

Subsidised and guaranteed loans



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If you have a promising business but cannot provide the security needed for a conventional bank loan, the Government's Enterprise Finance Guarantee scheme may be what you need.

Alternatively, other supported loan schemes (loans subsidised by government or local agencies) may reduce your borrowing costs if you meet their lending criteria.

This briefing covers:

- The Enterprise Finance Guarantee scheme.
- Which business activities are most likely to qualify for other supported loan schemes.
- How to apply.
- An overview of the major schemes.

1 Enterprise Finance Guarantee

The Government's Enterprise Finance Guarantee provides a government guarantee against default on loans from banks and other financial institutions.

The scheme is run by the the Department for Business, Innovation & Skills (BIS). It helps businesses that cannot access normal commercial lending to borrow, by providing a government guarantee for 75 per cent of the value of a loan.

- 1.1** The Enterprise Finance Guarantee scheme can be used to guarantee 75 per cent of loans for **amounts** between £1,000 and £1 million, repayable over ten years.
- The guarantee helps protect the lender

if you default. The lender may also ask you for other security, such as a personal guarantee.

1.2 Your annual **turnover** must be no more than £25 million.

- Most types of business are eligible, though there are a few restrictions in a few sectors (including agriculture).

1.3 To qualify, businesses must demonstrate to their lender that they have a **viable** business plan.

1.4 You pay **BIS** a premium of 2 per cent a year on the outstanding balance, payable quarterly.

1.5 The Enterprise Finance Guarantee scheme

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is operated by BIS in partnership with a number of private sector **financial institutions**.

- When you discuss your borrowing requirements with one of these approved lenders, they will advise you whether your business is eligible.

2 Are you likely to qualify for other schemes?

Each supported loan scheme has its own eligibility criteria. These tend to fall into the same four categories — purpose, location,

One step at a time

Applying for supported loans can be a lengthy process.

A Make **personal contact** with an individual involved in administering the loan scheme.

- Get advice on whether it is worth applying.
- Ask for help with completing the application.

B Get answers to some **basic questions**.

- Are loans still available?
Some schemes only lend a set amount of money each year.
- What is the loan scheme intended to achieve?
Your application must show that your project enables the scheme to achieve its aims.
- How much does the loan cost?
The total cost consists of charges plus interest payments.
- When will the loan have to be repaid?
- How long is the application process and what does it involve?

C Submit the **proposal**.

- Your proposal must include details of the activity you plan, and a cashflow forecast that shows how the loan will be used.

D Wait for the **decision**.

- You may have to refine your project idea if the wait is too long.
- Do not include the loan in your real cashflow forecast until you are certain you will receive it.

industrial sector or the availability of extra financing.

2.1 Broadly speaking, all supported loan schemes are intended for the **purpose** of creating or protecting jobs.

- You need to show your project will make a positive contribution to employment. This could include training and skills development.
- Loan schemes favour projects with a high growth potential.
- Loan schemes are often only available for capital projects such as investment in plant and equipment or computer networks, but not where conventional asset finance is available.
The gradual process of company development does not normally qualify.
- Purely local consumer services, such as shops, are likely to be excluded.

2.2 You may be eligible for supported loans if you intend to establish your business in an economically depressed **location**, particularly if you are going into an area with a high level of unemployment.

2.3 Most loan schemes favour particular **industries** — usually in the manufacturing and industrial sectors.

- Crafts, tourism, and distribution operations also receive some support.

2.4 Most schemes insist that **extra financing** is available alongside the loan.
You usually have to show commitment by providing part of the finance yourself.

More detailed criteria for the most commonly available loan schemes are shown in **4** to **6**.

3 Applying

3.1 Some schemes are operated by **banks** and other commercial lenders.

- Apply for these schemes as you would apply for a conventional loan.
The lender decides whether your proposal should be taken any further.

3.2 Local schemes (see **4**) usually involve simple application procedures.

- You may have to wait until the next meeting of the committee that allocates the loan fund. Many committees meet every month or each quarter to assess applications.

“It's a good idea to match the life of the asset to the life of the loan. If the project runs over three years — apply for a three-year loan.”
Richard Holloway,
management consultant

3.3 Regional schemes may have more complicated application procedures.

- The lender may ask you to submit a simple Stage 1 application so that your chances can be evaluated.
- You can then decide whether or not to proceed with a full Stage 2 application.

4 Local schemes

4.1 Local business support organisations and councils can help you **identify schemes** available in your area.

- Most of the UK's larger cities have schemes which provide loans.

