

Recovery Loan Scheme (RLS)

**An Opportunity for Lending Institutions to Partner
with the British Business Bank**

Dated 6th April 2021

**Announced by the Chancellor at Budget on 3 March 2021, the Recovery Loan Scheme
opened on 6th April 2021 and is scheduled to run until 31 December 2021**

**This Request for Proposals is open for applications from applicants
until 30 September 2021**

Contents

RECOVERY LOAN SCHEME	1
1. INTRODUCTION	4
1.1 The Recovery Loan Scheme	4
1.2 The British Business Bank	4
1.3 RLS -Opportunity for New Lenders to Join as Accredited Lenders	4
2. HOW CAN RLS BE USED BY ACCREDITED LENDERS?	5
2.1 Key Terms	6
3. THE ACCREDITATION PROCESS FOR PROSPECTIVE NEW LENDERS	9
3.1 Introduction	9
3.2 Detailed Guidance	11
3.3 Assessment of Expressions of Interest and Formal Proposals	12
3.4 Exceptions	12
3.5 Delivery of Expressions of Interest and Formal Proposals	13
3.6 ACCREDITATION	13
4. REQUIREMENTS	13
4.1 Lending to Businesses trading in the UK	13
4.2 Critical Mass	14
4.3 Interest and fees	14
4.4 Availability of Capital	14
4.5 Financial Status, Operations, Management Team and Track Record	15
4.6 Regulation and Tax Domicile	16
4.7 Legal Structure	16
5. LEGAL NOTICE	17

1. Introduction

1.1 The Recovery Loan Scheme

The Recovery Loan Scheme (the “RL Scheme” or “RLS”) is a new scheme to support access to finance for UK businesses as they recover and grow following the pandemic. The scheme, announced by the Chancellor at the Budget on 3 March 2021, opened on 6th April 2021 and is scheduled to run until 31 December 2021.

The RL scheme will support borrowing of up to £10m for individual businesses and up to £30m across a group, and can be used for business purposes, including, managing cashflow, investment and growth. It is designed to appeal to businesses that can afford to take out additional finance for these purposes.

The British Business Bank will administer the scheme on behalf of the Government.

1.2 The British Business Bank

The British Business Bank (“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.

The BBB has six key objectives:

- increase the supply of finance available to smaller businesses where markets don’t work well
- create a more diverse and vibrant finance market for smaller businesses, with a greater choice of options and providers
- reduce imbalances in access to finance for smaller businesses across the UK, including identifying gaps
- encourage and enable SMEs to seek the finance best suited to their needs
- to be a centre of expertise on smaller business finance for Government
- achieve this whilst managing taxpayer resources efficiently and within a robust risk management framework.

BBB works with more than 130 commercial partners who deliver services and products to smaller businesses with its support. This indirect operating model means BBB works with finance providers in the market rather than competing against them. BBB programmes cover equity and debt finance markets for smaller businesses and range from providing start-up capital, to growth capital to well-established firms in order to help fill finance gaps.

BBB manages the RL Scheme on behalf of the Secretary of State for the Department for Business Energy and Industrial Strategy (“BEIS”) through its subsidiary British Business Financial Services Ltd.

1.3 RLS -Opportunity for New Lenders to Join as Accredited Lenders

The RLS Lender accreditation process is open for an initial 6 month period until 30th September 2021 and UK incorporated and UK registered branches of overseas resident finance providers active in business lending in the UK are invited to apply, as detailed further in Sections 3 and 4 below.

2. How can RLS be used by Accredited Lenders?

RLS is a risk-sharing partnership between Government, Lender and the borrower, to enable lending which would not otherwise be possible or to facilitate lending at a lower price than would otherwise be possible. The RLS guarantee is to the Lender, not the borrower. The borrower remains liable for 100% of the debt at all times.

A key principle of RLS is that the Lender would either:

- a. not have been prepared to offer a commercial facility for the same amount on similar terms; or
- b. would only have been prepared to offer a commercial facility on similar terms at a higher price.

RLS is designed to improve the terms on offer to borrowers, but if a Lender is in a position to offer the option of a commercial facility on better terms than an RLS facility, they should do so.

RLS is versatile and can be used with four types of debt product - term loans, invoice finance facilities, asset finance facilities and overdrafts/revolving credit facilities (committed and uncommitted).

Viability of the borrower

RLS can be used when the borrower has a viable business proposition assessed according to a Lender's underwriting policies in place from time to time. This may, but is not required to, be without regard to any concerns over its short-to-medium term business performance due to the uncertainty and impact of Coronavirus (COVID-19) (The "**Borrower Viability Test**"). To be eligible, the borrower must have been affected by the Coronavirus (COVID-19), have passed the Borrower Viability Test and satisfy the other scheme criteria.

Up to £10m facility per business

The maximum amount of a facility provided under the scheme is £10m per business (maximum £30m per group). Minimum facility sizes vary, starting at £1,000 for asset and invoice finance, and £25,001 for term loans and overdrafts. Borrower specific limits also apply to businesses who apply.

