BRITISH
BUSINESS
BANK

Enterprise Finance Guarantee

Frequently Asked Questions

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Section One

EFG Eligibility Conditions

My business meets the basic EFG eligibility criteria. Does that mean I will definitely get an EFG loan?

No. Lenders retain the sole responsibility for making decisions on loan applications, and will follow their normal lending criteria. EFG is only considered when the lender is satisfied that the businesses is viable, essentially able to afford the loan payments and repay the loan in full, but that there is inadequate security to meet the lenders loan criteria.

Is my business eligible for an EFG loan?

The accredited lender will determine whether your business is eligible. As a guide, EFG is open to businesses in most sectors. There are conditions related to size of loan, type of facility required and turnover of the business that need to be met to be eligible for an EFG facility.

The banks have told me that my business is not eligible for an EFG loan, but the information on the BIS website suggests I am. What can I do?

It is for individual lenders to decide on the eligibility of each business. However, the vast majority of business sectors are eligible for EFG-backed lending. EFG is subject to certain restrictions arising from the EU de minimis State Aid rules.

Are there limits on the size of EFG loans that are provided?

Yes. EFG loans are available from a minimum of £1,000 up to £1.2 million. There is no obligation on lenders to provide facilities across the whole range. Amounts offered will be dependent on their commercial lending criteria. No borrower may have more than £1.2 million of outstanding guaranteed term loan debt or guaranteed invoice finance or overdraft facilities available for use (or a combination amounting to £1.2 million in aggregate) at any one time.

What size of businesses is eligible for EFG loans?

EFG is open to businesses with a maximum turnover of £41 million. This limit is determined by the de minimis rules under which EFG operates. These set the maximum turnover limit at EUR50 million. The turnover limit is reviewed once a year and may rise or fall depending on the Euro/Sterling exchange rate.

In which parts of the country does EFG operate?

EFG loans are available from accredited lenders across the United Kingdom.

Are businesses in certain sectors more likely to EFG loans?

Lenders will make loan decisions according to their normal lending criteria. EFG is open to the vast majority of business sectors. However, State Aid rules apply differently to firms in certain industries, including agriculture, fisheries and road freight transport.

My business is a subsidiary of a group based overseas. Are we still eligible to apply for an EFG loan?

Yes. As long as the business operates in the UK, the group's turnover overall is less than £41 million, and the business meets the other core eligibility criteria, a loan could be provided under EFG.

Section Two

Types of EFG facilities available

What types of EFG facilities are available?

EFG may be used to facilitate loans, revolving credit facilities including overdrafts and invoice finance. This can be for new lending and re-financing. Accredited lenders are under no obligation to provide the full range of facilities.

My bank refused to offer me an overdraft under the EFG scheme. Can they do that?

Yes. There is no obligation on lenders to offer the full range of services provided under EFG, if to do so would be against their standard lending practices. The government will not intervene in this area.

How long can an EFG loan be provided for?

EFG loans are provided on terms from a minimum of 3 months up to a maximum of 10 years. For overdrafts the maximum term is 3 years and for invoice finance 3 years. These shorter timeframes reflect the nature of the product. Facilities above £600k are subject to a maximum term of 5 years.

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Section Three

EFG Application Process

How do I apply for an EFG loan?

Businesses seeking debt finance can approach one or more of the participating lenders. Decision making on individual loans is fully delegated to the participating lenders and is integrated with the commercial decision to lend. Where the lender determines the business is viable (i.e. able to meet the monthly loan repayments and repay the loan in full) but is lacking adequate security to meet the lenders standard lending requirements, they can consider providing a loan under EFG.

The Government plays no role in the loan decision process.

How long will it take to process my EFG loan application?

EFG was designed to be a simple add on to the lenders own credit application process. Lenders have confirmed that considerations of the EFG criteria and approval of the loan guarantee should, in the majority of cases, only add on average 2-3 days to the

lender’s own processes. This will be dependent on the borrower providing all information required to process the loan application.

I have heard that it takes months to get a decision on an EFG loan application. Is that right?

No. The vast majority of EFG loan decisions are made within a few days of the lenders standard processing times. Major lenders have committed to a 20-day processing target for EFG lending, measured from when the lender has received all relevant information from the borrower.

