Capped Loan Guarantees

(First Loss Portfolio Guarantee)

Financial Instruments, EIF

Dublin, June 2015

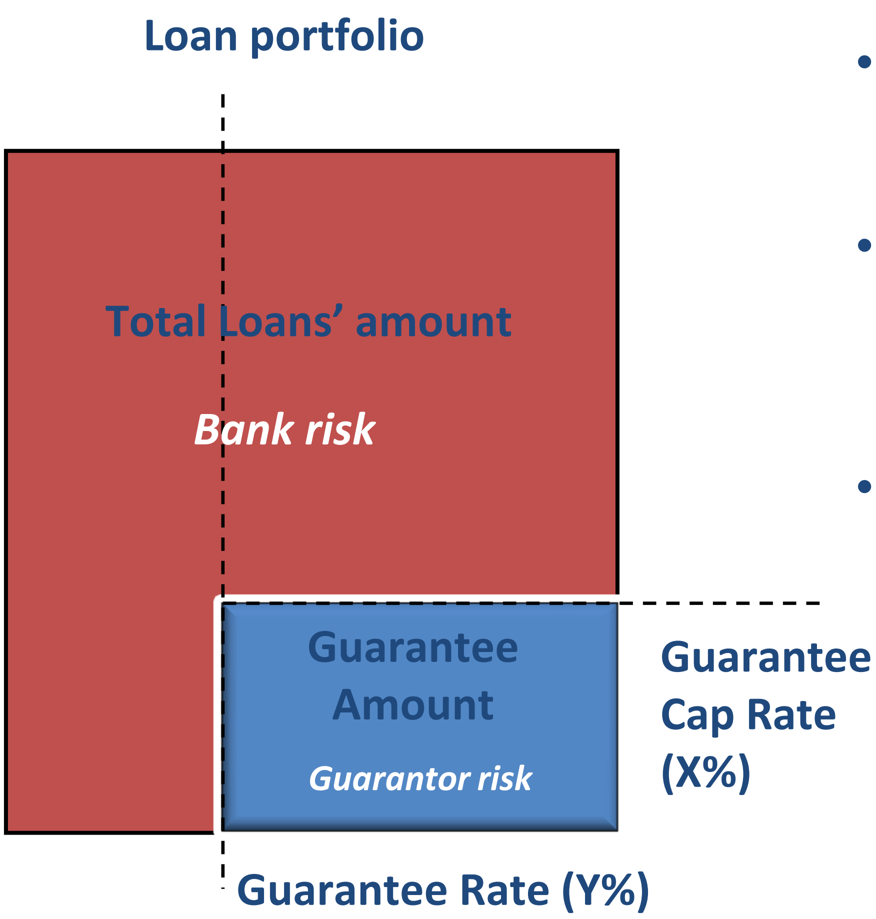
Product: First Loss Portfolio Guarantee

EUROPEAN INVESTMENT FUND

Objective: Provide better access to finance to targeted Final Recipients, (typically addressing a market gap)

Structure: Partial first loss portfolio capped guarantee (using typically an ESIF contribution) providing credit risk coverage on a loan by loan basis, for the creation of a portfolio of new loans/leases to Final Recipients by a Financial Intermediary, up to a maximum loss amount (cap). It can also be structured as a counter-guarantee.

First Loss Portfolio Guarantee at a glance



- Cap Amount available to cover losses in the Final Recipients loan portfolio
- For each loan defaulting, [Y]% (guarantee rate) of the covered loss is paid to the bank
- This holds until [X]% (cap rate) of the portfolio is covered

Objective: access to finance, with improved lending conditions for Final Recipients (reduce interest rates and/or collateral requirements)

Main Characteristics

- Aim of the instrument: credit risk coverage up to a certain limit allowing the financial intermediary to **facilitate Final Recipients access to finance at better/preferential conditions (interest rate and/or collateral reductions);**
- **Guarantee rate: up to 80%** on a loan by loan basis (credit risk retains by the financial intermediary in no case less than 20%);
- **Cap rate** to be determined in the ex-ante risk assessment;
- Leverage: typically 3 to 6; i.e. EUR 1 of guarantee triggers EUR 3 to EUR 6 of loans
- **Purpose of the loan guaranteed**: financing tangible & intangible investments as well as the working capital link to the investment financed;
- Advantages for Financial Intermediaries: credit risk coverage and potentially capital relief.

- **As any other financial instrument funded by ESIF, ex-ante assessment has to be performed under the resposibility of the competent Managing Authority, prior to decision & implementation.**