

**1<sup>st</sup> Quarterly Report to the Minister for Jobs, Enterprise  
and Innovation detailing the analysis and performance  
of the Credit Guarantee Scheme for the period ending  
31<sup>st</sup> December 2012**



**Capita Asset Services (Ireland) Limited acting as Operator of the Credit Guarantee Scheme**

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### Overview of the Credit Guarantee Scheme

Viable Micro, Small and Medium sized Enterprises (SMEs) are faced with the recurring challenge of the availability of credit which hampers new or expanding firms from developing new products and markets and thereby protecting or creating jobs.

Two of the main reasons why viable lending applications are declined by Lenders are because the SME has no or insufficient security available to meet the Lender's normal security requirements or there are aspects of the Borrower's sector, business model or target market which are perceived as high risk under the Lender's normal credit risk assessment and processes.

The Government have addressed these issues through the design of the Temporary Partial Credit Guarantee Scheme (Credit Guarantee Scheme or Scheme).

The Credit Guarantee Scheme is intended to address these two specific market failures that prevent bank lending to some commercially viable businesses by providing a level of guarantee to Banks against losses on qualifying loans to qualifying SMEs.

Both the Borrower and the Bank retain exposure in the event of default. The State is exposed only to the portion of the loan guaranteed up to a specific annual limit.

The Scheme is designed to facilitate up to €150 million of additional lending to SMEs per year over the next three years. The Scheme provides a State guarantee through the Department of Jobs, Enterprise and Innovation to accredited Lenders of 75 per cent on eligible additional individual loans or other debt facilities supported by the Scheme to viable SMEs. The guarantee is paid by the State to the Lender on the unrecovered outstanding principal balance on a scheme facility in the event of a Borrower defaulting on the Scheme Facility Premium repayments.

For each calendar year that the Scheme runs, each accredited Lender's Scheme Facilities accepted by Borrowers in that year will be treated as a separate Portfolio of that Lender.

A Portfolio Claim Limit is set at a value of 10% (the 'Portfolio Default Limit') of the aggregate value of Scheme Facilities guaranteed in each year (the 'Portfolio Guaranteed Lending') for each Lender, thereby capping the State's exposure to settlements at a guaranteed 75% of the Portfolio Claim Limit (the 'Portfolio Claims Settlement Limit'). Once a Lender's defaults in any of their portfolios have reached that portfolio's Portfolio Claim Limit, any further losses from Scheme Facilities in that portfolio must be borne by the Lender and will not be eligible to have 75% of them reclaimed from the Department.

The Scheme is targeted at commercially viable SMEs, who have a solid business plan and a defined market for their products or services, thereby demonstrating their ability to repay the loan but that do not secure credit facilities due to the following two market failures:

- Insufficient collateral for the additional facilities and/or
- Growth/Expansionary SMEs which due to their sectors, markets or business model are perceived higher risk under current credit risk evaluation practices.

SMEs are thus enabled to develop a positive track record with the Lender with the objective of returning to standard commercial credit facilities in time. It will also place Irish SMEs on a competitive level-footing relative to other trading competitors who are able to avail of a guarantee in their own countries.

Capita Asset Services (Ireland) Limited were appointed as Operator of the Credit Guarantee Scheme and Allied Irish Banks p.l.c, Bank of Ireland, and Ulster Bank Ireland Limited are the accredited Lenders.

### Credit Guarantee Scheme Performance

Following the operational go live date of 24th October 2012 the Lender is responsible for credit appraisal and viability and the Operator is responsible for managing the collection of premiums from Borrowers.

The Operator monitors Premium receipts and in the event of a Borrower failing to pay the Premium the Lender will be advised that the Borrower has failed to make a payment.

If the overdue Premium payment is not paid within six months of the due date then the guarantee will lapse.

If the Borrower is unable or willing to pay the outstanding premiums the Lender has the option to pay the premium on behalf of the Borrower or make a demand on the Borrower and subsequently make a claim against the guarantee if applicable.

The Operator is also required to settle guarantee claims by participating Lenders up to their annual portfolio claim limit.