Secured and unsecured lending

RLS may be used for both secured and unsecured lending. For facilities of £250,000 and under, the RLS Scheme may be used for unsecured lending at the Lender's discretion. For facilities over £250,000, if a borrower has available security, then a Lender is expected to take security, however this does not impact the borrower's eligibility for the scheme. The assessment should be made according to the Lenders credit and security assessment policies.

Personal guarantees cannot be taken by a Lender for RLS Facilities of £250,000 or less. If a RLS Facility of £250,000 or less benefits from an existing personal guarantee or at any time in the future benefits from any personal guarantee, then a Lender cannot make a demand or otherwise enforce such a guarantee for any amounts due under the RLS Facility or apply any proceeds from such a guarantee to the RLS Facility.

Personal guarantees may be used for RLS Facilities of over £250,000, at a Lender's discretion, however the maximum amount that can be covered under RLS is capped at a maximum of 20% of the outstanding balance of the RLS facility after the proceeds of all other security has been applied.

In addition to the above, neither a borrower's nor a guarantor's principal private residence can be taken as security or in support of a personal guarantee for an RLS backed facility.

Pricing

The interest rate at which the Lender is prepared to lend at, and any associated fees, should be based on a Lender's normal pricing framework. However, the full net economic benefit of the RLS guarantee to the Lender (including any reduction in risk and capital requirements) must be passed to the borrower by way of a proportionate reduction in pricing of the RLS facility. The overall Annual Effective Rate (interest and fees) applied to the RLS Facility must not exceed 14.99%.

Role of the Accredited Lender

BBB aims to keep the operation of RLS as straightforward as possible for participating Lenders. The credit decision-making rests with the Lender in exactly the same way as for any other commercial transaction, provided that the Lender is required to verify the transaction and the borrower's eligibility for RLS against the Eligibility Criteria set out in the legal agreement. This process involves using a bespoke guarantees portal provided by BBB.

In keeping with that delegation of decision-making, no borrower has an automatic entitlement to receive an RLS-backed facility even if they believe they satisfy the Eligibility Criteria – the decision to provide a facility is for the Lender to make. Differences in lending appetite and market positioning between Lenders can justifiably mean that the same borrowing proposal may receive a different response from different accredited Lenders.

The terms of the RL Scheme are designed to fall within relevant State aid regulations and Section 29 of the European Union (Future Relationships) Act 2020 which implements the UK-EU Trade and Cooperation Agreement (the "TCA") (as applicable). Certain Borrowers under the Scheme based in Northern Ireland or with operations in Northern Ireland will be subject to State aid and details of these facilities will be disclosed to the EU Commission and published on its transparency database (these are in addition to reporting requirements which will exist in relation to the UK's domestic subsidy regime). Borrowers who are outside of the scope of the Northern Ireland Protocol will be subject to the UK's domestic subsidy regime and details of these facilities will be disclosed to the UK Government and published on its transparency database. Lenders will need to identify Borrowers that potentially fall within the scope of the Northern Ireland Protocol during their origination processes and when reporting on Scheme Facilities to the BBB. A Lender will need to ask the Borrower a standard set of questions (the Location Questions) to determine whether the business may be in scope of these requirements.

2.1 Key Terms

2.1.1 Business Eligibility

- Micro, Small, Medium or Large Enterprises generating more than 50% of its turnover from trading activity in the UK requiring funding to support trading or commercial activity in the UK
- Most industrial sectors are eligible¹
- Must have passed the Borrower Viability Test

¹ Some activities/sectors are excluded – these include the state funded education sector, entities providing insurance (other than insurance brokers), deposit taking banks and others and, for facilities under £30k export related activities, as set out in the legal agreement which the Lender will sign as part of the accreditation process.

- Must not be a “business in difficulty”².
- Must have been impacted by the Coronavirus (COVID-19).

2.1.2 Scheme Criteria

- RLS can be used to facilitate new lending and to a limited extent, to refinance existing debt (refinancing of an existing commercial or RLS facility with the same Lender is limited to a maximum 20% of a Lender’s annual portfolio of RLS-supported lending).
- RLS can be used to support term loans, overdrafts/revolving credit facilities and asset finance facilities and invoice finance facilities.
- RLS-supported facilities can range between £25,001 and £10 million for term loans and overdrafts/revolving credit facilities, and between £1,000 and £10 million for asset finance and invoice finance facilities. The maximum amount of the Facility must be determined by the Lender to be either:
 - Double the annual wage bill of the applicant for 2019 or the last year available (the Lender has the option to use the 2020 accounts if available), or
 - 25% of total turnover of the applicant in 2019, or
 - The applicant’s liquidity needs for the next 18 months for SMEs and 12 months for large enterprises (this may be self-certified by the applicant),

up to a maximum of £10m per borrower and £30m per group
- Businesses that have taken out a CBILS, CLBILS or BILS facility are able to access the new scheme, although the amount they have borrowed under a previous scheme may in certain circumstances limit the amount they may borrow under RLS.
- Facility terms can range between three months and six years, with a three year limit for overdrafts and invoice finance.
- Terms and pricing are commercial matters for each Lender, subject to the requirement to pass on the full net economic benefit of the RLS Guarantee and subject to a maximum overall Annual Effective Rate (interest and fees) of 14.99%.
- A Lender is not permitted to take warrants or any option to convert in conjunction with the origination of an RLS Facility.
- No guarantee fee is charged to the borrower.
- The Lender is required to pay a Scheme Lender Fee in respect of each RLS Facility to the Secretary of State for Business Energy and Industrial Strategy as a contribution towards the cost of providing the guarantee. The fee is equal to the Relevant Balance of such RLS Facility multiplied by a margin of 150bps in all cases other than:

