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Clarification on the Call for Expression of Interest No. JER-004/4 to select Financial Intermediaries that will receive resources from the European Investment Fund, acting through the JEREMIE Holding Fund for Lithuania, to implement the First Loss Portfolio Guarantee (FLPG) Financial Instruments

The Deadline for the submission of Expressions of Interest is the 13 October 2010.

Capitalised expressions utilised below shall have the meaning attributed to them in the Call, unless otherwise defined below or the context requires otherwise.

GUARANTEE STRUCTURE

	QUESTION	ANSWER
1.	What happens if the Financial Intermediary reaches lower Actual Volume than Agreed Portfolio Volume?	Cap Amount, expressed in Euro amount, will be reduced pro rata accordingly. It is calculated on the portfolio basis as the product of i) the Actual Volume, ii) the Guarantee Rate (i.e. 80%), iii) the Guarantee Cap Rate (for example, 20%), and iv) the Disbursement Ratio.
2.	In case the disbursed amount of principal has not reached the Agreed Portfolio Volume when the Availability Period has not yet finished, could the Financial Intermediary include further loans?	It is not required that loans shall be disbursed within the Availability Period. The Financial Intermediary may until the end of the Availability Period include further new eligible loans in the Portfolio up to the extent that Actual Volume does not exceed Agreed Volume. The Actual Volume equals the aggregate amount of the principal committed to be available under the SME loans. If SME loans are partly disbursed after the end of 2015, only part of such loans, which is disbursed by the end of 2015 will be covered by the Guarantee.
3.	Please clarify the size of the guarantee. For example, the Financial Intermediary lends to five enterprises a total of EUR 1m. Would the Guarantee be no more than 80% per each loan, but in total no more than 20% of the portfolio? This would comprise EUR 200k. That means, that one of the SME loans would be guaranteed by 80%, the other – by 5%, etc., as long as the 20% Guarantee Cap rate of the total portfolio is not violated? Does the Guarantee cover the loan only in the case of loss or somehow differently, let's say when the loan is provided?	The Guarantee is provided on the portfolio level for all loans included in the portfiolio. The Guarantee covers losses of 80% on a loan-by-loan basis up to the Guarantee Cap Amount (see Answer 1). If there were to be any recoveries under the defaulted loans mentioned in the example, these would alow further Guarantee Payments from EIF to the Financial Intermediary.

4.	Does EIF guarantee up to 20% of the Portfolio and covers 80% of this 20% cap?	As mentioned above, FLPG provides a portfolio guarantee with a cap. EIF will make Guarantee Payments for 80% of each defaulting loan in the portfolio up to the full utilization of the Cap Amount (e.g. up to 20% of the portfolio). If there were to be any recoveries, these would alow further Guarantee Payments from EIF to the Financial Intermediary.
5.	Could you clarify criteria for setting the Guarantee Cap Rate?	The Guarantee Cap Rate is fixed ex-ante at the time of signature of the Operational Agreement and remains binding for the entire duration of the Agreement. The Guarantee Cap Rate will be set by EIF based on track record of the Intermediary etc at a level that covers expected losses and unexpected losses to a high confidence level. Thus, the Guarantee Cap Rate can be a multiple of the expected losses in the Portfolio.
6.	Does the Guarantee cover both principal amount and interest?	Guarantee covers losses deriving from principal and unpaid interest at the time of default, excluding default interest, capitalised interest and fees.
7.	What is the timing of the guarantee payment by EIF to the Financial Intermediary?	EIF shall make guarantee payments under the Guarantee within up to 90 days following receipt of a valid payment demand.

