

# **ENABLE Funding Programme**

**an SME finance funding vehicle**

**A Request for Proposals**

**25<sup>th</sup> October 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 Funding Programme*

The British Business Bank ENABLE Funding Programme (the “**Programme**”) is designed to increase funding diversification and reduce constraints for smaller finance providers to small and medium sized enterprises (“**SMEs**”) with the overall purpose to increase the supply of debt to SMEs, and is part of BBB’s suite of solutions. The Programme is funded by the Department for Business, Energy and Industrial Strategy (“**BEIS**”) and administered by British Business Financial Services Limited.

SMEs are affected by a funding gap for smaller bank and non-bank providers of finance who are unable to access cost efficient funding from securitisation capital markets sources. To bridge that gap, BBB has developed the Programme; an aggregation vehicle that can pool portfolios of SME finance receivables from these providers to help raise funding in a cost-efficient way. This Request for Proposals is aimed at asset finance providers and peer to peer lenders (“**Finance Providers**”). Applicants should be originating or facilitating the origination of asset finance<sup>2</sup> and/or term loan receivables. The receivables should be of sufficient quality to be suitable for inclusion in a market standard securitisation transaction.

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 Finance Providers to grow their SME lending business. Funding from the Programme for Finance Providers is structured to complement and sit alongside existing funding sources. The Programme will only assume senior exposure; funding is provided by purchasing newly originated SME finance receivables portfolios on commercial terms on the basis that first loss risk, and reward, is retained by the Finance Provider.

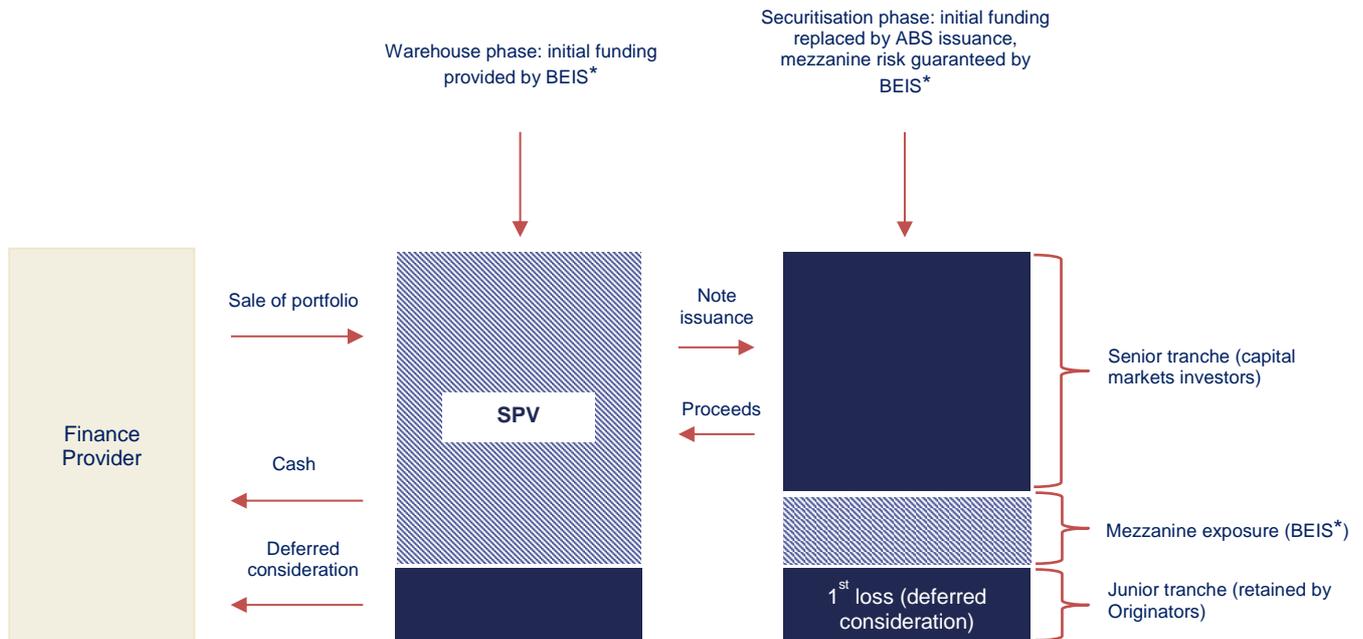
In its initial phase, BEIS will finance newly originated SME finance portfolios subject to pre-agreed eligibility criteria during a ramp- up, or warehouse phase. In line with the policy objectives of the Programme, once a critical mass of receivables is achieved, we will work with participating delivery partners to devise appropriate mechanisms to facilitate a capital markets refinancing of the warehouse phase. This allows Finance Providers to attain the necessary scale and obtain the structural support that may be required to fund themselves in the capital markets.

