

## FREQUENTLY ASKED QUESTIONS

### A. THE CREDIT SURETY FUND (CSF): CONCEPT AND CREATION

#### 1. What is the Credit Surety Fund (CSF) Program?

The CSF Program is a credit enhancement scheme developed by the Bangko Sentral ng Pilipinas (Bangko Sentral) which aims to increase the credit worthiness of micro, small and medium enterprises (MSMEs) which are experiencing difficulty in obtaining loans from banks for the expansion of their business due to lack of acceptable collaterals, lack of credit knowledge and lack of credit track records. Under the program, a Fund shall be created at the provincial or city level that, thereafter, will be used to secure the loans of MSMEs from banks, in lieu of the usual collaterals required by banks.

#### 2. How is the CSF created?

It is created by pooling the contributions of cooperatives, the counterpart contributions of the local governments units (LGUs) and donor institutions.

#### 3. What is the purpose of the CSF?

The CSF will serve as security for MSMEs' loans from banks in lieu of acceptable collaterals.

#### 4. Who will administer the Fund?

The Oversight Committee (OC) will administer the Fund to ensure its safety and growth through sound management and investment. The OC may decide to appoint a trustee bank to administer the Fund or part of the Fund, which in turn, shall invest the Fund in government securities, among others.

#### 5. Instead of establishing the CSF, wouldn't it be better if the BSP just require the banks to lend directly to MSMEs?

Under Republic Act No. 9501, otherwise known as the Magna Carta for MSMEs, banks are mandated to allocate a certain percentage of their loan portfolios to MSMEs. The responsibility of the Bangko Sentral is to monitor compliance of the bank to RA No. 9501, and penalize banks who are non-compliant. The Bangko Sentral cannot force banks to lend to MSMEs. Banks make the ultimate decision as to whether or not they will lend to the MSMEs.

Banks generally require collaterals when extending loans, a requirement that some MSMEs most often find hard to comply with. It is on this account that the Bangko Sentral conceptualized the CSF to increase the chances of the MSMEs in securing loans from banking institutions. The CSF will serve as security for MSMEs' loans from banks in lieu of the traditional acceptable collaterals.

## **6. Can a CSF be established without the involvement of the LGU?**

No. The involvement of the LGU is integral to the CSF program. It is mandated by law to help the development of cooperatives and MSMEs. The budget that it has allocated for this purpose can be invested partly to augment the CSF Fund. Since the CSF is designed to be implemented at the local level, the involvement of the LGU is therefore indispensable.

## **7. Does the CSF have a separate legal personality?**

The CSF has no separate legal personality. It is organized as a trust fund and as such is a “person” as defined under Section 22 of the R.A. 8424, otherwise known as the National Internal Revenue Code of the Philippines.

## **B. PROCEDURES FOR PARTICIPATION IN THE CSF PROGRAM**

### **1. Who can join the CSF?**

All cooperatives which meet the following criteria may join the CSF:

- a. An adjusted net worth of not less than P1.0 million;
- b. A minimum capital-to-assets ratio of thirty percent (30%);
- c. A capital-to-risk assets ratio of twenty percent (20%); and
- d. An “active” status with the Cooperative Development Authority.

Non-government agencies (NGOs) that meet criteria (a), (b), and (c) above may also join the CSF.

### **2. Can trade associations join the CSF?**

Yes, provided that the trade association has adequate financial assets and resources to guarantee the loans it will endorse to banks under the CSF Program.

### **3. Can a cooperative join the CSF after its launching?**

Yes, a cooperative may join the CSF, subject to the rules and procedures formulated and adopted by the OC of the CSF.

### **4. Can a contributing cooperative subsequently withdraw from the CSF?**

Yes, a participating cooperative may withdraw from the CSF, subject to rules and procedures formulated and adopted by the OC.

### **5. How does a bank apply for participation in the CSF program?**

A bank that wishes to participate in the CSF program must:

- a. Have a rediscounting line with the Bangko Sentral; and
- b. Submit a letter of intent to the OC of the CSF concerned.

## **C. LOAN APPLICATION AND SURETY COVER**

### **1. What is a surety cover?**

A surety cover is an agreement executed by the authorized officers of the CSF and the sponsoring cooperative of an MSME-borrower in favor of the lending bank obligating themselves to be jointly and severally liable for the account of the MSME-borrower in the event of loan default.

### **2. Who can apply for a loan with surety cover under the CSF program?**

MSME members of contributing cooperatives in the CSF can apply for a loan from a participating bank to be secured by a surety cover issued by the CSF.

### **3. Are the contributing cooperatives qualified to borrow from banks under the program?**

Yes. A participating cooperative may borrow under the program provided that it is endorsed by an organization, such as a federation, that is also a member of the Fund.

