

Subsidised and guaranteed loans



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If you have a promising business but cannot provide the security needed for a conventional bank loan, the Government's Small Firms Loan Guarantee may be what you need.

Alternatively, other supported loan schemes (loans subsidised by government or local agencies) may reduce your borrowing costs if you meet their lending criteria.

This briefing covers:

- The Small Firms Loan Guarantee.
- Which business activities are most likely to qualify for other supported loan schemes.
- How to apply.
- An overview of the major schemes.

1 Small Firms Loan Guarantee

The Government's Small Firms Loan Guarantee provides a government guarantee against default on loans from banks and other financial institutions.

The scheme is run by the the Department for Business, Enterprise & Regulatory Reform (BERR). It focuses on start-up and younger businesses who have been trading for less than five years. It is intended to guarantee loans for sound business projects that cannot get conventional financing owing to a lack of suitable security.

- 1.1** The Small Firms Loan Guarantee can be used to guarantee 75 per cent of loans for **amounts** between £5,000 and £250,000.

- 1.2** Your annual **turnover** must be no more than £5.6 million.

Your business activity and the purpose of the loan may also affect your eligibility.

- 1.3 Repayment** terms and interest rates depend on the lending institution. You also pay the BERR a premium of two per cent a year on the outstanding balance, payable quarterly by direct debit.

- You will be expected to supply the lender with regular and detailed financial and management information.

- 1.4** The Small Firms Loan Guarantee is operated by BERR in partnership with a number of private sector **financial institutions**, including all the clearing

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banks.

- When you discuss your borrowing requirements with one of these approved lenders, they will advise you whether your business is eligible.

2 Are you likely to qualify for other schemes?

While each supported loan scheme has its own criteria, they tend to fall into the same four categories — purpose, location, industrial sector or the availability of extra financing.

One step at a time

Applying for supported loans can be a lengthy process.

A Make **personal contact** with an individual involved in administering the loan scheme.

- Get advice on whether it is worth applying.
- Ask for help with completing the application.

B Get answers to some **basic questions**.

- Are loans still available?
Some schemes only lend a set amount of money each year.
- What is the loan scheme intended to achieve?
Your application must show that your project enables the scheme to achieve its aims.
- How much does the loan cost?
The total cost consists of charges plus interest payments.
- When will the loan have to be repaid?
- How long is the application process and what does it involve?

C Submit the **proposal**.

- Your proposal must include details of the activity you plan, and a cashflow forecast that shows how the loan will be used.

D Wait for the **decision**.

- You may have to refine your project idea if the wait is too long.
- Do not include the loan in your real cashflow forecast until you are certain you will receive it.

2.1 Broadly speaking, all supported loan schemes are intended for a **purpose** to create or protect jobs.

- You need to show your project will make a positive contribution to employment. This could include training and skills development.
- Loan schemes favour projects with a high growth potential.
- Loan schemes are often only available for capital projects such as investment in plant and equipment or computer networks, but not where conventional asset finance is available.

The gradual process of company development does not normally qualify.

- Purely local consumer services, such as shops, are likely to be excluded.

2.2 You may be eligible for supported loans if you intend to establish your business in an economically depressed **location**, particularly if you are going into an area with a high level of unemployment.

2.3 Most loan schemes favour particular **industries** — usually in the manufacturing and industrial sectors.

- Crafts, tourism, and distribution operations also receive some support.

2.4 Most schemes insist that **extra financing** is available alongside the loan.

You usually have to show commitment by providing part of the finance yourself.

More detailed criteria for the most commonly available loan schemes are shown in **4** to **8**.

3 Applying

3.1 Some schemes are operated by **banks** and other commercial lenders.

- Apply for these schemes as you would apply for a conventional loan. The lender decides whether your proposal should be taken any further.

3.2 Local schemes (see **4**), usually involve simple application procedures.

- You may have to wait until the next meeting of the committee that allocates the loan fund. Many committees meet every month or each quarter to assess applications.

3.3 Regional schemes are operated by the EU or Development Agencies.

“It's a good idea to match the life of the asset to the life of the loan. If the project runs over three years — apply for a three-year loan.”
Richard Holloway,
management consultant

- The lender usually asks you to submit a simple Stage 1 application so that it can be evaluated.
- You can then decide whether or not to proceed with a full Stage 2 application.

BERR offers guidance notes to help small businesses secure EU investments and loans. Visit the Business Link website at www.businesslink.gov.uk.

4 Local schemes

Most of the UK's larger cities have schemes which provide loans.

