BANK OF ENGLAND

17 August 2016

Term Funding Scheme: examples of borrowing allowance, fee and FLS refinancing plans

The following examples illustrate the quantum and pricing of borrowing available under the Term Funding Scheme (TFS) using hypothetical scenarios. The document also explains how participants should submit their refinancing plans.

Borrowing Allowance and Fee

The quantum and pricing of borrowing available to banks and building societies in the TFS will be linked to their performance in lending to the UK real economy, as described more fully in the TFS documentation available via the Bank of England's website.[1]

Borrowing Allowance

The Borrowing Allowance for each Participant will be 5% of its stock of existing applicable loans as at end-June 2016, plus Net Lending during the Reference Period, which runs from 30 June 2016 to 31 December 2017.

TFS Interest

TFS Interest on TFS Advances is comprised of three parts:

i) Bank Rate;

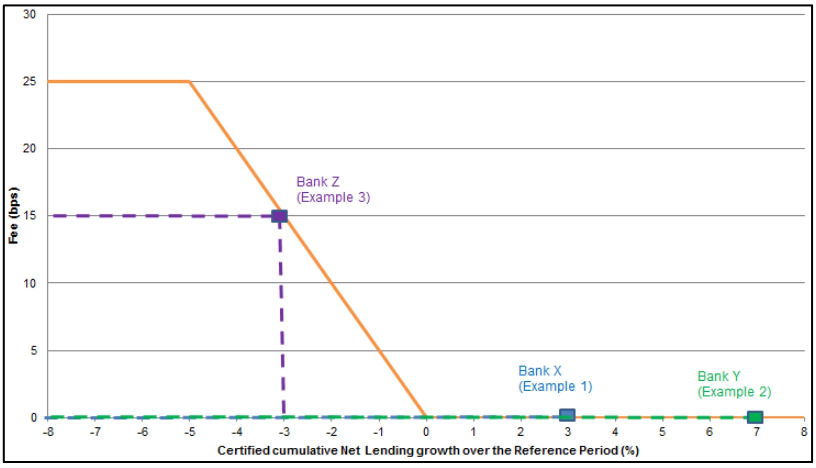
ii) the TFS Fee on Advances less than or equal to the Borrowing Allowance, which is determined by cumulative Net Lending growth over the Reference Period as a whole. The Fee is 0bp pa for positive or stable Net Lending and increases linearly up to 25bp pa if Net Lending falls by 5% or more, as shown in Chart 1; and

iii) the TFS Fee on any 'excess' drawdowns above the Borrowing Allowance, which attract a Fee of 150bp pa (on all drawdowns above the Borrowing Allowance).

[1] http://www.bankofengland.co.uk/markets/Pages/apf/termfunding/default.aspx

Participants are charged Interest based on Bank Rate plus a Fee of 0bp pa during the Drawdown Period, with any additional Fee required on drawings during the Drawdown Period paid after the end of the period. The examples that follow focus on the Fee component of the Interest charged on TFS Advances; Bank Rate is taken as given.

Chart 1: TFS Fee on drawings up to the Borrowing Allowance

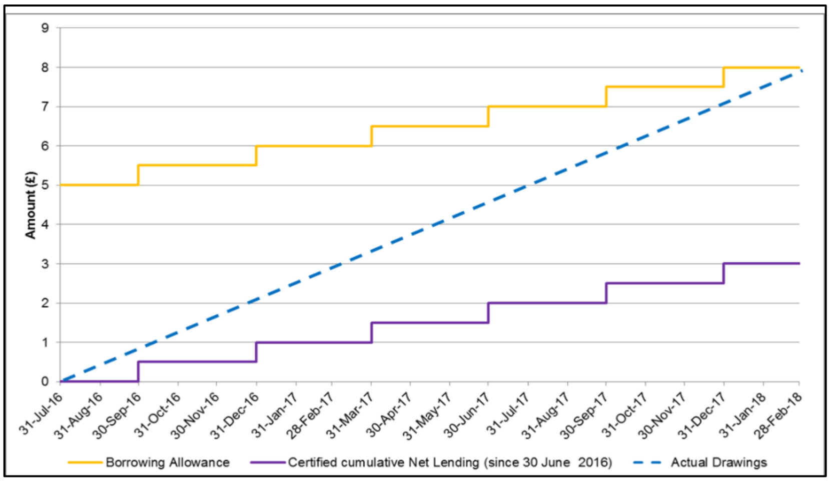


Example 1 – A Participant increases its lending

Bank X certifies a Base Stock of applicable loans of £100 as at 30 June 2016. Bank X therefore has an initial Borrowing Allowance of £5 (this being 5% of its Base Stock).

