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) that are experiencing difficulty in obtaining loans from banks due to lack of acceptable collaterals, credit knowledge and credit track records.

2. What is the purpose of the CSF?

The Fund shall serve as a security for loans of MSMEs from banking institutions by providing a surety cover in lieu of acceptable collaterals. Banks generally require collaterals when extending loans, a requirement that some MSMEs often find difficult to comply.

3. How is the CSF created?

It is created by pooling the contributions of cooperatives and NGOs, the local governments units (LGUs) and partner institutions. Under the program, a Fund shall be created at the provincial or city level to provide more flexibility.

4. Who will administer the Fund?

The Oversight Committee (OC), consisting of representatives from member-cooperatives/NGOs elected by all members of the CSF and authorized representatives from the LGU and partner institutions, will administer and safeguard the Fund to ensure its growth through sound management and investment practices. The OC shall designate a trustee bank that will manage the Fund or part of the Fund.

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 which are non-compliant.

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

No. The involvement of the LGU is an integral part in the establishment of a CSF. The Local Government Code provides that LGUs shall give assistance financial or otherwise to such people’s and non-governmental organization for economic projects, among others, to be implemented within its territorial jurisdiction. The budget allocated for this purpose will be invested to augment the CSF Fund. Since
the CSF is being implemented at the local level, LGUs’ participation is therefore indispensable.

7. **What is the minimum number of cooperatives and NGOs that should contribute to the CSF before it is created?**

There is no minimum number of cooperatives and NGOs required before a CSF is created. However, ten (10) cooperatives and NGOs with a minimum contribution of Php100,000.00 each is deemed reasonable for a CSF to be established in a particular locality.

8. **Who are the partner institutions? Are they mandated to contribute to the fund? How much are they required to contribute?**

The CSF has three partner institutions namely the Industrial Guarantee and Loan Fund, the Development Bank of the Philippines and Land Bank of the Philippines.

Unlike the LGUs, they are not mandated to match the coop’s contribution but normally their contributions do not fall below ₱1.0 million per CSF.

9. **Can a CSF be established without the involvement of partner institutions?**

Yes. The purpose of the contributions of partner institutions is only to augment the Fund which attracts lending banks to participate as lender.

10. **How much is the contribution of the Local Government Unit (LGU)?**

Ideally, LGUs are enjoined to contribute an amount equivalent to the total contributions of the cooperatives and NGOs. In certain cases, however, lower LGU contributions may be allowed, especially if the reason is lack of funds. The LGU’s contribution should be approved and authorized by the Sangguniang Panlalawigan or Panlungsod, as the case may be, through a resolution. Should cooperatives and NGOs make additional contributions, the LGU, through another Sanggunian Resolution, shall likewise increase its contributions to maintain the required ratio of one-is-to-one.

11. **Is the CSF subject to income tax?**

Yes, all sources of income accruing to the operations of the CSF are subject to income tax provisions under the National Internal Revenue Code.
PROCEDURES FOR PARTICIPATION IN THE CSF PROGRAM

1. Who can join the CSF?

A cooperative that meets the following criteria may join the CSF:

a. Must be a member of good standing with the CDA
b. Must have an adjusted net worth of not less than P1.0 million; and

c. Must have a minimum capital-to-assets ratio of thirty percent (30%)

NGOs that meet criteria (a) and (b), above may also join the CSF.

A cooperative or NGO that cannot meet requirement (b) shall still be qualified to participate in the CSF, provided, that:

a. It has no existing past due obligations with any of its creditors as shown in the latest audited financial statements; and
b. The Board of Directors of the cooperative/NGO shall execute a duly notarized affidavit certifying that the cooperative/NGO has no existing past due obligations.

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 or NGO still join the CSF after it has already been launched?

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

4. Can a contributing cooperative or NGO subsequently withdraw from the CSF?

Yes, a participating cooperative or NGO can withdraw from the CSF, subject to rules and procedures formulated and adopted by the OC, taking into consideration the cash position of the CSF, the interests of its creditors and the withdrawing member’s outstanding obligations on account of surety agreements issued.

5. Can all banks apply for participation as lender and therefore grant loans under the program?

No, only those banks with existing rediscounting lines with either the Bangko Sentral, DBP or LBP, and have submitted a letter of intent to participate as a lending bank to the BSP or the OC of the CSF, can grant loans under the CSF program.
6. **What is the maximum loan amount that can be availed of by a member of an NGO?**

At its discretion, a member of an NGO may borrow any amount, but not to exceed the maximum endorsable limit of 10 times the NGO’s contribution to the CSF.

