

Microfinance Department

FAQs - Long Term Financing Facility (LTFF) for Plant & Machinery (uploaded on March 26, 2008)

Q. 1 What is LTFF?

Ans. State Bank has introduced a new Long Term Financing Facility (LTFF) to facilitate export growth. Under the new scheme Participating Financial Institutions (PFIs) provide long-term financing of up to 10 years including a maximum grace period of 2 years, to their borrowers for import of machinery as well as purchase of locally manufactured machinery for setting up of export oriented projects. The SBP provide 70 percent refinance to the banks/DFIs on their disbursements under the new scheme. The borrower has the option to borrow for three different tenors, i.e., for up to 3 years, 5 years and 10 years, at financing rates of 8 percent, 9 percent, and 10 percent respectively. The financing rates for end users shall remain locked in for the entire period, once the facility has been disbursed by the banks/DFIs. However, PFIs have to keep the disbursements during a year in accordance with the limits sanctioned to them. Detailed instructions on the LTFF Scheme are available at http://www.sbp.org.pk/mfd/2007/Encl_C7.pdf

Q. 2 What is the eligibility criteria for availing financing facilities under the LTFF Scheme?

Ans. The facility is available to the export oriented projects whose annual export is equivalent to US \$5 million or at least 50% of their sales constituting exports whichever is lower.

Q. 3 Are SME borrower having less than US\$ 5 million exports eligible for financing under the LTFF Scheme?

Ans. Yes; provided his exports are equal to or more than 50% of the total sales.

Q. 4 Which type of industries / sectors / sub-sectors are covered under LTFF Scheme?

Ans. Financing faculties under the Scheme are available to the specified industries / sectors / sub-sectors as per list given in Schedule 1 of LTFF.

Q. 5 Can all banks/DFIs participate in the LTFF Scheme?

Ans. Under the Scheme commercial banks including Islamic Banks and DFIs approved as Participating Financial Institutions (PFIs) can provide financing. List of approved PFIs is placed at our website i.e. <http://www.sbp.org.pk/incentives/ltf-eop/list-PFIs-LTFF-22-Mar-08.pdf>. Islamic Banks will be eligible for offering LTFF subject to availability of Shariah compliant compatible product under the facility duly approved by the bank's and SBP's Shariah Advisor and cleared by SBP's Shariah Board.

Q. 6 Are cost on constructions of factory premises and cost of insurance, transit insurance, erection and commissioning charges and other import incidentals eligible for refinancing under LTFF scheme?

Ans. No.

Q. 7 Upto what extent financing facility is available against imported / locally manufactured machinery?

Ans. Financing under the facility is available to the extent of the C&F value of the imported new plant and machinery and/ or ex-factory/showroom price of the new locally manufactured machinery to be purchased by the eligible borrowers.

Q. 8 Is financing under the Scheme available for generators or captive power plants?

Ans. No.

Q. 9 Are financing facilities under the LTFF available for import/purchase of used /second hand plant & machinery?

Ans. No.

Q. 10 Can a SME borrower purchase plant & machinery from commercial importers or dealers?

Ans. Export oriented SME borrowers (as defined in Prudential Regulations for SMEs), may purchase imported machinery from the commercial importers or authorized dealers of the foreign manufacturers in Pakistan and/or authorized suppliers in the case of locally manufactured machinery and plant.

Q. 11 What LCs are eligible for financing?

Ans. All LCs (sight as also usance) established on or after 1st January 2008 are eligible for financing under the Facility provided machinery items are required for the industries as mentioned in the Schedule -1 of the Scheme.

Q. 12 Are LCs retired through running/short term finance/own sources on temporary basis and eventually financed by long term finance eligible for financing under LTFF Scheme?

