



BANK OF ENGLAND

News release

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News Release - Bank of England and HM Treasury re-focus the Funding for Lending Scheme to support business lending in 2014

The Bank of England and HM Treasury are today announcing changes to the terms of the Funding for Lending Scheme (FLS) extension to re-focus the incentives in the scheme towards supporting business lending in 2014. The first phase of the FLS, which ends on 31 January 2014, is unaffected by this announcement.

The FLS has contributed to a substantial fall in bank funding costs since it was launched in July 2012. This has fed through to significant improvements in household credit conditions. Credit conditions for smaller businesses have also improved, but to a lesser extent, and lending to businesses overall remains muted. The FLS extension will therefore provide continued substantial support for lending to businesses in 2014, with incentives in the scheme skewed heavily towards lending to small and medium-sized enterprises (SMEs).

Although the growth in household loan volumes remains modest, activity in the housing market is picking up and house price inflation appears to be gaining momentum. As a result there is no longer a need for the FLS to provide further broad support to household lending. The changes we are making have no implications for HM Government's Help to Buy scheme, which is designed to address the specific issue of access to mortgages for borrowers without large deposits, unlike the FLS which was designed to boost lending more generally.

The FLS extension will continue to allow participants to draw from the scheme from February 2014 until January 2015, but household lending in 2014 will no longer generate any additional borrowing allowances. Instead additional allowances will now only reflect lending to businesses in 2014. The initial borrowing allowances in the FLS extension already earned by household and business lending in 2013 will be unaffected.

Lending to smaller businesses in 2014 will continue to be encouraged by allowing banks to draw £5 in the scheme for every £1 of net lending to SMEs. The fee for all drawings from the FLS extension will be set at 25 basis points, which is the lowest point of the previous fee scale. Taken together, these features provide certainty over the availability of cheap funding to support small business lending in 2014.

The Financial Policy Committee (FPC) has welcomed these changes. The Monetary Policy Committee (MPC) has judged that there will be no material impact on the stance of monetary policy, and noted that these changes do not affect the MPC's policy guidance.

Commenting on these changes to the scheme, the Governor of the Bank of England said: “Over the past year the Funding for Lending Scheme has contributed to the recovery by helping to significantly improve credit conditions, especially for households. The changes announced today refocus the FLS where it is most needed – to underpin the supply of credit to small businesses over the next year – without providing further broad support to household lending that is no longer needed.”

Commenting on these changes to the scheme, the Chancellor of the Exchequer said: “The Funding for Lending Scheme proved to be a successful tool in supporting the recovery. Now that the housing market is starting to pick up, it is right that we focus the scheme’s firepower on small businesses. Small firms are the lifeblood of our economy. That’s why we’re reforming the banks, introducing the employment allowance and now focussing the Funding for Lending Scheme to support them”.

Key Resources

 [Market Notice: Changes to the Funding for Lending Scheme Extension](#) (53KB)

 [Letter from the Governor to the Chancellor](#) (51KB)

 [Letter from the Chancellor to the Governor](#) (431KB)