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Kuriame Lietuvos ateitį

Clarification on the Call for Expressions of Interest No. JER-004/2 to select Financial Intermediaries that will receive resources from the European Investment Fund acting through the JEREMIE Holding Fund for Lithuania to implement the Funded Risk Sharing Financial Instruments

Reference number: Call for EoI No. JER-004/2

The Deadline for the submission of Expressions of Interest is the 3rd of April, 2009.

Question 1 (Q1):	Can the Financial Intermediary bid with less than 50% of its own co-financing?
EIF Answer:	No, 50% own co-financing is a necessary minimum for the Expression of Interest to be considered.
Q2:	If, the bank does not have external rating, is it acceptable, that the bank refers to the parent company external credit rating? Would very short banking activity experience not be an obstacle to meet Eligibility Criteria for Expression of interest No. JER004-2?
EIF Answer:	The respective rating reports shall be submitted if the Financial Intermediary or its parent company has an external rating. However, external rating is not a mandatory requirement under the Call for Expression of Interest. Regarding the historical lending data, while there are no minimum requirements for the existing SME portfolio, please note that the following criteria are applied in the selection of the Financial Intermediaries: - Ability to deliver nationwide geographical coverage in the Republic of Lithuania (Applicant is represented in all counties); - Applicant's commitment to SME lending. Priority will be given, in particular, to the Financial Intermediaries with larger share of SME lending operations (outstanding portfolio and annual loan growth); - Project applicant's Suitability for Task/Project. Priority will be given to those Financial Intermediaries, which have appropriate risk assessment procedures with regard to the quality of loans (internal rating, scoring, etc) and track-record of such procedures, loan origination for SME

	lending, loan approval system, monitoring and recovery procedures, and risk management. The ability to build up a portfolio of new SME loans is an important criterion for the selection of the Financial Intermediary.
Q3:	In Annex 1, "Expression of Interest" you require "5) Appropriate evidence of the representative's authorisation to act for and on behalf of the Applicant (signatory powers). The question is, if the "Expression of Interest" and Appendices will be signed by Bank's member of the board, will it be appropriate evidence or you would need some authorisation to act for and on behalf of the Applicant?
EIF Answer:	The Applicant is requested to submit appropriate evidence of the representative's authorisation to act for and on behalf of the Applicant (e.g. signatory powers). A person authorized to sign on the Applicant's behalf can be indicated in the Statutes of the Enterprise, the Extract of the Register of the Legal Entities of Lithuania, or any other authorisation that describes signatory powers, which would serve as evidence of the representative's authorization to act for and on behalf of the Applicant.
Q4:	Can the applicant provide the Expression of Interest indicating that a certain requirement stated in the Call for the Expression of Interest should be changed, or such application will be considered as ineligible?
EIF Answer:	It is not a question of eligibility, but the criteria that are set as minimum requirements in the Call for the Expression of Interest can not be modified.
Q5:	Will it be allowed to include Financial Intermediary's current SME clients in the portfolio financed under the Funded Risk Sharing Instrument?
EIF Answer:	Current clients of the Financial Intermediary can receive additional loans through this instrument. These, however, have to be new loan contracts. Refinancing or restructuring of the existing loans shall not be eligible as it would not be considered as new lending.
Q6:	Can part of a loan which is already issued but not disbursed be included into a portfolio of the Funded Risk Sharing Instrument?
EIF Answer:	No, outstanding tranches of a loan, which has already been partially disbursed, would not be possible.
Q7:	Please describe in details the list of acceptable industries covered by JER004-2. Are agriculture-related projects eligible for loans under this instrument?
EIF Answer:	The following industries shall be excluded:

