

SPECIAL LIQUIDITY SCHEME: MARKET NOTICE

1 The Bank of England's Special Liquidity Scheme operates as follows.

Access to the Scheme

2 Institutions eligible to participate will be banks and building societies which are eligible to sign up for the Bank's Standing Facilities.

3 Each participating institution must use the Scheme for a minimum amount to be set by the Bank. Drawdowns above the minimum are subject to approval by the Bank.

4 New drawdowns under the Scheme may be undertaken for a period of six months from the date of this Market Notice (the "Drawdown Period"), subject to extensions at the discretion of the Bank.

Securities advanced

5 Under the Scheme, UK Treasury Bills ("Bills") will be lent against collateral consisting of eligible securities as listed below.

6 The Bills lent under the Scheme will be for an original maturity of nine months and will have been created within the month preceding the drawdown. Bills must be delivered back to the Bank 10 days prior to their maturity and will be exchanged for a further 9-month Bill.

Term of the transactions

7 The Scheme will operate for up to three years from the end of the Drawdown Period, at the Bank's discretion. The term of the transactions will be for one year or to the maturity of the eligible securities as held under the Scheme at the end of the Drawdown Period, whichever is the shorter.

Fee

8 The fee payable on borrowings of Bills will be the spread between 3-month LIBOR and 3-month General Collateral gilt repo rate, as observed by the Bank, subject to a floor of 20bps. The fee may vary at the Bank's discretion.

9 The spread will be fixed on the date of a drawdown and will be re-fixed thereafter every 3 months, with daily calculation of the fee based on the mark-to-market value of the Bills at closing Debt Management Office (DMO) reference prices. The fee will be paid every 3 months at the end of the re-fix period, or upon termination.

Eligible securities

10 The eligible securities will comprise:

- UK and EEA Covered bonds rated AAA, including those issued by the institution, or entities in the same group as the institution, entering into the transaction. The underlying assets must be either mortgages or public sector debt.
- AAA-rated tranches of UK and EEA Residential Mortgage-Backed Securities (RMBS) backed by UK and EEA mortgages. The underlying assets must not be synthetic (i.e. not derivatives). RMBS backed by mortgages originated by the institution, or entities in the same group as the institution, entering into the transaction are permitted.
- AAA-rated tranches of UK, US and EEA Asset-Backed Securities (ABS) backed by credit cards, including those originated by the institution, or entities in the same group as the institution, entering into the transaction. The underlying assets must not be synthetic (i.e. not derivatives).
- Debt issued by G10 sovereigns rated Aa3 or higher, excluding securities eligible in the Bank's normal Open Market Operations, subject to any settlement constraints.
- Debt issued by G10 government agencies explicitly guaranteed by national governments, rated AAA.
- Conventional debt issued by the US Government Sponsored Enterprises (Freddie Mac, Fannie Mae and Federal Home Loans), rated AAA.

Securities may be denominated in sterling, euro, US dollars, Australian dollars, Canadian dollars, Swedish krona or Swiss francs or, in the case of Japanese government bonds only, yen.

11 Credit ratings as set out above must have been provided by two or more of Fitch, Moody's, and Standard and Poors.

12 Each participant may deliver as collateral only eligible securities held on balance sheet as at 31 December 2007 and eligible securities formed from underlying loans, including sellers' claims on Master Trusts, held on balance sheet at that date. For RMBS issued via a Master Trust where the pool of assets includes mortgages originated after 31 December 2007, 100% of the level of such securities or underlying loans outstanding on balance sheet as at 31 December 07 will be eligible in the first year of the Scheme. In year 2, two-thirds of those securities will be eligible. In year 3, one-third of those securities will be eligible.

13 The Bank will require each participant to certify compliance with these criteria, and reserves the right to seek independent verification of compliance, at the cost of the participant, in certain circumstances. Details of new securitisation and covered bond programmes intended for use in the Scheme should be discussed with the Bank.

14 Eligible securities will be valued by the Bank using observed market prices that are independent and routinely publicly available. The Bank reserves the right to use its own calculated prices. If an independent market price is unavailable, the Bank will use its own calculated price and apply a higher haircut. The Bank's valuation is binding.

15 Haircuts are defined in the Annex to this Notice.

16 Custody fees incurred by the Bank in holding eligible collateral, including where securities have been pre-positioned with the Bank, will be charged back to participants.

Settlement

17 Eligible securities must be deliverable via;

- Euroclear or Clearstream, for instruments issued directly into the International Central Securities Depositories;
- international links maintained by Euroclear;
- such other delivery mechanism as the Bank shall specify.

The Bank reserves the right to reject any security offered for any reason.

18 Eligible securities must be pre-positioned with the Bank in advance of a drawdown.

Margin arrangements

19 Re-margining will take place daily based on updated valuations of the eligible securities provided, and of the Bills lent under the Scheme, across all Scheme transactions with a participant, subject to a threshold of £1 million.

20 Margin securities may consist of eligible securities as listed above, and additionally of securities that are routinely eligible as collateral in the Bank's Open Market Operations and Standing Facilities, as published on the Bank's website. The latter must be delivered by the delivery mechanisms specified in the legal agreements for the Scheme's transactions and will be subject to the haircuts specified in the annex to this notice.

Substitutions

21 Collateral substitutions are permitted throughout the life of the scheme. Following the end of the Drawdown Period, if eligible securities substituted into the Scheme have a shorter maturity than the underlying collateral swap, the term of the collateral swap is similarly reduced.

Early maturity

22 Subject to maintaining the minimum participation level, participants may mature, or partially mature, particular transactions before their contractual maturity date against surrender of the Bills. The Bank will take such repayments into account when considering further applications to drawdown.

Sign-up and drawdown process

23 Participants will be required to sign the pro forma documentation prepared by the Bank. The documentation is available on request to those institutions eligible to participate.

24 Once the legal documentation has been signed, and following pre-positioning of eligible securities with the Bank, authorised drawdown requests should be made to the Bank's Sterling Markets Desk in order to conduct a transaction.

Published information

25 The Bank will publish the total outstanding value of Bills lent under the Scheme after the end of the Drawdown Period.

Bank of England

21 April 2008

Annex: Haircuts

The following haircuts will be applied to eligible securities and may be varied at the Bank of England's discretion.

<u>Haircuts for Scheme operations</u>	OMO eligible and G10 Sovereign paper	G10 Government guaranteed agencies	US GSEs	RMBS, covered bonds and Credit card ABS
Credit rating (on Moody's scale)	Aa3 or higher	AAA	AAA	AAA Not own-name
All floating rate	1	3	3	12
Fixed interest rate, under 3 years to maturity	1	3	3	12
Fixed interest rate, 3-5 years to maturity	1.5	4	4	14
Fixed interest rate, 5-10 years to maturity,	3	8	8	17
Fixed interest rate, 10-30 years to maturity	5.5	14	14	22

Additional notes:

An additional 3pp will be added to haircuts to allow for currency risk when securities are non-sterling.

An additional 5pp will be applied to own-name eligible covered bonds, RMBS and credit card ABS.

An additional 5pp will be applied to securities for which no market price is observable.

Note on calculation: adjusted collateral value (post-haircut) = collateral value x (100 – haircut) %.