

ENABLE Guarantees Programme

A Request for Proposals

26 March 2015



1. Introduction	3
1.1 British Business Bank.....	3
1.3 Objectives of the Programme.....	5
2. Process for ENABLE Guarantees Programme	5
2.1 Eligible applicants.....	5
2.2 Application process	5
2.3 Delivery of Formal Proposals	7
3. Origination criteria.....	8
3.1 Origination Strategy.....	8
3.2 Origination Levels.....	8
3.3 Origination Standards.....	9
3.4 Minimum Portfolio Criteria	9
3.5 Management Team and Track Record	10
3.6 Legal Structure, Regulation and Tax Domicile.....	10
4. Legal notice	11

1. Introduction

1.1 *British Business Bank*

British Business Bank plc¹ and its operating subsidiaries (“**BBB**”) has been set up as an economic development bank to create more effective and efficient finance markets for smaller businesses in the UK. BBB is thus contributing to making the UK the best place in Europe to start, grow and finance a business.

Around £3.9 billion² of capital is available to BBB for new and existing programmes which will help create new ways to unlock finance for smaller businesses. BBB is bringing together expertise and funding to support economic growth by improving the UK’s business finance markets. BBB invests or administers Government funding alongside or through private sector partners and uses targeted guarantees and funding options to encourage more private sector lending and investment.

British Business Financial Services Ltd (“**BBFSL**”) is a wholly owned subsidiary of the British Business Bank Plc. This Request for Proposal is being funded and delivered by the Secretary of State for the Department of Business, Innovation and Skills (“**BIS**”) acting through its agent which is BBFSL. BBFSL carries out administrative and

¹ British Business Bank plc is a public limited company registered in England and Wales registration number 08616013, registered office at Foundry House, 3 Millsands, Sheffield, S3 8NH. As the holding company of the group operating under the trading name of British Business Bank, it is a development bank wholly owned by HM Government which is not authorised or regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). British Business Bank plc operates under its own trading name through a number of subsidiaries, one of which is authorised and regulated by the FCA.

British Business Finance Ltd is a wholly owned subsidiary of British Business Bank plc, registered in England and Wales registration number 09091928, registered office at Foundry House, 3 Millsands, Sheffield, S3 8NH. It is not authorised or regulated by the PRA or FCA.

British Business Bank Investments Ltd is a wholly owned subsidiary of British Business Bank plc, registered in England and Wales, registration number 09091930, registered office at Foundry House, 3 Millsands, Sheffield, S3 8NH. It is not authorised or regulated by the PRA or FCA.

British Business Financial Services Ltd is a wholly owned subsidiary of British Business Bank plc, registered in England and Wales registration number 09174621, registered office at Foundry House, 3 Millsands, Sheffield, S3 8NH. It is not authorised or regulated by the PRA or FCA.

Capital for Enterprise Fund Managers Limited is a wholly owned subsidiary of British Business Bank plc, registered in England and Wales, registration number 06826072, registered office at Foundry House, 3 Millsands, Sheffield, S3 8NH. It is authorised and regulated by the FCA (FRN: 496977).

British Business Bank plc and its subsidiary entities are not banking institutions and do not operate as such.

A complete legal structure chart for British Business Bank plc and its subsidiaries can be found at www.british-business-bank.co.uk.

² Source: British Business Bank, Strategic Plan; June 2014

operational assistance to BIS and, for the avoidance of doubt, does not provide any investment services or perform any investment activities on a professional basis.

1.2 ENABLE Guarantees Programme

The ENABLE Guarantees Programme (the “**Programme**”) is a new scheme aiming to encourage participating banks (the “**Participating Originators**”) to increase their lending to small and medium-sized enterprises (the “**SMEs**”)³ by addressing the high capital consumption associated with such lending. The Programme will make use of guarantees on portions of newly originated portfolios of loans to SMEs in return for a fee (the level of which will be agreed commercially on a case-by-case basis).

