



Market Notice

4 August 2016

Asset Purchase Facility: Term Funding Scheme

1. The Term Funding Scheme (TFS or the Scheme) is designed to reinforce the transmission of Bank Rate cuts to those interest rates actually faced by households and businesses by providing term funding to banks at rates close to Bank Rate.
2. In addition to its primary monetary policy objective, the TFS will provide participants with a cost effective source of funding in the form of central bank reserves to support additional lending to the real economy. As set out in this Market Notice, the TFS will allow participants to borrow reserves in exchange for eligible collateral during a defined drawdown window.
3. Further documentation for the TFS, including application forms, Terms and Conditions, and Operating Procedures will be available via the Bank's website from mid-August 2016.

Eligibility

4. Institutions eligible to participate in the TFS will be banks and building societies that are participants in the Bank's Sterling Monetary Framework (SMF) and signed up to the Discount Window Facility (DWF). SMF participants that are not already signed up to the DWF can apply for access, and institutions that are not SMF participants can apply to join, subject to the usual eligibility criteria.¹
5. Applications to join the TFS can be made once the full documentation has been published on the Bank's website, and no earlier than 22 August 2016. Institutions will be required to sign a Scheme Letter to become a TFS Participant.
6. The TFS is a monetary policy tool of the Monetary Policy Committee and will be operated as part of the Asset Purchase Facility. Participants will therefore enter into a legal relationship with both the Bank and the Bank of England Asset Purchase Facility Fund Limited (BEAPFF Ltd), and sign new documentation with the Bank acting for itself and as agent for BEAPFF Ltd.
7. Eligibility and continued access to the TFS will be dependent upon a Participant and other members of its TFS Group acting, in the opinion of the Bank, in good faith and in a manner consistent with the objectives of the TFS.

¹ See <http://www.bankofengland.co.uk/markets/Pages/money/applications.aspx>.

Drawdowns

8. Drawdowns under the TFS may be undertaken on each business day during the “Drawdown Period” which will run from 19 September 2016 to 28 February 2018. Drawdown requests should be made to the Bank’s Sterling Markets Desk.
9. The MPC will confirm by its August 2017 meeting whether the Drawdown Period will close at end-February 2018 or be extended. The MPC could adjust the terms (borrowing allowance, pricing) and length of the Scheme should macroeconomic conditions warrant it. However, the terms and length of the Scheme would not be made less generous by the MPC during the initial 18 month drawdown window. This provides the certainty that participants need to form their funding and lending plans.

Term of the transactions

10. The term of each transaction will be for 4 years from the date of drawdown.
11. Participants may terminate any transaction, in part or in full, before its maturity date, in accordance with the Operating Procedures.

Eligible collateral

12. Eligible collateral will consist of all collateral eligible in the SMF: level A, B and C collateral sets (including loan pools).² The Bank reserves the right to reject any security or loans offered for any reason at any time.
13. Eligible collateral must be pre-positioned in advance of a drawing.
14. Loan collateral collateralising TFS transactions with BEAPFF Ltd cannot be used to collateralise outstanding SMF or FLS transactions with the Bank (or vice versa). Participants wishing to preposition additional loan pools or split existing pools of loan collateral into smaller pools should discuss this with the Bank.
15. The Bank’s valuation of collateral will be binding. Haircuts will apply to collateral as set out in the SMF.³ Haircuts may be varied at any time at the Bank’s discretion.

Lending measure

16. The quantity and price of funding available from the TFS will be based on the quantity of sterling loans⁴ made by a Participant’s “TFS Group” to UK resident households, private non-financial corporations (“PNFCs”) and Non-Bank Credit Providers (“NBCPs”).⁵ A Participant’s TFS Group is defined as all Monetary Financial Institutions⁶ and Specialist Mortgage Lenders⁷ within a Group (as defined in the

² See www.bankofengland.co.uk/markets/Pages/money/eligiblecollateral.aspx.

³ See www.bankofengland.co.uk/markets/Pages/money/eligiblecollateral.aspx.

⁴ See www.bankofengland.co.uk/statistics/Documents/reporters/defs/def_gene2014.pdf.

⁵ See www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/m4_sectoral.aspx#defs.

⁶ Monetary Financial Institutions means the subsector defined in paragraph 2.48 of Annex A to Council Regulation (EC) No. 2223/96, known as ESA95.