Bank X increases its Net Lending over the Reference Period, and certifies lending growth of £0.50 for each quarter during the period, as shown in Chart 2. This results in its Borrowing Allowance increasing by £0.50 each quarter, from £5 at the start of the Reference Period up to £8 at the end. Bank X steadily draws from the TFS over the Drawdown Period, up to its maximum Borrowing Allowance by the end of the Drawdown Period on 28 February 2018.

Chart 2: TFS usage by Bank X



Over the Reference Period as a whole, Bank X increased its Net Lending by 3%, and therefore pays a Fee of 0bp pa on all drawings up to its Borrowing Allowance on each day (see Chart 1). Bank X has no 'excess' drawings above its Borrowing Allowance at any point.

Since Bank X already paid a Fee of 0bp pa (alongside Bank Rate) on drawings during the Drawdown Period, it does not need to pay anything extra on drawings during the Drawdown Period. It will continue to pay a Fee of 0bp pa on its outstanding drawings quarterly from the end of the Drawdown Period until its drawings are repaid.

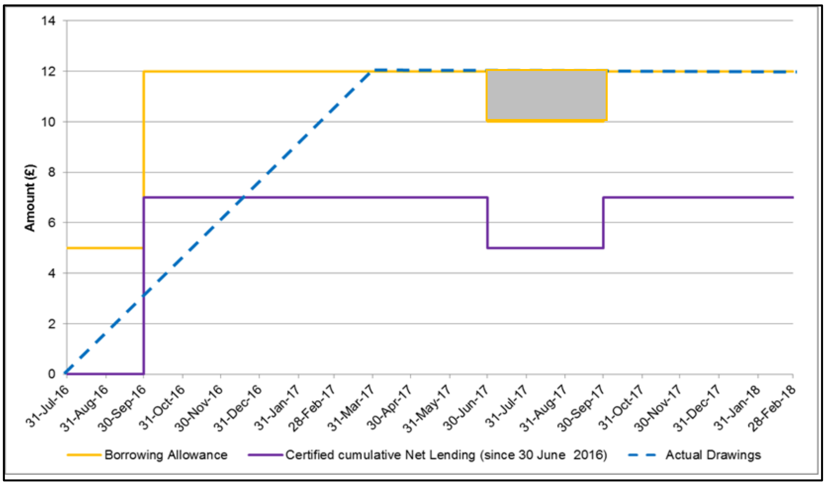
Example 2 – A Participant increases its lending and has a period of excess drawings

Bank Y certifies a Base Stock of applicable loans of £100 as at 30 June 2016. Bank Y therefore has an initial Borrowing Allowance of £5 (this being 5% of its Base Stock). Bank Y certifies that it had positive Net Lending of £7 during the quarter ending 30 September 2016. This results in its Borrowing Allowance increasing by £7, from £5 to £12, as shown in Chart 3. By March 2017, Bank Y has drawn up to this maximum allowance, and maintains this level of drawings for the remainder of the Drawdown Period.

Bank Y certifies that its Net Lending flows during Q2 2017 were -£2, reducing its Borrowing Allowance to £10. Bank Y does not have to repay its £2 of drawings in excess of its new Borrowing Allowance (represented by the shaded area of Chart 3), but does pay a higher Fee on this excess.

Bank Y certifies that cumulative Net Lending to 30 September 2017 has risen back to £7, and remains at this level.

Chart 3: TFS usage by Bank Y



Over the Reference Period as a whole, Bank Y increased its Net Lending by 7%, and therefore pays a Fee of 0bp pa on all drawings up to its Borrowing Allowance on each day (see Chart 1). Since it already paid a Fee of 0bp pa on drawings during the Drawdown Period, Bank Y does not need to pay anything extra on drawings during the Drawdown Period up to its Borrowing Allowance. It will continue to pay a Fee of 0bp pa on its outstanding drawings quarterly from the end of the Drawdown Period until its drawings are repaid.

