



## 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**