

ENABLE Programme

an asset finance funding vehicle

A Request for Proposals

17 November 2014

1. Introduction	3
1.1 British Business Bank.....	3
1.2 British Business Bank ENABLE programme	3
1.3 Objectives of the Programme.....	4
2. Process for the ENABLE Programme	6
2.1 Eligible applicants.....	6
2.2 Application process	6
2.3 Delivery of Asset Finance Proposals	7
3. Origination criteria.....	8
3.1 Origination Strategy.....	8
3.2 Origination Levels.....	8
3.3 Origination Standards.....	10
3.4 Minimum Portfolio Criteria	10
3.5 Management Team and Track Record	11
3.6 Legal Structure, Regulation and Tax Domicile.....	11
4. Legal notice	12

1. Introduction

1.1 *British Business Bank*

The British Business Bank¹ has been set up as an economic development bank to create more effective and efficient finance markets for smaller businesses in the UK. It is a key element of the Government's Industrial Strategy, and we are already 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 for new and existing programmes which will help create new ways to unlock finance for smaller businesses. We are bringing together expertise and budgets to support economic growth by improving the UK's business finance markets. We invest Government funding alongside or through private sector partners and use targeted guarantees and funding options to encourage more private sector lending and investment.

1.2 *British Business Bank ENABLE Programme*

The British Business Bank ENABLE Programme (the "**Programme**") is a new scheme designed to increase funding diversification for leasing and asset finance providers with the overall purpose to increase the supply of debt to small and medium sized enterprises ("**SMEs**"), and is part of the British Business Bank's suite of solutions. The Programme will be funded by the Department for Business, Innovation and Skills ("**BIS**") and administered by British Business Financial Services Limited.

The Programme aims to help resolve funding constraints for asset finance providers to small businesses. Asset finance is an important and significant source of funding for UK SMEs provided by a range of bank, non-bank and vendor based lessors. However, SMEs are affected by a funding gap for smaller bank and non-bank providers of asset finance who are unable to access cost efficient funding from securitisation capital markets sources. To bridge that gap, the British Business Bank has developed the Programme; an aggregation vehicle that can pool asset finance receivables portfolios from these providers to help raise funding in a cost-efficient way.

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). BBB 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.

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

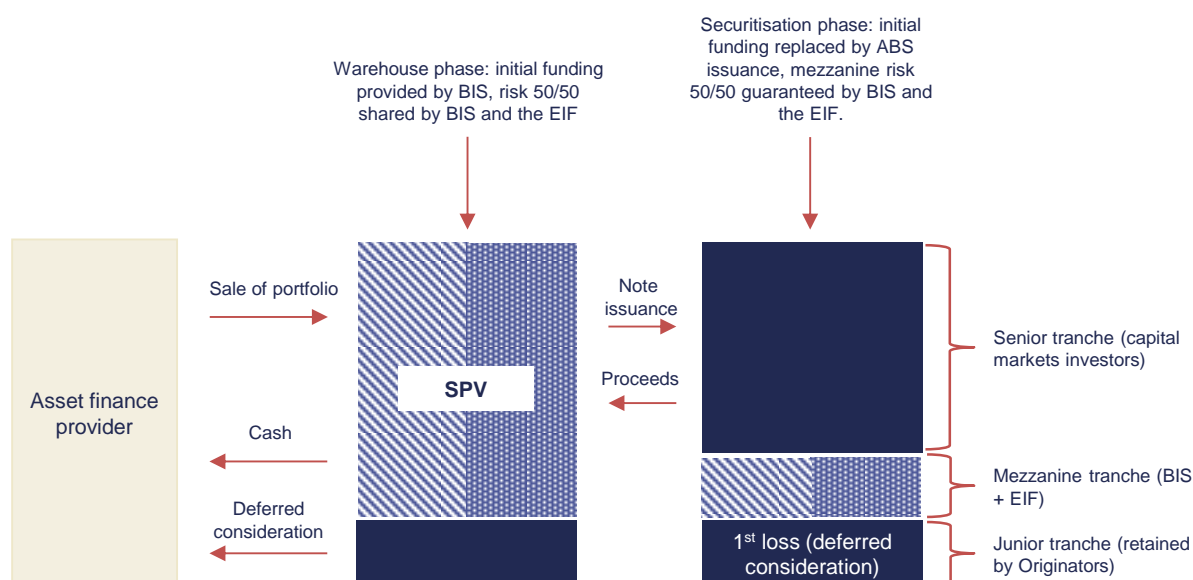
A complete legal structure chart for British Business Bank plc and its subsidiaries can be found at www.british-business-bank.co.uk.

