Capital for Enterprise

Small Firms Loan Guarantee

Lender Manual

Issue 2 November 2012

BIS Department for Business Innovation & Skills

Contents

1 Introduction

The Small Firms Loan Guarantee ("SFLG") scheme was introduced in 1981 and closed for new lending on 31st March 2009, following the launch of the Enterprise Finance Guarantee ("EFG") in January 2009.

Under SFLG, a Government guarantee was provided to accredited lenders ("Lenders") with viable borrowing proposals from UK SMEs which failed to meet the Lender's security requirements. Maximum loan terms of up to 10 years were possible under the scheme and, therefore, the SFLG portfolio will remain active until early 2019.

In late 2005, the eligibility terms of the SFLG scheme were amended so that only SMEs up to five years old were able to benefit from the scheme. Loans issued prior to 1st December 2005 are known as "Legacy" SFLG loans and those granted on or after 1st December 2005 are known as "New Scheme" SFLG loans.

This Lender Manual has been produced to provide practical guidance to accredited scheme Lenders on the management of the scheme in accordance with the terms of the SFLG Legal Agreement. As the scheme has closed for new lending, the primary focus of this Lender Manual is now on guarantee "Demands and Recoveries".

Feedback on the content of this Lender Manual from Lenders to CfEL is actively encouraged.

2 Managing Your SFLG Portfolio

2.1 SFLG Closed for New Lending in Q1 2009

New SFLG loans cannot now be provided. The SFLG Web Portal has been amended to reject any attempts to load a new SFLG application. For existing SFLG loans, existing SFLG terms and conditions continue to apply.

2.2 Holding SFLG and EFG

A £250,000 lifetime borrowing limit per Borrower applied for SFLG lending. This lending limit is not cumulative with the EFG outstanding facility limit of £1 million. Borrowers may therefore access up to £1 million of borrowing via EFG at any one time, in addition to previously having had up to £250,000 of SFLG borrowings.

2.3 Extending Existing SFLG Loans

It is permissible to extend SFLG loans so long as the extension of the final repayment date:

- has received credit sanction by the Lender;
- is approved by BIS by having been recorded on the Web Portal by the Lender; and
- the new final repayment date is still no more than 10 years from the original draw down date of the SFLG loan.

In operational terms, the extension of the final repayment date can be done via the SFLG Web Portal, via the "Loan Rescheduling Process" (see Web Portal Manual Section 11.2).

2.4 SFLG Loans and Switching Banks

If a Borrower has a SFLG loan and wishes to switch lenders, then, so long as the new lender is an accredited SFLG Lender and wishes to continue to have the benefit of the guarantee on the SFLG loan, then the outstanding SFLG loan balance (and guarantee) can be transferred between Lenders.

Each SFLG loan has a unique loan identity number which is advised to the Borrower on their loan documentation. When transferring between accredited Lenders, the Borrower should provide details of the unique loan number to the new Lender along with the original value of the loan, and the Facility Letter date. The new Lender must, assuming the SFLG benefit of the guarantee is to be assigned / transferred to the new Lender, then update the SFLG Web Portal via the "Loan Transfer" function so the existing SFLG loan is thereafter recorded against the new Lender. The new Lender must also ensure that the Premium payment is set up appropriately.

It should be noted that in these circumstances the loan remains an SFLG loan following transfer of the guarantee between Lenders. The SFLG loan does not have to be repaid and replaced by a new EFG loan.

2.5 Changing Legal Status

Borrowers occasionally have an existing SFLG loan and then subsequently wish to change legal status. For most Lenders, a change of legal status of the Borrower (for example, from sole trader to limited company) would require a revised credit application with a reassessment of security requirements (for example, a Personal Guarantee may be required when legal status changes from sole trader to limited company), a change of facility and security documentation and a change in the name of the bank account.

Assuming no increase in borrowing is required, existing debt would be repaid and then re-drawn in the name of the new borrowing entity. As new SFLG loans cannot be issued, the replacement borrowing would then need to be re-drawn as an EFG loan – the terms and conditions of the EFG loan may or may not be the same as for the old SFLG loan, depending upon the Lender's credit criteria at that point in time.

2.6 The Lender Audit Programme

2.6.1 Introduction

Audits are a key feature of both the SFLG and EFG programmes and the Government can carry out an audit of the Lender's activities in relation to both schemes at any time. This is to ensure the Lender is running the scheme properly. The audit must be carried out during the Lender's usual working hours and CfEL must give at least five working days' notice.

The Lender shall provide all reasonable assistance to CfEL (or its External Auditor) in carrying out the audit, including provision of all relevant documentation in relation to individual facilities and the investigation of enquiries raised by CfEL (or its External Auditor) during the audit process.

A senior representative of the Lender must be available to discuss the audit findings prior to the publication of the Audit Report. The Lender and its employees must do all they can to cooperate with the External Auditors. This includes providing information and documents as requested.

A high volume Lender can be expected to be subject to an audit twice a year, a lower volume Lender no more than once a year.

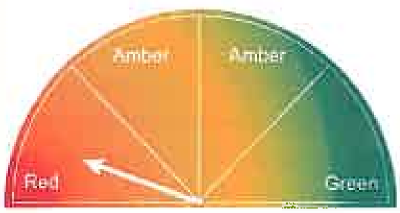
2.6.2 Audit Objectives and Risks to be Identified

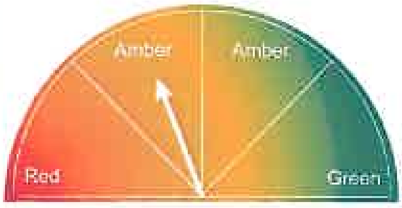
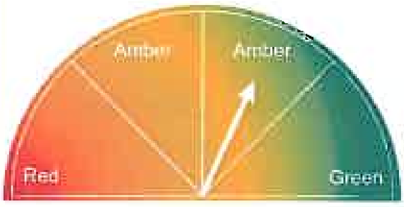
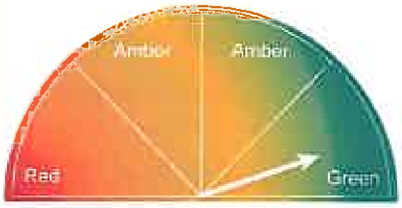
Historic audits have focussed on the following objectives and risks:

Objectives	Risks
SFLG Demands and Recoveries Completeness, Accuracy and Integrity of Portal Data and Compliance with the Legal Agreement	Defaults are not identified and acted upon in a timely manner. Data on the Web Portal regarding Demands is inaccurate. Demands made on the Secretary of State are inaccurate or invalid under the terms of the Legal Agreement.
Lender's Control and Governance, including Training and Dissemination of Information and Guidance to Staff	Lack of control over SFLG processes leading to non-compliance with the Legal Agreement, and inconsistent approaches taken by staff. Staff are not aware of their responsibilities or how to carry out their duties effectively. Poor segregation of duties and lack of control over Web Portal access rights leads to inaccurate input of data. Poor decision making results from poor quality information available to management.
Lender's Treatment of the Principal Differences Between SFLG and EFG	Changes to the rules and thresholds have not been incorporated into the Lender's systems and processes.