	o gambling; o production, supply or trade in arms, tobacco, alcohol; o human cloning. In addition, eligibility of agriculture-related projects may be considered, subject to clearance.
Q8:	Are there any sector priorities?
EIF Answer:	According to the Government Business Support Plan, priority should be given to manufacturing, services and exporting businesses. Each portfolio shall be well diversified across industries.
Q9:	Are leasing and factoring products in the scope?
EIF Answer:	The Financial Instrument is limited to loan financing – investment and working capital loans – only (both linear amortising and bullet loans).
Q10:	Regarding working capital, can credit lines be financed and what is the exact mechanism?
EIF Answer:	Working capital loans are eligible; however, they shall have a structure of a term loan with fixed repayment schedule (both linear amortising and bullet repayment).
Q11:	What is the exact lending model (including money transferring between EIF and Financial Intermediaries), approval procedures, and pricing)?
EIF Answer:	The Funded Risk Sharing Instrument will follow the following general structure: 1) The Financial Intermediary (hereinafter, "FI") undertakes to originate a new portfolio of loans to SMEs according to pre-determined volumes; 2) The origination, due diligence, documentation and execution of the SME loans included in the portfolio will be performed by the FI in accordance with a pre-set origination model agreed with EIF but otherwise applying its standard procedures; 3) EIF disburses funds to FI in tranches in advance in EUR based on the forecasted and agreed lending volumes, subject to a co-financing ratio (EIF can cover up to 50%). Each tranche must be substantially disbursed for new loans to SMEs prior to disbursement of the following tranche; 4) Disbursed loans in full or in limited number of tranches included in the Portfolio are notified by the FI to EIF quarterly; 5) To the extent funds drawn by the FI are not utilized (i.e. not disbursed for SME loans), the FI pays a commercial deposit interest rate on such funds;

	6) To the extent funds provided are utilised for SME loans, EIF will share with the FI both (i) the interest on the SME loans included in the portfolio as well as (ii) the principal repayments under SME loans included in the portfolio, according to the risk sharing rate (equal to the co-financing rate), i.e. repayment of the facility granted by the EIF will reflect repayment of the SME loans included in the portfolio; 7) EIF will also share the risk of SME loans included in the portfolio, according to the risk sharing rate: following a default under the SME loan the FI's repayment obligation of the principal to the EIF is reduced by the corresponding pro rata share of the defaulted SME loan's outstanding principal amount; 8) To the extent there are recoveries and realisation of the collateral such amounts will be shared with EIF pro rata; 9) Payments in relation to the included loan (loan repayments, interest and recoveries) received by the FI from SMEs shall be credited to a general collection account and amounts due to EIF shall be immediately segregated into an interest bearing EIF collection account (principal, interest, recoveries) held by EIF within the FI.
Q12	What is the cost of funds, that will be provided by EIF? What is the exact price of EIF's fund to be disbursed? Will the Bank have to pay interest to EIF in case of client default/bankrupt (until collateral of the loan will be sold)?
EIF Answer:	Please see Question 11.
Q13:	How much time will it take for EIF to approve a newly originated SME loan?
EIF Answer:	The newly originated eligible SME loans are automatically included in the portfolio subject to pre-set loan inclusion criteria. EIF will not approve individual SME loans.
Q14:	Could you describe the procedure of SME's loan approval by EIF? The main issue for us is, what procedures will have to make Financial Intermediary to serve EIF?
EIF Answer:	See above the answer to the Questions 11 and 13. In addition, the Financial Intermediaries will be required to comply with the relevant monitoring, reporting, publicity and auditing obligations required by the EU regulations applicable to the European Regional Development Fund and by the Operational Agreement. Such obligations are briefly described in Annex II to the Call for the Expression of Interest.
Q15:	Annex 2, point 3 SME Loan Amount - "The maximum obligor

	concentration will be set at 1% of total loan portfolio." What kind of portfolio do you mean: a) 1% of total loan portfolio of all Financial intermediaries? b) 1% of total loan portfolio of one applicant Financial Intermediary? Does the maximum obligor restriction apply for the group of associated companies (with the same owners) or each company separately?
EIF Answer:	The maximum obligor concentration is set in respect to the portfolio originated under the Funded Risk Sharing Instrument facility of each Financial Intermediary. In case of a portfolio of new loans to SMEs to be build up by the FI of EUR 100m, the maximum obligor concentration would be EUR 1m. Such limit refers to the total exposure to the respective SME, on group level.
Q16:	In the Call for the Expression of Interest it is stated that the portfolio diversification criterion is as following: max exposure to one SME is 1% of total portfolio. Such a criterion will automatically make the final financing products across the banks different - e.g. the bank that was provided with 100 000 000 EUR of funds from EIF will have maximum loan for one SME of 2 000 000 EUR and the bank that was provided with 10 000 000 EUR of funds from EIF will have maximum loan for one SME of 200 000 EUR. Is it possible to change the criterion from 1% to 1 000 000 EUR? Can the Applicant state the different diversification criterion in the Application or such an application will automatically be considered ineligible?
EIF Answer:	The above example assumes that the FI matches the JHF funding 1 to 1, which is the minimum requirement. In case the FI increases its funding share, the example looks differently. The aim of the facility is to ensure a minimum diversification in the portfolio and to allow financing of a certain number of SMEs. The Holding Fund's exposure to one particular SME cannot increase over 1% of the total Holding Fund's contribution to the Financial Intermediary.
Q17:	The maximum obligor restriction should be calculated based on the achieved portfolio or the maximum possible portfolio (with fully utilized EIF commitment)?
EIF Answer:	The maximum obligor concentration shall be calculated based on the maximum portfolio size, i.e. the pre-set amount of SME loans to be provided over a certain period of time (see the answer to the Q15).
Q18:	Under the Origination Model it says that 'As part of its due diligence, EIF will carry out an in-depth review of the SME loan origination and credit risk assessment procedures (including SME credit rating systems) of the Financial Intermediary and define loan inclusion criteria on a loan as well as portfolio basis.'