The Government monitors this closely.

Can a business apply for an EFG loan at more than lender?

Yes. There is no bar on making more than one EFG loan application, or applying for EFG loans at more than one lender. It is up to participating banks to make decisions on loan applications. Multiple loan applications will impact on your credit rating, so you should give this careful consideration. No borrower may have more than £1.2

million of outstanding guaranteed term loan debt or guaranteed invoice finance or overdraft facilities available for use (or a combination amounting to £1.2 million in aggregate) at any one time.

What information do I need to supply for an EFG loan?

EFG loans typically require all the same information that banks need to process a commercial loan application. Your lender will advise you of their requirements. Failure to provide the information requested will delay the loan decision and may lead to your loan application being declined.

The lender has asked that I contribute my own money to the start-up before they will consider an EFG loan. Can they do this?

Yes. It is standard commercial practice for lenders to seek a financial contribution from a borrower towards the cost of setting up a business. The existence of EFG does not change this requirement. The personal contribution shows the lender that the borrower is committed to the business, through a sharing of risk, but also impacts on the bank's assessment of the borrower's ability to afford repayments.

Section Four

Costs, fees, and loan terms and conditions

How much will an EFG loan cost?

The interest rate charged and any other fees applied to the loan are purely a commercial matter for the lender. Decisions will be made in line with their standard risk pricing policy. The government has no role in determining the cost of an EFG loan, outside the requirement for the borrower to pay the 2% annual premium.

Do lenders have the flexibility to offer repayment holidays or interest only repayment terms under EFG?

Yes. Lenders are free to offer comparable terms and conditions to those provided for their standard commercial products.

Why do I have to pay an additional 2% to the Government on top of the fees and charges paid to the lender?

By providing the lender with a 75% guarantee on each individual loan, the government is facilitating lending that would not otherwise have taken place. The 2% premium is a contribution towards the cost of the guarantee and means that the risk of default is appropriately shared between lender, borrower and taxpayer.

Section Five

The government guarantee

Does the 75% government guarantee mean I am only responsible for 25% of the loan?

No. The borrower is responsible for repayment of 100% of the EFG facility, not just the 25% outside the coverage of the government guarantee. Where defaults occur, the lender is obliged to follow their standard commercial recovery procedure, including the realisation of security, before they can make a claim against the government guarantee.

My business pays a 2% annual premium towards the cost of providing the government guarantee. Is this an insurance premium to cover me in case I am unable to repay my loan?

No. The guarantee is to the lender not the borrower. It is not an insurance policy to cover against default. By paying an additional 2% premium, the borrower is contributing towards the share of the risk along with the lender and the taxpayer.

Why doesn’t the government guarantee 100% of the loan? That would

encourage more lending.

The maximum amount of guarantee that the government is allowed to provide for each individual loan is 80%. This is a stipulation of the de minimis rules under which EFG operates.

Section Six

Security

Are lenders permitted to take a charge against my home as security for an EFG loan?

No. Under EFG, lenders are expressly prohibited from taking a charge over a principal private residence as security against an EFG loan.

Why is the bank asking me for security when the government is already providing a guarantee for 75% of the loan?

Under EFG, lenders are entitled to take security, including personal guarantees. This is standard commercial practice and an established mechanism for ensuring a degree of personal commitment to repayment of the loan by the business. In EFG this means there is a three-way risk sharing between borrower, lender and the government.

With the government providing a 75% guarantee, is it right that the lender can only ask for security to cover the 25% of the loan outside of the guarantee?

No. A personal guarantee should not be taken or attributed, solely or preferentially to cover the 25% of the EFG loan not covered by the government guarantee. The borrower is liable for repayment of 100% of the loan.

The bank will not offer me an EFG loan as I have a property that I am

unwilling to use as security. I thought banks were prohibited from taking a charge over my property as security for an EFG loan.

Under EFG, lenders are expressly prohibited from taking a charge over a principal private residence as security against an EFG loan. However, EFG is only considered when the lender has decided that the business is viable, but there is inadequate security to meet their commercial lending criteria. If you have sufficient security, such as through equity in a property to meet the lenders criteria, then by its very nature EFG is not required and not appropriate.

