

**SSI Advances Guaranteed by Credit Guarantee Fund Trust for Small Industries
(CGTSI) – Risk weights and Provisioning norms**

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All Commercial Banks
(Excluding RRBs and LABs)

Dear Sir,

**SSI Advances Guaranteed by Credit Guarantee Fund Trust for
Small Industries (CGTSI) – Risk weights and Provisioning
norms**

Credit Guarantee Fund Trust for Small Industries (CGTSI), a Trust set up jointly by the Government of India and Small Industries Development Bank of India is administering the Credit Guarantee Fund Scheme for Small Industries (CGFSSI) launched by Government of India to cover credit facilities extended to small scale industries by eligible lending institutions. The guarantee cover under the CGFSSI is available for credit facilities extended by eligible lending institutions, in respect of a single eligible borrower, not exceeding Rs.25 lakh by way of term loan and/or working capital facilities on or after entering into an agreement with the Trust, to the small scale industrial units including information technology and software industries, without any collateral security and/or third party guarantees. The Trust provides guarantee cover of up to 75% of the amount in default of the credit facility extended by the lending institution to an eligible borrower, subject to a maximum guarantee cover of Rs.18.75 lakh per borrower.

2. The issue of assignment of appropriate risk weight for loans guaranteed by CGTSI and prescription of requisite provisioning norms for such loans on the lines of credit facilities guaranteed by DICGC/ECGC was examined by us and it has been decided as under:

i) **Risk weight:**

Banks may assign zero risk weight for the guaranteed portion. The balance outstanding in excess of the guaranteed portion would attract a risk-weight as appropriate to the counter-party. Two illustrative examples I & II are given in the Annexure.

ii) **Provisioning**

In case the advance covered by CGTSI guarantee becomes non-performing, no provision need be made towards the guaranteed portion. The amount outstanding in excess of the guaranteed portion should be provided for as per the extant guidelines on provisioning for non-performing advances. Two illustrative examples III & IV are given in the Annexure.

Yours faithfully,

Sd/-

(B.Mahapatra)
General Manager

Encl. As above

Annexure

SSI Advances Guaranteed by Credit Guarantee Fund
Trust for Small Industries (CGTSI) – Risk weights
and Provisioning norms

a) Risk-Weight

Example I

CGTSI Cover : 75% of the amount outstanding or 75% of the unsecured amount or
Rs.18.75 lakh , whichever is the least .

Realisable value of Security : Rs.1.50 lakh

a) Balance outstanding	: Rs. 10.00 lakh
b) Realisable value of security	: Rs. 1.50 lakh
c) Unsecured amount (a) - (b)	: Rs 8.50 lakh
d) Guaranteed portion (75% of (c))	: Rs. 6.38 lakh
e) Uncovered portion (8.50 lakh – 6.38 lakh)	: Rs. 2.12 lakh
Risk-weight on (b) and (e)	- Linked to the counter party
Risk-weight on (d)	- Zero

Example II

CGTSI cover : 75% of the amount outstanding or 75% of the unsecured amount or
Rs.18.75 lakh whichever is the least;

Realisable value of Security : Rs. 10.00 lakh.

a) Balance outstanding	: Rs. 40.00 lakh
b) Realisable value of security	: Rs. 10.00 lakh
c) Unsecured amount (a) - (b)	: Rs. 30.00 lakh
d) Guaranteed portion (max.)	: Rs. 18.75 lakh
e) Uncovered portion (Rs.30 lakh-18.75 lakh)	: Rs. 11.25 lakh
Risk-weight (b) and (e)	- Linked to the counter party
Risk-weight on (d)	- Zero

b) Provisioning

Example III

Asset classification status: Doubtful – More than 3 years;
CGTSI Cover : 75% of the amount outstanding or 75% of the unsecured amount or Rs.18.75 lakh, whichever is the least ;
Realisable value of Security : Rs.1.50 lakh.

Balance outstanding	: Rs.10.00 lakh
<u>Less</u> Realisable value of security	: Rs. 1.50 lakh
Unsecured amount	: Rs. 8.50 lakh
<u>Less</u> CGTSI cover (75%)	: <u>Rs. 6.38 lakh</u>
Net unsecured and uncovered portion	: Rs. 2.12 lakh

			<u>Provision Required</u>
Secured portion	: Rs. 1.50 lakh	Rs. 0.75 lakh (@ 50%)	
Unsecured & uncovered portion	: Rs. 2.12 lakh	<u>Rs. 2.12 lakh</u> (100%)	
Total provision required		<u>Rs. 2.87 lakh</u>	

Example IV

Asset classification status: Doubtful – More than 3 years;
CGTSI cover: 75% of the amount outstanding or 75% of the unsecured amount or Rs. 18.75 lakh, whichever is the least ;
Realisable value of Security : Rs. 10.00 lakh.

Balance outstanding	: Rs. 40.00 lakh
Less Realisable value of security	: Rs. 10.00 lakh
Unsecured amount	: Rs. 30.00 lakh
<u>Less</u> CGTSI guarantee cover	: <u>Rs. 18.75 lakh</u>
Net unsecured and uncovered portion	: Rs. 11.25 lakh

			<u>Provision Required</u>
Secured portion	: Rs. 10.00 lakh	Rs. 5.00 lakh (@ 50%)	
Unsecured & uncovered portion	: Rs. 11.25 lakh	<u>Rs.11.25 lakh</u> (@100%)	
Total provision required		<u>Rs 16.25 lakh</u>	