IFF Research

Qualitative Research into the Delivery and Operation of EFG Loans

Prepared for The British Business Bank
By IFF Research

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IFF Research

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1 Executive summary

Background, aims and objectives

1.1 There is a recognised degree of market failure in terms of business finance, resulting in some viable businesses being unable to obtain finance – in particular, those who have insufficient collateral to guarantee a mainstream business loan. The UK Government has consistently supported such businesses through the Enterprise Finance Guarantee (EFG, formerly Small Firms Loan Guarantee (SFLG)) scheme for more than 30 years. The current EFG scheme was launched in 2009 in response to the economic downturn and is now managed by the financial services subsidiary of the British Business Bank (BBB).

1.2 The Government guarantees, to the Lender, 75% of the outstanding EFG backed debt (once their normal recovery process has been completed), effectively reducing the risk for lenders. The borrower remains 100% liable for the debt. In order to ensure lenders apply the same degree of risk assessment rigour to EFG-supported loans as they would for commercial loans, lenders are encouraged to follow their 'Normal Commercial Lending Practice' when making the initial decision to lend and during their subsequent administration of the loan. The lender must have established that insufficient security is available to meet its normal lending criteria.

1.3 To inform a wider review of the EFG programme, the British Business Bank (BBB) commissioned IFF Research to undertake a study to understand, from the borrower and lender perspective, perceptions of:

- The degree of effectiveness with which it is targeted and used;
- Experiences of the current EFG scheme process;
- Its impacts on businesses who take out EFG loans;
- Potential refinements to operation and delivery.

1.4 It is important to note that overall the EFG is considered to be working well, and that the aim of this research was specifically to identify possible areas of further improvement. The content of this report is therefore weighted towards discussion of potential improvements, rather than discussing the adequacy and suitability of the scheme overall (indeed the scheme is considered both adequate, and suitable for its purpose).

Methodology

1.5 In order to meet the objectives above, IFF conducted a programme of qualitative research with lenders offering EFG-supported loans, and those borrowing under the scheme, as follows:

- A combination of in-depth interviews and groups with lenders who offer loans under the EFG scheme; and
- In-depth interviews with representatives of businesses which have drawn a loan under the EFG scheme.

Impact of the EFG scheme on borrowers

1.6 All businesses interviewed reported experiencing a significant positive impact as a result of the EFG-supported loan, and the consensus was that this impact could not have been achieved otherwise. EFG support appeared to have been essential in accessing the loan; borrowers felt they would have been unlikely to have been able to access finance elsewhere, and therefore they believed the EFG support had been essential in achieving positive outcomes.

1.7 All businesses met their original aims, at least in part, with most businesses either fully realising their aims or exceeding these original aims. Unplanned impacts were often related to expansion or upgrading: where the original aim often related to surviving or starting up, businesses sometimes found that the loan could also help with purchasing of new equipment or expanding their business reach.

Targeting of the scheme

1.8 A key objective of the research was to understand how effectively the EFG scheme is targeted, i.e. whether the scheme was being used by suitable business borrowers – those who would not have been able to get finance otherwise. Lenders and borrowers were generally of the opinion that the businesses that are accessing the EFG scheme are generally the appropriate ones; Relationship Managers in particular reported that EFG-supported lending is instrumental for some small business's growth, as they would not have been able to access this much needed finance elsewhere. In addition, borrowers generally confirmed that they would not have been able to access finance under any other circumstances.

1.9 Some lenders perceived however that the scheme was *not* reaching all the businesses that could potentially benefit from it.

Experiences of the current EFG scheme process, and the scheme terms

1.10 Overall, the process seemed to work relatively well for both lenders and borrowers. The **portal** received positive feedback from the majority of lenders, especially when compared to the previous paper-based system used for the previous SFLG scheme. Lenders perceived there to be an open and constructive relationship with the BBB that allows for open communication. The **available support materials** were cited by some lenders to be comprehensive, largely self-explanatory and sufficiently user-friendly.

1.11 That said, some lenders highlighted concerns or irritations: the main issue raised was around uncertainties around applying "normal commercial lending procedure" to certain more subjective eligibility criteria; some lenders – particularly larger ones - reported that responses from the BBB were not always consistent when similar queries were posed to them at a later date, and did not always align with guidance at audit. Others mentioned that the portal could be inflexible in terms of amending mistakes. The BBB have commented that the advice provided to lenders on application of more subjective eligibility criteria will depend upon the facts presented by the lender when raising the query, and that the advice will differ depending upon the facts presented. This is discussed in more detail in chapter 7.

1.12 The borrower perspective brought fewer issues to the forefront, with the majority of borrowers finding the process straightforward or mentioning only minor 'gripes' due to bureaucratic or long-winded processes (many of which the BBB have commented are not due to the EFG element of the loan process, but rather due to lenders' normal lending procedures). Borrowers appeared happier with the process than lenders as they largely perceived a reasonably straightforward process.

Lower than Optimum Use of the EFG Scheme

1.13 Though the evidence gathered showed a good degree of satisfaction with the EFG by both lenders and borrowers, there were nonetheless areas that were perceived to act as a potential barrier to take-up. Less than optimum use of the EFG scheme may result in eligible businesses missing out on finance that would help their business to either grow, or to survive in more difficult trading conditions. Conversely, ensuring that the EFG scheme *is* meeting its full potential could help small businesses to thrive and thus drive the UK economy. It is important therefore to understand why the EFG scheme may not be being used to it fullest potential.

1.14 A combination of factors was perceived to be contributing to this:

- Most lenders report that some ambiguity over how to apply their normal commercial lending practice to certain more "subjective" eligibility criteria in practice, leading to uncertainty over whether certain borrowers are eligible for the EFG scheme. Whilst lenders acknowledged the general guidance within the EFG Lender Manual and from BBB to apply their "normal commercial lending practice", lenders did not feel this general guidance was sufficiently clear or useful for certain eligibility criteria, and felt this left them somewhat exposed in the event the eligibility decision was subsequently queried at the audit stage. For some, their appetite to lend had been dampened by this.
- **A lack of awareness** among potential borrowers is supressing borrower demand. Lenders felt that one way of maximising the use of the EFG scheme would be to increase awareness among potential borrowers. Evidence from borrowers demonstrated that small businesses without access to a financial intermediary may be unaware that they could be eligible for a loan, and that increased availability of information about the EFG-scheme may be an essential precondition to their approaching a lender. Raising awareness among intermediaries would also be an advantage as several borrowers said they depended on their intermediary's expertise to know that a loan may be possible.
- **Confusion** about the claim limit may be suppressing lender appetite for some lower volume lenders. The Government's total exposure to any individual Lender's annual portfolio of EFG-backed lending is capped, but at a level above the portfolio default rate most Lenders would expect to experience in their SME lending. The BBB has commented that revised rules around the application of the claim limit for lower volume lenders were introduced in 2014, providing these lenders with increased and more flexible claim limit cover. Lower volume lenders appeared unaware of these changes with some citing that they believed 10-20% of each EFG loan is supported in practice. This suggests a need to clarify the application of the annual cap on the lending portfolio to these lower volume lenders.
- **Increasing awareness among front line staff in some lower volume lenders** could encourage them to consider suggesting the EFG-scheme to borrowers, when usually it would not be at the forefront of their mind due to only coming across an EFG customer very infrequently, or when they may be discouraged by rumours of arduous administration. The BBB has commented that BBB will provide assistance to lenders requesting further support or training on scheme terms though a condition of the scheme is that each accredited lender is responsible for ensuring all appropriate staff within their organisation are fully trained on scheme terms. Lower volume lenders report that while they do provide training for their staff, the reality of only experiencing a potential EFG customer once or twice a year may mean it is difficult for their staff to retain all relevant training if they are not regularly using the information. An 'accessible' or 'punchy' way of raising or maintaining awareness amongst staff that do not come across EFG cases very often, could help to increase their confidence in this vein.

1.15 There are also specific circumstances in which the EFG scheme is commonly used at a less than optimum level:

- **Larger loans** (over £600,000). The BBB has commented that changes to State Aid rules in 2014 meant that EFG-supported loans above £600,000 could only be offered over a maximum loan term of 5 years. However, lenders believed this loan term of 5 years was too short for such a large borrowed sum as it made repayments unaffordable; lenders also reported that businesses that needed EFG-supported loans did not generally need loans of this size (those that did need loans of this size, tended to have collateral). Other lenders mentioned the State Aid restrictions.

- **Overdrafts** – the BBB has commented that a bespoke EFG overdraft option was introduced in 2010, to enable clearing bank lenders to offer EFG in support of existing or new overdraft facilities. Whilst some of the clearing banks have made use of this option, overall use has been low. Lenders reported this was generally due to lack of customer demand, but also due to the need for the 2% premium to be paid on the whole overdraft which lenders perceive would be unwelcome for borrowers. Furthermore, the EFG-supported overdraft term is three years, after which time the support needs to be renewed, which introduces uncertainty for the borrower in terms of whether their overdraft will be allowed to continue. Lenders appeared unaware of the scheme rationale for charging the premium against the limit rather than outstanding balance or that renewal of the overdraft option at expiry was a decision for the lender, based upon normal commercial credit assessment.
- **Invoice finance -** the BBB has commented that a bespoke Invoice Finance variant of EFG was introduced in 2010 to enable EFG to be used alongside revolving credit invoice finance facilities. Use of this facility tended to be low amongst lenders; a few lenders perceived there would be administrative complexities involved in introducing this (sometimes combined with the view that a lack of demand among their customers made this extra work unwarranted). A few others reported that there was no need to provide EFG support as their Invoice Finance product was already 100% or 90% backed via their debtor book.

Conclusions and suggested refinements

1.16 The scheme overall is considered to be working well;

- Lenders are supportive of EFG in principle, and are keen to do what they can to promote its use.
- The process as far as lenders are concerned is relatively simple in that it is very similar to the process required for a non-EFG supported loan;
- Lenders feel the terms of the scheme are suitable for its purpose;
- The guidance and support materials on the EFG scheme provided by the BBB are perceived to be fairly comprehensive, largely self-explanatory and sufficiently user-friendly (particularly amongst larger lenders);
- The online portal is considered generally easy to use amongst those familiar with it, and a significant improvement on the paper-based approach used for the SFLG.;
- There is perceived to be an open and constructive relationship with the BBB, and the BBB is generally responsive to queries about lending criteria (particularly larger lenders);
- Borrowers understood that the EFG scheme protects the lender rather than the borrower, showing that in general, lenders are adequately explaining this very important element;
- Borrowers were also aware of the additional premium when taking out an EFG-supported loan;
- There was no evidence that a reduced premium amount was needed;
- Borrowers reported positive impacts to their business as a result of securing the loan, that would have been unavailable to them without the EFG scheme.

1.17 In terms of suggested refinements, the following could improve the scheme even further:

- Lenders said that anything that could be done to clarify the most subjective eligibility decisions would be a very helpful step forward and would make lenders more inclined to use the EFG scheme.

- Lenders felt that a greater number of eligible borrowers could be reached if the profile of the EFG scheme was raised, both amongst small businesses and amongst the intermediaries that might be supporting them; borrowers also suggested raising awareness amongst small businesses.
- Increasing awareness of the EFG scheme amongst customer-facing staff, in some smaller lenders.
- A more flexible portal that allowed lenders to update or change information would be an advantage.

2 Introduction

Background, aims and objectives

2.1 Borrowing using either long-term loans or short-term credit is a normal feature of most businesses, and a lack of access to finance can restrict the operations of businesses, or places them under greater strain. There are recognised degrees of market failure in terms of business finance, resulting in some perfectly viable businesses being unable to obtain finance. The failure that the EFG is trying to address is for those who have insufficient collateral to guarantee a mainstream business loan. The UK Government has consistently supported such businesses through the Enterprise Finance Guarantee (EFG) scheme and its predecessor scheme, the Small Firms Loan Guarantee ("SFLG") scheme, for more than 30 years. The current EFG scheme was launched in 2009 in response to the economic downturn and is now managed by the financial services subsidiary of the British Business Bank.

2.2 The EFG scheme currently supports the provision of loans from £1,000 to £1.2 million in value, to UK businesses across most sectors, as long as they are deemed capable of repayment, have a turnover of £41 million or less, and have existing aggregated scheme guaranteed borrowing of no more than £1.2 million in value. It can facilitate loans, overdrafts and invoice finance (via flexible, revolver-based facilities rather than structured term loans); in terms of both refinancing and new lending. The Government guarantees, to the Lender, 75% of the outstanding EFG backed debt (once their normal recovery process has been completed), effectively reducing the risk for lenders. The BBB states that decision-making on borrower eligibility for the scheme is fully devolved to the lender, and the lender is required to apply normal commercial risk procedures when assessing whether use of the scheme is appropriate. The Lender is required to record all EFG transactions on an EFG web portal, which records the progression of the transaction through its whole life cycle.

2.3 The BBB has commented that in terms of devolved responsibility to lenders for checking borrower eligibility, the EFG web portal includes factual yes/no eligibility checks (for example, on sector, transaction amount and term) though beyond these factual checks, lenders are responsible for making certain subjective assessments on other borrower eligibility criteria, for example, in relation to viability and lack of security. The lender then certifies via the EFG web portal that the transaction is viable but cannot be supported via a normal commercial facility due to inadequacy of security. In assessing these more subjective eligibility criteria, lenders are encouraged to follow their 'Normal Commercial Lending Practice', in recognition that different lenders will have different internal risk frameworks and guidelines and that the scheme criteria must be suitable to operate across the internal practices of all lenders accredited to use the scheme. All accredited lenders sign an EFG Legal Agreement, which specifies the terms and conditions of the lenders participation in the scheme and the respective responsibilities of each party. In addition, the lenders are provided with an EFG Lender Manual, which provides practical guidance on using the scheme and an EFG Web Portal Manual, which provides guidance on how the EFG web portal[1] should be used. Given the devolved nature of decision-making, lenders are subject to periodic independent audit in their use of the scheme.

