An Roinn Gnó, Fiontar agus Nuálaíochta
Department of Business, Enterprise and Innovation

Credit Guarantee Scheme

Information Booklet

Contents

Disclaimer~ The material contained in this booklet is for information and guidance purposes only and is not intended and does not constitute professional advice. You should not act or rely on this information without seeking appropriate advice in advance. A full interpretation of the Credit Guarantee Scheme should be taken from The Credit Guarantee Scheme Act 2012 and the Credit Guarantee (Amendment) Act 2016.

The Credit Guarantee Scheme

1 What is the Credit Guarantee Scheme?

Micro, Small and Medium Enterprise (SME) businesses are an important part of Ireland's economy, but they face unique challenges when they look for financing.

Originally launched in 2012, the Credit Guarantee Scheme (CGS) was intended to address specific market inefficiencies that prevent Finance Provider lending to some commercially viable SME businesses by providing a level of guarantee to Finance Providers against losses on qualifying facilities. The Scheme was introduced by the Government, in the context of its work in restructuring the Irish banking system, to assist viable SMEs on the margins of commercial lending decisions in accessing credit.

The CGS can help you with a business financing need. Under the Action plan for Jobs, the Minister for Business, Enterprise and Innovation makes it easier for SMEs to obtain credit facilities from financial institutions by sharing the risk with participating finance providers (currently Allied Irish Banks plc, Bank of Ireland and Ulster Bank Ireland DAC).

Delivery of the CGS, including the decision on whether or not it would be appropriate to use it in connection with any specific lending transaction, is currently fully delegated to the participating finance providers.

The finance provider assesses viability, that is, whether the business will be able to make the necessary repayments on the credit, according to its normal assessment criteria and the decision of the finance provider in terms of assessing viability is final.

There is no automatic entitlement to receive a guaranteed facility even if a business believes it satisfies the basic eligibility criteria. Finance Providers will follow the appropriate Regulations and/or appeals processes for SMEs seeking finance.

2 The Government Guarantee

By providing finance providers with a Government-backed guarantee for up to 80% of the facility value the CGS facilitates lending that would otherwise not take place. The CGS is intended to support lending to businesses which can ultimately repay their facility in full. The guarantee provides protection to the finance provider in the event of default by the participating entity - it is not insurance for the participating entity in the event of their inability to repay the facility.

The State sets a portfolio claim limit of up to 13% of the aggregate value of Scheme Facilities accepted in each year for each finance provider thereby capping the State's exposure at up to a guaranteed 80% of the portfolio claim limit.

The participating entity pays a maximum of 2% annual premium (this can be discounted by the Government) which partially covers the cost of providing the guarantee. The premium is collected annually or quarterly in advance throughout the seven-year life of the guarantee based on the annual contracted principal balance. The participating entity is provided with a premium schedule by the participating entity as part of the facility documentation and collection is made by direct debit to a specified Government bank account. The interest rate charged and any other fees and charges applied to the facility are a commercial matter for the finance providers.

The Scheme Guarantee Premium is the amount of money the participating entity pays as a contribution towards the costs of the State providing the Scheme. As such it is analogous with an arrangement fee payable for the provision of a facility, and not an insurance premium paid to give the participating entity protection against their inability to repay a facility which has been provided.

3 Who can avail of a Credit Facility under the Credit Guarantee Scheme?

Any eligible business or businesses involved in an eligible activity which is an SME can avail of a credit facility under the Credit Guarantee Scheme.

A business may be able to get a facility, which is guaranteed under the CGS if:

- A business being run (or about to start up) is an eligible business
- The proposed business activity is eligible, and
- The business is an SME (including micro-sized businesses)

3.1 Eligible Businesses

To be eligible, your business must:

- Be involved in a commercial activity - any activity carried out with the object and intention of making a profit
- Be a sole trader, partnership, franchise, co-operative or limited company, either

trading or prepared to start trading in the near future

- In the finance provider's opinion have a viable business proposal
- Be able to repay the facility

3.2 Eligible Activity

The business must be involved in an eligible business activity. Most activities are included but there are some restrictions. Details of those business sectors where there are restrictions are in Appendix A.

