



## **DIRECT LENDING SCHEME**

### **MAIN FEATURES**

#### **Period**

- 1 Available as a permanent product.

#### **Size of scheme**

- 2 £3 billion i.e. the maximum aggregate outstanding principal value of loans.

#### **Commitments**

- 3 New commitments to direct loans will be provided on a first come, first served basis only.

#### **Eligible exports**

- 4 Exports of capital/semi capital goods and services irrespective of the industrial sector (civil aerospace transactions falling within the Sector Understanding on Export Credits for Civil Aircraft under the OECD Arrangement should not normally require direct lending given that other potential sources of funding exist apart from commercial bank loans).

#### **Size of eligible export transactions**

- 5 Export transactions involving a principal loan value of up to circa £50m (or foreign currency equivalent). Minimum principal loan value £5m (or foreign currency equivalent), unless otherwise agreed by UKEF.

#### **Access to scheme**

- 6 Any exporter carrying on business in the UK.
- 7 An exporter must have explored the availability of loan financing from a minimum of two banks (one with a dedicated trade finance function) before approaching UKEF for direct funding. The exporter will be required to explain why these approaches were unsuccessful. UKEF will consider each case on its merits.

#### **Product type**

- 8 Available on a *buyer credit* basis (either disbursement and/or reimbursement).

#### **Loan Repayment periods**

9 Loans must have a repayment term of at least two years or more.

### **Loan terms**

10 The terms e.g. the starting point of credit, length of repayment, repayment profiles, etc. must accord with the requirements of the OECD Arrangement on Officially Supported Export Credits (the “OECD Arrangement”).

### **Currencies**

11 Sterling, US Dollars, Euro and Japanese Yen.

### **Interest Rate**

12 Interest will be at a fixed rate based on the Commercial Interest Reference Rates (“**CIRRs**”) arrived at in accordance with the OECD Arrangement for the relevant currency. The main points are as follows.

Applicable rate: for each currency, the loan fixed rate will be:

- (i) the appropriate CIRR, or
- (ii) the cost of government funds (NLF rates) if higher.

CIRR setting date: date of first disbursement from the loan.

Interest rate holds will not be given.

Late payment interest: 1% late payment interest charge on the higher of (a) the loan fixed rate, or (b) 6 month LIBOR.

### **Capitalisation of interest**

13 Capitalisation of pre-commissioning interest can be considered.

### **Documentation**

14 Model direct loan documentation will apply which includes pre-payment breakage cost provisions, consistent with the requirements of the OECD Arrangement when financing at CIRRs.

### **OECD Recommendations and Guidelines**

15 UKEF will apply its published policies on matters such as combating corruption, sustainable development and protection of the environment and human rights. These policies entail the application of the relevant OECD Recommendations and Guidelines.

### **Country cover**

16 As for general business. Category 0 markets together with High-Income OECD and high-Income EU Area countries are eligible.

## **Foreign content**

17 Normal foreign content policy will apply. Funding for local content will be subject to the rules of the OECD Arrangement.

## **Risk Premium**

18 The borrower will pay a risk premium expressed as a percentage of the principal value of the loan. That percentage rate will be no less than the OECD Minimum Premium Rate for credit risk (or the appropriate rate for Cat 0 markets and business in High-Income OECD and high-Income EU Area countries). 85% of premium will normally be payable as a first drawing from the loan, with the 15% balance being payable in advance. £5,000 (or currency equivalent) of the 15% downpayment will be a non-refundable administration fee.

## **Commitment Fees**

19 None.

## **Administration Charge**

20 None (other than the non-refundable fee mentioned in paragraph 18).

## **Application process**

21 Applications should be submitted by the exporter for the export transaction to which the proposed loan will relate using UKEF's direct lending application form, which is available on the website: [www.gov.uk/uk-export-finance](http://www.gov.uk/uk-export-finance).

## **THE ROLE OF UKEF IN DIRECT LENDING**

22 UKEF will manage all aspects of direct lending.

## **UKEF**

**March 2014**