² If the borrower is not captured by the Northern Ireland Protocol, and the Proposed RLS Facility is £30,000 or more, the Borrower must not, at the date of application, be subject to Relevant Insolvency Proceedings. If the borrower is captured by the Northern Ireland Protocol, Undertaking in Difficulty test as defined by EU still applies – as does the simplified UiD test for micro and small enterprises, for RLS Facilities of £30,000 or more.

- lending under the Invoice Finance variant, where the margin will be 100bps;
- lenders who are accredited for Community Interest Tax Relief ('CITR') or Social Investment Tax Relief ('SITR'), where the margin will be 100 bps; and
- lending to non-SMEs/Large Enterprises where loans have tenors in excess of three years, where the margin will be 200 bps.

The definition of SME under RLS is based on turnover (up to £45m). Where an enterprise with a turnover below this threshold has in excess of 250 employees, they will be classed as a "Large Enterprise" for the purposes of determining the Scheme Lender Fee.

2.1.3 Terms between the Accredited RLS Lender and BBB

The key terms and conditions relevant to Lenders encompass the following:

- The RL guarantee is to the Lender, not the Borrower. For asset finance and invoice finance, the lender can choose whether they require the RLS guarantee to cover the whole of the proposed facility or only part of it.
- BBB provides each Lender with a lending limit which applies during the Scheme Period for RLS transactions. Lenders cannot exceed this lending allocation without agreement in writing from BBB. Requests during the Scheme Period for an increased lending allocation will be subject to a further approval process using a risk and judgement-based approach taking into account, amongst other things, the Lenders projected deployment and operational capacity, RLS track record and audit findings, the financial stability and sustainability of the Lender, availability of capital, and value for money for Government. If a Lender's proposes changes to its corporate and/or lending structure in connection with any funding increase, BBB reserves the right to charge for its time and other costs associated with such amendments. These costs will be notified to a lender in advance.
- Subject to the application of the prescribed eligibility criteria, decisions as to whether a customer is eligible are within the discretion of the lender. Whilst the UK Government provides a guarantee to the Lender, neither the UK Government nor BBB have any role in the Eligibility Assessment or facility management processes (at the level of the individual transaction) and are not party to the facility agreement between the Borrower and the Lender.
- The Lender records all eligible transactions on the guarantees portal. The guarantees portal records details, the amount and terms of the lending, certain in-life events and/or extension of the terms of the lending, borrower default and claims against the guarantee of all RLS-supported facilities. Lenders must use the guarantees portal provided by BBB to enter and update RLS facility details in a timely and accurate manner in accordance with the guidance issued.
- In the event of a borrower defaulting, the Lender may claim up to 80% of the outstanding principal (net of any recoveries) for term loan and asset finance and 80% of the outstanding principal, interest and fees (net of any recoveries) for invoice finance and revolving credit facilities from the Guarantor while bearing the remaining 20% of the loss.
- Any recoveries made by the Lender after making a claim on the guarantee must be repaid on an 80%/20% basis (80% must be repaid to HMG).
- Lenders must ensure relevant customer-facing and back office staff in their organisation (e.g. Relationship Managers, Credit Sanctioners etc.) and any intermediaries engaged by the Lender (for example, brokers), are trained to appropriately apply and administer RLS, and that they manage their internal communication so that all relevant staff receive and understand the information relevant to them.

- Lenders must work with BBB on joint promotions, accurately convey scheme terms and conditions on all marketing materials and assemble case studies for RLS use, in order to market the RLS programme appropriately.
- Lenders undergo periodic audits which include, inter alia, analysis of a sample of transactions to check that scheme eligibility rules and processes have been followed, including whether the full net economic benefits of the RLS Guarantee has been passed on to borrowers in the form of lower borrowing costs than would otherwise have been charged and whether adequate preventative and detective financial crime and fraud controls and associated reporting processes are in place.
- BBB provides training, communications and guidance materials for Lenders.
- All accredited scheme Lenders are required to enter into a **standard form** RLS legal agreement.
- All accredited scheme Lenders will calculate their Scheme Lender Fee and pay these amounts to the BBB on a quarterly basis.
- BBB has a dedicated RLS team available to answer queries from Lenders and provide guidance as required.
- BBB holds periodic meetings with Lenders, both bilaterally and collectively as appropriate, to discuss scheme performance, best practices and any issues.

