



BANK OF ENGLAND



HM TREASURY

News release

Press Office

Threadneedle Street
London EC2R 8AH
T 020 7601 4411
F 020 7601 5460
press@bankofengland.co.uk
www.bankofengland.co.uk

24 April 2013

Bank of England and HM Treasury announce extension to the Funding for Lending Scheme

The Bank of England and HM Treasury are today announcing an extension to the Funding for Lending Scheme (FLS). This extension builds on the success of the FLS so far, and has three main objectives: to give banks and building societies confidence that funding for lending to the UK real economy will be available on reasonable terms until January 2015; to increase the incentive for banks to lend to small and medium-sized enterprises (SMEs) both this year and next; and to include lending involving certain non-bank providers of credit, which play an important role in providing finance to the real economy.

Since its introduction in August last year, the FLS has contributed to a sharp reduction in funding costs for banks and building societies. That has led to a reduction in borrowing costs and an increase in credit availability for UK businesses and households. This is feeding through to more lending than there would have been in the absence of the scheme. But the improvement in credit conditions since summer 2012 has been less marked for small and medium sized enterprises (SMEs) than for larger businesses and households.

Three specific changes to the FLS are being announced today. First, the scheme will be extended for one year, meaning that drawings will be permitted until the end of January 2015. Second, as part of the extension, the incentives to boost net lending will be heavily skewed towards SMEs. New allowances for drawings in the extension period will be calculated on the basis of banks' lending behaviour. For every £1 of net lending to SMEs in 2014, banks will be able to draw £5 from the scheme in the extension period. And to encourage banks to lend to SMEs sooner rather than later, every £1 of net lending to SMEs during the remainder of 2013 will be worth £10 of initial borrowing allowance in 2014. Net lending to other sectors during the remainder of 2013 will count towards the initial borrowing allowance for 2014 pound for pound. The sectoral split of lending will be published for each participating group alongside related FLS usage during 2014.

Third, the FLS will be expanded to count lending by banking groups involving financial leasing corporations and factoring corporations, which can be important sources of finance to some SMEs, and certain mortgage and housing credit corporations. All participating banks and building societies will be required to report net lending related to these non-bank credit providers for the purpose of calculating their borrowing allowances during the extension period. In addition, banks and building societies will have the option of reporting this lending for the purpose of calculating their borrowing allowance for the remainder of 2013.

The fee structure and operation of the scheme will be unchanged during the extension period, other than as outlined above. There will continue to be no upper limit on, or target size for, either individual or aggregate borrowing under the FLS. The extent to which banks and building societies choose to borrow more from the FLS will depend in part on their alternative funding costs, which have fallen sharply since the FLS was introduced. But the changes announced today provide banks and building societies with the assurance that they will be able to continue to fund lending to the real economy at reasonable cost, even if funding pressures rise again.

Although the Bank is not indemnified for the operation of the FLS, the exchange of letters published today between the Governor of the Bank of England and the Chancellor of the Exchequer shows that the Bank has sought and received an assurance from the Government that the objectives of the extended FLS remain within the Bank's remit. The scheme will continue to be overseen by a Joint Operating Board comprised of Treasury and Bank officials.

Commenting on the extension of the scheme, the Governor of the Bank of England said: "The FLS has contributed to a sharp fall in bank funding costs and an improvement in credit conditions since the middle of last year. The changes announced today build on that success by broadening the scope of the scheme and ensuring that it will continue to support the supply of credit, especially to small companies, into 2015. I believe such an extension is valuable as it gives banks continued assurance against the risk that market funding rates increase. Today's announcement is, however, a complement to, not a substitute for, ensuring that our banks are adequately capitalised."

The Chancellor of the Exchequer said: "This is a big boost for the small and medium sized businesses that are at the heart of the British economy. The Funding for Lending Scheme has already reduced the costs of household mortgages and loans for businesses. This innovative extension will now do even more for small and medium sized businesses so that they can play their full part in creating new jobs."

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Notes for Editors

1. The letter from the Governor of the Bank of England to the Chancellor of the Exchequer can be accessed here: <http://www.bankofengland.co.uk/publications/Documents/fls/governorletterfls.pdf>
2. The letter from the Chancellor of the Exchequer to the Governor of the Bank of England can be accessed here: <http://www.bankofengland.co.uk/publications/Documents/fls/chancellorletterfls.pdf>
3. The Explanatory Note can be accessed here:
<http://www.bankofengland.co.uk/markets/Documents/explanatorynotefls130424.pdf>
4. The Market Notice can be accessed here:
<http://www.bankofengland.co.uk/markets/Documents/marketnotice130424.pdf>
5. Worked examples of the borrowing allowance and fee can be accessed here:
<http://www.bankofengland.co.uk/markets/Documents/flsworkedexample2.pdf>