4.1 These schemes generally offer small loans of up to **£10,000**, although there are exceptions.

4.2 There are no national criteria for qualification. Priorities are decided **locally**.

For example:

- The Bolton Loan Fund is designed to encourage start-up and expanding businesses in the Metropolitan Borough of Bolton through loans of up to £10,000 for start-ups and businesses in their first year of trading. For businesses trading for 12 months and over, the loan amount

increases to up to £30,000 (01204 391 400; www.bbvonline.net/bolton_loan_funds.asp).

- Glasgow City Council (0141 287 7252; www.glasgow.gov.uk/en/business/businesssupport/advice_finance/) can provide loans of up to £30,000 for new start businesses and £50,000 for existing businesses within the city's boundaries.
- The Enterprise Northern Ireland (www.enterpriseni.com) offers loans of up to £25,000 to start-up and existing businesses located or intending to locate in any of the 26 District Council areas of Northern Ireland.

4.3 A **typical loan** is repayable over a maximum of five years at a fixed rate of interest which is below commercial rates.

4.4 These loan schemes will also cover **overhead costs** such as new marketing initiatives.

5 United Kingdom

5.1 You can borrow **substantial amounts** of money from Finance Wales, Scottish Enterprise and the Enterprise Northern Ireland Loan Fund.

- Businesses wanting to expand their operations in Wales, Scotland or Northern Ireland may be eligible for the appropriate scheme. A range of eligibility criteria apply in the different areas. Check with the appropriate business support organisation.
- You are unlikely to qualify unless you can show the business has the potential for growth and to create employment.
- In some cases a mixture of loan and equity finance may be available.

Contact Finance Wales (0800 587 4140; www.financewales.co.uk) or Scottish Enterprise (0845 607 8787; www.scottish-enterprise.com) or your local contact point at Enterprise Northern Ireland (www.enterpriseni.com) for more information.

5.2 There are a range of other loan schemes available from **Finance Wales**.

- The Community Loans scheme for Wales provides loans that support community regeneration. It supports social enterprises that create and retain jobs and deliver new and improved local services.
- Funding of between £1,000 and £100,000 is available over a maximum of five years.

Career development loans

Sole traders who want to learn new skills may find a Career Development Loan more appropriate.

These are similar to normal personal loans and are used to finance vocational learning or educational courses. For example, NVQs.

You can get a loan of between £300 and £8,000 to cover up to 80 per cent of your course fees (100 per cent if you have been out of work for three or more months). The Government will pay the interest on your loan during the course. You then repay the loan to the lender over an agreed period at a fixed rate of interest.

Loans are available through Barclays, the Co-operative Bank and the Royal Bank of Scotland.

Contact the Career Development Loan Information Line on 0800 585 505 or visit www.lifelonglearning.co.uk/cdl

5.3 The Enterprise Northern Ireland **Loan Fund** is distributed by local enterprise agencies in the region.

- The £4 million fund offers loans from £500 to £25,000 to small businesses in the first instance, with secondary loans possible after repayment of the first.

6 UK Steel Enterprise

6.1 Some businesses in particular areas of the UK may be able to obtain loans or equity finance from £15,000 upwards from UK Steel Enterprise (UKSE).

6.2 Your business must create jobs in one of the 21 designated **UKSE areas** (areas which have been affected by the rationalisation of the steel industry).

- UKSE funds new and established businesses engaged in manufacturing or which provide a manufacturing-related service, such as distribution or maintenance services. Other activities will be considered on their merits, though the scheme does not usually invest in retail, construction or professional services.
- UKSE will consider lending up to £50,000 unsecured.
- The scheme does not normally require personal guarantees.

6.3 A **typical loan** is repayable over three or four years at a fixed rate of interest.

6.4 To find out which local office you should apply to, call the **UKSE head office** (0114 273 1612) or visit the website (www.uksteelenterprise.co.uk).

7 Where to get help

7.1 Contact your local **Business Link** (0845 600 9 006 or www.businesslink.gov.uk).

- Business Link can give you details of any local loan schemes. For example, schemes run by local authorities and Learning & Skills Councils.
- Business Link can help you prepare your application forms and any business plans and financial forecasts that a loan scheme may require.

7.2 If necessary, get **professional help**

- Some accountants and consultants specialise in preparing loan applications.

Check their record of obtaining loans for businesses like yours.

- Negotiate the fees.

Flat-rate fees are less expensive, but must be paid even if your application is unsuccessful and you get no loan.

7.3 Visit www.j4bgrants.co.uk to search an **online database** that can help you find out about the variety of loan schemes on offer.

7.4 Avoid **loan cowboys**.

- Some companies will charge you a fee to identify supported loans you may qualify for. There is no guarantee you will qualify, and exactly the same information is generally available free of charge or at a heavily subsidised rate through your local Business Link.
- Some companies will guarantee to return your fee if they fail to arrange a supported loan for you.

Read the small print. The conditions they impose often make this kind of guarantee worthless.

Expert contributors

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