### **4. Can an MSME apply for a small loan, say P20,000 to P50,000 through the CSF?**

There is no rule that prohibits MSMEs from borrowing small amounts through the CSF.

### **5. Instead of borrowing from banks, can the MSMEs borrow from the Fund itself?**

No. The Fund is not intended to be used for relending. It will be used as security for the loans extended by banks under the program.

### **6. Can an MSME whose business is located outside the province or city where the CSF was established avail of a loan under the CSF program?**

Yes in general, provided that the MSME is a member of a contributing cooperative of the established CSF.

### **7. Who selects the lending bank, the borrower or the endorsing cooperative?**

The borrower-member has the option to choose the bank from whom to borrow among the participating banks.

### **8. Can all banks grant loans under the CSF program?**

No, only banks that have submitted a letter of intent to the OC of the CSF concerned to participate as a lending bank under the program and those with rediscounting line from the Bangko Sentral can grant loans under the CSF program.

### **9. Will the CSF compete with the lending activities of the cooperative?**

No. The CSF will instead complement the lending activities of the cooperative. A cooperative will be in a better position to support the growth of its members by helping them obtain loans from participating banks in amounts beyond the capacity of the cooperative to service.

**10. What projects are eligible under the program?**

All economic activities are eligible under the program.

**11. Why does a cooperative need to endorse the loan application of its MSME-members to the CSF when we can lend directly to them?**

If a cooperative can service the loan requirements of its MSME-members, there is no need for the cooperative to endorse the loan application to banks. However, if the cooperative can not service the loan of its MSME-member (say, due to limited funds or limitations under the lending rules of the cooperative), the cooperative may choose to endorse the loan to banks if it is convinced of the soundness of the business proposal and the cooperative's repayment capacity through cash flows.

**12. What is the amount of loan to a single MSME that a cooperative can guarantee?**

A cooperative can guarantee up to ten times the share capital of its MSME-member but not to exceed ten times the cooperative's contribution to the CSF.

**13. What is the maximum amount of aggregate loans that a cooperative can guarantee?**

A cooperative can guarantee up to ten times the amount of its contribution to the CSF.

**14. What is the maximum aggregate amount of loans that the Fund can guarantee?**

At any given time, the Fund can guarantee total loans to the extent of ten times the aggregate amount of contributions by all its member-cooperatives.

**15. What is the surety cover on the borrower's loan?**

The surety cover for both the principal and interest is computed as follows:

Surety Cover	Condition
80%	If outstanding balance of the loan is over 70% of the principal
90%	If outstanding balance of the loan is over 40% but not over 70% of the principal
100%	If outstanding balance of the loan is 40% or less of the principal

The increase in the surety cover will benefit both the lending bank and the endorsing cooperative since the bank's all-out efforts to collect on the loan to obtain a 100% surety cover will reduce the cooperative's exposure to risk in case of loan default.

**16. When does the CSF OC suspend the issuance of a surety cover? When shall it be restored?**

The OC may suspend the issuance of a surety cover in favor of an endorsing cooperative whenever 10% of the total outstanding loans that the latter has endorsed has become past due. The issuance of surety cover will be restored only when the past due loans of the endorsing cooperative have been collected or reduced to less than 10%.

**17. What documents are required to be submitted by an MSME to borrow through the CSF program?**

The MSME has to submit the following:

- a. Business licenses and permits
- b. Loan proposal with assumptions
- c. Business profile
- d. Financial statements for the past three (3) years, if applicable; and
- e. Collateral securities, if required

**18. Since the CSF aims to simplify the documents required for loans applied through the CSF, have the banks already reduced the documentary loan requirements?**

The participating banks each have their own specific documentary requirements. However, the Bangko Sentral has encouraged these banks to further simplify the documentary requirements. All banks participating in the program have required less documents compared to their normal lending procedures.

**D. BENEFITS DERIVED FROM THE CSF**

**1. What benefits can a cooperative derive from the CSF?**

Following are some of the benefits that a cooperative may gain from becoming a member of the CSF:

- a. Income from trust fund;
- b. Income from surety fees collected;
- c. Increase in share capital due to increase in membership; and
- d. Enhancement of credit evaluation and monitoring skills gained from the capability enhancement training program of the CSF.

**2. What are the benefits of the MSMEs from the CSF?**

Following are the benefits of the MSMEs from the CSF:

- a. Access to bank credits;
- b. Lower cost of borrowing;
- c. Increase in patronage refund and dividend (a portion of the surety fee paid by the MSME is refunded by the cooperative); and
- d. Acquisition of knowledge and skills on credit and risk management.

**3. What are the benefits of the LGUs from the CSF?**

Following are the benefits of the LGUs from the CSF:

- a. Supports the poverty alleviation program of the LGU due to increase in economic activities and job opportunities
- b. Increases revenues in the form of taxes and fees since the entrepreneurs operating in the underground economy will come out in the open
- c. Professionalizes the management of its contributed funds; hence, its contribution to the CSF will have a long term sustainability. It will not be perceived as a “dole out” and more people will be benefited.
- d. Promotes higher income of its constituents.

