

EFG

The Enterprise Finance Guarantee

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What is the EFG?

The Enterprise Finance Guarantee has replaced the Small Firms Loan Guarantee Scheme which has been suspended until new Government proposals for a scheme after March 2010 have been finalised.

The EFG is intended to improve the availability of working capital through the provision of term loans and the consolidation of existing overdrafts. It can also be used to support lending for business growth and development in those cases with sound propositions but which may be declined due to lack of adequate security.

Please note that even with the Governments guarantee, if the borrower fails to repay the loan in full, the business remains liable for the full debt and recovery will be sought. The Guarantee is only for the Banks.

How much is available?

Under the EFG the Government will guarantee £1.3 billion of new bank lending to viable businesses to ensure the availability of working capital and investment in the current difficult climate. The emphasis is on the word 'viable'. Start-up situations are not excluded but they will find obtaining an EFG loan very difficult.

The EFG provides a Government backed guarantee against default by the borrower so that the limited number of approved lenders will be able to lend to them.

The EFG provides loans from as little as £1,000 to a maximum of £1,000,000. These loans can have pay-back periods from 1 year to 10 years.

The EFG will cover new term loans as well as existing lending such as overdrafts.

Once the Bank has decided that they will support your case then they have to apply to the Department for Enterprise and Regulatory Reform (BERR) for a guarantee.

Who is Eligible?

Most small businesses in the UK with an annual turnover of up to £25m are eligible

Loans for most business purposes to businesses in most sectors are eligible. The principle exclusions relate to businesses in the agriculture, coal and steel sectors and to the financing of individual export orders.

The BERR is not a party to the loan agreement. The contract is between you and your Bank who will set the specific terms within that agreement.

What will it cost me?

The banks regard EFG loans as high risk loans. The BERR only guarantees 75% of the loan, this means that the banks can lose up to 25% of the loan value if it is not secured against any assets. This makes it more risky for them than other commercial loans where security is given. The Banks will expect the Directors of the company to have used up all available personal assets before a loan can be secured.

The banks will typically charge between 2.5% and 4.5% above bank rate depending on the perceived risk involved. An arrangement fee of 1% to 2% is often charged as well. The BERR then charge 2% for providing the 75% guarantee.

This at first may look expensive but is cheaper in the long run than raising equity and giving away a proportion of your company

What do the Banks look for?

Banks are normally only interested in your company's ability to pay back the interest and capital of the loan and that you have a viable business. So a full business plan is essential.

To decide if you meet their lending criteria they will look very closely at your detailed sales strategy and forecasts and the specific assumptions that you have explained concerning your sales projections. They will look for successful proof of concept, concrete pipelines and letters of intent. They will then look in detail at your marketing plan to see if the marketing will feed the sales forecast. Above all they will look at your management team to see if it contains the right level of management and industry experience as well as the financial experience to make certain their money is safe.

Why Use Pegasus Funding Resources?

We have 6 years of experience in raising all types of funding for start-up and growth companies with specific emphasis on the former SFLGS and now the EFG.

We know which banks are more likely to provide you funding and which managers in which branches are more sympathetic. Above all we know what they are looking for when they read a business plan and what puts them off and what can and cannot be negotiated.

We have written many successful business plans and our process creates competition between the banks

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