	Could you explain what loan inclusion criteria are planned?
EIF Answer:	The indicative loan inclusion criteria include SME eligibility, maturity restrictions, industry eligibility, obligor concentration, and possibly minimum SME rating according to the FI's rating system, and collateral requirements.
Q19:	Loan inclusion criteria, will they be different among the Financial Intermediaries, or will they be the same? Will the Financial Intermediary know these criteria before signing the contract?
EIF Answer:	In principle, the loan inclusion criteria will be the same to all Financial Intermediaries. The indicative loan inclusion criteria include SME eligibility, maturity restrictions, industry eligibility, obligor concentration, and possibly SME rating and collateral requirements. Yes, the inclusion criteria will be a part of the Operational Agreement, and will be set between the EIF and the Financial Intermediary before signing the contract.
Q20:	Is it planned to strictly structure the loan portfolio (not less than X % client with low risk rating, no more than Y % - with medium risk, up to Z % - with high risk, etc.)?
EIF Answer:	In principle, the newly originated SME portfolio shall be a representative carve out of the entire SME portfolio generated under the lending policies for comparable (in terms of maturity, collateral, risk, size etc) loans of the Financial Intermediary. As part of its due diligence, EIF will carry out a review of the SME loan origination and credit risk assessment procedures (including SME credit rating systems) of the Financial Intermediary and define loan inclusion criteria on a loan as well as portfolio basis. The indicative loan inclusion criteria are SME eligibility, maturity restrictions, industry eligibility, obligor concentration, and possibly SME rating and collateralisation requirements. The criteria will be flexible enough to allow a smooth implementation of the Funded Risk Sharing Instrument but strict enough to mitigate the risk of adverse selection.
Q21:	During due diligence EIF plans to analyze the credit risk procedures of the Financial Intermediary, and EIF may exclude customer groups of certain rating. If possible, please indicate the PD/LGD level that would not be acceptable to EIF as certain rating class of the customer.
EIF Answer:	These parameters will be set during the due diligence of the FI. Please see Question 19.
Q22:	Is there required any minimum amount/rate for SME's private Co-Financing?
EIF Answer:	The Financial Intermediary should follow its commercial lending practices.
Q23:	Can the Financial Intermediary charge SME only base rate (i.e.Euribor) or lower?
EIF Answer:	The Financial Intermediary shall apply a price reflecting market

	conditions (applicable base rate plus a margin on SME exposure).
Q24:	Does the Financial Intermediary have to share upfront fees, commitment fees and penalties with EIF? Does the Financial Intermediary have to share also fee income from side business with the client e.g. fees collected from client's activity with the bank - payment fees, foreign exchange income and other?
EIF Answer:	The Financial Intermediary does not share with EIF different up-front fees related to the loan origination before disbursement and commitment fees in case of non-disbursed but fully committed loan amounts. These as well as other applicable payments however should reflect the Financial Intermediary's standard lending practice. All other payments related to other business with the client should be fully in line with FI's standard practice.
Q25:	Will it be allowed to make deferred payments of a loan principle amount for SME if necessary? If yes, what is a maximum period of a deferment and what are the procedures between the Financial Intermediary and EIF in this case?
EIF Answer:	Changes to the repayment schedule should be only made to the extent permitted under the credit and collection policy, which will be annexed to the Operational Agreement.
Q26:	Does the Financial Intermediary pay accrued interest or received (paid) interest to the EIF?
EIF Answer:	The Financial Intermediary has to share with EIF the interest actually paid by SMEs.
Q27:	How possible loss amount will be distributed by the Financial Intermediary's share and how it will affect EIF's received amounts?
EIF Answer:	EIF and the Financial Intermediary will share the recoveries net of the enforcement costs on a *pari passu* basis.
Q28:	When the final stage of particular exposure after default will be determined?
EIF Answer:	Please see Question 11.
Q29:	What principles will be used for evaluation of possible SME losses? Will the Financial Intermediary's internal procedures be used or EIF's methods?
EIF Answer:	The FI carries out the recovery procedures in line with its standard practice. During the due diligence however EIF would confirm that the FI has appropriate credit assessment and risk management procedures in place.
Q30:	What is the reference time from which the Financial Intermediary will stop to pay interests to EIF if SME fails?
EIF Answer:	There is no reference time, as payments to EIF depend directly on the payments by SME to the Financial Intermediary.
Q31:	Will the Funded Risk Sharing Instrument part qualify for the collateral? Or will the bank need to ensure collateral on the total amount of a loan?