The guarantees will be provided by BIS and are administered by BBFSL. Participating Originators will be able to benefit from a zero risk-weighted HM Government guarantee on a fixed percentage of net credit losses in excess of an agreed first loss threshold on the portfolio originated under the Programme. Net losses are defined as losses incurred over and above the net income of the portfolio.

The guarantee will only cover newly originated loan portfolios, defined as portfolios containing eligible loans originated after the conclusion of the guarantee agreement. Each guarantee transaction will have a defined maximum notional guaranteed portfolio size⁴. In order to ensure an efficient capital treatment, the guarantee will activate only after an agreed proportion of the maximum notional guaranteed portfolio size has been originated. To avoid adverse selection, all non-defaulted newly originated loans in compliance with the pre-agreed eligibility criteria will be required to be included in the portfolio subject to a maximum exposure per borrower.



³ SMEs are defined as micro, small and medium-sized enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding £ 39 million, and/or an annual balance sheet total not exceeding £33 million.

⁴ Defined as the gross portfolio amount without any corrections for the size of the guarantee facility itself.

Eligible loans will be defined as loans which meet criteria agreed between us and individual Participating Originators. These criteria will include risk parameters as well as conditions related to the target groups of SMEs. For example, a proportion of the loans included in the portfolio may be required to be made to specific types of borrowers.

1.3 Objectives of the Programme

The Programme aims to support lending to UK-based SMEs, promote competition and increase supply through banks, including through smaller institutions. It will achieve these objectives by working with third party lenders.

The key objectives of the Programme are to ensure:

- the provision of finance to:
 - smaller SMEs⁵,
 - SMEs with a trading history of less than 5 years, and
 - SME growth companies;
- a net increase in the Participating Originator's credit activities to SMEs;
- an expansion of each Participating Originator's SME credit activities relative to its current total credit activities;
- an increase in lending which otherwise would not have occurred via other lenders.

2. Process for ENABLE Guarantees Programme

2.1 Eligible applicants

The Programme is open to all UK banks and UK branches of foreign banks which lend or intend to lend to viable SMEs operating in the UK. Businesses operating in the UK are to be defined as those with undertakings that make a material contribution to economic activity in the UK, including UK incorporated companies and branches of foreign incorporated parents with a genuine business in the UK.

2.2 Application process

BBFSL, in its capacity as agent of BIS, welcomes proposals from any applicant that is able to meet the criteria set out for the Programme in this Request for Proposals, and to comply with the application process detailed below, together with our indicative timings. ***Proposals may be rejected at any stage.***

- **Expression of Interest:** Applicants are encouraged to make contact with BBFSL at the earliest opportunity by email to enableguarantees@british-business-bank.co.uk to express an interest in the Programme. **Initial Meeting and Information Schedules:** BBFSL may invite applicants for an initial meeting. Either at this

⁵ SMEs with a consolidated annual global turnover of less than £25m

meeting or by written correspondence BBFSL will provide information schedules which will require completion if the applicant wishes to proceed to make a Formal Proposal.