#### 4. What is the capability enhancement program?

The capability enhancement program is the training component of the CSF which aims to equip MSMEs, officers of cooperatives and the OC in marketing and credit risk management best practices as well as the preparation of business plans.

### E. GUARANTEE/SURETY FEES AND INTEREST RATES

#### 1. What is a surety fee?

A surety fee is an amount the cooperative collects from its MSME-member for guaranteeing the latter's loan from the lending bank.

#### 2. How much surety fee should the cooperative collect from its MSME-members?

The amount of surety fee to be collected from the MSME-borrowers depends on the rules and regulations that the OC may adopt.

The following rates are suggested to be collected based on outstanding loan balance:

Surety Fee	Loan or Surety to be Covered
2%	For loans or sureties secured fully by real estate mortgage in favor of the lending bank or sponsoring cooperative
3%	For loans or sureties secured fully by chattels other than inventories or secured partly by real estate mortgage in favor of the lending bank or sponsoring cooperative
4%	For loans or sureties secured by inventories or stock-in-trade
5%	For unsecured loans or sureties

#### 3. Who will collect the surety fee?

The surety fee will be collected by the endorsing cooperative from the MSME-borrower.

#### 4. How much interest will the bank charge the borrower?

The bank may charge interest based on prevailing market rates at the time of application. To enable the borrower to "shop" for the lowest rate, each cooperative shall publish the interest rates of participating banks. This practice can induce banks to charge more competitive rates.

#### 5. Can the Bangko Sentral lower the rates charged by participating banks?

No, the Bangko Sentral may only encourage the participating banks to lower their interest rates.

### F. OVERSIGHT COMMITTEE

#### 1. What is the role of the Oversight Committee?

The OC manages the affairs of the CSF.

## **2. Who comprises the Oversight Committee?**

The OC is comprised of a) representatives of the contributing cooperatives duly elected during the general assembly, and b) ex-officio officers from the LGU and donor institutions.

## **G. DEFAULTS, REMEDIES, RESPONSIBILITY AND ACCOUNTABILITY**

### **1. When can the loan of the borrower be considered in default?**

In the case of term loans, a loan is considered to be “in default” when the principal portion remains unpaid after maturity date.

In the case of loans payable in period amortizations, a borrower is considered to be in default, as follows:

- a. For loans payable in monthly amortizations, failure to pay three consecutive monthly installments.
- b. For loans payable in quarterly, semestral or annual amortizations, failure to pay one installment.

Provided, however, that when the total amount of arrearages reaches twenty percent (20%) of the total outstanding balance of the loan, the total outstanding balance of the loan shall be considered as past due, regardless of the number of installments in arrears. Provided, further, that for modes of payment other than those listed above, the entire outstanding balance of the loan shall be considered as past due when the total amount of arrearages reaches ten percent (10%) of the total loan balance.

### **2. How soon can banks expect to get paid in the event of borrower defaults?**

The CSF shall pay the banks within 30 days from receipt of their claims

### **3. Who is responsible for collecting the loan from the borrower upon default?**

Upon receipt of the bank's claim, the sponsoring cooperative assumes full responsibility of collecting from the borrower the unpaid balance of the loan plus interests, penalties and other charges.

### **4. Why does the cooperative have to assume the risk in case of default by the borrower?**

The cooperative shall assume the loss in the event the loan could no longer be collected from the borrower for several reasons:

- a. It is the cooperative who has full knowledge of the credibility and integrity of its member. Thus, due diligence was assumed to have been exercised before the loan was endorsed to the bank and the OC.
- b. The responsibility will pre-empt cooperatives from abusing their privilege of endorsing to banks loans of favored members with non-viable projects.

**5. What measures can the cooperative adopt to mitigate the risk of loan default?**

There are a number of measures that could be adopted by the cooperative to mitigate the risk of loan default. Among these are:

- a. Exercise of due diligence in evaluating the loan proposals before endorsement. Only loans supported by a feasible business plan should merit its endorsement.
- b. Requiring from MSME-borrowers collaterals to secure the loan.
- c. Requiring members to increase their capital shares or deposits.
- d. Close monitoring of the business and loan repayment of the borrower.

**6. Can a bank recover from the CSF its remaining exposure in the event of default?**

Yes, any amount collected by the cooperative from the borrower and remitted to the CSF, after deducting collection expenses, shall be shared pro rata by the CSF and the bank until the latter has fully recovered its remaining exposure.

**7. Can a lending bank restructure a past due account of the borrower under the CSF?**

Yes, the bank may, at its option, restructure the past due account of an MSME-borrower instead of declaring the loan in default.