

## **THE CREDIT SURETY FUND: CONCEPT AND CREATION**

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

The CSF is a fund generated from the contributions of well-capitalized and well-managed cooperatives/nongovernment organizations (NGOs), local government units (LGUs), government financial institutions (GFIs), Industrial Guarantee and Loan Fund<sup>1</sup> (IGLF) and other institutions/government agencies (GAs) which shall serve as security for the loans that will be obtained by qualified borrowers from lending banks by way of a surety cover issued by the Board of Directors (BOD) of the CSF Cooperative. Banks generally require collaterals when extending loans, a requirement that some micro, small and medium enterprises (MSMEs) often find difficult to comply.

### **2. Who will administer the Fund?**

The Fund shall be administered by the CSF Cooperative, which is governed by the BOD consisting of representatives from member-cooperatives/NGOs elected by all members of the CSF Cooperative and authorized representatives from the LGU and partner institutions, to ensure its growth through sound management and investment practices.

### **3. What is a CSF Cooperative?**

A CSF Cooperative is defined as an LGU-partnered cooperative comprised of well-capitalized and well-managed cooperatives/NGOs, LGU, GFIs, IGLF<sup>2</sup> and GAs, which will enable the MSMEs, cooperatives and NGOs to have easier access to credit from banks despite lack of collaterals. Republic Act (R.A.) No. 10744 or the CSF Cooperative Act of 2015 (CSF Act) provides for the creation and organization of CSF Cooperatives in the country.

### **4. Does the CSF Cooperative have juridical personality?**

Yes. Upon registration with the Cooperative Development Authority (CDA), the CSF Cooperative acquires juridical personality.

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<sup>1</sup> Subsumed by Philippine Guarantee Corporation by virtue of Executive Order No. 58 dated 23 July 2018

<sup>2</sup> Ibid.

**5. Who regulates and supervises the CSF Cooperatives?**

The CDA shall be the government entity in charge of registration, regulation, monitoring and supervision of CSF Cooperatives.

**6. In what business can a CSF Cooperative engage?**

A CSF Cooperative is established for the primary and exclusive purpose of administering the CSF, which is used to provide credit enhancement support by way of issuing surety cover to secure loans of qualified MSME and cooperative/NGO borrowers in lieu of hard collaterals.

**7. Can a CSF Cooperative be established without the involvement of the LGU?**

No. A CSF Cooperative cannot be established without the LGU commitment to support the CSF Cooperative by contributing to the Fund and providing other assistance for the growth of MSMEs.

**8. What is the required number of members for a CSF Cooperative to be created?**

A CSF Cooperative may be organized by at least eight (8) members, including the GFIs, IGLF<sup>3</sup>, LGU and other institutions/GAs.

**9. Are GFIs, IGLF<sup>4</sup> and other institutions/GAs required to contribute to the Fund? How much should they contribute?**

No. GFIs, which are, but not limited to, the Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP), the IGLF<sup>5</sup> and other institutions/GAs are not required to contribute to the CSF Cooperative. The amount of their contributions may or may not be equal to the total contributions of the member-cooperatives/NGOs.

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<sup>3</sup> Ibid., p.1

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

**10. Can a CSF be established without the involvement of GFIs, IGLF<sup>6</sup> and other GAs?**

Yes. The purpose of the contributions of GFIs, IGLF<sup>7</sup> and other GAs is to augment and further strengthen the Fund that will secure the loans of qualified MSMEs and cooperative/NGO borrowers.

**11. How much is the contribution of the LGU?**

The initial contribution of the LGU must be equal to or more than the aggregate contributions of the participating cooperatives/NGOs, as approved and authorized through a resolution by the Sangguniang Panlalawigan or Panlungsod, as the case may be. The LGU may contribute more and continuously match the cooperatives/NGOs' total contributions after the establishment and registration of the CSF Cooperative, subject to the viability of operations and availability of local funds for appropriations.

**12. What category of cooperatives does the CSF Cooperative fall?**

It is a special type of cooperative created under the CSF Act. It is not a primary, secondary or a tertiary cooperative.

**13. Is the CSF Cooperative subject to income tax?**

A CSF Cooperative registered with the CDA shall enjoy the tax privileges of cooperatives subject to the conditions set in Sections 60 and 61 of "Cooperative Code of 2008", and relevant joint rules and regulations or revenue issuances on the matter. The members of the CSF Cooperatives which are not cooperatives shall be subject to regular taxes as provided under the National Internal Revenue Code, as amended and other tax laws.

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<sup>6</sup> Ibid., p.1

<sup>7</sup> Ibid.

