



MSMEs Loans to Get 'Risk-Free' Tag

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Why in News

The **Reserve Bank of India (RBI)** is likely to **allow banks to assign zero risk weight for loans** that will be extended to the **Micro, Medium and Small Enterprises (MSMEs)** under the **Rs.20 lakh crore economic package** announced by the Union government.

Key Points

- As a part of the package, a Rs.3 lakh crore loan for the MSME sector was announced.
- However, such loans **would attract a risk weight of a minimum 20%** since these loans **did not come with direct government guarantee.**
 - The claims will not be settled unconditionally. The government will ask questions and see the loan appraisal process once a claim is made when the borrower defaults.
 - And, if the claim is not settled, banks have to make provision in line with the age of default.
- This facility is similar to the loans that are guaranteed by the **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).**
- The government has made available a corpus of Rs. 41,600 crore for the Rs. 3 lakh crore scheme. The **government is factoring in less than 15% non-performing assets, as of now.**
- After banks highlighted the issue of risk weight associated with the loan with the government, the government has asked the RBI to waive the requirement of assigning a risk weight to the loans.
- **Benefit:**
 - Zero risk would mean that banks will not have to set aside additional capital for these loans.
 - The move will encourage lenders to extend credit, as banks have turned risk averse and have been reluctant to lend.

- **Rs. 3 lakh crore scheme**

- Under the scheme, **100% guarantee coverage** will be provided by the **National Credit Guarantee Trustee Company Limited (NCGTC)** to eligible MSMEs, in the form of a **Guaranteed Emergency Credit Line (GECL) facility**.
- Though primarily meant for the MSME sector, other small borrowers including the **Non-banking Financial Companies (NBFCs)** can also avail themselves of the scheme.
- The **tenure of loan under this scheme is four years** with a moratorium period of one year on the principal amount.
- The scheme would be applicable to all loans sanctioned under GECL till 31st October, 2020 or till an amount of Rs.3 lakh crore is sanctioned, whichever is earlier.

Credit offered by CGTMSE

- **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)** was set up by the **Government of India** and **Small Industries Development Bank of India (SIDBI)**.
- CGTMSE has introduced a new "**Hybrid Security**" product allowing guarantee cover for the portion of the credit facility not covered by collateral security.
- In the partial collateral security model, the Member Lending Institutions (MLIs) will be allowed to obtain collateral security for a part of the credit facility, whereas the remaining part of the credit facility, up to a maximum of Rs. 200 lakh, can be covered under Credit **Guarantee Scheme** of CGTMSE.
- The main objective is that the **lender should give importance to project viability and secure the credit facility** purely on the primary security of the assets financed.
- The other objective is that the **lender availing guarantee facility should endeavor to give composite credit to the borrowers** so that the borrowers obtain both term loan and working capital facilities from a single agency.

National Credit Guarantee Trustee Company Limited

- National Credit Guarantee Trustee Company Limited (NCGTC) is a **Union Government Company**. It is classified as a company **limited by shares**.
- It was set up by the Government of India to, inter alia, **act as a common trustee company to manage and operate various credit guarantee trust funds**.

Source: TH