

ISMEA GUARANTEE FUNDS

Riga 19th January 2010

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Agenda

- ISMEA
- ISMEA guarantee funds (focus on first call guarantee)
- Guarantees Vs. Loans

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ISMEA

- **First commitment**
 - Rural markets data collection
 - Milk, cereals, fruits, meat, live stocks...
 - Rich prices and volumes database
- **Then...**
 - Land management State aid
- **At last (ISMEA/SGFA)**
 - Guarantee funds
 - Risk rating models

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ISMEA rural credit guarantee funds

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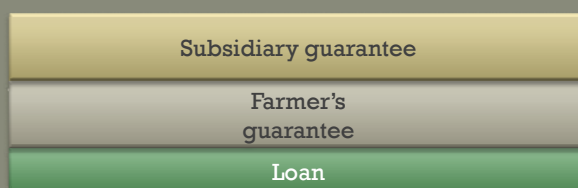
ISMEA rural credit guarantee funds

• Subsidiary guarantee fund

- Established in 1961
- Automatic guarantee (medium and long-term loans)
- Flat guarantee one-time fee (0.30% of the loan amount)
- Paid after the primary guarantees compulsory collection
- Outstanding guarantees (as far as 2009): 10 billions euros

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Subsidiary guarantee



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ISMEA rural credit guarantee funds

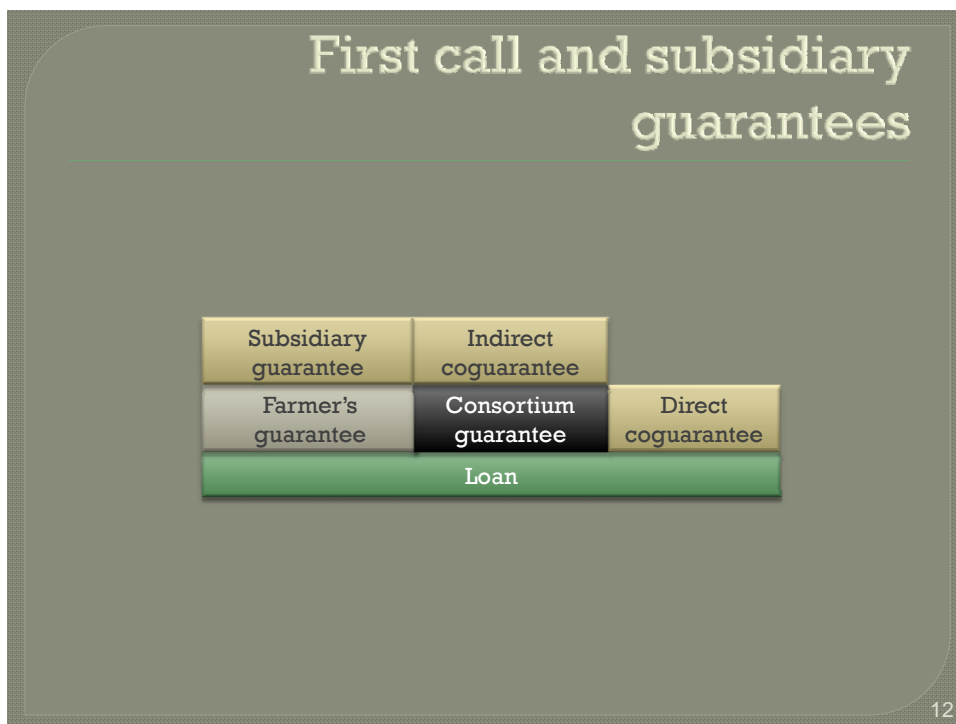
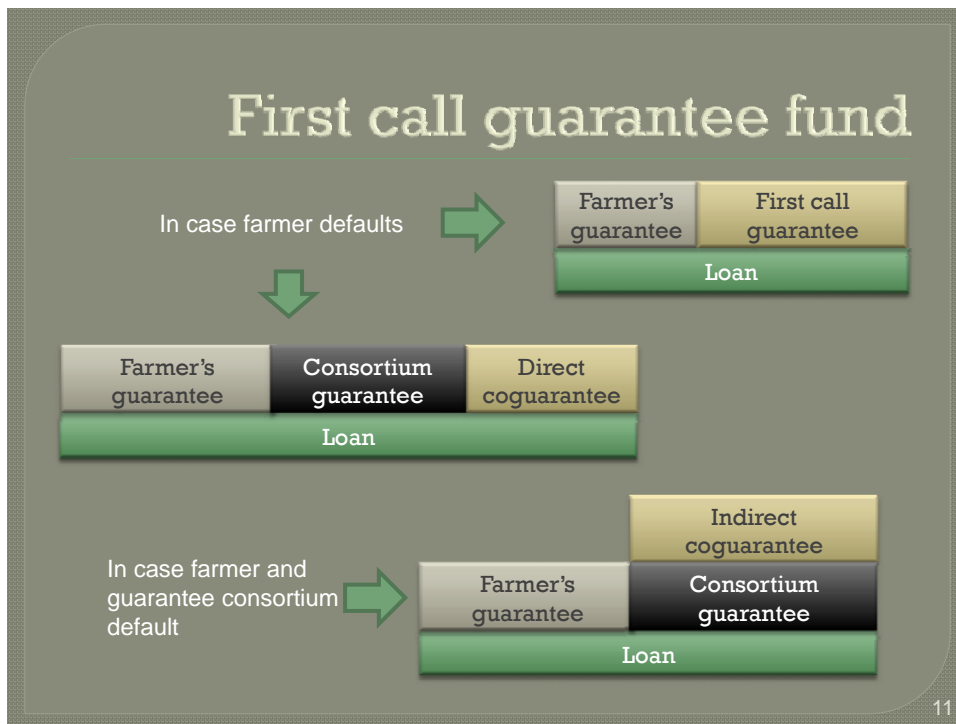
• First call guarantee (FCG) fund

