EUROPEAN INVESTMENT FUND

EUROPEAN UNION
European Regional Development Fund

ROMANIAN GOVERNMENT

Sectoral Operational Programme "Increase of Economic Competitiveness" 2007 – 2013

"Investing in your future"

Clarification on the Call for Expressions of Interest No. JER-002/1 to select Financial Intermediaries that will receive resources from the European Investment Fund acting through the JEREMIE Holding Fund for Romania to implement the Structured Loan Portfolio Guarantee (the "Financial Instrument")

Reference number: Call for EoI No. JER-002/1

The Deadline for the submission of Expressions of Interest is 28 October 2009

Capitalised expressions utilised below shall have the meaning attributed to them in the above mentioned Call for Expression of Interest, unless otherwise defined below or the context requires otherwise.

Question 1 (Q1):	Capital relief: It is understood that the AAA rating of the EIF leads to a 0% risk weighting under Basel II, which means a capital relief corresponding to the risk weighted assets under the Reference Portfolio. Please confirm.
EIF Answer 1:	The Financial Instrument envisages, subject to consultation with the Romanian regulator and further regulatory conditions being met, to provide 0% risk weighting under Basel II (only for the notional amount of the Guaranteed Tranche). The Financial Instrument is therefore envisaged to be structured in line with the minimum requirements for credit risk mitigation techniques, the relevant national regulations and the consultations with the National Bank of Romania. Certain provisions of the Financial Instrument are envisaged to be verified with the National Bank of Romania, e.g. it may be required to make loss allocation based upon appraised loss rather than residual loss within an acceptable time frame.
Q2:	Reference Portfolio a. Dynamics: The Reference Portfolio may include Eligible Assets fully drawn down or partially drawn facilities. Please clarify whether facilities that expire during the Term can be replaced by new facilities under the same eligibility criteria and having remaining maturity of min. 6 months and not going beyond 30 June 2014. In this sense, are the prolongations of the existing Eligible facilities considered as Eligible transactions and accepted to replace the existing expiring facilities? b. Eligibility conditions applicability: please confirm that all the eligibility conditions must be met as of the cut-off date, and not over the whole facility life until the cut-off date.

EIF Answer 2:	a. The replacement of an expired [amortised] Eligible Asset in the Reference Portfolio with a new loan to an Eligible SME (replenishment) is not foreseen under this product. The extension of the maturity of an Existing Asset in the Reference Portfolio (rescheduling) would not be acceptable. b. Eligibility conditions must be met at the time of the inclusion (be it at cut-off or any other inclusion date) in the Reference Portfolio; certain criteria need to be maintained throughout the life of the transaction, i.e. the Financial Intermediary needs to satisfy them at all times. For example SMEs should not become active in any of the excluded sectors/activities.
Q3:	Junior Tranche determination, level: Based on the EIF experience, what would be the average accepted level of Junior Tranche, the minimum and maximum level of this Tranche? What methodologies are considered by EIF to determine the cumulative expected loss?
EIF Answer 3:	EIF will analyse the characteristics of the portfolio during and after due diligence. EIF will apply its methodology comparable to those of rating agencies when rating a securitisation of SME loans. The level of the Junior Tranche depends on numerous factors and will be set depending on the pool quality and structural features of the Transaction.
Q4:	Restructuring definition: It is mentioned in the documentation that Restructuring is one of the Credit Events with respect to an Eligible Asset from the Reference Portfolio. What definition is applied to this event from EIF perspective?
EIF Answer 4:	As stated in our answer to Q1, in order to achieve the regulatory capital relieve to the extent possible, the Financial Instrument envisages to be structured in line with applicable regulations (particularly, NBR-NSC Regulation No. 19/24/2006 on the credit risk mitigation techniques used by credit institutions and investment firms) as may be amended in the future, and the consultations with the National Bank of Romania. This applies also to the relevant credit events to be considered under the Financial Instrument.
Q5:	Time horizon for concluding contracts under Jeremie: When does EIF expect to have the contracts signed with Financial Intermediaries in Romania?
EIF Answer 5:	Timing depends on the data quality available and the envisaged structure (external rating or not, external investors) as well as time to conclude legal documentation. In case of good data quality and information available and assuming a simple structure, an agreement could be signed in the first part of 2010.

