"Restarting the SME credit market in Europe:

what role for securitisation and the capital markets?''

9 April 2013

Welcome Speech

Othmar Karas, MEP

Roundtable

Moderated by Othmar Karas and Corien Wortmann-Kool, MEPs

- **Alessandro Tappi, Head of Guarantees , Securitisation & Microfinance, European Investment Fund**
- **Richard Hopkin, Managing Director in the Securitisation Division, AFME**
- **Vilmos Budavari, Unit SME access to finance, DG Enterprise and Industry, EU Commission**
- **Emmanouil Schizas, Senior Economic Analyst, ACCA**
- **Gerhard Huemer, Director Economy Policy, UEAPME**

Alessandro Tappi

Head of Guarantees , Securitisation & Microfinance,
European Investment Fund

The European Investment Fund

Restarting the SME Credit Market in Europe

Brussels, 09 April 2013

A few key facts about us…

EUROPEAN INVESTMENT FUND

“We’ve supported over **1 Million SMEs** over **15 years**”

1994 founded and started providing **venture capital** to European businesses in 1997	**2000** Majority owned by the European Investment Bank (EIB)	**Shareholders** **62% EIB, 30% EC,** 24 public and private **financial institutions** holding the remaining 8%	**AAA-rated** We’re AAA-rated by all major rating agencies, with a **strong** capital base

Helping Financial Institutions to lend more…

EUROPEAN INVESTMENT FUND

“ ..by using our own **capital to credit enhance tranches** of SME loans or lease securitisation transactions placed on the capital markets ”

Guaranteeing
senior and/or mezzanine risk tranches

Stimulating
lending by letting Financial Institutions benefit from our credit quality and capital treatment

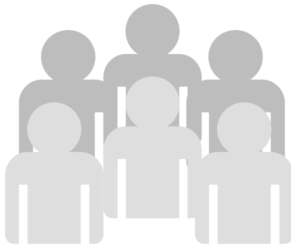
Focusing
on deals with SME portfolio exposures

Committed
EUR 2bn of credit enhancement transactions since the financial crisis in 2008

Optimising EC resources

EUROPEAN INVESTMENT FUND

"We manage programmes for the EC to deploy SME funding to **promote entrepreneurship and innovation** across Europe"



The **Competitiveness & Innovation** Programme (CIP SMEG)

- Available budget of over **EUR 600m**
- Committed budget of **EUR 420m** expected to mobilise **EUR 7bn**
- **53** transactions signed in **20** European countries

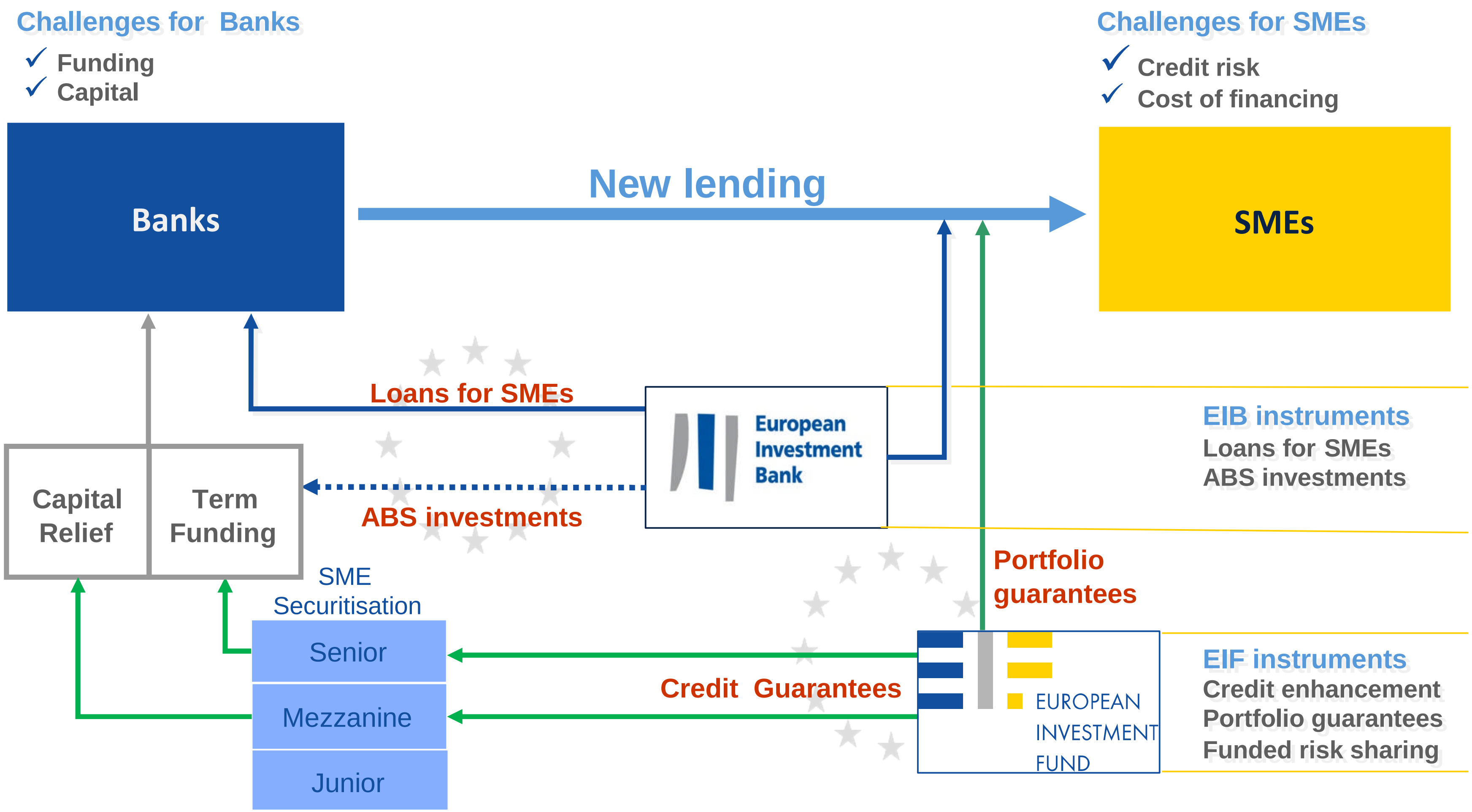
The **Risk-Sharing Instrument** (RSI)

- Pilot project launched in Dec-2011
- targeting **innovative** and **research-oriented** SMEs and small mid-caps
- Total loan volume expected to be generated: **EUR 2.5 bn**

Progress Microfinance

- **EUR 200m** provided by the EC and the EIB
- Supporting micro-enterprises and the social economy
- **More than 50%** committed at June 2012

EIB Group's support to SME Debt Finance



EIF Guarantees & Securitisation

EUROPEAN INVESTMENT FUND

"EIF as "deal facilitator" for SME-backed transactions

- Credit enhancer of mezzanine and senior tranches, either with **embedded** or **bilateral** guarantee
- **Unconditional, irrevocable** guarantee of timely payment of interest and ultimate repayment of principal
- Involvement at an early stage of the transaction, always with an independent due diligence role"

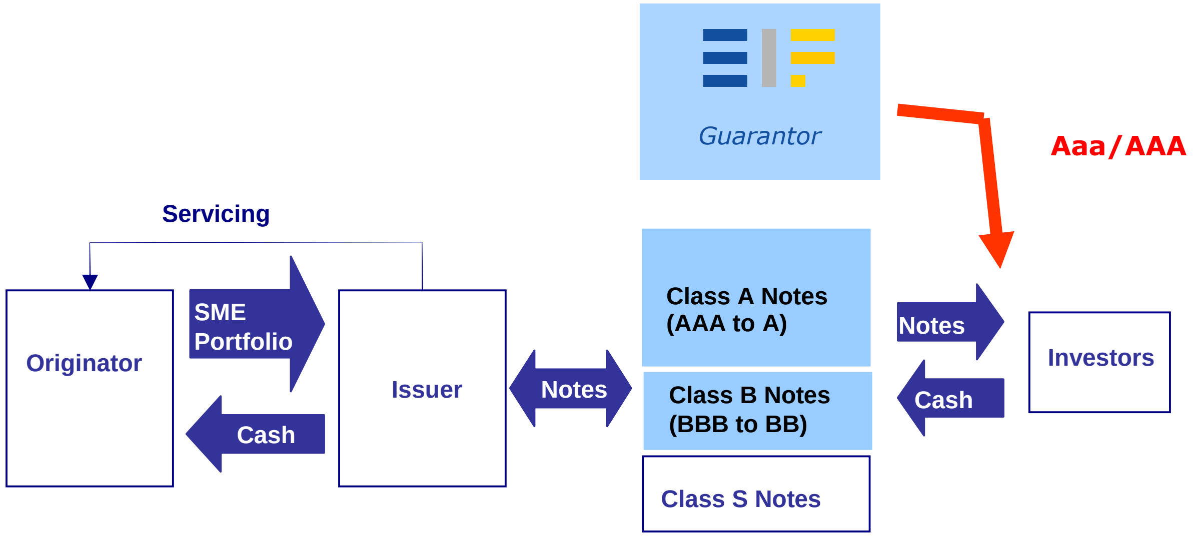
"Own Funds Portfolio (as of 31/12/2012)

- Outstanding commitment: EUR 2.6 bn
- Number of outstanding transactions: 56 deals

Transactions executed in 18 countries, including multi-country/multi-originator transactions"

EIF Credit Guarantee

EIF provides an unconditional and irrevocable guarantee on the Notes:
- timely payment of interest (at any payment date); and
- ultimate payment of principal (at maturity).

