Extended Partial Credit Guarantee Scheme

1.1 Name of the Scheme: "Extended Partial Credit Guarantee Scheme" offered by Government of India (GoI) to Public Sector Banks (PSBs) for (i) purchase of pooled assets having a rating of BBB+ or above from financially sound Non-Banking Financial Companies (NBFCs)/Housing Finance Companies (HFCs) and (ii) Portfolio Guarantee for purchase by PSBs of Bonds or Commercial Papers (CPs) with a rating of AA and below (including unrated paper with original/ initial maturity of up to one year) issued by NBFCs/ HFCs/ MFIs (in case of MFIs, Bonds/ CPs with MFR rating equivalent).

1.2 Objective: To address temporary liquidity/cash flow mismatches of otherwise solvent NBFCs/HFCs/MFIs without having to resort to distress sale of their assets for meeting their commitments, and to enable availability of additional liquidity to them for on lending.

1.3 Validity of the Scheme:

The window for this one-time partial credit guarantee offered by GoI will remain open till 31st March, 2021 for the purchase of pooled assets and for the period as specified under para 1.4 (B) (iv) below for purchase of Bonds/CPs, or till such date by which Rs. 10,000 crore worth of guarantees, including both guarantees toward purchase of pooled assets and Bonds/ CPs, are provided by the Government, whichever is earlier.

1.4 Operational Guidance:

A. For purchase of assets

(i) The assets shall be purchased by banks at fair value.
(ii) Assets to be assigned by NBFCs/HFCs must be rated by Credit Rating Agencies (CRAs) accredited by Reserve Bank of India (RBI).
(iii) One-time guarantee provided by GoI on the pooled assets will be valid for 24 months from the date of purchase and can be invoked on the occurrence of default as outlined under para 1.7 below. The guarantee shall cease earlier if the purchasing bank sells the pooled assets to the originating NBFC/HFC or any other entity, before the validity of the guarantee period.
(iv) The purchasing banks may have service level agreements with the originating NBFCs/HFCs for servicing, including administration of the individual assets.
(v) The NBFCs/HFCs can have the option to buy back their assets after a specified period of 12 months as a repurchase transaction, on a right of first refusal basis.

B. For purchase of Bonds/CPs

(i) At the portfolio level, AA and AA- investment sub-portfolio under the Scheme should not exceed 25% of the total portfolio of Bonds/ CPs purchased by PSBs under the Scheme.
(ii) Bonds/ CPs purchased by PSBs under the Scheme shall be held on the investment book of PSBs.
(iii) Individual PSBs may buy up to 20% of their total non SLR (Statutory Liquidity Ratio) Bondholding through this route.
(iv) Portfolio to be eligible under the scheme should be built up within 3 months of announcement of the scheme. At the end of three months, the portfolio shall be crystallized based on actual amount disbursed, for the Guarantee to come into effect. The PSB concerned will submit requisite details to the Small Industries Bank of India (SIDBI) for issuance of Guarantee. SIDBI will verify compliance of the request with the approved criteria of the Scheme and

ensure that all proposals together are within the overall approved guarantee limit of Rs. 10,000 Crore. Formal letter of Guarantee will be issued by Department of Financial Services (DFS) upon confirmation by SIDBI.

(v) SIDBI will indicate an initial tentative *inter-se* allocation of limits to Banks to ensure that the amount of guarantee support remains within the approved sum of Rs. 10,000 crore worth of guarantees (including already committed amounts).

(vi) PSBs shall use their available liquidity for the purpose of purchase of Bonds/ CPs under this Scheme.

(vii) Total issuance covered under this Scheme by a single NBFC/HFC/MFI to all PSBs shall be capped at 1.25 times of that NBFC/HFC/MFI's total maturing liability over a period of six months from the date of issue of Bonds/ CPs.

(viii) The one-time guarantee provided by the GoI shall be co-terminus with the tenure of the instrument and may be invoked on the occurrence of default as outlined under para 1.7 below.

(ix) The PSB concerned shall finalise the terms of issue, including the commercial terms such as pricing, security cover *etc.* bilaterally with the issuer.

