



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

24<sup>th</sup> April 2013

Sir Mervyn King  
Governor  
Bank of England  
London  
EC2R 8AH

A handwritten signature in black ink, appearing to read 'George Osborne'.

Thank you for your letter dated 24<sup>th</sup> April 2013, setting out the objectives and rationale of the proposed extensions to the Funding for Lending Scheme and how these build on the success of the scheme so far.

As we agreed when we launched Funding for Lending, the scheme aims to make loans cheaper and more easily available, and therefore boost lending to the real economy. As you explained in your letter, the scheme has clearly proved successful in easing credit conditions to the real economy. In particular, the bank funding landscape has been transformed since the scheme was announced with funding costs declining sharply. These are now being reflected in eased credit conditions to the real economy.

The availability of credit has improved significantly across the household and corporate sectors in recent months. Mortgage rates quoted to households have declined significantly and some mortgage rates are now the lowest on record; while data yesterday showed housing transactions have increased by 13% since the scheme was launched. Larger corporations are also benefiting from improved financing conditions, including capital markets. Participants in the scheme have made more credit available to large corporates and are offering cheaper and discounted lending products to businesses such as cash back schemes.

It is important that we continue to support the real economy and build on the success of the scheme so far. As the impact of the scheme on small and medium sized firms has taken longer to develop, I welcome the extension of the scheme, in particular the increased focus of the scheme on small and medium sized firms. Supporting the availability of credit to these firms complements the Government's commitment to increase the availability of mortgage lending through the recent Help to Buy Scheme. Broadening the scheme to reach out to a wider group of lenders is a further positive enhancement that will boost the impact of the scheme. The extension of the scheme into 2015 also provides greater certainty of funding to banks over a longer time horizon.

The success and innovative nature of the FLS has been noted not just in the UK but around the world. I am confident that these extensions will work further to complement the Government's economic strategy of fiscal responsibility and monetary activism. I note that the Monetary Policy Committee has discussed these changes, as provided for in the revised MPC remit published at the Budget. I am happy to confirm that the scheme extension is within the remit of the Bank and that I approve of the extension of the scheme.

*Best with*



GEORGE OSBORNE