FAQ OF Credit Guarantee Fund Scheme

- What is the objective of Credit Guarantee Fund Scheme?

The Fund has been set up with the primary objective of providing a Credit Guarantee Cover to Eligible Lending Institution (ELI) to enable them to provide collateral free credit to FPCs by minimising their lending risks in respect of loans not exceeding Rs. 100.00 lac.

- Who is Eligible Lending Institutions (ELI)?

Eligible Lending Institution (ELI) means a Scheduled Commercial Bank for the time being included in the second schedule to the Reserve Bank of India Act, 1934 and Regional Rural Banks, NCDC, NABARD and its subsidiaries, NEDEFI or any other institution (s) as may be decided by the SFAC Board or as directed by the Government of India from time to time.

- Who is the Implementing Agency?

The Scheme is being operated by Small Farmers Agri Business Consortium (SFAC) through lending Institutions.

- What does “AMOUNT IN DEFAULT” means?

Amount in Default means the principal and interest amount outstanding in the account (s) of the Farmer Producer Company (FPC) borrower in respect of term loan and working capital facilities (including interest) as on :
i) The date of the account becoming NPA ; or
ii) The date of lodging claim application/recall of advance, whichever is earlier; or
iii) Such of the date as may be specified by SFAC for preferring any claim against the guarantee cover;
Subject to a maximum of amount Guaranteed and shall not include penal interest, other charges and any other costs debited to the FPC by the Eligible Lending Institution (ELI).

What does “AMOUNT IN DEFAULT” means? Which Credit Facility is covered under the scheme?

- Who is the Eligible Borrower?

Any financial assistance (fund based and/or non- fund based) already sanctioned/extended within six months from the date of the application for the Guarantee Cover or intended to be extended singly or jointly by one or more than one ELI to a single eligible FPC borrower by way of term loan and/or working capital/composite credit facilities without any Collateral Security or Third Party Guarantee. ELI can extend credit without any limit; however, the Guarantee cover shall be limited to the maximum guarantee cover specified under the Scheme.

- What are the criteria for non eligibility under the scheme?

A new or existing FPC meeting eligibility criteria laid down under the Scheme seeking credit facility from ELI under the Scheme, without any Collateral Security or Third Party Guarantee.

- What are the criteria for non eligibility under the scheme? What is the application process?

The ELI shall be required to apply to SFAC for Guarantee Cover in the specified form only. For credit proposals sanctioned by them during any quarter prior to expiry of the following quarter viz. Application w.r.t. credit facility sanctioned in April-June Quarter must be submitted in the ensuing quarter, i.e. July-September to qualify for consideration under the Scheme.

The following credit facilities shall not be eligible for Guarantee Cover under the Scheme :-
i) Any credit facility which has been sanctioned by the ELI against collateral security and/or third party guarantee.
ii) Any credit facility in respect of which risks are additionally covered any scheme operated/administered by Reserve Bank of India/or by the Government/or by any general insurer or any other person or association of persons carrying on the business of insurance, guarantee or indemnity.
iii) 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 is, for the time being in force.
iv) Any credit facility granted to any borrower, who has himself availed of any other credit facility covered under this scheme or under the schemes mentioned in clause (i), (ii), and (iii) above at any point in time.
v) Any credit facility that is overdue for repayment/NPA taken over by the ELI from any other lender or any other default converted into a credit facility.
vi) Any credit facility which has been rescheduled or restructured on becoming overdue for repayment.
vii) Any credit facility which is overdue for repayment.

- How much cover is available?

ELI shall be eligible to seek Guarantee Cover for a credit facility sanctioned in respect of a single FPC borrower for a maximum 2 times over a period of 5 years.
i) Maximum Guarantee Cover shall be restricted to the extent of 85% of the eligible sanctioned credit facility, or to Rs. 85.00 lac, whichever is lower.
ii) In case of default, claim shall be settled up to 85% of the amount in default subject to maximum cover as specified above.
iii) Other charges such as penal interest, commitment charge, service charge, or any other levies/expenses, or any costs whatsoever debited to the account of FPC by the ELI other than the contracted interest shall not qualify for Guarantee Cover.
iv) The cover shall only be granted after the ELI enters into an agreement with SFAC and shall be granted or delivered in accordance with the Terms & Conditions decided upon by SFAC from time to time. SFAC shall
i) Scrutinize the proposal before sanctioning the Guarantee Cover to the ELI under the Scheme in accordance with the Terms and Conditions of the Scheme.
ii) Insofar as it may be considered necessary, for the purposes of the Scheme, 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 or of the Borrower from the Lending Institution.
iii) Such inspection shall be carried out either through the officers of SFAC or any other agency appointed by SFAC for the purpose of inspection.
iv) The Investment and Claims Settlement Committee (I&CSC) shall sanction the Guarantee Cover to the concerned Bank based on the findings of the above.
The Fee payable to SFAC by the ELI for Guarantee Cover in respect of a FPC Borrower under the Scheme is a onetime Guarantee Fee calculated @ 0.85% of the sanctioned Credit Facility, subject to a maximum of Rs. 85000/- (Rs. Eighty Five Thousand only).
i) The Fee shall be paid upfront to SFAC by the Lending Institution availing of the Guarantee for each loan account. The payment is to be made within 30 days from date of approval of the Guarantee or such date as is specified by SFAC, failing which the Guarantee is liable to became void unless and until its continuance is specifically approved by SFAC.
ii) As on the date of acceptance of Guarantee Fee from the ELI, SFAC shall ensure that :
a) Any dues of the FPC borrower to the lending institution have not become overdue and/or are not an overdue/NPA credit facility taken over by the ELI and/or/is not a Credit Facility which has been rescheduled or restructured on becoming overdue.
b) The business or activity of the borrower for which the Credit Facility was granted has not been ceased.

c) The credit facility has not been utilised, wholly or partly, for adjustment of any debts deemed bad or doubtful of recovery.