For the avoidance of doubt, the existence of EFG should not be seen by borrowers or their advisers as a mechanism for putting personal assets beyond consideration (principal private residence excluded for the purposes of EFG). If the lender refuses to offer EFG on the basis that the borrower had access to security which they were not prepared to put forward, then the lenders decision would be fully supported by BIS.

I am willing for the bank to take a charge over my principal private residence if it means I can secure an EFG loan. Is this possible?

Where a charge over a principal private residence is deemed appropriate by the lender and the borrower is willing to provide this charge, the lender can spilt the borrowing into two separate loans. This would be done through a secured loan utilising the equity in the property and a separate unsecured loan making use of EFG.

To be absolutely clear, if the borrower defaulted on their EFG loan, their principal private residence is explicitly excluded from any recovery action.

I am a minority shareholder within a business, but the lender wants a personal guarantee from me before they will provide us an EFG loan.

Can they do this?

Yes. Lenders will apply their own policies. It may be that, for instance, one lender would look to ask shareholders with 10% or more for a guarantee, whereas another may limit the requirement to shareholders with 20%+. Whether the shareholder is a director or works in the business may also be a factor – each lender is obliged to follow its normal commercial security policies.

Section Seven

Appealing EFG loan decline decisions

Are businesses that are turned down for an EFG loan able to appeal the decision?

Yes. Businesses can appeal to the banks using existing appeals processes. Further information on the appeals process is available here.

To be clear, the government or British Business Bank will not intervene to direct lending or mediate in disputes.

Section Eight

Alternative sources of finance

Where can I find further information about other lending schemes?

There is a wide range of financial products and support available from a broad spectrum of providers including banks, business angels, Community Development Finance Institutions, venture capitalists and trade and asset finance specialists.

In some cases the products and support offered are backed by the government through initiatives such as the Business Angels Co-investment Fund (Angel CoFund).

Section Nine

Management of EFG

Who is responsible for EFG?

BIS set the broad framework of the scheme.

Detail design and delivery through the accredited lenders is managed for BIS by the British Business Bank.

Administration of the scheme, including all loan decisions is fully delegated to the accredited lenders.

Are EFG facilities provided from taxpayer funds?

No. Capital for all EFG lending is provided from each lender's own funds.

What are you doing to encourage more lending under the scheme?

Opportunities to expand the scope of the scheme to encompass other types of lending product, such as asset finance, are being explored.

Banks are not lending under the EFG scheme. Why continue with it?

That is not correct. The banks have and continue to provide a substantial volume of loans under the EFG scheme. Nearly 25,000 small and medium-sized enterprises have been offered loans, with a total value of over £2.5 billion. EFG lending figures are updated on the BBB website on a quarterly basis.

It is important to understand that EFG is additional to and not a replacement for commercial lending. It is there to facilitate loans to viable businesses lacking security or proven track record for a commercial loan. It will therefore only ever account for a small percentage of overall lending to small and medium-size enterprises.

Section Ten

EFG and EU State Aid rules

What is State Aid?

State Aid is a European Commission term that refers to any advantage that is provided to a business by the government on a discretionary basis and that has the potential to distort competition.

Is the EFG scheme compliant with State Aid rules?

Yes. EFG operates under EU de minimis State Aid rules.

What if my business is already getting State aid or government help?

Under the European Commission's de minimis State Aid rules, a business may not receive more than EUR 200,000 worth of State Aid over any three year period. State Aid received under the EFG would count towards this limit, as would any other State Aid that a business receives through another scheme such as the National Loan Guarantee Scheme. There are a number of other government schemes operating under State Aid rules.

If a business is in receipt of Aid under another scheme, it will have received a letter specifying the amount of Aid. This letter should be shared with the bank as part of any application for a loan under the EFG, as it may affect the level of benefit that the business can receive under the scheme.

Can a business benefit from more than one government scheme at the same time?

Yes, businesses can benefit from more than one scheme at a time. The total amount of benefit that a business can receive from a different scheme may be limited by State Aid rules. Businesses should contact participating lenders for advice.

This publication is available from www.british-business-bank.co.uk

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