2.4 One key eligibility criterion is that the lender must have established that inadequate security is available to meet its normal lending criteria. The 75% guarantee acts as security for the lender only: the borrower remains liable for 100% of the loan value as per a standard loan. In addition to 'mainstream' commercial lenders, the EFG scheme is offered via Community Development Financial Institutions (CDFIs), now known as Responsible Finance Providers (RFPs), a form of social enterprise that seeks to provide finance to communities to address market gaps; and asset-based lenders, which secure finance against the business's assets, most often their debtor book.

[1] Once the lender has determined that use of EFG is likely to be appropriate, they confirm eligibility and record details of the borrower and their facility via a secure web portal.

2.5 To inform a wider review of the EFG programme, the British Business Bank (BBB) commissioned IFF Research to undertake a study to understand, from the borrower and lender perspective, perceptions of:

- the degree of effectiveness with which the EFG scheme is targeted and used;
- experiences of the current EFG scheme process;
- its impacts on businesses who take out EFG loans; and
- potential refinements to operation and delivery – this is where most of the report content is focussed, as identifying and exploring potential improvements (to an albeit generally successful scheme) was the aim of the report.

Methodology

2.6 In order to meet the objectives above, IFF conducted a programme of qualitative research with lenders offering EFG-supported loans, and those borrowing under the scheme, as follows:

- A combination of in-depth interviews and focus groups with lenders who offer loans under the EFG scheme; and
- In-depth interviews with representatives of businesses which have drawn a loan under the EFG scheme.

2.7 All interviews and groups were conducted between July and November 2015.

Groups and interviews with lenders

2.8 We conducted groups with 5 lenders (3 face-to-face and 2 over the telephone), as well as 10 in-depth interviews (6 face-to-face and 4 over the telephone). The profile of participating lenders was structured as follows to ensure coverage of different types of organisation:

- 5 large banks;
- 4 small banks;
- 4 Community Development Financial Institution (CDFI, now known as RFP) lenders; and
- 2 asset-based lenders.

2.9 Interview and group participants within lenders included Relationship Managers (those with the front-line experience of administering the EFG scheme with borrowers), representatives of the Credit Team (those with responsibility for approving loans), as well as other senior individuals who had a good overview of the lender's operation of the EFG scheme.

2.10 The groups/interviews with lenders first gathered basic details about each individual's role within the business and their involvement with the EFG scheme, and their overall views on the EFG scheme and its purpose. The interview then went on to explore business' perceptions of the process of administering the EFG scheme, and how it compares with a 'normal' loan, barriers encountered to using the scheme and attitudes to specific tools used within the process. We also discussed the extent to which the scheme is reaching the right businesses and the impact EFG loans have had on businesses. Finally, lenders were asked to give their suggestions for improvements to the EFG loan scheme.

2.11 Groups lasted between 90 minutes and two hours, while interviews lasted between 45 and 60 minutes – please see Appendix A for the lender interview structure.

2.12 It is important to add a note relating to the qualitative nature of this research. Qualitative research provides rich detail about individual experience, but the findings cannot generally be extrapolated up to represent the relevant population, due to the small numbers involved.

2.13 That said, of the 40+ lenders that offer EFG loans, this study involved speaking to 15 of them, including all five of the large banks offering EFG loans. Within these interviews and groups, particularly within the largest banks, a number of colleagues with a broad spectrum of roles were involved in giving their views. This means that, while this research cannot be said to represent the views of every member of staff across every lender involved in the EFG scheme (as in practice thousands of individuals nationally are involved in delivery of this scheme), the findings do represent the views of approximately 50 'lender' individuals, some with a detailed knowledge of the scheme and its terms. These individuals also represented a substantial proportion of the EFG lenders involved in the scheme.

Interviews with borrowers

2.14 We conducted interviews with 24 borrowers over the telephone. The borrowers had all successfully applied for an EFG-supported loan via one of the lenders interviewed in the parallel element of the study. The profile of borrowers was structured to ensure coverage across different types of lender (as detailed above), as well as business size. We also included a small number of interviews with 'serial borrowers' i.e. businesses who had borrowed on numerous occasions.

2.15 It is important to note however, our ability to ensure coverage across businesses that had more varied experience of the EFG scheme was limited by the process of recruiting borrowers to the study. Due to a number of issues, this was more complex and protracted than first imagined, and resulted in a dearth of available sample.

2.16 Recruiting borrowers involved sourcing their contact details via the finite group of lenders that offered loans supported by the EFG. However, several of the lenders that were willing to take part in the research had very few EFG customers, and so the numbers they were even theoretically able to provide was small. Additionally, on a practical level, before lenders provided borrower contact details, opt-in or opt-out processes were required to ensure borrower contact details were not provided for use in the research without their permission. Some lenders specifically required an opt-in procedure which meant we were dependent on business borrowers actively getting in touch to take part, which did not happen in this case. In gathering these borrower contact details from lenders, we were also limited by lenders' internal time and resource within the research period to identify specific types of borrowers – for some lenders this was not possible, and for others the process took several months.

2.17 For these reasons we needed to be pragmatic in terms of the borrowers we interviewed rather than adhere to a strict quota approach. This meant the research did not include businesses that were offered an EFG loan but then turned it down, and neither did it include any business borrowers who defaulted on their EFG loan.

2.18 A key learning for future research would be that sourcing borrower details in this way has a negative impact on the number and profile of contacts available, as well as the timetable for the research.

2.19 The borrower interviews were also structured by the type of lender from which they had accessed their EFG supported loan, as shown in the table below.

Lender type	***Borrower type***		
	Micro businesses	Small and medium businesses	Serial borrower *
Large bank	5	5	3
Small banks	-	-	
CDFI (RFP)	4	4	
Asset-based	1	2	
TOTAL	**10**	**11**	**3**

** 'Serial borrower' refers to borrowers who have drawn down more than one EFG supported loan in the last 12-18 months*

2.20 Every borrower interviewed except one had had their loan approved in the 12 months prior to the research, that is, in 2014 or 2015. It was agreed at the project outset that interviewing businesses with loans approved in the last 12 months would ensure firstly that the borrower still remembered the process of applying for the loan, and secondly that for many, enough time would have passed for their businesses to have felt the loan's impact to some extent. The exception was one borrower whose loan had been approved around 6 years prior to the research, though their experience was not notably different from those who had been approved more recently.

2.21 The interviews with those who have borrowed under the EFG scheme first gathered basic details about the business such as their main activity, length of time trading, number of staff, etc., and the purpose of the loan. The interview then went on to explore business' perceptions of the EFG loan process, general awareness of the EFG-supported loan, and perceptions of the EFG element within the process. We also discussed the impact of the loan on their business, and overall perceptions of the scheme. Finally, borrowers were asked to give their suggestions for improvements to the EFG loan scheme.

2.22 Interviews lasted between 45 and 60 minutes – please see appendix B for the borrower interview structure.

Structure of the report

2.23 This report is intended for policy makers and researchers to inform the design and implementation of future business intervention programmes. Findings are presented in the following chapters:

- ***Chapter 3: Impact of the EFG loan on businesses*** explores how the EFG loan businesses received had impacted on their business.
- ***Chapter 4: Targeting of the scheme*** focuses on whether the EFG scheme is targeted correctly;
- ***Chapter 5: Less than Optimum Use of the EFG scheme*** explores the reasons why the scheme may be being used at a less than optimum level;
- ***Chapter 6: Experiences of the current EFG scheme process*** explores the process of applying for an EFG loan from the perspectives of both the lenders and borrowers;

- ***Chapter 7: Terms of the scheme*** asks whether lenders think the terms are suitable, and explores whether borrowers are aware of them;

3 Impact of the EFG-supported loan on businesses

3.1 Borrowers explained how the EFG-supported loan they received had impacted on their business. This chapter will focus on this impact, as well as how this impact compared with the original purpose of the loan.

For what purpose did businesses want the loans?

3.2 Borrowers typically had one of four main aims when taking out an EFG-supported loan:

- Starting up a business
- Ensuring the business's survival and stability
- Upgrading their business, such as refurbishment, or
- Expanding their business.

3.3 Businesses generally had one main aim but sometimes other secondary aims were mentioned as well.

3.4 **Survival or stability** was the most frequently mentioned aim; the purpose of getting the EFG-supported loan was for cash flow or working capital in order to keep the business going through challenging circumstances. Examples given included being able to pay suppliers and keep up with demand, for instance by increasing production.

> *The main challenge is keeping the cash-flow going. From a business point of view, we've had a reasonable year. Profit-wise it's just making sure that the cash keeps coming in and keep paying everybody. That is the biggest demand on the business… The main reason was to ensure everything kept ticking over.*
>
> **Small business, Asset based lender**

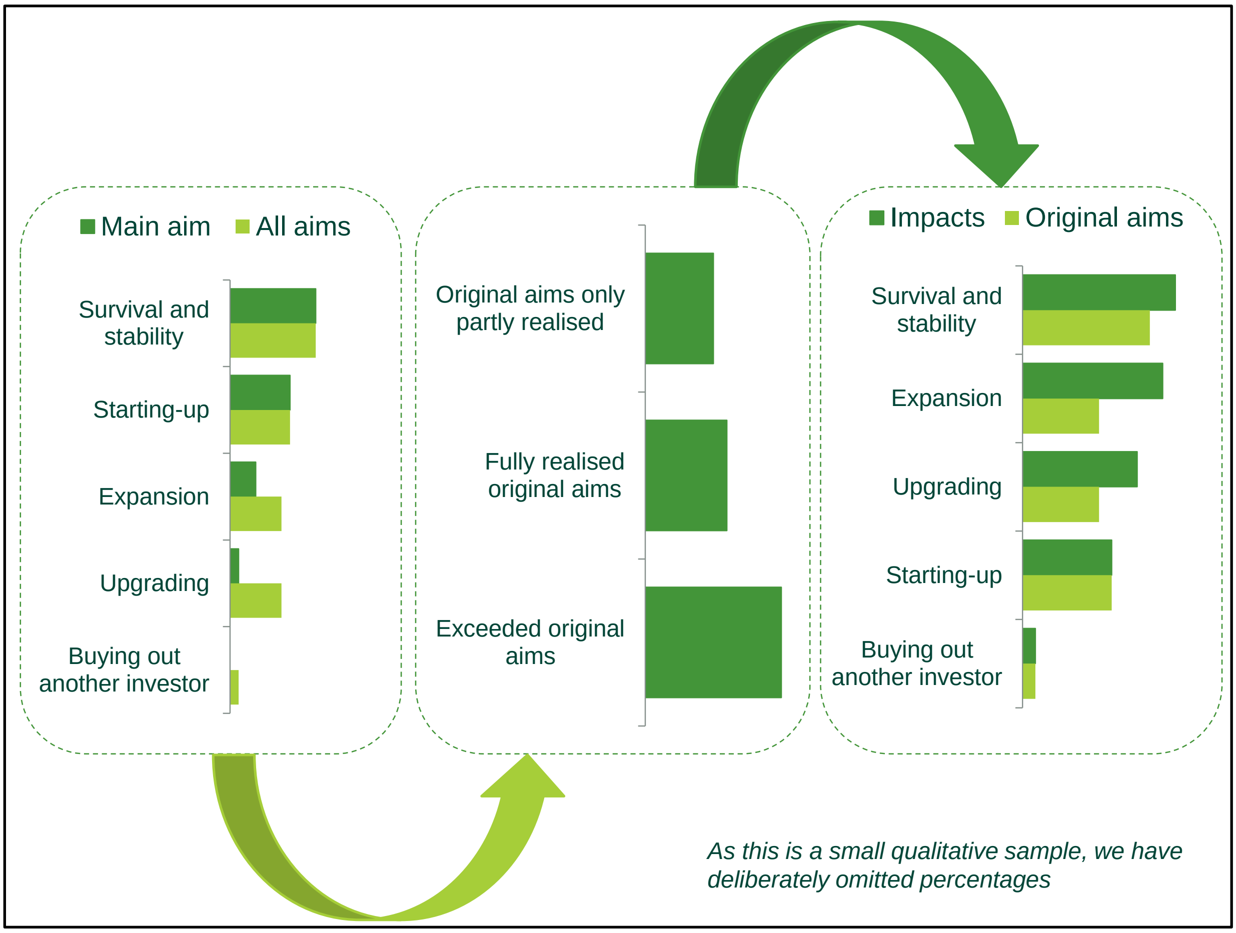
3.5 The other relatively common primary aim of taking out an EFG-supported loan was **starting up a business**, i.e. acquiring funds for establishing new business. This included securing a lease, buying equipment or buying out an existing business.

3.6 Where the aim was **expansion**, this was explained as being investment with the intention of increased output and therefore growth, whereas **upgrading** was making investment to improve the business but not necessarily to lead directly to a planned increase in output. Both of these aims were more often mentioned as a secondary aim rather than the main aim of the loan. However, a few did state one of these as their primary aim.

What impact did the EFG scheme have on businesses, and could this impact have been achieved in any other way?

3.7 All businesses interviewed reported experiencing a significant positive impact as a result of the EFG-supported loan, and the consensus was that this impact could not have been achieved otherwise. EFG support appeared to have been essential in accessing the loan; as previously discussed, borrowers felt they would have been unlikely to have been able to access this money elsewhere and therefore they believed the EFG support had been essential in achieving positive outcomes. The figure 3.1 below details the aims of borrowers and the impact this has had.