1.5 Eligible NBFCs/HFCs/MFIs:

(i) NBFCs registered with RBI under the Reserve Bank of India Act. For purchase of pooled assets, NBFCs registered as Micro Finance Institutions (MFIs) and Core Investment Companies (CICs) shall be excluded. For purchase of Bonds/ CPs, however, all MFIs which are members of a Self-Regulatory Organisation (SRO) recognized by RBI, shall be eligible.

(ii) HFCs registered with National Housing Bank (NHB) under the National Housing Bank Act.

(iii) Government owned NBFCs/HFCs will not be eligible for coverage under this Scheme with respect to the Bonds/ CPs issued by them.

(iv) For purchase of pooled assets under the Scheme, the CRAR of NBFCs / CAR of HFCs should not be below the regulatory minimum (*i.e.* 15% for NBFCs and 12% for HFCs) as on 31.3.2019.

(v) For purchase of pooled assets under the Scheme, the net Non-Performing Asset of the NBFC/HFC concerned should not be more than 6% as on 31.3.2019.

(vi) For purchase of pooled assets under the Scheme, the concerned NBFC/HFC should have made a net profit in at least one of the financial years of FY 2017-18, 2018-19 and 2019-20.

(vii) For purchase of pooled assets, the NBFCs/HFCs should have been regular or SMA-0 during the last one year prior to 1.8.2018. In addition, entities reported under SMA-1 category for technical reasons alone by any bank for their borrowings during the last one year prior to 1.8.2018 would also be eligible provided that the lending entity which had reported the concerned NBFC/HFC to CRILC or Credit Bureaus certifies that such reporting was due to purely technical reasons. NBFCs/ HFCs reported under SMA-2/NPA category for any reason whatsoever during this period shall not be eligible under the Scheme.

1.6 Eligible Assets and Bonds/CPs:

A. For purchase of assets

(i) Only assets originated up to at least six months prior to the date of initial pool rating shall be eligible under this Scheme, provided that such assets have a repayment history, excluding any moratorium, of at least a clear six months.

(ii) Assets should be standard in the books of NBFCs/HFCs on the date of sale.

(iii) The pool of assets should have minimum rating of 'BBB+' or equivalent at fair value prior to the partial credit guarantee by GoI.

(iv) Each account under the pooled assets should have been fully disbursed and security charge should have been created in favour of the originating NBFCs/ HFCs.

(v) NBFCs/HFCs can sell up to a maximum of 20% of their standard assets as on 31.03.2019 subject to a cap of Rs. 5,000 crore at fair value. Any additional amount above the cap of Rs. 5,000 crore will be considered on *pro rata* basis, subject to availability of headroom.

(vi) The underlying assets should represent the debt obligations of a homogeneous pool of obligors and individual asset size in the pool is capped at Rs. 5 crore (*i.e.* asset pool should be sufficiently granular).

(vii) Originating NBFCs/HFCs cannot assign the following assets under this Scheme:

   a) Revolving credit facilities;
   b) Assets purchased from other entities; and
   c) Assets with bullet repayment of both principal and interest.

B. For purchase of Bonds/CPs

(i) All Bonds/ CPs purchased by PSBs under this Scheme shall be of primary issuance only.

(ii) Bonds/ CPs to be purchased by PSBs from NBFCs/ HFCs/ MFIs under this Scheme shall have a rating of AA and below (including unrated paper with original/ initial maturity of up to one year) issued by NBFCs/ HFCs/ MFIs (in case of MFIs, Bonds/CPs with MFR rating equivalent) given by Credit Rating Agencies (CRAs) accredited by RBI. Purchase by PSBs of unrated paper issued by NBFCs/ HFCs/ MFIs shall be limited to papers with original/ initial maturity of up to one year for which there are no listing or rating requirement as per RBI's guidelines.

(iii) The tenure of the Bonds/ CPs eligible for purchase under this Scheme shall be from nine months to eighteen months, except for unrated paper whose original/ initial maturity should not exceed one year.