3. The Accreditation Process for Prospective New Lenders

3.1 Introduction

3.1.1 Outline

BBB acts as an agent for BEIS under delegated authority. The counterparty to the legal documentation will be BEIS. BBB welcomes proposals from any applicant able to meet the requirements stipulated in Section 4 of this document.

Unless an applicant is in one of the categories set out in paragraph 3.4 (Exceptions) below, applicants are expected to conform to a 4-stage accreditation process, as detailed in paragraph 3.2 (Detailed Guidance) and outlined below.

- **Expression of Interest:** short submission (please refer to Annex 1) outlining in brief how the applicant meets the requirements for Lenders participating in the RLS programme.
- **Formal Proposal:** detailed submission, providing detailed information on the applicant's organisation and its intended use of RLS.
- **Due Diligence and Accreditation Award (subject to satisfaction of conditions precedent):** due diligence will look at the applicant's business, financial status, corporate group structure, governance, risk management and compliance frameworks, ownership structure, sources of funding and cost of funding, track record and proposed lending strategy. The applicant will be required to evidence that the full net economic benefit of the RLS guarantee is passed on to borrowers through lower pricing than it may otherwise have had without the benefit of the guarantee. This evidence should be set out on the Bank's Economic Benefit Pass through pricing table (see Annex 2). If requirements are satisfied, a recommendation will be submitted to the appropriate BBB's governance forum for a decision on whether to offer accreditation in principle, subject to fulfilling a number of further conditions. The offer of accreditation in principle will include an appropriate lending limit, which is at BBB's sole discretion. The Lender will be notified of the decision via email.

- **Completion:** The Lender needs to sign the RLS legal agreement and have satisfied conditions precedent, including training staff and, where required, prior audit checks.

Lenders will need to state which type or types of RLS lending they would like to become accredited for: term loans, overdrafts/revolving credit facilities, asset finance facilities and/or invoice finance facilities. The formal proposal form and due diligence process will vary to take account of these different types of finance. Lenders already accredited for at least one type can approach BBB informally if they would like to apply RLS to additional types of lending. Once a Lender has been accredited for a particular type of RLS lending, any application for additional types of lending will be subject to a further approval process taking into account, amongst other things, the Lenders expertise and experience in the additional type of lending, proposed lending strategy and projected deployment, RLS track record and audit findings, the financial stability and sustainability of the Lender, and availability of capital.

BBB may request clarification or additional information at any point in the process.

3.1.2 – Decisions

Decisions made by BBB about the Scheme and / or about the accreditation to the Scheme will be taken by it on a case by case basis at the time using a risk and judgment based approach, taking into account such factors as BBB may consider relevant. BBB may consult with BEIS or other government departments with respect to applications for accreditation from time to time.

By way of illustration, these factors may include (but shall not be limited to):

- The desirability of building an optimal panel of accredited RLS Lenders for the purpose of the scheme;
- The financial status or financial sustainability of the applicant;
- Management and operational capabilities being adequately demonstrated;
- The applicant's track record of lending being of sufficient depth and/or being commensurate with its projected RLS lending;
- Historic performance of the lending portfolio;
- Projected RLS deployment being evidenced by data submitted;
- The applicant having a track record in the product it is proposing to deploy for RLS;
- The requested allocation having a sufficiently significant impact on the market;
- There being sufficient information and/or evidence provided relating to sources or availability of capital and the sources of capital not being outside of BBB's risk appetite;
- Proposed pricing, cost of funds and pass through of economic benefit being consistent with the aims and purpose of the scheme;
- Business model and risk sharing arrangements being consistent with scheme principles;
- Satisfaction of BBB's KYC and tax policy requirements;
- Evidence of appropriately documented financial crime and fraud policies and standards;
- The proposal and/or applicant being within BBB's risk appetite;
- The funding structure fitting within the principles of RLS and/or the terms of the legal agreement (see Section 4 of this document); and/or
- The applicant demonstrating its ability to deploy RLS quickly and at scale.

In addition, in line with BBB's objective to manage taxpayer resources efficiently reflecting its use of public money, then a Lender may be declined if the cost-effectiveness in progressing an applicant is deemed to ultimately provide limited value for money.

BBB will assess applications based on the requirements set out in Section 4 of this document. However, please note that satisfaction of minimum requirements does not guarantee accreditation. BBB reserves the right to not proceed with an application or to decline to accredit any applicant at any stage.

As a decision may be taken not to progress an application at any stage, applicants should not make further efforts or incur costs in progressing their interest until invited to do so by the BBB. Applicants should not advertise externally their intention to become an RLS Lender, nor should they offer RLS facilities or commence lending via RLS until they have been notified that they have been accredited as an RLS Lender.

Applicants will be advised of any decision not to progress an application via email by the BBB. In the event that their circumstances change an applicant may make a fresh approach to the BBB providing the applicant believes it can satisfy the requirements in the Request for Proposals published at the time of application.

BBB can make decisions flexibly according to the individual circumstances at the time, treat Lenders and applicants differently in similar circumstances, and change the priority in which applications are dealt with and / or the deemed satisfaction (or not) of application criteria. BBB's decisions about the scheme and about accreditation to the scheme are final and binding.