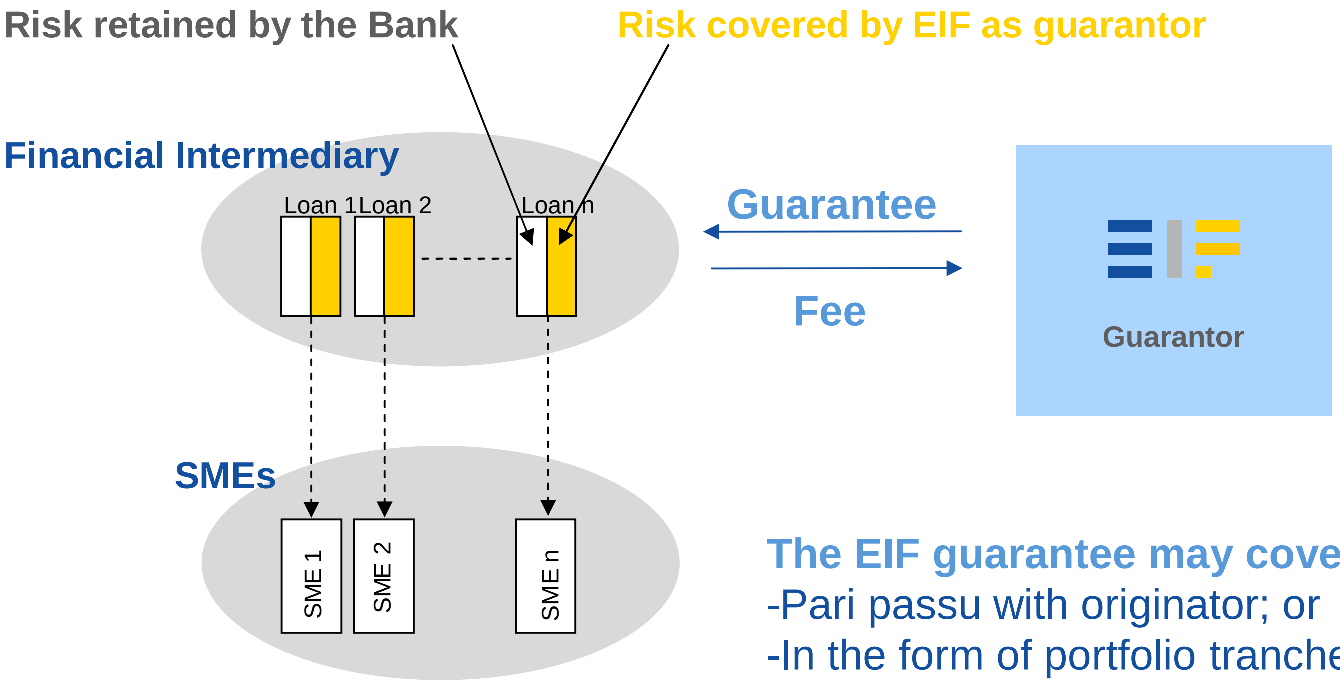


Notes guaranteed by EIF have **0% RWA** under CRD and Solvency II

EIF Portfolio Guarantee

EUROPEAN INVESTMENT FUND

EIF provides an unconditional and irrevocable guarantee on a loan portfolio:



The EIF guarantee may cover losses
-Pari passu with originator; or
-In the form of portfolio tranched cover

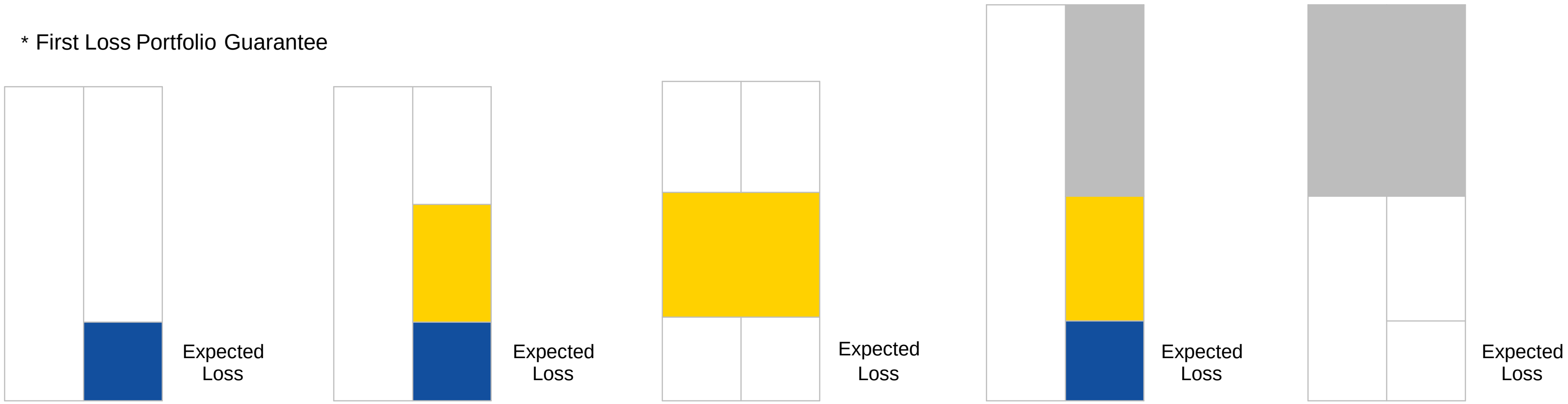
The EIF guarantee bears a **0% RWA** under CRD and Solvency II

Guarantee Instruments Development 2013 and beyond

Product		Portfolio Tranche	Form	Leverage
SME Guarantee Facility	Risk Transfer	First Loss	Direct guarantee Counter - guarantee	= 14
FLPG*		First Loss + Second Loss	Direct guarantee	= 5 to 7
Credit Enhancement		Second Loss (mezzanine)	Direct guarantee	= 6 to 8
RSI		Blended (uncapped)	Direct guarantee Counter-guarantee	= 5 (on EC FLPG)
ABS wrap	Funding	Senior	Direct guarantee	= 2 to 3

* First Loss Portfolio Guarantee

- Risk tolerance
- Deal rationale
- Financial Institutions
- Pricing
- Leverage
- Self-sustainability
- Target Beneficiaries



SME GF (First Loss) | **FLPG** (First + 2nd Loss) | **Credit Enhancement** (Second Loss) | **RSI** (uncapped/pari passu) | **ABS wrap** (Senior)

EIF catalytic impact

EUROPEAN
INVESTMENT
FUND

“Ex-ante assessment of the value added of the EIF guarantee
For each proposed operation, EIF measures the anticipated impact at market and transaction level, as well as the expected leverage / catalytic effect for the SME lending”

“Ex-post verification of the actual impact of the guarantee operation at final beneficiary level (SME)”

“EIF’s **own risk guarantees**
- supported more than **500,000** SMEs so far
- with cumulative guarantee commitments in excess of **EUR 8 bn**”

Richard Hopkin

Managing Director in the Securitisation Division, AFME

afme/
Finance for Europe

Association For Financial Markets in Europe

Re-starting the SME Credit Market in Europe: What role for securitisation and the capital markets?

9th April 2013

European Parliament, Brussels

European banks vs. rest of the world

Eurozone bank assets: €35tn

Eurozone GDP: €10tn

Value of world's gold stock : €7tn

US-Iraq war cost (2003-10): €2.7tn

Global hedge fund industry: €1.6tn

ESM: €0.5tn

Greek GDP: €0.2tn

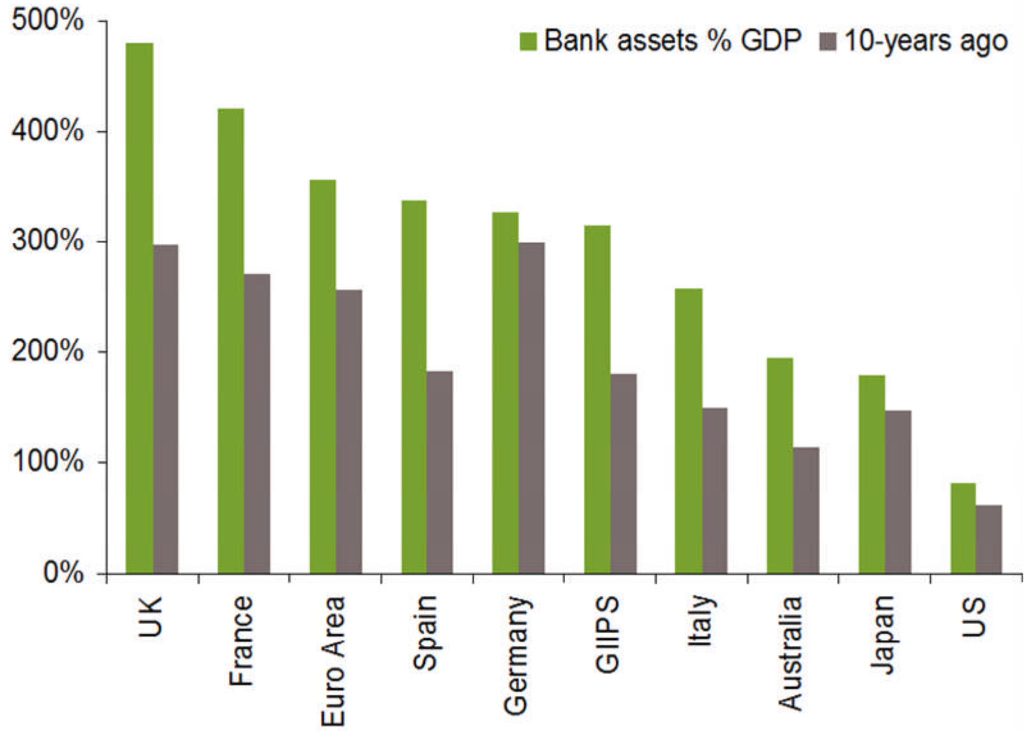
Finding Nemo revenue : €0.001tn

Source: RBS Credit Strategy, Bloomberg, Wikipedia

Deleveraging the banking system: €5.1tn needed

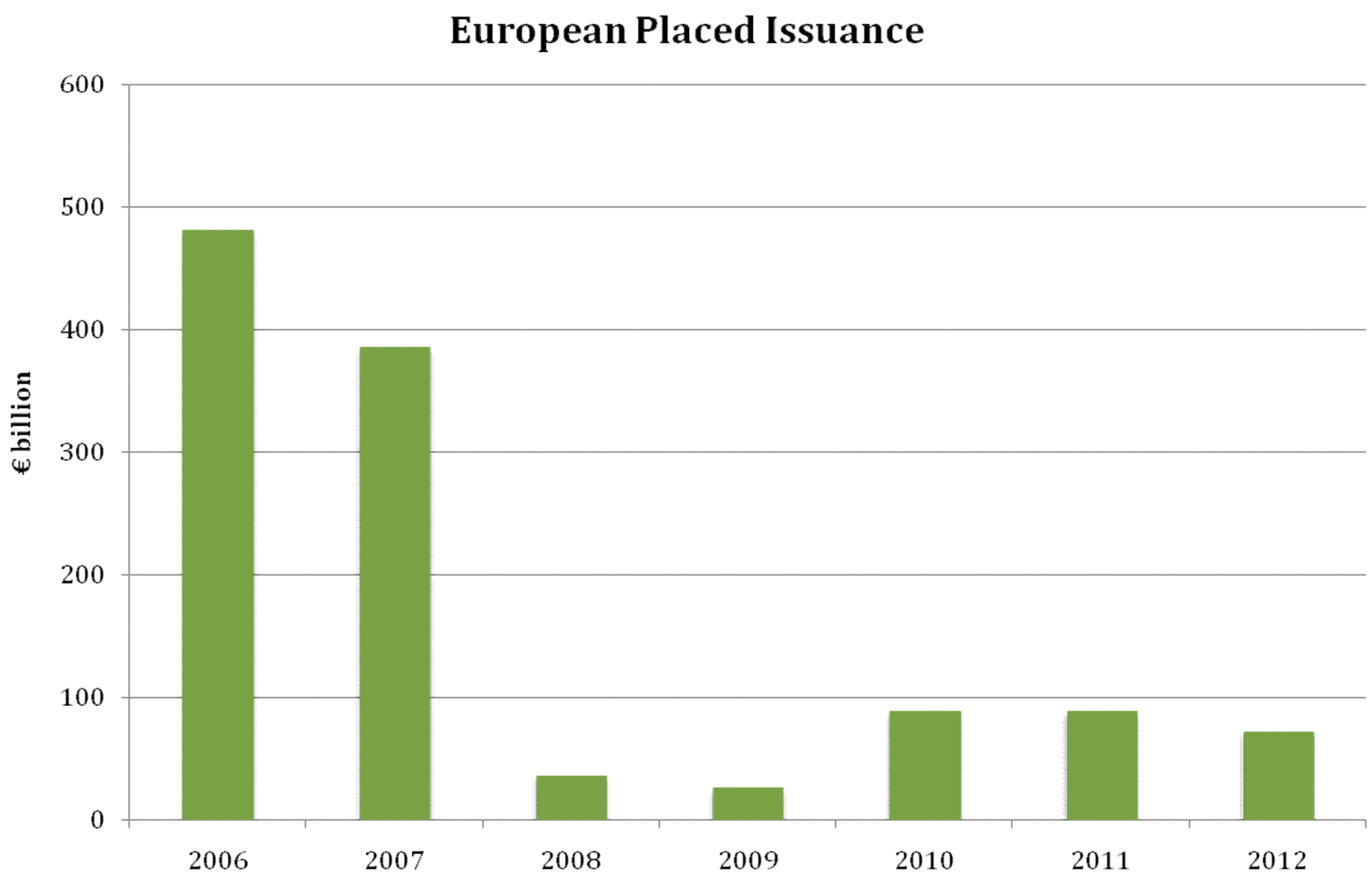
€5.1tn would get Europe to levels close to Australia or Japan, over the next 5 years