## **PROCEDURES ON THE PARTICIPATION IN THE CSF PROGRAM**

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

A cooperative/NGO that meets the following criteria:

- With adjusted asset of at least P1M;
- With Adjusted Capital to Adjusted Assets Ratio of at least twenty percent (20%);
- Must be registered with the CDA/Securities and Exchange Commission (SEC), as evidenced by a Certificate of Registration and Certificate of Compliance;
- Must be registered with Bureau of Internal Revenue (BIR) and other relevant GAs;
- Must be in existence for a least one (1) year;
- Must be earning based on the latest audited financial statements submitted to CDA or SEC;
- Must have adopted sound lending policies and practices;
- Must have audited financial statements;
- Members of the Board and Credit Committee have acquired CDA's mandatory training hours (for cooperatives only);
- Must have no past due obligations with any of its creditors; and
- Must not have any existing leadership dispute or any other cooperative dispute filed with the CDA or any court or tribunal.

### **2. What are the documentary requirements to join a CSF Cooperative?**

- Approved General Assembly Resolution authorizing the cooperative/NGO to join in the CSF Cooperative and indicating the amount of initial investment and authorized representative;
- Copy of latest audited and interim Financial Statements;
- Copy of Certificate of Registrations with CDA/SEC and BIR;
- Certificate of Compliance from CDA;
- List of current BODs, Manager, Loan Officer plus their Information Sheets or Curriculum Vitae; and
- Duly accomplished CSF Membership Application Form.

### **3. Can an individual or private entity contribute to a CSF Cooperative?**

Yes, an individual or private entity may contribute to the CSF Cooperative as donor. However, donors shall not be considered as members of the CSF Cooperative and their contribution, covered by a Deed of Donation, shall be booked as Restricted Capital for Surety.

**4. Can a cooperative/NGO still join the CSF Cooperative after it has already been launched?**

Yes, however, admission of cooperatives/NGOs as new members shall only be allowed after the CSF Cooperative had been registered with the CDA and shall be governed by Section 7, Rule 14 of the Implementing Rules and Regulations (IRR) of the CSF Act.

**5. Can a cooperative be a member of more than one CSF Cooperative?**

Yes, provided that the cooperative operates and has a branch or satellite within the area of operation of the CSF Cooperative and as provided in its by-laws.

**6. Can a contributing cooperative/NGO withdraw from the CSF Cooperative?**

Yes, a participating cooperative/NGO may withdraw its membership from the CSF Cooperative subject to BOD approval, through a resolution stating clearly the reasons therefor, and provided that the withdrawing cooperative/NGO has no outstanding obligation on account of surety agreements issued and the refund of the contribution shall not significantly affect the liquidity of the Fund.

**7. Can any bank participate as lender and therefore grant loans under the CSF?**

No. A universal bank, commercial bank, thrift bank, rural bank or cooperative bank which is qualified to rediscount its eligible papers with the BSP, LBP or the DBP may participate as the lender.

**8. What is the maximum loan amount that can be availed of by a qualified borrower or cooperative/NGO?**

A qualified borrower or cooperative/NGO endorsed through the CSF may avail of loan not exceeding ten (10) times the contribution of the member/endorsing cooperative/NGO to the Fund at any given time. However, if the borrower-cooperative has no endorser, the maximum loanable amount shall be five (5) times the amount of its contribution. In determining the maximum loan availment limit, contribution shall mean the total of the cooperatives' investment in Restricted Capital for Surety.

**9. How are the contributions of the cooperatives/NGOs treated in the books of a CSF Cooperative?**

The contribution of a cooperative/NGO to the CSF shall be booked as one percent (1%) paid-up share capital and ninety-nine percent (99%) Restricted Capital for Surety. The Restricted Capital for Surety shall be deposited in trustee bank/s and shall be used only as surety cover for the loans of qualified borrowers. Regardless of the accounting in the CSF Cooperative's books, the cooperative/NGO's investment remains one hundred percent (100%) and will be issued a certificate of investment for both paid-up share capital and share in the restricted capital for surety.

**10. Can LGUs withdraw from the Fund?**

No. LGUs cannot withdraw from the CSF. Their investments shall remain in the Restricted Capital for Surety until the dissolution of the CSF Cooperative.

**11. Can a cooperative/NGO endorser of loan require collateral from the borrower?**

It will depend on the cooperatives'/NGOs' internal policy.

**12. What are the advantages of borrowing through the CSF as compared to borrowing directly from banks if no special interest rates are given to CSF-covered loans?**

Under the CSF, banks will not require collaterals.