3.2 Detailed Guidance

3.2.1 Stage 1: Expression of Interest

Applicants should complete and submit a pdf version of the Expression of Interest form appended to this document via email to RLSAccreditation@british-business-bank.co.uk

The Expression of Interest form should be used to outline the key elements of the Lender's application and how the Lender meets the minimum requirements detailed in Section 4 of this document. An Expression of Interest must be made before a Formal Proposal can be submitted.

Applicants are encouraged to have a preliminary discussion with BBB (contact via RLSAccreditation@british-business-bank.co.uk) in order to help them ascertain whether participation in RLS would be appropriate, before committing effort to preparing an Expression of Interest.

Following receipt of an Expression of Interest, BBB may contact applicants to discuss the information within their Expression of Interest and to seek any clarifications deemed necessary. Applicants may be requested to submit supplementary information.

BBB will take a risk and judgment-based approach on deciding whether the applicant will be invited to progress to Stage 2, on the basis of both the written information submitted and any discussions held and will inform the applicant of the outcome of Stage 1 via email.

3.2.2 Stage 2: Formal Proposal

BBB will ask those applicants which it has invited to progress to Stage 2 to complete a Formal Proposal form which will seek further detail on the applicant's organisation, strategy and processes and its proposed use of RLS.

BBB may invite applicant representatives to discuss the applicant's existing and proposed future operations relevant to RLS. The BBB may ask applicants for additional information at this or any other point in the process.

On the basis of the information received to that point (including from the Formal Proposal, supporting documentation and any checks or additional information submitted), BBB will decide whether to invite the applicant to continue to the next step in the process.

3.2.3 Stage 3: Due Diligence and Award

BBB's due diligence will focus on formally assessing the applicant's business, financial status, corporate group structure, governance, risk management and compliance frameworks, ownership structure, sources of funding and cost of funding, track record and proposed lending strategy. BBB will also review the proposed pricing for RLS facilities to ensure that the full net economic benefit of the guarantee has been taken into account through lower pricing to the borrower than it may otherwise have had without the benefit of the guarantee. Lending structures will also be reviewed to ensure that the principles of the RL Scheme are adhered to in particular risk retention and alignment of interests and that the overall proposal provides value for money. Any information provided by an applicant will need to be satisfactorily validated by the BBB by the end of this stage. If the due diligence result is satisfactory to BBB, a recommendation will be submitted to the appropriate BBB's governance forum for a decision on whether to offer accreditation 'in principle' subject to fulfilling a number of further conditions. The BBB will communicate an 'in principle' intention to enter into an agreement subject to satisfaction of any conditions precedent and completion of legal documentation.

3.2.4 Stage 4: Completion

Before being able to commence lending via the scheme, a Lender will be required to complete a number of preparatory steps. Firstly, the RLS legal agreement must be signed by the Lender. This is a **standard agreement**, which all Lenders are required to enter into without amendment. BBB will provide the Lender with access to a training guarantees portal, as well as general training and communications materials on how the scheme works, which the Lender may choose to use to train its staff on scheme terms. The Lender is however responsible for ensuring that all relevant staff within its organisation and any third party intermediaries such as credit brokers, are fully trained on how the scheme works and that all internal processes reflect the necessary RLS process requirements.

For the avoidance of doubt any accreditation decision made as a result of the current Expression of Interest form and associated process will be subject to, among other things, completion of satisfactory due diligence, approval from the appropriate BBB's governance forum and the prompt and satisfactory agreement of legal terms.

3.3 Assessment of Expressions of Interest and Formal Proposals

- BBB will make reasonable endeavours to respond promptly to applicants at each stage of the application process, subject to its rights to prioritise applications as set out above.
- BBB may request additional information to clarify issues or to supplement the Expression of Interest form at any stage.
- BBB reserves the right to reject expressions of interest and proposals at any stage of the application process. If a lender has a complex lending structure BBB may decline these applicants, if it deems that the time it would take to progress the application through to completion would result in the applicant being accredited too close to the scheme end date to deploy any meaningful lending or the amount of work involved in accrediting a Lender is not considered value for money by the BBB compared to the amount of lending it would generate.

3.4 Exceptions

Existing BBB delivery partners and PRA regulated banks or building societies may have a streamlined accreditation process which will truncate or exempt the applicant from one or more of the steps set out in paragraph 3.2 (Detailed Guidance) above. If an applicant has applied for another BBB scheme and due diligence has been undertaken on the applicant in connection with that scheme, this may also exempt the applicant from one or more of the stages described above. Applicants should state whether they fall into one of these categories on initial enquiry to find out the process applicable to them.

3.5 Delivery of Expressions of Interest and Formal Proposals

- Expressions of Interest and Formal Proposals should be submitted by email, ideally as pdf, to RLSAccreditation@british-business-bank.co.uk.
- A response will be issued to all applicants via email.
- Any accompanying spreadsheets should be in Microsoft Excel, ensuring that no formulas have been hidden or removed. If the document is password protected, the password should be provided separately.
- By sending in an Expression of Interest, applicants confirm they have read this document, **including the Legal Notice**.