7. **If a cooperative can withdraw from the fund, can the donor-partner institutions and LGUs also withdraw from the fund?**

No. LGUs and donor-partner institutions cannot withdraw from the CSF. Their investments may only be claimed upon the dissolution of the CSF.

8. **What is the minimum amount of loan wherein the cooperative or NGO may require collateral from the borrower?**

It will depend on the cooperative’s or NGO’s internal policy.

9. **If a cooperative or NGO will require the borrower to support its loan application with collateral, wouldn’t that be the same as borrowing from the bank since no special interest rates are given to CSF members?**

No. The following are the advantages of borrowing through the CSF program as compared to borrowing directly from banks:

- Cooperatives and NGOs may accept collaterals that are otherwise not acceptable to banks such as stocks in trade, agricultural land, chattel and vehicles;
- Mortgage is not required to be annotated at the back of the title, it is only held by the cooperative or NGO; and
- Some banks, like DBP, have special windows for CSF to facilitate the processing of loan applications.

**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 in favor of the lending bank, whereby the Surety obligates itself to be jointly and severally liable with the borrower in the event that the latter defaults.

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

MSME members of contributing cooperatives and NGOs in the CSF, or a partnership whose majority of the partners, including the capitalist partner, are members of the participating cooperative, or a corporation whose principal stockholder owning at least sixty-seven (67%) of the said borrower-corporation is
a member of a cooperative, 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 and NGOs qualified to borrow from banks under the program?**

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

If the cooperative or NGO has no endorser, it may still borrow under the program, provided that a Joint Surety Agreement signed by the OC and all members (unanimous decision) of the borrower-cooperative’s board of directors shall be issued in favor of the lending bank. In this case, the endorsable amount may be reduced to eight times its contribution.

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

Yes. 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. The same shall be used only 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, provided that the MSME is a member of a contributing cooperative or NGO of the established CSF.

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

The borrower-member has the option to choose from among the participating lending banks of the CSF.

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

No. The CSF is intended to 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 accommodate.
9. What projects are eligible under the program?

All economic activities, such as, but not limited to, projects in agricultural production, commercial or industrial activities, may be financed under the program.

10. Why does a cooperative or NGO need to endorse the loan application of its MSME-members to the CSF when it can lend directly to them?

If a cooperative or NGO can accommodate the loan requirements of its MSME-members, there is no need for the cooperative or NGO to endorse the loan application to banks. However, if the cooperative or NGO cannot accommodate the loan of its MSME-member (e.g. due to limited funds or limitations under the lending rules of the cooperative), the cooperative or NGO may choose to endorse the loan to banks if the business proposal is indeed viable.

11. What is the maximum amount that a participating bank may lend to a single MSME under the program?

A participating bank can lend to a single MSME under the program up to ten times the contributions of the endorsing cooperative or NGO to the CSF.

12. What is the maximum amount of aggregate loans that a cooperative or NGO can guarantee or borrow?

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

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

At any given time, the Fund can guarantee outstanding loans to the extent of five times the aggregate amount of contributions and donations to the Fund by all its member-cooperatives, NGOs, LGU, and donor-partner institutions.

14. What is the coverage of the surety cover on the borrower's loan?

Initially, the surety cover is at 80% of the principal amount of the loan. It increases in accordance with the percentage of payment made by the borrower, as follows:

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<tr>
<th>Surety Cover (% of Loan Balance)</th>
<th>Principal Loan Repayment (% of Original Loan)</th>
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<tbody>
<tr>
<td>80%</td>
<td>Less than 30%</td>
</tr>
<tr>
<td>90%</td>
<td>30% to 59.9%</td>
</tr>
<tr>
<td>100%</td>
<td>60% to &lt; 100%</td>
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The increase in the coverage of the surety cover will benefit both the lending bank and the endorsing cooperative or NGO since the bank's all-out efforts to collect on the loan to obtain a 100% surety cover will reduce the cooperative's or NGO's exposure to risk in case of loan default.

15. When does the CSF OC suspend the issuance of a surety cover to an endorsing cooperative or NGO? When shall it be restored?

The OC shall suspend the issuance of a surety cover in favor of an endorsing cooperative or NGO whenever 5% 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 or NGO has been reduced to less than 5%.

16. When does the CSF OC cease to issue surety cover to all member-cooperatives and NGOs?

The OC shall cease issuing surety cover to all member-cooperatives and NGOs whenever the outstanding past due loans remaining in the books of all participating banks exceed ten percent (10%) of the total outstanding loans covered by surety.

