

# **ENABLE Guarantees Programme**

A Request for Proposals

May 2019

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# 1. Introduction

## 1.1 *British Business Bank*

The British Business Bank plc<sup>1</sup> (“**BBB**”) is an economic development bank which is 100% owned and funded by the UK Government. Established on 1 November 2014, the BBB’s overarching objective is to change the structure of the finance markets for smaller businesses in the UK, so that they work more effectively and more dynamically and can help smaller businesses achieve their potential.

BBB brings 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.

## 1.2 *ENABLE Guarantees Programme*

The ENABLE Guarantees Programme (the “**Programme**”) is a scheme that aims to support the financing of UK-based small and medium-sized enterprises (“**SMEs**”) , promote competition and increase supply through finance providers. It does this by encouraging participating finance providers (the “**Participating Originators**”) to increase their financing of SMEs in the UK by addressing areas such as the high capital consumption associated with such financing. The Programme provides guarantees on portfolios of debt finance<sup>2</sup> in return for a fee (the level of which will be agreed commercially on a case-by-case basis).

The Programme is administered by British Business Financial Services Limited (“**BBFSL**”) on behalf of HM Government. The Programme as referred to in this Request for Proposals is provided by the Secretary of State for the Department of Business, Energy and Industrial Strategy (“**BEIS**”). There is a separate Request for Proposals for the “ENABLE Build” programme which is provided by the Secretary of State for the Ministry of Housing, Communities and Local Government (“**MHCLG**”). MHCLG provides guarantees to banks who lend to SME housebuilders. If you are a bank seeking a guarantee on development finance instruments to be originated to SME housebuilders, please refer to the ENABLE Build Request for Proposals.

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<sup>1</sup> British Business Bank plc is a public limited company registered in England and Wales registration number 08616013, registered office at Steel City House, West Street, Sheffield, S1 2GQ. Please refer to the Legal Notice section of this Request for Proposals for further details. 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](http://www.british-business-bank.co.uk).

<sup>2</sup> 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.

This Request for Proposals is open to all UK incorporated companies and UK branches of overseas resident:

- Banks;
- Asset and asset-based finance providers; and
- Direct lending funds<sup>3</sup>,

who provide debt finance, or intend to provide debt finance, to viable SMEs operating in the UK. Applicants must be able to demonstrate that they make a material contribution to economic activity in the UK.

Participating Originators who are banks will be able to benefit from a zero (for standardised banks) and close to zero (for IRB banks) risk-weighted HM Government guarantee on a fixed percentage of credit losses in excess of an agreed first loss threshold on the portfolio originated under the Programme.

The debt finance instruments in the portfolio must be eligible and, for the most part, be originated after the guarantee agreement is entered into (see Section 3). Each guarantee transaction with a Participating Originator will have a defined maximum notional guaranteed portfolio size<sup>4</sup>. In order to maximise any capital treatment or funding efficiencies, a guarantee will activate only after an agreed proportion of the maximum notional guaranteed portfolio size has been originated. To avoid adverse selection, either all non-defaulted loans or debt finance instruments or a random allocation of loans or debt finance instruments, in each case which comply with the pre-agreed eligibility criteria, will be required to be included in the guaranteed portfolios subject to a maximum exposure per borrower. A diagrammatic representation of the guarantee is set out below.



<sup>3</sup> Direct lending funds include funds or similar structures designed to raise capital market and institutional funds to lend through originators such as peer to peer and market place lenders.

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

To be eligible, loans or debt finance instruments must meet the eligibility criteria agreed between BBFSL 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 the financing of UK-based SMEs, promote competition and increase supply through finance providers, including through smaller institutions. It will achieve these objectives by working with third party lenders and other debt finance providers.

The key objectives of the Programme are to ensure:

- the provision of finance to:
  - smaller SMEs,
  - 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 the Participating Originator's SME credit activities relative to its current and projected total credit activities; and
- an increase in debt financing which otherwise would not have occurred via other finance providers.

## **2. Process for ENABLE Guarantees Programme**

### ***2.1 Eligible Applicants***

The Programme is open to all UK incorporated companies and UK branches of overseas resident:

- Banks;
- Asset and asset-based finance providers; and
- Direct lending funds,

who provide debt finance, or intend to provide debt finance, to viable SMEs operating in the UK. Applicants must be able to demonstrate that they make a material contribution to economic activity in the UK.

### ***2.2 Application Process***

BBFSL, in its capacity as agent of BEIS, welcomes proposals from any applicant that is able to meet the objectives and 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. BBFSL adopts a risk and judgment-based approach to appraising Expressions of Interest and subsequent applications: accordingly, Expressions of Interest and applications may be rejected at any stage of the process at BBFSL's sole discretion. Applicants unsuccessful at any stage of the application process will be advised of this by the Programme team.