Figure 3.1: The aims and impacts of receiving an EFG loan on businesses



3.8 As displayed in figure 3.1, all businesses met their original aims, at least in part, with most businesses either fully realising their aims or exceeding these original aims. Unplanned impacts were often related to expansion or upgrading: where the original aim often related to surviving or starting up, businesses sometimes found that the loan could also help with purchasing of new equipment or expanding their business reach.

> *Yes, fully [fulfilled aims]. It gave us the money so we could pay our clients, and we have also expanded the areas we deliver to by around 50 miles.*
>
> **Micro business, Asset-based lender**

3.9 In situations where borrowers only partly realised their original aims, this was still viewed positively by these businesses, as continuing to run their business would have been much more difficult in the absence of this loan and they had still experienced at least some positive impacts.

Case study: Small business, large bank lender (HR02)

A small business originally sought a loan in order to invest in marketing and hire a new salesperson, as well as helping with working capital. They felt it was unlikely that they would have been able to access finance elsewhere.

The process to acquire the EFG-supported loan took a while so they took out more than originally planned, i.e. including some contingency money. However, the business encountered difficult trading conditions so more of this than planned was used to help with survival. This meant that there wasn't as much to invest in marketing and they could not keep on the hired salesperson.

Our whole market just went quiet for six months so as soon as we had our new sales person, no one wanted to talk to us… but it's helped fund the business over what has been a very 'touch and go' period for survival.

However, despite only partly fulfilling their aim, the business was positive about what the loan has helped them to achieve.

It is still part of the continuing strategy [marketing]… I think it has given a boost to allow us to market at a fairly intensive level and the funding allowed us to do this… we are running at a higher level than we ever were before so it did start off a whole lot of activities.

3.10 A few businesses were not able to access the full amount they had ideally wanted, however there was no indication that this had caused any problems within the business or limited the extent to which their aims were achieved.

How much contact do lenders have with borrowers after the loan is drawn down and what effect does this have?

3.11 Nearly all borrowers had had at least some continued contact with their lender after their loan was drawn down, however fewer borrowers had received more *substantial* support from their lender. For the majority of borrowers, this was satisfactory. For almost all borrowers, follow up contact involved submitting monthly or quarterly financial reports to their lender and for most, this was viewed to be straightforward to produce and not unexpected or a burden to them. That said, a minority required help from their accountant (and one needed to approach an accountant for the first time) in order to provide all necessary information.

3.12 Several borrowers described more engaged contact, such as their Relationship Manager attending board meetings or calling the business monthly.

I go and see them every six weeks and show them the management accounts and balance sheets. They're really flexible. We talk about our challenges, cash-flow and everything.

Micro business, Large bank lender

3.13 Generally, borrowers felt that the level of contact they had received was sufficient, and this did not vary by the level of contact or type of lender.

4 Targeting of the scheme

4.1 This chapter will focus on **whether the EFG scheme is targeted correctly.**

Are the correct businesses getting the EFG loan?

4.2 **Lenders** felt certain that the EFG scheme is being accessed by the right kinds of businesses, i.e. **those that would struggle or not be at all able to access finance in any other way**. Lenders were generally confident that their lending book was made up of businesses that were eligible and appropriate.

4.3 Relationship Managers in particular reported that EFG-supported lending is instrumental for some small business's growth, as they would not have been able to access this much needed finance elsewhere.

> *From my point of view, I wouldn't have got or seen the success of some businesses without having EFG in place, so I'm an advocate of it myself.*
>
> **Business manager, Large bank**

> *The relationship manager goes out and talks to them [the borrowers]. They'd be saying, 'Yes, the EFG, that's great. That has really helped us'. Usually it's positive. I've not heard any negatives, apart from probably it's a bit expensive.*
>
> **Senior commercial manager, Asset-based**

4.4 Lenders explained that they were diligent in their approach to ensuring that EFG-supported loans were appropriately approved, as they were anxious to ensure they would be protected in the case of default at the audit stage. Lenders reported that they sometimes underwent quite involved processes to check borrower eligibility, such as requesting further information from potential borrowers, and discussing more subjective eligibility considerations with the BBB (as discussed in chapters 5 and 6).

4.5 There was a perception amongst some lenders that *other* lenders may be providing EFG loans to businesses who could have accessed finance elsewhere, though they were confident this was not happening within their own organisation. The BBB has commented that given there are more than 40 lenders accredited to use the scheme and that each, as a fundamental principle of the scheme, is required to apply their normal commercial risk assessment procedures when assessing whether a borrower is eligible for support via the scheme, it is acknowledged and accepted that a borrower going to different EFG lenders may receive a different outcome on eligibility for the scheme. This is the same scenario as for normal commercial facilities, where different lenders will have different reactions to the same borrowing proposal. This is therefore accepted as a feature of the scheme.

4.6 That said, a couple of lenders said that more 'experienced' borrowers, who had had an EFG loan before, may deliberately attempt to 'hold back' collateral that they would like to protect (e.g. a family home) because they know an EFG-supported may still be available to them. The BBB has commented that lenders are responsible for making decisions on borrower eligibility and for ensuring their internal assessment procedures are sufficiently robust to identify such scenarios. These lenders said that if the EFG was not available then these borrowers may try to find a way to finance a loan another way, albeit in a riskier manner. Lenders thought this happened rarely, however.

4.7 The majority of **borrowers** interviewed thought it would have been impossible for them to access finance in any other way. Some had tried to access finance elsewhere but had been turned down, whereas others were told early on by their lenders that the only way to get access to this finance would be by using the EFG scheme.

> *100% - we couldn't have got [the money] without it. It's helped with everything from beginning to end. We couldn't have done it otherwise. Every element of what we're doing is because of getting the loan.*
>
> **Micro business, Large bank lender**

4.8 A few borrowers suggested that the EFG element was not quite *essential*, but very important in their ability to access finance because any alternatives were felt to be so undesirable, for example taking out a collection of very small 'piecemeal' loans or by using lots of personal guarantees, which they did not feel comfortable doing. Generally, these borrowers said that – given these alternatives - they almost certainly would not have accessed this finance elsewhere.

4.9 There were a couple of exceptions where borrowers would have been able to access this finance using other methods, which they *would* have been likely to have gone ahead with, had EFG not existed. However, they still argued that the EFG element had saved them from borrowing on disadvantageous terms.

> *[We would have tried] any other way…I'm not saying it would have been like payday loans but it would have felt like that. They would have been high interest or business angels. We did have that option but they steered us in a different direction... It was a lot of work but there is the support element.*
>
> **Micro business, RFP lender**

4.10 Overall, access to finance through the EFG scheme has been essential to borrowers achieving positive outcomes for their businesses. In most cases, these loans fulfilled, either fully or in part, the aims that were set out when getting the loans.

> *It was very necessary as I don't think we'd have got it if it wasn't backed by [the BBB]. It gave us the money so we could pay our clients… [and in the future] we may be a better run company because of it. Better profit because of it.*
>
> **Micro business, asset-based lender**

Is the EFG loan reaching all the businesses that would benefit from this sort of loan?

4.11 While most lenders and borrowers were of the opinion that the businesses that *are* accessing the EFG are generally the appropriate ones, they also thought that the scheme was *not* reaching all the businesses that could potentially benefit from it. This led to a debate about whether awareness should be raised of the EFG Scheme.

4.12 Several lenders acknowledged that it would not be appropriate for them to heavily market EFG-supported loans as a 'product', as they would not want to attract large numbers of unsuitable businesses, or give the wrong impression about the type of business the loan would be suitable for. However, lenders do acknowledge that some suitable business borrowers may never approach a lender as they *assume* they would not get a loan, and that there should be ways of encouraging these businesses to visit the lender and ask.

4.13 Some lenders thought that a key way to raise awareness amongst small businesses would be to ensure that *intermediaries* are aware of EFG loans and the circumstances under which they may be suitable. Intermediaries could include business advisors, financial advisors, brokers, financial assistances, accountants or lawyers – the sorts of people that are regularly in contact with small or new businesses. Substantiating this, several borrowers said that they would have had no idea about the possibility of an EFG loan – and would have dismissed the idea of borrowing altogether - if it had not been for the suggestions of their financial advisors or brokers.

4.14 Lenders felt that the British Business Bank would be the appropriate organisation to raise awareness, as they are an 'impartial' organisation, as well as the lenders themselves.

4.15 In addition, more readily available information online could help small businesses; borrowers without access to an intermediary reported that they had turned to an online search when they wanted to find out about potential loans, but they reported that the results generally featured short term or 'payday' type loans, peer-to-peer lending or government grants, rather than anything about the EFG scheme.

> *We need to be more aware of them. We rely on banks or lenders telling you. They do have an obligation to tell people what's available but sometimes you don't get to know until it's too late… If I go online and put in "small loans" the main ones that come up now are funding circles. You don't get anything about the EFGs or how to access that kind of scheme.*
>
> **Medium business, RFP lender**

5 Experiences of the current EFG scheme process

5.1 This chapter covers the process of delivering the EFG scheme, and then explores how this delivery is working from the lender perspective, as well as how borrowing is working from the borrower perspective. The chapter will consider **what works well within the current EFG scheme process, and what works less well and could be improved.**

5.2 **In summary overall, the process is working well for both lenders and borrowers.** Lenders were more likely to suggest potential improvements to the process than borrowers, reflecting their insider knowledge of administering the scheme. **This research was specifically designed to identify and explore potential changes to the scheme that could improve it further, hence much of the chapter is focussed on this element, despite the picture being broadly positive.**

The EFG-supported loan administration process

5.3 The BBB provided the following detail on this process. As part of EFG-supported loan administration process, all customers are required to sign an "Information Declaration", which is a recording of all information entered in to the EFG web portal by the lender regarding the circumstances of the borrower and the details of the EFG-supported loan. The borrower also receives a schedule of future guarantee fee payments associated with the EFG-supported loan and is required to sign a direct debit origination mandate, permitting the future collection of the guarantee fee from their business bank account. Lenders must ensure these forms are signed by the customer,

5.4 The lender is required to confirm that they have asked the borrower whether they are in receipt of any other state aided support. State aid rules limit the amount of aid provided to any one business to maximum 200,000 euros within any three-year period. Whenever a borrower receives state aid as a result of participating in any publicly funded programme, they will receive a letter confirming the amount of aid received. The borrower is asked to declare any such aid received as part of the EFG application process and the lender is asked to record this information on the EFG web portal.

5.5 In terms of other data required by the EFG web portal, almost all of the fields within the portal relate to information a lender would typically require for a normal commercial facility – for example, loan amount, term, purpose and in relation to the borrower itself, legal status (sole trader, company limited by guarantee) and company number, turnover level, number of years trading. Where additional security is being provided by the borrower (or guarantor), details of security type is also required. While lending practices do vary from lender to lender, much of the above information (other than state aid) would typically be required by a lender for a standard commercial loan, Lenders are also required to confirm that the borrower is viable and that they would have supported the borrowing proposal but for the inadequacy of security. On these two areas, lenders are required to apply their normal commercial practices in relation to assessment of both areas.

5.6 Any additional administration burden to the lender, as a consequence of the loan being supported by EFG (other than inputting the data in to the web portal) should therefore be minimal. For the borrower, the additional administrative burden relates to signing of the Information Declaration and direct debit mandate form and consideration of the state aid question.

What is working well for lenders?

5.7 Lenders were **supportive of the EFG scheme in principle** and were keen to do what they could to promote its use. In terms of general competition, the EFG scheme is one of many products lenders can use to secure customers and lenders reported that it fills an important gap in the market. In terms of Corporate Social Responsibility, lenders also felt that offering the scheme was the 'right thing to do' in order to help the government to encourage growth amongst SMEs. A few commented ultimately that this growth helps ‘UK Plc’ and it is positive for lenders to be seen to be doing this.

5.8 The **portal** received positive feedback from the majority of lenders, they felt that it was user-friendly, involved ‘real-time’ processing and was not often ‘down’ or slow with its screen to screen transitions. When compared to the paper-based system used previously for SFLG (up until 2005), the portal was perceived to be a significant improvement.

5.9 The EFG scheme process was also compared by some lenders to its previous incarnations in that the **coverage of the scheme has evolved** and they feel it is now more generally applicable to small businesses in need of finance. Specifically, it now covers further sectors, business types and additional lending products.

> *I’ve come into it more recently and remember when it was in an older form under the sort of small firms’ loans guarantee so I think it has developed. They’ve realised how businesses have changed and needs have changed. I think in fairness now it has developed but it’s been a gradual change and I think that’s appropriate too.*
>
> **Small bank**

5.10 Further aspects of the process that work well from a lender perspective include the **responsiveness of the BBB to queries**, specifically around lending criteria. Lenders perceived there to be an open and constructive relationship with the BBB that allows for open communication. As with the online portal, the **available support materials** were cited by some lenders to be comprehensive, largely self-explanatory and sufficiently user-friendly. This opinion was expressed in particular by larger lenders.

What is working less well for lenders?

5.11 Despite the view of the process being broadly positive amongst lenders, there were some areas where certain lenders expressed concerns. There was a feeling that the process involved when a loan is EFG-supported is more onerous and resource intensive than the process surrounding a normal loan. This was due to some extra work to ascertain eligibility under the EFG scheme (this could involve extra requests for information from borrowers, and discussions with the BBB in the event of confusion over eligibility), and due to the reporting required via the EFG web portal. For large banks with dedicated resource for the EFG scheme this was not a major issue – they would not avoid suggesting an EFG-supported loan to a customer due to the increased administration required, for instance. Smaller lenders commented that the process can be more onerous for them, though often this was because they experienced relatively few EFG-supported loan applications and so to some extent needed to ‘learn the process afresh’ each time or relied on hearsay to judge how onerous the process was.

