Mutual Credit Guarantee Scheme for MSMEs-

Modified as on February 24,2026

1. Name of the Scheme

The Scheme shall be named as 'Mutual Credit Guarantee Scheme for MSMEs (MCGS-MSME)' and the Trust /Fund to manage the Scheme shall be named as Mutual Credit Guarantee Fund-MSME (MCGF-MSME).

MCGF-MSME shall be a Trust Fund formed by the Department of Financial Services (DFS), Ministry of Finance, Government of India and shall be managed by National Credit Guarantee Trustee Company Limited (NCGTC), a wholly owned company of Department of Financial Services (DFS), Ministry of Finance, Government of India, as a Trustee.

2. Purpose of the Scheme

To provide guarantee coverage for term loan assistance of upto Rs.100 crore to eligible Micro, Small and Medium Enterprises (MSMEs) (engaged in manufacturing or service) for their projects involving purchase of equipment/machinery.

3. Date of commencement of the Scheme

The guidelines shall come into force from the date of issue of these guidelines by NCGTC. All eligible loans sanctioned on or after the date of issue of these guidelines shall be eligible for coverage under the Scheme.

4. Definitions

For the purposes of this Scheme –

(a) "Amount in Default" means the principal and interest amount outstanding in the account of the borrower as on the date of the account becoming NPA, or on the date of lodgment of claim application, whichever is lower.

(b) "Collateral Security" in respect of a credit facility shall mean security provided in additional to the primary security.

(c) "Credit facility" means financial assistance provided under the Scheme by way of term loan to eligible Micro, Small and Medium Enterprises (MSMEs).

(d) "**Guarantee Cover**" means the maximum cover available per eligible borrower of the amount in default in respect of the credit facility extended by the lending institution. The guarantee cover shall commence from the date of payment of upfront (initial) contribution.

(e) "Interest Rate" for a lending institution means the rate so declared by that lending institution from time to time as per Reserve Bank of India guidelines based on which interest rate applicable for the loan will be determined.

(f) "**Lock in period** " means the period during which no invocation of guarantee can be made;

(g) "Member Lending Institution(s) (MLIs)" means a Scheduled Commercial Bank (SCB) / All India Financial Institution (AIFI) as defined in sub-clause (i) of Clause (c) of Section 45-I of RBI Act, 1934/ Non Banking Finance Company (NBFC) as defined in clause (f) of Section 45-I of RBI Act, 1934 and which has its principal business as defined by RBI and has been granted a certificate of registration under sub-section (1) of Section 45-IA conforming to the eligibility criteria duly approved under the Scheme and as modified by the Trust/Trustee from time to time and who have entered into an Agreement with/submitted Undertaking to the Trust/Trustee for availing assistance under the Scheme.

(h) "**NCGTC**" means National Credit Guarantee Trustee Company Limited set up on March 28, 2014 by the Government of India under the Companies Act, 1956 to act as the Trustee to operate various Credit Guarantee Funds/Trusts set up/to be set up by the Government of India from time to time.

(i) "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.

(j) "Primary Security" in respect of a credit facility shall mean the assets created out of the credit facility so extended.

(k) "Tenure of guarantee cover" means the maximum period for which the guarantee cover shall be valid.

5. Scheme Outline

A. <u>For General MSMEs (i.e. other than well run exporter MSMEs where loan requirement is upto Rs.20 crore)</u>

(i) Project Cost could be of any amount;
(ii) Loan amount under guarantee shall not exceed Rs.100 crore;
(iii) 5% of the loan amount <u>not exceeding Rs.5 crore</u> shall be deposited with the Trust as upfront (initial) contribution at the time of application of guarantee cover; This shall be refundable to the borrower- 1% each year from 4th year onwards.
(iv) In case loan amount exceeds Rs.100 crore, two different repayment schedules should be drawn (one for Rs.100 crore loan and the second for balance amount of loan), repayment schedule shall be pro-rata and receipts/repayments should be distributed proportionately.
(v) Loan upto Rs.50 crore under the Scheme shall have repayment period of upto 8 years with upto 2 years moratorium period on principal instalments. For loans above Rs.50 crore, higher repayment schedule and moratorium period on principal instalments can be considered; However, guarantee shall be valid only up to 10 years from the date of commencement of the guarantee cover.
(vi) Lock in period for invocation of guarantee shall be 2 years from the date of commencement of guarantee cover;

