

UNCLASSIFIED



National Loan
Guarantee
Scheme

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Are you a business looking for further information about access to finance?	Please visit: www.businesslink.gov.uk
Are you a business looking to apply for the NLGS?	The NLGS is delivered through participating banks. For a list of participating banks please visit: www.hm-treasury.gov.uk/nlgs
Are you a business looking for further information on the NLGS?	Use these FAQs or contact a participating bank.

Accessing NLGS loans

1. How do I apply for a NLGS loan?

Businesses should contact participating banks. The application process is similar to that for regular loans. The banks' usual lending conditions will apply, including any need for security such as a personal guarantee.

2. Which banks are participating in the scheme?

A list of participating banks can be found on the HM Treasury website <http://www.hm-treasury.gov.uk/nlgs>. Participating banks may cease to participate depending upon market conditions. Institutions not participating at the outset of the scheme may do so in future.

3. Which businesses are eligible for NLGS loans?

A business will be eligible to apply for an NLGS loan if it:

- has an annual turnover of not more than £50 million, as at the date of the business's last financial accounts or management accounts. The £50m turnover threshold will include group turnover if applicable;
- is a UK business¹; and
- is not in financial difficulty.

4. What benefit will a business get from the NLGS?

Businesses that take out an NLGS loan will receive a discount on their loan of 1 percentage point compared with the interest rate that they would otherwise have received from that bank outside the scheme. Interest rates on NLGS loans may vary between banks as each bank operates its own pricing model.

5. Which loan products are eligible?

Participating banks are able to offer NLGS discounts on new term loans, hire purchase and leasing arrangements. Refinancing of existing facilities where the term or amount has changed is also permitted. The minimum term for a loan will be 1 year.

NLGS discounts will not be offered on overdrafts, revolving credit, invoice finance or business credit cards.

Subject to the scheme rules, each participating bank will choose which products it wishes to offer under the NLGS. The scheme rules are available on the Debt Management Office website www.dmo.gov.uk/nlgs

6. What are the minimum and maximum amounts that businesses can borrow under NLGS?

¹ A UK business is defined as a one that makes a material contribution to economic activity in the United Kingdom, which means that a material element of the business's economic activities is in the UK. Banks will be responsible for ensuring that businesses meet this condition and business should talk to their bank if they are unclear whether they are a UK business.

Individual banks will determine the minimum and maximum amounts that businesses can borrow under the scheme, subject to State aid constraints.

7. What is the minimum period over which a business can borrow?

The minimum term of a NLGS loan is 1 year. Subject to the scheme rules, each participating bank will choose which products it wishes to offer under the scheme.

8. When can businesses apply for NLGS loans?

Businesses can register their interest at participating banks now and banks will consider applications in due course.

9. Is the Government guaranteeing loans to businesses?

No. The Government is not guaranteeing loans to businesses or any underlying collateral. Borrowers remain liable for the repayment of their NLGS loans. Usual lending conditions will apply, including any need for security, such as a personal guarantee.

10. Will an eligible business definitely get a NLGS loan?

No. Banks retain the sole responsibility for making decisions on loan applications, and will follow their normal lending criteria. The Government does not have any role in making decisions on loan applications.

11. Will all loans to businesses with not more than £50 million turnover be covered by the scheme?

No. The NLGS will not cover all lending by participating banks to smaller businesses.

12. Can a business apply for more than one NLGS loan and/or apply to more than one bank?

There is no bar on making more than one NLGS loan application, or applying for NLGS loans at more than one bank. It is up to participating banks to make decisions on loan applications. The total benefit obtained through NLGS loans taken out by each business may be limited by State aid rules. Businesses should contact participating banks for advice.

13. Are businesses in certain sectors more likely to get NLGS loans?

No. However State aid rules apply differently to firms in certain industries, including agriculture, fisheries, road freight transport and primary products. Further information can be found in the State aid handbook:

http://ec.europa.eu/competition/state_aid/studies_reports/sme_handbook.pdf

14. Will businesses that are turned down for an NLGS loan be able to appeal the decision?

Businesses can appeal to the banks using existing appeals processes. Further information on the appeals process is available here: <http://www.betterbusinessfinance.co.uk/help-support/factsheets/appeals-process>.

15. In which parts of the country will the scheme be running?

NLGS loans will be available across the United Kingdom.

State aid

16. What is State aid?

State aid is a European Commission term that refers to any advantage that is provided to a business by the Government on a discretionary basis and that has the potential to distort competition.

17. Is the scheme compliant with State aid rules?

The scheme has been approved by the European Commission and is fully compliant with State aid rules.

18. How do State aid rules affect NLGS loans?

Some NLGS loans will include State aid to businesses. The basis for calculating State aid is the European Commission's reference rate table, which is a benchmark of appropriate interest rates for loans to businesses. If the interest rate offered to a business under the NLGS is at or above the relevant reference rate, there are no State aid implications for the recipient business. If the offered interest rate is below the relevant reference rate, some or all of the benefit received under the scheme will qualify as *de minimis* State aid.

