guarantee fee, provided the credit facility is extended on or after January 01, 2024. (Circular No. 234/ 2023-24 dated December 18,2023.)

Category	Social Category (Weaker Section/ Underserved Section)	Geographic	MSE Status
Target Group	Women/SC/ST / Person with disability (PwD)/ Agniveers	NER incl. Sikkim, UT of Jammu & Kashmir & UT of Ladakh (Upto ₹50 Lakh)/ Aspirational District	ZED Certified
Relaxation/ Concession in Rate	10%	10%	10%
An MSE falling in all the above three categories viz. social, geographic, MSE status shall be eligible for a maximum discount of 30% on standard guarantee fee rate.			

(a) Women entrepreneurs/ SC/ST/ Person with disability (PwD) Borrowers would be given the discount of 10%. Guarantee to the MSEs promoted by Agniveers shall also carry 10% relaxation in Annual Guarantee Fee.

(b) In case of PwD, the MLIs would require obtaining Disability Certificate(s) with regard to the promoter(s) issued by the competent authority while applying for guarantee coverage.

(c) Units in North-Eastern Region (incl. Sikkim) and in Union Territories of Jammu and Kashmir and Ladakh up to ₹50 lakh would be given the discount of 10%.

(d) MSEs situated in Aspirational District would be given discount of 10%.

(e) ZED Certified MSEs would be given discount of 10%.

(f) An MSE falling in all the above three categories viz. Social, Geographic, MSE Status shall be eligible for a maximum discount of 30%.

The credit facilities extended before January 01, 2024 are not eligible for any fee concession/relaxation.

The fee would be charged on outstanding basis i.e., First fee (guarantee fee) would be charged on guarantee amount and subsequent fee (annual service fee) would be charged on outstanding amount.

9. Payment of AGF

i. Guarantee fee for a particular Portfolio/ File I.D. shall be paid to the Trust by the institution availing of the guarantee within 30 days from the date of submission of each Portfolio/ File I.D. or 30 days from the date of Demand Advice (CGDAN) of guarantee fee whichever is earlier or such date as specified by the Trust. However, the guarantee cover would start from the date of realization of such payment.

ii. Consequent to base year, the annual guarantee fee on the Portfolio at a specified rate on pro-rata basis shall be paid every year by the lending institution within 30 days from the date of Demand Advice (CGDAN) of guarantee fee. The dates of payment of guarantee fee would be mutually agreed between the MLI and CGTMSE.

iii. Guarantee fee for a Portfolio/File I.D. arises till the expiry of the Credit facility or settlement of the claim whichever is earlier.

iv. In the event of non-payment of annual guarantee fee within the stipulated time, the guarantee under the scheme shall not be available to the lending institution unless the Trust agrees for continuance of guarantee.

v. The process of collection of guarantee fee could be finalized after discussions with the concerned NBFCs.

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

   b. Provided further that, the Trust may consider renewal/revival of guarantee cover for such of the credit facility upon such terms and conditions as the Trust may decide.

   c. In the event of any error or discrepancy or shortfall being found in the computation of the amounts or in the calculation of the guarantee fee, such deficiency / shortfall shall be paid by the eligible lending institution to the Trust within 30 days of the demand.

   d. In the event of any representation made by the lending institution in this regard, the Trust shall take a decision based on the available information with it and the clarifications received from the lending institution and its decision shall be final and binding on the lending institution.

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

vii. The guarantee fee once paid by the lending institution to the Trust is non-refundable. Guarantee fee shall not be refunded, except under certain circumstances like -

a. Excess remittance.

b. Remittance made more than once against the same portfolio.

Revival of closed Accounts

If the guaranteed account gets closed due to non-payment of AGF, the guarantee under the scheme shall not be available and request for revival of accounts/ delayed payment will be considered subject to the following conditions:

(i) Request for revival of account will have to be submitted by the MLI within the next financial year.

(ii) The account/accounts should be standard and regular as on date of submission of request for revival and the Trust reserves the right to reject the claim if the account turns NPA within 180 days from the date of revival of account.