**LOAN APPLICATION AND SURETY AGREEMENT**

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

A surety agreement is a document executed by the CSF Cooperative and the endorsing cooperative/NGO, signed by its Chairperson and the authorized representative, respectively, in favor of the lending bank, whereby the CSF Cooperative 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 under the CSF?**

An MSME-member of a contributor-cooperative/NGO or the cooperative/NGO itself, engaged in business, can apply for loan to be secured by the CSF.

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

It depends on the policies of the lending banks and endorsing cooperatives.

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

No. The Fund is not intended to be used for lending. It shall be deposited in trustee bank/s and shall be used only as surety for the loans of borrowers from lending banks.

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

Yes, provided that the MSME is a member of a contributing cooperative/NGO of the established CSF Cooperative.

**6. Who selects the lending bank, the borrower-member or the endorsing cooperative/NGO?**

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

**7. Will the CSF Cooperative compete with the lending activities of the member-cooperatives?**

No. The CSF is intended to complement the lending activities of the member-cooperatives. 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 member-cooperatives' capacity to accommodate.

**8. What projects are eligible under the CSF?**

The purpose of the loan must always be productive in nature such as, but not limited to, additional working capital for business, acquisition of equipment, purchase of goods, additional inputs for agricultural and commercial projects, lending and other purposes that will generate economic activities.

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

If a cooperative/NGO can accommodate the loan requirements of its MSME members, there is no need for the cooperative/NGO to endorse the loan application to banks. However, if the amount of loan is already beyond its capacity to accommodate (e.g. due to limited funds or limitations under the lending rules of the member-cooperative/NGO), it may choose to endorse the loan to a bank if the business proposal is indeed viable.

**10. What is the maximum amount that a participating bank may lend to an MSME?**

A participating bank may lend to an MSME up to ten (10) times the contributions of the endorsing cooperative/NGO to the CSF Cooperative.

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

A cooperative/NGO can guarantee up to ten (10) times the amount of its contribution to the CSF Cooperative and can also borrow up to ten (10) times; provided, it has an endorser. Otherwise, it can only avail of loan up to five (5) times of its contribution.

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

At any given time, the total Fund can guarantee outstanding loans to the extent of three (3) times the CSF Cooperative's Restricted Capital for Surety. The three (3) times leverage shall be subject to the annual review for progressive increase as warranted by the CSF Cooperative's performance, but not to exceed five (5) times the CSF Cooperative's Restricted Capital for Surety.



**13. What is the obligation of the endorsing cooperative/NGO and the CSF Cooperative under its Surety Agreement?**

The maximum obligation of the endorsing cooperative and the CSF Cooperative under its Surety Agreement shall be eighty percent (80%) of the outstanding principal of the loan only.

**14. When does the CSF Cooperative cease issuing Surety Agreement to an endorsing cooperative/NGO?**

The CSF Cooperative shall cease issuing Surety Agreement to an endorsing cooperative/NGO whenever the outstanding past due loans of that endorsing cooperative/NGO reach ten percent (10%) of the total outstanding loans covered by Surety Agreement

**15. When does the CSF Cooperative cease issuing Surety Agreement to all member-cooperatives/NGOs?**

The CSF Cooperative shall cease issuing Surety Agreement to all member-cooperatives/NGOs whenever the outstanding past due loans in the books of all or any of participating lending banks reach ten percent (10%) of the total outstanding loans covered by Surety Agreement.

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

The MSME has to submit the following:

- Business Plan (including financial projection);
- Audited and interim financial statements;
- Letter request for surety coverage;
- Member-cooperative BOD Resolution endorsing the MSME; and
- Other documents that may be required by the lending bank and CSF Cooperative BOD.

**17. Since the CSF program aims to simplify the documentary requirements 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 but banks are encouraged to further simplify these requirements.

## **BENEFITS DERIVED FROM THE CSF**

### **1. What benefits can a cooperative/NGO derive from becoming a member of the CSF Cooperative?**

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

- Income from trust fund;
- Income from service fees collected;
- Increase in share capital due to increase in membership; and
- Enhancement of credit, financial management, entrepreneurship and risk management skills, among others, through the capability enhancement program of the CSF Cooperative.

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

Following are the benefits of the MSMEs from the CSF Cooperative:

- Access to bank credits;
- Increase in patronage refund and dividend; and
- Enhanced business, management and financial skills through trainings and seminars.

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

Following are the benefits of the LGUs from the CSF Cooperative:

- 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 Cooperative will have a long term sustainability; and
- It will not be perceived as “dole out” and will develop autonomy from purely government grant.