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

The Programme is designed such that through the use of securitisation techniques additional funding can be obtained efficiently. As such the Programme can be useful for originators to grow their SME lending business. Funding from the Programme for asset finance providers is structured to complement and sit alongside existing funding sources, such as for example block lines. The Programme will only assume senior exposure; funding is provided by purchasing newly originated SME asset finance receivables portfolios on commercial terms on the basis that first loss risk, and reward, is retained by the asset finance provider.

BIS will finance³ newly originated asset finance portfolios subject to pre-agreed eligibility criteria during a ramp-up, or warehouse phase. Thereafter, once critical mass is achieved in the vehicle, a capital markets take-out is meant to follow by issuing asset backed securities or other forms of debt. This method allows smaller asset finance providers to collectively attain the necessary scale required to fund themselves in the capital markets.

Schematic overview of Programme:



1.3 Objectives of the Programme

The Programme aims to support lending to SMEs, promote competition and increase supply through banks, non-bank financial institutions and vendor based lessors. The British Business Bank will work with asset finance providers to achieve these objectives.

The key objectives of the Programme are to ensure:

- the provision of finance to:
 - i) smaller⁴ SMEs;

³ The warehouse funding will be provided by the Government with a potential risk sharing with the European Investment Fund (EIF). The EIF is a EU specialised institution for SME debt and equity risk financing across Europe and is part of the European Investment Bank (EIB) Group.

⁴ Businesses falling within the EU definition of a SME (Commission Recommendation 2003/361/EC) but with a consolidated annual global turnover of less than £25m.

- ii) SMEs with a trading history of less than 5 years; and
 - iii) SME growth companies;
- a net increase in the participating originator's credit activities to SMEs;
 - an increase in lending which otherwise would not have occurred via other lenders.

This Request for Proposals relates to transactions for the warehouse phase of the Programme and is open to all eligible providers. We intend to consider applications on a “first come first served” basis. The timings and scale of any consecutive securitisation programme will be determined by us in our sole discretion.

2. Process for the ENABLE Programme

2.1 Eligible applicants

The Programme is open to all UK leasing and asset finance providers and UK branches of foreign leasing and asset finance providers which lend or intend to lend to viable small and medium enterprises operating in the UK. SMEs are defined as micro, small and medium-sized enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding £43 million, and/or an annual balance sheet total not exceeding £35 million. 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

We welcome proposals from any applicant that is able to meet the criteria set out for the Programme in this Request for Proposals and able to comply with the application process detailed below. The Programme is expected to be open for an initial period of one year. We will endeavour to update our website if any Programme timings change. Proposals may be rejected at any stage.