2.6.3 Audit Grades

Each Lender receives an overall assurance level, as well as a separate grade for each of the (up to) four key objective areas. New terminology to grade the assurance levels in audit reports were introduced in 2011:

Overall Opinion	Definition
	**Red** Taking account of the issues identified, CfEL cannot take assurance that the controls upon which the Lender relies to manage the SFLG scheme are suitably designed, consistently applied or effective. Action needs to be taken to ensure that risks are managed.

	**Amber / Red** Taking account of the issues identified, whilst CfEL can take some assurance that the controls upon which the Lender relies to manage the SFLG scheme are suitably designed, consistently applied and effective, action needs to be taken to ensure that risks are managed.
	**Amber / Green** Taking account of the issues identified, CfEL can take reasonable assurance that the controls upon which the Lender relies to manage the SFLG scheme are suitably designed, consistently applied and effective. However, issues have been identified that, if not addressed, increase the likelihood of risks materialising.
	**Green** Taking account of the issues identified, CfEL can take reasonable assurance that the controls upon which the Lender relies to manage the SFLG scheme are suitably designed, consistently applied and effective.

Recommendations in the audit reports are now categorised as follows:

High – action is imperative to ensure that the objectives for the area under review are met.
Medium – requires action to avoid exposure to significant risks in achieving the objectives for the area under review.
Low – action advised to enhance control or improve operational efficiency.

A fourth category of recommendation has also now been introduced. The **Suggestion** categorisation allows the External Auditor to include any value for money enhancements identified during the course of testing and any Lender feedback received regarding the SFLG scheme operation as a whole.

2.6.4 Evidence Required to Provide Green Assurance

A "Green" assurance grade is only possible if the Lender can demonstrate to the External Auditor that the objectives are being met. Lenders are, therefore, encouraged to be especially careful to ensure that loan files are complete with all appropriate supporting evidence.

Eligibility

- The Lender needs to be able to provide evidence that according to normal commercial lending criteria the proposition was viable, but that absence of security made the proposal unsupportable.
- Where any decisions are borderline, additional evidence should be provided to give a persuasive and robust argument that the loan was valid for SFLG and that all eligibility

criteria (for SFLG) had been satisfied. An example may be where the Lender was proposing an SFLG to a loss making enterprise.

Monitoring

- The External Auditor is likely to seek evidence that monitoring of a SFLG is being undertaken in-line with the loan agreement.
- All Conditions Precedent were satisfied prior to drawdown and that on-going monitoring was as specified.

Demands and Recoveries

- The Lender should seek to provide full details of the circumstances of a Claim and clear evidence as to the calculation of a Claim. Where relevant, evidence should be provided detailing attempts to make Recoveries.

Documentation

- It is imperative that documentation proving Eligibility and Demands is available at audit.
- Where cases are borderline the Lender should make efforts to provide additional documentation to justify the use of SFLG.
- Lenders are encouraged not simply to respond to the External Auditor's documentary requests, but to pro-actively volunteer any documentation that may be relevant to the case.

2.7 Non-Compliance with SFLG Scheme Rules

If CfEL believes that a Lender is breaking one or more of the rules of the scheme, a meeting may be set up to agree what can be done to remedy the situation.

If the Lender continues to break the rule or is in serious breach of the rules, CfEL may tell the Lender what it must do to be able to remain in the scheme. The ultimate sanction would be termination of the Lender's participation in the Scheme. CfEL can do this with immediate notice in writing.

2.8 External Service Level Agreement

BIS will enter into agreements, known as Service Level Agreements, with other organisations in order to properly implement and operate the scheme – for example, the host of the SFLG Web Portal, in relation to confidentiality and its availability, reliability and maintenance; the independent Premium Collection Agent, in relation to the collection of the scheme guarantee Premium; and the External Auditor, in relation to the Audit.

2.9 Data Protection Act

BIS and the Lender agree that they will follow the requirements of the Data Protection Act 1998.

The Lender and BIS must take every step to ensure that only necessary information about Applicants and their businesses is kept and recorded, and that this information is held on a secure system.

Both BIS and the Lender have agreed appropriate remedies in the event of any incident occurring where loss has been suffered because personal information has been lost or misused in contravention of the Data Protection Act.

2.10 SFLG Web Portal Rights

BIS own the intellectual property associated with the Web Portal functionality. BIS uses the information within the Web Portal to manage the scheme effectively.

3 Demands and Recoveries

3.1 Overview

The following table outlines the key stages in the SFLG Demands and Recoveries process.

1. Demand on Borrower
2. Claim on the Guarantee
3. Pursue Borrower for Repayment/Recovery of Outstanding Exposure
4. Recoveries Procedures (via security realisations or recovery procedures)
5. Apportion Recovery Proceeds
6. Making a Refund to BIS

A summary of the process, and how it compares to EFG, is provided in Section 3.4.

3.2 Key Stages in the Demands and Recoveries Process

1. Demand on Borrower

- Demand on the Borrower is defined as the date on which the Lender makes Formal Demand in writing to the Borrower for repayment of the outstanding borrowing (this does not include periods of negotiation prior to the Lender issuing Formal Demand).

- The date of Demand on the Borrower must be notified on the Web Portal within 10 business days of the Demand being made.

- The amount entered on the Web Portal should ideally be the total outstanding capital that is owed on the SFLG-backed facility, as stated in the Demand Letter. However, if the Lender's normal practice is to aggregate capital and interest (and in some circumstances, fees) to give a single figure on the Demand Letter, or to aggregate amounts owing on multiple facilities, then this is the figure that should be recorded on the Web Portal at this stage. The key point here is that to assist with audits, the figure entered as the Demand on the Borrower ("Lender Demand") must be exactly the same as the Lender Demand figure as stated on the Demand Letter.

- Some smaller Lenders do not issue Formal Demand letters to Borrowers but instead issue a Letter of Termination. Any such letter should be treated as the Formal Demand on the Borrower for the purposes of the SFLG process.

- Continued payment of the Premium is not required once a Demand has been made on the Borrower.

- Following Demand on the Borrower, the Lender's normal practice in terms of interest charging should continue. For example, if it is the Lender's normal practice to charge default interest following Demand on the Borrower, then it should continue to do so.

- Section 11.3 of the Web Portal Manual addresses how to record Demand on Borrower on the Web Portal.

2 • Claim on the Guarantee

Timeframe to Make a Guarantee Claim

- Lenders may claim upon the SFLG guarantee as soon as Demand on Borrower has been notified on the Web Portal.
- All SFLG guarantee claims must, however, be made up to 12 months from Demand on the Borrower for Legacy SFLG, and up to 6 months from Demand on the Borrower for New SFLG.

Calculating the Guarantee Claim

- There are four components to calculating the SFLG Claim on the Guarantee:
    - Outstanding SFLG capital,
    - Unpaid interest,
    - Break costs (Legacy only), and
    - The Guarantee Percentage.

