

The Juncker plan and other support for leasing in Europe

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KNOWN AS THE JUNCKER PLAN, the European Commission’s Investment Plan was launched in June 2015. Investment in Europe in 2014 was about 15% lower than in 2007. This followed cut-backs by governments and a combination of business uncertainty, low growth in demand and lack of access to finance in the private sector. As part of the Investment Plan, the European Fund for Strategic Investments (EFSI) was established to boost private sector investment by supporting the European Investment Fund’s (EIF) existing investment guarantees.

The EFSI-supported guarantees are part of a wide range of European programmes that are open to lessors to use to support their lending to small and medium-sized enterprises (SMEs), in particular. These are summarised in Table 1. Many of these were developed with support from Leaseurope, and representatives from the European Investment Bank (EIB) and EIF have presented on them at a number of Leaseurope Annual Conventions in recent years.

In light of the Juncker Plan, this article considers why lessors and their customers may benefit from different types of schemes, and the particular role of the EFSI guarantees in helping to create a more diverse leasing market.

The EIB’s Loans for SMEs programme can provide low-cost funds to lessors, including both banks and non-bank companies, although not captive finance companies. A wide range of lessors from across Europe have participated in the programme.

Participating lessors need to match the funds provided by the

EIB, but it is not necessary for the matched funding to be paid for at the same rate. The benefit of the EIB’s low rate is to be transferred to the lessee, typically through a lower overall rate for the lease. The rate offered by the EIB varies, in part based on the credit profile of the lessor or any other party that guarantees the EIB loan such as a parent bank.

Table 2 summarises the approximate take-up of EIB funding by leasing companies (predominantly through the Loans for SMEs programme) for the three years from 2013 to 2015. Around €5bn was distributed through around 60 contracts. The EIB with leasing companies in the three years from 2013 to 2015 (see table). The EIB has estimated that in 2014 about 17,000 SMEs received finance for their leasing projects and these companies employed more than 750,000 people.

The EIB loans deliver benefits beyond lowering the cost of investments for SMEs, which in turn makes more investment projects viable, as they can help smaller lessors to expand and raise their profile with investors.

The key policy for supporting the supply of credit at the European level has been the European Central Bank’s Targeted Longer-Term Refinancing Operations (TLTRO). The TLTRO provides cheap funding to banks to support extra lending.

Banks provide collateral for the ECB loans and leasing agreements are eligible as collateral although subject to various limitations, for example not those where there is residual value risk.

TLTRO works for some leasing businesses but not others.

Table 1: Main European schemes open to leasing companies

	Type	Eligibility for leasing	Provider
EIB Intermediated loans	Loans to financial intermediaries	All lessors	European Investment Bank
TLTRO	Loans to banks	Eurozone banks	European Central Bank
COSME	Portfolio guarantees for leasing companies	All lessors	European Investment Fund
InnovFin	Loan guarantees for innovative SMEs and small midcaps	All lessors	European Investment Fund
First Loss Portfolio Guarantees (FLPG)	Loan guarantees for SMEs with pass-through	Varies at national level	European Investment Fund & National agencies
SME Initiative	Loan guarantees for SMEs with pass-through	Varies at national level	European Investment Fund & National agencies
Structured Finance Programme	Guarantee for senior debt of leasing company	All lessors	European Investment Fund
SME Initiative Securitisation Instrument (SIS)	Guarantee for senior debt of leasing company and/or purchase of asset-backed notes	Banks	European Investment Fund
AGRI Guarantee Facility	Guarantee for finance made available to agriculture, agro-food, forestry and rural businesses	All lessors	European Investment Fund

Those that are run as divisions of banks can benefit along with the rest of the banks' lending activities. Leasing companies run as separate businesses within a banking group, which is common in Italy and France for example, and non-banks are not eligible. The equivalent scheme in the UK, the Bank of England's Term Funding Scheme, is also limited to banks but it does allow participating banks to lend to non-bank lessors that provide mainly finance leases. Take-up of the TLTRO, now in its second round as TLTRO-II, may have been lower than some expected, but the scheme can still be a significant benefit for eligible leasing businesses, and a concern for others.

Apart from loan programmes, there are a range of schemes offering guarantee support to leasing companies. These tend to operate at two levels, either reducing the risks to leasing companies or to their investors. Guarantee schemes covering risks to leasing companies include:

- The COSME (The EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises) Loan Guarantee Facility can help lessors to lend to SMEs. The guarantee covers 50% of any principal and interest loss, subject to a cap at the level of expected losses. The objective is to allow lessors to lend to more risky clients or on riskier asset classes than might otherwise be possible. The COSME programme can also be used to support securitisation of SME lease portfolios. The EIF has announced COSME agreements with lessors including Societe Generale, GE Capital and Raiffeisen Leasing.
- The InnovFin SME Guarantee Facility provides guarantees specifically for fast growing SMEs that satisfy at least one "innovation criterion". Unlike the wider COSME programme, the guarantee is not capped based on a pre-defined level of expected losses. The European Investment Fund has announced InnovFin agreements with lessors including Raiffeisen Leasing and Alba Leasing.
- The First Loss Portfolio Guarantee operates at national or regional levels. It provides capped guarantees for incurred losses, typically with a relatively high (e.g. 70%–80%) guarantee rate and also a generous cap. The SME Initiative works in a similar way, but does not require co-financing from national or regional authorities.

These European schemes complement those available at national level and therefore can be valuable for lessors with operations in multiple countries. Guarantee schemes covering risks to investors include:

- Through its Structured Finance programme, the EIF can guarantee part of the debt issued by a leasing company and secured against a portfolio of leases held in a special-purpose entity.
- Under the SME Initiative Securitisation Instrument (SISI) the credit risk of securitised loans will be partially transferred through guarantees and/or the purchase of asset-backed notes. This should free up regulatory and economic capital for the originating financial institutions.
- The EIF also operates other schemes for supporting securitisation, including the EREM Asset-Backed Securities Credit Enhancement scheme and the ENSI National Promotions Institutions Securitisation Initiative.

Table 2: EIB funding via leasing companies, top 10 countries 2013–15

Country	Funding €bn (estimates)
Italy	1.4
Poland	1.4
Germany	0.9
Slovakia	0.4
Czech Republic	0.2
Denmark	0.1
Romania	0.1
Bulgaria	0.1
UK	0.1
Sweden	0.1

Source: Estimates based on EIB annual statistical reviews

Several guarantees covering risks to investors in leasing companies have been agreed by the EIF. This is likely to become a growing area of support for the European leasing industry, perhaps with particular relevance to non-bank lessors. In the recent European Investment Fund Working Paper 'European Small Business Finance Outlook' Working Paper in June 2016, the authors noted (the views expressed in EIF Working Papers do not necessarily correspond to those of the EIF): "Given that bank financing is and will be less available for leasing companies post-crisis, it can be expected that [securitisation of SME portfolios] will be particularly relevant in the leasing area".

Leaseurope together with Eurofinas organised a one-day industry roundtable to discuss securitisation in November 2015. The participants identified a range of benefits of securitisation but also a number of obstacles to its use, including limited investor understanding of the leasing market. Alongside other measures, the EIF guarantee mechanisms will help attract investors who could then be expected to become more confident in the market. This could, in turn, create securitisation opportunities for a wider range of lessors than those already using the technique.

Jointly with Leaseurope, the EIB and EIF have published guides to their products for the leasing industry. The latest editions are available from the Leaseurope website.



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