

# How the Debt Office issues guarantees and loans

Before the Debt Office issues a guarantee or grants a loan on behalf of the Riksdag or the Government, we analyse the risks involved and the potential consequences if the borrower is unable to pay.

In accordance with the Swedish guarantee and lending model, the cost of funding must not be paid by the taxpayers – but by the borrower. A fee or interest rate will be levied in relation to the size of the credit risk. This requires the risk to be identifiable and measurable. An additional fee is charged to cover administrative costs.

## First we assess the risk – then we calculate the fee

We start by reviewing the company's activities, business model, strategic goals, earnings trend and capital structure. As circumstances vary, the Debt Office uses different methods of risk calculation.

We then implement valuation methods such as rating analysis and simulations. There is always a certain degree of uncertainty in a simulation. It is fundamentally a matter of which parameters are included in the model and which values are assigned to these parameters.

We analyse potential outcomes and their likelihood. **This is the basis for the cost of a loan or guarantee. Simplified, this is how we calculate the fee: Probability of Default × Expected Loss Given Default + Administrative Costs = Fee**

In some cases, the Riksdag can decide to waive the fee or to charge a reduced fee. The portion that is subsequently not paid by the counterparty must then be funded otherwise.

**One important cornerstone of the Swedish guarantee and lending model is that the central government's guarantees and loans must be self-financed.**

## Limiting the risk incurred by the central government

The Debt Office establishes a fee, either for the entire period or for a limited time. The economic risk determines the conditions. If a company changes its ownership structure or risk, it may increase the risk incurred by the central government. There may then be

cause for the Debt Office to renegotiate the size of the fee or to request supplementary collateral.

We are in constant dialogue with the borrower or guarantee recipient. In the event of major changes, the Debt Office will inform the Government.

## What happens if someone is unable to pay?

If the party that has taken out a loan with a guarantee provided by the central government via the Debt Office is unable to repay that loan for some reason, we will fulfil the guarantee commitment by paying off the borrower's debt.

When this happens, the Debt Office also takes over the lender's claim against the borrower. We then make active efforts to receive back as much money as possible from the borrower.

The Debt Office makes an individual assessment in each case, but which is based on the same fundamental principles. We will only waive our claim, in full or in part, if there are commercial grounds to do so, or if it is assessed in the particular case that enforcing the claim is evidently unreasonable.

### Related content

[Read more about the regulations governing our operations and our fee principles \(In Swedish\)](#)