Partial Guarantee Scheme

Recently, the government has issued guidelines on operationalising the **Rs. 1 lakh crore Partial Guarantee Scheme** to address liquidity crisis in **Non-Banking Financial Companies** (NBFC).

- Under the scheme **Public Sector Banks** can purchase securities (minimum rating of 'AA') of financially-sound non-banking finance companies.
- The objective is to address temporary **asset-liability mismatches** of otherwise solvent NBFCs/**Housing finance companies** (HFCs) without having to resort to distress sale of their assets to meet their commitments.
    - NBFCs/HFC came under stress due to the recent **IL&FS crisis**.
- The government will provide a **one-time, six months'** partial credit guarantee to public sector banks for first loss of up to 10%.
- Also, these NBFCs/HFCs are mandated that the CRAR (capital to risk weighted assets ratio) **shall not go below** the regulatory minimum while exercising of the option to buy back the assets.

Capital Adequacy Ratio (CAR)

- The **CAR** is a measure of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures.
- The Capital Adequacy Ratio, also known as **capital-to-risk weighted assets ratio (CRAR)**, is used to protect depositors and promote the stability and efficiency of financial systems around the world.

Source: TH