

## COSME Loan Guarantee Facility

### DISCLAIMER

This document provides some information on the terms of the COSME Loan Guarantee Facility and its related documentation. This document is not, and should not be construed as, a binding document. It does not provide a detailed description of any party's rights and obligations under the COSME Loan Guarantee Facility documentation and should not be used to construe any of the terms set out thereunder. This document is qualified in its entirety by the terms and conditions contained in the relevant COSME Loan Guarantee Facility documentation. This document does not constitute an offer of any nature whatsoever and does not create any binding obligations on EIF to enter into a contract with any third party in relation to the COSME Loan Guarantee Facility or otherwise.

### **-FREQUENTLY ASKED QUESTIONS-** published on 19.12.2014

In accordance with the provisions of the Call of Expression of Interest published on the EIF's website on 4 August 2014 to select Financial Intermediaries under the COSME Loan Guarantee Facility ("LGF"), you will find here below a list of some of the most commonly asked questions. Please read through these FAQs before contacting the EIF.

If your question is not answered below and you believe it would be a good addition to the FAQ list, please send your suggestions by email to [cosme.lgf@eif.org](mailto:cosme.lgf@eif.org).

Unless defined otherwise in this FAQ, all capitalized expressions used in this document shall have the meaning attributed to them in the above mentioned Call for Expression of Interest<sup>i</sup>.

## General clarifications

### 1. What is the COSME Loan Guarantee Facility (COSME LGF)?

The COSME Loan Guarantee Facility is a facility under which EIF provides guarantees and counter-guarantees on debt financing to Financial Intermediaries in order to improve access to finance to SMEs. Thanks to the COSME Loan Guarantee Facility, Financial intermediaries selected by the EIF will be able to provide additional debt financing to SMEs in Participating Countries.

The COSME Loan Guarantee Facility builds on the success of the CIP-SMEG programme, which as of Q1 2014 featured a total guarantee amount of EUR553m and mobilised EUR17bn in lending to SMEs covering 23 countries and supported 329,000 SMEs.

### 2. How can a SME benefit from the COSME Loan Guarantee Facility?

Under COSME Loan Guarantee Facility, EIF supports SMEs not directly, but through providing:

- a) direct financial guarantees to banks, debt (loan) funds and other financial intermediaries who extend loans , financial leases or bonds<sup>ii</sup> to the Final Recipients (“the Guarantee”), and
- b) financial counter-guarantees to guarantors, who issue guarantees to banks and other financial intermediaries in respect of loans and/or financial leases to the Final Recipients (“the Counter-Guarantee”), together with the Guarantees referred to as “(Counter-) Guarantees”.

SMEs can address themselves to [URL of the Access to Finance website] or to EIF website for information on the financial intermediaries operating under COSME Loan Guarantee Facility in their countries.

### 3. Until when will the Open Call for Expression of Interest of the COSME Loan Guarantee Facility be open for applications?

The COSME open call of expression of interest will be open for applications until 30/09/2020.

### 4. Could a Financial Intermediary apply to both of SME High Risk Categories options available under COSME LGF?

Yes – Financial Intermediaries can choose to apply to both options; i.e. provide new higher risk loan product to SMEs / Final Beneficiaries (option 1) and increase lending to SMEs / Final Beneficiaries (option 2).

### 5. Could you please detail the COSME Enhanced Access to Finance (EAF) Criteria?

As defined in Annex II and III of the Open Call for Expression of Interest, the COSME Enhanced Access to Finance (EAF) Criteria will be linked to the SME High Risk Category to be implemented.

Such Criteria are to be considered specific and tailor-made for each Intermediary’s proposed loan products and client segments. For this reason, such criteria are to be further specified within the Guarantee Agreement between EIF and the selected Financial Intermediary.

**6. Is the same Financial Intermediary allowed to apply for more instruments (e.g. both for InnovFin SME Guarantee and for COSME LGF)?**

Yes but the instruments’ conditions of application need to be clearly specified as they shall be complementary programs i.e. each application’s target should not overlap.

**7. How can a Financial Intermediary demonstrate that the InnovFin SME Window criteria are or are not satisfied in case of Final Recipient Transactions above EUR 150,000?**

The Intermediary (or the sub-Intermediary, as the case may be) will collect a signed declaration from the Final Recipient confirming that none of the Innovation Criteria applicable under the Innovfin SME Guarantee Open Call for Expression of Interest apply (please refer to the indicative (counter-)guarantee term sheet available at the EIF website for the updated list of Innovation Criteria applicable: [http://www.eif.org/what\\_we\\_do/guarantees/single\\_eu\\_debt\\_instrument/innovfin-guarantee-facility/index.htm](http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/innovfin-guarantee-facility/index.htm)).

The (sub-)Intermediary is expected, based on available public information (e.g. financial statements), to check the accuracy of the SME declaration mentioned above.