3.6 Accreditation

If you are accredited as a lender under RLS, your accreditation will last for the duration of the RL Scheme subject to our rights under the standard legal agreement and is based on your satisfaction of the requirements in the Request for Proposals published at the time of application. Your accreditation under RLS will not automatically result in your accreditation to any other BBB Programme or any successor scheme when the RL Scheme comes to an end.

4. Requirements

This section details the minimum requirements for accreditation as a RLS Lender. Applicants must be able to address all points to the full and absolute satisfaction of BBB in order to progress through the RLS accreditation process, and applicants are requested to explain how they will meet these requirements in the Expression of Interest form. If a minimum requirement is unclear to the applicant, or the applicant does not have or is unable to disclose the information, this should be raised with the BBB at the earliest opportunity.

For the avoidance of doubt, satisfying minimum requirements does not guarantee that an accreditation application will be successful, and BBB reserves the right to consider (and seek) additional relevant information at its discretion and ultimately reserves the right to reject expressions of interest and proposals at any stage of the application process.

4.1 Lending to Businesses trading in the UK

Lenders should be able to demonstrate a strong track record (minimum of 3 years) in the provision of finance, for those instruments for which it seeks accreditation (term loans, invoice finance facilities, asset finance facilities and overdrafts/revolving credit facilities (committed and uncommitted)). A Lender should have deployed in excess of 100 facilities to UK businesses to date and currently be lending in excess of £10m p.a.. Development and bridging finance applicants must have a portfolio of at least £20m.

Where the applicant is a Responsible Finance Provider, Regional Fund or Social Enterprise Lender and not able to demonstrate the minimum value of lending, a lower minimum value may be considered.

Where the applicant's proposed finance product cannot be used with the relevant RLS variants without amendment to the standard legal agreement, it is not considered value for money to proceed with the application.

4.2 Critical Mass

The structure of the guarantee means that for participation to be worthwhile for both the Lender and BBB, applicants must be able to demonstrate, through evidence-based forecasts, the extent to which they intend to originate facilities under the Scheme. BBB expects applicants to use RLS to support a minimum of £5,000,000 of lending during the Scheme Period and be able to demonstrate value for money through lending to a minimum number of 20 businesses. The requested lending limit must be supported by the applicant's operational capacity and historic rate of lending.

In exceptional circumstances, for example, when the applicant is providing lending to businesses in regions outside of London & the South East or where the applicant is a Responsible Finance Provider, Regional Fund or Social Enterprise Lender, lending of a minimum of £3,000,000 during the Scheme Period may be considered. Such Lenders should include relevant details in their application if they believe that there are exceptional circumstances to be considered which impact on the lender's ability to deliver critical mass.

4.3 Interest and fees

Each applicant must be able to demonstrate that the lender levied fees and interest that they propose to charge borrowers for facilities offered under RLS are reasonable and based on a Lender's normal pricing framework. Lenders must demonstrate that their pricing for RLS borrowers will pass through the full net economic benefit provided by the RLS guarantee. Each Lender must provide the British Business Bank with a completed pricing table in the form attached in Annex 2 (Pricing Table) setting out the lender levied fees and interest, which they will typically charge for RLS facilities and demonstrate how the government guarantee is reflected in that pricing through lower pricing than it may otherwise have charged.

RLS accredited lenders will not be permitted to charge an Annual Effective Rate ("AER") of higher than 14.99%, inclusive of interest (including default interest) and all other fees. All other fees would include for example but is not limited to: arrangement/upfront fees; facility and administration fees; non-utilisation fees; early settlement/exit fees; unauthorised/default fees; lender legal, monitoring or valuation fees, broker fees and any other third party fees which are invoiced to the Lender and paid by the borrower. Any upfront fee charged by the Lender should not be greater than 5%.

4.4 Availability of Capital

Each applicant must be able to demonstrate that they have sufficient committed capital available to meet their business lending forecasts both with and without RLS support, at an appropriate cost of funds for the duration of the Scheme Period. The cost of funds should be reasonable and in line with market pricing for a structure with equivalent risk to the sources of capital, across all tranches.

Where the availability of or freedom to deploy that capital is subject to conditions which may affect its ability to be used for RLS-backed lending then this must be indicated at Stage 1 (Expression of Interest) (this is likely to be especially relevant to those applicants making use of capital originating from public sources, including EU programmes, and subject to continuing conditions). In such cases the applicant should verify the position with the provider(s) of the funding concerned.

Where use of capital from public sources is involved, a maximum of 70% of the total proposed lending amount may come from sources under Government control* and the balance (minimum 30%) must be sourced from institutional investors from within the private sector. The private sector can include the European Investment Bank and European Investment Fund.

*‘Under Government control’ is defined as capital sourced from UK central government, Devolved Administrations, Local Authorities, ERDF, ERDF legacy and other public sector legacy.

Funding from retail and/or individual investors in a Lender is not permitted without the prior consent of the BBB.