(i) Establish the outstanding SFLG loan balance (capital only)

Note: **the Lender is not permitted to add on any fees or charges to this outstanding balance.** The outstanding balance relates purely to the capital outstanding on the SFLG loan.

Add

(ii) Unpaid interest on the outstanding capital balance

In both Legacy and New SFLG, Lenders are entitled to claim accrued interest which is due but unpaid by the Borrower.

- For Legacy SFLG up to 9 months' interest can be claimed.
- For New SFLG up to 6 months' interest can be claimed.

The interest claiming period should be counted back from the date of Claim on the Guarantee for 6 or 9 months as appropriate (depending upon whether the SFLG is Legacy or New) or until the point where the Borrower ceased to meet interest payments, whichever is the sooner. For those Lenders where it is normal practice to suspend the further accrual of interest from the point at which the Lender has made a Demand on the Borrower, the Lender is permitted to count back from the date of Demand on the Borrower up to a maximum period of 6 or 9 months (depending upon the type of SFLG loan) or to the point where the Borrower ceased meeting interest payments, whichever is the sooner.

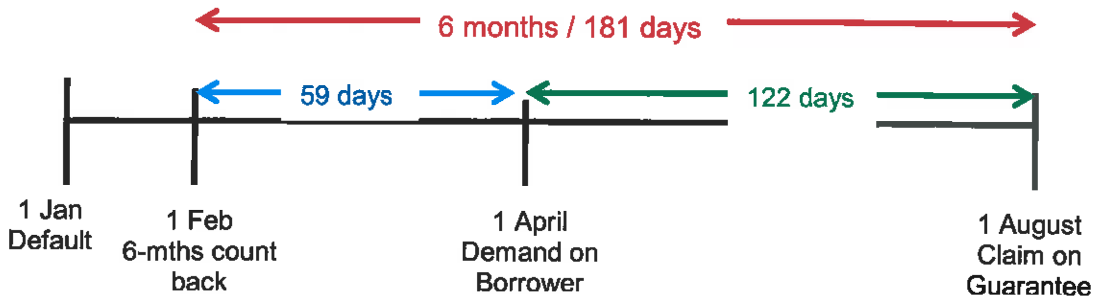
Any interest accrued should be charged at the prevailing interest rate, be it the Borrower's normal interest rate, or the default interest rate, as specified within the Borrower's Facility Letter.

In order to calculate interest claimable under the guarantee, the Lender should count back from the date of the Claim on the Guarantee to the time limit of 9 months (Legacy SFLG) or 6 months (New SFLG) or the point at which the Borrower ceased to cover interest payments (whichever is the sooner) and apply the relevant interest rate.

Worked Example

Facility Letter	01-Jan-09
Default	01-Jan-11
Demand on Borrower	01-Apr-11
Liquidation	01-Jul-11
Claim on Guarantee	01-Aug-11
Capital outstanding at default, and at date of Claim on Guarantee	£30,000
Normal interest rate	6%
Default interest rate	12%

As the Facility Letter is 1st January 2009, this is a New SFLG, which allows the Lender to add back up to 6 months' interest (at the prevailing interest rate). Thus, in this example 122 days can be applied at the default interest rate and 59 days at normal interest rate, adding up to 181 days (6 months) in total, as follows:



The total interest to pay is £30,000 (outstanding capital) multiplied by 59 days at the regular interest rate of 6%, and 122 days at the default interest rate of 12%, as shown below:

Interest calculation	
Demand on Borrower to 6 month limit (£30k x 6%) x (59/365)	291
Claim to Demand on Borrower (£30k x 12%) x (122/365)	1,203
	1,494

Plus

(iii) Where applicable, fixed rate break costs

Break costs can be claimed for Legacy SFLG only, up to a maximum amount equal to 1.25% multiplied by the outstanding capital balance and the number of years of the fixed interest rate term remaining as at the date of Claim on the Guarantee.

Multiplied by

(iv) The Guaranteed Percentage of the SFLG Loan

The Guaranteed Percentage is the guaranteed rate which was applicable at the time the SFLG loan was issued. For Legacy SFLG the guarantee percentage is 70%, 75% or 85%. For New SFLG the guarantee percentage is 75%. The applicable guarantee rate for any loan will be recorded on the SFLG Web Portal.

Worked Example

Continuing with the previous example, the Web Portal will automatically apply the 75% guarantee percentage as follows, to calculate the value of the SFLG Claim (on the Secretary of State – via CfEL).

Capital Outstanding	£30,000
Interest Claim	£1,494
Total Claim	£31,494
Multiply by	75%
Value of Claim on the Secretary of State	**£23,620**

Demand Invoice

- The Demand Invoice is the document via which the Lender formally seeks payment from CfEL for all of the Claims on the Guarantee which have been recorded on the Lender during the preceding quarter.

- Claims may be made on a quarterly basis, on quarters ending 31st March, 30th June, 30th September and 31st December. To make a Claim, Lenders must forward a hard copy of the Demand Invoice (and Recoveries Statement, where applicable) to CfEL at the end of the quarter reflecting activity recorded on the Web Portal over the period.

- Each Demand Invoice should be presented on the Lender's letterhead or other official stationery and should contain the following information:
  - The date on which it is being submitted
  - A unique reference number assigned by the Lender
  - The period/quarter to which it refers
  - A name and contact details for queries
  - For each facility against which Demand is being made:
    - the loan reference number,
    - the business name, and
    - the amount being claimed.
  - The total number and value of the Demands listed on the Invoice

- Only one Demand Invoice may be submitted for each quarter and should be submitted as soon as possible after the end of the quarter to which it refers. Any SFLG facilities omitted from a Demand Invoice in error should be included on the following quarter's Invoice.

Settlement of Demand

- CfEL will advise the Lender of the settlement of each individual SFLG facility by changing the status of the loan record on the Web Portal from "Demand against Guarantee" to "Settled".

- CfEL will make payment to the Lender within 30 days of receipt of the Demand Invoice. Demands and Recoveries are "netted off" each quarter by the Lender and BIS will make a payment within 30 days to the Lender for the net amount. In the event that Recoveries are higher than claims in any one quarter, the Lender should send a cheque for the difference, payable to "BIS".

3

- Pursue Borrower for Repayment/Recovery of Outstanding Exposure

- After making a SFLG Guarantee Claim, Lenders should follow their normal recovery processes to assess whether a recovery can be made from the Borrower for the outstanding SFLG exposure at default.
- **The Borrower remains liable for 100% of the outstanding debt at default even if BIS has settled the Lender's Guarantee Claim on the SFLG loan.**
- If the lending was totally unsecured, it may be that the Lender believes it appropriate to pursue unsecured assets of the Borrower via recovery measures. Such unsecured assets may be company assets (in relation to lending to a limited company) or personal assets (in relation to lending to a sole trader or partner).