- **Expression of Interest:** Applicants are encouraged to make contact with us at the earliest opportunity at enable@british-business-bank.co.uk to express an interest in the Programme.
- **Initial Meeting:** We will invite applicants to have an initial meeting with us. At this meeting we will provide information schedules which will require completion if the applicant wishes to proceed to make an Asset Finance Proposal. **We will endeavour to set up this meeting to take place within 2 weeks of receipt of an Expression of Interest.**
- **Asset Finance Proposal:** After the Initial Meeting applicants may submit an “**Asset Finance Proposal**” within an agreed timeframe, outlining how the proposal meets the criteria set out in this document and also completing the information schedules provided during the Initial Meeting. We reserve the right to reject any proposal at this stage.
- **Management Presentation:** Following the receipt of a satisfactory Asset Finance Proposal, we will expect to meet with the applicant including selected members of its SME lending management team to discuss the proposal and the applicant’s operations. **We will endeavour to set this up within 2 weeks of receipt of a satisfactory Asset Finance Proposal.**
- **Eligible Participant selection:** After the Management Presentation we will decide whether to select the applicant as a potential counterparty for a warehouse transaction and proceed to the due diligence and negotiation stage. In order to make this decision we may ask the applicant additional questions after the Management Presentation. **We expect to make our decision no later than 6 weeks after the Management Presentation.**
- **Due diligence, negotiations and award:** Successful applicants will be notified and we will proceed to due diligence. The due diligence will focus on formally assessing the applicant’s business, its origination practices and track record and proposed new lending. Any information provided by an applicant will need to be satisfactorily validated by us at the end of this stage. Upon satisfactory due diligence structural aspects of the proposed transaction will be negotiated and portfolio criteria determined. Any award will be made subject to final due diligence, approvals⁵ and legal completion (an “**Award**”).

⁵ Including Ministerial and HM Treasury approvals. Completion, commitment and portfolio ramp-up may also be subject to additional approvals.

- **External due diligence, approvals, closing and portfolio ramp-up:** We will then proceed with the final due diligence by an external auditor and/or rating agency, approvals, agreement of final terms and completion of legal documentation. If applicants are successful at this stage, warehouse facilities will be committed by us to be used by applicants according to an agreed 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, we reserve 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. We reserve the right not to make any Awards should the quality of proposals, in our opinion, not meet the requirements of the Programme.

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

2.3 Delivery of Asset Finance Proposals

Expressions of Interest and Asset Finance Proposals should be submitted by email and in portable document format ('PDF') to enable@british-business-bank.co.uk. Any accompanying spread sheets should be compatible with Microsoft Excel.

3. Origination criteria

The paragraphs below detail the criteria against which proposals will be assessed. Asset Finance Proposals should seek to address each of these criteria and meet the Objectives of the Programme (paragraph 1.3) as closely as possible. Where any requested information is unavailable, or cannot be disclosed, applicants should make this clear in their proposal.

3.1 Origination Strategy

The applicants' origination must be based on the provision of asset finance⁶. Asset Finance 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 exposures will not be eligible for inclusion into the Programme:

- exposures to SME borrowers in financial difficulty;
- exposures to assets located permanently outside the UK;
- exposures relating to land and buildings;
- agreements that include an element of maintenance and services;
- operating leases;
- exposures relating to exclusively IT software or intellectual property.

Lease agreements regulated by the CCA will be considered. Proposals involving the acquisition of secondary debt instruments (on a portfolio or single instrument basis) will not be considered.

3.2 Origination Levels

The Asset Finance Proposal should specify the proposed maximum notional portfolio size to be covered by the Programme, including information on what percentage increase relative to the applicant's existing SME annual credit origination this amount would constitute. We have a preference for proposals involving at least 500 borrowers and portfolio amounts of at least £25m.

Applicants must evidence their ability to ramp up to a maximum notional portfolio of a size specified in the proposal within 12 months following closing and an ability to commence the origination of that portfolio by no later than one month after closing. Proposals will be viewed favourably if they can demonstrate a ramp-up period of less than 12 months.

⁶ For the avoidance of doubt, asset finance in the context of the ENABLE programme means term lending by way of lease, hire purchase and other asset finance agreements to finance the supply of equipment for business purposes.

We will consider proposals for portfolio amounts of less than £25m, but applicants whose proposals involve portfolio amounts of less than £25m should demonstrate a reasonable time frame to reach our preferred minimum portfolio size.

