

Department for Business Enterprise & Regulatory Reform

Clarification of the treatment of security under the Enterprise Finance Guarantee

Since launch of the scheme on 14th January 2009, anecdotal evidence has suggested that lenders are interpreting the scheme rules around the taking of security in different ways. This note seeks to clarify the way in which Government envisages the taking of security under the Enterprise Finance Guarantee to work in practice. In summary:

- If a lender determines that a borrower has access to any security available in a principal private residence but chooses not to take a charge over the property then that decision does not preclude the lender from making an EFG loan.
- However, EFG is not a mechanism for putting beyond consideration any asset which, according to normal commercial lending criteria, might be considered available as security.
- An existing loan may not be refinanced with a new EFG-backed loan for the purpose of releasing the security previously provided.

Lending under the Enterprise Finance Guarantee (EFG)

Lending under the Enterprise Finance Guarantee (EFG) is delegated to the participating lenders (latest lender list attached) and is made available as an extension of their commercial decision to lend.

That means that the lending decision will rest primarily on the lender's assessment of the borrower's ability to service the loan. The lender will also take into consideration the level of financial commitment of the individuals controlling the business. This is because it has been shown that the risk of default dramatically decreases when an individual has a material stake in the loan. It is critical, therefore, that they have some "skin in the game".

If the borrower is able to service the loan and is able to provide sufficient security then there is generally no need for EFG to be used. However, if the borrower has insufficient or no security, or if there are other factors affecting the lender's willingness to lend, then EFG may provide the means to make lending possible.

The Enterprise Finance Guarantee may be used to enable three types of lending:

- a new term loan, either unsecured or partially secured;
- a new term loan specifically for the purpose of transferring long term debt out of an overdraft in order to release capacity in the overdraft;
- the refinancing of an existing secured loan which would otherwise be withdrawn due to deterioration in the quality of the security.

Using EFG where there is no available or insufficient security

If the lender deems the borrower to have no or insufficient security available, then EFG may be used. In the event that a Lender determines that a borrower has access to security available in a principal private residence, but chooses not to seek a charge over the property, **then that decision does not preclude the lender from making an EFG-backed loan should they consider it appropriate to do so.**

In this case, the lender may take an unsupported personal guarantee from the borrower and, where it constitutes tangible but nevertheless only partial security, the lender may also or alternatively take a direct charge over a specific business asset.

Any unsupported personal guarantee taken must exclude any entitlement to take a direct charge over the principal private residence of the borrower. The level of the unsupported personal guarantee is at the lender's discretion.

Taking security when releasing overdraft capacity or refinancing existing debt

In cases where EFG is being used to transfer existing long term debt from an overdraft into a new term loan or for refinancing, any security which had previously been provided in connection with the granting of the original overdraft or loan must remain in place.

Enterprise Finance Guarantee Scheme List of Lenders
9th March 2009

Airdrie Savings Bank
Alliance and Leicester Commercial Bank
Bank of Baroda
Bank of Ireland (NI only)
Bank of Scotland
Barclays
Business Enterprise Fund
Business Finance Solutions
Clydesdale Bank
The Co-operative Bank
DSL Business Finance
GLE oneLondon
HSBC
Lloyds TSB
NatWest
NEL Fund Managers
Northern Bank (NI only)
The Royal Bank of Scotland
State Securities
South West Investment Group
Triodos Bank
UK Steel Enterprises
Ulster Bank (NI Only)
Venture Finance
Whiteaway Laidlaw Bank
Yorkshire Bank

Lloyds Bank

If you have a complaint

We are committed to providing products and services of the very highest standards. If you feel that we haven't lived up to your expectations in any way, we'd like to know so we can put things right for you.

To voice your concerns, please follow our 3 step procedure.

Step 1 – Let your usual point of contact know

Inform us of your complaint and how you think it could be resolved by:

Calling into any branch.

Calling our Commercial Telephone Banking Centre on 0845 072 5555 (+44 1392 899 091 from overseas), Monday to Friday 8am to 8pm, Saturday 9am to 1pm, textphone on 0845 601 6909.

Writing to us at the address shown on your statement.

Contacting your relationship manager.

We'll do all we can to resolve your complaint by the end of the next business day. If we can't do this, we'll write to you within five working days to tell you what we've done to resolve the problem, or acknowledge your complaint and let you know when you can expect a full response. We'll also let you know the name and contact details of the person or team dealing with your case.

Step 2 – Follow up

To follow up your complaint with our Customer Service Recovery Team, you can:

Ask the person you raised your complaint with to refer the matter to them.

Write to The Manager, Lloyds TSB, Customer Service Recovery, Correspondence Centre, BX1 1LT.