IV GUARANTEES

10. Extent of the guarantee

i. The Trust shall provide Guarantee as under for loans sanctioned **on or after January 01, 2024.** (Circular No. 234/ 2023-24).

The Extent of Guarantee Coverage

<table>
<tr><th rowspan="3">Category
(including Trading activity)</th><th colspan="3">Maximum extent of Guarantee Coverage</th></tr>
<tr><th colspan="3">where credit facility is</th></tr>
<tr><th>Up to ₹ 5 lakh</th><th>Above ₹ 5 lakh & up to ₹ 50 lakh</th><th>Above ₹ 50 lakh & up to ₹ 500 lakh</th></tr>
<tr><td>Micro Enterprises</td><td>85%</td><td>75%</td><td rowspan="2">75%</td></tr>
<tr><td>MSEs located in North East Region (incl. Sikkim, UT of Jammu & Kashmir & UT of Ladakh)</td><td colspan="2">80%</td></tr>
<tr><td>Women entrepreneurs / SC/ST entrepreneurs / Person with Disability (PwD)/ MSE promoted by Agniveers / MSEs situated in Aspirational District / ZED certified MSEs</td><td colspan="3">85%</td></tr>
<tr><td>All other category of borrowers</td><td colspan="3">75%</td></tr>
<tr><td colspan="4">Not applicable for the NBFCs who have opted for 50% guarantee coverage.</td></tr>
</table>

i. However, the extend of guarantee for loans sanctioned before **January 01, 2024** will be **maximum of 75%** or as opted by the MLI.

All proposals for sanction of guarantee approvals for credit facilities above ₹ 50 lakh and up to ₹ 500 lakh will have to be rated internally by the MLI and should be of investment grade.

V. CLAIMS

11. Invocation of guarantee-

1. <u>NPA marking:</u>

If an account turns NPA in the books of the MLI in a particular calendar quarter, then by end of subsequent quarter the MLI is required to mark NPA in the system.

NPA Date	Last date of marking NPA
1st April – 30th June	By 30th September
1st July – 30th September	By 31st December
1st October – 31st December	By 31st March
1st January – 31st March	By 30th June

2. <u>Lodgment of claim:</u>

The lending institution may invoke the guarantee in respect of defaulted credit facility within a maximum period of three years from the date of NPA or end date of lock-in-period, whichever is later, provided the following conditions are satisfied:

a. The account should have been classified as NPA as per RBI norms and the same has been marked in the system within the stipulated time.

b. Lock-in period of 12 months (from the material date) should be completed.

c. Action for recovery viz. initiation of recovery (SARFAESI Act, Arbitration Proceedings, Repossession and Sale of Assets etc.), irrevocable demand notice, or any other recovery mode acceptable to the Trust, has been initiated after issuing loan recall notice. In case of SARFAESI, MLI has to ensure possession of the secured assets as per section 13(4) of the Securitization Act.

The claim should be preferred by the lending institution in such manner and within such time as may be specified by the Trust in this behalf.

The Guarantee Claim received directly from the branches or offices other than respective operating offices of MLIs will not be entertained.

3. Settlement of claim:

First Claim Settlement:

i. The Trust shall pay 75 per cent of the eligible claim amount as per available guarantee cover on preferring of claim by the lending institution, within 30 days, subject to the claim being otherwise found in order and complete in all respects. The balance of 25 per cent of the eligible claim amount will be paid on conclusion of recovery proceedings by the lending institution. On a claim being paid, the Trust shall be deemed to have been discharged from all its liabilities on account of the guarantee in force in respect of the borrower concerned.

ii. The lending Institution will have to share recoveries made after claim settlement on pro-rata basis, after adjusting towards the cost incurred by it for recovery of the amount.

iii. The lending institution shall be liable to refund the claim released by the Trust together with penal interest at the interest rate 18% p.a. (from date of initial release of claim by Fund to the date of refund of the claim), if such a recall is made by the Trust in the event of serious deficiencies having existed in the matter of appraisal / renewal / follow-up / conduct of the credit facility or where lodgment of the claim was more than once or where there existed suppression of any material information on part of the lending institutions for the settlement of claims. The lending institution shall pay such penal interest, when demanded by the Trust, from the date of the initial release of the claim by the Trust to the date of refund of the claim.