Total bank assets % GDP



Source: RBS Credit Strategy, ECB, IMF

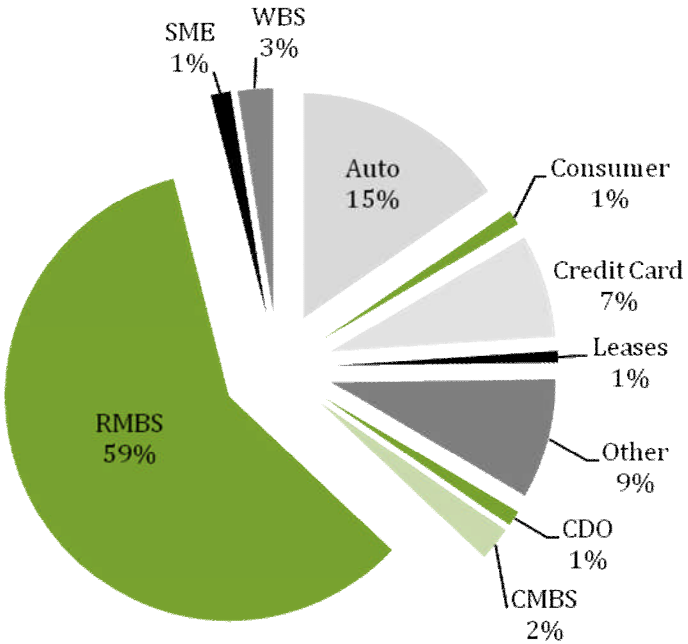
Securitisation Primary Issuance (Placed)

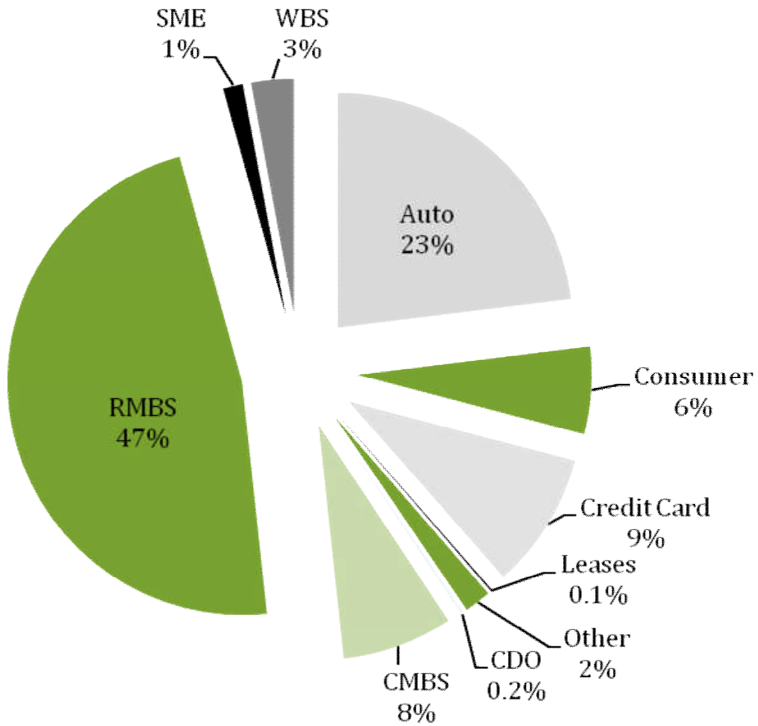


Sources: Bloomberg, Dealogic, Deutsche Bank, JP Morgan, Bank of America-Merrill Lynch, RBS, Thomson Reuters, UniCredit, AFME & SIFMA

Securitisation Placed Issuance by Collateral

2011	2012

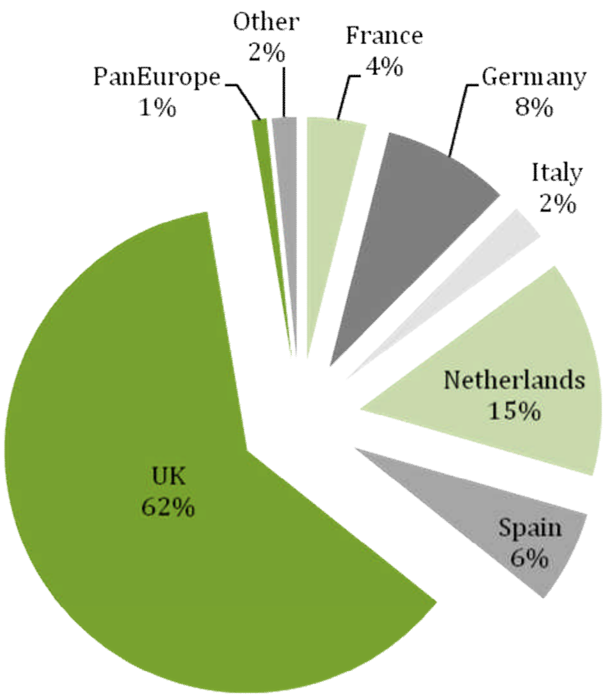


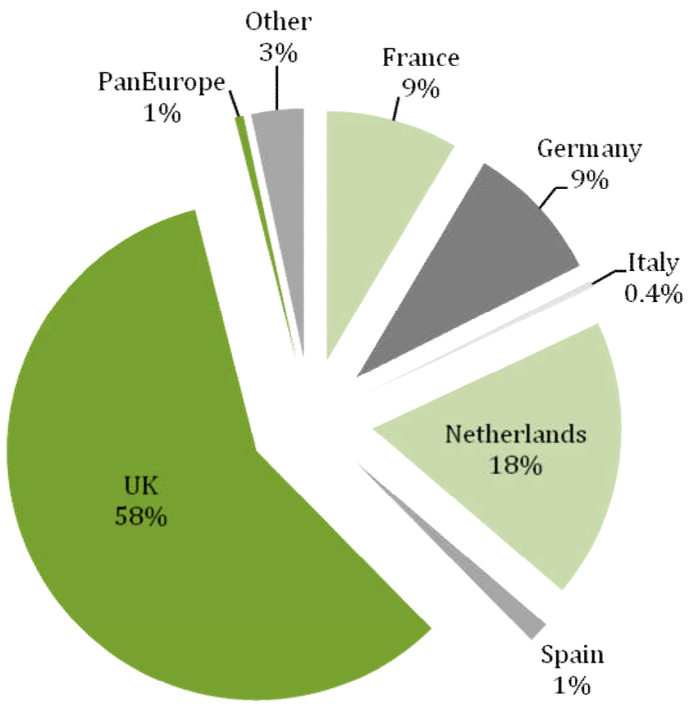


Sources: Bloomberg, Dealogic, Deutsche Bank, JP Morgan, Bank of America-Merrill Lynch, RBS, Thomson Reuters, UniCredit, AFME & SIFMA