Step 3 – Financial Ombudsman Service

If we haven't issued our 'final response' within eight weeks from the date you first raised your complaint, or if you're dissatisfied with our response, you can ask the Financial Ombudsman Service for an independent review. The Financial Ombudsman Service will only consider your complaint once you've tried to resolve it with us, so please take up your concerns with us first and we'll do all we can to help. Financial Ombudsman Service, South Quay Plaza, 183 Marsh Wall, London, E14 9SR. Tel: 0845 080 1800.

Customers not eligible for the Financial Ombudsman Service

Businesses with a group annual turnover in excess of £1 million per annum are not eligible to take their dispute to the Financial Ombudsman Service. If you are still unhappy with our final response, please contact your Area Director whose details can be obtained from your Relationship Manager or Relationship Director.

HSBC

Below is the complaints procedure. It should be emphasised that in the case of branch decisions please refer to the Branch Manager in the first instance and in the case of Commercial Centres refer to the Head of Commercial for that centre.

At HSBC we are committed to providing you with a first-class service and effectively delivering the products and services you require.

If for any reason you are not entirely satisfied with any aspect of our service, we want to hear from you as soon as possible. We will then make the relevant enquiries and aim to put matters right as soon as we can. Where appropriate, we will also take steps to prevent the problem happening again.

Your custom is important to us and your feedback allows us to improve the products and services we offer to you.

Thank you for banking with HSBC

Raising your concerns with us

Step 1

The easiest and quickest way to resolve any concerns you have is to contact your local branch manager or the manager of the department concerned. Please allow them to take the first opportunity to answer your concerns and put matters right.

Step 2

In the unlikely event that you are not entirely satisfied, you can:

- write to: The Manager, Service Quality Team, HSBC Bank plc, Arlington Business Centre, Millshaw Park Lane, Leeds, LS11 0PP.
- telephone: 0800 881 155* (+44 1226 261 020) (textphone 18001 0800 028 3516),
- e-mail: servicequality@hsbc.com or
- raise your concerns via an [online form](#).

If we are unable to resolve matters on the spot, we will send you a letter of acknowledgement within five working days to confirm that we are investigating the matters you have raised.

* Lines are open 9am to 5pm Monday to Friday. Calls may be monitored or recorded for quality purposes.

Step 3

Clearly, we always want to resolve any concerns you raise with us internally. However, where you are not satisfied with our final response, or if eight weeks have passed since you first raised the matter with us, you have the right to refer your case to the Financial Ombudsman Service. You can:

- write to: The Financial Ombudsman Service, South Quay Plaza, 183 Marsh Wall, London E14 9SR,
- telephone: 0845 080 1800
- e-mail: complaint.info@financial-ombudsman.org.uk, or
- log on to: www.financial-ombudsman.org.uk

There are certain limitations on what matters the Financial Ombudsman Service can look into. Their service does not apply to customers of our branches in the Channel Islands or the Isle of Man, but you may be entitled to refer it to the Financial Services Commissions in Jersey or Guernsey or the Financial Services Ombudsman Scheme for the Isle of Man. Please contact your branch for further details should you need to do so.

In the Channel Islands and Isle of Man, HSBC Bank plc is licensed by the Jersey Financial Services Commission for Banking, General Insurance Mediation & Investment Business, licensed by the Guernsey Financial Services Commission for Banking, Insurance, Collective Investment & Investment Business and licensed by the Isle of Man Financial Supervision Commission for Banking and Investment Business.

**Enterprise Finance Guarantee
and
European Investment Bank Cash
Back**

A brief guide on how SMEs can access these financial initiatives

What was announced?

European Investment Bank Scheme - EIB

- The EIB announced plans to provide low cost capital to financial institutions during 2009 to support lending to SMEs.
- To date not all UK high street lenders have confirmed participation in the scheme
- Barclays has been providing customers with access to the European Investment Bank scheme since the 1990s
- Many of our customers have already benefited from cash back on many loans
- Barclays participate in order to be able to pass on the financial benefit to customers despite not requiring the capital to lend

Enterprise Finance Guarantee - EFG

- The UK Government announced plans to support the business economy through the launch of the EFG
- This intervention which replaced the Small Firms Loan Guarantee Scheme aims to provide a lending solution for a sound business proposition that would have been declined due to a shortage of security
- It is available for short term working capital flexibility
- Part of a series of Government launched initiatives aimed at increasing capital available to on-lend to SMEs
- Lenders are required to certify that they offer EFG only where they would not otherwise lend

Barclays is committed to supporting these two initiatives in 2009

So how do these actually work in practise & what needs to be consider?

European Investment Bank Cash Back

	European Investment Bank Cash Back
Customer Criteria	Less than 250 employees & sales turnover up to (£5.6m)
Term of loan	More than 2 years
EIB cash back paid	Currently 0.6% of loan amount when the loan is opened
Refinance existing debt to loan	Available for new finance only

What it is the Barclays way of dealing with the EIB opportunity for customers?

- When a customer applies for a loan we will automatically review the application to see if it falls within the EIB criteria.
- If it does then our customers simply signs a declaration for EIB and they will receive cash back after the loan has been drawdown.