Given the fundamental principle of RLS – the risk sharing partnership between the UK Government and the delivery partner, each applicant is required to demonstrate its alignment of risk through a proportional share in the credit outcomes of RLS facilities. Specifically, this is expected to take the form of ‘skin in the game’, whereby the applicant places its own capital at risk through RLS lending. The amount of capital at risk should be meaningful to the applicant and to a level acceptable to BBB.

Individual RLS facilities, and/or the benefit of the RLS guarantee cannot be assigned (either by legal or equitable transfer or by way of security, or declaration of trust or otherwise) to third party funders without BBB consent. Applicants should make their funders aware of this restriction as it may impact the availability of capital. In certain limited circumstances in connection with funding the origination of new scheme facilities, the scheme guarantee and scheme facilities may be assigned or a trust may be declared over the scheme guarantee and scheme facilities (subject to certain conditions). Please refer to the FAQs on the BBB’s website https://www.british-business-bank.co.uk/wp-content/uploads/2021/04/FAQs_assignment_06.04.21.pdf

4.5 Financial Status, Operations, Management Team and Track Record

Applicants must demonstrate a viable business model with and without RLS lending, financial stability (applicants who are insolvent will not be considered suitable), and robust and established operations and systems. An applicant must have sufficient own funds to absorb business risks arising through reasonably foreseeable circumstances. This includes, amongst other risks, operational risk taking into account Covid-19 related disruption, and credit risk on the applicant’s exposure to both its existing loan portfolio as well as prospective RLS and commercial lending. It must be able to demonstrate it has sufficient skills, experience and resources to enable it to deliver the proposed RLS lending and have the operational capability to handle stress from an economic downturn whether caused as a result of Covid-19 or otherwise. BBB will wish to see adequate cash resources and a clear strategy of how a RLS portfolio could be safeguarded in the event of the applicant ceasing trading, for example, via the establishment of an arrangement with a reputable back-up service provider to service the portfolio in the event the lender fails. BBB reserves the right to require a back-up service provider (BUSP) to be appointed, especially (but not limited to) for structures involving special purpose vehicles (“SPVs”). A BUSP is unlikely to be required for regulated bank Lenders.

Applicants must demonstrate that robust and established systems and processes are in place for making and managing the proposed RLS supported lending facilities. This requirement includes but is not limited to origination processes, risk management and underwriting capabilities and processes, lending documentation, back-office systems, monitoring and compliance, governance arrangements, management information reporting and adequacy of preventative and detective financial crime and fraud controls and associated reporting processes. Applicants must also be able to demonstrate that they have a competent team with sufficient expertise in the type of product and business area to be able to execute the proposed strategy for RLS-backed lending. The number of individuals engaged with conducting lending activities must be in line with other organisations of a similar scale and sufficient to mitigate reasonably foreseeable operational risks. Notwithstanding this, the number of full time equivalent individuals engaged with lending activities should be at least 10. For development finance Lenders, we expect at least 15 FTE’s to be directly employed in lending.

If the Applicant is an existing BBB delivery partner or has applied or is in the process of applying to BBB for one of its programmes, the delivery partner must have conducted itself in an open and

transparent way throughout the application process. If the Applicant is an existing delivery partner of the BBB, its conduct in relation to the programmes it participates in (including whether it has complied with an audit or other remedial actions or whether BBB has had cause to reduce the lending limit) will be taken into account when determining suitability for the RL Scheme.

Applicants must have appropriate standards of reputation and integrity, including appropriate ethical standards in all areas of its proposed operations and appropriate processes in place to maintain these. An applicant participating in the scheme must meet all relevant legal and regulatory requirements from inter alia a credit, conduct, financial crime and fraud perspective. The applicant must be able to demonstrate this as part of their proposal.

4.6 Regulation and Tax Domicile

Applicants are expected to be appropriately regulated, licensed and have the necessary authorisations and permission in the UK, to conduct activities consistent with their lending strategy.

Applicants must be incorporated in the UK or if an overseas resident finance provider, have a UK registered branch.

Applicants (including other entities in their corporate structure) must be able to demonstrate transparent and appropriate tax structures, in particular, the proposal must be consistent with the requirements of British Business Bank plc's group-wide KYC and tax policy, a copy of the latter can be found on the British Business Bank website at: <https://british-business-bank.co.uk/transparency/>.

4.7 Legal Structure

All applicants, if successful, will be required to enter into a “standard form” legal agreement with the UK Government which all Lenders are required to enter into without amendment. The legal agreement reflects the fundamental principle of RLS – the risk sharing partnership between the UK Government and the delivery partner which requires the delivery partner to have a financial interest in the performance of the portfolio through the investment of its own funds and commitment to the guarantee undertakings.

