Enterprise Finance Guarantee – Key Messages

Introduction – Rationale & Fundamentals

Lending to viable SMEs lacking collateral or track record	The Enterprise Finance Guarantee (EFG) is delivered by the British Business Bank (BBB) on behalf of the Department for Business, Innovation & Skills (BIS) to facilitate lending for investment, working capital or restructuring purposes to viable Small and Medium-sized Enterprises (SMEs) which would otherwise be declined due to their having insufficient security or inadequate track record.
Decision-making devolved to Lenders	Decision-making on eligibility for EFG is devolved to the lending institution. The facility is provided by the Lender using their own capital and subject to their own commercial terms and pricing for the particular lending product provided.
Guarantee to Lender	The EFG guarantee is from the Government to the Lender, not to the Borrower. NB: EFG is not a form of payment protection insurance for the Borrower, and nor does it reduce or remove the Borrower's responsibility to repay the entire guaranteed facility.
Borrower liability	The Borrower remains fully liable for the entire outstanding debt at all times.
75% cover	The Government guarantee covers 75% of the Lender's net (post-recovery) exposure in the event that the Borrower defaults on repayment of the EFG-backed facility.
2% premium paid by Borrower	EFG enables the Borrower to access finance which would not otherwise have been available. The Borrower contributes to the cost of the scheme by paying a fee (premium).

Debt Instruments Supported by EFG

Each Lender determines the customer segments and range of debt instruments it wishes to use EFG to support from within the range of options set out below, with the proviso that refinancing activity may not exceed 20% of the Lender's annual portfolio of EFG-backed lending originations.

New or additional lending	
Term loans	New term loans to Borrowers seeking funding for working capital or investment purposes. EFG only applies to secured lending products – i.e. if the Lender would provide a facility on an unsecured basis EFG may not be used. EFG may be used where the Borrower has either no or insufficient security.
Overdrafts and other revolving facilities	New or additional revolving credit facilities via an eligible secured debt instrument, where the Borrower has no or insufficient security. Eligible debt instruments comprise overdrafts, fixed term revolving credit facilities, business credit cards, bonds & guarantees, BACS facilities, stocking finance, import finance, merchant services and multi-option facilities (setting a single facility limit which can be used across a variety of the above).
Invoice finance	New or increases to existing recourse invoice finance or factoring facilities, with an ability to guarantee an additional pre-payment percentage of up to 30% (subject to the total pre-payment percentage not exceeding 100%).
Refinance of existing exposure (with or without additional lending)	
Restructuring of existing term loans	Where a Borrower is struggling to service its existing term loans (or a term loan plus eligible revolving facility) and/or the value of existing security has deteriorated to an extent where it is inadequate to meet the Lender's normal security requirements, some or all of that existing debt may be refinanced to ease cashflow pressure and ensure ongoing viability.
Refinance of overdraft 'hardcore' to term loan	Where a Borrower has built up 'hardcore' on an overdraft facility and the Borrower has insufficient security to meet the Lender's normal security requirements, the Lender may refinance or restructure the 'hardcore' onto a term loan.
Restructuring of existing revolving and invoice finance facilities	If application of the Lender's normal commercial policy would result in an existing customer's facility limit otherwise being reduced on the basis of increased risk, such that the existing security plus any additional security available is not sufficient to support continued provision of the facility, the Lender may use EFG to support the element of the facility which is no longer commercially sustainable whilst retaining the existing debt instrument.
Excluded lending products	
Ineligible debt instruments	Other debt instruments, including asset finance and leasing, foreign exchange facilities, interest rate hedging products and all other derivative instruments are outside the scope of the scheme.

EFG Eligibility Criteria

The Lender should always assess any proposition according to their normal commercial lending criteria and should not be either more or less stringent than normal on the grounds that use of EFG is being contemplated.

Viability	
Fundamental	The applicant must be able to service and repay the proposed EFG-backed facility.