EIF Answer:	Please see Question 11. Collateral requirements are applied to the total loan amount.
Q32:	Are there any restrictions on how the Financial Intermediary allocates recoveries between covering defaulted interest and principal?
EIF Answer:	Recoveries/realisation of collateral will be shared between the EIF and the Financial Intermediary on a *pari passu* basis. Standard waterfall structure shall apply net of enforcement costs.
Q33:	Will defaulted interest be shared?
EIF Answer:	Yes, it will.
Q34:	What is the maximum limit of management costs? Does it refer to 2% (relates to guarantee instruments) or 3% as set in the Reg 1828/2006?
EIF Answer:	For the Financial Instrument the management costs shall be calculated as a percentage of the pro rata share (i.e. on the co-funding contributed by EIF acting through the JHF) of the average outstanding amount of the SME loan portfolio. The management costs may not exceed, on a yearly average, 3% of the outstanding amount of the SME loan portfolio.
Q35:	Is the management fee calculated on the outstanding portfolio day by day, or on the annual average outstanding? Is the Management fee paid on annual or quarterly basis?
EIF Answer:	Management fee is calculated as a percentage of the pro rata share (i.e. on the co-funding contributed by EIF acting through the JHF of the outstanding portfolio) of the quarterly average outstanding portfolio and paid on a quarterly basis in arrears.
Q36:	Is there a possibility for SME to receive a state guarantee if it lacks collateral?
EIF Answer:	Subject to clarification with competent authorities.
Q37:	If the project is approved to be financed from EU structural funds, can the initial financing be provided with the Funded Risk Sharing Product?
EIF Answer:	Subject to clarification with competent authorities.
Q38:	Can the funding be reutilised?
EIF Answer:	The reutilisation of the funding is subject to a separate decision once the Financial Intermediary has reached the full utilization of the committed financing.
Q39:	Can the Financial Intermediary issue loans in litas?
EIF Answer:	The Financial Intermediary can issue loans to SMEs in EUR and in Litas.
Q40:	Will the Bank have obligation to issue some part of such loans in local currency (Litas)? If yes, what part?
EIF Answer:	No, there will be no such obligation.
Q41:	What happens if there are no proper projects in the market? As risk sharing kicks in only after a certain time, the Financial

	Intermediary has to ask for a larger amount of collateral to back its full risk, as the Funded Risk Sharing Instrument does not work at the moment of granting a loan.
EIF Answer:	Subject to further clearance, the risk sharing arrangement would start from the first disbursed loan in the newly originated loan portfolio and no minimum diversification requirement for risk sharing arrangement will be applied.
Q42:	Will there be any penalty provided if the Financial Intermediary will have to withdraw from the Project?
EIF Answer:	If the Financial Intermediary withdraws from the Project it has to repay all funding, which has not been utilized for the underlying SME loans together with the accrued deposit interest. Other penalties may be introduced and will be negotiated with the Financial Intermediary in the process of signing of the Operational Agreement.
Q43:	Please provide more details on reporting requirements. A template for reporting is necessary to evaluate administrative burden and calculate management costs. What is the exact or preliminary form and frequency of reports, sent to EIF?
EIF Answer:	The Financial Intermediary shall periodically (e.g. quarterly) submit an inclusion report to EIF. It shall include information on loan data (e.g. loan reference, currency, amount, grace period, interest rate, etc.), data on the borrower (fiscal number, name, address, sector, etc.), and performance data (defaulted loans, amounts recovered, etc.). Indicative reporting template will be published on EIF website shortly.
Q44:	What are the preliminary requirements for marketing campaigns?
EIF Answer:	The Financial Intermediary and the SMEs shall follow the publicity requirements set in the Resolution No. 1443 Article 35-36 of 19 December 2007 of the Government of the Republic of Lithuania and guidelines available at www.esparama.lt. In addition the Financial Intermediary should implement marketing events as it sees necessary to ensure the appropriate achievement of contractual lending volumes.