> *Myself, I think there’s a perception that [the processes of applying for EFG-supported loans] can be very complicated, but in fact, I don’t think they are… If we could reduce the things that people see as not necessarily worthwhile, then the perception that EFG’s painful to set up and manage and maintain would go away. In essence they’re not hard; it’s just extra things we have to do.*
>
> **Large bank**

5.12 The BBB has commented that the EFG web portal creates the definitive record of EFG transactions and needs to be completed by all lenders for all transactions, so that a definite record of all scheme transactions, on a common basis, can be maintained. For data integrity reasons, there are certain fields within the web portal which cannot be changed once entered. These fields have an additional warning to data inputters before they are locked down. For fields which could legitimately change during the life of a loan, there is generally a facility in the portal for the lender to update them. When the portal was first developed, one of the "red lines" set by the lenders was that there should not be any form of direct link between the portal and their own loan management systems, hence the requirement for separate inputting of loan data directly in to the web portal.

5.13 Notwithstanding the above, further problems with the portal highlighted by some lenders included that it is extremely inflexible in terms of amending mistakes or making changes when the customer has changed their mind. In order to overcome this, lenders stated that they either have to start the whole process again or get in contact with the BBB directly to make the changes.

> *There's some information that we feel we would like to be able to update on the portal, but we're very limited as to what we can update.*
>
> **Large bank**

5.14 In relation to use of the portal, one lender mentioned how the system qualifies businesses based on their Standard Industrial Classification (SIC) codes, and due to very similar SIC codes being eligible and ineligible, this can lead to mistakes that must be rectified later.

5.15 Despite having generally felt that their relationship with the BBB was open and constructive, where changes to entries on the portal were mentioned, some lenders found that the BBB were unresponsive or appeared unwilling to assist. This was particularly the case when changes were requested on an ad-hoc basis (as opposed to giving the BBB changes to make 'in bulk'). This therefore can deter lenders from contacting the BBB to correct these mistakes.

5.16 The BBB has previously proposed a fix to the problem surrounding data cleansing on the portal; every so often the BBB will approach lenders to ask if there are any customers' details that they want to change on the main portal. However, there was a low awareness and experience of this fix. A few lenders also highlighted that this could be too late in the application process as a customer may have been classed as eligible and received their loan already ahead of the change being made. If a change was to then make this customer ineligible, they were unsure what impact this would have.

> *I am not clear on what changes the BBB permit. The inflexible aspect of the portal relates to the ability to make amendments after the case enters the 'Eligible' status. If changes are required, then you have to cancel the case and re-start it on the portal.*
>
> **Senior credit manager, Small bank**

5.17 All of the above issues with the process can not only have resource implications for the lender but it could also impact on their results at audit, particularly where the 'grey areas' surrounding eligibility are concerned and the 'insufficient' screening in the portal. Also, the inflexibility of the portal can put lenders in a difficult situation where they don't feel they can contact the BBB to fix the errors but risk being pulled up at audit for incorrect information.

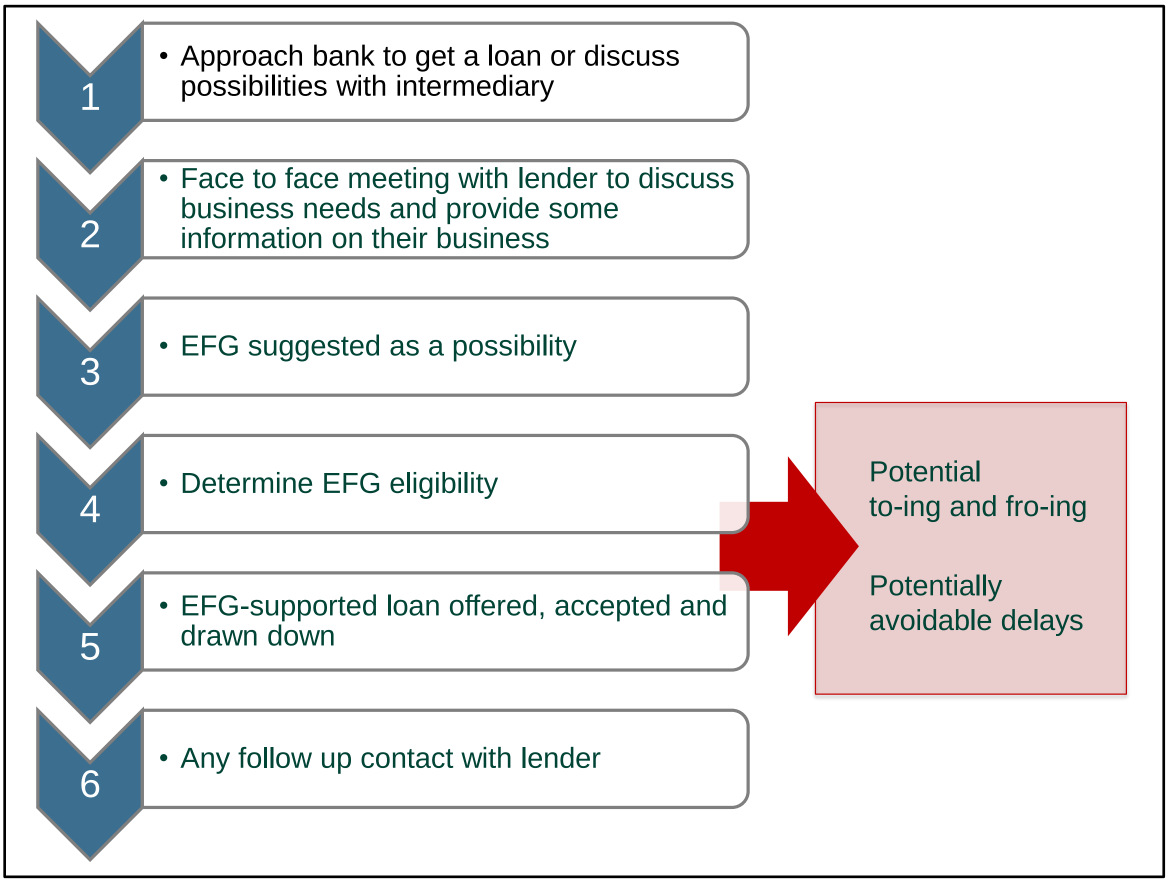
What is working well for borrowers?

5.18 The borrower perspective brought few issues to the forefront, with the majority of borrowers finding the process completely straightforward or mentioning only minor 'gripes'. Borrowers appeared happier with the process than lenders.

5.19 Figure 5.1 below outlines the process of applying for an EFG loan from the borrower perspective and highlights potential areas of improvement from the borrower perspective.

5.20 It should be noted that the process for getting an EFG loan is driven largely by the lenders normal commercial lending practices, rather than anything specific to the EFG-support element.

Figure 5.1: Application process



5.21 **Choosing a lender appeared straightforward** for borrowers; borrowers had either chosen a lender directly (this was generally their current bank or building society or a lender that seemed particularly engaged or helpful) or used an intermediary (either a business advisor, finance broker or an accountant). If the latter, the choice of lender could be made entirely by the intermediary.

> *We do all of our finance through a particular lender and it was the ease of keeping everything through this lender. This certainly helped us out when we took it out at the beginning of the year, purely from a cash-flow point of view… Because of the relationship we have, it wasn't a case of shopping around and we stuck with them.*
>
> **Small business, Asset-based lender**

5.22 In nearly all cases, the EFG scheme element was recommended by the lender, rather than businesses requesting the EFG support as a specific 'product' that they were wanting to apply for. The majority of borrowers had never heard of the EFG scheme and were inexperienced when it came to business borrowing – only a few had borrowed before.

5.23 Borrowers also described the **face-to-face discussions around the loan, and the associated paperwork, as straightforward.**

> *It was fairly simple. It was a conversation with our finance manager where we discussed what we were looking for and an ideal amount. The paperwork came through very quickly, it was a simple signature from myself and my business partner and there were no complications whatsoever. It was done very quickly.*
>
> **Small business, Asset-based lender**

What is working less well for borrowers?

5.24 As with lenders, there was a perception among borrowers that the process of applying for an EFG loan was slightly longer and more onerous than that of a 'normal' loan. There were perceived to be more forms to fill in and in some cases there was a lot of to-ing and fro-ing between the borrower and their bank for more information. Certain borrowers also found that they felt 'grilled' or surprised by some of the information they had to give. However, there is evidence to suggest that some borrowers misunderstood, thinking that the unexpected information they had to provide was solely due to the EFG element whereas in fact, the extra information requested had nothing to do with EFG. The details cited by the borrower below, for example, are not required for an EFG application, but borrower perceived them to be.

> *It did seem quite government-ish and bureaucratic. For example, we had to supply names, dates of births, gender, disability and home address for all employees. The bank wouldn't give a damn about that really would they? Because you're dealing with the government you have to provide all these lists of people. It's just procedure. The financial due diligence is fair enough but knowing the employees' postcode and which ethnic background they come from is, for me, irrelevant.*
>
> **Micro business, RFP lender**

5.25 In addition, a few borrowers felt that there were delays along the way that were unexplained and could have been avoided. Stemming from the delays some of the borrowers encountered, a couple of improvements were suggested:

- Some borrowers suggested that it would be beneficial if lenders provided all the required information upfront rather than in 'dribs and drabs'.
- Another suggested improvement was greater ongoing communication between lenders and the borrower so the borrower's own expectations around timings can be managed.

> *Maybe more communication. If it was a bigger business we'd probably want more communication just to tell us what's going on. For us it wasn't too bad – we applied for it and a couple of weeks later we had the money. In the meantime, we didn't have any communication about it. That would have helped, just to say it had been approved or was going through.*
>
> **Micro business, Asset-based lender**

5.26 The criticisms surrounding the process for borrowers given above were generally only minor 'gripes' or 'niggles'. There were, however, a very small number of cases where borrowers experienced more major issues. One of these was a borrower who described that the process of applying for an EFG-supported loan had taken over a year, with long unexplained periods between several requests for more information. It is likely this was due to the lender's own processes rather than related to the EFG-support element.

> *For reasons which I've never quite understood, there always seemed to be extra questions, more forms to sign and the whole process took about a year in the end. I think this was partly to do with inefficiency on their [lender's] part but it was a very slow and painful process!*
>
> **Small business, Large bank**

5.27 One borrower of the 24 interviewed was not aware that he would have to pay the 2% premium, and felt that the EFG element of the loan and its associated costs and processes had not been explained to him.

> *The first money I saw coming out was about £388 … no one told me I had to pay that, or that I'd have two different payments coming out of my account. I'm still asking for clarity on that … I'd like a breakdown of my repayments and how long it will take to pay back the loan.*
>
> **Micro business, Large bank**

5.28 On the whole however, nearly all borrowers interviewed were aware that they would be paying a premium.

5.29 In conclusion, the process overall is largely viewed positively from the borrower perspective, and some refinements could improve the process further.

6 Terms of the scheme

6.1 This chapter will explore the terms of the EFG scheme from both the lender perspective (in terms of how suitable they think the terms of the scheme are) and the borrower perspective (in terms of their awareness of the scheme terms). Ultimately this chapter will answer the questions: **do lenders think the terms are suitable, and are borrowers aware of them?**

6.2 The terms of the scheme to be covered in this section are summarised below:

- The 75% guaranteed percentage - the lender can claim up to 75% from the BBB of the outstanding principal amount of any individual EFG facility, subject to…
- …the annual claim limit – this is a "cap" on the total value of claims which may be made by the lender.
- The 2% premium – an annual premium of 2% added to the cost of the loan. This is paid quarterly in advance by the borrower, against the planned loan repayment profile.
- The lender has completed their normal debt recovery process.

Lenders' opinion on the suitability of the scheme terms

6.3 Regards **the 75% guarantee and the associated annual claim limit** (discussed further in the following chapter), lenders reported that the former SFLG scheme had guaranteed 75% of each loan, whereas the EFG scheme guarantees 75% of each loan in an annual portfolio of lending but with a cap applied to how much lenders could claim against their annual portfolio of lending. Lenders felt that in 'real terms' this meant between 10%-20% of each EFG loan was now guaranteed by the government. While lenders appreciated that the guarantee could not be too extensive, and several did not feel the claim limit was an issue, a few lenders, in particular lower volume lenders, said that the annual claim limit was restrictive, and could potentially dampen lender appetite to engage with the scheme.

6.4 A key element of the loan terms is that the 75% guarantee is to protect the lender rather than the borrower. If the borrower is unable to pay, the lender will undergo their usual recovery procedures until it is established that the borrower is completely unable to pay anything further. It is only at this point that the lender can claim a proportion of the money back from the Government. All Lenders explained that it was important to ensure their borrowers understand this distinction.

6.5 Lenders were also asked what they thought about the **annual 2% premium** that was payable by the borrower on the loan amount. Lenders cited two main issues with the premium:

- The first issue was one of expense; many lenders felt the premium can make the loan quite expensive, particularly if the loan amount is relatively small (for example £100,000), and particularly given the target audience of the loan (i.e. those with limited collateral). These lenders said it can feel difficult to justify this additional amount to borrowers, particularly in an era of low interest rates.
- The second issue was an administrative one; several lenders reported that borrowers can forget what the payment is for and cancel it when they see it on their statement in the months after taking out the loan. Lenders felt that this confusion could arise because the premium is debited quarterly from borrowers' accounts, and because the payment amount changes each quarter as it reduces as the outstanding loan balance reduces, which borrowers can find

puzzling. Some lenders feel the payment may not be labelled in the most intuitive way (the BBB clarified that the direct debit is labelled “BIS loan guarantee”) and an adjustment here could make it clearer to borrowers what the payment is. It is also clearly important that lenders ensure they explain clearly to customers as best they can what the payment is, how often it will be collected and that the payment amount will change each time. If a borrower does inadvertently cancel this payment, the process of addressing the cancellation can be a significant headache, for larger lenders in particular. In these instances, lenders reported that they needed to get the borrower to send replacement cheques by post, and setting up a new direct debit was not straightforward.