## Activity Levels covering period 24th October 2012 to 31st December 2012

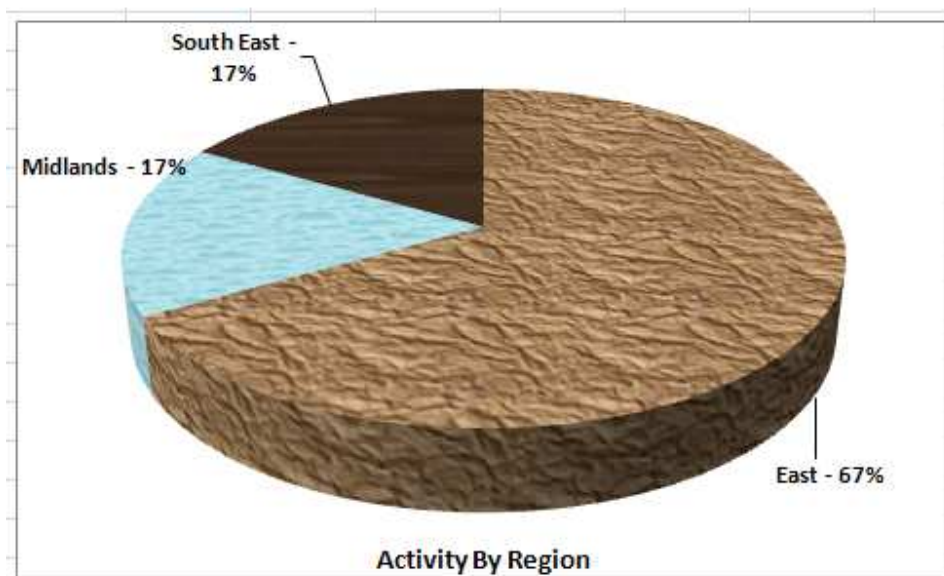
As at 31<sup>st</sup> December 2012 there were six live CGS facilities resulting in €582,000 being approved through the scheme.

A seventh facility was offered under their Credit Guarantee Scheme but was subsequently declined by the Borrower. The Borrower did not wish to proceed with the Credit Guarantee Scheme application as they decided to appeal the Lender's decline decision on their original commercial application and re-applied for a lower facility amount. The Lender subsequently approved the second commercial application and the Borrower decided to avail of this approval and cancelled their Credit Guarantee Scheme application.

### Analysis of Approvals

#### Activity by Region

Three CGS facilities were granted to Dublin based SMEs while the remaining facilities were granted to SMEs in the South East, East and Midland regions.



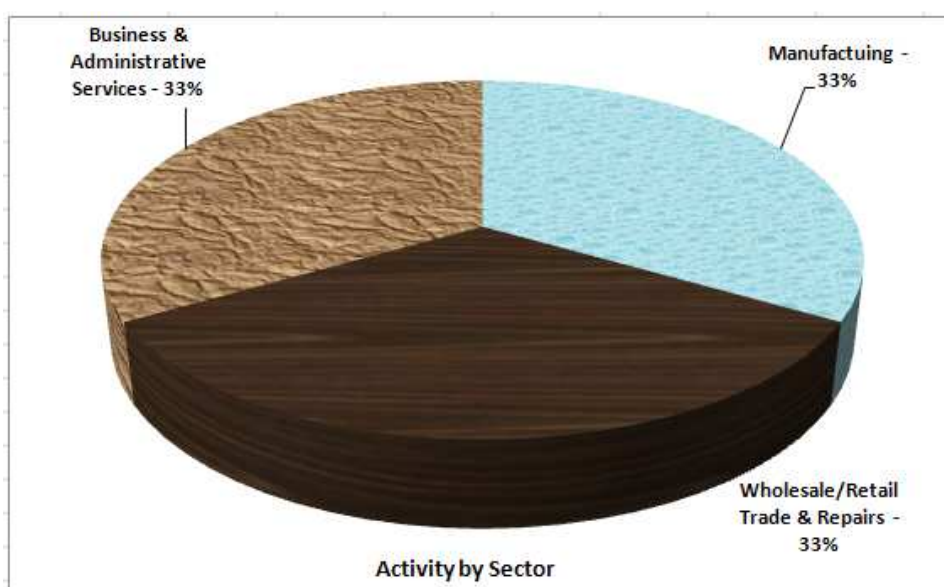
## Activity by Legal Form

Five CGS facilities were provided to Private Limited Companies.

One Sole Trader was granted a CGS Facility.

