ISMEA and The Guarantee Funds

Madrid – June 2017
AGENDA

ISMEA

First call guarantee

Portfolio guarantee
ISMEA

Quantitative info about Italian and international rural markets

Supports young people to start a new activity up

Releases guarantees and disburses soft loans

Tests innovative insurance products

Cooperates with the Ministry in implementing European Programmes (i.e., National rural network)
FIRST CALL GUARANTEE FUND
**First Call Guarantee Fund**

**Started-up in 2008**

- A preliminary assessment is needed
- If the guarantee is granted then it cannot be cancelled or revoked
- During the assessment the expected default rate is calculated and, on this basis, the guarantee fee is communicated to the borrower

**The guarantee**

- **Short, medium or long-term loans**
- **Cap**
  - Up to 70% of the loan amount
  - 1 million euros (micro and small enterprises)
  - 2 million euros (medium enterprises)
**First Call Guarantee Fund**

**Non aid scheme.** The farmer pays a one time fee that is tuned to:

- The risk taken by the fund
- The loan maturity

**The fee covers:**

- Risk expenses (based on expected probability of default)
- Administrative costs (flat percentage set up yearly)
- Equity reduction remuneration (based on the European Commission communication)

**State counter-guarantee:**

- For ISMEA the State counter-guarantee is foreseen by a decree
- The State surrogates the Guarantor (ISMEA) just in case of lack of financial resources
- It is meant as a ‘last resort’ guarantee
- No payment from the State is foreseen in case of guarantee cancellation or revocation
PORTFOLIO GUARANTEES
PORTOFOLIO GUARANTEES (PROCESS)

1. Under the agreement (bank-guarantor)
   - Loans' amount range
   - Loans' maturity
   - Portfolio size
   - Portfolio cap

2. Risk classes composition

3. Definition of:
   - Guarantee cost
   - Conditions under which the guarantee can be paid

4. Build-up period (grace period in which the loans are disbursed)

5. Guarantee payment request at default time

   - The payment takes place after the default. The guarantor assess the agreed conditions and pays up to 80% of the outstanding principal and up to the agreed cap (around 5% of the portfolio amount)

   - Cap: maximum cumulative amount payable by ISMEA for the portfolio

   - Risk taken by the bank

   - 20%
PORTFOLIO GUARANTEES

Risk 1: 12%
Risk 2: 23%
Risk 3: 35%
Risk 4: 18%
Risk 5: 12%

Loans

Tranching (around 5%)

Less risk

More risk

Portfolio Guarantees

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PORTFOLIO GUARANTEES

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Loans

Tranching (around 5%)

Less risk

More risk

Portfolio Guarantees

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Easier procedures

Reduced guarantee fee

Certainty about the payment conditions

Banks’ capital relief
THANK YOU FOR YOUR ATTENTION