Securitisation Placed Issuance by Country

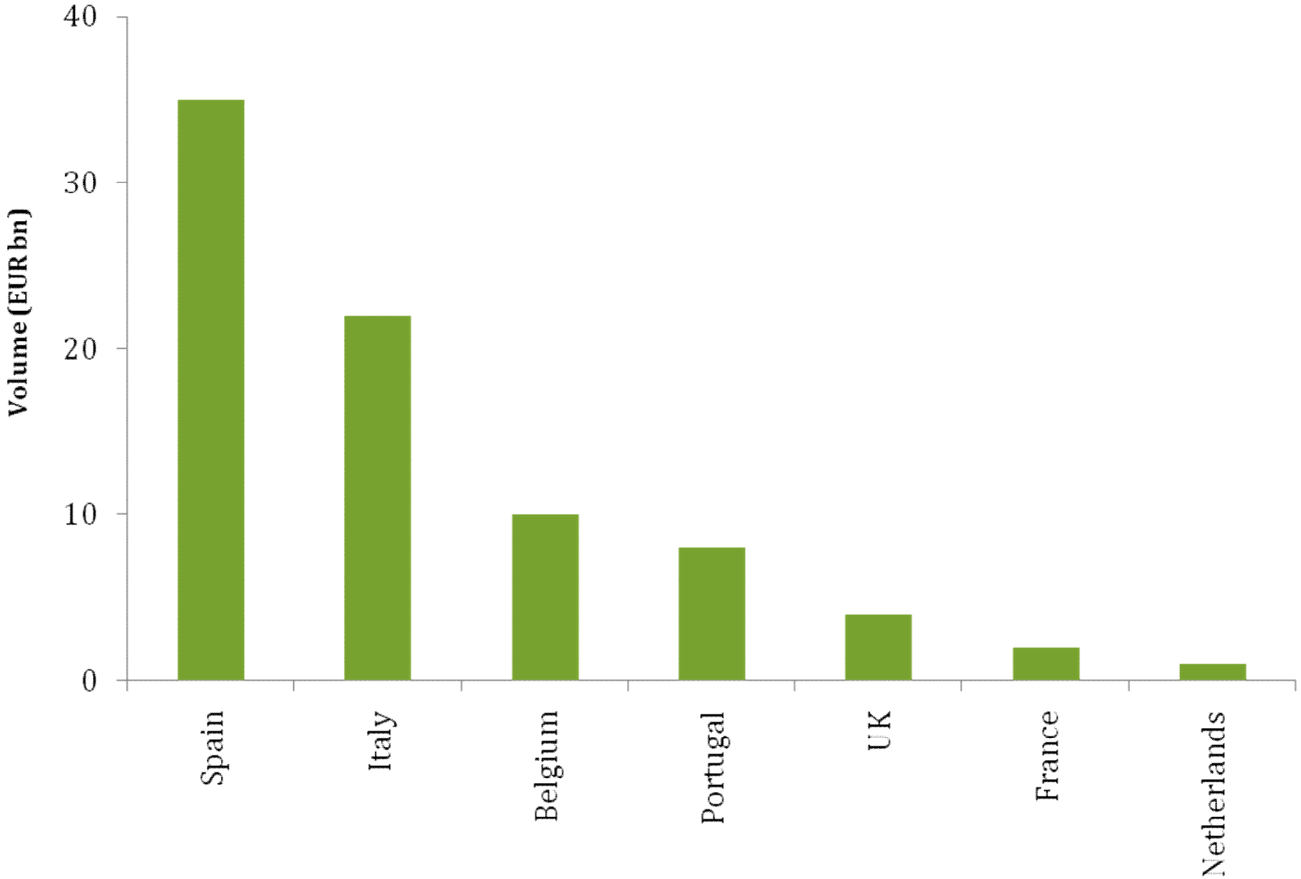
2011	2012





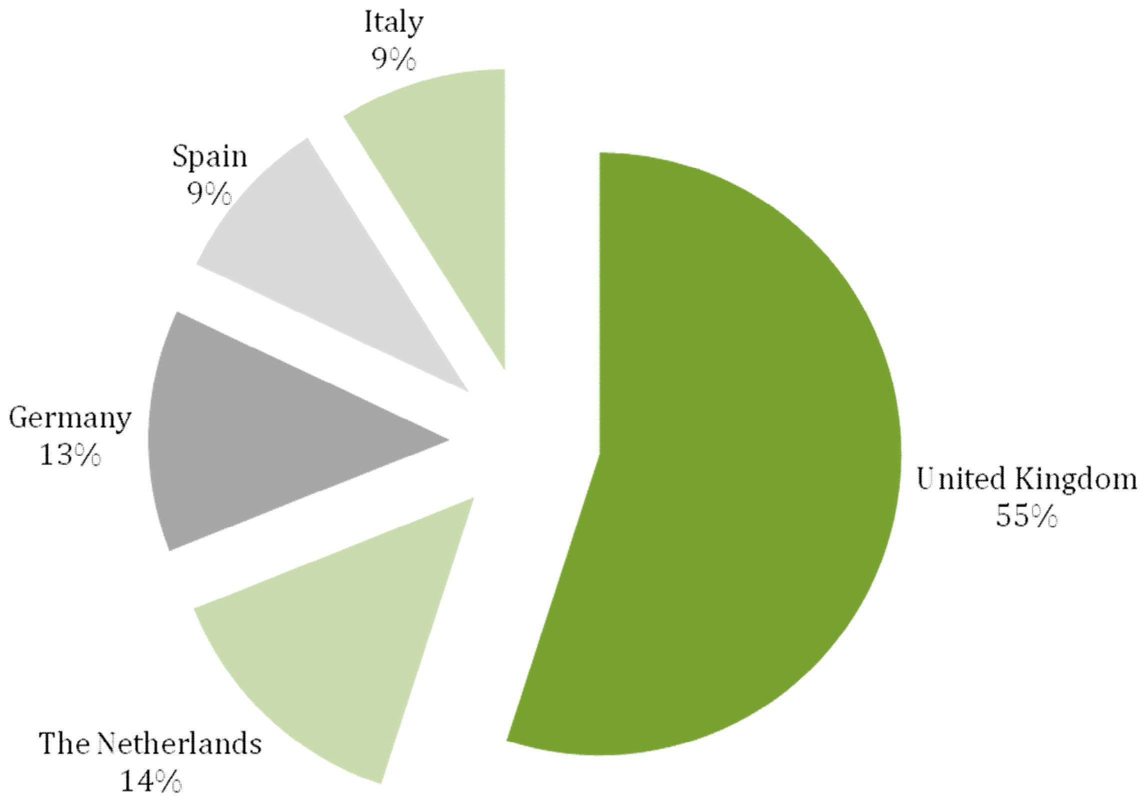
Sources: Bloomberg, Dealogic, Deutsche Bank, JP Morgan, Bank of America-Merrill Lynch, RBS, Thomson Reuters, UniCredit, AFME & SIFMA

2011 and 2012 SME issuance by jurisdiction (including retained transactions)



Source: Lloyds, ConceptABS

Placed SME securitisation by jurisdiction



Source: Lloyds, ConceptABS

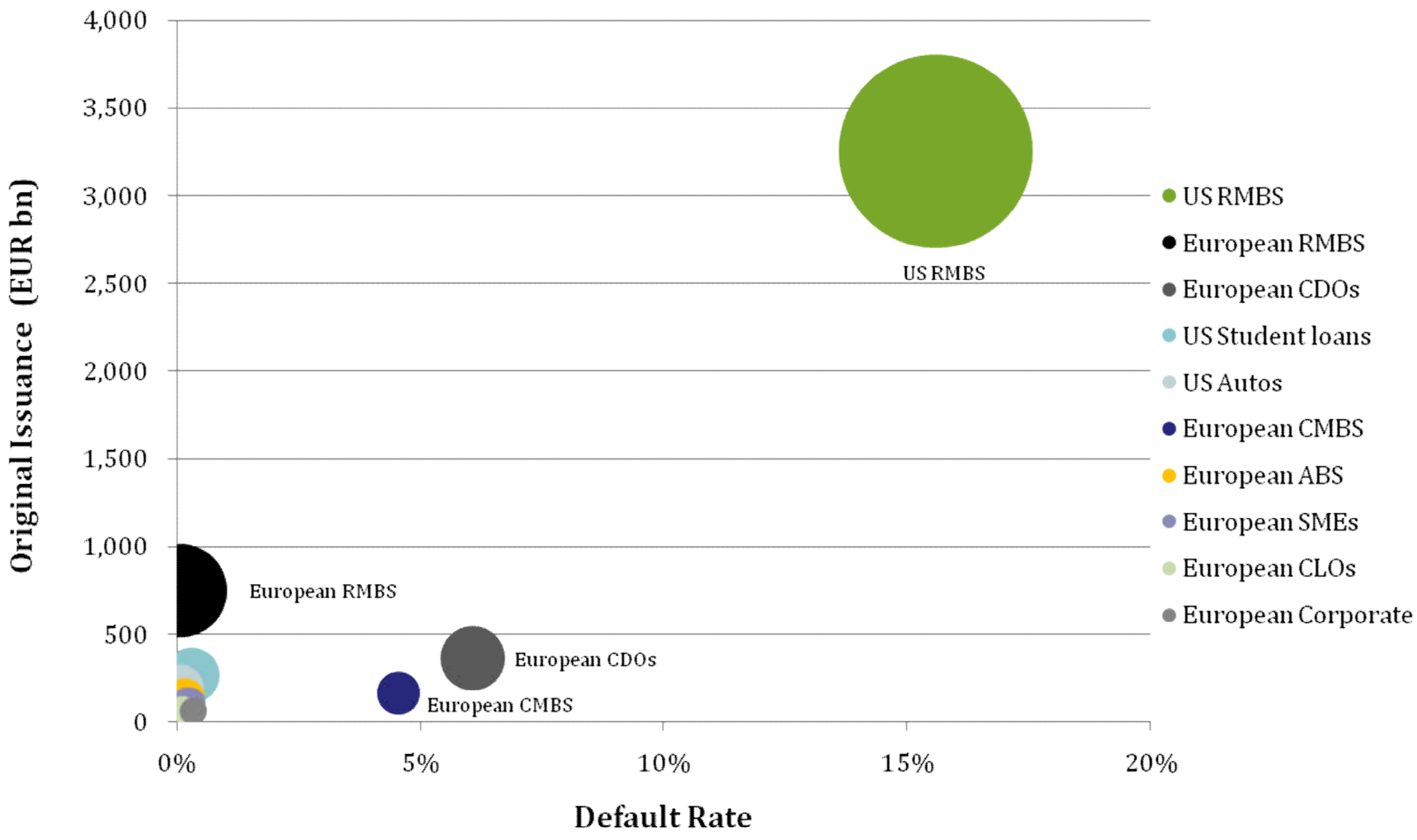
Historical Default Rates for Securitisation: Mid-2007 to End Q2 2012

	Original Issuance (EUR billion)	Default Rate (%)
Europe		
Total PCS eligible asset classes	**957.8**	**0.09**
Credit Cards	33.2	0.00
RMBS	753.0	0.07
Other consumer ABS	68.7	0.13
SMEs	103.0	0.23
Total Non-PCS eligible asset classes	**736.8**	**4.06**
Leveraged loan CLOs	71.3	0.10
Other ABS	71.0	0.16
Corporate Securitisations	67.7	0.33
Synthetic Corporate CDOs	255.1	2.30
CMBS	165.2	4.55
Other CDOs	77.8	6.10
CDOs of ABS	28.9	39.44
Total European securitisation issuances	**1,694.7**	**1.82**
Covered Bonds	**1,084.5**	**0.00**
Total European issuances	**2,779.2**	**1.11**
Select US asset classes		
Credit cards	295.4	0.00
Autos	198.2	0.04
Student loans	266.8	0.25
RMBS	3,255.0	15.58