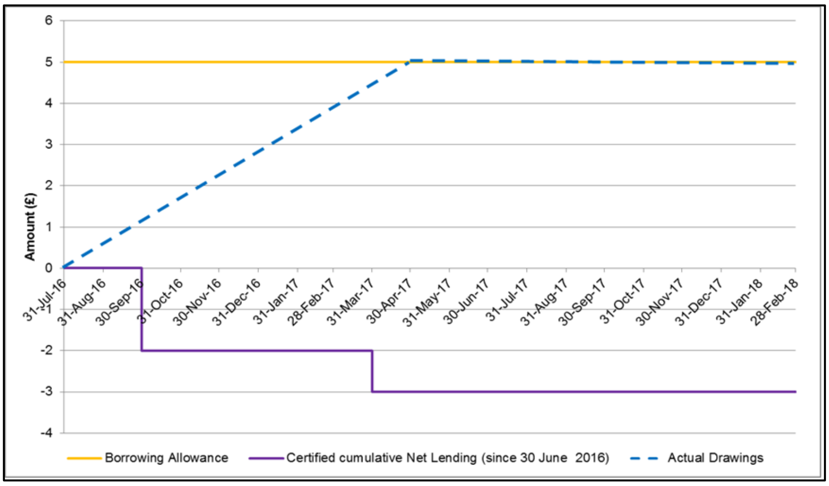
For the period 30 June 2017 - 30 September 2017, Bank Y had £2 of drawings in excess of its Borrowing Allowance. This excess attracts a Fee of 150bp pa. Since Bank Y has already paid a Fee of 0bp pa on these drawings, it will be charged an extra 150bp pa on the excess drawings of £2 for this period. This is paid as a lump sum after the end of the Drawdown Period.

Example 3 – A Participant reduces its lending

Bank Z certifies a Base Stock of applicable loans of £100 as at 30 June 2016. Bank Z therefore has an initial Borrowing Allowance of £5 (this being 5% of its Base Stock). Over the course of the Reference Period, Bank Z certifies that its cumulative Net Lending is negative, decreasing by £2 over the quarter ending 30 September 2016 and by a further £1 over the quarter ending 31 March 2017.

Since the Borrowing Allowance of a TFS Group remains at 5% of its Base Stock even if Net Lending is negative, Bank Z's Borrowing Allowance remains £5 during the Drawdown Period. Bank Z draws up to this maximum allowance, as shown in Chart 4.

Chart 4: TFS usage by Bank Z



Over the Reference Period as a whole, Bank Z reduced its Net Lending by 3%. As illustrated in Chart 1, a 3% reduction in Net Lending equates to a 15bp pa Fee, which is therefore the Fee Bank Z is charged on all drawings up to its Borrowing Allowance on each day. Bank Z has no 'excess' drawings above its Borrowing Allowance at any point.

Since Bank Z already paid a Fee of 0bp pa on drawings during the Drawdown Period, it is charged an additional 15bp pa on these drawings, which is paid as a lump sum after the end of the Drawdown Period. It pays a Fee of 15bp pa on its outstanding drawings quarterly from the end of the Drawdown Period until its drawings are repaid.

Refinancing of FLS drawings

Participants are permitted to repay FLS drawings in order to redraw in the TFS, subject to having sufficient Borrowing Allowance in the TFS. Participants wishing to refinance FLS drawings before 30 September 2017 must provide the Agent with notice of the size of the refinancing by end-September 2016 and subsequently agree a broadly balanced refinancing profile. Participants will then be asked to provide the Agent with an indication of their proposed refinancing profile, balanced over twelve months, which the Agent will agree with each Participant, contributing to a smooth aggregate refinancing period over this twelve-month period.

Participants will have greater flexibility when refinancing FLS drawings that mature on or before end-September 2017. Participants will be able to refinance such FLS drawings at any point in the quarter in which they mature (or after) by borrowing in the TFS, subject to having sufficient Borrowing Allowance. For example, a Participant with an FLS drawing that matures end-December 2016 can, from 1 October 2016, terminate that drawing and subsequently draw in the TFS.

Participants do not need to include details of such refinancing of maturing FLS drawings in their main refinancing proposals but should instead provide such details in an addendum.

Bank of England
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