The legal agreement fits business models where the origination and servicing of the RLS-backed lending is undertaken by the same legal entity as the named Lender (the “lender of record”) which contracts with the underlying borrower. Lenders are required to complete the “Funding Structure Questionnaire” at Annex 3 as part of the Expression of Interest stage. If a Lender has a business model, corporate structure and/or funding structure that does not fit the RLS standard legal agreement (including for example where an applicant intends to declare a trust over or assign (by way of security or otherwise) the scheme facilities and/or the guarantee whilst retaining ‘skin in the game’, or where the applicant is not the lender of record, or the servicing of the portfolio will be undertaken by an entity other than the originator) the application will be considered using a risk and judgement-based approach taking into account, amongst other things; the financial stability and sustainability of the business, availability of capital, sources of funding, whether the business model and risk sharing arrangements are consistent with the scheme, whether the lending structure falls within BBB’s risk appetite and whether the projected deployment over the scheme term justifies the additional work involved to progress the application.

Applicants should be aware that any costs incurred by BBB in assessing an applicant’s business model, and/or supplementing the standard legal agreement to accommodate business models not contemplated above will be for the account of the applicant. An estimate of such costs will be notified to the applicant in advance.

The core terms of the agreement include (amongst other things) the following:

- the guarantee is given to the relevant Lender in relation to the RLS backed loans or facilities originated under the legal agreement

- the Lender originates the RLS backed lending and is the primary entity responsible for servicing the RLS backed lending
- the Lender acts in accordance with its standard policies when originating and administering the RLS-backed loans and with regard to the standard of care set out in the legal agreement
- the Lender is responsible for the administration of the guarantees portal and making sure it is up-to-date
- the Lender maintains adequate and up-to-date records in relation to the scheme facilities
- the Lender pays the Scheme Lender Fee to the Guarantor.

Where the applicant is a platform or marketplace lender which pairs borrowers and individual lenders but does not provide credit to underlying borrowers or assume the rights of the person who provided credit, i.e. it's not the lender of record, it will not be considered a suitable delivery partner for RLS for its own account. This means that an institutional investor lending through a platform rather than the platform itself should be accredited, with the platform entering into suitable arrangements to be able to originate loans under the scheme. Applicants must be able to demonstrate that the platform that they originate facilities through is able to ring-fence institutional funds and comply with the RLS accreditation. Funding from retail and/or individual investors in a Lender is not permitted without the prior consent of the BBB.

BBB reserves the right to require a Recourse Party within the structure, whom payment can be demanded from after 60 days non-payment by the Lender.

All applicants are required to complete the Funding Structure Questionnaire provided in Annex 3 to outline the legal structure, including a group structure diagram together with details of shareholders/ownership and with sources of funding clearly indicated.

5. Legal Notice

Applicants who submit the Expression of Interest or Formal Proposal form are deemed to acknowledge and accept its terms and conditions including this Section.

British Business Bank plc (referred to as “BBB” in other sections) and its subsidiaries, including British Business Financial Services Ltd, (referred to as the “BBB Group” in other sections) reserves the right at any time not to continue with the current process and/or cancel or withdraw from the process at any stage and any costs or expenses incurred by respondents will not be reimbursed. British Business Bank plc and its subsidiaries exclude their liability for any costs, expenses or losses incurred by respondents to the full extent permitted by law.

British Business Financial Services Ltd (“BBFSL”) is a wholly owned subsidiary of BBB. 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, BBFSL. BBFSL carries out administrative and operational assistance to BEIS and, for the avoidance of doubt, does not provide any investment services or perform any investment activities on a professional basis. BBFSL is subject to direction of BEIS as guarantor and BBB Group reserve the right to consult with BEIS and other government departments as required with respect to any application for accreditation.

BBB, BEIS and BBFSL reserve the right to reject any proposals at any time.

BBB Group reserves the right to amend any timetable and/or other aspects of the current process at its discretion.

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

Information provided by the BBB Group and any discussions relating to the RLS (together the “Confidential Information”) shall be treated by you as confidential and shall not be distributed or disclosed in whole or in part to any other party, nor may it be quoted or made public in any way without the British Business Bank’s prior written consent. Notwithstanding the foregoing, you may disclose Confidential Information to your officers and employees and your professional advisers and auditors who need to know the Confidential Information in connection with your application to participate in RLS but in each case, only on the basis that you ensure that the recipient treats such information as strictly confidential and you shall be responsible to the British Business Bank for any breach of confidentiality by the recipient.

Respondents should note that information received by the BBB Group as part of the application process, including personal information (if any), may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000, the Environmental Information Regulations 2004, the European Commission’s Transparency Award Module 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 the BBB Group receives 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 British Business Bank plc and its subsidiaries and ultimately the Information Commissioner and courts.

Personal data will be processed in accordance with the privacy notice on our website <https://www.british-business-bank.co.uk/privacy-notice/>

This request for proposals is not intended to constitute a financial promotion and is not being distributed by, nor has it been approved for the purposes of section 21 of FSMA by, a person authorised under FSMA. No part of this document should be published, reproduced, distributed or otherwise made available in whole or in part in any jurisdiction where to do so would be unlawful.

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 operates under its own trading name through a number of subsidiaries, one of which is authorised and regulated by the FCA.

BBFSL 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.

Any enquiries concerning this document may be addressed by email to RLSAccreditation@british-business-bank.co.uk