- **Formal Proposal:** After the Initial Meeting and/or receipt of the information schedules applicants may submit a “**Formal Proposal**” outlining how their proposal meets the criteria set out in this document.
- **Management Presentation:** Following the receipt of a satisfactory Formal Proposal, BBFSL will expect to meet with representatives of selected applicants, including selected members of its SME lending management team, to discuss the Formal Proposal and the applicant’s operations. **BBFSL will endeavour to set this up promptly on receipt of a satisfactory Formal Proposal. Eligible applicants:** After the Management Presentation BBFSL will decide whether to select the applicant as a potential counterparty for a transaction and to proceed to the review and negotiation stage. In order to make this decision BBFSL may ask the applicant additional questions after the Management Presentation. **BBFSL expects to make its decision within 6 weeks of receiving a Formal Proposal.**
- **Initial review, negotiations and award:** Selected applicants will be notified and BBFSL will proceed to the first phase of review. Initial review will focus on formally assessing the extent to which the applicant meets Origination Criteria outlined in Section 3 below. Any information provided by an applicant will need to be satisfactorily validated by BBFSL at the end of this stage.
- If initial review is completed to BBFSL’s satisfaction, BBFSL and the selected applicant will start negotiating the structural aspects of the proposed transaction, such as guarantee attachment points, and BBFSL will provide an indication of pricing of the guarantee. Subject to meeting the overall Objectives of the Programme, and following satisfactory conclusion of the review and negotiation process, BBFSL will communicate to the applicant its intention in principle to enter into a guarantee contract on behalf of BIS, subject to final review, approvals⁶ and legal completion (an “**Award**”).
- **Final operational review, approvals, closing and portfolio ramp-up:** BBFSL will then proceed with final operational review, to be conducted by an external auditor and/or rating agency and/or law firm, approvals, agreement of final terms and completion of legal documentation. If an applicant is successful at this stage, guarantee facilities will be committed by BIS to be used by the applicant according to an agreed guaranteed portfolio ramp-up schedule.

Awards will be valid for a period of one month following notification. If completion has not taken place within one month of the applicant receiving notification of an Award, the Award may be withdrawn. Prior to an Award being allocated, BBFSL reserves the right to change the one month time period that the Award is valid for without prior notice, or to negotiate different availability periods for specific proposals on a case-by-case basis.

BBFSL intends to consider applications on a “first come first served” basis. BBFSL reserves the right not to make any Awards should the quality of proposals, in its opinion, not meet the requirements of the Programme.

BBFSL will make reasonable endeavours to respond promptly to applicants at each stage of the application process.

⁶ These may include Ministerial and HM Treasury approvals. Completion, commitment and portfolio ramp-up may also be subject to additional approvals.

2.3 Delivery of Formal Proposals

Expressions of interest and Formal Proposals should be submitted by email and in portable document format ('PDF') to enableguarantees@british-business-bank.co.uk. Any accompanying spread sheets should be compatible with Microsoft Excel. By sending in an Expression of Interest, applicants confirm they have read this Request for Proposals. **Your attention is drawn to the important Legal Notice set out in Section 4 below.**

3. Origination criteria

The paragraphs below detail the criteria against which proposals will be assessed. Formal Proposals should seek to address each of these criteria and meet the Objectives of the Programme (Section 1.3 above) as closely as possible.

The information provided in the Formal Proposal will be used to assess to what extent the criteria outlined here have been met. Where any requested information is unavailable, or cannot be disclosed, applicants should make this clear in their Formal Proposal.

3.1 Origination Strategy

The Applicants' origination must be based on the provision of debt finance⁷. Formal Proposals which provide evidence of the applicants' ability to provide new types or additional supply of finance to SMEs will be considered favourably. Also, the extent to which the new lending will not just displace or substitute existing sources of finance available to SMEs will be a determinant in the selection process.

The following will not be eligible for inclusion into the Programme:

- exposures to SME borrowers in financial difficulty,
- exposures to buy-to-let investors and exposures to professional landlords of residential property, and
- proposals involving the acquisition of secondary debt assets (on a portfolio or single asset basis).

3.2 Origination Levels

Formal Proposals should specify the proposed maximum notional guaranteed portfolio size to be covered by the Programme guarantee, including information on what percentage increase relative to the applicant's existing SME annual credit origination this amount would constitute. BBFSL has a preference for proposals involving at least 250 borrowers and portfolio amounts of at least £75m.

Applicants considering submitting a proposal for a maximum notional portfolio size in excess of £500m must demonstrate that they will deliver the Objectives of the Programme more effectively relative to a guarantee limited to £500m.

In exceptional circumstances, BBFSL will consider proposals seeking a Programme guarantee for portfolio amounts of less than £75m. Applicants whose proposals involve portfolio amounts of less than £75m must strongly evidence a proposal's ability to meet all other origination criteria and the Objectives of the Programme.