Settlement of Second/Final instalment:

The settlement of second / final instalment i.e., balance 25 per cent of the eligible claim amount will be settled on the conclusion of recovery proceedings provided minimum period of 3 years from the date of settlement of first claim has been lapsed or the date of final Award passed by the Arbitrator/Decree passed by the court whichever is earlier subject to following confirmation from the MLIs vide certificate/ declaration on the letter head signed and stamped by the authorized signatory.

a. Personal Guarantees have been invoked and no further recovery is possible.
b. No tangible secured assets have been left for disposal and no further recovery is possible.
c. The entire recoveries made in the account have been duly indicated in the 2nd claim application/have been passed on to CGTMSE.

One Time Settlement (OTS):

The trust shall process the OTS post the settlement of 1st claim, after remittance of recovery amount and submission of following document by the NBFC.

For Settlement under OTS, NBFC can approach CGTMSE for 2nd claim only after remitting the recovery amount received through OTS (entire OTS amount minus legal expense, if any) to Trust and submit below mentioned document.

- Internal Memo evidencing competent authority approval for settlement / OTS memorandum with acceptance from borrower or any other document evidencing the OTS approval.

Further, if post first claim settlement by CGTMSE, if an NBFC is entering into One Time Settlement (OTS) based on their approved OTS policy, NBFC can approach the Trust for settlement immediately after the OTS is done and settlement is concluded.

12. Subrogation of rights and recoveries on account of claims paid

i. The lending institution shall furnish to the Trust, the details of its efforts for recovery, realisations and such other information as may be demanded or required from time to time. The lending institution will hold lien on assets created out of the credit facility extended to the borrower, on its own behalf and on behalf of the Trust. The Trust shall not exercise any subrogation rights and that the responsibility of the recovery of dues including takeover of assets, sale of assets, etc., shall rest with the lending institution;

ii. In the event of a borrower owing several distinct and separate debts to the lending institution and making payments towards any one or more of the same, whether the account towards which the payment is made is covered by the guarantee of the Trust or not, such payments shall, for the purpose of this clause, be deemed to have been appropriated by the lending institution to the debt covered by the guarantee and in respect of which a claim has been preferred and paid, irrespective of the manner of appropriation indicated by such borrower or the manner in which such payments are actually appropriated.

iii. Every amount recovered and due to be paid to the Trust shall be paid without delay, and if any amount due to the Trust remains unpaid beyond a period of 30 days from the date on which it was first recovered, interest shall be payable to the Trust by the lending institution at the rate which is 18% for the period for which payment remains outstanding after the expiry of the said period of 30 days.

VI MISCELLANEOUS

13. Appropriation of amount received from the lending institutions

The amount received from the lending institutions shall be appropriated in the order in which the guarantee fee, penal interest and other charges have fallen due. If the guarantee fee and the penal interest have fallen due on the same date, then the appropriation shall be made first towards guarantee fee and then towards the penal interest and finally towards any other charges payable in respect of the eligible credit facility.

14. Appropriation of amount realised by the lending institution in respect of a credit facility after the guarantee has been invoked

Where subsequent to the Trust having released a sum to the lending institution towards the amount in default in accordance with the provisions contained in the Section 10 of this scheme, the lending institution recovers money subsequent to the recovery proceedings initiated by it, the same shall be deposited by the lending institution with the Trust, after adjusting towards the cost incurred by it for recovery of the amount on pro rata basis. The Trust shall appropriate the same first towards the pending guarantee fee, penal interest, and other charges due to the Trust, if any, in respect of the credit facility towards which the amount has been recovered by the lending institution, and the balance, if any, shall be appropriated in such a manner so that losses on account of deficit in recovery of the credit facility between the Trust and the lending institution are in the ratio proportionate to the extent of guarantee coverage.

15. Trust's liability to be terminated in certain cases

(i) If the liabilities of a borrower to the lending institution on account of any eligible credit facility guaranteed under this Scheme are transferred or assigned to any other borrower and if the conditions as to the eligibility of the borrower and the amount of the facility and any other terms and conditions, if any, subject to which the credit facility can be guaranteed under the Scheme are not satisfied after the said transfer or assignment, the guarantee in respect of the credit facility shall be deemed to be terminated as from the date of the said transfer or assignment.

