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BANK OF ENGLAND

News release

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Bank of England and HM Treasury Funding for Lending Scheme – 2013 Q1 usage and lending data

The Bank has today published updated 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 for the first quarter of 2013.[1]

In the quarter ending 31 March 2013, 13 participants made FLS drawdowns of £2.6bn, taking the total amount drawn under the Scheme to £16.5bn. Net lending by FLS participants over the quarter was -£0.3bn. There are now 40 groups participating in the Scheme, which cover over 80% of the stock of lending to the real economy.

The FLS aims to encourage more lending to the UK economy than would have been the case in the absence of the Scheme. It creates incentives for banks and building societies to boost their lending by reducing their funding costs, which allows them to reduce the price of new loans and therefore increase net lending. Further information on the transmission mechanism of the FLS and developments at each stage are available in the *Inflation Report*.[2]

Funding costs have fallen significantly since the announcement of the FLS, and remain at low levels. There is evidence that rates have fallen on mortgages, unsecured personal loans, and loans to businesses of all sizes. **Chart 1** shows some of the falls in funding costs and loan rates since the start of the FLS.

The trend of flat lending growth is present in both the aggregate net lending data already published (which includes lending by non-FLS participants), and for FLS participants in the data published today. It will take time for the improvement in credit conditions experienced since the launch of the FLS to feed through to lending volumes, given the typical lags involved in the loan application, approval and drawdown process. Prior to the launch of the FLS in July 2012, Bank staff judged that UK bank lending was more likely to decline than increase over the subsequent 18 months. Net lending is expected to pick up and become modestly positive over the remainder of the year.

[1] Please see http://www.bankofengland.co.uk/markets/Pages/FLS/data.aspx for data publication.
[2] See the box on page 14 of the May 2013 Inflation Report.

The data published today also reveal differences in net lending volumes across participants in the Scheme. Twenty seven out of forty participating groups increased their lending in 2013 Q1. Together, these groups lent a net £5.1bn to the UK real economy, while the thirteen groups that contracted their net lending did so by a combined £5.4bn **(Chart 2)**. Of that contraction, £4.9bn was accounted for by three large groups. In part, that reflects a desire by several major UK lenders to reduce the scale of their so-called 'non-core' loan portfolios following the financial crisis, or a need to comply with State Aid conditions. But the rate of that contraction slowed in 2013 Q1.

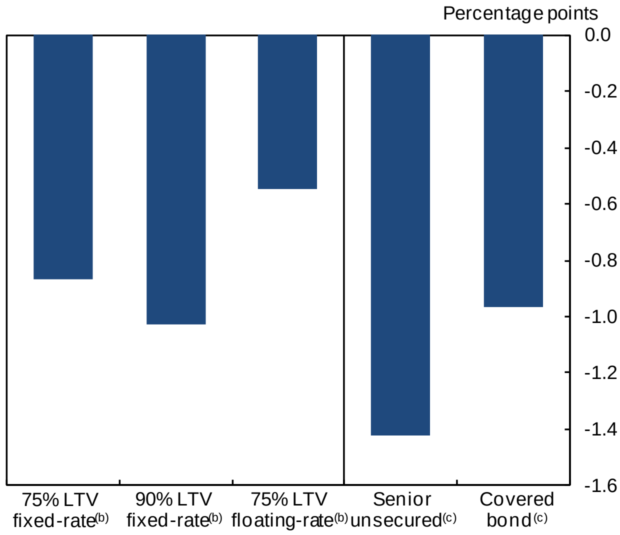
In addition to differences across lenders, there are also some differences in lending across different sectors of the economy. Since the start of 2012, lending flows to individuals have typically been positive, whereas net lending to businesses of all sizes has mostly been negative. There are several possible reasons for this, including a desire by some lenders to reduce their exposure to commercial real estate, which makes up a significant proportion of corporate lending. But net lending flows for 2013 Q1 are less negative than a year ago for both small and medium-sized enterprises (SMEs) and large businesses.[3]

The Bank and HM Treasury announced an extension to the FLS on 24 April 2013, with 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 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.[4] The extension has been positively received, with many banks and building societies intending to participate in the extension.

Commenting on today's data, Paul Fisher, Executive Director for Markets at the Bank of England, said: *"The picture of flat lending growth overall is broadly as expected at this stage reflecting reductions in some legacy portfolios being roughly offset in aggregate by expanding new lending. The plans of the FLS participants suggest that net lending volumes will pick up gradually through the remainder of 2013."*

[3] For more details, see *Bankstats (Monetary and Financial Statistics)* Table A8.1.
[4] See http://www.bankofengland.co.uk/publications/Pages/news/2013/061.aspx for the news release.

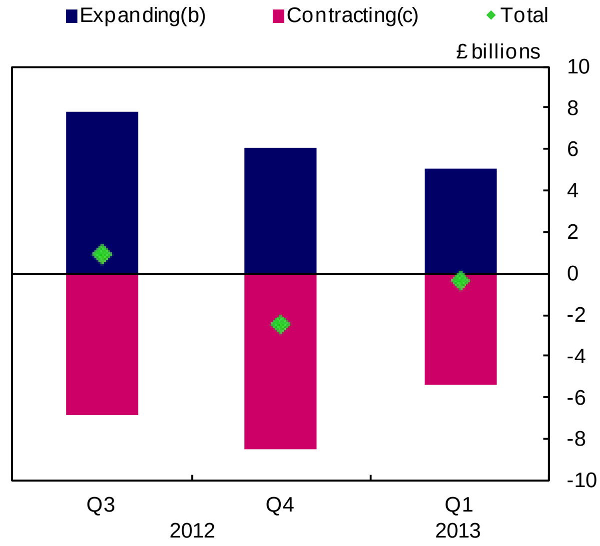
Chart 1: Changes in average quoted new mortgage rates and indicative UK bank funding costs since June 2012[(a)]



Sources: Bloomberg, Bank of England and Bank calculations.

(a) Change between 30 June 2012 and 30 April 2013.
(b) Two-year mortgages.
(c) The data are based on a sum of the five-year swap rate and an indicative average bond spread for the respective type of bond. For more details of the calculation of the indicative bond spreads, see Chart 1.7 of the May 2013 *Inflation Report*.

Chart 2: Net lending by FLS participants[(a)]



(a) Net flows of sterling lending to UK households and private non-financial corporations. Non seasonally adjusted.
(b) The sum of net lending by those participants with positive net lending during the quarter.
(c) The sum of net lending by those participants with negative net lending during the quarter.

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