(vii) Guarantee Cover – 60% of Amount in Default;

(viii) Guarantee Fee on loan under the Scheme shall be Nil during the year of sanction, as upfront (initial)contribution would have been received during the year. During the next 3 years, it shall be 1.5% p.a. of loan outstanding as on March 31 of previous year. Thereafter, Guarantee Fee shall be 1% p.a. of loan outstanding as on March 31 of previous year. Further, in years subsequent to the sanction year, applicable Guarantee Fee shall be payable on disbursements made in the intervening months for the period remaining in that year. The Guarantee Fee shall become payable within 30 days of close of year for the outstanding amount as on the close of the Financial Year and 30 days within date of disbursement for any subsequent disbursements.

(ix) For the purpose of calculation of upfront (initial) contribution/guarantee fee, loan amount sanction/outstanding shall be considered net of value of collateral security being offered.

(x) Claim Payout Cap in a year – The entire eligible guaranteed amount shall be payable to an MLI. However, during a year, only thrice the amount of guarantee fee paid and recoveries deposited (out of earlier claims paid) by an MLI during previous year shall be eligible for payout;

(xi) Interest rate on loans – As per RBI guidelines;

(xii) Risk premium, over and above Guarantee Fee, or discount, if any, can be decided by the MC in future (say after 3 years), based on risk assessment of this portfolio, volume of loans of an MLI or such other factors as deemed relevant;

(xiii) **Eligible Borrower:**

(i) MSME unit with valid Udyam Registration Number;
(ii) It should not be an NPA with any lender;
(iii) Minimum cost of equipment /machinery is 60% of project cost

B. For well-run exporter MSMEs with loan requirement upto Rs.20 crore)

(i) Project cost could be of any amount;

(ii) Loan amount under guarantee shall not exceed Rs.20 crore;

(iii) 2% of the loan amount not exceeding Rs.40 lakh shall be deposited with the Trust as upfront (initial) contribution at the time of application of guarantee cover - this shall be refundable to the borrower – 1% in 4th year and 1% in 5th year.

(iv) The loan can be in rupee or foreign currency for projects in India (new/existing).

(v) Guarantee Cover : 75% of Amount in Default

(vi) Guarantee Fee on loan under the Scheme shall be Nil during the year of sanction, as upfront (initial) contribution would have been received during the year. Thereafter, it shall be 0.50% p.a. of loan outstanding as on March 31 of previous year. Further, in years subsequent to the sanction year, applicable Guarantee Fee shall be payable on disbursements made in the intervening months for the period remaining in that year.

(vii) The Guarantee Fee shall become payable within 30 days of close of year for the outstanding amount as on the close of the Financial Year and 30 days within date of disbursement for any subsequent disbursements.

(viii) Claim Payout Cap in a year – The entire eligible guaranteed amount shall be payable to an MLI. However, during a year, only thrice the amount of guarantee fee paid/recovered and recoveries deposited (out of earlier claims paid) by an MLI during previous year shall be eligible for payout.

(ix) Loan amount under the Scheme shall have repayment period of up to 8 years with to 2 years moratorium period on principal instalments.

(x) For the purpose of calculation of upfront (initial) contribution/guarantee fee, loan amount sanction/outstanding shall be considered net of value of collateral security being offered.

(xi) Interest rate on loans – As per RBI guidelines.