3.3 Size of the Business

To qualify as an SME:

The business (or business group) must have fewer than 250 employees. The business (or business group) must also have either an annual turnover not exceeding €50 million or a balance sheet value not exceeding €43 million.

4 What can the facility be used for?

The Scheme is available for working capital or investment purposes or for refinancing, within allowed rules. Qualifying finance agreements may be unsecured or partially secured, with the Minister's guarantee applying to the unsecured part of the facility.

Demand loans, term loans, working capital facilities and performance bonds will be covered by the Scheme. Finance providers will also be entitled to make the case for the inclusion of other types of debt instrument, with such cases considered by the Operator with the ultimate approval from the Department.

The term "finance agreement", which may be eligible for the Minister's guarantee under the Scheme, includes loan agreement, credit facility agreement, asset credit facility agreement or invoice finance facility agreement, all as defined in the Credit Guarantee Scheme 2016 Act.

The Scheme can only be used by an SME business where a standard commercial credit facility has first been assessed to be viable by a participating finance provider, but it did not secure the credit facility due to either or both of the following two market inefficiencies:

Pillar 1) The business has insufficient collateral for the additional facility, and/or

Pillar 2) The business is a growing / expansionary SME which, due to its business sectors, markets or business model, are perceived as a higher risk under their current credit risk evaluation practices

Under CGS 2017 there is scope for inclusion of other types of debt instrument, subject to a business case and due diligence by the Scheme Operator. Finance agreements which could be included are loan agreements, credit facility agreements, asset credit facility agreements and invoice finance facility agreements, all as defined in the Credit Guarantee Scheme 2016 Act.

4.1 Demand or Term Loan

A business may be eligible for a guaranteed facility if it is viable and can support the borrowing requirement, as judged according to normal lending criteria, but is declined for a commercial loan due to one or both of the above pillars.

Where a business has insufficient collateral, it would be eligible for the Scheme for the full borrowing requirement, with the partial security to be charged alongside the Scheme guarantee.

Or alternatively, the finance provider could provide the business with a fully secured facility on commercial terms for that part of the requirement for which security is available, with a Scheme Facility provided for the remainder of the requirement.

4.2 Performance Bonds

Performance bonds are bank-backed bonding facilities that enable execution of certain contracts where the end customer requires a pre-agreed percentage of the contract to be bonded for an agreed period or such period until the customer releases said bonding requirement.

The finance provider provides the customised facility in line with its routine commercial terms for trade facilities of this nature with collateral provided by the business as normal and, if necessary, the Scheme facility supporting the remainder of the requirement.

5.0 European State Aid restrictions: What are they?

European Union (EU) rules govern the State Aid that individual member states may give to businesses. The CGS is guaranteed by the Government and counts as State Aid.

The Aid attributable to the provision of a Scheme Facility contributes towards the €200,000 rolling three fiscal year de minimis' limit to which SMEs are subject. Therefore the State Aid arising from any Application must be no more than €200,000, or a lower amount in the event that the Applicant has received other de minimis State Aid in the preceding three years or is operating in certain business sectors. (See Appendix B)

5.1 Verification of participating Entity's State Aid

As part of the lending process the finance provider must ask the applicant for the necessary information to enable the finance provider to establish whether or not receipt of a Scheme facility will result in the applicant breaching the €1 million lifetime Scheme limit or the rolling three year €200,000 de minimis State Aid Limit.

The participating entity must sign a declaration form confirming that they are not in breach of these limits.

If the finance provider has any reason to believe that the participating entity may in fact be in breach of limits, there is a duty upon the finance provider to investigate and, if necessary, reject the application.

6 What can I borrow?

6.1 Amount

Scheme guarantees may be provided for any facility value from €10,000 to €1million, although the finance provider has discretion to use the Scheme for a narrower range of facility values if it chooses to do so, e.g. to align its use of the Scheme with its own SME lending product segmentation. Businesses may apply for more than one Scheme Facility during the life of the Scheme so long as the aggregate of the initial value of all facilities provided does not exceed €1 million under the Scheme. Once €1 million of facilities has been provided, a business is not allowed to apply for any additional Scheme funding, even when the original €1 million has been repaid.

6.2 Term of Facility

A credit facility supported by the Scheme (a "Scheme Facility") may run for whatever term is deemed to be commercially appropriate by the finance provider. However, irrespective of the term of the facility, the maximum period for which the Guarantee is available is seven years from the date the participating entity signs the letter of offer.