Security	
Fundamental	Finance would have been provided on a secured basis if security had been available.
Investigation	The Lender should investigate all security which may be available in accordance with its normal commercial lending procedures and either take a charge over it or explicitly discount it as being unavailable. Personal guarantees may be taken.
Treatment of partial security	Where there is some but insufficient security available, the Lender may either: a) Use the available security to lend on normal commercial terms, and then use an EFG-backed facility to fund the remaining borrowing requirement, in connection with which they will therefore not hold any security from the Borrower; or b) Fund the entire borrowing requirement using an EFG-backed facility, for which partial security from the Borrower will thus be held
PPR exclusion	A Borrower or guarantor's principal private residence (PPR) may not be used as security if the Lender is to benefit from the guarantee. Where there is equity in a PPR against which a Lender would normally consider lending then it should do so on normal commercial terms. Any further funding requirement can then potentially be considered independently via an EFG-backed facility. Where there is equity in a PPR but the potential Borrower or guarantor is not prepared to offer it as security then the Lender must decide whether accepting the applicant's stance would be consistent with their own security policies. EFG should never be used when sufficient alternative security is available to support lending on normal commercial terms.
UK SME Tests	
Group sales <£41m	EFG is only applicable to lending to individual SMEs (or group entities) with annual turnover of no more than £41m. It should not be used to facilitate lending to individuals in a personal capacity, but it may be used when lending to sole traders and partnerships.
UK operations	SMEs may be owned or registered outside the UK, but the business activity being financed must take place in the UK.
Facility values and limits	
Value	Between £1k and £1.2m if the term is no more than five years, or up to £600k for terms between five and ten years. Within this range a Lender may set higher minima or lower maxima in accordance with their commercial market positioning and lending product ranges.
Term	Three months to ten years for term loans, otherwise for a maximum of three years.
Repayment options	Repayment can be via regular monthly, quarterly or annual reductions, upon maturity (i.e. interest-only loan) or via periodic bullet repayments, at the discretion of the Lender.
Drawdown options	Single or multiple drawdowns, at the discretion of the Lender. Capital repayment holidays are also permitted, again at the discretion of the Lender.
£1.2m outstanding facility limit	Applicants may benefit from more than one EFG-backed facility so long as the aggregate outstanding value of all EFG-backed facilities available for use at any one time does not exceed £1.2m.
€200k rolling three year State Aid limit	EFG constitutes *de minimis* State Aid. The aid attributable to the EFG facility is calculated individually for each facility. No business may receive more than €200k of *de minimis* State Aid, including that arising from the current EFG application, in any rolling three year period. Lower limits applies to agriculture (€15K), fisheries (€30K) and road transport (€100k).
Ineligible industries	Most industrial sectors are eligible for EFG. There are a small number of exclusions, principally in respect of aspects of financial services, education and public administration.
Exports	EFG may not be used to fund export-specific activities. However, the fact that an SME exports is not a barrier to borrowing for domestic purposes.
Business acquisition	The use of EFG to support business acquisitions may be acceptable where the transaction creates or preserves value. Lending must be to a trading entity and not to an investment vehicle or individual.

EFG Premium

Premium	The Borrower pays 2% p.a. on the outstanding term loan balance, or the full facility limit for any revolving credit facility. Invoice finance premiums are payable at 2% p.a. on an industry benchmarked facility utilisation rate (to reflect the fact the Lender controls the release of funds). Premiums are payable quarterly in advance by direct debit.
Non-payment of the premium	If the premium is not paid, the EFG guarantee lapses and will be withdrawn from the Lender. Premium payments cease once the Lender has made demand on the Borrower.

Recoveries and Guarantee Claims

Recover before claiming	Guarantee claims are made based on 75% of the **net** loss to the Lender. Normal recoveries procedures should be followed prior to making a claim.
Subsequent recoveries	If further recoveries are made post-claim then a repayment to Government will in most cases be due.