



BANK OF ENGLAND

News release

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

The Bank of England and HM Treasury are today announcing a one-year extension to the Funding for Lending Scheme (FLS). This extension will provide lenders with continued certainty over the availability of cheap funding to support lending to small and medium-sized enterprises (SMEs) during 2015, even in the event of stress in bank funding markets.

The FLS has contributed to a substantial fall in bank funding costs since its launch in mid-2012. That has fed through to improvements in credit conditions for households and businesses. Reflecting the significant improvements in household credit conditions, the incentives in the FLS were re-focussed towards business lending in November 2013. The extension announced today will continue to provide support to where it is most needed, by focussing the incentives in the scheme towards lending to SMEs in 2015.

The FLS extension will complement various other longer-term initiatives to improve the availability of credit to SMEs as they take root. These include: the British Business Bank's various programmes to make markets work better for SMEs; the joint Bank of England-ECB initiative to improve the functioning of the securitisation markets, including securitisation of SME loans; the Government's proposals in the Small Business, Enterprise and Employment Bill to mandate greater sharing of SME credit information and to require banks to share details of SMEs which have been declined finance; the Bank of England's consideration of widening access to credit data to support the provision of credit to SMEs through non-financial intermediary channels, such as trade credit; changes to the PRA's regulatory approach to make it easier to set up new banks; and a reduction in capital requirements for SME lending under EU legislation.

Following today's announcement, the drawdown window for the FLS extension will remain open until 29 January 2016. Current participants in the FLS extension will remain part of the scheme unless they choose to opt out, and they will retain borrowing allowances earned by lending from 2013 Q2 to 2014 Q4. Participants will be able to earn further allowances by lending to SMEs in 2015, with such lending strongly incentivised by allowing participants to draw £5 in the scheme for every £1 of net lending to SMEs. Net lending to financial leasing corporations and factoring corporations – which can be important sources of finance for some SMEs – will continue to count towards allowances generated in 2015, pound for pound. All

other terms of the FLS extension remain unchanged, with drawings continuing to be for a term of four years and attracting a fee of 25 basis points.

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 Oversight Board comprised of Treasury and Bank officials.

The Monetary Policy Committee (MPC) has judged that there will be no material impact on the stance of monetary policy. The Financial Policy Committee welcomes these changes.

Commenting on these changes to the scheme, Mark Carney, Governor of the Bank of England said: "By providing a backstop for funding for banks, the FLS has supported access to credit across the economy during an exceptional period. As the banking system has been returned to health, the need for that backstop has been reduced. The Scheme is not permanent so, as access to credit has returned to the mortgage market and large corporations, the Scheme has been tapered appropriately. The extension announced today concentrates the FLS on the one area where support remains warranted: the supply of credit to SMEs."

Commenting on these changes to the scheme, George Osborne, Chancellor of the Exchequer said: "The government's long term economic plan is working with the Funding for Lending Scheme playing a vital role in supporting the recovery. Now that credit conditions for households and large businesses have improved, it is right that we focus the scheme's firepower on small businesses, which are the lifeblood of our economy. That's also why we've reformed the banks, introduced the British Business Bank and are now focussing the Funding for Lending Scheme on supporting them."

Key Resources

 [Market Notice: Amendment to the Funding for Lending Scheme Extension](#)

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

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