6.6 A further note from some lenders was that calling the payment a ‘premium’ could be confusing to borrowers, as it can conjure thoughts of payment protection insurance. However, nearly all borrowers understood who was being protected by the EFG scheme, see paragraph 6.10.

6.7 Ultimately, lenders suggested that changing the name of the premium, labelling the payment clearly on the borrower’s statements, and collecting it on a monthly basis rather than quarterly, would make it clearer to the borrower what it was for.

Borrower awareness and opinion of the loan terms

6.8 **Many borrowers reported that they had been informed of all necessary terms and conditions** when they took out the loan and they were satisfied that they understood them at the time. That said, at the time of interview borrowers were generally unable to recall the specifics and it was clear that they had not thought about the loan terms since they had taken out the loan.

6.9 That said, there was no indication – with one exception – that borrowers misunderstood who was being protected by the EFG scheme, i.e. nearly all were clear that it was the lender who was protected.

6.10 In terms of the premium payment, **awareness and comprehension was mixed** amongst borrowers. **Nearly all borrowers were aware that they would be paying a premium**. For one however it came as a surprise, causing financial difficulties.

6.11 In terms of what the premium was for, a few perceived it to be an admin fee of sorts, a few perceived that it was a payment in recognition of the reduced security required, while a few said they had no idea what it was for (though generally, again, borrowers felt they would have been told about the premium at the time, and had simply forgotten).

6.12 Most borrowers accepted the premium amount simply as a necessary payment that enabled them to get the loan. When prompted, borrowers said of course a reduced premium would be a positive thing for them, however they were generally just relieved to have been granted a loan at all, and the payment was just a necessary part of that.

6.13 Overall, there was no evidence amongst these borrowers that a reduced premium amount was needed, just that borrower awareness of the premium could be raised and reinforced over time, to reassure them the payment is legitimate and to help them plan their outgoings.

6.14 Borrowers also accepted the repayment structure, in which larger amounts are repaid at the beginning of the loan term and these reduce throughout the repayment period. A few borrowers noted that the higher repayments at the start can be a strain when a loan has only just been granted, and a more even repayment structure could be a helpful option.

6.15 The conclusion therefore is positive, in that lenders do in the main feel the terms of the scheme are suitable, and borrowers are largely aware of these terms.

7 Lower than Optimum Use of the EFG scheme

7.1 Though the evidence gathered showed a general satisfaction with the way the EFG scheme works in essence, the aim of the research (and the particular focus of this chapter) was to nevertheless explore in detail any potential improvements that could increase the reach of the EFG scheme even further for small businesses.

7.2 This chapter therefore explores **the reasons why some lenders are noting that the EFG scheme is not reaching all businesses that could potentially benefit from it** – as a means to build on the scheme and ensure it reaches optimum levels of borrowers in the future. These views are necessarily from the lender perspective, as borrowers have far lower engagement and awareness of the 'big picture' of the EFG scheme.

7.3 Lower than optimum use of the EFG scheme may result in eligible businesses missing out on finance that would help their business to either grow, or to survive in harder times. Conversely, ensuring that the EFG scheme *is* meeting its full potential could help small businesses to thrive and thus drive the UK economy; indeed, chapter 3 describes the very positive impacts that the EFG-supported loan had had on businesses.

7.4 There are two parts to this chapter; the first explores the **aspects of the scheme** and **other factors** that lenders think are contributing to its lower than optimum use more generally, and the second part covers the **specific circumstances** under which the EFG scheme is not commonly used by borrowers.

Factors perceived to be contributing to lower than optimum use of the EFG scheme

7.5 A combination of factors was perceived to be contributing to this sub-optimal reach; **lack of clarity around some of the more subjective eligibility** criteria and/or lender discomfort in applying their "normal commercial lending practice" rule when considering certain eligibility scenarios. To a lesser extent, lower volume lenders' understanding of **the annual cap on guaranteed lending**[2] may be dampening their appetite to use the scheme, and **a lack of awareness** is supressing borrower demand. Also amongst a few lower volume lenders, the EFG scheme is used so rarely that **a lack of lender awareness** amongst their staff of the scheme's purpose and key terms is also contributing to a lower level of use than might otherwise be the case.

Lack of clarity around certain eligibility criteria

7.6 Several lenders report that some **ambiguity over how to apply in practice certain more subjective eligibility criteria, leading to uncertainty over whether certain borrowers are eligible for the EFG scheme**. Whilst lenders acknowledged the general guidance within the EFG Lender Manual and from BBB to apply their "normal commercial lending practice", lenders did not feel this was always necessarily appropriate and suggested more guidance from the BBB would be useful on borderline or more complex cases.

7.7 **Several lenders** described the areas of uncertainty as follows:

[2] *The BBB guarantees 75% of a lender's individual EFG loan. The BBB states that the Government's total exposure to any individual Lender's annual portfolio of EFG-backed lending is capped, but at a level above the portfolio default rate most Lenders would expect to experience in their SME lending, and also that greater flexibility is provided to improve the working of the Claim Limit for smaller lenders. Some lenders indicated a misunderstanding of how the annual cap operates and cited that they thought an equivalent of 10-20% of each EFG loan is supported.*

- ***Personal assets*** – scheme rules require that a lender follows their usual commercial practice in determining whether or not a customer's personal assets represent suitable collateral against which borrowing may be secured. Lenders should exercise the same judgement for EFG-Supported loans as they would apply when assessing personal asset availability for a standard commercial facility. Notwithstanding this guidance, lenders said it was often not clear to what extent a customer's personal assets could be 'excluded' from their collateral in order to make a them eligible for an EFG-supported loan.

- ***State Aid*** – European state aid rules require that borrowers within any member state must not receive state aid of more than 200,000 euro equivalent within any 3-year period. There is therefore a requirement for lenders to check whether any potential borrower is already in receipt of state aid via any other publicly funded scheme. As there is no definitive national database of state-aided schemes and beneficiaries in the UK. EFG scheme rules therefore require that a lender should ask the customer whether they are in receipt of any qualifying state aid support and allows the lender to take the customer response at face value, unless they have other knowledge which would cause them to challenge it. The rationale for this approach is to keep any obligation on the lender as "operationally light touch" as possible.

  Several lenders found this State Aid related rule difficult to apply because there was no way of obtaining authoritative information through the application process, concerning what other support businesses might have received.

  > *RMs will be naturally reluctant to simply rely on the customer's word and especially in cases where the customer's themselves are uncertain of whether or not they have received qualifying support. They will also be uncomfortable with giving the customer any steers or advice. Perhaps an easy-to-find list of schemes that would be counted towards State Aid limits would be helpful.*
  >
  > **Large Bank**

- ***Share purchase*** – EFG scheme rules currently state that a lender must be able to ascertain that economic benefit to the underlying business must be evident (via increased sales or profit or job creation/safeguarding), for a share purchase transaction to be eligible for EFG. A "cashing out" transaction for an existing business owner, whereby benefit is principally to the departing shareholder rather than there being tangible economic benefit to the business itself, would not be eligible. Several lenders said they did not fully understand the rules around using EFG loans for purchasing shares, because while the over-arching rule seemed to be that this was not possible, there were exceptions that lenders did not feel they fully understood.

7.8 **A few** lenders also mentioned the following areas of uncertainty:

- **Personal gain** – EFG scheme rules are that EFG-backed loans must always be to a business and for business purposes. An EFG-backed loan to an individual in a personal capacity is not permitted, unless that individual is operating as a sole trader. A few lenders were uncertain about the extent to which it was acceptable for their customer to benefit personally from an EFG loan.

- ***Non-trading businesses*** – EFG scheme rules are that an EFG-backed loan must always be made to a trading, rather than non-trading, business. A few lenders said that they were unsure whether it was always the case that EFG-supported loans could *not* be offered to non-trading businesses, for example, where a group structure has been established with a "topco" non-trading entity and a subsidiary trading entity. In such scenarios, lenders may typically lend to topco, even though it is not trading, with repayment of the loan coming from the subsidiary company. Lenders were unsure whether EFG could be used in this scenario.

- ***Exports*** – EFG scheme rules, recognising state aid restrictions, state that EFG cannot be used to support a specific export order. Outside this specific restriction, the fact that a business happens to export is not in itself a reason for a lender not to provide an EFG-backed loan. A few lenders said it was not always apparent whether a customer would be eligible for an EFG loan if they planned to use the money to purchase equipment that would be involved in export activity.

7.9 Lenders said that greater clarity on how to apply these eligibility rules within their own organisational context was the area that, if corrected, would make it possible to offer EFG loans with greater confidence and with less time spent on the process internally.

7.10 A few suggested that the BBB could provide case study examples within the above areas of current uncertainty for lenders; one also wondered whether it would be possible for a more sophisticated eligibility checker to be developed, perhaps that all lenders could use to increase consistency between lenders and reduce the number of queries at audit.

7.11 A related issue for larger lenders was a perceived inconsistency in the advice given by the BBB in response to queries on the eligibility criteria specified above.

7.12 These lenders reported that the BBB's response was to use their standard lending procedures, however lenders felt that in more complex cases this was not always a suitable course of action and doubted that this would be accepted at the audit stage as justification for a certain course of action.

> *I feel that the decision process is devolved. It is just when we seek clarification for the "out of the ordinary" scenario that it seems that BBB's guidance is somewhat vague and left at "use your commercial lending practices."*
>
> **Large Bank**

> *"Normal commercial lending processes" does not seem to have been accepted as a suitable defence to an audit action, it has damaged the profile of the product in the business… I understand though why BBB does not wish to get involved in making marginal calls on eligibility.*
>
> **Large Bank**

7.13 Lenders reported that this ambiguity led to the following issues

- ***Time consuming clarifications*** – when lenders approach the BBB for guidance on whether a borrower is eligible for the scheme within the context of their normal commercial risk procedures, this can result in to-ing and fro-ing between the lender and the BBB, particularly if the lender disagrees with, or is uncertain of, the guidance given. It tended to be the larger lenders that mentioned this to-ing and fro-ing most often, as these were the lenders that processed the largest number of EFG applications and therefore experienced more 'borderline' cases; they were also the lenders with the highest level of in-house expertise on EFG and so may be more likely to query or disagree the guidance by the BBB.

The BBB commented that a customer's eligibility in this area is a subjective judgement to be made by the lender and that guidance provided to the lender will depend upon the facts presented at the time;

different facts or borrower circumstances can lead to differing guidance to lenders on whether or not a borrower appears eligible for the scheme.

- ***Audit issues*** – lenders perceived that the advice they were given on eligibility 'up front' by the BBB could be unclear (or simply limited to the assertion that they should use their normal commercial lending practices, which some lenders felt was not always appropriate), yet this was then followed by strict, clear audit decisions which later found borrowers not to be eligible. Some lenders questioned why, if the auditors could be so certain at the audit stage, the advice at the lending stage could not have been more consistent and decisive.

> *Initially we weren't clear at all around some uses of the EFG, particularly in instances of share purchase and also around the need for asset and liability statements. So a couple of the audits we had picked us up on those points. We were frustrated because we tried to do the right thing and we weren't feeling we were getting the answers we needed to direct us.*
>
> **Large bank**

Lenders also reported that they always tried to act in line with the 'spirit' of the scheme and took a lot of trouble to gather the necessary information to make an accurate decision (to the extent that they sometimes found the process incredibly time consuming), but did not feel this was always appreciated at the audit stage.

7.14 In addition, one lender reported needing to go back to a customer and tell them they are not eligible after all, though this appears to be rare.

> *Especially when we have had instances, around export for instance, where we've gone to one person in BBB and received one answer, so we go down that path for six months and then when we've asked another question they've completely reversed their decision. We've actually then been in a very difficult position as a lender, where we're saying, 'What do we do to the people who we've actually agreed EFGs with?'*
>
> **Large bank**

7.15 As noted above, lenders argued that, taken together, these uncertainties made it more difficult to engage with the EFG scheme than it might be otherwise.

7.16 The BBB has commented that when the scheme auditors sample a customer case as part of the independent audit process, all information within the customer file is made available to the auditor so the auditor can make an eligibility assessment based upon all pertinent available information. In contrast, as above, when lenders seek guidance from BBB at the initial eligibility checking stage, guidance is provided based only upon the facts presented by the lender. Where a judgement call has been taken that a borrower is eligible by the lender, lenders are asked to make a note of the decision and how it fits with their standard lending practise and keep this within the customer file. This means that if the file is subsequently audited, the auditor can understand the rationale for the decision, and that otherwise the auditor may well have queries. This ability to make notes on eligibility decision rationale was not discussed with lenders during the research so it not clear to what extent lenders leave notes on files where decisions are more 'borderline', and therefore whether lenders perceive notes like this to be sufficient 'cover' for them.

Low awareness amongst borrowers

7.17 As noted in chapter 4, many lenders thought that there was low awareness of EFG-supported loans amongst potential borrowers, and the intermediaries that might have contact with these potential borrowers, such as financial advisors, finance brokers and accountants. Some lenders felt that this low awareness of the scheme had resulted in the EFG scheme being used to a less than optimal extent, because eligible businesses have no idea they can access finance in this way and so do not even approach lenders. Lenders reported it was very rare for customers to ask them proactively about EFG-supported loans.

7.18 Some lenders also felt that this low awareness amongst borrowers increased the risk of them misunderstanding the EFG element as 'borrower security'. Lenders appreciated that it was their responsibility to ensure borrowers understand who is protected under the terms of the loan, and that in the main their borrowers *do* understand this. A few lenders felt nonetheless that if there was greater general awareness, borrowers would be less likely to misconstrue this protection.