**8. Could you please clarify what transaction amounts’ limitations apply for COSME LGF guarantees?**

Please note that transactions should normally not exceed the **EUR 150,000 principal amount** threshold. However, as detailed in the table below, other larger debt financing transactions can be included as long as the Financial Intermediary is able to demonstrate that such SMEs are not eligible under the InnovFin SME Guarantee Facility (please refer to question 9).

| <i>Max (Counter-)Guaranteed amount under COSME</i>                               | <i>Transaction maturity</i> |
|--|-----------------------------|
| ≤ EUR 750,000<br>except SMEs performing road freight transport (≤ EUR 350,000)   | > 5 years                   |
| ≤ EUR 1,500,000<br>except SMEs performing road freight transport (≤ EUR 750,000) | ≤ 5 years                   |

**9. Could you please clarify the applicable “Restricted Sectors” definition?**

Please note that the list of restricted sectors can be found on the EIF website:

[http://www.eif.org/news\\_centre/publications/2010\\_Guidelines\\_for\\_Restricted\\_Sectors.htm](http://www.eif.org/news_centre/publications/2010_Guidelines_for_Restricted_Sectors.htm)

When providing support to the financing of the research, development or technical applications relating to (i) human cloning for research or therapeutic purposes; or (ii) Genetically Modified Organisms ("GMOs"), the EIF will require from the Financial Intermediary appropriate specific assurance on the control of legal, regulatory and ethical issues linked to such human cloning for research or therapeutic purposes and/or GMOs.

The binding list of Restricted Sectors shall be fixed in a schedule attached to the Guarantee Agreement.

## Minimum Risk Retention

### 10. Could you please clarify whether any restriction on collateral requirements apply?

Please note that there is in general no restriction on collateral requirements. However, collateral requirements may apply as part of the COSME Enhanced Access to Finance (EAF) features required to benefit from the Guarantee

### 11. In relation to the above, could you please clarify how the 20% minimum risk retention requirement referred to in Annex II and III is calculated?

This requirement is not related to the collateral cover of a certain loan but to any additional risk cover (hedge or mitigation of the credit risk of the portfolio) not provided by the Final Recipients and is meant to ensure the alignment of interest between EIF and the Intermediary. As outlined in Annex II and III of the Open Call for Expression of Interest document page 1, it is expected that the Financial Intermediary retains a minimum 20% exposure to the overall portfolio of transactions covered by COSME LGF.

## State Aid

### 12. Could you please clarify whether any "State Aid" regulation requirements apply to COSME LGF?

Please note that COSME is State Aid consistent i.e. COSME LGF guarantees are not to be considered State Aid.

### 13. Could you please clarify if COSME LGF interferes with other EU / national / de minimis schemes which would sustain the same project from a liquidity point of view?

Please note that COSME does not impose any limitation on other structural EU / national / de minimis schemes as COSME is State Aid compliant and neutral.

## 14. Are projects and/or clients that are co-financed under structural funds / public support / de minimis schemes eligible to apply for COSME LGF?

Please note that COSME does not impose any limitation in this respect. However, please be aware that limitations may apply, stemming from other applicable regulations (e.g. Structural Funds regulations).

## 15. SME High Risk definition option 2 calculation specificities

- A. Concerning guarantee institutions and promotional banks all rating classes are deemed Acceptable Rating Classes. This is based on the consideration that guarantee institutions' portfolios typically support SMEs in the bottom quartile of a commercial bank's SME loan portfolio.
- B. Concerning commercial banks, the following steps would be taken:

Up to the bottom quartile (more risky 25%) of the loan portfolio would be considered in order to identify the High Risk SMEs quartile (e.g. lower rating class at origination). Based on the sample data presented below, the 25<sup>th</sup> percentile corresponds to a rating class of 7. Thus, the Acceptable Rating Classes are: 7, 8, 9, 10.

Table 1: Attributed Rating Classes at Loan Origination over the previous 12 months

| PD RANGE (%) |        | Average PD (%) | Rating Classes at Origination | SME Portfolio distribution | Cumulative Distribution |
|--------------|--------|----------------|-------------------------------|----------------------------|-------------------------|
| 0.00%        | 0.04%  | 0.02%          | 1                             | 0.00%                      | 100.00%                 |
| 0.04%        | 0.17%  | 0.11%          | 2                             | 0.00%                      | 100.00%                 |
| 0.17%        | 0.42%  | 0.30%          | 3                             | 0.00%                      | 100.00%                 |
| 0.42%        | 0.87%  | 0.65%          | 4                             | 21.00%                     | 100.00%                 |
| 0.87%        | 1.56%  | 1.22%          | 5                             | 28.00%                     | 79.00%                  |
| 1.56%        | 2.81%  | 2.19%          | 6                             | 24.00%                     | 51.00%                  |
| 2.81%        | 4.68%  | 3.75%          | 7                             | 11.00%                     | 27.00%                  |
| 4.68%        | 7.16%  | 5.92%          | 8                             | 7.00%                      | 16.00%                  |
| 7.16%        | 11.62% | 9.39%          | 9                             | 6.00%                      | 9.00%                   |
| 11.62%       | 17.38% | 14.50%         | 10                            | 3.00%                      | 3.00%                   |

To calculate the Reference Portfolio Volume we first need to estimate the volumes that the Financial Intermediary would disburse during the Availability Period to SMEs rated in the Acceptable Rating Classes without the support of the EU Guarantee, with the past 12 months origination being the main criterion.

Once the Acceptable Rating Classes are identified, the historical volumes disbursed to such rated SMEs, together with additional information on expected volumes to be disbursed during the Availability Period, will form the basis for the estimate of the Reference Portfolio Volume.