- **Expression of Interest:** Applicants are encouraged to contact BBFSL at the earliest opportunity by email to [enableguarantees@british-business-bank.co.uk](mailto:enableguarantees@british-business-bank.co.uk) to express an interest in the Programme.
- **Initial Meeting and Information Schedules:** If BBFSL believes there is potential to work together, it may invite applicants for an initial meeting. Either at this 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 proceed to the review and negotiation stage. This will focus on whether, on the face of it, the Applicant’s business and its proposal meets the criteria in this Request for Proposals. In order to make this decision BBFSL may ask the applicant additional questions after the Management Presentation.
- **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 the Origination Criteria outlined in Section 3 below. Any information provided by an applicant may 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 BEIS, subject to final review, approvals<sup>5</sup> 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 BEIS 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 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.

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<sup>5</sup> These may include Ministerial and HM Treasury approvals. Completion, commitment and portfolio ramp-up may also be subject to additional approvals.

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

## **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](mailto:enableguarantees@british-business-bank.co.uk). Any accompanying spreadsheets 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.**

### ***Important Note:***

Selection is competitive. BEIS cannot provide a guarantee to every applicant who delivers a proposal. The application process is designed to enable BBFSL to select proposals that are considered to offer the best overall value-for-money in promoting the objectives and satisfying the criteria of the Programme. BBFSL reserves the right to reject, or decline to progress, any application which does not, or which in BBFSL's opinion based on the information provided is not likely to meet the objectives or satisfy the criteria for in the Request for Proposals at any stage in the application process.

Existing proposals from banks relating to SME housebuilders that qualify under the previous Request for Proposals will be processed under the ENABLE Build programme from the date of this document.

Any banks submitting a new Expression of Interest or proposal that relates to SME housebuilders under this Request for Proposals will be directed to the ENABLE Build Request for Proposals.

## **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 finance. 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 debt financing 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 retail 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 size of portfolios to be covered by the programme guarantee, including information on what percentage increase relative to the applicant's existing or projected 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 programme 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 the relevant portion of the 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 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 debt finance 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; and
- quality of risk management.

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

### ***3.4 Minimum Eligibility and 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 yielding 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; and
- the borrower is not in financial difficulty.

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, debt financing to SMEs; 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 incorporated companies and UK branches of overseas resident:

- Banks;
- Asset and asset-based finance providers; or
- Direct lending funds,

who provide debt finance, or intend to provide debt finance, to viable SMEs operating in the UK. Applicants must be able to demonstrate that they make a material contribution to economic activity in the UK.

Where appropriate, the applicant must confirm that they, and other parties involved in the origination or servicing of the guaranteed debt finance, have the necessary authorisations, licenses and permissions to conduct credit, lending and/or banking activities in the UK.

The proposal must be consistent with the requirements of British Business Bank plc's group-wide tax policy, a copy of which can be found on the British Business Bank website at: <https://british-business-bank.co.uk/transparency/>.

## 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.

British Business Financial Services Ltd (“**BBFSL**”) is a wholly owned subsidiary of British Business Bank plc. This Request for Proposals is being funded and delivered by the Secretary of State for the Department of Business, Energy and Industrial Strategy (“**BEIS**”) acting through its agent which is BBFSL. BBFSL carries out administrative and operational assistance to HM Government and, for the avoidance of doubt, does not provide any investment services or perform any investment activities on a professional basis.

HM Government 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. BEIS and BBFSL exclude their liability for any costs, expenses or losses incurred by an applicant to the full extent permitted by law.

BEIS and BBFSL reserve the right to amend any timetable and/or other aspects of the process set out in this Request for Proposals at their discretion.

BEIS and BBFSL reserve the right to reject any and all proposals submitted under this Request for Proposals.

BEIS and/or BBFSL may request clarification of information and additional information regarding a response. BEIS 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, BEIS and/or BBFSL may assume that the submission has been withdrawn.

Any Award made by BBFSL in its capacity as agent for BEIS 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 BEIS 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 Environmental Information Regulations 2004 and data protection regulations and legislation, including but not limited to the Data Protection Act 2018 and the European Union’s General Data Protection Regulation ((EU) 2016/679). 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 BEIS and/or BBFSL receive a request for disclosure of information provided, 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 BEIS and/or BBFSL and ultimately the Information Commissioner and courts. Any personal data (as defined in applicable data protection legislation) an applicant provides to us as part of an Expression of Interest, (including but not limited to any personal data relating to an applicant's employees or officers), will be processed in accordance with the privacy notice on our website <https://www.british-business-bank.co.uk/privacy-notice/>. By sending us any personal data the applicant confirms that it has provided this privacy notice to all data subjects to whom the personal data relates. Applicants should ensure they keep records to this effect. Applicants should not include any special category personal data (as defined in applicable data protection legislation) in their Expressions of Interest.

This Request for Proposals has been prepared for information and discussion purposes only. Other than as set out in this Section 4, It is not a legally binding document and should not be treated as such. Applicants should seek their own independent legal, financial, tax, accounting or regulatory advice as they see fit before choosing to participate in the programme.

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");
- (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 such person as referred to in this paragraph. 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 British Business Bank plc. 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. British Business Bank plc 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 Steel City House, West Street, Sheffield, S1 2GQ. 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 Steel City House, West Street, Sheffield, S1 2GQ. 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](http://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](mailto:enableguarantees@british-business-bank.co.uk).**

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