4

- Recoveries Procedures (via security realisations or recovery procedures)

Practical Application

Realisations from formally charged business or personal assets (as appropriate) to secure other (non-SFLG) Lender exposure

- Even though Lenders were not permitted to charge any security to specifically support the SFLG loan, security may well have been charged by the Lender to secure other lending facilities provided to the Borrower by the Lender.
- If the Lender's facility documentation contains an "all monies and liabilities" clause, the SFLG exposure will be caught under this clause and could potentially benefit from the security formally charged by the Borrower.
- Upon default by the Borrower and the subsequent realisation of this charged security or recovery assets by the Lender, it may be that, following repayment of appropriate Commercial Debt, surplus security proceeds are available and this surplus could be used to reduce any outstanding SFLG Debt.
- Such surplus security or recovery proceeds may only be used to repay SFLG exposure where they are recovered via permitted collateral, i.e. recovered pursuant to security granted by a company or any security over an asset which is used or is available for use in the business of the Borrower. Therefore, by way of example, any proceeds from security realised via personal guarantees attached to Commercial Debt, where there is an "all monies and liabilities" clause, may not be applied to the SFLG Debt.
- Any uncharged personal assets of a sole trader or partner may also not be applied to the SFLG Debt.

Recoveries from unsecured business or personal assets / any other unsecured recoveries including:

- Any repayments (lump sum, ad-hoc or regular repayments) made to the Lender on a voluntary basis by the Borrower.
- Any payments made to the Lender following legal proceedings against the Borrower, including:
  - any bankruptcy or insolvency proceedings (including Individual or Company Voluntary Arrangements); and
  - the proceeds of enforcement action against the Borrower which the Lender pursues towards recovery of the debt.

Use of Debt Collection Agents

- Where it is the Lender's normal commercial practice to use the services of a Debt Collection Agent ("DCA") it should continue to do so.

Sale of Outstanding Debts to a Third Party

- Note that if a Lender sells any outstanding SFLG debt to a Debt Collection Agent or any other Third Party, the proceeds received should be classed as a recovery and any such proceeds should be used to reduce outstanding SFLG exposure / provide a refund to the Secretary of State (via CfEL).

Cessation of Recovery Procedures

- The Lender should follow their normal commercial practices in terms of recovery and enforcement procedures. This includes cessation of pursuit of Borrowers where no further repayment is likely or possible, as per normal procedures. To assist audit, a file note should be made noting the commercial justification for the decision not to continue pursuing recovery.

Recovery Costs

- Lenders are permitted to deduct from their recovery proceeds all reasonable costs incurred in realising the value of the recovery.

5 • Apportion Recovery Proceeds

Where there is a recovery following a Claim on the Guarantee, then a refund may be payable to the Secretary of State (via CfEL). Whilst there is no backstop date for Recoveries to be made, Lenders should apply their normal commercial judgement to decide when it is appropriate to cease recovery activity.

The following steps show how to apportion recoveries in accordance with Schedule 2 of the SFLG Legal Agreement. These guidelines help the Lender determine whether a refund is due to the Secretary of State and if so, how to calculate the amount of the refund.

Step 1 – Categorise Debt

- **Divide all outstanding Lender exposure into SFLG and Non-SFLG debt ("Commercial Debt").**
- **Where there is Commercial Debt, categorise that debt into either:**
    - **Commercial Debt issued before or simultaneous to the SFLG Debt; and / or**
    - **Commercial Debt issued after the SFLG Debt.**

For practical purposes, "Commercial Debt issued simultaneous to the SFLG Debt" means where the new Commercial and SFLG Debt were issued as part of the same funding package to the Borrower. We would anticipate that the facility letter for each would have the same or very similar date even if draw-down does not occur at the same time. Typically, funding lines will be "marked as available" on or around the same date as the SFLG Debt – although CfEL reserves its discretion to examine specific cases on an individual basis.

Where Commercial Debt is offered (or existing limits are increased) alongside SFLG Debt, it is the net amount of such new or increased facilities which is treated as simultaneous debt for the purposes of the recovery provisions.

Step 2 – Apply Priority Rules to Outstanding Debt

- **Apply priority rules to the recovery funds and outstanding debt:**

    - **Commercial Debt issued prior or simultaneous to the SFLG Debt always ranks before SFLG Debt for receipt of recovery proceeds.**
    - **If prior or simultaneous Commercial Debt has been fully repaid and there remains a surplus of recovery funds, this surplus should be split (pro-rata) between the SFLG Debt and any Commercial Debt issued after the SFLG Debt.**

- **Any refund to the Secretary of State is calculated using the following Recovery Formula:**

$$\left(\frac{A}{A+B} \right) \times C \quad \times \text{Guarantee \%}$$

Where:

A: Total outstanding SFLG balance at date of Guarantee Claim (before any reduction to 75%).

B: Outstanding Commercial Debt issued after the SFLG Debt plus interest accrued

C: Remaining recovery funds available

Guarantee Percentage: the percentage of any single loan that is covered under the guarantee. For New SFLG the percentage is 75%. For Legacy SFLG the percentage is between 70%, 75% and 85%.

See Section 3.3 of this Lender Manual for worked examples of the apportionment rules

- Where there is only SFLG Debt remaining, the Recovery Formula can be reduced to:

  C x Guarantee %

- If, after applying these apportioning rules, a refund is due to the Secretary of State, the Lender should ensure this recovery amount is included on the next Recoveries Statement to CfEL.
- After the refund to the Secretary of State has been calculated, any remaining recovery funds can be applied by the Lender to its outstanding balance on the SFLG Debt.
- For the avoidance of doubt, CfEL would not expect any refund to the Secretary of State to exceed the amount paid out under the Guarantee.

<u>Notes and Exceptions to the Apportionment Rules</u>

1. ***Priority difference between New Scheme and Legacy SFLG***
   - *Whilst in general, any Commercial Debt issued after the issue of SFLG debt does not have priority, there is an exception which applies to certain Legacy SFLG cases where the Lender has made an individual request for Commercial Debt issued subsequent to SFLG Debt to have priority. The ability to request priority for these cases ceased upon introduction of the SFLG New Scheme.*

2. ***Overdrafts***
   - *Where the Borrower has a prior (to SFLG debt) overdraft then the value of the "prior debt" is up to a maximum of the overdraft **limit** at the time that the SFLG was offered. If at default, the balance on the overdraft is higher than the limit (prior to SFLG being granted) and/or the overdraft limit has been subsequently increased, then this additional overdraft balance (or limit if limit has been increased)*

ranks on an equal basis to SFLG debt in terms of priority for receipt of recovery proceeds. All overdraft exposure up to the original overdraft limit (when the SFLG facility was granted) has priority over SFLG for receipt of recovery proceeds.