7.19 Some lenders also commented that a lack of promotional 'success stories' regarding the EFG, despite there being many successes had left a 'vacuum' in which a negative narrative then had disproportionate space to develop.

7.20 Lenders felt that information about the scheme should be made very accessible to small businesses and the intermediaries that support them, and that the BBB's position of neutrality makes them ideal for this task. Some borrower views supported this; a few said they had only approached a lender because their financial advisor had told them they may be eligible for an EFG-supported loan.

The 75% guarantee and the annual claim limit

7.21 Since its inception in 2009, the EFG Scheme has had a portfolio claim limit in place (originally 9.75% net, subsequently increased to 15% net). The predecessor SFLG scheme did not have a claim limit in place but if it had not been replaced by EFG, the BBB explains that a claim limit would have had to be added in 2009 as the claim limit is a requirement under state aid guidelines for operation of a national loan guarantee scheme under de Minimus state aid rules. The claim limit is set above the maximum default rate which most participating lenders would expect to experience so in practice, it is not expected to act as a barrier to EFG being used appropriately. In 2014, revised claim limit arrangements were introduced, to protect lower volume EFG lenders against the possible concentration risk which could arise from having a small annual portfolio of lending.

7.22 The **annual claim limit** was mentioned by a few smaller lenders as something that may dampen their appetite for offering EFG-supported loans. Larger banks were less likely to note this as an issue.

7.23 Lenders reported that previously under SFLG, the 75% government guarantee was a "straight 75%" of every loan offered. However, lenders described that the introduction of an annual claim limit following the introduction of EFG in 2009 meant that their level of protection per loan was reduced. Several lenders reported that, in real terms, only between 10% and 20% of their overall EFG lending was guaranteed in any one tranche / financial year. This highlights the need for further clarification on the annual claim limit.

> *My boss was quite into all this sort of stuff and we did all the calculations on a white board. Then you realised that from the 75% headline figure, when you drill it right down it was about 8%, 9%, 10%. So **I** understand that because I've been through that journey, but I don't know how many of my colleagues have – it's just understanding exactly how it works. You end up having conversations with an accountant or a professional advisor, whose*

attitude is, "well 75% is secured by the government, which should give you a lot of comfort" – it's only when you get to the underwriting stage that you appreciate the pot is only about 10% secured.

Asset-based lender

7.24 Under the terms of EFG 75% of an individual EFG loan is guaranteed though there is a cap on how much a lender can claim under the guarantee in any one annual lending period. The BBB states that the Government's total exposure to any individual Lender's annual portfolio of EFG-backed lending is capped but at a level well above the portfolio default rate most Lenders would expect to experience in their SME lending, and also that greater flexibility was provided in 2014 to improve the working of the claim limit for smaller lenders.

7.25 Some lenders were under the impression that this meant that towards the end of a tranche, they may be lending under EFG without any genuine protection. This made lenders very mindful of the potential risk, which – while not an entirely inappropriate consideration - prevented the EFG scheme from being utilised to its fullest extent, especially amongst smaller lenders. Smaller lenders appeared unaware of the 2014 changes to the claim limit. Some also commented that it made lenders less willing to offer larger sums under the EFG scheme. The responses provided by these lenders shows that there is a need to clarify the annual claim limit.

The overriding impediment to the EFG scheme, from our perspective, is the claim limit. …it still makes it difficult to say quite clearly on a facility that the guaranteed percentage that applies to this facility is a certain level. Whereas under its predecessor you knew exactly, at all times, how much the collateral was worth. …they've improved the claim limit but it still doesn't address, really clearly, the issues that low volume lenders have.

Small bank

Low awareness amongst some front line lender staff

7.26 The BBB states a condition of the scheme is that each accredited lender is responsible for ensuring all appropriate staff within their organisation is fully trained on scheme terms, so that these can be accurately conveyed to potential borrowers. A few smaller lenders reported that their low levels of EFG lending (sometimes only one or two instances a year) meant that, in reality, an EFG-supported loan was not at the forefront of Relationship Managers' minds when faced with a case that may be eligible. In these instances of very infrequent exposure. RMs were generally also unfamiliar with the portal and the rules around eligibility for the scheme, and this could further discourage suggesting this type of loan. A few lenders said there was a perception that, for instance, using the portal, was particularly arduous, and that this was sometimes as a result of unfamiliarity with the scheme.

7.27 Whereas large banks had whole teams dedicated to EFG-supported lending, and in some instances had created internal versions of the BBB's manuals to help their front line staff, smaller lenders rarely had this level of internal resource or knowledge.

7.28 These lenders suggested that the BBB could run introductory seminars on EFG-supported lending, or create webinars for lender staff to watch in their own time. These would give an overview / refresher regarding the circumstances in which EFG-supported lending can be used, the process that is involved, a reminder of how the portal works, and any common pitfalls or misunderstandings.

Specific circumstances in which the EFG scheme is used at less than optimum levels

7.29 EFG loans are rarely used for the following, even though it is possible to do so: for larger loans (up to £1.2m), for overdrafts and for invoice finance. The reasons for these are discussed in this section.

Larger loans

7.30 Changes to State Aid rules in 2014 meant that for EFG-supported loans above £600,000, these could only be offered over a maximum term of 5 years. For loan amounts below £600,000, maximum loan term could be up to 10 years. Whilst EFG-supported loans can be used for loan amounts up to £1.2m, it is however rare for loans over £600,000 to be requested under the EFG scheme. Most lenders acknowledged this was the case and gave a number of reasons:

- The **length of the loan term** was mentioned by several lenders; larger sums (above £600,000) are only available over 5 year terms, which, at this level of lending, results in repayments that are perceived to be too high for the types of businesses that are typically taking out EFG-supported loans.

- Some lenders also said that in their experience, the primary need for EFG-supported lending is amongst **start-ups and smaller SMEs**, who tend not to need to borrow larger sums.

- Conversely, a few lenders said that larger firms who did need this level of loan tended to have collateral and so the **EFG element was not necessary**.

- Finally, a few lenders mentioned the **State Aid limitations** as a reason why larger EFG-supported loans were uncommon. As the EFG-supported loan counts towards a business's State Aid allocation, some lenders said that a particularly large EFG-supported loan could 'tip' the borrower over their State Aid limit, particularly if they have taken any State Aid before.

Overdrafts

7.31 The BBB states a bespoke EFG overdraft option was introduced in 2010, to enable clearing bank lenders to offer EFG in support of existing or new overdraft facilities. Whilst some of the clearing banks have made use of this option, overall use has been low and the reasons for this were explored.

7.32 It is of course only those banks that offer current accounts with overdraft facilities (i.e. the main banks) that are able to offer EFG support on these overdrafts. A few of these main banks said that there was no reason in their opinion why EFG-lending would not be used for overdrafts, but in their experience there was simply very little demand from their customers.

7.33 A few others however did suggest more tangible reasons why overdrafts were not a common vehicle for EFG-supported lending.

- **The 2% EFG premium** was felt to be a contributing factor, as this would need to be paid on the whole overdraft limit rather than the amount of overdraft actually used at any one time by the business, which lenders felt would be prohibitive for many borrowers. The BBB has commented that the linking of the EFG premium to the overdraft limit rather than the outstanding balance reflects existing lender practice with annual arrangement fees, which are also charged against the limit rather than balance. It also reflects the likelihood that where an overdraft ultimately defaults, it will usually do so at or even above the limit. Lenders appeared unaware of the current rationale for applying the guarantee fee to the limit.

> *One of the issues possibly is that you pay the 2% premium fee on the limit and not how much you actually use. Whereas on a term loan for example, you pay the fee on the balance of the loan. Whereas on overdrafts, like I say, it's a £100,000 overdraft. You would pay 2% on the £100,000 whereas it might only get at that level periodically, so you're paying for something that you don't always use.*
>
> **Large Bank**

- In terms of availability period for an EFG-supported overdraft, the BBB has commented that normal commercial lending practice is to review overdraft availability on an annual basis. Within this context, EFG-overdraft availability has been set for a three-year period, to provide some certainty to the lender on its continued availability by BBB. At the end of the three-year period, lenders have the option to cancel the EFG support, renew for a further three-year period or convert to term loan. The decision on whether to renew the EFG-supported overdraft lay with the Lender, to be assessed on normal commercial risk criteria for an overdraft facility. *Lenders appeared unaware of these options*. For example, a few lenders thought that the **three-year limit** on an EFG-supported overdraft would put off potential borrowers, due to the uncertainty created by the need to renew the support after this time, and the possibility that it would not be granted again.

> *I think it is three years now, and then after that the guarantee drops away. So … what would you do at the end of three years if you still need to have that protection in there?*
>
> **Small Bank**

7.34 Generally, however, lenders felt that the main constraint was **limited demand** for EFG-supported overdrafts.

Invoice Finance

7.35 A bespoke Invoice Finance variant of EFG was introduced in 2010 to enable EFG to be used alongside revolving credit invoice finance facilities. The option was designed in conjunction with invoice finance lenders to cover niche scenarios, for example, to address instances where lenders assessed borrowers as viable but where the lender was unable to extend extra borrowing facilities to the customer due to, for example, concentration issues within the customer's debtor book. The option was also designed to be used to address overpayment scenarios where the lender has provided finance against a particular debtor but had been unable subsequently to collect the debtor invoice. Use of this option within EFG has been mixed. Some main banks and specialist independent invoice finance lenders have made use of this option, others have preferred to continue to use the standard term loan option. Given the low utilisation of this option, lenders were asked why this was.

7.36 A few lenders *did* offer invoice finance supported by the EFG scheme. One said there was nevertheless very low demand for this amongst their customers, whereas another – a specialist in invoice finance – reported that it made up a substantial proportion of their portfolio.

7.37 A few other lenders only offered term loans and so did not offer invoice finance *at all;* this meant the Invoice Finance option was not 'on their radar' and they therefore could not offer much in the way of suggestions as to why other lenders may not use it. One speculated as to whether other lenders were not *aware* that an EFG guarantee could be used for this product.

7.38 However, several lenders did offer Invoice Finance but did not offer EFG-supported invoice finance. These lenders were a mixture of large banks, small banks and asset based lenders. These lenders had a few different reasons for not offering EFG loans for invoice finance, some of which indicated lender's lack of awareness of the design and purpose of the invoice finance option within EFG:

- Administrative complexities
- An invoice finance product that was already nearly 100% secured
- Perception that the EFG scheme was not suitable for how Invoice Financing was structured.

7.39 Those lenders who cited **administrative complexities** generally said that the demand for this service was so low amongst their customers that it would not be worth the additional work to add this to their repertoire.

> *It wouldn't offer us anything… it would just be more procedures for very few cases, [so] we just decided to ignore that one completely.*
>
> **Large Bank**

7.40 That said, one lender did feel that offering EFG loans for Invoice Finance would bring benefits, however as above the decision was eventually taken that challenges related to system changes, and additional costs, would outweigh the benefits of its introduction.

7.41 A few lenders said that the reason that they don't use the EFG scheme for Invoice Finance is because their Invoice Finance product is already 90% or 100% secured via their debtor book, whereas using an EFG facility would mean the loan was only 75% backed. This **lack of any need for extra protection** was the factor that created the disinclination to use the EFG scheme for this purpose. In response, the BBB has commented that this suggests these lenders appear to believe they would be swapping cover via the debtor book for cover via the guarantee. This is not how the EFG Invoice Finance option operates, in that the EFG guarantee would be provided in addition to the cover via the debtor book.

7.42 On prompting, a few lenders said they were aware of the changes[3] put in place by the BBB in 2014 with regards to Invoice Financing. Some of these felt that the change was a move in the right direction, but that it would not increase demand amongst customers. A few did not seem to be aware of these Invoice Finance changes, but were open to the idea that they might create further opportunities to offer an EFG loan with this product.

> *I believe the Invoice Finance option was discounted due to system / cost challenges - but if there have been recent enhancements to the Type F option, perhaps it would be worth investigating again further?*
>
> **Large Bank**

7.43 This implies a need for the BBB to raise awareness of these changes.

7.44 One lender said that the EFG scheme was not a suitable addition to invoice financing **because of the way that invoice finance is structured**, in particular that invoice finance is too variable a product, compared to term loans which were very 'static' and therefore perceived to be better suited to the EFG scheme.

[3] The BBB introduced a change so that Invoice Finance under the EFG scheme would better align with lenders' operational practices.

7.45 One asset based lender felt that the EFG scheme was not a suitable support for invoice financing, and that it would be more suitable if the EFG support could be based on a proportion of the debtor book, rather than an exact number.

> *EFG loans are set up as being exact numbers. So the loan is the loan and it's over a period of time, which is laid down in the criteria. Invoice finance is not that. Invoice finance is a very flexible and fluid product that grows and retracts, dependent on the debtor book.*
>
> *What we decided to do here as an internal policy with EFG, is to link it in some way with the debtor book. So, for instance, as regards to the guidelines, if we had a ledger of £100,000 and we deemed it appropriate to advance £80,000 against that, i.e. 80%. Then EFG could be used to top up the difference because that's our commercial decision to lend at that level. So, in those instances and those simple numbers, the EFG loan would be a maximum of £20,000 for us, at that point, and could be £20,000. The problem is, that six months later, because of circumstances, we may well have a ledger of just £50,000 against which we would be funding £40,000 at that point. So a margin of only ten, and we'd still have, at that point, probably £18,000, £19,000 outstanding under the terms of the loan. So it would become disproportionate, in those instances, with the level of lend that we'd got into that client against the ledger.*
>
> *The only way, therefore, that that can work adequately within our industry is instead of an exact number, make it a percentage.*
>
> **Asset based lender**

In response, the BBB has explained that the design of the Invoice Finance option was developed in conjunction with the invoice finance sector and is on a revolving credit (rather than term loan) basis, specifically tailored to the needs of the invoice finance sector. This feedback suggests that this lender is not aware of how the invoice financing option is designed to operate under the EFG scheme.

