FAQs - Long Term Financing Facility (LTFF) for Plant & Machinery

(Updated in April, 2016)

Q. 1 What is LTFF?

Ans. State Bank has introduced Long Term Financing Facility (LTFF) to facilitate export growth. Under **LTFF,** 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 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 **6 percent per annum**. 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. Further detail of SBP's LTFF is available at SBP's Website [link: http://www.sbp.org.pk/incentives/ltf-eop/ltci.htm]

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

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?

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?

Ans. Only new plant, machinery & equipments to be used by the export oriented projects in following sectors for producing exportable goods shall be eligible for financing under the Facility:

> Textile & Garments (viz. Spinning & Ginning, Fabrics, Garments, Made up, Towels & Art silk & synthetic textiles); Rice Processing; Leather & Leather products; Sports goods; Carpets & Wools; Surgical Instruments; Fisheries; Poultry & Meat; Fruits/Vegetable & Processing, Cereals; I.T.– Software & Services; Marble & Granite; Gems & Jewellery; Engineering goods; Ethanol; Furniture and Pharmaceutical; Regeneration of Textile Waste; Glass; Dairy; & Soda Ash.

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

Ans. Under the LTFF commercial banks and DFIs approved as Participating Financial Institutions (PFIs) can provide financing. List of approved PFIs is available at SBP's website [link: http://www.sbp.org.pk/incentives/ltf-eop/ltci.htm]. Islamic Banks will be eligible for offering LTFF subject to availability of Shariah compliant compatible product under the facility duly approved by the banks' 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?

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 LTFF available for generators or captive power plants?

Ans. Yes, financing for import of generators / captive power plants, used in the eligible sectors / sub-sectors of LTFF, is also admissible under the Facility.

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 LTFF.

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?

Ans: Normally the financing facility under the LTFF 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 SBP's LTFF / 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. 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 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) for import / procurement of new plant & machinery but retired after January 1, 2008 also qualify for financing under LTFF?

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 LTFF?

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

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

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 LTFF?

Ans. Maximum borrowing limit for a single export oriented unit is Rs 1.5 billion under LTFF. Further, 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 LTFF 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 LTFF?

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 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 for Banks	PFI Spread	Mark up Rate for Borrowers
Upto 3 years	4.50%	1.50 %	6.00% *
Over 3 years and upto 5 years	3.50%	2.50 %	
Over 5 years and upto 10 years	3.00%	3.00 %	

* Mark up rates for the borrowers of Textile Sector is 5% p.a. w.e.f. 02-11-2015

Rates of Markup/ Service Charges will be revised on annual basis effective from July each year.

Q. 23 What is repayments procedure of the facility?

Ans. Principal amount of loans shall be repayable in equal quarterly / half yearly installments after prescribed grace period, if any. Mark up / service charges are paid on quarterly basis.

Q. 24 How PFIs will retire the refinance?

A. If a borrower will repay the loan amount or its installment, in part or in full, before the due date(s), the banks/DFIs shall be under obligation to repay the amount(s) so received within three working days to the concerned office of SBP-BSC (Bank) failing which fine for late adjustment of loan will be recovered from the concerned bank/DFI, at the rate specified by the State Bank. 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 Is there any prepayment penalty under LTFF?

Ans. There will be no prepayment penalty on refinance availed from SBP.

Q. 26 Is debt swap facility available under the SBP's LTFF?

Ans: There is no provision to transfer outstanding amount of refinance from one bank to another bank under SBP's LTFF.

Q. 27 What documents are required for availing refinance under LTFF?

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

- i) Refinance Application
- ii) Repayment Agreement
- iii) DP Note of Bank/DFI
- iv) DP Note of Borrower
- v) Undertaking of Borrower

Note: Documents mentioned at (ii) & (iii) will be submitted only once in a year, to the extent of annual limit sanctioned to the bank/DFI. Formats of above documents are attached with LTFF which is available at SBP's website.

Q. 28 Are financing under LTFF subject to SBP's Inspection?

Ans. The financing facilities under the LTFF 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 LTFF. Further, SBP have the right to appoint an independent consultant to verify the use of the refinance under the LTFF 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. 29 At what rates fine(s) may be imposed under the LTFF in case of non fulfillment of the provisions of the LTFF by PFIs?

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

Q. 30 Which cases of the borrowers of Spinning Sector qualify for 100% refinance facility under LTFF with reference to IH&SMEFD Circular No. 18/2015?

Ans. Only those cases of the borrowers of Spinning Sector qualify for 100% refinance facility under LTFF, wherein payment to the manufacturers / suppliers or foreign sellers of the machinery against LC documents was made on or after 02-11-2015.

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