(xii) Risk premium, over and above Guarantee Fee, or discount, if any, can be decided by the MC in future (say after 3 years), based on risk assessment of this portfolio, volume of loans of an MLI or such other factors as deemed relevant;

(xiii) **Eligible Borrower**

a. It should be an MSME with valid Udyam Registration Number;
b. It should have exported at least 25% of its sales turnover during each of previous 3 financial years.
c. Maximum write-off of the export proceeds should be less than 10% of its export turnover of each year, for last three years.
d. It should not be an NPA with any lender;
e. Minimum cost of equipment /machinery is 60 % of project cost

6. Duration of the Scheme

The scheme would be available for a period of 4 years from the date of issue of these guidelines or till cumulative guarantees of Rs.7 lakh crore are issued, whichever is earlier.

7. Eligible Lenders

All Scheduled Commercial Bank (SCB) / All India Financial Institutions (AIFIs) as defined in sub-clause (i) of Clause (c) of Section 45-I of RBI Act, 1934/ Non Banking Finance Company (NBFC) as defined in clause (f) of Section 45-I of RBI Act, 1934 and which has its principal business as defined by RBI and has been granted a certificate of registration under sub-section (1) of Section 45-IA conforming to the eligibility criteria duly approved under the Scheme and as modified by the Trust/Trustee from time to time.

8. Loans not eligible under the Scheme

(i) Any loan in respect of which risks are additionally covered under a scheme operated / administered by any other Scheme, to the extent they are so covered.

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

9. Security

(i) The MLI shall hold charge on the primary securities on behalf of NCGTC and shall ensure that necessary documentation in this regard is done prior to the account turning NPA, failing which claim shall not be considered;

(ii) The MLI shall ensure that the interest of NCGTC is safeguarded at all times;

(iii) In case any collateral security is available and indicated at the time of sanction of guarantee, the value indicated at the time of sanction shall be considered for the purpose of initial contribution as well as for calculation of annual guarantee fee by netting the same from the loan sanctioned (for initial contribution) and from loan outstanding (for Annual Guarantee Fee) and loan disbursement during the second and subsequent years. However, at the time of claim settlement, the value of collateral should be considered at higher of the present or that taken at the time of sanction.

10. Invocation of guarantee

(i) The Member Lending Institutions (MLIs) shall inform the date on which the account was classified as NPA within 180 days of the account being so classified;

(ii) Lock in period for invocation of claim shall be 2 years from the date of commencement of guarantee cover;

(iii) Invocation of claim would be considered only if NPA was reported within timelines, the guarantee fee was not in arrears on the date of NPA, the guarantee is valid at the time of account turning NPA, legal proceedings for recovery of dues has been initiated against the borrower, desired security was created prior to account turning NPA, other conditions of the Scheme have also been complied and claim has been filed on the NCGTC's portal with requisite documents;

(iv) Mere issue of recall notice shall not be construed as initiation of legal action. Legal action shall be considered as initiated upon filing of application in Lok Adalat, Civil Court, DRT or after action pursuant to the notice issued under Section 13(4) of SARFAESI Act, 2002 or after admission of application under NCLT or such other action as may be decided by NCGTC from time to time.

(v) There shall be a cap on claim payout as explained in para 5 above. Subject to it and the claim being found otherwise to be in order and complete in all respects, the Trust shall pay 75 per cent of the claim amount within 30 days of preferring of eligible claim by the MLI while the balance 25 per cent of the eligible claim amount will be paid on conclusion of recovery proceedings or till the decree gets time barred, whichever is earlier.

(vi) One Time Settlement, either directly or through Lok Adalat or otherwise, shall be allowed only after the MLI has initiated legal proceedings upon account turning NPA, 1 year has elapsed since commencement of legal proceedings, compliance is ensured with other terms of the Scheme guidelines and OTS offer is found to be reasonable and eligible by the MLI as per its Board approved policy.

11. Appropriation of amount realized by the member lending institution in respect of a credit facility after the guarantee has been invoked

Post invocation of the guarantee claim (interim or final), if any recoveries are made in the account, MLIs shall first adjust such recoveries towards the legal costs incurred by them for recovery of the amount and shall thereafter remit to NCGTC the balance recoveries in the proportion of losses which shall be shared proportionately.