8 Conclusions and suggested refinements

8.1 In essence, the EFG scheme is working successfully and having a positive impact on the businesses it is designed to help. Figure 8.1, following these conclusions, summarises these points.

8.2 Lenders are supportive of the EFG in principle, and are keen to do what they can to promote its use – it fills a gap in the market and lenders feel it is the 'right thing to do' to encourage growth amongst SMEs for 'UK PLC'.

8.3 The **process** of delivering the scheme for lenders is also relatively simple (very similar to the process required for a non-EFG supported loan). In addition, the guidance notes from the BBB are generally considered useful and accessible - and the online portal is easy to use - amongst those familiar with them.

8.4 In terms of the borrower perspective, borrowers had a good understanding of the important elements of the scheme terms; they understood that the EFG scheme protects the lender rather than the borrower, showing that in general, lenders are adequately explaining this very important element. Crucially borrowers were also aware of the additional premium when taking out an EFG-supported loan. There was no evidence amongst borrowers that a reduced premium amount was needed.

8.5 Borrowers also reported huge positive impacts to their business as a result of securing the loan, that would have been unavailable to them without the EFG scheme.

8.6 Broadly therefore the scheme is working well; nevertheless, the aim of this study was to explore potential improvements in some detail, in order to further extend the scheme's reach and positive impact. The research highlighted the following possible refinements to the scheme:

Maximising the use of the EFG scheme

8.7 Lenders generally felt that their EFG customers could not have accessed finance in any other way, and that **the scheme was therefore reaching the right kind of borrowers**. However, lenders also felt that a greater number of eligible borrowers could be reached through a number of factors, discussed below.

8.8 A main issue highlighted by lenders, which was dampening their appetite to use the EFG scheme, was a perceived lack of clarity around the more complex and subjective eligibility criteria of the EFG scheme. Lenders said that anything that could be done to **clarify the most difficult eligibility decisions would be a very helpful step forward and would make lenders more inclined to use the EFG scheme**. In this vein, lenders said they would like more detailed case studies, more eligibility guidance from the BBB on borderline cases, and / or a more sophisticated eligibility 'checker' that all lenders could use, which would ensure all lenders would be using the same criteria. In addition, lenders felt that more flexibility at the audit stage would be helpful; if lenders could feel confident that auditors would accept their conforming to the *spirit* of the EFG scheme while using their normal lending processes, it would make lenders more confident in using the scheme.

8.9 Lenders felt that another way of maximising the use of the EFG scheme would be **to increase awareness amongst potential borrowers, and amongst the financial intermediaries who might be supporting potential borrowers**. Many borrowers also suggested that increasing the level of accessible information for businesses about EFG supported loans, could increase the use of the scheme. Several borrowers had had no idea that they might be eligible for a loan, and the application process was entirely initiated and driven by their financial advisor or other intermediary. For businesses that do not have this level of support, increased availability of information about the EFG-scheme may be an essential precondition to their approaching a lender.

8.10 As well as increased awareness amongst borrowers, a few smaller banks (with a very low level of EFG traffic) also commented that it could be beneficial if BBB could help them to **increase awareness of the EFG scheme amongst their customer-facing staff.** This would help to keep the scheme at the front of their mind in the event that they are faced with a potential EFG borrower case, and could reduce any potential concern on the lender's part that the EFG scheme is very arduous to administer. This could encourage staff to suggest EFG-supported loans more than they are currently,

Scheme administration

8.11 Most lenders said that the EFG scheme process is **more resource intensive than other forms of loan**. Some lenders (particularly the large banks) reported that **this could be alleviated to a considerable extent if there was greater guidance around the more complex and subjective eligibility decisions**; much of the 'to-ing and fro-ing' described by lenders was related to eligibility discussions with the BBB.

8.12 **The portal received positive feedback from the majority of lenders**, they felt that it was user-friendly and worked consistently well. That said, the portal was considered inflexible by some lenders; they report it is difficult to address data inputting mistakes or make changes, and lenders are generally unaware of the BBB's offer to make changes in regular 'batches'. **A more flexible portal that allowed lenders to update or change information would be an advantage.** This would allow lenders to correct mistakes in real time which would result in a reduction in unnecessary administration, and the potential upheaval of altered eligibility decisions following a change in details on the portal.

Terms and conditions

8.13 In nearly all cases, borrowers understood that the EFG scheme protects the lender rather than the borrower, showing that in general, lenders are adequately explaining this very important element.

8.14 In nearly all cases borrowers were also aware of the additional premium when taking out an EFG-supported loan, and expected it to be debited from their account. Again this demonstrates that lenders are communicating this element of the EFG scheme to their borrowers. That said, occasionally a borrower does misunderstand and so awareness of the premium could in some cases be raised.

8.15 There was no evidence that a reduced premium amount was needed, however it is true that this research only includes those borrowers for whom the premium amount was affordable.

Figure 8.1: Summary of findings

Summary of qualitative findings on EFG loan scheme

- Lenders supportive of EFG in principle
- Processes involved in scheme delivery are simple for the most part
- Lenders feel the terms of the scheme (guarantee amount / claim limit / premium) are suitable for its purpose
- Lenders are positive about the guidance and support materials provided by BBB
- Lenders consider the online portal generally easy to use
- Lenders perceive an open and constructive relationship with the BBB, particularly larger lenders
- Borrower understanding the important elements of the scheme terms
- There was no evidence that a reduced premium is needed
- Borrowers reported positive impacts to their business that would have been otherwise unavailable.

- Lenders would like more guidance clarifying more borderline or complex eligibility decisions – this is mentioned as the most useful potential change
- Awareness of the scheme amongst SMEs, and those that advise them, is low. Raising this awareness could increase use.
- Clarifying specifics of scheme terms for lenders would be a positive step, as the findings show there is currently some misunderstanding over e.g. the claim limit and resultant level of protection for lenders
- A particular focus on increasing awareness of the scheme within smaller lenders that have very little experience of the EFG scheme could increase its use
- A more flexible portal that allowed lenders to change or update information themselves would be an advantage

9 Appendix A: structure of lender interview / focus groups

A Introduction

A1 The British Business Bank (BBB) is currently conducting a review of its debt guarantee schemes. This includes looking at the longstanding Enterprise Finance Guarantee (EFG) scheme and also considering this in the context of its other interventions. To support this, it is carrying out some important research to explore how the EFG is currently working for lenders and borrowers, and to inform the design of any future debt-based lending programmes. They have commissioned IFF Research, an independent company, to conduct interviews with Lenders and Borrowers.

A2 Thank you for taking part in this valuable piece of research.

A3 The interview will take about an hour depending on how much you want to say

A4 Findings will be reported back to the BBB in aggregate form, i.e. summarising the main themes such as “many smaller Lenders felt ABC, however a prevalent view amongst larger Lenders was that XYZ”. We will use quotes to bring the findings to life but these will not be attributed to any individual or company without your permission.

A5 **Confidentiality**

- All the information we collect will be kept in the strictest confidence and used for research purposes only. We will not pass any of your details on to any other companies.
- We will not deliberately identify any individual or individual organisation, in the results that we report to the BBB, and the answers you give will not be traced back to you unless you give your express permission.
- At the end of the interview we will ask if you are happy for an anonymised version of the transcript to be passed to the BBB. No obligation to agree – it’s completely up to you.
- We will also check at the end of the interview whether there is anything that we covered in the interview that you would *not* want including in the results reported back to the BBB – for example, things that may inadvertently identify your organisation to the BBB.
- **Permission to record**

A6 **Participant introductions**

- Their role within the lender’s business
- Brief summary of the lender’s – and their personal – involvement in the EFG programme
- IF GROUP, ICEBREAKER: If you had to summarise your (honest!) views on the EFG in 2-3 sentences, what would you say?

B General views on EFG and whether these have changed over time

B1 First can you sum up the purpose of the EFG loan, in your opinion?

B2 How does the EFG programme sit within your overall lending activities? Is it a 'core' or 'peripheral' part of your lending?

- To what extent do you think it is a good fit with your overall aims and ethos as a lender?
- Roughly what proportion of your SME lending book does the EFG programme represent? IF ANSWERED: Approximately what definition of SME do you use?
- What do you think is your company's rationale for participating in the EFG programme?

B3 What advantages do offering EFG loans give you as a lender?

PROBE: For example, is EFG helpful when considering loan applications from businesses with growth plans?

B4 How do EFG loans fit within your organisation's general appetite for risk, and your credit policy?

IF UNSURE: We are trying to understand:

- Once the guarantee is applied to the loans, do you see this as more or less risky than your general SME loan portfolio?"
- Overall, do EFG loans cost you more than your average (non-EFG) SME loan?
- Do EFG loans give you more or less of a return than your average (non-EFG) SME loan?

B5 Have your perceptions of the EFG programme changed over time?
…If Yes

- Over what period?
- In what ways have your perceptions changed?
- Why?

B6 I'd like to ask you about some specific elements of the EFG loan scheme. Can you tell me what you think about the following:

- The flat rate contribution by borrowers towards the cost to Government of running the scheme – currently set at 2%
- The fixed level of the guarantee
- ASK ANY INVOLVED IN CENTRAL EFG ADMINISTRATION (NO NEED TO ASK RMs): The claim limit

C Experience of managing / delivering the EFG process in practice

C1 Please tell me step by step about how your organisation's decision making process works in practise, in terms of EFG loans? I.e. how are businesses approved? What different decisions are made, and by who?

C2 And please tell me how this differs from the process of approving a normal loan?

IF GROUP / NUMBERS ALLOW: CREATE A DECISION-LINE IN PAIRS, i.e. setting out what happens step by step

IF SENIOR POLICY ROLE / PRODUCT MANAGERS: PROBE: Has your organisation established any of its own additional processes / checks on EFG lending, that are additional to the BBB's processes?

C3 How often do borrowers come in and ask for an EFG loan explicitly? How often do you think these firms get it and why?

C4 Tell me about your experience of managing / delivering the EFG process 'on the ground' –

- What works well?
- What works less well? Are there any elements of the EFG process that are difficult or troublesome? Don't be afraid of telling us about the 'nitty gritty', or the 'bigger picture', or both – whatever issues you have. You can think about
  - The process itself
  - How teams work together internally / communicate – e.g. any internal frictions that might prevent EFG-supported loans being arranged
  - Is there any part of the process that is especially time consuming or problematic?

C5 What could be done to improve the process? Think about the aspects you've mentioned that work less well, and anything at all that you think could be done to help, even if you think it's not very realistic for now!

C6 Anything else you'd like to mention on the process and how it works?

C7 Can you tell me about how much, if any, follow-up contact your organisation has with the borrower, after the funds are released? Talk me through how this contact happens, and what it achieves (or is designed to achieve)

- To what extent is this related to the EFG loan specifically?
- Is this contact any different if a borrower has or has not taken an EFG loan?

D Barriers to offering EFG loans

D1 What do you think are the key barriers within your organisation to offering EFG loans?

PROBE IF RELATIONSHIP MANAGERS: Are the internal incentives associated with offering EFG loans; the same, better or worse than 'normal' lending?

IF NOT MENTIONED SPONTANEOUSLY:

D2 Do you think a lack of knowledge or experience in your organisation about these loans is any sort of barrier to your organisation suggesting or arranging EFG loans? I.e. if more was known about it, would your organisation offer them more?

- IF YES – how much of a barrier?

D3 What sort of internal training, knowledge sharing or best practice suggestions are there in your organisation, regarding EFG loans?

- To what extent does knowledge 'filter down' through the company to the people that are talking to businesses 'on the front line'

D4 EFG isn't used much for loans over £600k, even though it can be used for lending up to £1.2m, why do you think this might be?

D5 EFG can be used for facilities other than term loans, for example performance bonds, overdrafts and invoice finance but rarely is, why do you think this is?

E Attitudes to EFG tools

E1 Have you used any of the British Business Bank's EFG training tools? PROMPT IF NECESSARY:

- The web portal manual
- The EFG Scheme manual
- FAQs
- Key Messages document

IF NOT USED:
E2 Is there any particular reason why you have not used any of these? PROBE: Did you know about them?

FOR EACH USED:
E3 How useful have you found these tools?

E4 How / when are these used in practice? i.e. during the normal / realistic decision making process? Under what circumstances? Who uses these?

E5 In an ideal world, how would you change these training tools to make them more effective / so they give you exactly what you need?

E6 Is there any additional guidance you would like?

E7 Talk me through how you see these adjustments or additions working, e.g:

- What extra / different material would they cover?
- How much information would they contain (would they be longer / shorter than the current training?)
- How would you access them? e.g. staff intranet, webinar, live web chat, seminars, one on one training sessions, group training sessions

F Targeting of EFG loans

This section is probably to be asked of those with a policy background / those in senior positions who have an overview of how the EFG scheme operates in the organisation, and RMs on the ground.

F1 Tell me about your target market - what sort of businesses does your organisation 'target' for loans supported by the EFG?

- What are their typical characteristics?
- Is there a broad range or are they all quite similar?
- [Probe on whether EFG is ever targeted at growth firms/firms with growth plans]

F2 How are businesses 'targeted' for this type of loan? Talk me through the process of finding / approaching them.

F3 What are your views on the eligibility criteria for EFG loans? [ADD IF NECESSARY: EFG's target market is eligible businesses that pass all lender's normal loan assessment criteria, except the security criteria.

F4 To what extent do you think the most appropriate businesses <u>are</u> being targeted?

- Why do you think this is or isn't the case? Is it based on experience or is it a 'hunch'? Where has the hunch come from?

F5 Is any evidence on this specifically gathered, i.e., on whether the most appropriate businesses <u>are</u> being targeted?

