



BANK OF ENGLAND

# News release

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## Bank of England and HM Treasury Funding for Lending Scheme – 2013 Q2 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 eligible under the Scheme up to the second quarter of 2013<sup>1</sup>.

In the quarter ending 30 June 2013, 18 participants made FLS drawdowns of £2.0bn, while one participant repaid £0.9bn. This took the total amount of outstanding drawings under the Scheme to £17.6bn, with 28 groups now benefitting from funding under the Scheme. Net lending by FLS participants over the quarter was £1.6bn, slightly stronger than in previous quarters, although net lending overall since the Scheme began remains broadly flat. One additional group joined the Scheme in 2013 Q2, taking the total number of participating groups to 41. The inclusion of that group has resulted in downward revisions to the data for total net lending by FLS participants in previous quarters, as shown in **Table 1**.

The FLS creates incentives for banks and building societies to boost their lending to the UK real economy by reducing their funding costs, which in turn allows them to reduce the price of new loans. Market funding costs have fallen significantly since the announcement of the FLS and this has reduced the incentive to draw on FLS funding for some participants. FLS funding remains a backstop source of funding for all participants should market conditions deteriorate.

Following the falls in funding costs, interest rates on mortgages and personal loans have fallen significantly since the start of the FLS, as shown in **Chart 1**, with continued decreases in recent months. There is also evidence that the price and availability of lending to businesses has improved since the Scheme began and this trend has continued in recent months. A range of evidence suggests that credit availability has increased and the cost of credit has decreased for larger businesses. The picture for the conditions faced by small and medium-sized businesses is more mixed, but survey evidence from the Federation of Small Businesses

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

suggests that the pricing of loans for small businesses was more favourable in 2013 Q2 than in mid-2012 (**Chart 2**)<sup>2</sup>.

The aim of the FLS is to encourage more lending to the UK economy than would have been the case in the absence of the Scheme. In aggregate, net lending was broadly flat in Q2, continuing the trend seen since the Scheme was launched. That is likely to reflect several factors, including the typical lags between improvements in credit supply and higher lending volumes, as well as subdued credit demand. 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. Looking ahead, net lending is projected to pick up modestly over the second half of the year. Further discussion of the outlook for lending is available in the *Inflation Report*.<sup>3</sup>

The data published today show that in 2013 Q2, lending by FLS participants (£1.6bn) was slightly stronger than the aggregate net lending figure published for Q2 (-£2.1bn – see **Chart 3**), in large part because net lending by non-FLS participants was negative in Q2. The data also reveal differences in net lending volumes across FLS participants. As in previous quarters, some large groups' net lending has been constrained by the desire to reduce their so-called 'non-core' loan portfolios, in order to repair balance sheets and, for some, to comply with State Aid conditions. These constraints are likely to ease for some of these banks in future.

There have also been differences in lending across different sectors of the economy. Aggregate net lending to individuals has been positive recently and picked up slightly in 2013 Q2. And mortgage approvals for house purchase – which tend to lead net mortgage lending by a few months – edged higher in Q2, suggesting that lending to individuals is likely to increase further.

Aggregate net lending to businesses remained negative in 2013 Q2. Within the total, lending to large companies was weak. But this is likely to partly reflect the continued use of alternative forms of finance by larger companies, who are better able to access capital markets. Net corporate bond issuance in the first half of 2013 was robust.

Net lending to small and medium-sized enterprises (SMEs) was also negative in 2013 Q2, but the growth rate was less negative than for large companies.<sup>4</sup> Going forward, SME credit conditions should be supported by the extension to the FLS announced in April, which provides additional incentives for participants to increase lending to SMEs both this year and in 2014.<sup>5</sup> A large proportion of FLS participants have indicated their intention to participate in the extended Scheme.

The extension to the Scheme also gave FLS participants the option to include lending involving certain non-bank providers of credit to households and businesses within their lending figures for the last three

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<sup>2</sup> For a fuller discussion of corporate credit conditions, see page 14 of the August 2013 [Inflation Report](#)

<sup>3</sup> See the box on page 15 of the August 2013 [Inflation Report](#)

<sup>4</sup> For more details, see Bankstats (Monetary and Financial Statistics) [Table A8.1](#)

<sup>5</sup> See <http://www.bankofengland.co.uk/publications/Pages/news/2013/061.aspx> for the news release

quarters of 2013. Two groups have chosen to activate this option – these are denoted by an asterisk in the usage and lending data table.