GUARANTEE FEE

	QUESTION	ANSWER
8.	Could you explain the Guarantee Fee? Should the Guarantee Fee be calculated on the amount of loan to SME?	The Guarantee Fee is a non-refundable fee paid by the Financial Intermediary to EIF at the time of inclusion and calculated for each Eligible Loan included in the Portfolio as a one-off upfront fee equal to the product of Guarantee Fee Percentage (i.e. 1%), the Eligible Loan amount and the Guarantee Rate (i. e. 80%). For example, if the Eligible Loan amount is EUR 1m, then the Guarantee Fee = 1% x EUR 1,000,000 x 80%= EUR 8,000 (one-off payment).
9.	Will the bank or the SMEs have the obligation to pay the guarantee fee according to the agreement signed between EIF and the bank?	According to the Operational Agreement, the Financial Intermediary shall pay the Guarantee Fee Amount to EIF.
10.	If the quarterly report includes 10 loans, does the Financial Intermediary have to make 10 guarantee fee payments in separate transactions?	No, the Financial Intermediary would make only one payment of the guarantee fees per quarter with respect of the aggregate loans included in that quarter.
11.	What additional fees should be paid to EIF?	Appart from the up-fron Guarantee Fee, no other fees will be charged by EIF.

COLLATERAL REQUIREMENTS

	QUESTION	ANSWER
12.	As we understand, collateral requirements depend on the internal Financial Intermediary's policy. Does the Guarantee come on top of the standard procedure?	According to the Call for Expression of Interest, the Financial Intermediary, when submitting the Expression of Interest, will present the current policy applied to pricing and collateral as well as the proposed pricing and collateral requirements to be applied to the new SME loans covered by Guarantee. It is up to the Financial Intermediary to propose how the benefit of the Guarantee shall be passed on to the SMEs either through better pricing or reduced collateral requirements, or both. Interested Financial Intermediaries will compete in the Call for Expression of Interest process on these two aspects.
13.	If the new collateral proposed in the Call for Expression of Interest by the Financial Intermediary is 50% per loan, can Financial Intermediary ask for 60% collateral for one loan and 40% for another?	The Financial Intermediary can decide how to pass the benefit of the Guarantee to the SME and shall explain it in its Expression of Interest. The proposed minimum level of collateral will be binding and should be reflected in the relevant credit policy.
14.	If the Financial Intermediary decided to issue two loans to the SME – one up to the maximum loan amount covered by the Guarantee and the other not included to the Portfolio, how could the collateral be shared between these two SME loans, one of which is included in the Guaranteed Portfolio and the other not?	EIF expects that the Financial Intermediary would apply its standard policy in allocating collateral between two loans. EIF will review the standard credit policy, however expects that an equal rank of loans will be assured.

DEFAULT DEFINITION (APPLICABLE TO ELIGIBLE LOANS)

	QUESTION	ANSWER
15.	According to Basel II requirements, if the borrower (i. e. SME) does not pay within 90 days, can the Financial Intermediary consider this loan as defaulted with respect to the First Loss Portfolio Guarantee Instrument?	Yes.

RECOVERIES

	QUESTION	ANSWER
16.	Can you explain the treatment of recoveries?	Loss Recoveries, net of recovery costs (if any), realised by the Financial Intermediary in respect of the Loss shall be shared pro-rata between EIF and the Financial Intermediary according to the Guarantee Rate, e.g. 80% for EIF and 20% for the Financial Intermediary.
17.	The Financial Intermediary cannot receive collateral for the full loan amount. It can ask only for 20% of the loan amount, because the Financial Intermediary can recover only as much as the loss amount. There has to be a clear legal basis on which the Financial Intermediary could receive more recoveries from collateral than 20% to cover not only Financial Intermediary's but also EIF's share.	The FLPG is a portfolio guarantee and not a guarantee on an individual loan basis as in other guarantee schemes. Therefore, the bank will be requested to set the individual collateral requirements in in line with the proposed collateral levels in its Expression of Interest. The servicing of the loan exposures is fully delegated to the bank and so the realisation of recoveries related to defaulted loan exposures.