(ii) Sale of the guaranteed assets (full/partial) will be permitted to another registered MLI of CGTMSE. In such case, the guarantee will have to be transferred to the buyer MLI which will undertake to agree to the terms and conditions as laid down in the scheme. However, such deals would require prior consent of the Trust. In the absence of the prior consent of the Trust for sale/assignment of the Portfolio Asset, the guarantee in respect of the portfolio shall be deemed to be terminated as from the date of the said sale/assignment.

(iii) If a borrower becomes ineligible for being granted any credit facilities under the Scheme, by reason of cessation of his activity or his activity or his undertaking ceasing to come within the definition of a MSE unit, the liability of the Trust in respect of any credit facilities granted to him by a lending institution under the Scheme shall be limited to the liability of the borrower to the lending institution as on the date on which the borrower becomes so ineligible, subject, however, to the limits on the liability of the Trust fixed under this Scheme. However, notwithstanding the death or retirement of a partner where the borrower is a partnership firm or the death of one of the joint borrowers, if the lending institution is entitled to continue the credit facilities to the surviving partner or partners or the surviving borrower or borrowers, as the case may be and if the credit facilities have not already become non performing asset, the guarantee in respect of such credit facilities shall not to be deemed to be terminated as provided in this paragraph.

16. Returns and Inspections

The lending institution shall submit such statements and furnish such information as the Trust may require in connection with any credit facility under this Scheme.

(i) The lending institution shall also furnish to the Trust all such documents, receipts, certificates and other writings as the latter may require and shall be deemed to have affirmed that the contents of such documents, receipts, certificates and other writings are true, provided that no claim shall be rejected, and no liability shall attach to the lending institution or any officer thereof for anything done in good faith.

(ii) The Trust shall, in so far as it may be necessary for the purposes of the Scheme, have the right to inspect or call for copies of the books of account and other records (including any book of instructions or manual or circulars covering general instructions regarding conduct of advances) of the lending institution, and of any borrower from the lending institution. Such inspection may be carried out either through the officers of the Trust or of SIDBI (except in case of Institutions other than SIDBI) or any other person appointed by the Trust for the purpose of inspection. Every officer or other employee of the lending institution or the borrower, who is in a position to do so, shall make available to the officers of the Trust or SIDBI or the person appointed for the inspection as the case may be, the books of account and other records and information which are in his/her possession.

17. Conditions imposed under the Scheme to be binding on the lending institution

(i) Any guarantee given by the Trust shall be governed by the provisions of the Scheme as if the same had been written in the documents evidencing such guarantee.

(ii) The lending institution shall as far as possible ensure that the conditions of any contract relating to an account guaranteed under the Scheme are not in conflict with the provisions of the Scheme but notwithstanding any provision in any other document or contract, the lending institution shall in relation to the Trust be bound by the conditions imposed under the Scheme.

18. Modifications and exemptions

(i) The Trust reserves to itself the right to modify, cancel or replace the scheme so, however, that the rights or obligations arising out of, or accruing under a guarantee issued under the Scheme up to the date on which such modification, cancellation or replacement comes into effect, shall not be affected.

(ii) Notwithstanding anything herein contained, the Trust shall have a right to alter the terms and conditions of the Scheme in regard to an account in respect of which guarantee has not been invoked as on the date of such alteration.

(iii) In the event of the Scheme being cancelled, no claim shall lie against the Trust in respect of facilities covered by the Scheme, unless the provisions contained in Clause (i) and (ii) of Section 10 of the Scheme are complied with by the lending institution prior to the date on which the cancellation comes into force.

19. Interpretation

If any question arises in regard to the interpretation of any of the provisions of the Scheme or of any directions or instructions or clarifications given in connection therewith, the decision of the Trust shall be final.

20. Supplementary and general provisions

In respect of any matter not specifically provided for in this Scheme, the Trust may make such supplementary or additional provisions or issue such instructions or clarifications as may be necessary for the purpose of the Scheme.

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