Applicants must evidence their ability to ramp up to a maximum notional guaranteed portfolio of a size specified in the proposal within 6-12 months following closing and an ability to commence the origination of that portfolio by no

⁷ For the avoidance of doubt, debt finance includes term lending, receivables financing, supply chain financing, trade finance and asset finance. This does not include hybrid or equity-like instruments even if the majority of the return is debt-based.

later than one month after closing. Proposals will be viewed favourably if they can demonstrate a ramp-up period of less than 6 months.

3.3 Origination Standards

The Formal Proposal should provide details of the origination standards including, but not limited to:

- track-record of ability to originate loans to SMEs;
- availability of historic SME portfolio performance data and prediction power of internal probability of default and loss given default models;
- current and expected net income defined as: (net interest income + fee income) – (overheads + business-specific costs);
- portfolio management and origination procedures;
- granularity of the historic and expected portfolio and approach to portfolio diversification and risk management;
- quality of risk management.

The Formal Proposal must also demonstrate that robust and tested systems and processes are in place for making and managing loans including but not limited to loan documentation, back-office systems, monitoring and governance arrangements and management information reporting.

3.4 Minimum Portfolio Criteria

BBFSL will apply certain minimum requirements in terms of portfolio and eligibility criteria:

Expected minimum high-level eligibility criteria:

- the instrument is an interest paying debt instrument with a stated maturity;
- the instrument has been originated by the Participating Originator;
- the borrower operates in the UK;
- the borrower is an SME as defined in Section 1.2 above;
- at least one instalment due and payable must have been paid and the debt instrument is not in arrears;
- the borrower is a UK private limited company, a public limited company, a partnership, a trust, a foundation, a sole trader, a society, a charity or a club or any other entity which is customarily accepted as a small or medium-sized enterprise;
- no payment default under the instrument or insolvency of the borrower has occurred;
- the borrower is not in financial difficulty; and
- the borrower is not a special purpose entity.

Expected minimum portfolio criteria:

- no single exposure should exceed 1% of the maximum notional portfolio size;
- no single industry should exceed 20% of the maximum notional portfolio size;
- the minimum expected number of borrowers is 250.

3.5 Management Team and Track Record

Applicants must be able to demonstrate that they have a competent team, with sufficient expertise to execute the proposal's origination strategy. Applicants should provide:

- information on the applicant's management team and key personnel;
- recent and relevant experience of, and successful track record in, SME lending; and
- evidence of the management and origination teams having worked together effectively, and their ability to execute the mandate for the full life of the transaction.

Applicants must have suitable standards of reputation and integrity, including appropriate ethical standards in all areas of its proposed operations and must demonstrate this as part of their proposal.

If an applicant identifies any shortfalls in the levels of resources, skills and competencies required to deliver against the Origination Standards, they will be required to demonstrate how they would expect to address these.

3.6 Legal Structure, Regulation and Tax Domicile

Applicants must be UK banks and UK branches of foreign banks and must confirm that they have the necessary authorisations and permissions to conduct banking activities in the UK. In addition, Applicants must be able to demonstrate transparent and appropriate regulatory and tax structures.

4. Legal notice

By responding to this Request for Proposals, all applicants are deemed to acknowledge and accept the terms contained herein including in particular this Section 4.

This Programme is administered by BBFSL in its capacity as agent for BIS. BIS and BBFSL reserve the right at any time not to grant a guarantee, not to continue with the wider Programme and/or cancel or withdraw from the process at any stage and any costs or expenses incurred by an applicant will not be reimbursed. BIS and BBFSL exclude their liability for any costs, expenses or losses incurred by an applicant to the full extent permitted by law.

BIS and BBFSL reserve the right to amend any timetable and/or other aspects of the current process at their discretion.

BIS and BBFSL reserve the right to reject any and all proposals.

BIS and/or BBFSL may request clarification of information and additional information regarding a response BIS and/or BBFSL may also request face to face meetings. Refusal to provide such clarification, information or meetings may cause a submitted response to be rejected. Where no reply to a request for information or for clarification is received within ten business days, BIS and/or BBFSL may assume that the submission has been withdrawn.