Ans: Normally the financing facility under the Scheme is not available against the LCs retired through running / short term finance. However, in case of non-availability of limits or in order to fulfill certain terms and conditions of the Scheme / lending policies of concerned PFIs, banks/DFIs can retire the LCs through short term finances and subsequently convert the same to long term finance for availing the re-financing facility under LTFF Scheme. However, such developments should clearly be mentioned in the terms and conditions of the sanction letter of concerned PFI. SBP will not provide refinance from the retrospective date and such transactions have been accommodated under the LTFF Scheme to ensure business continuity and ease of decision making process by the business community and the banks/DFIs.

Q. 13 Are LCs established prior on or before December 31, 2007 (i.e. prior to the effective date of LTFF Scheme) for import / procurement of new plant & machinery but retired after January 1, 2008 also qualify for financing under LTFF Scheme?

Ans. No.

Q. 14 How PFIs will sanction the finance?

Ans. Financing PFIs shall undertake due diligence process as per their lending policies before sanction of the loan to protect their interests subject to the respective Prudential Regulations prescribed by the SBP for each type of borrower. They shall not take more than two months in evaluating an application for financing under the Facility from the date of receipt of complete information from the borrower.

Q. 15 How PFIs should secure their interest for providing financing facilities under the Scheme?

Ans. Each financing PFI should undertake necessary risk assessment measures before sanction / disbursement of loans under the Scheme. Few risk assessment measures at Para 6 have also been defined in the Scheme for the guidance of financing PFIs.

Q. 16 What are the debt equity ratio under LTFF Scheme?

Ans. PFIs can consider financing based on the debt to equity requirements as prescribed in applicable Prudential Regulations for each type of the borrower. The financing PFI may, however, ask for higher contribution of equity from the borrowers keeping in view individual risk profile. In case of new projects, sponsor will be required to contribute their equity share in an escrow account maintained with financing PFI.

Q. 17 What is the maximum limit for financing under the Scheme?

Ans. There is no maximum limit for financing to the prospective entrepreneurs under this Scheme. However, in case of larger financing requirements, i.e. over Rs 300 million, PFIs are suggested to provide finance under consortium arrangements to diversify risk.

Q. 18 What parameters should be adhered to by the PFIs for disbursing the loan under the Facility in the case of locally purchase of machinery?

Ans. Financing PFIs may not disburse the loan amount directly to the borrower; instead payments shall be made to the manufacturers / suppliers of plant & machinery through retirement of inland LCs, as per payment/delivery schedule agreed to between the manufacturer/supplier and the purchaser/importer.

Q. 19 As DFI cannot open the import LC, how it will make payment to foreign seller of the imported plant & machinery?

Ans: In case the financing PFI is a DFI, the payment to the foreign seller of the machinery shall be made by the commercial bank who have opened LC against the letter of comfort issued by said DFI for the purpose. The bank shall be reimbursed by the DFI before submitting request to SBP for refinance under the Scheme when limit has been provided to DFI. The LC opening bank shall place a letter of comfort from DFI, in original, in its record for verification by SBP inspection team. Likewise DFI shall also keep record of all correspondence exchanged with the LC opening bank for record / verification.

Q. 20 Is down payment allowed under the Scheme?

Ans: If the term of the contract between the borrower and supplier/manufacturer require a down payment, importer/purchaser can make advance payment to the extent of 20% of the C&F value/ex-factory show room price of the machinery. Where the exporter of the machinery abroad

ask for higher down payment, the borrower / DFI can also make such payments. However, in such cases the amount of refinance shall limited to 20% only.

Q. 21 How limits will be assigned to each PFI?

Ans. The limit shall be assigned to each PFI on the basis of a criteria linked to the performance of the PFI as an entity, as assessed by our Banking Inspection and Offsite Surveillance and Enforcement Departments of SBP, its equity, appetite for the long term financing as also performance of its borrowers to whom the facilities on long term basis have already been provided.