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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> 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.

Schematic overview of the Programme:



\*BEIS may potentially share risk with a third party.

### 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 key objectives of the Programme are to ensure:

- the provision of finance to:
  - smaller<sup>3</sup> SMEs;
  - SMEs with a trading history of less than 5 years; and
  - SME growth companies;
- an increase in the Finance Provider's credit activities to SMEs;
- an increase in lending which otherwise would not have occurred via other lenders.

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<sup>3</sup> Businesses falling within the EU definition of an SME (Commission Recommendation 2003/361/EC) but with a consolidated annual global turnover of less than £25m.

**This Request for Proposals relates to transactions for the warehouse phase of the Programme and is open to all eligible applicants. We consider applications on a “first come first served” basis. However, preference will be given to those eligible applicants who submit proposals involving at least 500 borrowers and portfolio amounts of at least £25m. Participants in the warehouse phase of the Programme will be eligible to participate in the term phase, subject to satisfactory performance in the warehouse phase. The term phase of the Programme will be subject to a separate approvals process. The timings and scale of any consecutive securitisation programme will be determined by us in our sole discretion in conjunction with BEIS.**

## 2. Process for the ENABLE Funding Programme

### 2.1 Eligible applicants

The Programme is open to UK leasing and asset finance providers and peer to peer lenders and UK branches of foreign leasing and asset finance providers and peer to peer lenders 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 the £ sterling equivalent of €50 million, and/or an annual balance sheet total not exceeding the £ sterling equivalent of €43 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

BBB welcomes proposals from any applicant that is able to meet the objectives of the Programme, the criteria set out in this Request for Proposals and able to comply with the application process detailed below. BBB adopt 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 BBB'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 make contact with us at the earliest opportunity by email to [enable.funding@british-business-bank.co.uk](mailto:enable.funding@british-business-bank.co.uk) to express an interest in the Programme.
- **Initial Meeting:** If we believe there is potential for us to work together, 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 SME Finance Proposal. **We will endeavour to set up this meeting to take place within 2 weeks of receipt of an Expression of Interest.**
- **SME Finance Proposal:** After the Initial Meeting applicants may submit an “SME 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.
- **Management Presentation:** Following the receipt of a satisfactory SME 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 SME 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 operational review 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.**
- **Operational review, negotiations and award:** Successful applicants will proceed to operational review. The operational review 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 a satisfactory operational review structural aspects of the proposed transaction will be negotiated and portfolio criteria determined. Any award will be made subject to a final operational review, approvals<sup>4</sup> and legal completion (an “Award”).

<sup>4</sup> Including Ministerial and HM Treasury approvals. Completion, commitment and portfolio ramp-up may also be subject to additional approvals.

- **External operational review, approvals, closing and portfolio ramp-up:** We will then proceed with the final operational review 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 made, 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 not meet the objectives of the Programme or the criteria set out in this document (both as determined in the Programme team's opinion) or if such proposals do not demonstrate sufficient economic value.

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

BBB reserves the right to change the order of the application process in respect of an applicant from time to time.

### ***2.3 Delivery of SME Finance Proposals***

Expressions of Interest and SME Finance Proposals should be submitted by email and in portable document format ('PDF') to [enable.funding@british-business-bank.co.uk](mailto:enable.funding@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. SME 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 finance to SMEs. SME 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;
- agreements that include an element of maintenance and services.

The asset class should, in the opinion of the programme team, be capable of being refinanced through a capital markets transaction. Agreements regulated by the CCA may 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 SME 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.

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

- track-record of ability and channels to originate SME 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 SME Finance Proposal must also demonstrate that robust and tested systems and processes are in place for originating and managing SME finance agreements and portfolios including but not limited to documentation management, 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, which may be adapted to reflect the relevant market the Finance Provider operates in:

Expected minimum high-level eligibility criteria:

- it is an interest paying instrument with a stated maturity;
- originated by the participating Finance Provider or via pre-approved brokers and platforms;
- the borrower operates in the UK;
- 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<sup>5</sup>;
- the borrower is an SME in accordance with the definition of the European Commission;
- the 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.

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<sup>5</sup> This may be amended on a case-by-case basis.

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 EEA. 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.

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,

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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](http://www.british-business-bank.co.uk).

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