18.	In case of leasing the Financial Intermediary is the owner of the asset. How would the recovery process work in this case?	The Financial Intermediary could sell or re-lease the asset, in which case the proceeds from the sale or sum of the lease payments under the new lease, net of recovery costs, are treated as recoveries and shall be shared pro-rata between EIF and the Financial Intermediary according to the Guarantee Rate.

ELIGIBILITY OF LOANS

	QUESTION	ANSWER
19.	What happens if SME, with its loan included in the Portfolio, later becomes a large enterprise?	The SME Eligibility Criterion related to the compliance with the EU definition[1] of SMEs must be fulfilled at the date of the document evidencing the relevant Eligible Loan (i.e. at inclusion). If, after the inclusion of an SME loan in the Portfolio, it occurs that the SME does not comply with the EU definition any more, e. g. if it exceeds 249 employees after inclusion, this does not have any adverse consequences on the guarantee cover of the relevant loan.
20.	With reference to the Question 1, if the Financial Intermediary achieves a lower Actual Volume than the Agreed Volume, would the maximum obligor concentration be recalculated?	No, Maximum obligor concentration is set on the Agreed Portfolio Volume, not on the Actual Volume, and is applied continuously through the life of the Guarantee. Please note also that the maximum obligor concentration applies to SMEs, and not on a loan basis.
21.	How should the development and expansion of activities be assessed in case of loans for working capital?	Working capital loans shall be ancillary (and linked) to investment projects towards which a Financial Intermediary grants an investment loan. Any increase in the demand for working capital should be evident from the business plan.
22.	What happens if after one year, when the agreement with SME was signed, it appears that a small part of the loan was used for ineligible expenditure?	If only a portion of the loan is ineligible, and it is not accelerated by the Financial Intermediary, this portion shall be excluded from the Portfolio.
23.	Could factoring transactions be included in the guaranteed portfolio?	No, factoring transactions would not be eligible.
24.	What concrete documents should be filled in order to receive the decision on the provision of the guarantee?	The Financial Intermediary shall submit an Inclusion Notice within one month of the end of each calendar quarter in respect of SME Transactions entered into the relevant calendar quarter. An automatic inclusion of Eligible Loans is performed. For the avoidance of doubt, SME Transactions so included shall be deemed to be covered by the Guarantee from the date on which such SME Transactions shall have been entered into.
25.	Will EIF set minimum requirements for the internal rating/scoring of loans included in the Portfolio?	EIF does not require to include “each and every” loan issued to the SMEs by the Financial Intermediary in the form of an exclusivity clause. Instead EIF will propose to set a maximum share of the loans that would be eligible for riskier rating categories to ensure that the Portfolio guaranteed by EIF would generally mirror the credit quality of the loans issued by the Financial Intermediary and does not reflect the result of an adverse selection.

[1] Micro, small or medium-sized enterprises as defined in the Commission Recommendation 2003/361/EC.

26.	Will EIF set any requirements for the collateralization level of the Portfolio?	No, EIF does not envisage to set a required collateralization level for the Portfolio. Please note that EIF expects the Financial Intermediaries to propose collateral requirements for the loans included in their Expressions of Interest.

MISCELLANEOUS

	QUESTION	ANSWER
27.	Will the bank have to fill in the reports about the loans provided, covered by the guarantee, loans' amounts outstanding, etc.? What is the content of the reports and how often should they be provided?	Yes, the Financial Intermediaries shall provide EIF, typically within 30 Business Days after the end of the calendar quarter, with quarterly information in a standardised form, including among others, information on the SMEs covered by the Guarantee, new loans provided, outstanding loan amounts, etc. The draft report is available upon request.
28.	Could we ask for the Expression of Interest in MS Word format?	The MS Word format of Annex 1 has been made available at this link: http://www.eif.org/what_we_do/jeremie/calls-for-expression-of-interest/2010_Call_EOI_JEREMIE_Lithuania_JER-004_4.htm
29.	Please provide a draft of guarantee agreement between EIF and the bank.	The Operational Agreement will be made available to the selected Financial Intermediaries.