3. ***Security via a legal charge but without an "all monies & liabilities" clause within the facility documentation***
   - *If there is any Commercial Debt that: a) is backed by a specific legal charge (for example, a chattels mortgage); and b) the charge does not include an "all monies & liabilities" clause then, in such circumstances, the related Commercial Debt should be repaid in the first instance with any surplus monies thereafter, if any exist, to go to the Borrower.*

4. ***"Excepted Facilities and Security"***
   - *Any security charged in respect of a commercial or residential mortgage (i.e. the property being purchased) must be used to repay that mortgage in the first instance regardless of when the mortgage was issued. If there are any surplus security funds once the related mortgage has been repaid, and the mortgage facility documentation includes an "all monies and liabilities" clause, then these funds should be apportioned according to the standard apportionment rules.*

5. ***"Ineligible Proceeds"***
   - *Ineligible proceeds are any security or recovery proceeds from sources other than those described in section 3.2.4. In practice, ineligible proceeds will be any proceeds which the Lender would not normally look to in any given lending scenario.*
   - *For example, for limited company Borrowers, "ineligible proceeds" would include the personal assets of Directors which have not been charged or which cannot be looked to in order to satisfy a personal guarantee liability on behalf of the limited company.*
   - *For sole traders and partnership Borrowers, "ineligible collateral" would be any security or assets which the Lender would not look upon as part of the available security/assets package as being potentially available from the Borrower. For example, when examining a Borrower's Statement of Net Worth, the normal practice for some Lenders may be to discount any value attributable to a life policy. In this instance, the life policy would therefore be "ineligible collateral".*

6. ***Interest accrued after date of Claim on the Guarantee***
   - *Any interest (on Commercial debt and SFLG debt) accrued after a claim has been made on the SFLG guarantee, can be deducted from any recovery proceeds. Once accrued interest has been deducted, Lenders should then apportion remaining recovery proceeds as per the apportionment rules.*

7. ***Interest received after the date of Claim on the Guarantee***
   - *If a Lender receives sums from a Borrower in respect of interest accrued after the date of the Claim on Guarantee, that Lender must pay to the Secretary of State an amount equal to the lesser of (1) the guaranteed percentage of the sums received; and (2) the amount of interest that would accrue during the relevant period on the monies due from the Secretary of State if interest were to accrue at the rate specified in the facility letter.*

6 • Making a Refund to BIS

The Recoveries Statement

- The "Managing Recoveries" screen within the Web Portal will assist in calculating the correct amount due to the Secretary of State. Repayment details should be recorded on the Web Portal for each SFLG facility and then on a quarterly basis, repayments across the Lender's whole portfolio should be entered on to the Recoveries Statement.

- The Recoveries Statement is the document on which the Lender summarises the amounts due to the Secretary of State arising from any Recoveries from previously settled Demands and accompanies payment of those Recoveries to the Secretary of State.

- Each Recoveries Statement should be presented on the Lender's letterhead or other official stationery and should contain the following information:
    - The date on which it is being submitted;
    - A unique reference number or other identifier assigned by the Lender;
    - The quarter to which it refers; and
    - A name and contact details for queries.

- For each SFLG facility against which a recovery has been made and payment is due to the Secretary of State:
    - the loan reference number;
    - the business name; and
    - the amount recovered.

- The information on the Recoveries Statement should be consistent with the information already entered on the SFLG Web Portal in connection with the facilities affected. The total number and value of the Recoveries should be listed on the Recoveries Statement.

- Only one Recoveries Statement may be submitted for each quarter and should be submitted as soon as possible after the end of the quarter to which it refers. Any SFLG facilities omitted from a Recoveries Statement in error should be included on the following quarter's Recoveries Statement. Please note that more than one recovery can be made for each SFLG facility.

- In transactional terms funds recovered are netted off from the value of claims for which settlement is required.

- Following any recovery, update the Web Portal status to Recovered. CfEL will then update the Web Portal status to Realised.

Regular Recovery Plans

- It is recognised that there will be situations where repayment programmes may involve very small monthly repayments. To help reduce administration, where small regular payments are concerned, it is not necessary to update the Web Portal monthly and make quarterly submissions in the Recoveries Statement. Instead, repayments may be aggregated together for submission with less frequency, but preferably at least once per year.

Incorrect Calculations and Losses

- If the Lender claims the incorrect amount of money under the SFLG guarantee then the Lender must repay the money as soon as reasonably practical if it has received an overpayment.

- If the Lender did not claim enough money because of an administrative mistake, the scheme will pay the full amount due as soon as reasonably practical.

- The scheme cannot be held responsible for any other loss or disadvantage the Lender may suffer as a result of being a member of the scheme.

3.3 Worked Examples of SFLG Recovery Scenarios

SCENARIO ONE

Outstanding SFLG loan balance (capital plus interest) at default = £110,000

- Lender is entitled to claim 75% X £110,000 = £82,500

Other outstanding Borrower Debts at Default were:

- An overdraft provided prior to the SFLG facility with outstanding balance of £30,000
- A term loan provided subsequent to the SFLG facility with outstanding balance of £10,000

Security held and funds subsequently realised by the Lender:

- Charge over machinery (all monies) which is sold for £25,000

Step 1 – Categorise debt

- SFLG Debt is £110k
- Non-SFLG Debt is £40k (£30k of which is prior debt, £10k is subsequent debt)

Step 2 – Apply Priority Rules to Outstanding Debt

- Recovery Proceeds are £25k
- Prior Non-SFLG Debt takes priority for receipt of recovery proceeds. The £25k recovery proceeds are therefore used to repay the £30k overdraft. £5k debt is outstanding from the overdraft
- No further recovery proceeds are available. No refund is therefore due to BIS

Summary

Outstanding Commercial Debt:	£15,000 (£40,000 - £25,000 recovery)
Outstanding Lender SFLG Debt:	£27,500 (£110,000 - £82,500 guarantee payment)
Government Guarantee paid:	<u>£82,500</u>
	£125,000

SCENARIO TWO

Outstanding SFLG loan balance (capital plus interest) at default = £110,000
- Lender is entitled to claim 75% X £110,000 = £82,500

Other outstanding Borrower Debts at Default were:
- An overdraft provided prior to the SFLG facility with outstanding balance of £10,000
- A term loan provided subsequent to the SFLG facility with outstanding balance of £30,000

Security held and funds subsequently realised by the Lender:
- Charge over machinery (all monies) which is sold for £25,000

Step 1 – Categorise debt

- SFLG Debt is £110k
- Commercial Debt is £40k (£10k of which is prior debt, £30k is subsequent debt)

Step 2 – Apply Priority Rules to Outstanding Debt

- Recovery Proceeds are £25k
- Prior Non-SFLG Debt takes priority for receipt of recovery proceeds. The £25k recovery proceeds are therefore used to repay the £10k overdraft. £15k recovery proceeds remain available
- The remaining Lender debt of £30k was provided after the SFLG loan and hence has equal priority for receipt of any surplus recovery proceeds
- Of the £15,000 the amount repayable to the Secretary of State is calculated as follows:
    - (A)/(A+B) X C = (110,000)/(110,000+30,000) x £15,000 = £11,786
    - £11,786 x 75% = £8,839

Of the £15,000 surplus recovery proceeds, £8,839 is refunded to the Secretary of State and the remaining £6,161 is retained by the Lender.

These can be offset against the Lenders' losses which consist of:

- £30,000 on the subsequent term loan
- The remaining £27,500 (25%) of the SFLG-backed loan which is at the Lender's risk

The remaining net loss to the Lender is £51,339.