Source: Standard & Poor's

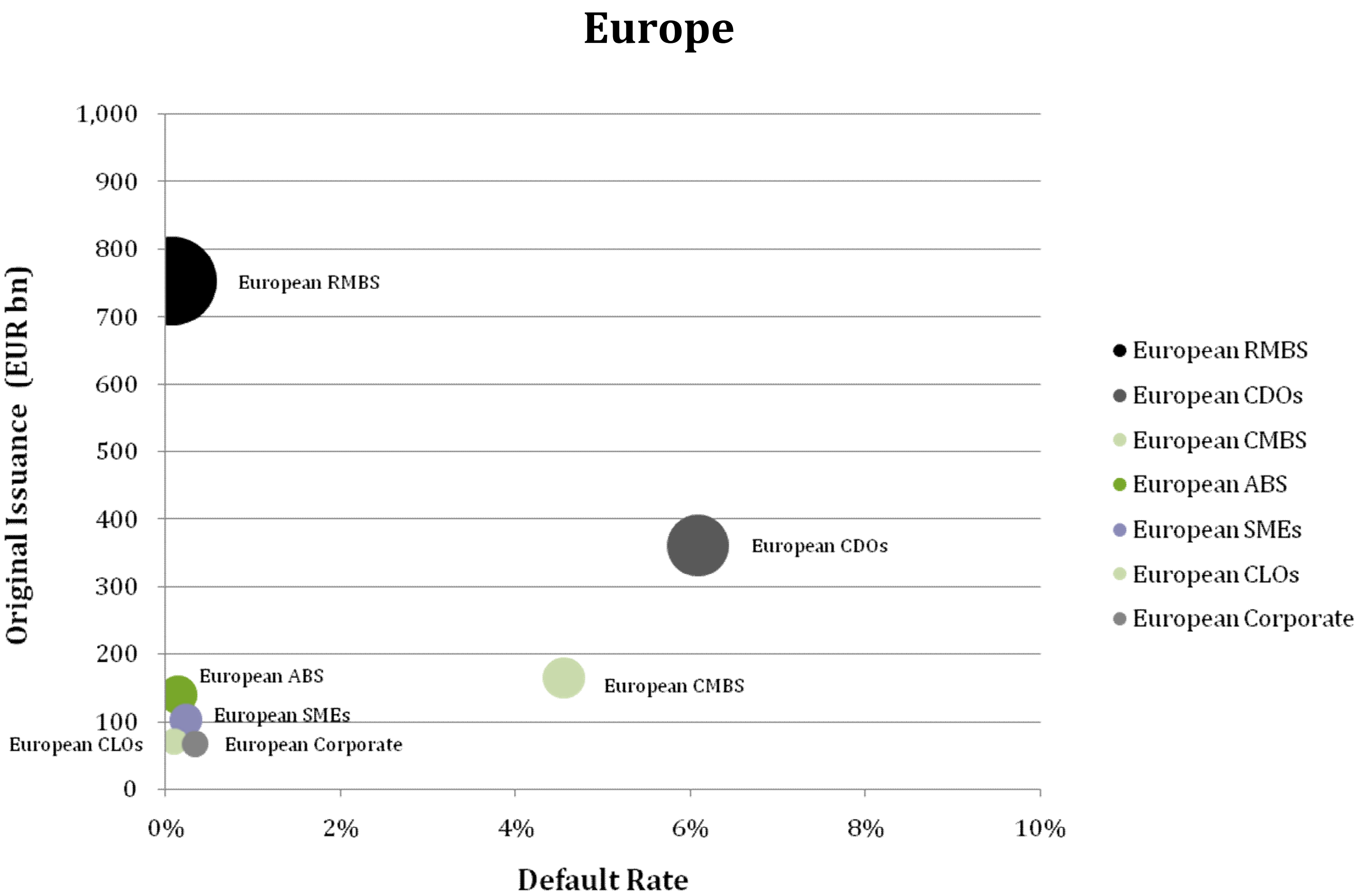
Historical Default Rates for Securitisation: Mid-2007 to End Q2 2012

Europe and US



Source: Standard & Poor's, AFME

Historical Default Rates for Securitisation:
Mid-2007 to End Q2 2012



Source: Standard & Poor's, AFME

afme/ ABLe: an agency for business lending

- Requested by UK Department of Business, Innovation and Skills

- Stemmed from the Breedon Report

- Participants drawn from many fields of expertise
  - business and industry
  - accountancy
  - the law
  - academia and management consultancy
  - investors
  - banks

afme/ Areas of focus

- Eligible SMEs
- "Patient" finance: 5 years plus
- Existing hurdles
- Investors' perspectives
- The impact on existing originators
- The role of government

afme/ The Agency for Business Lending

- A bridge to the capital markets

- Agnostic as to funding and risk transfer solutions
  - securitisation
  - covered bonds
  - sponsored funds, retail and investment
  - synthetic credit risk transfer
  - existing schemes

- Aligned with the Business Bank

- Leverage existing infrastructure

Delivering funding for growth with stability

- Tens of billions of Euros of funding is achievable, but this could be prevented by
- excessive capital requirements
- financial transaction tax
- encumbrance restrictions
- overlapping regulation
- negative stereotyping

afme/ Finance for Europe

Association For Financial Markets in Europe

The Association for Financial Markets in Europe advocates stable, competitive and sustainable European financial markets, which support economic growth and benefit society.

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Restarting the SME credit market in Europe:

What role for securitisation and the capital markets?

Vilmos Budavari

DG Enterprise and Industry

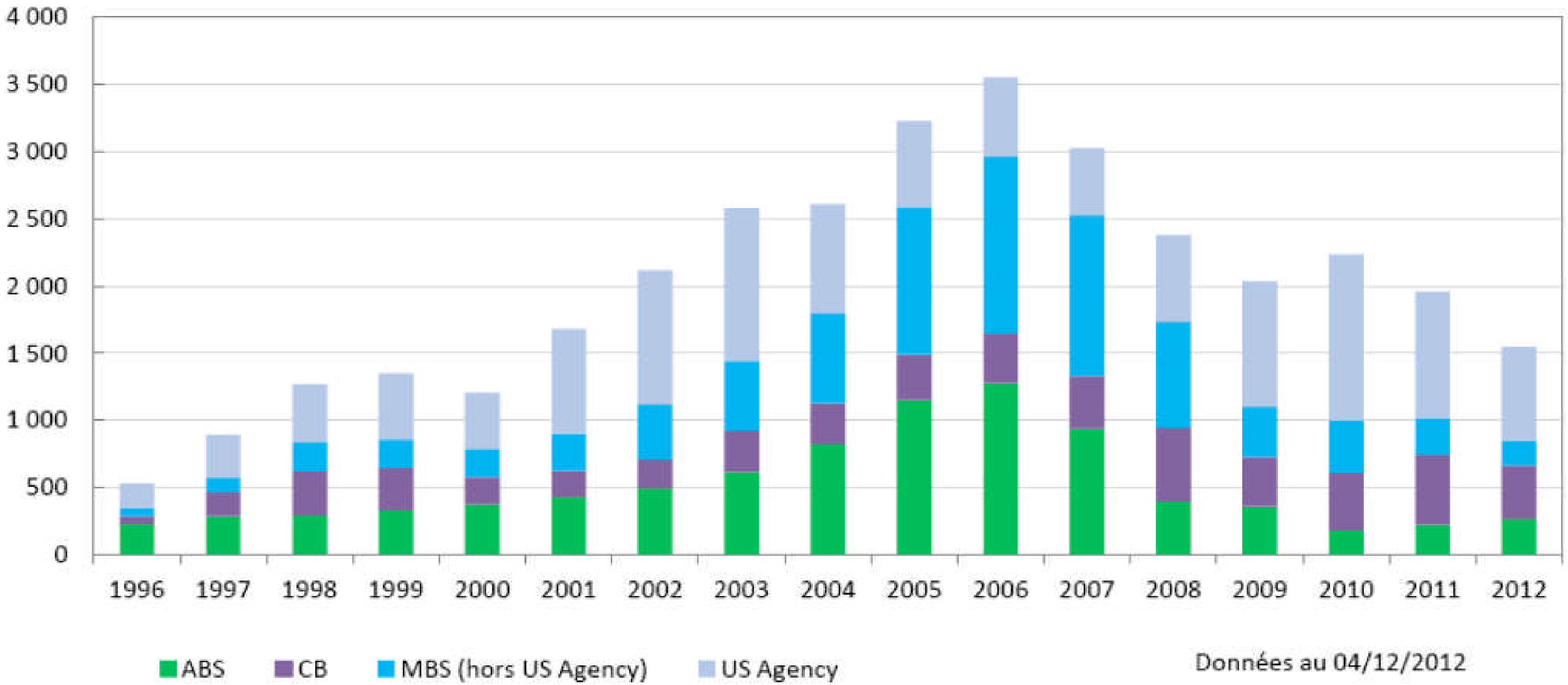
Unit D.3 Access to Finance

•I would like to thank Miguel de La Mano (DG MARKT) for providing much of the material on which this presentation relies

•The views expressed are my own and do not necessarily reflect those of DG ENTR or the European Commission. All errors are my own.

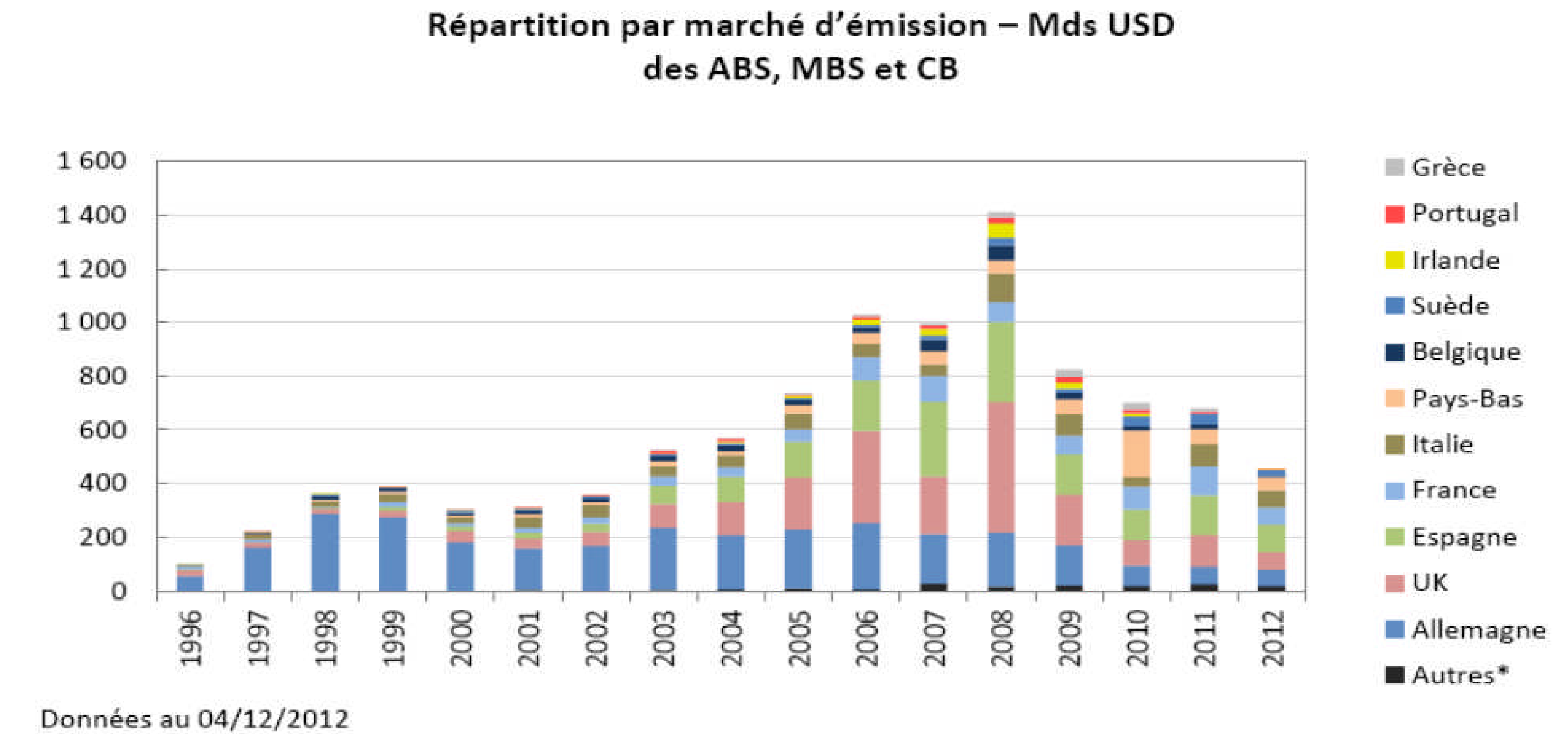
9 April 2013

Figure 1. Global yearly issuance by collateral - $ billion (Banque de France, Dealogic)