### **4. What are the benefits of the donors from the CSF Cooperative?**

It will be a sustainable and continuous vessel of social responsibility in the furtherance of financial inclusion and social justice.

### **5. What are the benefits to the lending bank?**

Following are the benefits of the lending bank from the CSF Cooperative:

- The risk of lending to borrowers under the CSF is mitigated; and
- Loans under the CSF carry a preferential risk-weight of twenty percent (20%).

## **6. What is the role of the BSP in the CSF?**

Pursuant to its mandate to provide policy direction in the areas of money, banking and credit under R.A. No. 7653, otherwise known as the “New Central Bank Act”, and to enhance credit flows to the rural areas and achieve a more inclusive financial system, the BSP shall have the following powers under the CSF Act and its IRR:

- Spearhead the promotion, encouragement, creation and organizational development of CSF Cooperatives all over the country;
- Facilitate the acquisition by CSF Cooperatives of technical assistance such as training and seminars in coordination with other public or private stakeholders for purposes of the CSF;
- Assist the CDA in setting the criteria and qualifications for CSF Cooperatives and provide such other forms of assistance as maybe determined by the Monetary Board of the BSP; and
- Extend assistance to the CSF Cooperatives which the CDA and Department of Finance (DOF) may request for the sustainability of the CSF. This assistance may be implemented by way of a partnership or agreements with CDA and DOF.

## **7. What is capability enhancement program?**

Under the IRR of the CSF Act, the capability enhancement program is a program to be implemented by the BSP through trainings and seminars to improve the internal capacity of the CSF Cooperatives in the areas of credit, financial management, entrepreneurship and risk management, among others.

## **SERVICE FEES AND INTEREST RATES**

### **1. What is a service fee?**

A service fee is an amount charged by the CSF Cooperative to its borrowers for securing the latter's loan from the lending banks, which may be shared by the CSF Cooperative and the endorsing member-cooperative/NGO depending on the CSF Cooperative policies.

**2. How much service fee should the cooperative or NGO collect from its MSME members?**

The amount of service fee to be collected from the MSME or cooperative/NGO borrowers depends on the CSF Cooperative policies but not to exceed five percent (5%). It is charged on an annual basis based on the amount of the outstanding principal of the loan.

**3. How much interest will the bank charge the borrower?**

The interest rate will depend on lending banks pricing policy, usually based on prevailing market rates plus spread and other cost.

**BOARD OF DIRECTORS (BOD)**

**1. What is the role of the BOD?**

The BOD administers the overall affairs of the CSF Cooperative.

**2. Who comprises the BOD?**

The BOD is composed of a) members coming from the authorized representatives of the member-cooperatives/NGOs duly elected by the General Assembly; b) appointed members from contributing GFIs and IGLF<sup>8</sup> and other GAs; and c) ex-officio member from the LGU.

**DEFAULTS, REMEDIES, RESPONSIBILITY AND ACCOUNTABILITY**

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

The loan is deemed past due the following day upon default in payment on the contractual due date. However, the BSP supervised financial institutions are allowed to provide for a cure period policy on a credit product-specific basis within which borrowers may be allowed to catch up on a late payment without being considered as past due, provided that the cure period policy is based on actual collection experience and reasonable judgment that support tolerance of occasional payment delays.

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<sup>8</sup> Ibid., p.1

**2. How soon can the bank expect to get paid in the event of borrower default?**

A lending bank may file a claim against the CSF Cooperative within thirty (30) days after the loan which has been declared as past due remains unpaid despite diligent efforts to collect and all remedial measures and alternative means, including the restructuring, were exhausted.

After reviewing the validity of the bank's claim and submission completeness of required documents, the CSF Cooperative shall pay the bank within reasonable time as provided in the surety agreement or in the By-Laws.

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

Upon receipt of the bank's claim, the endorsing cooperative/NGO shall be responsible for collecting defaulted loans including the principal, interests, penalties, foreclosure, litigation and other incidental expenses. If the defaulted borrower is the cooperative and has no endorser, the CSF Cooperative shall be responsible in collecting the past due loan.

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

The cooperative/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/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 BOD.
- The responsibility will pre-empt cooperatives/NGOs from abusing their privilege of endorsing loans of favored members with non-viable projects.

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

The cooperative/NGO shall pay the CSF Cooperative the full amount of the unpaid loan including the principal, interest, penalties, foreclosure, litigation and other incidental expenses. All collections on CSF's claim, net of collection cost, shall be deposited to the Trustee bank/s. Any amount in excess of the claim shall be remitted by the CSF Cooperative

to the lending bank until the latter's twenty percent (20%) risk exposure is fully settled.