- Established in 2006
- In activity since 2008
- Issues different types:
 - First call guarantee
 - Direct coguarantee
 - Indirect coguarantee

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First call guarantee fund

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First call guarantee fund

- Basle II fully compliant
- State counterguarantee
- As a result, a zero risk weight is applied which implies a reduction of the capital requirement for the guaranteed loan

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First call guarantee fund

- Public resources
- Market guarantee scheme, which implies:
 - State capital remuneration
 - Self-financing scheme (fees and other revenues must balance losses and other expenses)
 - The guarantee fee depends on the guarantee risk
 - Risk rating models in order to quantify farmers' probability of default

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First call guarantee fund

- For each issued guarantee, the guarantor:
 - Applies a capital reduction (10% of the guarantee amount)
 - Is paid a guarantee fee:
 - A share ensures the remuneration of the 10% capital reduction
 - A share covers the administrative costs (0.08% of the outstanding guaranteed principal)
 - A share covers the risk (allowances)

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First call guarantee fund

- The ceilings
 - Up to 70% of the loan amount
 - Up to 80% of the loan amount in case of young entrepreneurs
 - Up to 1 million euros (micro and small enterprises – up to 49 employees)
 - Up to 2 millions euros (medium enterprises – between 50 and 249 employees)

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First call guarantee fund

- The FCG can be issued for all medium (from 18 months) or long-term rural credit loans whose purposes are:
 - Land buying
 - Real estate renovation
 - Fixed assets investments
 - Debt consolidation

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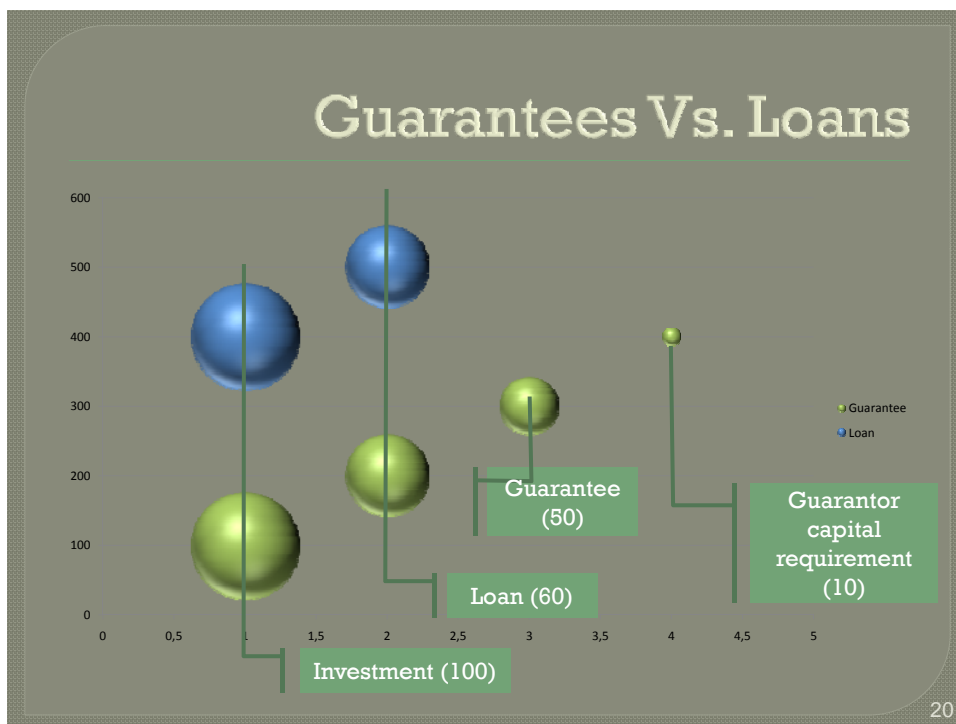
Guarantees Vs. Loans

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Guarantees Vs. Loans

Guarantee	Investment amount	loan amount (60%)	average guarantee (50%)	capital reduction (10%)	Leverage
	1.000.000,00	600.000,00	300.000,00	30.000,00	33,33
Loan	Investment amount	loan amount (60%)	average guarantee (50%)	capital reduction (10%)	Leverage
	1.000.000,00	600.000,00			1,67

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Guarantees Vs. Loans

• Guarantees

1. Better leverage ☺
2. Risk sharing among guarantor, banks and guarantee consortia ☺
3. Allows financing in case of lacks of guarantees ☺
4. Banks must find financial resources ☹
5. Indirect effect for the farmer ☺

• Loans

1. Worst leverage ☹
2. No risk sharing ☹
3. The disbursement is not possible in case of lack of guarantees ☹
4. Allows financing in case of lack of financial resources ☺
5. Direct effect for the farmer ☺

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Thanks for your attention

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