In all OTS cases also, the MLI shall enter the details in the portal of NCGTC at the appropriate place and arrange to remit the recoveries in the proportion of losses. The recoveries under OTS remitted by the MLI to NCGTC shall also form part of the recoveries deposited for working out the claim payout cap during the next year.

12. Agreement to be executed by the member lending institution

(a) A member lending institution shall not be entitled to a guarantee in respect of any eligible credit facility granted by it unless it has submitted an Undertaking with the Trustee Company in such form as may be required by the Trustee Company 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.

(b) All interested and eligible MLIs are required to submit the Undertaking to NCGTC for the purpose of this Scheme.

13. Responsibilities of member lending institution under the Scheme:

(i)MLI should enable communication of the Scheme to the borrowers by highlighting the Scheme details on their website and linking to Scheme webpage;

(ii)The lending institution should work towards creating awareness for the Scheme by enabling communication of the Scheme through SMS and e-mail campaigns;

(iii)The Lending institution shall assess the feasibility and viability of the project as per its standards;

(iv)The lending institution shall closely monitor the borrower account, and shall put in all required efforts to ensure that the account is serviced regularly;

(v)The lending institution shall safeguard the primary and collateral securities in respect of the credit facility in good and enforceable condition;

(vi)Upon account turning NPA, the lending institution shall take immediate necessary steps for recovery of its dues;

(vii)The lending institution shall ensure that the guarantee claim in respect of the credit facility is lodged with the Trustee Company in the form and in the manner and within such time as may be specified by the Trustee Company in this behalf and that there are no delays on its part to notify the default in the borrowers account which shall result in the Trustee Company facing higher guarantee claims

(viii)The payment of guarantee claim by the Trustee Company 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 all necessary actions for recovery of the outstanding amount, including such action as may be advised by the Trustee Company

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

(x)The lending institution shall, in respect of any guaranteed account, exercise the same diligence in recovering the dues, and safeguarding the interest of the Trustee Company in all the ways open to it as it might have exercised in the normal course if no guarantee had been furnished by the Trustee Company. 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 Trustee Company as the guarantor.

(xi) 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). Further the lending institution shall secure for the Trustee Company 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 Trustee Company.

14. Status of the borrower account on the date of sanction / disbursement

The borrower account, otherwise eligible under the scheme, should not be an NPA with any lender as on the date of sanction / disbursement of loan under the Scheme.

15. 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, realizations 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 4% above Repo Rate for the period for which payment remains outstanding after the expiry of the said period of 30 days.

16. Fund's liability to be terminated in certain cases

(i) If the liabilities of a borrower to the lending institution on account of 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, the amount of the credit 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) If a borrower becomes ineligible for being granted credit facility under the Scheme, the liability of the Fund in respect of credit facility 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 Fund fixed under this Scheme.

17. Returns and Inspections

The lending institution shall submit such statements and furnish such information as the Fund may require in connection with guarantee under this Scheme.

(i) The lending institution shall also furnish to NCGTC 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 Fund shall, insofar 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 through the officers of the Fund or any other person appointed by the Fund 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 Fund 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 possession.

18. 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 Fund shall be final.

19. Supplementary and general provisions

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

20. Modifications in the Scheme

There shall be a Management Committee (MC) of the Fund to oversee the affairs of the Trust. The MC shall be constituted by the Settlor and shall be changed by the Settlor as per requirement.

Any changes to the current structure of the Scheme, including but not limited to the eligibility criteria of lenders/borrowers, guarantee fee, rate of interest, tenor of loan etc., shall be decided by the Management Committee. However, no such approval which could have an impact on the corpus of the Fund should be decided without due approval of the Competent Authority and without taking prior approval of the Department of Expenditure, Ministry of Finance

21. These Scheme guidelines shall be read along with Frequently Asked Questions (FAQs) on the Scheme, which have been hosted on the portal and shall be updated from time to time.

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