Q6:	In the countries where Jeremie is already functional, what is the impact on the provisions attached to the loans included in the Eligible Portfolio during the Jeremie duration? Has EIF got an agreement with Central Banks/ECB on a uniform regulation applying for this purpose, also for Romania?
EIF Answer 6:	The proposed Financial Instrument is not yet offered in other countries.
Q7:	Additional Portfolio: It is said that the Financial Intermediary shall commit to originate a new portfolio of Eligible SME Loans during the Commitment Period. Please clarify whether the Additional Portfolio will be calculated as the amount of originated loans (signed contracts) or as outstanding amounts of the originated loans as of the cut-off date of the Additional Portfolio. Which are these cut-off dates?
EIF Answer 7:	Please see answer to Q 13.
Q8:	Verification agent: Please confirm who will select and manage the Verification Agent – the Financial Intermediary or EIF?
EIF Answer 8:	The Verification Agent would be hired by the respective originating and servicing Financial Intermediary. Its activities would be defined on the basis of a contractual agreement. The Verification Agent would perform its duties to the benefit of such Financial Intermediary and the transaction creditors.
Q9:	Can a financial intermediary also achieve the risk weighted assets (RWA) relief for the 80% of the mezzanine tranche guaranteed by EIF if the tranches are not rated externally?
EIF Answer 9:	This depends on the requirements to achieve capital relief, which need to be confirmed with the regulator. Under Basel II, an external rating would be needed for Financial Intermediaries which apply the standardised approach. We assume that banks using the internal ratings based approach could use the Supervisory Formula Approach to benefit from regulatory capital relief. We assume that banks might need an external rating and therefore partial cost cover can be provided.
Q10:	Will EIF put in place a cash collateral for the guaranteed tranche?
EIF Answer 10:	EIF will not provide cash collateral. The Financial Instrument will be issued by EIF after the transaction features have been agreed, based on due diligence, detailed analysis of the Reference Portfolio including tranching, finalisation of the commercial and legal negotiations.
Q11:	What is the procedure for issuing the guarantee of the Mezzanine Tranche and what is the timeline?
EIF Answer 11:	Please see Q 5.
Q12:	What is the cost of the guarantee and will it be dependent on the rating of the mezzanine tranche? For example, if the Mezz tranche is at the BBB or BB level.

EIF Answer 12:	The cost of the Financial Instrument depends on the rating and on building up the Additional Portfolio, and takes account of the safe harbour premiums established through the Commission Notice on the application of Articles 87 and 88 of the EC Treaty to State aid in the form of guarantees, published in the Official Journal C 155 of 20.6.2008, as amended through the Corrigendum published in the Official Journal C 244 of 25.09.2008. In case the Additional Portfolio has been fully build up, the fee for a BBB rated tranche would be at least 0.8% p.a. and for a BB rated tranche would be at least 2% p.a. In case the Additional Portfolio is only partially achieved, then the fee will be higher, depending on the final amount achieved (Commitment Fee). In the extreme scenario where no new Eligible SME Loans are granted, it is estimated that the fee level could almost double compared to the fee level applied in case the Additional Portfolio had been fully built up.
Q13:	How will the Additional Portfolio be measured? Will it be a sum of all outstanding loan amounts at origination over a period of 3 years?
EIF Answer 13:	The Additional Portfolio will be the sum of Eligible SME Loans (or portions thereof) actually disbursed by the end of the Availability Period to SMEs. Eligible SME Loans shall be originated and disbursed during that period.
Q14:	Will the undrawn part of a loan facility extended to an SME (that is not included in the Reference Portfolio) be eligible to be considered for the Additional Portfolio?
EIF Answer 14:	To be eligible, a new loan must be provided (signature of a new loan agreement has to take place within the Availability Period).
Q15:	What is the level of the punitive fee (Commitment Fee) in case the Additional Portfolio requirement is not fulfilled?
EIF Answer 15:	See EIF Answer 12.
Q16:	We would like to be considered for the EIB investment in senior notes. What are the conditions and what would be the potential commitment taken by EIB related to the Senior Tranche(s)?
EIF Answer 16:	EIB investment in senior notes is not an operation foreseen under the JEREMIE initiative, but is a separate transaction of EIB subject to EIB's discretion and its own rules.
Q17:	Is it possible to include also loans other than working capital and investment loans in the Reference and Additional Portfolio?
EIF Answer 17:	Only the Eligible Assets specified in the Call will be considered. It is not possible to change the Eligibility Criteria specified in the Call.
Q18:	Apart from loans, are guarantees also eligible for the pool?
EIF Answer 18:	Guarantees are not eligible.
Q19:	Would it be possible to increase the maximum obligor concentration?
EIF Answer 19:	The maximum obligor concentration is set at this level in line with market practice and will not be increased.

Q20:	Which costs will the programme cover? For example, in the Call documents it is stated that costs related to reporting, marketing and publicity, cost of loss verification agent will be covered. It would be important to know what the maximums are (similar to the max provided on the rating agency fees). Also, presumably marketing and publicity mean marketing the product to SMEs. Could you please clarify.
EIF Answer 20:	The costs to be covered are those related to the management of the instrument by the selected Financial Intermediary and may include, inter alia, reporting, marketing, cost of loss verification, and part of the rating agency fees. The ceiling for such management cost is stipulated by Art. 43, paragraph 4, subparagraph (a) of the Commission Regulation 1828/2006, amended through Commission Regulation 846/2009.
Q21:	It is mentioned that the 20% of the mezz note to be retained by the originator must not be hedged. Are there further hedging requirements (regarding other tranches)?
EIF Answer 21:	Both the Senior Tranche(s) and the Junior Tranche could be placed with other investors.
Q22:	Will there also be maximum industry/regional concentrations for the pool?
EIF Answer 22:	Yes, there will be maximum levels, in line with market practice, in order to ensure a well-diversified portfolio, e.g. 20-25% max. for a certain sector.
Q23:	Will the securitisation also cover loans that are held in a special purpose vehicle located outside Romania?
EIF Answer 23:	No, such loans cannot be covered.
Q24:	Will the (additional) loan portfolio include overdrafts?
EIF Answer 24:	Please see answer to Q 17. Eligible Assets in the Reference Portfolio shall have a pre-defined payment schedule.
Q25:	Is there a requirement that the securitisation be rated externally? (this will substantially erode the economical viability of the transaction).
EIF Answer 25:	Please see answer to Q 9.