



# CREDIT GUARANTEE SCHEME

## Customer Frequently Asked Questions

### 1. What is the purpose of the Scheme?

The purpose of the Scheme is to encourage additional lending to micro, small and medium-sized enterprises (SMEs), not to substitute for conventional lending that would otherwise have taken place. It is not a grant, nor is it a support for ailing businesses.

The Scheme will allow a business to not only acquire a loan it could not otherwise obtain, but also to establish a favourable credit history with a Finance provider so that the business may obtain future financing on its own.

### 2. Who is eligible for a Guarantee?

The scheme is available for working capital or investment purposes or for refinancing, within allowed rules (see 8. below). 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. Qualifying finance agreements may be unsecured or partially secured, with the Minister's guarantee applying to overall or just the unsecured part of the facility.

Demand loans, term loans and performance bonds are 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 a loan agreement, credit facility agreement, asset credit facility agreement or invoice finance facility agreement, all as defined in the CGS 2016 Act.

Originally launched in 2012, the Credit Guarantee Scheme (CGS) was intended to address specific market inefficiencies that prevent bank lending to some commercially viable SME businesses by providing a level of guarantee to banks 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 needs. 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). The number and type of finance providers may expand in the future.

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.

### **3. Where can I apply for a facility under the Credit Guarantee Scheme?**

You cannot apply directly for a guaranteed Scheme credit facility. You must apply for a standard commercial facility under normal circumstances by going through a participating finance provider (currently Allied Irish Banks p.l.c., Bank of Ireland or Ulster Bank Ireland DAC). The number of participating finance providers may expand in the future.

All lending decisions, including assessing business viability and whether or not it is appropriate to use the Scheme in connection with a specific lending transaction, are fully delegated to the participating finance providers.

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
- The business 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 finance provider's normal credit risk assessment processes
- The borrowing proposal meets basic Scheme eligibility criteria

Allied Irish Banks p.l.c., Bank of Ireland and Ulster Bank Ireland DAC are eligible to grant facilities under the Credit Guarantee Scheme. The decision to grant or not to grant a facility is up to the finance provider.

#### **4. Can I apply to the Minister for Business, Enterprise and Innovation for a facility?**

No. The Credit Guarantee Scheme (CGS) is delivered by the relevant finance providers on behalf of the Minister for Business, Enterprise and Innovation. Finance providers are required to exercise the same care and procedures in granting a CGS facility as they would for conventional facilities of similar amounts. Decisions related to granting facilities rest entirely with finance providers.

The Minister for Business, Enterprise and Innovation does not become involved in the decision-making process of the finance providers nor does he/she accept or process facility applications.

#### **5. Why are some finance providers choosing not to participate in the Scheme?**

Allied Irish Banks p.l.c., Bank of Ireland and Ulster Bank Ireland DAC are eligible to grant facilities under the CGS. The decision to engage in the Scheme is up to individual Finance Providers.

#### **6. What is the maximum facility amount I can access under the Scheme?**

The minimum facility amount that an SME / participating enterprise can access under the scheme is €10,000, while the maximum is €1 million. 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.

## 7. What types of loans are eligible?

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 CGS 2016 Act.

## 8. Can I refinance my existing loans?

The Credit Guarantee Scheme is provided by the Government through the Minister for Business, Enterprise and Innovation to facilitate lending to viable Micro, Small and Medium-sized Enterprises (SMEs) which would otherwise be declined by lenders due to insufficient collateral for the additional facilities and/or growth / expansionary SMEs which due to their sectors, markets or business model are perceived as a higher risk under current credit risk evaluation practices.

The Scheme can be used to facilitate refinance (where security is an issue and/or there are sectoral concerns) if related to circumstances where the SMEs finance provider is either (i) unwilling (unwilling where the loans have expired, have been 'called in' or demanded) to extend **OR** (ii) unable (as its exiting the Irish market), to provide the credit sought **OR** (iii) has sold SMEs debt to a 3<sup>rd</sup> party.

## 9. What are the costs?

### Premium

As part of the condition of entry to and participation in the Scheme, a premium of up to 2% must be paid by the borrower 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. A premium schedule will be provided by the finance

provider as part of the facility documentation, the initial payment is made at first drawdown and thereafter collection is made by direct debit or standing order.

The Scheme Guarantee Premium is the amount of money the borrower 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 borrower protection against their inability to repay a facility which has been provided.

For more information, please review the Credit Guarantee Scheme Information Booklet on the Department's website or contact any of the participating financial institutions.

### **Finance providers Interest Rate and Fees**

The finance provider may charge interest and fees on the Scheme Facility in line with normal commercial terms.

## **10. If a participating finance provider rejects a business's proposal and does not approve its request for a facility under this Scheme, what can the business do?**

Decisions to lend are based on the lending criteria of each financial institution. A business could contact another finance provider participating in the Scheme, since finance providers have different criteria when assessing an application.

If a business has applied through Allied Irish Banks p.l.c., or Bank of Ireland, or Ulster Bank DAC an appeal can be made through their own internal facility appeals process. If the business's appeal has been unsuccessful, and the business believes the bank's decision was 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 bank's decision.

The Credit Review Office has no regulatory or statutory powers to override bank lending decisions, which are a matter for the internal policy and governance of the finance providers. The outcome of the review process for the borrower 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 bank will be required to either comply with the recommendation or explain to the Credit Review Office why they will not do so.

## 11. What are the restrictions on Exporting?

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
- 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
- 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 that this spending does not necessarily have to take place in Ireland.*

**For more information, please contact any of the participating financial institutions.**

**Ulster Bank**

[www.ulsterbank.ie/roi/business/supporting-your-business/starting-a-business/contact-us.ashx](http://www.ulsterbank.ie/roi/business/supporting-your-business/starting-a-business/contact-us.ashx)

**Allied Irish Bank**

SME Lending Desk

[www.aib.ie/business](http://www.aib.ie/business)

[www.aib.ie/business/business-banking/start-ups/SME](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/>

**Or the Scheme Operator:**

The Strategic Banking Corporation of Ireland [www.sbc.gov.ie](http://www.sbc.gov.ie)