Where some or all of the benefit of an NLGS loan qualifies as State aid, the amount of aid will be clearly stated in a letter to the business from its bank.

19. What if my business is already getting State aid or Government help?

Under the European Commission's *de minimis* State aid rules, a business may not receive more than EUR 200,000 worth of State aid over any three year period. State aid received under the NLGS would count towards this limit, as would any other State aid that a business receives through another scheme such as the Enterprise Finance Guarantee. There are a number of other Government schemes operating under State aid rules.

If a business is in receipt of aid under another scheme, it will have received a letter specifying the amount of aid. This letter should be shared with the bank as part of any application for a loan under the NLGS, as it may affect the level of benefit that the business can receive under the scheme.

20. Can a business benefit from more than one Government scheme at the same time?

Businesses can benefit from more than one scheme at a time. The total amount of benefit that a business can receive from a different scheme may be limited by State aid rules. Businesses should contact participating banks for advice.

About the NLGS

21. Why is the Government undertaking a new lending scheme?

The aim of the NLGS is to help smaller businesses obtain lower cost finance. The Government recognises that smaller businesses play an important role in the UK's economy, but are more vulnerable than their larger counterparts in times of economic difficulty. Smaller businesses are also less able than larger businesses to access alternative funding sources such as capital markets, and are more reliant on bank lending for external finance.

22. Why is the scheme being delivered through banks?

Smaller businesses rely predominantly on banks for finance. The quickest way of helping small businesses access affordable finance is through the banking sector.

23. What is the Government doing to support non-bank sources of finance?

The Business Finance Partnership aims to encourage the growth of non-bank sources of finance by co-investing in loan funds that lend directly to SMEs and mid-sized businesses as well as looking at new and innovative lending channels.

24. How does the NLGS work?

The NLGS will provide up to £20 billion of guarantees on unsecured bank debt. This will enable participating banks to borrow at a cheaper rate, and these banks will pass on the entire benefit they receive from these guarantees to smaller businesses through cheaper loans.

25. Is the Government deciding which companies get loans?

No. The Government has no role in making lending decisions. Banks have sole responsibility for deciding on loan applications and will retain the full credit risk of loans made under the scheme.

26. Why are some banks not participating in NLGS?

Banks are eligible to participate in the scheme if they:

- are incorporated in the UK (or are a subsidiary of a foreign company incorporated in the UK);
- have a significant role in the UK banking system and the overall economy;
- are regulated by the FSA (or equivalent regulator) and are considered viable; and
- have a track record of at least six months of lending to eligible businesses.

As the scheme works through government guarantees of banks' unsecured debt issuance, only banks that wish to issue unsecured debt under this scheme will want to participate. The list of participating banks can be found on the scheme website (<http://www.hm-treasury.gov.uk/nlgs>). Participating banks may cease to participate depending upon market conditions. Institutions Banks not participating at the outset of the scheme may do so in future.

27. Who is running the scheme?

The scheme is being run by HM Treasury. The provision of guarantees will be administered by the UK Debt Management Office.

28. Are the banks paying a fee to the Government to participate in the scheme?

Yes. Banks will pay a fee to HM Treasury in exchange for a guarantee on their debt issuance, consistent with European Commission State aid rules on guarantee fees.

29. What is the difference between credit easing and the NLGS?

Credit easing refers to a package of measures announced by the Government at the Autumn Statement in November 2011 to ease the flow of credit to businesses. The NLGS forms part of the credit easing package.

30. What is the difference between the NLGS and the Business Finance Partnership (BFP)?

The aim of the NLGS is to help smaller businesses obtain lower cost finance. The BFP is a scheme that will invest in loan funds that will lend to mid-sized businesses through non-bank channels.

31. What is the relationship between the Enterprise Finance Guarantee and the NLGS? Can I apply for both schemes?

These are two different schemes. The Enterprise Finance Guarantee (EFG) helps businesses that lack the track record or the collateral to borrow under normal circumstances. Under the EFG the Government guarantees part of individual loans. EFG borrowers are eligible to apply for new loans under the NLGS subject to complying with State aid rules. Similarly, NLGS borrowers could apply for EFG loans subject to State aid rules. Businesses should contact participating banks for advice.

32. Where can I find further information about the NLGS?

Participating banks will be able to help you with queries about the scheme. A list of participating banks can be found at: <http://www.hm-treasury.gov.uk/nlgs>

33. Where can I find further information about other lending schemes?

There is a wide range of financial products and support available from a broad spectrum of providers including banks, Business Angels, community development finance institutions, venture capitalists and trade and asset finance specialists. In some cases the products and support offered are backed by the government through initiatives such as the Enterprise Finance Guarantee (EFG) and the Business Angels Co-investment Fund (Angel CoFund). More information on finding finance can be found on www.businesslink.gov.uk, www.improve.businesslink.gov.uk/resources/business-support-finder and www.betterbusinessfinance.co.uk/.

In addition, Government will introduce the new Seed Enterprise Investment Scheme (SEIS), commencing from April 2012. The scheme will encourage investment into new early stage companies.