If evidence is gathered…

- What evidence do you have on this?
- How is this evidence gathered?
- What (if anything) has been done within your organisation on the basis of this evidence?
  - If anything has been done – what impact has this had? i.e. to what extent has it resulted in greater numbers of appropriate businesses being targeted / approved for loans?

F6 To what extent do you feel the EFG helps get finance to viable businesses that wouldn't get it otherwise?

PROBE: What do you think would happen if the EFG loan was not available to your customers? Would they be able to get the finance from elsewhere?

F7 Thinking about Lenders in general now, not just your organisation (though feel free to tell us about your personal experience if you are able to)…

To what extent do you think that 'target' / 'appropriate' businesses are <u>not</u> reached by the programme?

- Tell me about these businesses – what are their typical characteristics?
- Why do you think this happens?

- How do you think these businesses could be targeted?
- What might be difficult about targeting them, from your point of view?

F8 On the other hand, to what extent do you think that businesses that <u>are</u> granted EFG loans (from any Lender) could have got them elsewhere?

If this does happen…

- Tell me about these businesses – what are their typical characteristics?
- Why do you think these businesses could have been granted a loan elsewhere?
- Where else do you think they could have been granted a loan from?

G Impact of EFG loans

G1 How much do you think that EFG supported loans address business's individual needs?

- PROBE: What structures of loans tend to have the greatest impact on businesses and how does EFG support these?
  - IF NOT MENTIONED SPONTANEOUSLY, CAN PROMPT: E.g. the timing and structure of interest and repayment terms, the way the money is drawn down, and perhaps any covenants that the lender may put in place with the borrower?

- Why do you think this? Is it based on experience or is it a 'hunch'? Where has the hunch come from?

G2 Is any evidence on this specifically gathered in your organisation, i.e., on the impact / usefulness of loans that businesses draw down?

If evidence is gathered…

- What evidence do you have on this?
- How is this evidence gathered?
- What (if anything) has been done within your organisation on the basis of this evidence?
  - If anything has been done – what impact has this had? To what extent do you think it has increased how useful the loan is for businesses?

H “Bigger picture” improvements

H1 We have already talked about how the practical aspects of the process could be improved for the future, but I’d like you now to finally think about any ‘bigger picture’ improvements – either for yourself as a lender or for borrowers.

Think about…

- What would make it easier for you to target / deliver the product? Why?
- What would make it more attractive to the Borrower? Why?

ONCE WE HAVE SPOKEN TO BORROWERS: We have been speaking to borrowers too and we have the following suggestions from them. Can you tell me what you think about these and why? How feasible are they? How much would they improve the process? What would be the impact on you or your organisation if these were to be implanted?

H2 Finally, please think about <u>all</u> the improvements we have talked about today - process or big picture.

Can you please prioritise them for me, and tell me why, i.e. what impact would each improvement have? You could think about -

- Improvements that would make your own job / the process easier
- Improvements that would help your organisation overall (maybe in terms of efficiency / profitability)
- Improvements that would make it easier to target / approve the appropriate businesses for these loans and reduce the extent to which inappropriate businesses are targeted?
- Improvements that would increase the number of EFG loans that your organisations offers.
- Any other positive impacts you can think of?

IF GROUP / NUMBERS ALLOW:

- SPLIT INTO PAIRS AND DISCUSS
- JOT EACH IMPROVEMENT DOWN ON A SEPARATE CARD
- ORDER THE CARDS BASED ON IMPORTANCE OF IMPROVEMENT
- FEED BACK TO THE GROUP

INTERVIEWER: PLEASE LIST ALL SUGGESTIONS IN ORDER OF IMPORTANCE, WITH REASONS / IMPACTS EACH WOULD BRING.

I Final wrap up

I1 Check whether there is anything else they’d like to add that hasn’t been discussed?

10 Appendix B: structure of borrower interviews

A Introduction

A1 The British Business Bank is currently conducting a review of its debt guarantee schemes, which involves conducting some research on the Enterprise Finance Guarantee (EFG) scheme, and how it is working for borrowers and lenders. This research will help inform the design of future debt-based lending programmes. They have commissioned IFF Research, an independent company, to conduct interviews with Borrowers and Lenders.

A2 Thank you for taking part in this valuable piece of research.

A3 The interview will take around 45 minutes depending on how much you want to say

A4 Findings will be reported back to the British Business Bank in aggregate form, i.e. summarising the main themes such as “many smaller borrowers felt ABC, however a prevalent view amongst larger businesses receiving an EFG loan was that XYZ”. We will use quotes to bring the findings to life but these will not be attributed to any individual or company without your permission.

A5 **Confidentiality**

- All the information we collect will be kept in the strictest confidence and used for research purposes only. We will not pass any of your details on to any other companies.
- We will not deliberately identify any individual or individual organisation, in the results that we report to the British Business Bank, and the answers you give will not be traced back to you unless you give your express permission.
- At the end of the interview we will ask if you are happy for an anonymised version of the transcript to be passed to the British Business Bank. No obligation to agree – it’s completely up to you.
- We will also check at the end of the interviewer whether there is anything that we covered in the interview that you would *not* want including in the results reported back to the British Business Bank – for example, things that may inadvertently identify your organisation to the British Business Bank.
- Permission to record

B About your business

B1 What does your business mainly do?

B2 Approximately how many employees work for your business?

B3 What is your role within the business?

B4 What are the main challenges you face as a business?

B5 Would you say your business has grown in the last year? By a lot, a bit?

B6 Could you describe your future businesses growth plans?

C About the loan

C1 What led you to look for a loan? (NB – A LOAN GENERALLY, NOT AN EFG LOAN SPECIFICALLY)

C2 And what did you require from this loan? PROBE: How much? Loan term/length? Purpose? Capital repayment holidays?

C3 Had you applied for loans in the past?

IF NOT APPLIED FOR LOANS PREVIOUSLY:

C4 Why had you not pursued loans in the past? PROBE:

- no perceived need
- wanted to avoid debt
- didn't think they would be approved

C5 Did you think about applying but didn't? Why?

IF HAS PREVIOUSLY APPLIED FOR LOANS:

C6 Would you consider your business as a "frequent user" of external finance? And what have you typically used external finance for in the past?

C7 Had you had issues with being approved for loans in the past?

C8 And if so, for what reason(s) were you challenged when applying previously?

ASK ALL:

C9 What other forms of finance do you currently use, other than this loan?

D The application process

D1 Did you consider more than one loan provider?

D2 Was your decision influenced by who you hold your main current account with?

IF CONSIDERED MORE THAN ONE PROVIDER:

D3 How did you reach a decision?

D4 What criteria did you consider?

D5 Thinking about the process now - overall, how did you find the process of applying for the loan? Can you talk me through it?

TELL RESPONDENT: The loan that you were offered/drew down on MONTH YEAR (from sample) was supported by an Enterprise Finance Guarantee (EFG) from the UK Government.

IF ASKED: This is a Government guarantee that aims to help smaller businesses that would have been declined for finance for lacking adequate security or collateral, to get the finance they need.

D6 How did the process differ to that of a “normal” loan?/ How do you think the process differed from what you would imaging a “normal” loan application process to be?

D7 Can you remember what worked well?

PROBE: What was relatively straight forward?

D8 And what worked less well?

PROBE: Was there anything that you found difficult? Was there anything that stalled the process? Why did this happen?

D9 How long did the application process take?

D10 What could be done to improve the process? Think about any of the issues you’ve mentioned, and anything at all that you think could be done to help.

D11 Anything else you’d like to mention on the application process and how it works?

D12 Can you tell me about how much, if any, follow-up contact your organisation has with the lender after the funds were released?

- How helpful is this?
- Would you like more contact from the lender?
    - IF YES – what sort? Why? How would this contact help?

D13 What information, if any, do you have to provide to the lender after receiving the loan? How have you have found this process?

E Awareness of EFG-supported loans in general

E1 Were you aware that this loan was supported by an Enterprise Finance Guarantee?

E2 How did you find out about the EFG loan as an option? At what point in the process of looking for/applying for a loan? Who suggested it?

IF AWARE OF EFG:

E3 Did you specifically request an EFG loan from the lender?

E4 What was your reaction to the concept of your business potentially using an EFG loan?

E5 How clear were you as to how this differs from a "normal" loan? What did you think were the advantages/drawbacks?

E6 Did you consult any further sources of information at the time to find out more about EFG-supported loans? Were these useful? Why (not)?

F Perception / awareness of EFG as part of the loan process

F1 Was the EFG element of applying for a loan a barrier or a burden at all? Please tell me why / why not.

F2 IF ANY BARRIER / BURDEN MENTIONED: how could the process be altered so that these barriers / burdens would be reduced? Please tell me about anything you can think of.

F3 To what extent were you made aware of the terms and conditions of the EFG element of the loan during the process? How clear were these? What did you think of the terms and conditions? At which point in the process were you made aware?

F4 Were you aware of the additional "premium" charged on EFG loans in advance of drawing down the loan?

F5 To what extent were you clear on the <u>purpose</u> of the "premium" charged for EFG loans? Did the lender communicate this to you? How? Were you clear how you would pay for this?

F6 Do you think the level of the additional premium is appropriate? Is it affordable?

F7 Were there any barriers to engaging with EFG loan providers? What were these? How did you overcome these?

F8 Did your attitudes towards the EFG loan change throughout the process? How?

G The impact of the loan on the business

G1 How necessary do you think the EFG element was in helping your business to get the loan?

G2 To what extent do you think your business could have got this finance in any other way, i.e. without using an EFG-supported loan? IF SO: talk me through how this could have happened.

G3 Is it likely that you would specifically ask for an EFG when next applying for a loan? Why/why not?

<u>IF HAVE DRAWN DOWN LOAN:</u>

G4 At the time of applying for the loan, you said that the purpose was to <FROM SAMPLE>. Has the loan helped to achieve this aim so far? To what extent – fully or in part?

IF ACHIEVED AIM(S) AT ALL – FULLY OR IN PART:

G5 How did the loan help your business to achieve this?

G6 Did the loan help your business to ALSO achieve other aims, which were not intended at the outset? Tell me about these.

G7 What have been the impacts for your business? Tell us about:

- Any immediate impact(s)
- Have you:
    - Employed any additional staff/protected any existing jobs
    - Purchased any new machinery
    - Implemented any new processes
    - Been able to remove your business from financial difficulty?
    - Bought a new business?
- Any other impacts that this has led to? PROBE: additional revenue? Started or increased exporting? Expanded geographic reach?

IF NOT ACHIEVED AIM(S) AT ALL:

G8 What prevented you from achieving what you set out to achieve? PROBE: the loan was not enough, external market factors

G9 Is that aim still a priority?

G10 Have you achieved different aims? What has been the impact of these?

ASK ALL:

G11 What impacts do you expect in future, as a result of the loan?

G12 To what extent do you think you would you have been able to achieve these impacts without this loan?

IF COULD HAVE ACHIEVED IMPACTS WITHOUT LOAN: Talk me through how this would have happened.

IF HAVE *NOT* DRAWN DOWN ALL OF LOAN (this may include businesses that did not borrow any money):

G13 We understand that you didn’t draw down the funds (ADD IF APPLICABLE: “in full”).

Why did you not drawn the loan (in full)? PROBE:

- Priorities have changed – PROBE FOR HOW
- Felt the premium was too expensive / something else related to the cost or amount of debt
- Have secured finance elsewhere – PROBE FOR WHERE, AND WHY THIS WAS PREFERABLE. INTERVIEWER NOTE: THIS COULD BE A DIFFERENT LOAN WITH THE SAME BANK

G14 And did you know that you were being offered a loan that was supported by an Enterprise Finance Guarantee/Guaranteed by the UK Government?

G15 Did this have any impact on your decision?

G16 Where there any other barriers to you taking out an EFG loan?

H Overall perceptions of EFG-loans and the British Business Bank (5 minutes)

H1 How much do you know about the British Business Bank? To what extent was their role in the delivery of EFG loans clear? What impact, if any, has this had on your perceptions of the British Business Bank?

H2 The British Business Bank delivers the EFG on behalf of the Government. It aims to help viable UK smaller businesses that lack security or collateral to access finance. To what extent do you feel that there is a need for this programme to exist?

H3 What business needs do you think this programme meets?

PROBE: What do you think would happen if the EFG loan was not available? Would businesses like yours be able to get the finance from elsewhere?

I "Bigger picture" improvements (5-10 minutes)

I1 We have already talked about how the *practical* aspects of the process could be improved for the future, but I'd like you now to finally think about any 'bigger picture' improvements that could be made to any part of the scheme -

How do you think things could be improved? Think about…

- What would make an EFG loan more attractive to businesses like yours? Why?
- What would make it easier for you to access these types of loans/this type of Government support? Why?

I2 Finally, please think about <u>all</u> the improvements we have talked about today - process or big picture.

Can you please prioritise them for me, and tell me why, i.e. what impact would each improvement have? You could think about -

- Improvements that would make it easier for appropriate businesses to access EFG loans?
- Improvements that would make the process easier
- Any other positive impacts you can think of?

INTERVIEWER: PLEASE LIST ALL SUGGESTIONS IN ORDER OF IMPORTANCE, WITH REASONS / IMPACTS EACH WOULD BRING.

I3 Finally, I'd like to ask about accessing loans for your business in the widest sense, so not necessarily the EFG, but any loans at all. How easy or difficult is it, in your experience, for smaller businesses to access debt finance?

I4 How do you think this could be improved? Are there any ways that the government or the British Business Bank could make this easier?

PROBE: What sort of help do you think businesses like yours need from the British Business Bank and the Government? What do businesses want? Why do you think the Government should provide business support in this area?

J Final wrap up (5 minutes)

J1 Check whether there is anything else they'd like to add that hasn't been discussed?