Q. 22 How are lending rates (service charges) under LTFF Scheme worked out?

Ans. Rates of service charges have been benchmarked with the weighted average yields of 3, 5 & 10 years PIBs depending upon the period of financing. However, current rates are as under:

Period of financing	Rate of Refinance	PFI Spread	End User's rate
Upto 3 years	6.50%	1.50%	8.00%
Over 3 years and upto 5 years	6.50%	2.50%	9.00%
Over 5 years and upto 10 years	7.00%	3.00%	10.00%

- Rates of Markup/ Service Charges will be revised on annual basis effective from July each year.
- Funds provided by the PFIs from their own resources shall also attract the same rates. However, the borrowers will be required to assume the cost of hedging interest rate risk on this portion of loan, which shall not be more than the cost of hedging the interest rate risk.

Q. 23 Can PFIs offer Cross Currency Swap to the borrowers, to hedge interest rate risk on the portion financed through their own sources under the Scheme?

Ans. There is no general relaxation at present. The Domestic Markets & Monetary Management Department may be approached for approval on transactional basis.

Q. 24 How PFIs will retire the refinance?

A. When a borrower shall repay the loan amount or its installment, in part or in full the PFIs shall adjust the loan amount on prorata basis keeping in view the share of financing made by them through their own sources and refinance availed from SBP. PFIs shall repay the SBP's share within two working days to the concerned office of SBP-BSC. The PFIs shall be liable to repay the refinance availed from SBP-BSC, even in case the borrowers fail to make repayment as per schedule.

Q. 25 What is repayments procedure of the facility?

Ans. Repayment of loan is made in equal half yearly or quarterly installments. Mark up / service charges are paid on quarterly basis.

Q. 26 Is there any prepayment penalty under LTFF Scheme?

Ans. There will be no prepayment penalty on the portion of refinance availed from SBP. However, financing provided by the PFIs from their own sources will be subject to prepayment penalty, which shall not be more than the cost of hedging the interest rate risk by the PFI.

Q. 27 Is debt swap facility available under the LTFF Scheme?

Ans: No.

Q. 28 What documents are required for availing refinance under LTFF?

Ans: Following minimum documents are required for availing refinance:-

- (a) Refinance Application,
- (b) DP Note of the PFI covering the full value of the limit; [to be submitted only once to the office of the SBP-BSC to the extent of the amount sanctioned to each office],
- (c) DP Note of the borrower of the PFI duly endorsed in favour of the concerned office of SBP BSC,
- (d) Repayment Agreement; and
- (e) Undertaking of the borrower on the formats attached to this circular.

Q. 29 Are financing under LTFF Scheme subject to SBP's Inspection?

Ans. The financing facilities under the Scheme shall be checked/verified by Banking Inspection Department (BID) during inspection of the banks/DFIs to ensure that the same have been allowed as per the terms and conditions of the Scheme. Further, SBP have the right to appoint an independent consultant to verify the use of the refinance under the Scheme for the purposes spelt out under the Facility. In case the reports of BID / consultant points out irregularity on the part of the financing PFI or the borrower, SBP reserves the right to recover the amount of refinance granted to the PFI with fine at the prescribed rates.

Q. 30 At what rates fine(s) may be imposed under the LTFF Scheme in case of non fulfillment of the provisions of the Scheme by PFIs?

Ans. Presently the rate of fine on account of non-fulfillment of the terms and conditions of the Scheme is Paisa 60 per day per Rs. 1,000 or part thereof

Q. 31 Does the limits for current financial year comprise of both 70% refinancing to be provided by SBP and 30% of banks own participation?

Ans. The PFIs can claim refinance to the extent of 70% of the facility against 100% disbursements made to its borrowers under the LTFF Scheme. Hence, against a limit of Rs 70 million a PFI shall disburse Rs 100 million or more under LTFF Scheme.

Q. 32 Whether the borrowers will require to submit two DP notes to the PFIs; one for 30% and the other for 70%?

Ans. In an individual case the borrower will submit two separate DP notes; one for 30% and the other for 70% of loan amount. PFI will endorse the DP note of 70% to SBP for claiming refinance under the Scheme.