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Market Watch

# Govt increases loss coverage for micro loan defaults to 75% from 50% earlier

BY GAURAV NORONHA, ET BUREAU | APR 17, 2020, 11.35 PM IST

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New Delhi: The [finance ministry](#) has increased coverage of a lender's loss in case of loan default under the Credit Guarantee Fund for Micro Units (CGFMU) scheme to 75%, from 50% earlier. The amendment to the scheme, notified on Thursday, is aimed at incentivising lending to micro businesses which are bearing the brunt of the coronavirus outbreak and the ensuing nationwide [lockdown](#).

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"It will incentivise lending institutions to give credit as their losses from defaults on [loans](#) will be protected to the extent of 75%," said Anil Gupta, head of financial sector ratings at ICRA. The CGFMU scheme, announced in April 2016, covers micro loans up to Rs 10 lakh extended under the Pradhan Mantri Mudra Yojana.

Lenders can pay a fee for the portfolio of loans they want to be covered by the guarantee, which will enable them to provide easier credit while improving profitability. Additionally, in a relief to borrowers, the ministry has clarified that personal assets of the borrower will not be included in the definition of primary security for the loan.

"The notification says that the personal assets of the borrower will not be included in the loss calculations. From the borrower's perspective, it is a relief as he is assured that if his loan account turns bad, no collateral will be enforced," Gupta said.

This means only assets created from the loan can be attached as part of the loan recovery process and the personal assets of the borrower cannot be enforced as collateral, Gupta explained.

The ministry has also reduced the burden of defaults the lender had to bear under the scheme from the first 5% of the amount in default to 3%. Another change in the scheme is the inclusion of loans to SHGs. Loans between `10 lakh and `20 lakh sanctioned to SHGs in the current fiscal will be covered under CGFMU scheme, as per the notification.

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