Any Award made by BBFSL in its capacity as agent for BIS as a result of this process will be subject *inter alia* to completion of satisfactory review, necessary approvals and the prompt and satisfactory agreement of legal terms.

Respondents should note that information received by BIS and/or BBFSL as part of the current process, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act (DPA) and the Environmental Information Regulations 2004. In view of this, should respondents consider that any information should be treated as confidential and/or commercially sensitive, it would be helpful if respondents could set out why they consider this to be the case in each instance. Automatic confidentiality disclaimers generated by IT systems will not, in themselves, be regarded as binding.

If BIS and/or BBFSL receive a request for disclosure of information provide full account will be taken of any explanation, but no assurance can be given that confidentiality will be maintained in all circumstances. Decisions on disclosure remain the responsibility of BIS and/or BBFSL and ultimately the Information Commissioner and courts. Personal data will be processed in accordance with the DPA: in the majority of circumstances this will mean that personal data will not be disclosed.

This Request for Proposals has been prepared for information and discussion purposes only. It is not a legally binding document and should be treated as indicative only. No representation, express or implied, is being made as to the completeness or accuracy of any facts or opinions contained herein. Applicants should seek their own independent legal, financial, tax, accounting or regulatory advice before making any investment decision.

This Request for Proposals does not constitute an offer document or an offer of transferable securities to the public in the UK to which section 85 of the Financial Services and Markets Act 2000 of the UK (“FSMA”) applies and should not be considered as an offer, solicitation or recommendation to subscribe for or purchase securities.

This Request for Proposals is not being distributed by, nor has it been approved for the purposes of section 21 of FSMA by, a person authorised under FSMA. This Request for Proposals is for distribution only to, and is directed only at, persons within the United Kingdom who are:

- (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the “Financial Promotions Order”); and
- (ii) high net worth entities of the type falling within Article 49(2) of the Financial Promotions Order; and
- (iii) to the extent that doing so does not prejudice the lawful distribution or direction of the communication to or at the foregoing, other persons to whom it may lawfully be directed or communicated,

all such persons together being referred to as “relevant persons”. Any investment activity to which this Request for Proposals relates will only be available to, and will only be engaged in with, relevant persons. Any person who is not a relevant person should not act or rely on this Request for Proposals or any of its contents. By responding to this Request for Proposals, applicants are deemed to represent and warrant that they are a relevant person.

No part of this Request for Proposals should be published, reproduced, distributed or otherwise made available in whole or in part to any other person without the prior written consent of the British Business Bank. No part of this Request for Proposals should be published, reproduced, distributed or otherwise made available in whole or in part in any jurisdiction where to do so would be unlawful.

Applicants should be aware that neither British Business Bank plc nor BBFSL is authorised to carry out regulated activity. BBB will thus be unable to consider responses where receipt or processing would require any form of regulatory authorisation or permission.

British Business Bank plc is a public limited company registered in England and Wales registration number 08616013, registered office at Foundry House, 3 Millsands, Sheffield, S3 8NH. As the holding company of the group operating under the trading name of British Business Bank, it is a development bank wholly owned by HM Government which is not authorised or regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). British Business Bank plc operates under its own trading name through a number of subsidiaries, one of which is authorised and regulated by the FCA.

British Business Financial Services Ltd is a wholly owned subsidiary of British Business Bank plc, registered in England and Wales registration number 09174621, registered office at Foundry House, 3 Millsands, Sheffield, S3 8NH. It is not authorised or regulated by the PRA or FCA.

British Business Bank plc and its subsidiary entities are **not** banking institutions and do **not** operate as such.

A complete legal structure chart for British Business Bank plc and its subsidiaries can be found at www.british-business-bank.co.uk.

Any enquiries concerning this Request for Proposals may be addressed by email to enableguarantees@british-business-bank.co.uk.

© British Business Bank plc (2015)