7 Terms and Conditions

It is important to understand the terms and conditions of the facility agreement and what those conditions mean.

7.1 The Credit Facility Agreement

The Credit Facility Agreement is the contract between the finance provider and the participating entity. The Minister for Business, Enterprise and Innovation is not involved in this contract. Nor does the Minister for Business, Enterprise and Innovation provide any of the facility. Details of the financial terms and conditions will vary from facility to facility. The finance provider and participating entity / SME negotiate these details.

7.2 Capital Repayment Holidays

Capital repayment holidays are permissible but are at the discretion of the finance provider and must comply with the finance provider's standard credit procedures. However, the maximum period for which the Guarantee is available is seven years.

7.3 Interest Rates

The Minister for Business, Enterprise and Innovation does not set interest rates. The finance provider decides what rate to apply. Its decision is based on its own assessment of the risks.

7.4 Premium Payments

As part of the conditions of entry to and participation in the Scheme premium of up to 2% (can be discounted by the Government) must be paid by the participating entity / SME to the Government. This premium is assessed and collected annually or quarterly in advance throughout the life of the guarantee (max. 7 years) on the Scheme facility, based on the contracted Scheme balance. The Premium is the amount of money the participating entity pays as a contribution towards the costs of the State providing the Scheme. The premium schedule will be provided to all participating entities within their Qualifying Finance Agreements / Credit Facility Agreements.

As such it is analogous with an arrangement fee payable for the provision of a facility, and **not** an insurance premium paid to give the participating entity protection against their inability to repay a facility which has been provided.

8 How can I apply?

Businesses don't apply directly for a Credit Guarantee Scheme facility. A business must apply for a standard commercial facility under normal circumstances by going through a participating finance provider (see Section 16).

The finance provider will look to provide a normal commercial borrowing facility wherever possible but can consider using the Scheme if:

The finance provider determines that the proposition is viable and the borrowing can be repaid, but *either*

- The business has no or insufficient security available to meet the finance provider's normal security requirements,

or

- There are aspects of the participating entity's sector, business model or target market which are perceived as high risk under the finance providers normal credit risk assessment processes

and

- The borrowing proposal meets basic Scheme eligibility criteria

The decision to grant or not to grant a CGS Facility rests solely with the finance provider.

9 The business plan

A business plan will be required to source finance for your business. Some SMEs underestimate just how important a carefully prepared business plan is. Without one, a business cannot convince a potential finance provider that its business proposal is workable. All of the participating finance providers provide advice for SMEs, which may help you in planning and monitoring your business

A finance provider would expect to see information on:

Management: Key personnel, their experience, knowledge of industry and qualifications.

Product or Service: Details of product or service on offer, percentage of turnover and how products/service differ from competitors.

Markets: Profile of the target market, market share, sales estimates and competitors. Sales forecasts should be supported by hard evidence and research wherever possible. Include an explanation of how the business will succeed in the market against competition.

The Business: when it started trading, results to date, borrowing history, existing commitments, and current bankers.

Objectives and strategy: Business goals, risk factors, longer term objectives.

Financial projections: Sales forecast for two years with supporting assumptions and evidence. Projections should include Cash flow forecast for the first three years and Forecast Trading Profit and Loss Accounts for the first three years

Finance Required: Total funding required based on projections, how the funds will be used, and repayment assumptions. What is the purpose of the finance?

Security Available: What assets are available as security and what have been used as security elsewhere.

Principal Risks: What are likely areas of risk and how would you cope with these?

10 Available Security

The finance provider must investigate all available security and either charge or discount as unavailable this security, according to its normal credit and security assessment procedures.

Security may be defined as all business or, if appropriate, personal assets which a finance provider would look to as security for business borrowing in the normal course of business.

For sole traders and partnerships, finance providers should investigate the personal assets of the individuals owning the business (as per normal commercial practice)

For a limited company, potential security would include all standard business security (for example, fixed charges, debentures, corporate guarantees) plus personal guarantees from directors/shareholders/third parties as appropriate

Unsupported personal guarantees from a director/shareholder are frequently viewed as a means of demonstrating personal commitment from the participating entity and a finance provider is entitled to request this security, if to do so is consistent with the finance provider's normal commercial lending criteria.