Commenting on today's data, Paul Fisher, Executive Director for Markets at the Bank of England, said:

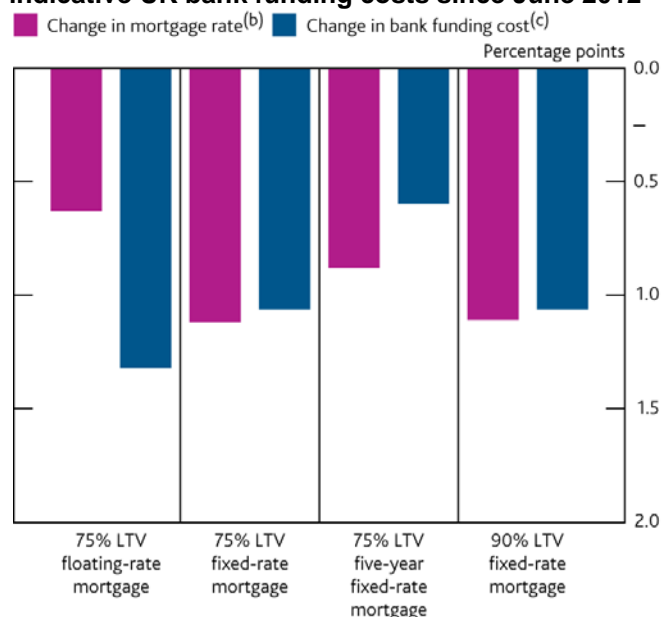
*“The FLS is continuing to support lending to the UK economy with a range of indicators suggesting that credit conditions are steadily improving for households and firms, and FLS participants collectively expect net lending volumes to pick up over the remainder of this year.”*

**Table 1: Net lending by FLS participants (£ billions)**

	2012		2013	
	Q3	Q4	Q1	Q2
Previously published figures (excludes new joiner)	0.9	-2.4	-0.3	-
<b>Latest figures (includes new joiner)</b>	<b>0.0</b>	<b>-2.9</b>	<b>-1.0</b>	<b>1.6*</b>

\* Includes lending involving certain non-bank credit providers by two FLS groups.

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



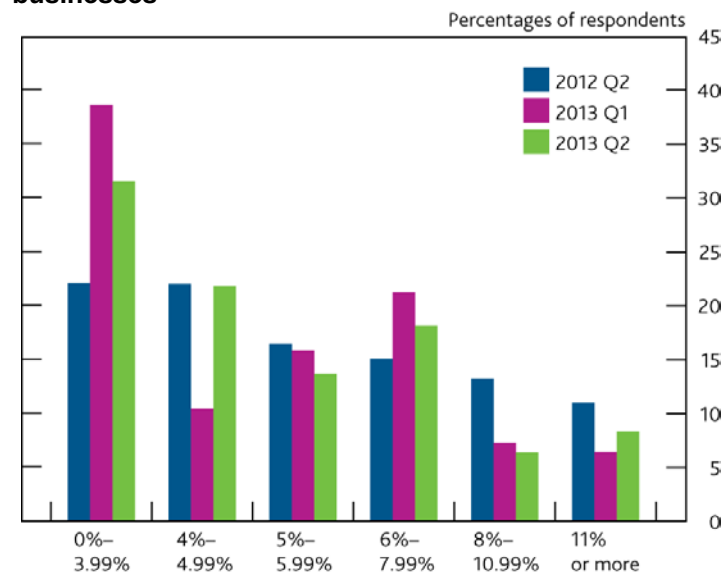
Sources: Bank of England, Bloomberg and Bank calculations.

(a) Change between 30 June 2012 and 30 June 2013.

(b) Two-year 75% loan to value (LTV) mortgages unless otherwise stated.

(c) For fixed-rate mortgages, calculated as the sum of indicative UK bank secondary market bond spreads and the swap rate corresponding to the term of the mortgage. For floating-rate mortgages, three-month Libor is used in place of a swap rate. For more details see Chart 1.8 of the August 2013 *Inflation Report*.

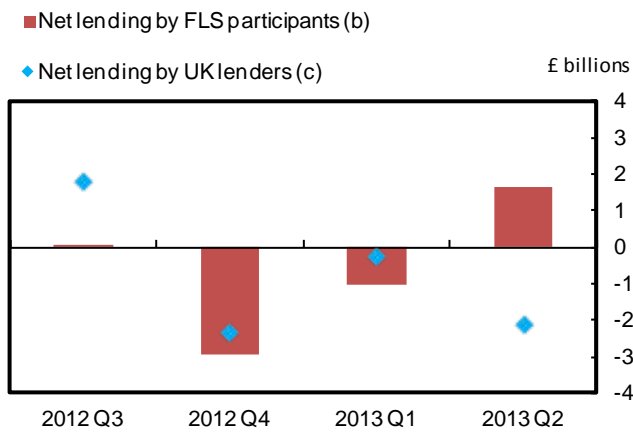
**Chart 2: Distribution of loan rates offered to small businesses (a)**



Source: FSB 'Voice of Small Business' Panel.

(a) Interest rates that small businesses that successfully applied for bank credit reported that they had been offered. Results have been re-weighted to exclude 'unsure' responses. For further details on survey methodology, see [www.fsb.org.uk/frontpage/assets/q1%20vosb.pdf](http://www.fsb.org.uk/frontpage/assets/q1%20vosb.pdf).

**Chart 3: Net lending to UK households and businesses <sup>(a)</sup>**



(a) Net flows of sterling lending by UK monetary financial institutions and related specialist mortgage lenders to the UK household sector and private non-financial corporations, excluding the effects of securitisations and loan transfers. Non seasonally adjusted.

(b) For 2013 Q2 includes lending to certain non-bank credit providers and eligible lending by those providers.

(c) Includes an estimated allocation of transit and suspense items, which is not included in FLS participants' lending data.

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