Summary

Outstanding Commercial Debt:	£23,839 (£40,000 - £10,000 recovery - £6,161 recovery)
Outstanding Lender SFLG Debt:	£27,500 (£110,000 - £82,500 guarantee)
Government Guarantee paid:	<u>£73,661</u> (£82,500 guarantee - £8,839 refund)
	£125,000

SCENARIO THREE

Outstanding SFLG loan balance (capital plus interest) at default = £110,000

- Lender is entitled to claim 75% X £110,000 = £82,500

Other outstanding Borrower Debts at Default were:

- A term loan provided after the SFLG facility with an outstanding balance of £20,000

Security held and funds subsequently realised by the Lender is:

- A debenture under which £150,000 is obtained

Step 1 – Categorise debt

- SFLG Debt is £110k
- Commercial Debt is £20k (all of which is subsequent debt)

Step 2 – Apply Priority Rules to Outstanding Debt

- Recovery Proceeds are £150k
- SFLG Debt is £110k
- Non-SFLG Debt is £20k (which is subsequent debt and hence of equal ranking as SFLG to receipt of recovery proceeds)
- Of the £150,000 the amount repayable to the Secretary of State is calculated as follows:
  - (A)/(A+B) X C = (110,000)/(110,000+20,000) x £150,000 = £126,923
  - £126,923 x 75% = £95,192
- Of the £150,000 surplus recovery proceeds, £95,192 is technically refundable to the Secretary of State. However, the previous Claim upon BIS was for £82,500. Therefore, in this instance, £82,500 should be refunded to BIS, with the remaining funds of £67,500 (£150,000 - £82,500) all available to the Lender to repay all outstanding indebtedness of the Borrower
- Existing Lender debt is £20,000 from the term loan plus £27,500 relating to the unsecured proportion of the SFLG loan. Total Lender debt is £47,500
- All of this debt can be fully repaid. A surplus of £20,000 remains and this is returned to the Borrower

Summary

Outstanding Commercial Debt:	£0 (£20,000 - £20,000 recovery)
Outstanding Lender SFLG Debt:	£0 (£110,000 - £82,500 g'tee - £27,500 recovery)
Refund to Borrower:	£20,000
Government Guarantee paid:	£0 (£82,500 guarantee - £82,500 refund)
	£20,000

SCENARIO FOUR

Outstanding SFLG Debt (capital plus interest) at default: £20,000

- Lender is entitled to claim 75% x £20,000 = £15,000

Outstanding Commercial Debt at Default was:

- £60,000 term loan issued before the SFLG

Security held and funds subsequently realised by the Lender:

- Charge over business assets (all monies) in relation to the Commercial Debt - which are sold for £70,000 after the Lender makes a Claim on the Guarantee

Step 1 – Categorise debt

- SFLG exposure is £20,000
- Commercial Debt exposure is £60,000, which was issued before the SFLG

Step 2 – Apply Priority Rules to Outstanding Debt

- £70,000 is realised from the charge over the business assets
- This is used by the Lender to fully repay the Commercial Debt term loan of £60,000, leaving £10,000 surplus recovery funds which can be used to reduce outstanding SFLG Debt
- Of this £10,000, 75% needs to be refunded back to the Scheme as its share of the recovery proceeds i.e. £10,000 x 75%
- £7,500 is therefore to be refunded to the Secretary of State
- The remaining £2,500 can be used by the Lender to reduce its outstanding SFLG exposure

Summary

Outstanding Commercial Debt:	£0 (£60,000 - £60,000 recovery)
Outstanding Lender SFLG Debt:	£2,500 (£20,000 - £15,000 guarantee - £2,500 recovery)
Government Guarantee paid:	<u>£7,500</u> (£15,000 guarantee - £7,500 refund)
	£10,000

SCENARIO FIVE

Outstanding SFLG Debt (capital plus interest) at default: £20,000
- Lender is entitled to claim 75% x £20,000 = £15,000

Outstanding Commercial Debt at default
- £60,000 term loan issued after the SFLG

Security held and funds subsequently realised by the Lender:
- Charge over business assets (all monies) in relation to the Commercial Debt - which is sold for £50,000 after the Lender makes a Claim on the Guarantee.

Step 1 – Categorise debt

- SFLG exposure is £20,000
- Commercial Debt exposure is £60,000, which was issued after the SFLG

Step 2 – Apply Priority Rules to Outstanding Debt

- £50,000 is realised from the charge over the business assets
- As the Commercial Debt was issued after the SFLG it has equal (pro-rata) priority to the SFLG Debt for receipt of recovery funds
- Of the £50,000 the amount repayable to the Secretary of State is calculated as follows:
    - (A)/(A+B) x C = (20,000)/(20,000 + 60,000) x £50,000 = £12,500
    - £12,500 x 75% = £9,375
    - The final guarantee settlement is therefore the original claim of £15,000 less refund of £9,375 = £5,625
    - The Lender can keep the remaining recovery funds (25% x £12,500 = £3,125) and apply it to its outstanding SFLG Debt
- In addition the Lender can also apply the outstanding balance of recovery funds (£50,000 - £12,500 = £37,500) towards repayment of its outstanding Commercial Debt

Summary

Outstanding Commercial Debt:	£22,500 (£60,000 - £37,500 recovery)
Outstanding Lender SFLG Debt:	£1,875 (£20,000 - £15,000 g'tee payment - £3,125 recovery)
Government Guarantee paid:	£5,625 (£15,000 guarantee - £9,375 refund)
	£30,000

SCENARIO SIX

Outstanding SFLG Debt (capital plus interest) at default = £110,000

- Lender is entitled to claim 75% x £110,000 = £82,500

Outstanding Commercial Debt at default:

- An overdraft provided prior to the SFLG facility with outstanding balance of £10,000
- A term loan provided subsequent to the SFLG facility with outstanding balance of £30,000

Security held and funds subsequently realised by the Lender:

- Charge over machinery (all monies) which is sold for £40,000 after the Lender makes a Claim on the Guarantee.