US Agency : Freddie Mac, Fannie Mae et Ginnie Mae

Figure 2. European yearly issuance by country and collateral, $ billion (Banque de Fran Dealogic)



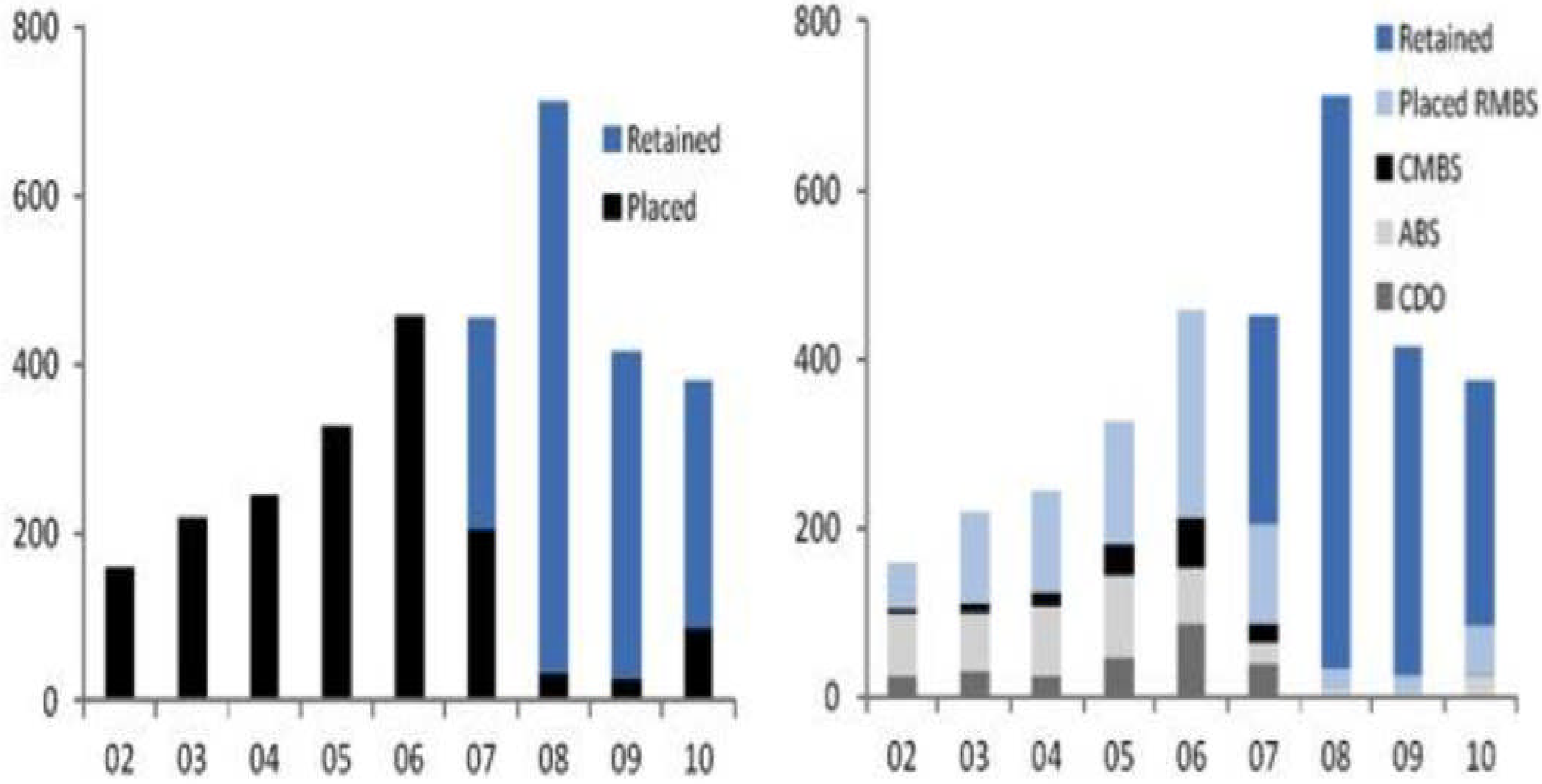
** Autres : Danemark, Autriche, Finlande, Hongrie, Chypre, Luxembourg, Rép. Tchèque, Slovénie, Bulgarie, Pologne, Lettonie*

Source : Dealogic

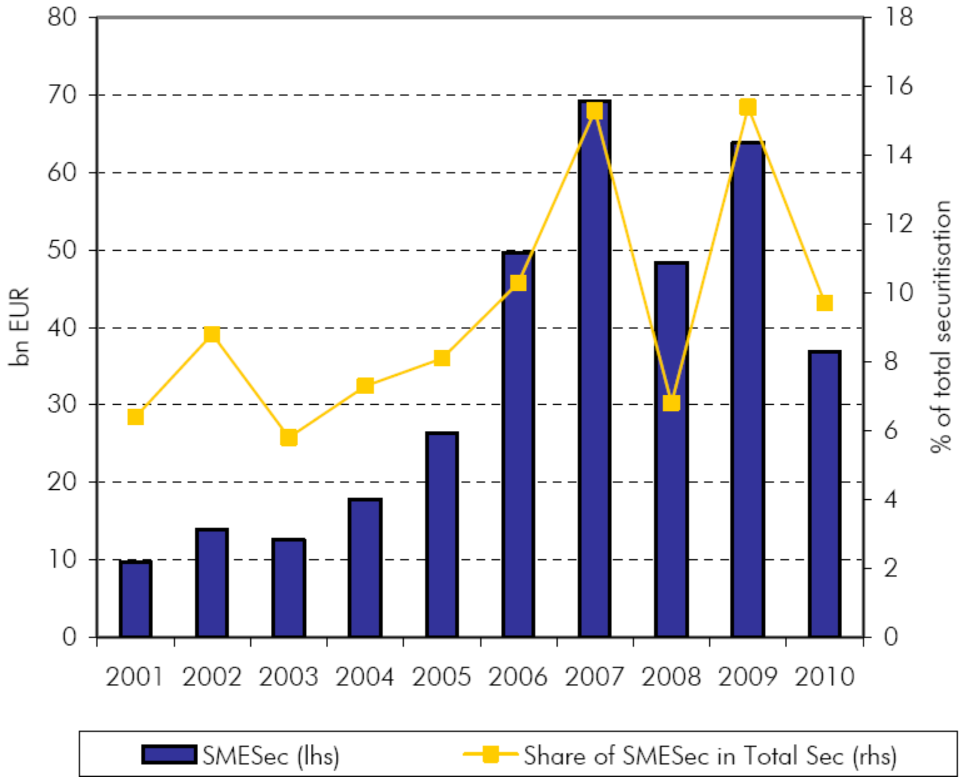
What happenned?
Strucural flaws of securitisation

- *Misalignment of incentives*
- *Lack of transparency and complexity*
- *Over-reliance on ratings*

Figure 4. European Securitisation Issuance 2002 – 2010 € billion (Source: OCDE, AFME)



Focus on the SME loan securitisation markets



Evolution of SME loan securitisation in Europe (Source: EIF)

European Commission

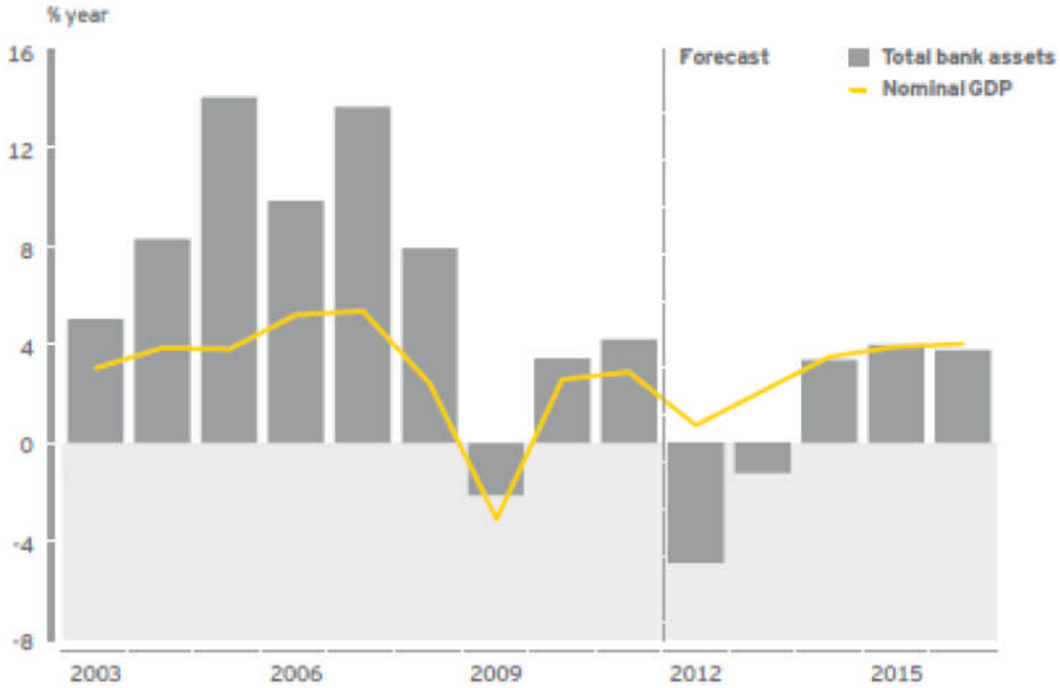
Figure 9. European structured-finance default rates (mid-2007 to Q4 2010)*
Source: OCDE, Standard & Poor's.

ABS	Structured Credit	CMBS	RMBS	**All European**		**All US structured finance***		**All Corporate****
0.16%	2.86%	2.74%	0.07%	**0.95%**		**7.71%**		**6.34%**

*by initial issuance volume ** by number of ratings

Collateral performance in Europe has remained strong in the past few years.

Bank deleveraging in Europe



Eurozone banking sector assets and GDP (AFME, Ernst & Young)

Measures addressing securitisation markets

- ***Risk retention measures***
  - Risk retention rate in CRD II
  - Basel III requirements for re-securitisations

- ***Transparency***
  - ABS loan-level initiative by the ECB
  - MIFID

- ***New regulations on credit rating agencies***

Challenges remain in the short term

On the demand side

- Loss of investor's confidence
- Uncertain economic environment

On the supply side

- Impact of regulatory reforms

Competition from covered bonds

What are the key factors for securitisation markets to recover?