Activity by Industry Sector

Two CGS facilities were granted to SMEs in each of the following Industry Sectors:



## Impact on Jobs

As a result of the sanctioned CGS lending to SMEs as of 31<sup>st</sup> December 2012 it is expected that 33 new jobs will be created and 5 jobs will be maintained.

## Exports

Two CGS facilities were granted to SMEs who are exporters.

Both SMEs primarily export to the United Kingdom of Great Britain and Northern Ireland.

### New/Green Technology Products/Services

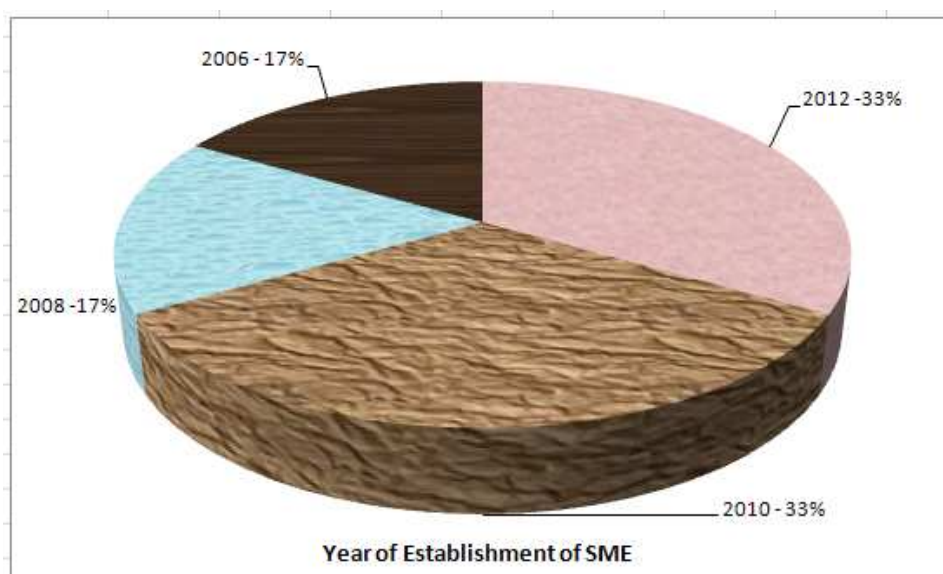
As at 31<sup>st</sup> December 2012 one CGS facility was granted to an SME in the New/Green Technology Sector.

### Market Inefficiencies – Pillar 1 &/or Pillar 2

Five CGS Facilities did not secure normal credit facilities through the traditional lending route as a result of insufficient collateral, while one did not secure a normal credit facility as a result of insufficient collateral and being a higher risk model/Sector/Product.

### Year of SMEs Establishment

Of the six SMEs participating in the CGS, two were established in 2012, two were established in 2010, while one was established in 2008 and the other in 2006.



### Term of Facility

The Credit Guarantee term is for a term of 3 years regardless of the term of the loan.

Four CGS Facilities have been approved for a term of 5 years.

One CGS Facility was granted for terms of 12 months while one other was granted for a term of 9 months

### Purpose of Credit Guarantee Scheme Facility

One CGS facility was approved for each of the following purposes:

- Working Capital
- Purchase of Equipment
- Renovate Premises
- IT improvements
- Development of Visitor Centre and Retail Shop
- Fit out of Premises

### Size of Borrower

Four CGS Facilities were granted to Micro enterprises (Fewer than 10 employees).

Two CGS Facilities were granted to Small Enterprises (Fewer than 50 employees).

### Premium Collection

As at 31<sup>st</sup> December 2012 €2,410 of premium payments were paid by Credit Guarantee Scheme Borrowers into a segregated bank account held in trust for the Minister for Jobs, Enterprise and Innovation.

As at 31<sup>st</sup> December 2012 there were no outstanding premium payments.

### Conclusion

As at 31<sup>st</sup> December 2012 the CGS had been operationally live for nine weeks. During this period seven CGS facilities were approved. Subsequently one of the Borrowers decided not to proceed with the CGS application following a successful review of their original commercial lending application.

€582,000 of lending had been approved through the six live CGS facilities while €2,410 had been collected in Premium Payments.

As a result of the scheme it is expected that 33 new jobs will be created and 5 jobs will be maintained.