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

The MSME has to submit the following:

- Business licenses and permits
- Loan proposal with assumptions
- Business profile
- Financial statements for the past three (3) years, if applicable; and
- Other documents that may be required.

18. Since the CSF Program aims to simplify the documents required on loan applications through the CSF, does that mean that the lending banks have also relaxed their tedious documentary requirements for loan applications?

Each lending bank has its own specific documentary requirements. However, the Bangko Sentral encourages these banks to further simplify the documentary requirements. All banks participating in the program have required less documents compared to their normal lending procedures.
BENEFITS DERIVED FROM THE CSF

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

   Following are some of the benefits that a cooperative or NGO may gain from becoming a member of the CSF:
   
   - Income from trust fund;
   - Income from surety fees collected;
   - Increase in share capital due to increase in membership; and
   - 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:
   
   - Access to bank credits;
   - Lower cost of borrowing;
   - Increase in patronage refund and dividend (a portion of the surety fee paid by the MSME is refunded by the cooperative); and
   - 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:
   
   - As support to the poverty alleviation program of the LGU due to increase in economic activities and job opportunities.
   - Increased revenues in the form of taxes and fees.
   - Professional 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.
   - Higher income for 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 NGOs and the OC with best practices in marketing and credit risk management as well as the preparation of business plans.
5. **What are the benefits of the donor-partner institutions in joining the program?**

The following are the benefits of donor-partner institutions from the CSF program:

- Avenue to comply with the lending allocation to MSMEs under the Magna Carta for MSMEs.
- Mitigation of credit risk in extending loans to MSMEs.
- Sharing of responsibilities with cooperatives and NGOs.

6. **What value-added services does the BSP provide to the CSF?**

Apart from being the Program Owner of the CSF, the BSP assigns a dedicated Program Manager (PM) to each of the established CSFs to monitor their development. The PM assists the OC in the formulation of rules and regulations governing the overall affairs of the CSF. In addition, the PM also provides technical assistance in the areas of loan management and monitoring as well as capability enhancement.

**GUARANTEE/SURETY FEES AND INTEREST RATES**

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

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

2. **How much surety fee should the cooperative or NGO 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:

<table>
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<tr>
<th>Surety Fee</th>
<th>Loan or Surety to be Covered</th>
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<tr>
<td>2%</td>
<td>For loans or sureties secured fully by real estate mortgage in favor of the lending bank or sponsoring cooperative or NGO</td>
</tr>
<tr>
<td>3%</td>
<td>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 or NGO</td>
</tr>
<tr>
<td>4%</td>
<td>For loans or sureties secured by inventories or stock-in-trade</td>
</tr>
<tr>
<td>5%</td>
<td>For unsecured loans or sureties</td>
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3. **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 or NGO shall publish the interest rates of participating banks. This practice can induce banks to offer more competitive rates.

4. **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.

**OVERSIGHT COMMITTEE**

1. **What is the role of the Oversight Committee (OC)?**

   The OC administers the overall affairs of the CSF.

2. **Who comprises the OC?**

   The OC is composed of a) representatives of the contributing cooperatives duly elected during the general assembly, and b) ex-officio officers from the LGU and donor institutions. This set-up insulates CSF from politics in the decision making of the OC.

3. **Do the OC members and loan officers have honoraria or additional compensation as a result of the additional work?**

   Generally, members of the OC have no honoraria or additional compensation. However, this can be discussed and agreed upon during general assembly meetings once the fund has sufficient cash position to provide honoraria to its OC.

**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:

   - For loans payable in monthly amortizations, failure to pay three consecutive monthly installments.
   - 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 the banks expect to get paid in the event of borrower defaults?**

   The CSF shall pay the banks within 30 days reckoned from receipt of complete documentary claims from the lending bank.

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

   Upon receipt of the bank's claim, the sponsoring cooperative or NGO 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 or NGO have to assume the risk in case of default by the borrower?**

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

   - It is the cooperative or NGO which 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.
   - The responsibility will pre-empt cooperatives and NGOs from abusing their privilege of endorsing to banks loans of favored members with non-viable projects.

5. **How much will the cooperative or NGO pay for the defaulted loan amount?**

   The coop shall pay the amount that the CSF has paid to the bank. However the coop can collect the full amount of the defaulted loan from the borrower including interests and penalties. Any amount collected in excess of the claims paid shall be shared pro-ratedly with the bank until the latter’s twenty percent (20%) risk exposure is fully settled.