



Information for Prospective Borrowers

Product Specification

We currently offer two types of loans, Start-Up Loans and Growth Loans

Start-Up Loans

- Businesses may be at pre-start or they may have been trading for a maximum 18 months to be eligible.
- The amount lent can be from £1,000 to £10,000, or up to £25,000 where the business has been trading for 12 to 18 months, and provides verifiable trading information.
- The maximum repayment period is three years if the business has traded up to 12 months; five years if it has traded from 12 to 18 months.

Growth Loans

- Businesses must have been trading successfully for at least 18 months, as evidenced by 'certifiable' accounts.
- The amount lent can be from £1,000 to £25,000
- The maximum repayment period is five years.

In the case of both loans:

- Repayments on the loan must be made monthly by direct debit.
- Exceptionally, we may agree to a maximum three month capital repayment holiday, during which time interest must be covered monthly.
- By way of security, we will take personal guarantees from the beneficial owners of a business where they are not otherwise personally liable. We would expect to take a debenture from all limited companies, although this may be deferred behind a traditional commercial lender.
- The business being lent to must be based in a London borough. In the case of a start-up, it must be the intention to base the business in a London borough, and if funding is offered it will be on condition that the business is based there.

Exclusions

We are unable to accept applications to finance enterprises in any of the following sectors:

- Dealing in land, commodities, futures or the instruments of any holding company that are traded on a recognised stock exchange or market for dealing in securities.
- Banking, insurance, money lending, debt factoring, hire purchase financing and other financial activities.
- Leasing.
- Providing legal or accountancy services.
- Export trading companies/agencies.
- Companies principally trading or investing funds overseas.
- A CDFI or other body whose objective it is to provide finance for enterprises in or for disadvantaged communities.
- Money transfer agencies.
- Publishing ventures.

Please also see the lending guidelines later in this guide, for types of businesses where we will exercise special care when lending.

Moral Exclusions

Finance may not be provided for political purposes, any illegal activity, or any activity which may bring NLEF into disrepute e.g. pornography, gambling, etc.

Purpose

Finance may not be provided to repay existing borrowing, meet historic working capital requirements or to fund continuation of an adverse trading history. It may not be used to repay prior investments in the business, including any directors' accounts.

Residential Property

Finance may not be provided, either directly or indirectly, for the acquisition, construction or development of residential property.

Non-residential property

Non-residential property purchase, development, acquisition, or construction will not be financed.

The Application Process

Application Form

We require all prospective borrowers to complete an application form and to provide us with additional information/evidence that is listed on it. (The form can be submitted on-line. It may be necessary for the additional information, and perhaps a signed copy of the application form, to be sent to us by post or delivered to our offices.)

Information Requested

The information we require from applicants at application stage is listed on the application form. The information required is listed below, together with an explanation of why we need it (*in italics*).

Identity Documents

- Copy of current passport or official photo identification document.
- Evidence of residency for Non-British passport holders.
- Copy of work permit (if applicable).

Address Documents

- Copy of a utility bill no less than three months old with current personal address.
- Copy of credit search dated in the last month on all parties seeking to borrow.

The identity and address documents are required to enable us to verify the applicant's identity. This is necessary not only to avoid fraud, but also because we have a legal obligation to do so under the Money Laundering Acts.

The credit search will enable us to see if there are any adverse entries. It is not the case that we will refuse to lend if there are such entries, but we will require explanations as to how they came about.

Credit searches can be obtained free or for a small fee from: www.equifax.co.uk or www.experian.co.uk

Documentation in support of application

- Copy of Certificate of Incorporation (for limited companies)
- Copy of Business Bank Statements for the last 6 months if the business has been trading that long, or if a start-up the statement showing the name and details of the account and any initial deposit.

This is required to verify the account details for when we send the loan money and set up the direct debit.

Clients should be advised that finance will only be released directly to the SME's designated bank account and cheques or cash will not be issued.

- Copies of Personal Bank Statements for the last six months
These will be required from all directors/major shareholders of a company, or proprietors/partners of unincorporated businesses.
- Business Plan
We have no particular specification for a business plan, but can provide templates if required. If the business plan is in the course of preparation (or we are being asked to give a view on whether we would lend to a particular case) we are happy to accept what information is available (such as an Access to Finance application), pending the production of a business plan.
In cases where only a small amount of money is required, we have an additional information form which can take the place of a business plan.

The Appraisal Process

Review

When we have all the information requested we will proceed to the appraisal process. This involves us first reviewing the written information sent. In a small minority of cases we will decide at this stage that we cannot assist. This may be because, for example, the business concerned is in a sector to which we have decided we do not wish to lend (e.g. publishing), or for some other technical reason. If this is the case we will make that decision known to the business advisor who forwarded the plan to us.

Interview

If we decide that we are likely to be able to lend, we will then interview the applicant(s), usually at the business premises of the applicant. The purpose of the interview will be:

- To elaborate on the information in the application;
- To verify the purpose of the loan;
- To better understand the financial status of the applicant;
- To determine the reliability of the people running the business applying for finance, according to their personal history and references;
- To view the business premises and establish that a genuine business is being run from the premises named in the application; and
- To establish a personal relationship.

Lending Panel

If we feel that the case is one we can recommend, it will go forward to our Lending Panel. Our process is designed that it is our hope that cases going to the Loan Panel will be accepted for funding, although we are in the early stages of this scheme and cannot be sure this will be the case. We are keeping statistics of enquiries received and applications received and approved, and if rejected at what stage. We will make these statistics known to intermediaries periodically.

Proprietor Stake

In assessing a proposition, a critical question we will ask is how much money (or money's worth) the people who are running it have put in it or are going to put in it. Whilst there are no hard and fast rules on this, we generally expect to see a reasonable proprietor stake, or balance sheet surplus if an established business. Statements in business plans such as "x has already invested £y in this business" will be examined very carefully. We will want to know on what the money has been spent, and if it is represented by tangible value on the balance sheet. We are unlikely to take account of expenditure relating to the drawings of directors engaged on pre-start activity or research.

Decision Making Criteria

Lending decisions are based upon an assessment of:

- The character and integrity of the individuals behind the enterprise and liable for the finance.
- The ability of these individuals to manage/operate the enterprise as planned, taking into account any training, personal development or mentoring which they will follow.
- The enterprise generating sufficient cashflow to repay the finance according to the proposed repayment schedule.
- Past trading performance of the business as evidenced by certified accounts and accountant produced management information, and the financial probity of the owner(s) as revealed by the CRA search and any other information gathered.

Consideration will be given to the adequacy of the overall finance package to generate the cashflow which will repay the NLEF facility and the reliability of all other providers of finance to the enterprise.

Finance will only be agreed where, having taken into account the above, the lending official or panel is convinced that the finance will be repaid. Where the assessment relies upon 'a balance of probabilities' or the 'hope' that it will turn out satisfactorily, the application will be declined and the applicant advised of any appropriate alternatives.

Terms

If a loan is offered, the terms will depend on the individual case. As a guide, interest rates are likely to be in the order of 1% per month on the reducing balance (12.68% APR). A lending or security fee will usually be charged. Again, this will depend on the case, but will typically be £10 per £1000 lent, with a minimum of £200.

If mentoring services are provided, these will be charged at a rate of £30 to £50 per month. In such a case lending fees may be reduced, and may be remitted altogether.

It will always be a condition of any loan made available that we are provided with regular management information by the borrower.