

# **Appendix AA**

## **Public Policy**

**PROGRAM PURPOSE**

*The purpose of a public sponsored program is to attain Public Policy Goals*

THE PRAGMA CORPORATION 1

**PUBLIC POLICY INFLUENCES PROGRAM STRUCTURE**

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**PUBLIC POLICY**

- ⊕ Defines who is to receive the assistance
- ⊕ Why the assistance will be given
- ⊕ Who will be responsible for attaining the Public Policy Goals

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**PROGRAM STRUCTURE**

- ⊕ Program structure must be designed with goals of Public Policy in mind
- ⊕ Program structure must answer: How do we reach the clients that are to benefit from the Public Policy?

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**PROGRAM STRUCTURE IS INFLUENCED BY**

1. MAXIMUM LOAN AMOUNT
2. MAXIMUM GUARANTY PERCENTAGE
3. MAXIMUM GUARANTY AMOUNT

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- ⊕ 4. SIZE STANDARDS
- ⊕ 5. LOAN MATURITY
- ⊕ 6. MAXIMUM INTEREST RATE
- ⊕ 7. PERSONAL GUARANTEES & COLLATERAL
- ⊕ 8. FEES & SUBSIDY

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***GREAT CARE MUST BE  
TAKEN IF MODIFYING  
PRUDENT CREDIT  
STANDARDS IN REACHING  
PUBLIC POLICY GOALS***

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***BEST PRACTICES***

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8

***MAJOR COMMITMENT TO  
OUTREACH EFFORTS BY  
BOTH LENDERS AND  
GUARANTOR***

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9

***TECHNICAL ASSISTANCE  
PROGRAMS TO  
STRENGTHEN AND  
IMPROVE  
CREDITWORTHINESS OF  
SMEs***

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10

***INCLUDE SMEs AND  
LENDERS IN DESIGN OF  
GUARANTY LOAN  
PROGRAMS AND GUARANTY  
DELIVERY SYSTEMS***

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11

***DEVELOP AND MAINTAIN  
PRUDENT AND CONSISTENT  
CREDIT ANALYSIS  
STANDARDS***

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12

**QUICK RESPONSIVE LOAN  
PROBLEM SOLVING**

**INCLUDING FREQUENT  
CONTACT WITH SME**

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**WELL-TRAINED LENDERS  
COMMITTED TO SMEs AND  
THE GUARANTY PROGRAM**

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**ENCOURAGE LENDER  
PRACTICES THAT REWARD  
RISK TAKING IN SUPPORT OF  
COMMITMENT TO SMEs**

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**CONSISTENCY**

**LACK OF CONSISTENCY LEADS TO:**

**CONFUSION  
INEQUITY  
LOSS OF PROGRAM INTEGRITY**

THE PRAGMA CORPORATION 16

**IN SUMMARY**

THE PRAGMA CORPORATION 17

**CREDIT GUARANTY  
PROGRAMS MUST HAVE:**

- ❖ **SPECIFIC PUBLIC POLICY GOALS**
- ❖ **UNIFORM POLICIES AND PROCEDURES**
- ❖ **SOUND PROGRAM OVERSIGHT STANDARDS**

THE PRAGMA CORPORATION 18

***CREDIT GUARANTY PROGRAMS MUST HAVE:***

- ❖ **CONTINUOUS LENDER & SME TRAINING AND COMMUNICATION**
- ❖ **LENDER INCENTIVES THAT WILL MAKE LOANS AVAILABLE TO SMES**

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- ❖ **THINK - CREDIT EXTENSION BASED ON CASH FLOW NOT COLLATERAL**
- AND**
- ❖ **LONGER MATURITIES**

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***RE-GUARANTY LOAN PROGRAM***

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***RE-GUARANTY PROGRAM***

- ❖ **BRINGS CONSISTENCY TO PRC PROGRAMS**
- ❖ **IMPROVES GRADING OF THE GUARANTY**
- ❖ **ALLOWS FOR PROGRAM EXPANSION**
- ❖ **ENCOURAGES INFLUX OF CAPITAL**

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- ❖ **REDUCES GEOGRAPHIC RISKS BY CONSOLIDATING LOAN PORTFOLIOS ACROSS PROVINCIAL LINES**
- ❖ **ASSISTS IN IMPLEMENTING PUBLIC POLICY GOALS ACROSS GEOGRAPHIC LINES,**

THE PRAGMA CORPORATION 23

***OPTIONAL STRUCTURES FOR RE-GUARANTY PROGRAM***

THE PRAGMA CORPORATION 24

**#1**  
**RE-GUARANTY SOUNDNESS OF A  
 GUARANTY PROGRAM BY PAYING  
 GUARANTIES IF TOTAL PROGRAM FAILS**

**#2**  
**SHARE IN EXPOSURE OF INDIVIDUAL  
 LOANS BY TAKING PART OF THE RISK**

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**#1**

- ❖ **IMPROVES QUALITY OF ORIGINAL  
 GUARANTY TO THE LENDERS**
- ❖ **BRINGS NATIONAL STRENGTH TO  
 GUARANTY**
- ❖ **DOES NOT ASSIST IN PROGRAM  
 EXPANSION**
- ❖ **DOES NOT ENCOURAGE  
 SECONDARY MARKET**

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**#2**

- ❖ **SPREADS RISK AMONG SEVERAL  
 PARTIES**
- ❖ **ENCOURAGES SECONDARY  
 MARKET**
- ❖ **INCREASES CAPACITY OF  
 GUARANTY PROGRAMS BY  
 ASSUMING PART OF THE RISK**

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**#2**

- ❖ **ASSISTS IN DECREASING  
 GEOGRAPHIC & INDUSTRY RISKS**
- ❖ **GREATER OVERSIGHT  
 RESPONSIBILITY**
- ❖ **GREATER PROGRAM  
 INVOLVEMENT**

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***EVALUATE EACH LOWER  
 LEVEL PROGRAM***

- ❖ **Assure all lower level programs are  
 being operated in sound manner**
- ❖ **Do not re-guaranty existing loan  
 portfolios before Review**
- ❖ **Accept into Re-guaranty Program  
 only programs meeting criteria**

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***RE-GUARANTY PROGRAM***

- ❖ **Assure compliance with program  
 policies and procedures**
- ❖ **Design national program to  
 support Public Policy Goals**
- ❖ **Provide incentives to lenders that  
 support the program**
- ❖ **Train SMEs and Lenders**

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***IN SUMMARY***

**DESIGN PROGRAMS THAT MEET  
NEEDS OF:**

- ✦ **PUBLIC POLICIES**
- ✦ **SMEs**
- ✦ **LENDERS**

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***NEXT STEPS***

- ✦ **RE-GUARANTY STRUCTURE**
- ✦ **PROGRAM PURPOSE**
- ✦ **PROGRAM STRUCTURE ELEMENTS**

THE PRAGMA CORPORATION 32