3.3 Origination Standards

The Asset Finance Proposal should provide details of the origination practice including, but not limited to:

- track-record of ability and channels to originate asset finance instruments to SMEs;
- availability of historic SME portfolio performance data such as vintage loss and default curves;
- information regarding internal risk assessment;
- current and expected net income defined as: gross income – (funding cost + overheads + business-specific costs + expected loss);
- origination, portfolio and asset management procedures;
- nature and granularity of the historic and expected portfolio and approach to portfolio diversification;
- quality of risk management.

The Asset Finance Proposal must also demonstrate that robust and tested systems and processes are in place for originating and managing asset finance agreements and portfolios including but not limited to lease, hire purchase and, if relevant, loan documentation, back-office systems, monitoring and governance arrangements and management information reporting.

3.4 Minimum Portfolio Criteria

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

Expected minimum high-level eligibility criteria:

- it is an interest paying hire purchase or financial lease instrument with a stated maturity;
- originated by the participating originator or via pre-approved brokers;
- the borrower operates in the UK⁷;
- the borrower is a 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;
- the borrower is a SME in accordance with the definition of the European Commission;
- at least one instalment due and payable must have been paid and the hire purchase or finance instrument is not in arrears;
- no payment default under the instrument or insolvency of the borrower has occurred;
- the borrower is not in financial difficulty;
- the borrower is not a special purpose entity.

⁷ 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

Expected minimum portfolio criteria:

- no single exposure should exceed 0.25% 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 500.

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 operate in the United Kingdom and must, where appropriate, confirm that they, and where appropriate their brokers, have the necessary authorisations, licenses and permissions to conduct credit, lending and/or banking activities in the EU. In addition, applicants must be able to demonstrate transparent and appropriate regulatory and tax structures.

4. Legal notice

BIS and the British Business Bank plc and its subsidiaries reserve the right at any time not to grant a warehouse facility, 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 the British Business Bank plc and its subsidiaries exclude their liability for any costs, expenses or losses incurred by an applicant to the full extent permitted to BIS and the British Business Bank plc and its subsidiaries by law.

BIS and the British Business Bank plc and its subsidiaries reserve the right to amend any timetable and/or process until such time as legally binding arrangements are concluded with applicants.

BIS and the British Business Bank plc and its subsidiaries reserve the right to reject any and all proposals.

BIS and/or the British Business Bank plc and its subsidiaries may request clarification of information and additional information regarding an Expression of Interest or an Asset Finance Proposal. BIS and/or the British Business Bank plc and its subsidiaries may also request face to face meetings. Refusal to provide such clarification, information or meetings may cause the proposal to be rejected. Where no reply to a request for information or for clarification is received within ten business days, BIS may assume that the proposal has been withdrawn.

Any Award made by BIS as a result of this process will be subject to completion of satisfactory due diligence, necessary approvals and the prompt and satisfactory agreement of legal terms.

All information provided by applicants will be treated as commercially confidential. Save to the extent set out in the paragraph below regarding the Freedom of Information Act 2000 (“FOIA”) or where otherwise required by law, by Parliamentary requirements or where the consent of the applicant has been obtained, such information will not be disclosed to third parties other than those involved in assessing the bids or advising BIS. BIS will retain Asset Finance Proposals after an Award has been made, for example to support any evaluation of the Programme.

The FOIA applies to BIS and the British Business Bank plc and its subsidiaries. Applicants should be aware of BIS’s, British Business Bank plc’s and its subsidiaries’ obligations and responsibilities under FOIA which may, unless an exemption applies, require BIS and the British Business Bank plc and its subsidiaries to disclose, on written request, recorded information held by them.

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. Recipients should seek their own independent legal, financial, tax, accounting or regulatory advice before making any investment decision.

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- (ii) high net worth entities of the type falling within Article 49(2) of the Financial Promotions Order; and
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