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News release

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Bank of England and HM Treasury Funding for Lending Scheme – usage and lending data – September 2012

The Bank published today the first data on the use of the Funding for Lending Scheme (FLS). Today's publication shows for each group participating in the FLS the amount borrowed from the Bank and the net quarterly flows of lending to UK households and businesses to the end of September, two months after the Scheme was launched.

In the quarter ending 30 September 2012, net lending by FLS participants was +£0.5bn and total FLS drawdowns from the Bank were £4.4bn.¹ There are now 35 groups participating in the Scheme, which cover just over 80% of the stock of lending to the real economy.

Each FLS participant is able to borrow an amount up to 5% of its stock of loans to the UK non-financial sector as at 30 June 2012, plus any expansion of its lending from that date to the end of 2013.

The FLS works by reducing funding costs for banks and building societies, which allows them to reduce the price of new loans and increase their net lending. Banks and building societies will need to expand their lending to maximize their benefits from the Scheme. Funding costs have fallen since the announcement of the FLS, but it will take time for reduced funding costs to feed through to lending volumes, given the typical lags involved in the loan application, approval and drawdown process. It is therefore too early to use these data as a reliable indication of the impact of the FLS on lending volumes. For more information on the transmission mechanism of the FLS, see the box on page 14 of the November 2012 Inflation Report:

<http://www.bankofengland.co.uk/publications/Documents/inflationreport/ir12nov.pdf> (688k)

Paul Fisher, Executive Director for Markets at the Bank of England, has said of the FLS:

I am confident that the FLS will help the supply of credit. The incentives in the scheme are for banks and building societies to cut lending rates and hence lend more to get the cheapest funding. Since the scheme was announced we have seen widespread falls in funding costs across different sources and an equally wide variety of lending rate reductions. But it is too early to use these data as a reliable indication of the impact of the FLS on lending volumes.

Notes to Editors

Further information on details of how the FLS operates can be found in the following short note:

http://www.bankofengland.co.uk/markets/Documents/explanatory_notefls120713.pdf (70k)

¹ Please see <http://www.bankofengland.co.uk/markets/Pages/FLS/data.aspx> for data publication.