

Loans terms and conditions

General terms and conditions of an innovation continuity loan from Innovate UK.

1. Important Information

Entering into a loan agreement with us is a significant financial commitment. In applying, you must:

- have made your own assessment in relation to the suitability of the loan agreement for your business
- consent to all searches necessary to determine the financial status of your business and other relevant checks appropriate to assessing creditworthiness
- understand that as part of our due diligence key persons, directors, beneficial owners and any relevant related persons may be required to consent to credit reference checks
- understand that information provided by you in the application will form part of the loan agreement. Information later proven to be false or misleading may lead to a breach of the loan agreement which could result in the immediate withdrawal of the loan, a demand for immediate repayment and the enforcement of any security granted in connection with the loan agreement
- acknowledge that the execution of the loan agreement and all associated documents must be by an authorised signatory of the company and evidence of such authorisation must be provided in the form of a board resolution
- acknowledge that upon entry into a loan agreement with us you will incur binding legal obligations and that you should seek independent legal advice.

2. Summary heads of terms

Our summary heads of terms provides an outline that reflects the typical nature of the loan agreement that Innovate UK Loans Ltd, the “Lender”, would consider making available.

Innovate UK Loans Ltd is a wholly owned subsidiary of Innovate UK.

The summary heads of terms are indicative and not exhaustive. The lender reserves the right to amend or withdraw these terms if required.

This is not an offer to provide finance.

Any loan agreement would be subject to due diligence and the documentation being in a form satisfactory to the lender:

1. Lender
Innovate UK Loans Ltd
2. Borrower
Eligible SMEs and third sector organisations, being within the scope of the innovation continuity loans scheme
3. Amount and term
£250,000 to £1,600,000 or up to 100% of the costs of completing an active project, together with further reasonable costs agreed by the Lender arising from an increase in the cost of delivering R&D activity as a result of Covid-19 (subject to the limits in the Temporary Framework) which are not covered by previous grants to the Borrower from Innovate UK or other government support and which are required to develop and commercially exploit innovation relating to the Project.

Term up to 7 years, including:

Stage 1: availability period of up to 2 years during which drawdowns will be permitted.

Stage 2: extension period of up to 2 years during which no further drawdowns will be permitted.

Stage 3: repayment period of up to 5 years.

4. Purpose
The loan is to be available to meet the eligible costs of an ongoing research and development project which has previously been supported by an award from Innovate UK. This should be to develop and commercially exploit innovation.

5. Drawdown
Staged drawdowns, quarterly in advance based on project milestones.
Drawdowns will be subject to project progress, monitoring officer sign-off and financial and reporting covenants being met.

The full amount will not be drawn at the outset.

6. Fees
No arrangement, commitment, non-usage, monitoring or security fees will usually apply.

Where bespoke activities or arrangements are needed to complete a transaction, the lender reserves the right to pass on or share these costs, including the lender's legal and valuation fees. This is subject to prior agreement with the borrower.

7. Interest
During the availability and extension periods, interest will be payable quarterly at 3.7% a year on amounts outstanding.

During the availability and extension periods, interest will be accrued quarterly at 3.7% a year on amounts outstanding and deferred to the repayment period.

During the repayment period, interest will be payable quarterly at 7.4% a year on amounts outstanding, including the deferred interest from the availability and extension periods.

Fixed interest rate, subject to any restructuring or extension of the loan agreement.

The first interest period will start on the first drawdown date and the final interest period will end on the termination date.

8. Repayment

The final repayment structure will be determined by the lender but could include:

1. Interest-only period of up to 5 years, consisting of the agreed availability period and extension period and
2. Repayment period of up to 5 years by way of quarterly repayments including interest accrued and deferred during the availability and extension periods
3. A maximum term of up to 7 years.

9. Pre-conditions

The pre-conditions will include at least:

1. Evidence of the borrower's status as an eligible UK-based SME or third sector organisation with an active Innovate UK project
2. Delivery of security documents
3. Completion of "Know Your Customer" and Anti-Money Laundering requirements, for all directors and/or persons of significant control

10. Security

Typical security for a transaction of this nature can include, but is not limited to:

- a debenture over the borrower's assets (including, and without limitation, a fixed charge over key assets and a floating charge over all other assets of the borrower)

Where other funders are involved in a package deal, or future commercial investment is subject to securing priority, intercreditor arrangements may be required. In this event priority over assets not specifically scheduled in support of the innovation loan will not be unreasonably withheld.

The lender will not take personal guarantees or security over principal private residences or benefit from the future sale thereof in the event of a realisation.

11. Loan covenants

The covenants set on each loan will depend on the structure of the transaction and the nature of the project. It is important to note that these covenants will consider the overall viability of the business of the borrower. They will be relevant to the proper management of public funds, but should not prevent the borrower from delivering their planned activity.

The lender expects the project to meet its scheduled delivery timetable with the support of the monitoring officer.

For example, covenants will include, at least:

- affirmative covenants
 - maintaining financial records and management information
 - compliance with UK tax obligations
 - maintenance of adequate insurance, including specific insurance in connection with the assets of the borrower and 'key person' cover in case of the loss of an important member of the business
- negative covenants
 - control of "cash out", dividends and/or withdrawal of directors' loans.
 - right of approval on change of control or business sale
 - requirement to maintain prescribed debt service cover, liquidity, leverage and/or current assets ratios
 - right to convert the loan and accrued interest to equity after consultation with the Borrower if, at the end of the extension period commercialisation has not been achieved, but appears probable within a reasonable period or if an Event of Default appears likely, at such price as determined by the Lender acting reasonably
 - right to require repayment of the loan AND to recovery of relevant grants in the event of a loss of intellectual property supported by Innovate UK during the term of the loan
 - right to seek early repayment through refinancing or as part of any liquidity event achieved once the financial market disruptions caused by the Covid-19 crisis are deemed to have recovered
 - right to take control of any unexploited intellectual property not foregone in a crystallisation event and distribute to the benefit of the UK innovation community
- reporting covenants
 - annual accounts: audited as appropriate and as filed at Companies House and/or draft annual accounts, accountant-certified forecasts, regular management information, tax returns and bank statements

Where the delivery of the project, its subsequent commercialisation and the overall viability of the business relies on the quality of the project, the business leadership team and the individuals within it, the lender may require 'key person' clauses in addition to the items above.

12. Events of default

The events of default will depend on the structure of the transaction and the nature of the project. The events of default will be market standard and will include at least the following:

1. Change of control of the borrower without the lender's prior written consent, which will not be unreasonably withheld.
2. The departure of a 'key person' from the business or the project without the lender's prior agreement to the proposed and timely remedy, which will not be unreasonably withheld.
3. Non-payment on repayment date.
4. The borrower's failure to comply with its obligations under the loan agreement.
5. Insolvency of the borrower.
6. Cross-default.
7. It is or becomes unlawful for any party to perform its obligations under the loan agreement.

If the borrower defaults on its loan commitments, the lender will take steps to recover the debt in line with standard commercial practice.

13. Transferability and disclosure

The lender may freely transfer its rights under the loan agreement.

The lender may disclose information applicable to such a transfer. The borrower shall reasonably assist with the provision of such information.

The borrower may not assign or transfer its rights under the loan agreement.

14. Governing law

English

15. Documentation

The lender's standard form loan agreement and security documentation will be used to document the transaction