Step 1 – Categorise debt

- SFLG Debt exposure is £110,000
- Commercial Debt exposure is £40,000
    - £10,000 of which is prior debt
    - £30,000 is subsequent debt

Step 2 – Apply Priority Rules to Outstanding Debt

- Following the claim under the Guarantee, £40,000 is realised from the charge over machinery
- This is used by the Lender to repay in full the outstanding overdraft of £10,000 leaving a surplus of £30,000
- Out of the surplus of £30,000 an amount is repayable to the Secretary of State – calculated as follows:
    - (A)/(A+B) x C= (110,000)/(110,000 + 30,000) x £30,000 = **£23,571**
    - **£23,571 x 75% = £17,679**
    - Refund payable to the Secretary of State = £17,679
    - The Lender can keep the remaining recovery funds (25% of the £23,571 = £5,892) and apply it to its outstanding SFLG Debt
- The Lender can apply the balance of £6,429 (£30,000 - £23,571) towards repayment of the Commercial Debt term loan

Summary

Outstanding Commercial Debt:	£23,571 (£40,000 - £10,000 recovery - £6,429 recovery)
Outstanding Lender SFLG Debt:	£21,608 (110,000 - £82,500 g'tee - £5,892 recovery)
Government Guarantee paid:	<u>£64,821</u> (£82,500 guarantee - £17,679 refund)
	£110,000

3.4 Key Differences in Demands and Recoveries between SFLG and EFG

In the circumstances leading to the need to **make a Guarantee Claim**, Lenders must follow their **normal commercial practice**, subject to noting the following scheme-specific parameters:

Criterion or Defining Characteristic	**Legacy SLFG**	**New SFLG**	**EFG**
Defining Loan Offer Period for respective scheme	Up to 30th November 2005 (NB loans Offered prior to 1st April 2003 subject to different Guarantee Rates)	Loans offered on or after 1st December 2005	Loans and other facilities offered from 14th January 2009
Entitlement to add fees and/or charges to the outstanding loan balance for the purposes of the Claim	None	None	None
Entitlement to claim interest	Up to 9 months of accrued interest counted back from date of Guarantee Claim or date when Borrower ceased to meet interest payments, whichever is the shorter	Up to 6 months of accrued interest counted back from date of Guarantee Claim or date when Borrower ceased to meet interest payments, whichever is the shorter	None, except in respect of Overdraft and Invoice Finance facilities (Types E & F), for which interest accrued prior to the earlier of Demand on the Borrower and the Facility Expiry Date may be included in the Guarantee Claim
Entitlement to claim fixed rate break costs (where specified in the Facility Letter)	Up to 1.25% of the outstanding capital balance per remaining year of the fixed interest rate	None	None

Criterion or Defining Characteristic	**Legacy SLFG**	**New SFLG**	**EFG**
Timeframe within which Claim must be made	Within 12 months of Demand on Borrower	Within 6 months of Demand on Borrower	Within 24 months of Demand on Borrower. Claims may be made sooner where the recovery process has been completed, or after 18 months, if the process remains incomplete
Basis of Guarantee Claim Calculation *(NB: The Web Portal performs calculation based on component variables input by Lender. Do not attempt to "mix" calculation on and off Web Portal)*	Outstanding Capital at Default *Plus* Up to 9 months accrued interest *Plus* Any eligible break costs *All multiplied by* The Guarantee Percentage (75% from 1st April 2003, either 70% or 85% previously. Web Portal holds Guarantee Percentage information)	Outstanding Capital at Default *Plus* Up to 6 months accrued interest *All multiplied by* The Guarantee Percentage (always 75%)	Outstanding Capital at Default *Plus* Eligible Interest (Types E & F only) *All multiplied by* The Guarantee Percentage (always 75%)
Web Portal Entry *(NB: This guidance intended specifically for staff familiar with the use of the Web Portal)*	Enter component variables of calculation separately as instructed. Portal automatically applies the applicable Guarantee Percentage and calculates Claim value	Enter component variables of calculation separately as instructed. Portal automatically applies the 75% Guarantee Percentage and calculates Claim value.	Enter component variables of calculation (net of any security realisations etc) as instructed. Portal automatically applies the 75% Guarantee Percentage and calculates Claim value

When **realising security and undertaking other recovery action**, Lenders must follow their **normal commercial practice**, subject to noting the scheme-specific parameters:

Criterion or Defining Characteristic	**Legacy SLFG**	**New SFLG**	**EFG**
Is it permissible to make a Claim while Security Realisation and Recovery actions are still underway?	Yes	Yes	Yes, but only once at least 18 months have elapsed from the date of Demand on Borrower. (NB: If all Recovery action has been completed in under 18 months then Claim may be made immediately)
Is it permissible to deduct Security Realisation and Recovery costs from proceeds prior to entering the scheme Claim and/or Post-Settlement Recoveries process?	Yes – All reasonable costs may be deducted from the proceeds received	Yes – All reasonable costs may be deducted from the proceeds received	Yes – All reasonable costs may be deducted from the proceeds received
Are there any assets / recoveries, whether Charged or Uncharged, which are specifically excluded from consideration?	Any security where the charge form does not have an "all monies and liabilities" clause Any personal asset not used in the business	Any security where the charge form does not have an "all monies and liabilities" clause Any personal asset not used in the business	Principal Private Residence
Is the Lender permitted to deduct from proceeds any interest on an outstanding commercial debt which has accrued since the date of Claim on Guarantee before apportioning Post-Settlement Recovery proceeds?	Yes	Yes	No

Criterion or Defining Characteristic	Legacy SLFG	New SFLG	EFG
Priority for Security Realisation and Recovery proceeds received *(NB: The Web Portal performs calculation based on component variables input by Lender. Do not attempt to "mix" calculation on and off Web Portal)*	Lender Commercial Debt issued prior to or simultaneous with SFLG Debt ranks ahead of SFLG Lender Commercial Debt issued after SFLG Debt ranks on an equal basis with SFLG Debt However, prior to signature of the agreement migrating management of Legacy SFLG cases to the Web Portal, Lenders had and in the majority of cases exercised the right to request on a case by case basis that the ranking of subsequent Lender Commercial Debt be altered so that it ranked ahead of SFLG Debt	Lender Commercial Debt issued prior to or simultaneous with SFLG Debt ranks ahead of SFLG Lender Commercial Debt issued after SFLG Debt ranks on an equal basis with SFLG Debt Remaining recoveries are then apportioned pro-rata between the outstanding balances of the subsequent Commercial and SFLG Debts The proportion of the recovery to be refunded to BIS is therefore determined by the formula: **(A/(A+B)) x C x 75%**	Note the importance of TWO distinctions: a) Timing - whether recoveries were made prior or subsequent to a Guarantee Claim having been made; b) Type – for each timing case, whether the recoveries arise from Linked Collateral or from Other Proceeds. **<u>RECOVERIES MADE PRIOR TO GUARANTEE CLAIM</u>** **1 – From Linked Collateral** Apply proceeds from Linked Collateral to EFG Debt except if there is also Commercial Debt issued simultaneously, in which case apply proceeds to linked Commercial Debt first with any surplus funds thereafter applied to EFG Debt. **2 – All Other Proceeds** Lender Commercial Debt issued prior to or simultaneous with EFG Debt ranks ahead of EFG for receipt of recovery proceeds Lender Commercial Debt issued after EFG Debt ranks on an equal basis Recoveries are apportioned pro-rata between the outstanding balances of the subsequent Commercial and EFG Debts The proportion of the recovered funds attributable to reducing the outstanding EFG exposure is therefore determined by the formula: **(A/(A+B)) x C**

