



**BANK OF ENGLAND**

**Mark Carney**  
Governor

The Rt Hon George Osborne  
Chancellor of the Exchequer  
HM Treasury  
1 Horse Guards Road  
London SW1A 2HQ

30 November 2015

*Dear Chancellor,*

The Funding for Lending Scheme (FLS) was launched jointly by the Bank and HM Treasury in July 2012, against a backdrop of elevated funding costs for banks and building societies, and an impaired flow of credit to the real economy. Since then, the FLS has contributed to a substantial fall in these funding costs, which in turn have fed through to improvements in credit conditions for households and businesses.

The scope of this temporary scheme has been narrowed several times since it was launched, reflecting the improvements we have seen in credit conditions over this period. In November 2013, incentives to increase lending to households were removed, following significant improvements in their credit conditions. And in November 2014, the Scheme was further concentrated on lending to Small and Medium Sized Enterprises (SMEs), for whom improvements were taking longer to feed through, relative to larger corporations. It is now appropriate to taper further and ultimately wind down the Scheme as the need for it diminishes.

Since this time last year, credit conditions for SMEs have continued to improve. Sources indicate that both the cost and availability of credit for SMEs is better than a year ago, and net lending to SMEs has increased. Nevertheless, conditions still remain relatively tight. So it is important that the support provided by the FLS is withdrawn gradually as the recovery in credit conditions for SMEs continues. This will also allow other initiatives aimed at supporting SME lending (including the British Business Bank, and Bank of England initiatives relating to the availability of credit information) further time to take hold.

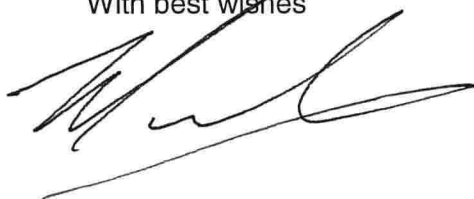
As you and I have discussed, the extension announced today will provide participants with additional time and flexibility to draw unused allowances earned through positive net lending to the real economy. Accordingly, Bank and HM Treasury officials have finalised plans to extend the scheme for two years. Participants will have a further six months to draw any unused allowances, after which time the amount available to draw will reduce every six months over the two year period, tapering the scheme to a natural close at end January 2018.

In addition, we have also discussed the need to ensure that newly authorised banks are able to access the Scheme, thereby promoting increased competition from newer lenders. As these banks may not have a prior lending history, they will be able to earn a borrowing allowance based on their net lending over 2016 and 2017, with each £1 lent to SMEs earning an allowance of £5 in the Scheme. This part of the FLS will be small in scale, but will ensure that newer banks are not placed at a disadvantage relative to other participants.

I have consulted both the Monetary Policy Committee (MPC) and the Financial Policy Committee (FPC) about these amendments to the FLS. The MPC has judged that there will be no material impact on the stance of monetary policy, and the Financial Policy Committee welcomes these changes.

I would be grateful if you would confirm that you are content with the proposed changes, and that the Scheme remains within the remit of the Bank.

With best wishes

A handwritten signature in black ink, consisting of several fluid, connected strokes. The signature is positioned below the text "With best wishes".