- **Simplicity and transparency of structures**
- **Standardisation**
- **More placement of securitised products with investors**
- **Regulatory certainty**

Green Paper on the long-term financing of the European economy

- The European Commission's recently adopted Green Paper on the "Long-Term Financing of the European Economy" puts forward ideas for the relaunching of securitisation markets.
- Stakeholders' opinion is sought on these by 25 June 2013.

Emmanouil Schizas

Senior Economic Analyst, ACCA

ACCA

SME credit after CRDIV.

€650bn

Barclays' estimate of EU banks' deleveraging needs

5yrs

Big 4 estimate of how long it will take

€2tn

IMF estimate of EU banks' deleveraging needs

€646bn

EU SMEs' fixed capital investment needs in 2012

This is your bank on Basel.

Many channels of CRDIV feedback

- Higher costs of credit (spreads & fees)
- Tighter rationing of credit
- Leverage
- Change in business models

Figure 1. Historical development of the RWA/TA ratio of systemically important banks

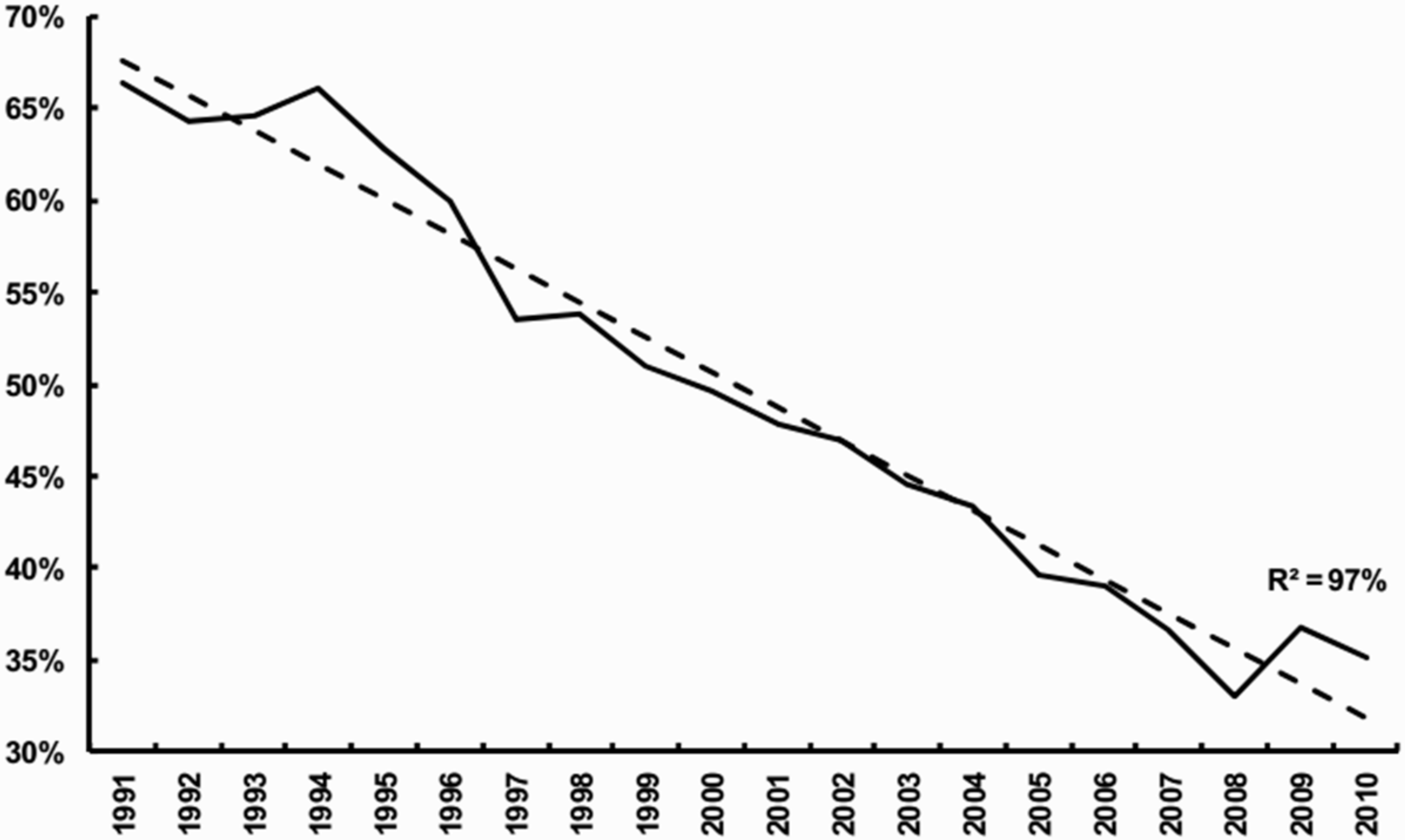


Table 1. Total loans to total assets: A historical perspective for selected banks (percentages)

	1990	1995	2000	2005	2007	2008	2009	2010
Deutsche Bank	85	73	53	17	11	15	21	27
UBS	78	61	26	15	18	21	27	22
BNP Paribas	77	73	37	28	31	28	36	38
Barclays	78	68	64	33	32	25	34	32
Bank of America	58	62	61	44	51	51	40	42

Goodbye SME loans, Hello SME credit?

The global body for professional accountants

£150m SME loan fund to shut to investors

By Mark Wembridge and Michael Stothard

A £150m fund intended to unlock finance for British small- and medium-sized enterprises struggling to obtain credit is to close to investors this week.

With thousands of small businesses squeezed by the dearth of bank funding, Palio Capital Partners hopes to provide an alternative with a fund providing a mix of senior debt, mezzanine debt and equity.

More

ON THIS STORY

SMEs Wealthy angels step into the lending breach

Capital markets Raising expectations

Breedon urges new routes to SME credit

Cable calls for RBS break-up to boost lending

Easing credit for mid-sized businesses

The scheme, targeting companies with an enterprise value of £10m-£100m, comes amid a withdrawal of lending to SMEs as regulation forces banks to shrink their loan books.

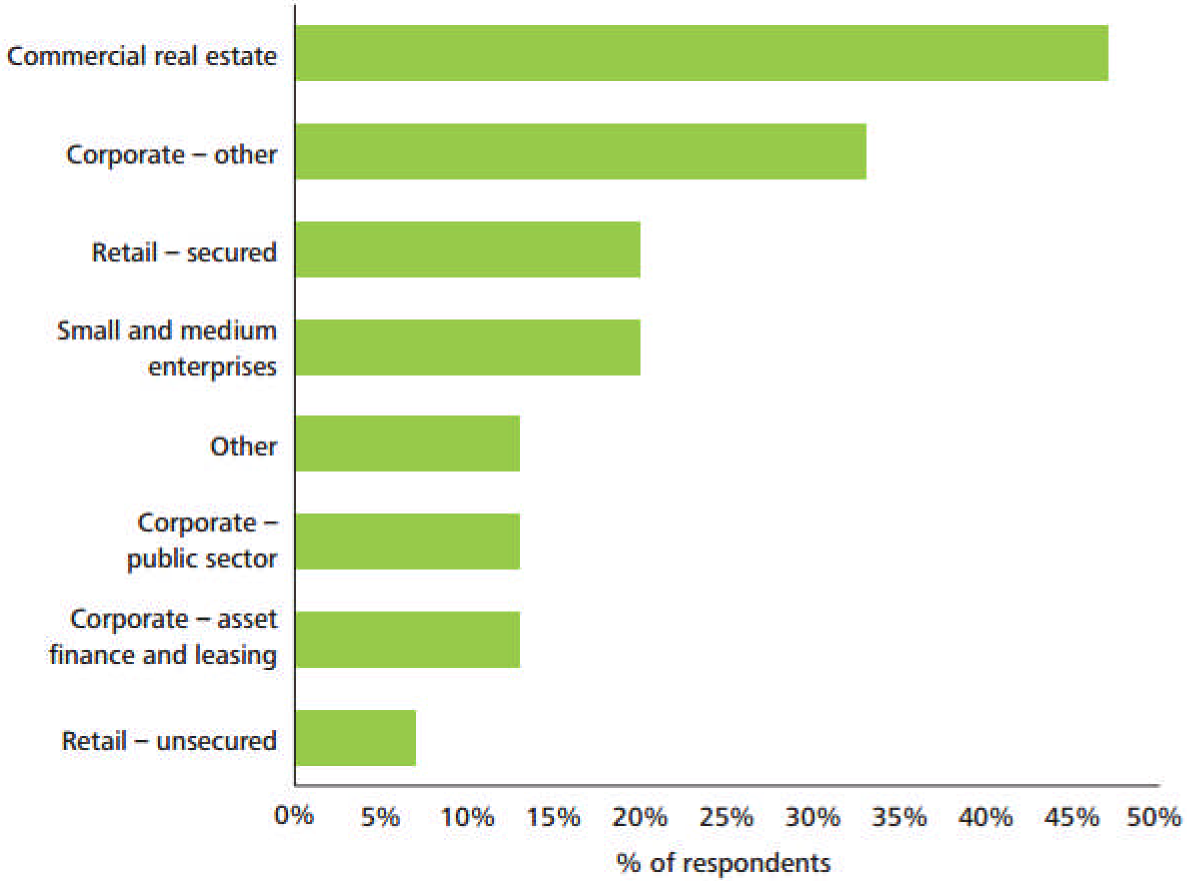
In March, a government report said the credit squeeze could lead to a funding shortfall for small British businesses of as much as £60bn by 2016.

Some 99.5 per cent of the 4.5m businesses in the UK are SMEs, according to government figures.

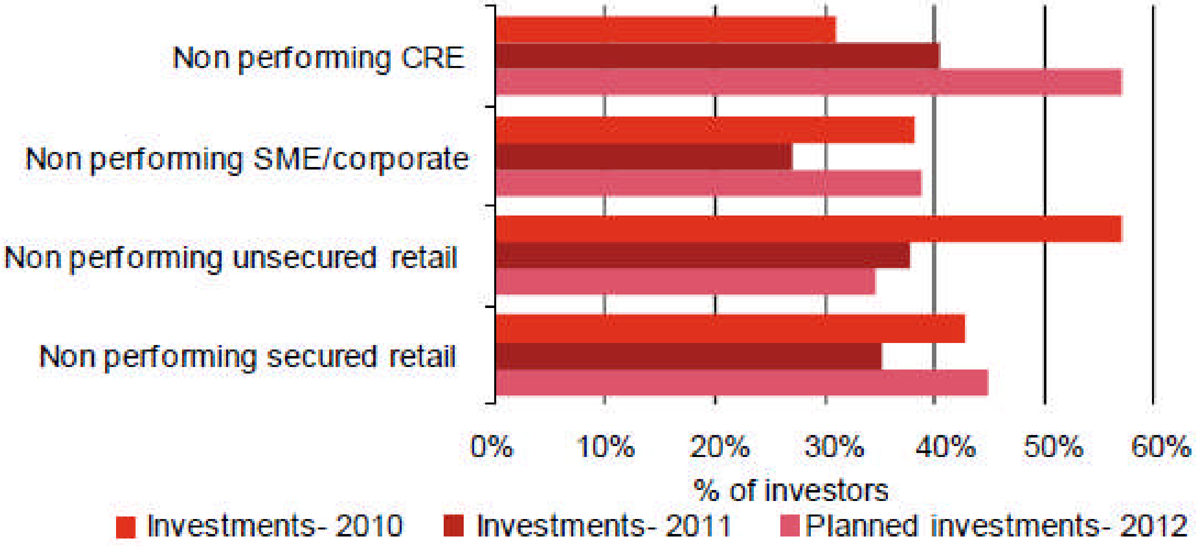
"What is shocking is the quality of the companies that have had capital withdrawn from them by the banks.