Criterion or Defining Characteristic	Legacy SFLG	New SFLG	EFG
	Remaining recoveries are then apportioned as for New SFLG (next column), except that in practice where the concession regarding the ranking of subsequent Commercial Debt has been invoked then B = 0 and thus those recoveries are attributable in full to the SFLG Debt The proportion of the recovery to be refunded to BIS is dependent upon the Guarantee Percentage applicable to the loan concerned	Where: A = outstanding SFLG exposure at Date of Guarantee Claim B = outstanding subsequent Lender Commercial Debt at time of recovery C = total recovered funds available	Where: A = outstanding EFG exposure at time recoveries are received B = outstanding subsequent Lender Commercial Debt C = total recovered funds available After this apportionment has been made a Guarantee Claim should then be made for 75% of the remaining EFG exposure **<u>RECOVERIES MADE AFTER GUARANTEE CLAIM</u>** **1 – From Linked Collateral** Apply proceeds from Linked Collateral to EFG Debt except if there is also Commercial Debt issued simultaneously, in which case apply proceeds to linked Commercial Debt first with any surplus funds thereafter applied to EFG Debt. 75% of proceeds attributable to EFG Debt are to be refunded to BIS **2 – All Other Security Realisation and Recovery Proceeds** Lender Commercial Debt issued prior to or simultaneous with EFG Debt ranks ahead of EFG for receipt of recovery proceeds Lender Commercial Debt issued after EFG Debt ranks on an equal basis Recoveries are apportioned pro-rata between the outstanding balances of the subsequent Commercial and EFG Debts The proportion of the recovery to be refunded to BIS is therefore

Criterion or Defining Characteristic	Legacy SLFG	New SFLG	EFG
	(This is 75% in most remaining cases, but 70% or 85% in respect of loans Offered before 1st April 2003)		determined by the formula: **(A/(A+B)) x C x 75%** Where: A = outstanding EFG exposure on which Guarantee Claim was based B = outstanding Lender Commercial Debt at time recovery was made C = recovery funds available After this calculation has been performed the refund due to BIS should be paid through the established quarterly Demand Invoice and Recoveries Statement process
Web Portal entry *The Web Portal will calculate any refund due to BIS based upon data input by Lender* *(NB: This guidance intended specifically for staff familiar with the use of the Web Portal)*	Enter component variables (i.e. B & C above, also interest and break costs) of calculation separately as instructed. Web Portal automatically applies the applicable Guarantee Percentage and calculates refund value	Enter component variables (i.e. B & C above, also interest) of calculation separately as instructed. Web Portal automatically applies the applicable Guarantee Percentage and calculates refund value	Enter component variables of calculation separately as instructed. • Outstanding Non-EFG Debt; • Post-settlement realisations excluding Linked Collateral; and • Linked Collateral. Web Portal automatically applies the applicable Guarantee Percentage and calculates refund value

4 Key Differences between SFLG and EFG

Criteria	*Enterprise Finance Guarantee*	*Small Firms Loan Guarantee (New Scheme, from December 2005)*
Type of Debt Instrument	Term Loan Overdraft Guarantee Invoice Finance Guarantee	Term Loan Only
Maximum Turnover of Borrower	£41m (where the Borrower is a company within a larger group, the turnover is treated on an aggregated basis for the whole group of companies)	£5.6m (where the Borrower is a company within a larger group, the turnover is treated on an aggregated basis for the whole group of companies)
Amount Minimum Maximum	 £1,000 £1,000,000 outstanding limit at any one time (including any fees and charges added to the facility)	 £5,000 £250,000
Facility Term Term Loan Overdraft Invoice Finance	 3 months to 10 years 3 months to 2 years 3 months to 3 years	 2 to 10 years N/A N/A
Premium	2%	2%
Amount of Government Guarantee	75% of capital (accrued interest can be claimed for overdraft and invoice finance EFG facilities up to the date on which the Lender makes Demand for repayment on the Borrower and the scheduled expiry date of the facility may be included)	75% of capital and up to 6 months' interest
Eligible Lending Scenarios	New lending via term loan, overdraft or invoice finance facility Refinancing of existing utilised overdraft on to term loan plus provision of replacement overdraft Debt consolidation/refinancing of term loans and invoice finance overpayments on to term loan	New lending via term loan only N/A N/A
Capital Repayment Holiday	Permitted for any period up to 10 years. The facility must be fully repaid within the remaining term. (Lender's own normal lending criteria on capital holidays will apply)	Permitted for any period up to 10 years. The facility must be fully repaid within the remaining term. (Lender's own normal lending criteria on capital holidays will apply)

Criteria	*Enterprise Finance Guarantee*	*Small Firms Loan Guarantee (New Scheme, from December 2005)*
Tranche Drawdown	Permitted	Permitted
Age of Business	No restriction	Business up to 5 years old – from 1st December 2005 to 31st March 2008. No restriction from 1st April 2008 or before 1st December 2005
Security	If there is insufficient security available the Lender is entitled to take a Personal Guarantee plus any other available security. Principal Private Residence cannot be used as security	All available security to be exhausted
State Aid	*De minimis* State Aid framework. Maximum assistance that can be provided in any rolling three-year period is €200,000, calculated individually for each facility guaranteed. Lower limits apply in Agriculture, Fisheries and Road Transport	Maximum assistance that can be provided in any rolling three-year period is €200,000, calculated individually for each loan guaranteed. Lower limits and a different basis of calculation apply in Agriculture and Fisheries, which are Notified Aids
Eligible Sectors	***(Partially) Ineligible Sectors:*** Agriculture Fish farming Banking, finance & associated services Coal Formal Education Insurance & associated services Public administration National defence Road transport Compulsory social security Financing of specific export orders	***Ineligible Sectors*** Forestry Shipbuilders Steel Synthetic Fibres Transport Authors Music Composers and own-account artists Betting and Gambling Medical, health and veterinary services Postal services Ticket agents Tied public houses Coal Insurance and associated services Public administration National defence Compulsory social security Financing of specific export orders
Annual Claim Limit	An annual Claim Limit has been introduced in order to comply with current European State Aid rules on Guarantee Schemes operating under the *de minimis* State Aid framework. Currently worst case loss scenario is set to a net default rate of 15%	Had the SFLG continued beyond 2009, a Claim Limit would have had to have been introduced

Criteria	*Enterprise Finance Guarantee*	*Small Firms Loan Guarantee (New Scheme, from December 2005)*
Claiming from BIS – Timescale	(i) Formal Demand on the Borrower to be made within 6 months of default of payment of the Premium (or, if the term of the EFG facility is less than 6 months, before the expiry of the actual term of the EFG facility) (ii) Security to be realised before Lender makes Claim on the Guarantee – which should follow within 6 months of final realisation (iii) If security not realised within 18 months, Claim on the Guarantee may be made to BIS at this point, with a long stop deadline of 6 months after expiry of the 18 month period (i.e. 24 months)	Formal Demand on the Borrower to be made within 6 months of default in payment of the Premium. Claim on the Guarantee can be made at any point up to 6 months after the Lender has Demanded repayment from the Borrower
Transfer of Guarantee between Lenders	No – but new EFG applications for corresponding loans may not count towards State Aid limits	Yes (if the Lender has agreed or transferred its rights under a loan in accordance with the transfer process provisions set out in the Legal Agreement)