



## Funding for Lending Scheme Extension: worked examples for New Groups

The Bank and HM Treasury announced an amendment to the Funding for Lending Scheme (FLS) Extension on 30 November 2015, which extended the drawdown window by two years to the end of January 2018. Under this extension, new applicants to the FLS may be designated a “New Group” if they have been authorised or had a significant change in control since 1 April 2013, and if their prospective FLS Group has a stock of eligible lending of no more than £50mn as at end-2015. New Groups will be able to earn a borrowing allowance based on net lending in 2016 and 2017 (unlike other participating groups, whose allowance during this period will be determined by lending up to end-2015).

This document provides worked examples to illustrate the quantity of borrowing available for New Groups under various hypothetical scenarios.

### New Group Borrowing Allowance

The quantity of borrowing available to New Groups under the FLS extension will be linked to their net lending to the UK real economy, as described more fully in the FLS documentation available on the Bank’s website<sup>1</sup>. Participants in a New Group may draw in aggregate up to the “New Group Borrowing Allowance” (NA) for the FLS Group, which is determined by net lending during the period 1 January 2016 to 31 December 2017. The New Group Borrowing Allowance will be equal to the sum of net lending over this period to UK resident households (H), large corporates (L) and non-bank credit providers (NBCPs)<sup>2</sup> to the real economy plus five times net lending to UK resident SMEs (S):  $NA=H+L+NBCP+5*S$ . If this weighted sum is negative, the New Group Borrowing Allowance is zero. Borrowing allowances for New Groups are not tapered over the drawdown period.

The fee on all FLS drawings made up to the New Group Borrowing Allowance during the FLS Extension will be 25 basis points per annum. The fee on drawings in excess of the borrowing allowance will be 150 basis points per annum. The drawdown period for the FLS Extension will close at end-January 2018.

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<sup>1</sup> Please see [www.bankofengland.co.uk/markets/Pages/FLS/documentation.aspx](http://www.bankofengland.co.uk/markets/Pages/FLS/documentation.aspx) .

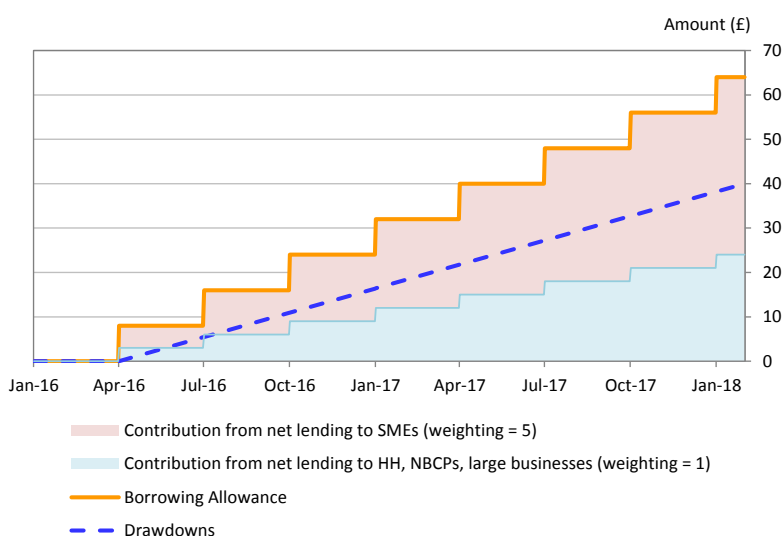
<sup>2</sup> Including financial leasing corporations and factoring corporations but excluding mortgage and housing credit corporations. See [www.bankofengland.co.uk/statistics/Pages/reporters/default.aspx](http://www.bankofengland.co.uk/statistics/Pages/reporters/default.aspx) .

### Example 1 – New Group 1 increases its lending across eligible sectors in 2016 and 2017.

New Group 1 has positive net lending in 2016 and 2017. Each quarter, New Group 1 has net lending of £1 each to households, large businesses, NBCPs and SMEs ( $H=L=NBCP=S=1$ ). This results in the borrowing allowance for New Group 1 increasing by £8 each quarter:  $NA=1+1+1+5*1=8$ . The borrowing allowance for New Group 1 reaches £64 by the end of the reference period.

New Group 1 steadily borrows from the FLS over the Extended Drawdown Period, borrowing £40 by end-January 2018, when the scheme closes to new drawdowns (**Chart 1**).

**Chart 1: Borrowing allowance and drawdowns for New Group 1**

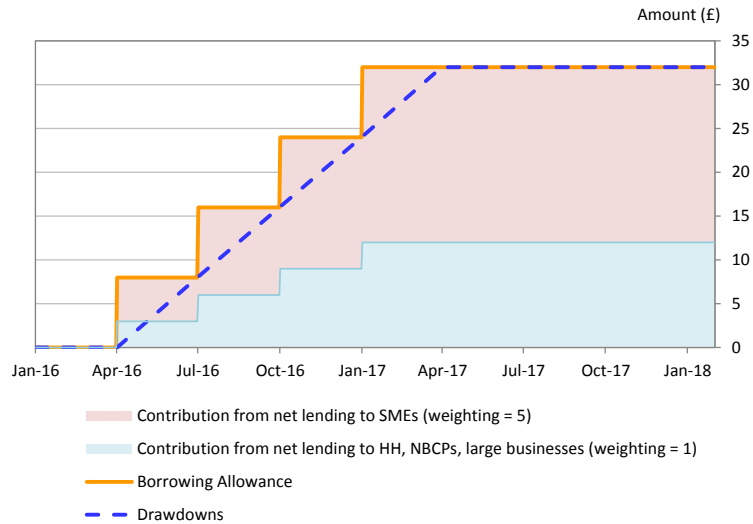


### Example 2 – New Group 2 increases its lending across eligible sectors in 2016, but has zero net lending in 2017.

New Group 2 has positive net lending in 2016, with net lending of £1 each quarter to households, large businesses, NBCPs and SMEs. This results in the borrowing allowance for New Group 1 increasing by £8 each quarter, and reaching £32 following the certification of 2016 Q4 data. New Group 2 reports zero net lending to all sectors in 2017, so its borrowing allowance remains at £32.

New Group 2 steadily borrows from the FLS, borrowing £8 each quarter, and drawing £32 by end-March 2017. New Group 2 has used its full borrowing allowance by this point, so cannot draw further from the scheme (**Chart 2**).

**Chart 2: Borrowing allowance and drawdowns for New Group 2**



**Example 3 – New Group 3 increases its lending across eligible sectors in 2016, but reports negative net lending for a period in 2017.**

As in Example 2 above, New Group 3 has positive net lending in 2016, with net lending of £1 each quarter to households, large businesses, NBCPs and SMEs. This generates a borrowing allowance of £32 after certification of 2016 Q4 data. New Group 3 then has negative net lending to SMEs of £2 in 2017 Q1, reporting zero net lending to other sectors, which reduces its borrowing allowance by £10, to £22. In 2017 Q2, New Group 3 has net lending to SMEs of £2, again reporting zero net lending to other sectors. This increases its borrowing allowance to £32 again.

New Group 3 steadily borrows from the FLS, borrowing £32 by end-March 2017. New Group 3 does not have to repay these drawings following the certification of 2017 Q1 lending data and the corresponding reduction in its borrowing allowance. But it does pay a higher fee of 150bp on the excess drawings, for the period where drawdowns exceed the borrowing allowance (represented by the grey shaded area in **Chart 3**).

**Chart 3: Borrowing allowance and drawdowns for New Group 3**

