

- **Finnvera's Buyer Credit Guarantee provides lenders with security against credit risks caused by a foreign buyer, the buyer's bank or the buyer's country.**

Buyer Credit Guarantee – security for the lender

The guarantee helps the exporter to arrange financing for an export transaction. The exporter receives payment on cash terms for goods sold on credit, while the credit risks connected with the buyer are transferred from the exporter to the lender and further to Finnvera.

The guarantee can be used in various medium-term and long-term buyer credit arrangements, such as buyer credits for single transactions, credit lines, ship financing, forfaiting and leasing. The guarantee can also be used for short-term export financing when the exporter receives a transferable debt instrument from the buyer as payment for the transaction.

Risks covered

The guarantee covers commercial and/or political risks.

Commercial risks

Commercial risks mean the borrower's inability or unwillingness to pay.

Political risks

Political risks are risks connected with the borrower's country. These risks are beyond the lender's and the borrower's control. Political risks include restrictions on transfer of the credit currency, rescheduling of debts, war and insurrection.

Conditions for granting the guarantee

The guarantee is granted to the lender. The products exported must be normally of Finnish origin, or the transaction must otherwise meet the requirement of Finnish interest.

The borrower may be either the buyer or the buyer's bank. Finnvera analyses the borrower's creditworthiness before making the guarantee decision. The borrower's creditworthiness is generally assessed on the basis of credit reports and the buyer's financial statements. The creditworthiness of the borrower's country is assessed by following the economic and political developments in the country.

For exports to the EU Member States and to other Western industrialised countries, Finnvera can normally grant guarantees only if the payment period is two years or longer.

Application for a guarantee

The application for a Buyer Credit Guarantee may be filed by the exporter or by the financier of the export transaction. Especially in the case of an application for a short-term guarantee, the exporter should consult the financing bank before filing the application. ▶

Long-term Buyer Credit Guarantee

Deliveries of machines and equipment and other large deliveries often require that the exporter is able to arrange long-term financing for the foreign buyer. The lender is a domestic or foreign financial institution that grants the buyer or the buyer's bank a credit for financing the export transaction. A delivery contract is concluded between the exporter and the buyer, and the financing agreement is signed between the lender and the buyer or the buyer's bank. The lender and Finnvera sign a Buyer Credit Guarantee agreement, which protects the lender against credit risks that may materialize (see the figure).

Regulations concerning bribery and environmental assessment are taken into consideration when handling the guarantee applications. In case of heavily indebted poor countries (HIPCs), guarantees are only granted for projects that have a positive effect on the social or economic development in the countries involved.

A Buyer Credit Guarantee can also be granted in the currency of the buyer's country. In this context, local currencies refer to currencies other than those of Western industrialised member countries of the OECD. The guarantee is granted to the lender in the buyer's country. The guarantee can be considered only to certain countries in better country risk categories. For the buyer, the guarantee eliminates the exchange rate risk after the disbursement of the credit.

Terms of payment/OECD Export Credit Arrangement

In long-term guarantees, Finnvera complies with the regulations of the OECD Export Credit Arrangement. The OECD member countries have agreed on the terms of officially supported

Finnvera's Buyer Credit Guarantee provides lenders with security against credit risks arising from a foreign borrower or the borrower's country.

export credits with a repayment period of two years or more. The OECD Arrangement defines interest rates, credit periods, cash payment requirements and the starting point of repayment.

Cash payment must be at least 15% of the contract value, and the credit may not exceed 85%. The credit period is determined by the type of goods, the contract value and the category of the buyer's country. The credit must be repaid in equal and regular instalments not less frequently than every six months, without any grace period. The terms of the Sector Understanding under the OECD Arrangement apply to ship financing.

Buyer countries are classified into two categories according to their GNP. The acceptable credit periods are based on these categories.