1.7 Invocation of Guarantee:

A. In case of purchase of assets

The purchasing bank can invoke the GoI guarantee if the interest and/or instalment of principal remains overdue for a period of more than 90 days (*i.e.* when liability is crystalised for the underlying borrower) during the validity of such guarantee, subject to the condition that the guarantee shall be for the **first loss up to 10 per cent**.

B. In case of purchase of Bonds/CPs

The purchasing bank can invoke the GoI guarantee in case of default in servicing of the Bond/ CP on its attaining maturity, subject to the condition that the guarantee shall be for the **first loss up to 20 per cent** of the face value at crystalised portfolio level.

1.8 Reporting and claims:

(i) There should be a process of real time reporting of such transactions by the banks to GoI so as to get the information on remaining available headroom for purchase of such pooled assets or Bonds/ CPs. The Department of Financial Services (DFS), Ministry of Finance would obtain the requisite information in a prescribed format from the PSBs through SIDBI and send a copy to the budget division of DEA.

(ii) GoI shall settle claims under the Scheme by the banks within 5 working days from the date of claim.

(iii) Upon recovery of the accounts and Bond/ CP liabilities for which the purchasing bank had invoked the GoI guarantee and received the claim from GoI, the guarantee amount, or the amount recovered, whichever is lower, should be passed on by banks to the GoI within 5 working days from the date of receipt in their books, subject to the condition that in case the guarantee amount is lower than the recovery shortfall the gap would be filled by the bank receiving the guarantee, but when the recovered amount is higher than the guarantee amount, then the excess over the guarantee amount would be kept by the bank.

(iv) In case of purchase of assets, any loss crystalised up to 24 months is eligible for claim from GoI under the Scheme, provided such pooled assets are not (a) bought back by the concerned NBFCs/HFCs or (b) sold by the purchasing bank to other entities.

1.9 Guarantee Fees:

(i) The amount of overall guarantee will be limited to 10% of fair value of assets or 20% of the face value at portfolio level of the Bonds/CPs being purchased by the bank under this Scheme, or Rs. 10,000 crore, whichever is lower.

(ii) In case of purchase of assets, guarantee will be valid for 2 years from the date of purchase of assets or till the date of sale of assets, whichever is earlier. However, in case of purchase of Bonds/ CPs, the guarantee will be co-terminus with the tenure of the Bonds/CPs.

(iii) Guarantee will be provided to the PSBs that purchase these assets or Bonds/ CPs. Execution of Government guarantee by the Administrative Department should be done as prescribed under Rule 280 of GFR.

(iv) Guarantee fee will be paid by the PSB @0.25% of the fair value of the assets/ face value at crystalised portfolio level of the Bonds/CPs being purchased by the bank under this scheme before the issue of guarantee.

(v) Recovery of guarantee fee from the PSBs concerned will be the responsibility of DFS. Guarantee fee should be levied before the guarantee is given.

(vi) Guarantee should be reviewed annually as prescribed under Rule 281 of GFR.

(vii) This is subject to DFS, as the Administrative Department, ensuring compliance of the Scheme guidelines with chapter 11 of the GFR, 2017

1.10 The NBFC/HFC/MFI whose assets/Bonds/CPs are sold under this Scheme shall undertake the following:

(i) It should rework the Asset Liability structure within three months to have positive ALM in each bucket for the first three months and on cumulative basis for the remaining period.

(ii) For purchase of pooled assets under the Scheme, at no time during the period for exercise of the option to buy back the assets, should the CRAR go below the regulatory minimum. The promoter shall ensure this by infusing equity, where required.

2. While the overall responsibility of DFS as administrative ministry for execution and monitoring of guarantees under Chapter 11 including Rule 280 of GFR shall remain, and the primary responsibility for guarantee execution will be of DFS, the responsibility for discharge on behalf of DFS, of certain other functions such as evaluation/ verification of compliance with approved criteria of bank proposals for execution of guarantees, keeping record of transactions and determination of guarantee headroom, examination of claims, monitoring of recoveries in accounts for which guarantee has been invoked, and any other function stipulated to be specifically performed by SIDBI under the Scheme Guidelines, shall be delegated to SIDBI.

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