For supported personal guarantees, finance providers can look to any personal asset of the Guarantor.

In the event of default, the participating entity remains liable for 100% of the outstanding Scheme Facility debt and normal recovery and enforcement procedures (against the participating entity or Guarantor) will be pursued by the finance provider.

The provision of the Scheme Guarantee DOES NOT remove any liability for the borrowing from the participating entity or the Guarantor.

11 What happens after the facility is approved?

If a finance provider approves a Scheme facility, it will provide a letter of offer and some other forms that need to be completed by the business to avail of the Scheme facility.

The Scheme facility is guaranteed from the date the letter of offer is signed by the business and the Scheme premium due accrues from that date. The finance provider will send the business a premium payment schedule and the participating entity must pay the premiums direct debit to the specified Government bank account.

The participating entity can draw down the Scheme facility when it has met all the conditions for drawdown set out in the letter of offer, including payment of any premiums due at that time.

The period allowed for drawdown of the Scheme Facility should reflect the participating entity's normal business practice, **subject to a maximum period of six months.**

12 Changes to the Facility

If the business wishes to amend any of the terms of its facility, such as taking a capital repayment holiday or extending the term, it will need the finance provider's agreement.

13 What happens if I cannot repay the facility?

Once an offer of a guaranteed facility is accepted by a participating entity, it must agree to all the finance provider's terms and conditions. If the participating entity breaks any of these conditions during the facility period, the finance provider may demand that it pay back the outstanding facility in full.

Please note that the participating entity <u>is liable to pay the full outstanding facility amount back to the finance provider</u> and not just the percentage that the Scheme does not cover.

If the business fails to repay the Scheme facility, security against the facility (including any personal guarantees) may be used by the finance provider to reduce the debt. This will enable the finance provider to reduce its claim on the Government's guarantee, or to reimburse the Government if it has already paid a claim.

14 What happens if I cannot pay the Premium?

As part of the conditions of entry to and participation in the Scheme, a premium of up to 2% must be paid in advance (annually or quarterly) by the participating entity to the Government throughout the life of the guarantee (max. 7 years), based on the contracted annual Scheme balance.

Where any premium payment cannot be paid by a participating entity within 6 months of its scheduled payment date the finance provider will make the business decision to either convert the loan to a standard commercial loan or demand that the outstanding facility be paid back in full.

Where payment in full is demanded the participating entity is liable to pay the full outstanding facility amount back to the finance provider and not just the percentage that the Scheme does not cover. Security against the facility (including any personal guarantees) may be used by the finance provider to reduce the participating entity's debt. This will enable the finance provider to reduce its claim on the Government's guarantee, or to reimburse the Government if it has already paid a claim.

15 Complaints Procedure

If a business applied through Allied Irish Banks plc., Bank of Ireland or Ulster Bank (Ireland) DAC it can make an appeal through their own internal facility appeals process. If an appeal made by a business is unsuccessful and it is felt that the Finance Provider's decision is unjustified the business has the right to apply to the Credit Review Office. The Credit Review Office will undertake an independent and impartial re-evaluation of the Finance Provider's decision.

The Credit Review Office has no regulatory or statutory powers to override Finance Provider lending decisions, which are a matter for the internal policy and governance of the Finance Providers. The outcome of the review process for the participating entity will be an independent and impartial opinion on the credit decision.

If the Credit Review Office's opinion is that the lending could have been made within acceptable risk boundaries, the Finance Provider will be required to comply with the recommendation or explain to the Credit Review Office why they will not do so.

Further information is available at www.creditreviewoffice.ie

16 Contact Points

Allied Irish Banks, p.l.c.

Contact: Local Branch or Relationship Manager

http://www.aib.ie/business/business-banking/start-ups/SME

Bank of Ireland

Contact: Local Branch or Relationship Manager

Direct: 1850 365 222

http://businessbanking.bankofireland.com/

Ulster Bank Ireland DAC

Contact: Local Branch or Relationship Manager

http://digital.ulsterbank.ie/business.html

Credit Guarantee Scheme Operator

The Strategic Banking Corporation of Ireland

Contact http://sbci.gov.ie/

A. Appendix A

Activities where there are exclusions

Aquaculture (Fish Farming)

Note that the Scheme is not allowed to be used when the facility would be in support of activity that increases fishing capacity (expressed in terms of tonnage or power) or is for the purchase, construction or modernisation of fishing vessels. The Scheme is allowed, however, where it is directed at improving safety standards.