The maximum credit periods

- relatively rich countries: 5 years (in exceptional cases 8.5 years)
- relatively poor countries: 10 years

Items covered by the guarantee and guarantee coverage

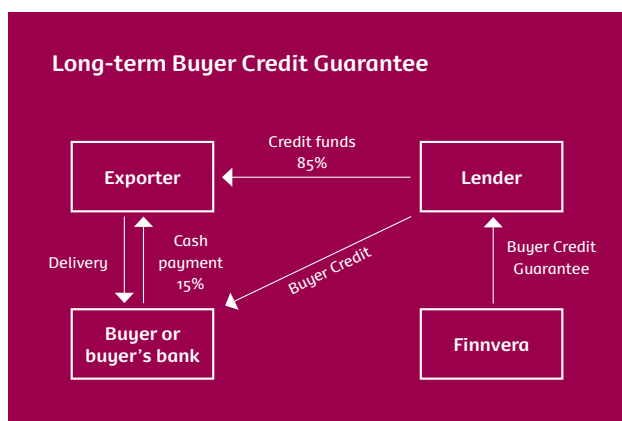
The guarantee generally covers the principal of the credit, interest and post-maturity interest.

In long-term Buyer Credit Guarantees, the coverage for commercial risks is decided separately in each case and it is normally 50–90% and for political risks maximum 100%. In bank risks, the coverage for commercial risks is normally 95%.

Guarantee costs

The guarantee premium is charged as a flat fee on the principal of the credit. The premium depends on factors such as the creditworthiness of the borrower and the borrower's country, the risk period and the securities provided.

Finnvera charges handling fees for the processing of the guarantee application and the subsequent guarantee. ▶



Short-term Buyer Credit Guarantee

A short-term Buyer Credit Guarantee can be granted for a single transaction or delivery, but the guarantee is normally used for continuous exports, and it is valid until further notice. A prerequisite for the guarantee is that a transferable debt instrument, such as an accepted bill of exchange or a promissory note, is obtained from the buyer (see the figure).

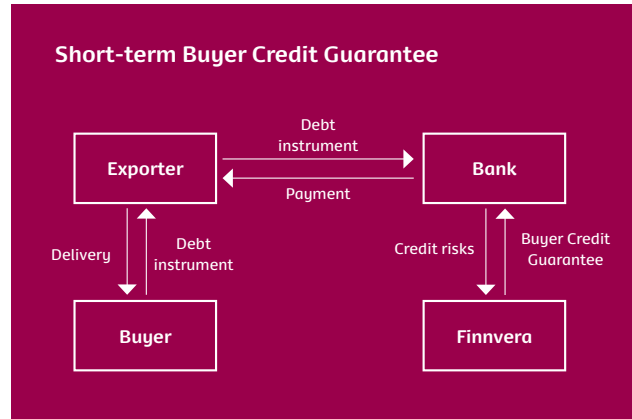
After having assessed the buyer’s creditworthiness, Finnvera sets the credit limit, i.e. the maximum amount of debt instruments that the bank can purchase from the exporter while covered by the guarantee. The guarantee agreement is signed by the financing bank and Finnvera. No contractual relation exists between the exporter and Finnvera. The bank is not authorised to sell the debt instruments it has purchased from the exporter to a third party.

Short-term Buyer Credit Guarantees can normally only be granted for exports to countries with political risk, i.e. not to the EU Member States or other Western industrialised countries.

Items covered by the guarantee and guarantee coverage

The guarantee covers the principal of the debt instruments plus interest. The guarantee does not cover any post-maturity interest.

The coverage for commercial risks is generally 90%. Thus, the bank financing the exporter is left with a risk of 10%. The bank may transfer this self-risk portion to the exporter, or the bank may require that the exporter provides separate security to cover the risk. The coverage for political risks is maximum 100%.



Guarantee costs

The guarantee premium is charged as a flat fee on the principal of the debt instrument. The premium depends on factors such as the credit period, the creditworthiness of the borrower’s country, and securities provided for the credit. Depending on the case, the borrower’s creditworthiness may also affect the premium.

A handling fee is charged for granting the credit limit. A handling fee may also be charged for changes made to the guarantee.

For further information, please contact the Export Credit Guarantees Unit or one of Finnvera’s regional offices.

Application forms can be downloaded from Finnvera’s website. You can also apply for Finnvera’s Buyer Credit Guarantee online at www.finnvera.fi – Online Services. Telephone service 020 690 784 – advice on financing and on how to fill in applications.

Finnvera plc, Telephone intl. +358 20 460 11, www.finnvera.fi
Regional offices: Helsinki, Joensuu, Jyväskylä, Kajaani, Kuopio, Lahti, Lappeenranta, Mikkelä, Oulu, Pori, Rovaniemi, Seinäjoki, Tampere, Turku, Vaasa
www.enterprisefinland.fi