4.2 Each scheme has its own **priorities** and lending criteria.

- Loans may be targeted at a particular industry sector (eg businesses in the creative industries) or business people from a particular background (eg women, people with a disability or from minority ethnic communities).
- Some schemes specifically target businesses with a social purpose rather than those that are strictly for profit.
- Loans may be available for start-ups, existing businesses or both.

Career development loans

Sole traders who want to learn new skills may find a Professional and Career Development Loan more appropriate.

These are similar to normal personal loans and are used to finance vocational learning or educational courses. For example, NVQs.

You can get a loan of between £300 and £10,000 to cover up to 80 per cent of your course fees (100 per cent if you have been out of work for three or more months). The Government will pay the interest on your loan during the course. You then repay the loan to the lender over an agreed period at a fixed rate of interest.

Loans are available through Barclays and the Co-operative Bank.

Call next step on 0800 100 900 or visit the Directgov website (www.direct.gov.uk/pcdl).

4.3 Loan **amounts and terms** can vary.

- Schemes typically offer relatively small loans of up to £10,000 but there are exceptions.

5 Regional and national schemes

5.1 Businesses in **Wales** may be able to borrow from Finance Wales.

- Micro loans of between £5,000 and £25,000 are available for businesses that can demonstrate growth potential.
- Larger amounts of development capital are also available, as loans, equity or a combination of both.
- Consumer businesses (whose main customers are the general public rather than other businesses) are not eligible.

Contact Finance Wales (0800 587 4140; www.financewales.co.uk).

5.2 There are several funds offering loans to businesses in **Scotland**.

- Both the West of Scotland Loan Fund (www.wslf.co.uk) and the East of Scotland Investment Fund (01738 448323; www.eastscoinvest.co.uk) offer loans of up to £50,000 to businesses in eligible sectors.
- Larger businesses may be able to borrow from the Scottish Loan Fund. You must have a turnover of at least £1 million and be looking for a loan of at least £250,000.

Find out more about the Scottish Loan Fund by contacting Maven Capital Partners (0141 306 7400; www.mavencp.com).

5.3 Businesses in **Northern Ireland** may be able to borrow from the Enterprise Northern Ireland Loan Fund.

- Existing businesses can borrow between £1,000 and £25,000 for up to five years.
- New start-ups can borrow up to £10,000 for a maximum of three years.

Contact Enterprise Northern Ireland (028 7776 3555; www.enterpriseni.com).

5.4 Regional funding in **England** is currently limited.

- Loans were available through Regional Development Agencies, but these were scheduled to be wound down by March 2012.

- New loan programmes may become available through their successor organisations, Local Enterprise Partnerships.
- Additional funding opportunities may be developed by Capital for Enterprise Limited (www.capitalforenterprise.gov.uk), the Government's centre of expertise on finance for smaller businesses.

5.5 Businesses in **former steel areas** may be able to borrow from UK Steel Enterprise.

- Loans are provided to new and existing businesses based in or relocating to one of the designated steel areas.
- Fixed rate loans of up to £750,000 are available, typically for a term of three to four years.
- Smaller loans can be provided without requiring security and without additional administration charges.

Contact UK Steel Enterprise (0114 273 1612; www.uksteelenterprise.co.uk).

5.6 Various schemes target **particular groups** or sectors of the community.

- Businesses in deprived communities may be able to borrow from a Community Development Finance Institution (see www.findingfinance.org.uk).
- The Prince's Trust Enterprise Programme (www.princes-trust.org.uk) provides small start-up loans for new businesses started by individuals aged between 18 and 30.
- Entrepreneurs aged 50 or older may be able to borrow up to £10,000 as a PRIME Business Start-up Loan (www.primebusinessclub.com).

6 Where to get help

6.1 Business Support Organisations can help you identify loan schemes, grants and any other funding your business may qualify for.

- The Business support finder on the Business Link website (www.businesslink.gov.uk) can help find support schemes including financial assistance.

For example, loan schemes run by local authorities.

6.2 If necessary, get **professional help**.

- Some accountants and consultants specialise in preparing loan applications. Check their record of obtaining loans for

businesses like yours.

- Negotiate the fees.

Flat-rate fees are less expensive, but must be paid even if your application is unsuccessful and you get no loan.

7.3 Visit www.j4bgrants.co.uk to search an **online database** that can help you find out about the variety of loan schemes on offer.

7.4 Avoid **loan cowboys**.

- Some companies will charge you a fee to identify supported loans you may qualify for.

There is no guarantee you will qualify, and exactly the same information is generally available free of charge or at a heavily subsidised rate through your local business support organisation.

- Some companies will guarantee to return your fee if they fail to arrange a supported loan for you.

Read the small print. The conditions they impose often make this kind of guarantee worthless.

Expert contributors

Thanks to **Richard Holloway** (Aditum, 020 8123 4678).

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