Figure 21. Loan types that will be most difficult to divest

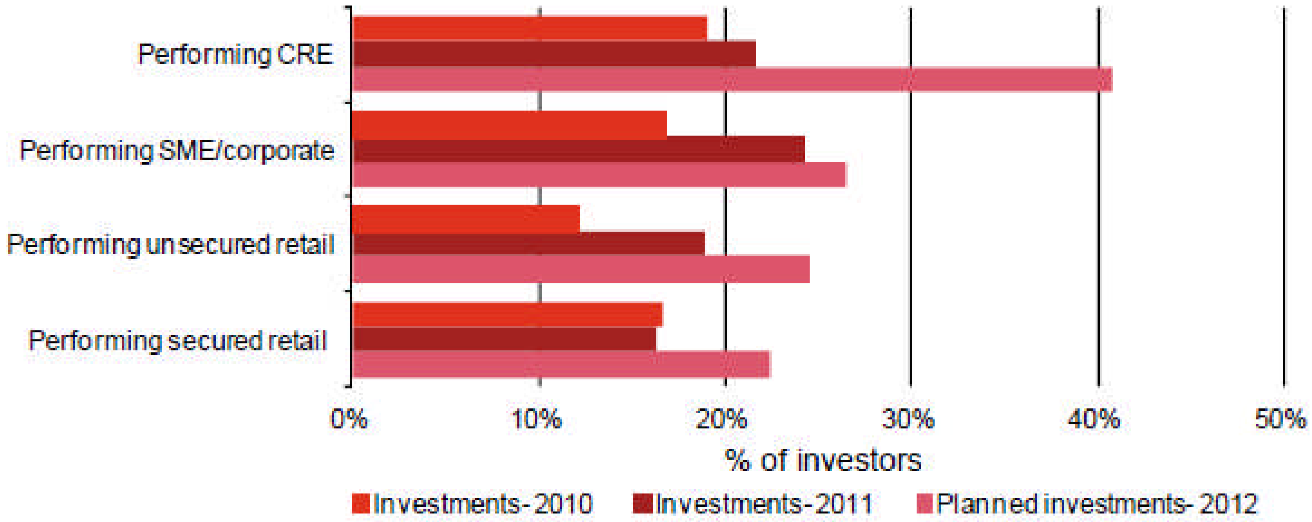
% of respondents who rated each of the following 4 or 5 (on a scale of 1-5, 5 = extremely difficult)



Investor activity in non performing loans



Investor activity in performing loans




FriendsClear
LA COMMUNAUTÉ DE PROJETS
ENTRE ENTREPRENEURS ET INVESTISSEURS
Se connecter
S'inscrire
INVESTISSEUR
FINANCER MON PROJET
COMMENT ÇA MARCHE ?
BLOG
CONTACT
AIDE
INVESTISSEUR
Donnez du sens à votre argent
Taux de rémunération
jusqu'à
4,50%
INVESTIR
A partir de 100€ / Capital garanti et
rémunération nominale annuelle minimum garantie de 1%
Taux nominal annuel maximum de 4,50% au 15/03/2012
Selon la performance du panier de projets sélectionnés
Sur 3 ans / Capital récupérable à tout moment
ENTREPRENEUR
Obtenez un financement à visage humain
Financer un projet de 3.000€ à 25.000€
Indiquer le montant
Calculer la mensualité
Mensualité du prêt €
Commission (unique) €
DEPOSER SON PROJET
Pour obtenir un prêt bancaire pro de 3.000€ à 25.000€
(sous réserve d'acceptation bancaire (1) et choix investisseurs)
Sur 3 ans (commission : 4% du montant emprunté) au 15/03/2012
TEG : 11,36%
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Tous les projets (12)

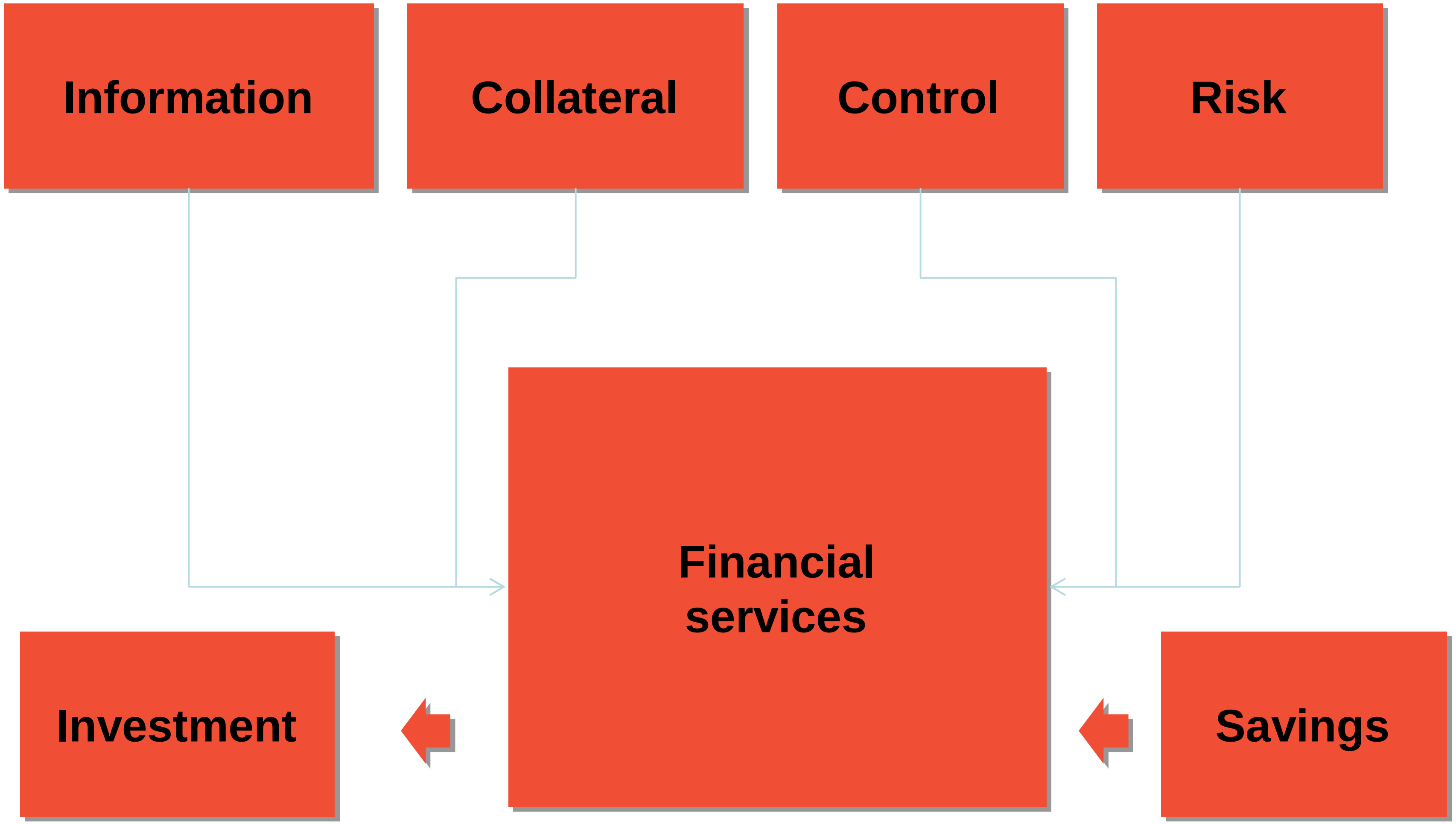
The US precedent

- By 2009, nearly 2/3 of lenders originating SBA-backed loans relied on the secondary market for exits
- Fed could act as ‘buyer of last resort’
- Securitised SBA guaranteed loans were not seen as substantially safer in aggregation

The US precedent

- Hard to standardise business risk profile and demographics in these securities
- Some credit-relevant information missing
- Undermined the $15bn SME loan securities programme under TALF

Innovation, arbitrage, or fraud?


Information
Collateral
Control
Risk
Financial services
Investment
Savings

Information

- Securitisation economises on
  - Capital costs
  - Information production costs
- Cutting corners is not an economy
- What if we got someone else to…

July 2010

On Monday, FT Alphaville reported on one significant consequence of the Dodd-Frank Act: rating agencies have had to ask their clients not to cite their opinions in prospectuses and registration statements.

The final version of the Dodd-Frank act amended an important provision of the Securities Act of 1933. That provision — Rule 436(g) — had essentially shielded rating agencies from so-called "expert liability".

But since Dodd-Frank contained a provision that rescinded that rule, the rating agencies have found themselves in an awkward position. All three of the major agencies — S&P, Moody's and Fitch — have issued statements that they are still working through the potential ramifications of the change.

And one market is already feeling the effects of the uncertainty, as RBS strategists Paul Jablansky and Brian Lancaster pointed out in a note on Tuesday (emphasis ours):

> **we believe that for the immediate future it will be difficult or impossible to bring new ABS, CMBS, and non-Agency MBS issues to the public market**; we also believe that, even with a longer-

July 2011

IFR-ABS: Bill reversing rating agency liability advances

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By Adam Tempkin
Wed Jul 20, 2011 1:39pm EDT

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by Adam Tempkin

NEW YORK, July 20 (IFR) - The House Financial Services Committee on Wednesday voted to approve legislation introduced by Representative Steve Stivers (R-Ohio) that would repeal a provision of the Dodd-Frank legislation from last year which made credit rating agencies liable for increased lawsuit exposure.

The Asset-Backed Market Stabilization Act of 2011 (H.R. 1539), introduced early this year, would restore Rule 436(g) of The Securities Act of 1933, which exempted rating agencies from "expert" liability when they issue credit ratings on asset-backed securities.

The Dodd-Frank Act had repealed 436(g) and the ABS market froze in the summer of 2010 until the SEC issued a temporary no-action letter effectively exempting the rating agencies from liability.

Related News

Obama open to shor -term debt fix if big deal agreed
Wed, Jul 20 2011

Fight looms over Obama pick for consumer agency

Thanks!

ACCA

Gerhard Huemer

Director Economy Policy, UEAPME

Q&As

Concluding remarks

Corien Wortmann-Kool, MEP

Cocktail reception