SMF terms and conditions⁸), as well as NBCPs which are part of the Participant's broader group, as determined by the Bank. NBCPs are defined as "financial leasing corporations", "factoring corporations" and "mortgage and housing credit corporations (excluding SPVs related to securitisation)".⁹

17. TFS Group lending will be monitored during a "Reference Period" running from 30 June 2016 to 31 December 2017. For each TFS Group, a "Base Stock" of applicable loans will be determined by the Bank based on a certification by the TFS Group of reported data as at 30 June 2016. For each TFS Group, "Net Lending" during the Reference Period will be defined as new applicable loans net of repayments since 30 June 2016 which have been certified by the TFS Group.
18. Participants will be required to provide Net Lending data for each entity in the TFS Group, in the form specified by the Bank. Participants must submit Net Lending data quarterly. Data must always be based on end-calendar quarter data and be submitted before a fixed deadline.
19. The Bank reserves the right to require independent audits of the data provided to the Bank at any time. The Bank will require Participants to provide an independent audit report on the accuracy of the data provided to the Bank for the TFS. The Bank will confirm details of audit requirements in due course.

Borrowing Allowance

20. Participants in a TFS Group may draw in aggregate up to the "Borrowing Allowance" for the TFS Group. The Borrowing Allowance for each TFS Group will be set at 5% of its Base Stock plus an amount equal to its most recent Net Lending amount.¹⁰ If a TFS Group's Net Lending amount is negative at any time, its Borrowing Allowance remains at 5% of its Base Stock.
21. If the outstanding aggregate drawings of Participants in a TFS Group exceed the TFS Group's most recent Borrowing Allowance (for example, if a TFS Group's Borrowing Allowance has fallen following a reduction in Net Lending, but Participants in the TFS Group have drawn up to the maximum amount of a previous higher Borrowing Allowance), no further drawings will be permitted until the Borrowing Allowance has increased above the aggregate drawing amount. Any such 'excess' drawings will not be clawed back, but this will affect the fee, as set out in the Operating Procedures.
22. Participants in the Funding for Lending Scheme (FLS) will be permitted to repay FLS drawings in order to redraw in the TFS, subject to having sufficient Borrowing Allowance in the TFS. Participants who wish to refinance FLS drawings within the first year¹¹ of the TFS must provide the Sterling Market Desk with notice of the size of their refinancing request by end-September 2016.¹² The Bank will then agree with each Participant a balanced refinancing profile over twelve months, contributing to a smooth aggregate

⁷ www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/ltot.aspx.

⁸ See the Glossary of the SMF Terms and Conditions:

www.bankofengland.co.uk/markets/Pages/money/documentation.aspx.

⁹ See definitions for 15A, 15D and 15E within Parts IV.1 and IV.2 of the Classification of Accounts Guide:

www.bankofengland.co.uk/statistics/Pages/reporters/default.aspx.

¹⁰ The amount will be equal to the unweighted sum of net lending to UK resident households, PNFs and NBCPs.

¹¹ Until end-September 2017.

¹² Applicants who are not signed up to the TFS by end-September 2016 should inform the Sterling Market Desk of any planned significant refinancing at the point of joining the Scheme.

refinancing profile over this period. Ad-hoc refinancing of FLS drawings will be allowed after the first year of the Scheme.

Interest

23. The Bank will charge interest on TFS transactions equal to Bank Rate plus a Scheme fee.
24. Interest will be calculated daily based on Bank Rate and the outstanding drawings by Participants in a TFS Group. The interest will be allocated between Participants in a TFS Group in proportion to the Participants' drawings.
25. The fee will be determined at the end of the Reference Period, based on Net Lending over the Reference Period. For TFS Groups whose Net Lending over the Reference Period as a whole is positive, the fee will be 0bp per annum. For Groups whose Net Lending over the Reference Period as a whole is negative, the fee will increase linearly (to the nearest basis point) from 0bp per annum if lending is unchanged up to 25bp per annum if lending falls by 5%. If lending falls by more than 5%, the fee will be 25bp per annum. This fee will apply daily to all drawings by Participants in a TFS Group, up to the Borrowing Allowance on that day, for the duration of the drawings.

Interest payments

26. During the Drawdown Period, Participants will accrue interest based on Bank Rate and an initial flat fee of 0bp per annum on their drawings, each calendar quarter in arrears. Any additional fee required on drawings during the Drawdown Period, including any fee for excess drawings, will be charged as a lump sum after the end of the Drawdown Period. After the end of the Drawdown Period, interest will be charged quarterly in arrears.

Published information

27. The Bank intends to publish the size of Participants' outstanding drawings, and TFS Group Base Stock and Net Lending figures, quarterly with a lag on a timetable to be announced in due course. Details of aggregate TFS drawings will also be published weekly on the Bank's website. By signing up to the TFS, Participants agree to the Bank publishing this information.

Bank of England

4 August 2016