- Are there other charges in addition to one time guarantee fee?

In addition to onetime Guarantee Fee, an Annual Service Fee @ 0.25% per annum or such other rate or limit as may be decided from time to time per loan account shall be charged from ELIs to keep the Guarantee of SFAC live. The annual service fee shall be paid by ELI to SFAC by the 31st May each year.

- How Guarantee can be invoked?

The ELI may invoke the Guarantee in respect of Credit Facility within a maximum period of one year from the date of NPA and after initiation of recovery process by ELI.

- How claim would be settled?

SFAC shall honour 75% of the Guaranteed amount in default subject to a maximum of 75% of the guaranteed cap amount, on submission of claim by the ELI where appropriate action for recovery has been initiated. Balance 25% shall be paid on conclusion of recovery proceedings by ELI. SFAC shall pay claims found in order and complete in all respects, within 90 days.

- Is there any provision of General awareness/publicity/training programme?

AFC is engaged to generate awareness about the benefits of CGFS to FIs, PSUs, SCBs, RRBs and last but not the least FPC. Services of Banking Institutions/NABARD and its subsidiaries shall also be engaged for sensitizing Branch Managers & other functionaries about the Scheme.

- ELI obtains CG for a FPC for a lesser amount in 1st phase. In 2nd phase fresh loan either term loan or enhancement of working capital is taken. Can credit guarantee upto the remaining eligible amount i.e. Rs. 85 lakh be given?

  Yes.

- What will be the tenure of 2nd guarantee?

Validity of Guarantee starts from the date of issue. Hence the tenure of 2nd guarantee will be 5 years from the date of issue.

- How many times it can be issued?

Can be issued two times within a span of 5 years.

- Whether FPC is eligible for full amount of CG if it repay/prepay a loan with in a period of 5 years for which CG for lesser amount has been availed. What will be its tenure?

Credit Guarantee is issued for maximum 85% of loan amount with a cap of Rs. 85000/-. A fresh guarantee for balance amount can only be taken and will run for five years from the date of issue.

- FPC has taken loan from one bank may be against some collateral security. Now take loan from other ELI without offering collateral security. Whether Credit Guarantee can be given for the loan given by the 2nd bank without collateral security.

Can be allowed subject to all terms and conditions met within the scheme.

- Some projects which are otherwise viable are not able to avail this facility only due to the stipulation that total facility should be collateral free for availing benefit under CGFS. With a view that good projects are not denied the facility only because they need more credit than stipulated in the scheme. Whether, stipulation of collateral free loan can be restricted to loan as specified in the scheme and loan exceeding this limit can be collateralised.

Yes provided charge of collateral security taken for addl. Loan is not extended on collateral free loan.

- In some states, SFCs are more proactive in financing of FPCs particularly, in Kerala where number of coconut producer companies are getting loan from KFC. Can SFCs be considered for inclusion in the list of ELI?

It can only be considered when review of CGFS would be undertaken.

- If ELI give in writing that ELI agrees 'In Principal' to sanction collateral free loan, can 'In Principal' approval be given by SFAC to give Credit Guarantee.

If ELI gives its "In Principal" intention in writing about sanction of loan without collateral, SFAC may give its "In Principal" consent to issue Credit Guarantee on usual terms & conditions.

- Is takeover of a credit facility (guaranteed by SFAC) by other bank is permitted? Whether fresh guarantee would be needed or the same guarantee would be valid for transferee bank?

It can be permitted with the consent of SFAC and original bank provided transferee bank has entered in MoU with SFAC. Fresh letter of guarantee would be issued in favour of 2nd Bank.

- If assets and liabilities of a FPC is taken over by other FPC, will credit guarantee will also be available to transferee FPC?

Credit facility may be transferred to other borrower with the consent of SFAC and eligibility of the transferee borrower and subject to fulfilling of all terms and conditions.

- Suppose FPC singly does not qualify for Credit Guarantee for want of minimum 500 members and join few other FPCs to make them eligible for Credit Guarantee. Is it possible?

Yes it is possible, provided FPCs jointly register a new Company which will be treated as FPC and eligibility and other terms & conditions are as per scheme guideline.

- Can a credit facility extended to a borrower against a collateral security be covered under the Guarantee Scheme, if the lending institution relinquishes its rights on the collateral security?

Yes, provided the lending institution relinquishes its rights on the collateral assets and releases the same in favour of the borrower before seeking guarantee cover and subject to fulfilment of the other norms of the Scheme.