Where does the cash back come from?

- EIB provide a loan to Barclays at a fine rate, we calculate the value today of that fine rate over the full term of the loan to us
- We pass the whole benefit to the customer up front & we incur the costs of running the scheme
- Size of the cashback paid to the customer is dependant on the value of the low rate on the EIB loan to Barclays

What is it not?

- A grant or fund from the EIB for Barclays to pass on to our customers, we lend to the SME using our normal criteria and products
- Barclays have to repay our loan from EIB even if our customers do not repay their loans to us.

Who is it for?

- The scheme is aimed at supporting capital investment for growth, it cannot be used for:-
 - Restructuring existing debt &/or pure working capital.
 - Certain industries segments particularly those relating to Agriculture, Arms, Alcohol, Gambling or Property Development

Enterprise Finance Guarantee

	Enterprise Finance Guarantee
Loan amount in 2009 per customer	From £1,000-£1,000,000
Customer criteria	Group turnover up to £25m
Term of loan	From 3 months - 10 years
Government guarantee	75% of reducing loan balance outstanding at any time subject to an overall annual Lender cap
Interest type	Fixed or Base Rate available, charged monthly to a business current account
Repayment frequency	Flexible including need based capital repayment holidays

~~What is the Barclays way of dealing with the EFG opportunity for customers?~~

- If a customer applies for lending, and it doesn't meet our lending criteria, we will automatically review the lending against the Enterprise Finance Guarantee to see if we can continue to support our customer.
- We retain our normal lending requirement that the customer must be one we would want to support responsibly

What is it?

- It is a loan from Barclays to our customer that the UK Government will repay 75% of if the customer does not. (subject to an overall annual Lender cap)

What is it not?

- A grant or fund of money from the UK Government and given to us for us to pass on to our customers.

Who is it for?

- The EFG is aimed at supporting viable businesses that do not meet our current lending criteria due to:-
 - Lack of tangible security available to offer to support normal commercial terms
- There are certain exclusions for certain industry elements particularly those relating to:-
 - Agriculture, Arms, Alcohol, Gambling or Property Development

What are the key considerations that need to be remembered with EFG?

Enterprise Finance Guarantee Key Considerations

Available Security

- When requesting the loan, the customer has to:-
 - Certify that all available business and personal assets are insufficient to cover the facility (excluding personal homes of proprietors &/or family or guarantors)
 - Give personal guarantees for limited company & limited liability partnerships (to treat equally with sole traders & partnerships)

Importantly EFG is not a way to raise business finance whilst completely avoiding any personal liability & commitment

Available Uses

- Restructuring of existing debt to EFG can be offered by lender if no alternative standard loan available
- Restructuring of existing overdraft facility to EFG loan provided we continue to offer an overdraft facility following refinancing

If customer can qualify for a normal commercial loan then they cannot be offered or request EFG instead

Available Funding

- Lenders have caps allocated by the Government (both on amount guaranteed & amount that can be repaid)

The EFG and EIB can be used in conjunction so an EFG loan may also be eligible for European Investment Bank cash back

Local Business Banking

- Barclays continues to support local business with its lending, and a range of other services to support the majority of businesses who do not borrow.
- We are approving around 80% of small business lending applications, a figure little different from a year ago. This is evidence of our approach, which is to approve finance for viable companies approaching us with reasonable loan applications. Barclays has every incentive to make loans - if we decline a good opportunity, we miss out on income.
- We do not have a liquidity difficulty in small business lending. We have committed to making a further £1.5 billion in lending available to SMEs by the end of this year, bringing the total amount available to £16.5 billion.
- Any lending decisions are made on the basis of both local knowledge, through our business relationship managers, working together with head office. This is the benefit of having 2,000 local business relationship managers located in our branches, who know the area and the customer. Their understanding of the customer and the customer's industry contribute greatly to the overall lending decision.
- Loan applications will also be reviewed for suitability the Enterprise Finance Guarantee initiative, for those businesses who may not receive a loan in other ways.
- Based on DBERR issued data just one month after the January launch Barclays had issued over 2 out of every 5 EFG offers made & loans opened.
- A lending proposal that is declined by us will have been reviewed by our Local Business Managers who are trained to search for alternative solutions for the customer wherever possible, such as applying for Government grants, or to local Enterprise Agencies. Where the customer is able to provide additional and material information that may address the decline reasons, then we have the ability to reappraise the proposition. Where customers are not comfortable with the outcome of their request or if they wish to discuss their circumstances with someone other than their LBM, they have the option of discussing their circumstances with our Credit Support Helpline.
- We have trained our relationship managers to search for alternatives wherever possible if we must decline a loan, such as applying for Government grants, or to local Enterprise Agencies.
- It's important to remember that small business banking is a competitive market, and SMEs of course have the ability to make loan applications with other lenders.
- Barclays has been a key supporter and driver of support to business, both with Government and on our own initiative.