Activities related to the production, processing and marketing of fisheries products are eligible for the Scheme but because there is a lower State Aid limit for aquaculture of €30k the maximum permissible Scheme Facility value will be significantly lower than the €1m maximum.

Primary Agriculture

Primary production in agriculture is excluded from the scope of the Scheme in the light of particular restrictions under the de minimis State Aid rules and because the specific market failures identified do not apply in these sectors.

Value-adding downstream processing and marketing activities are regarded as being "industrial" and so are eligible.

Banking, Finance and Associated Services

Any activity that involves granting of finance or a financial service to clients is ineligible, such as: banking, deposit taking and building societies; companies involved in granting facilities, mortgages, hire purchase or credit services; mortgage brokers that are attached to banks; venture capitalists; seed corn finance companies and stockbrokers.

Accountants, auditors, management service companies such as bookkeeping firms, tax advisers, management consultants, business advisers and companies that provide support to small firms on financial matters without actually supplying funds are eligible.

Coal

All activities in the coal sector are ineligible.

Formal Education

Formal education is ineligible.

Businesses offering courses that lead to vocational qualifications and skills (i.e. those skills and qualifications directly usable in a job) are eligible, as are nursery schools, day schools and playgroups for young children and sports coaching.

Insurance and Associated Services

Companies and societies primarily engaged in transacting all types of insurance business are not eligible.

Insurance agents and brokers that do not provide insurance themselves and that are independent of insurance companies are eligible for the Scheme.

Owning and Dealing in Property

Land and estate owners, property investment companies and those that derive their income from owning and letting property are not eligible, nor is dealing in land or property for speculative gain.

Building firms that buy land or property to develop or refurbish and who employ the building workers themselves or sub-contract the work are eligible.

Public administration, national defence, and compulsory social security

All publicly owned bodies and companies, including their 100% subsidiaries, are ineligible.

An exception to this is where the state has a controlling interest (but not 100% interest) in a company in which it holds share capital as result of investment by a venture capital fund, whereby public funds are invested alongside private funds.

Road Freight Vehicles

There is a prohibition on Scheme use for the purchase of road freight transport vehicles to be used for hire or reward.

B. Appendix B

Activities where there are restrictions

As the Scheme will operate under the de minimis State Aid rules, it cannot be used to specifically support export-related activities. This is because public support for exporting is particularly sensitive from a competition perspective and so is covered by separate EU agreements. This does not mean, however, that because a business exports it is ineligible from receiving a Scheme-backed facility. It is the purpose to which the funds borrowed will be put which is the determinant.

A Scheme Facility may not be provided to support a transaction where the amount of funding required is explicitly linked to a quantity of goods or value of services being exported. Therefore a facility to provide working capital specifically in support of export sales will be ineligible because working capital requirements are usually driven by sales.

Finance providers need to consider whether the funding is in support of **dedicated export activities** and that the decisive factor is the presence of an **intention to promote exports**.

Activities which would be **ineligible** in this context include, for example, the financing of:

- an advertising campaign outside Ireland
- an individual export order or series of orders
- the manufacture of a product which is only available to customers in an overseas market the establishment of a representative office outside Ireland or the appointment of an overseas agent, and

- the setting up of a distribution network overseas

Activities not directly related to specific exports are **eligible**, including:

- participation in trade fairs;
- feasibility studies or consultancy support to facilitate the launch of a new or existing product into a new market; and
- specific activities (e.g. generic product development, equipment purchase or facilities enhancement activities) within the Irish operations of a business, irrespective of the current composition of market(s) into which the business sells.

Note: this spending does not necessarily have to take place in Ireland.

What Sectors are the exceptions to the €200,000 State Aid Limit?

- A lower limit of €100,000 applies to Scheme Facilities provided for road transport businesses.
- A lower limit of €30,000 applies to Scheme Facilities provided to businesses involved in the production, processing and marketing of fisheries products.