



BANK OF ENGLAND



HM Treasury

# News release

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3 March 2014

## Bank of England and HM Treasury Funding for Lending Scheme – 2013 Q4 Usage and Lending data and Initial Allowance data for the Scheme Extension

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 net quarterly flows of lending to UK households and businesses to the fourth quarter of 2013, and the amount borrowed from the Bank to the end of January 2014, which was the end of the drawdown period for the first part of the Scheme. For participants in the FLS Extension, the drawdown period for which started on 3 February 2014, the Bank has today also published their Initial Allowances in that Scheme, together with, for the first time, the sectoral split of the lending data for 2013 Q2-Q4 on which they are based.

In the final four months of the FLS ending 31 January 2014, 31 participants made net drawdowns of £18.8bn. Within this, participants repaid a little over £1bn of outstanding drawings. That took outstanding aggregate drawings in the first part of the Scheme to £41.9bn. Four additional groups joined the FLS over this period, taking the number of groups participating in the first part of the Scheme to 46, of which 41 made at least one drawing. The vast majority of outstanding drawings were made by those participants that have achieved positive net lending over the 18-month reference period from 30 June 2012 to the end of 2013, which will therefore pay the lowest fee of 0.25% per year on the amount borrowed.

The FLS has been successful in meeting its initial objective, to provide incentives to banks and building societies to boost their lending to the UK real economy. The data published today show that net lending to households and businesses has continued to be positive, with net lending of £5.8bn by FLS participants in 2013 Q4 (see **Chart 1**). Cumulative net lending by FLS participants was £10.3bn over the 18 months from 2012 Q3 to 2013 Q4.<sup>1</sup> Prior to the announcement of the Scheme in June 2012, UK bank lending was judged more likely to decline than increase over the next 18 months.<sup>2</sup> The FLS contributed to a substantial fall in bank funding costs after it was launched in July 2012 (see **Chart 2**). This has fed through to significant

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<sup>1</sup> Note that the final lending figures are subject to the final auditing process, as outlined in the Market Notice of 13 July 2012.

<sup>2</sup> See the Explanatory Note on the Funding for Lending Scheme (July 2012), available at [www.bankofengland.co.uk/markets/Documents/explanatory\\_notefls120713.pdf](http://www.bankofengland.co.uk/markets/Documents/explanatory_notefls120713.pdf).

improvements in household and corporate credit conditions (see **Chart 3**), boosting net lending to the real economy.

Credit conditions for small and medium-sized enterprises (SMEs)<sup>3</sup> have also improved, but to a lesser extent than for households, so the FLS will continue to support lending to businesses in 2014. The Bank and HM Treasury announced on 28 November 2013 changes to the terms of the FLS Extension to refocus the incentives in the Scheme towards business lending in 2014.<sup>4</sup>

34 participants have signed up to the FLS Extension. 28 out of the 34 participants signed up to the FLS Extension will receive an Initial Allowance reflecting net lending to the UK economy in 2013 Q2-Q4. These Initial Allowances sum to £32.7bn, of which more than £17bn reflects ten times the positive net lending to SMEs by those participants receiving an Initial Allowance (see **Chart 4**). Although different banks continue to have different strategies, many participants have been using FLS funding to expand their net lending to SMEs and the Extension will help them continue to do so.

FLS participants can earn additional allowances for positive net lending to businesses during the period 1 January 2014 to 31 December 2014. Lending to smaller businesses in particular 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 has been set at 0.25%, which is the lowest of the previous fee scale. Taken together, these features provide certainty over the availability of low cost funding to support lending to businesses in 2014. As noted in the February 2014 *Inflation Report*, the pace of decline in four-quarter PNFC net lending eased in 2013 Q4, and is projected to be slightly positive in 2014 Q1 and rise further in subsequent quarters.

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

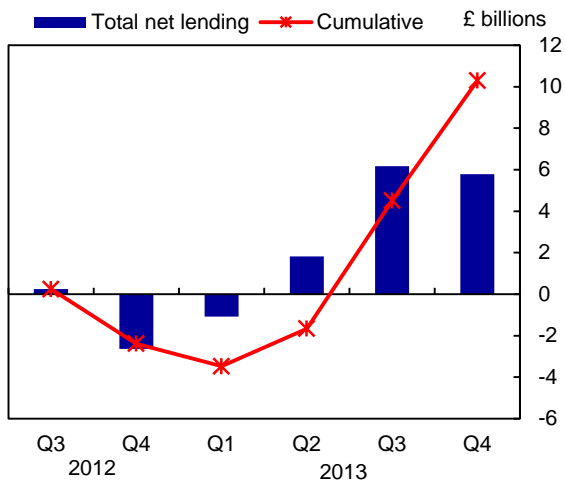
*"The UK recovery has gained momentum, with easier credit conditions playing an important role. Since the FLS was launched in mid-2012, FLS participants' net lending to households and businesses has been around £10bn. In 2014 the FLS will continue to support lending to businesses, where it is most needed. The firm-by-firm sectoral lending data - published for the first time today - show that a number of participants, including some smaller, challenger banks, have successfully used the FLS to expand their SME lending."*

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<sup>3</sup> SMEs are defined here as both Unincorporated Businesses and private non-financial corporations (PNFCs) with an annual debit turnover of less than £25 million on the business account.

<sup>4</sup> Although household lending in 2014 will not generate any additional borrowing allowances, the initial borrowing allowances that have already been earned reflect net lending to both households and businesses, particularly to SMEs.

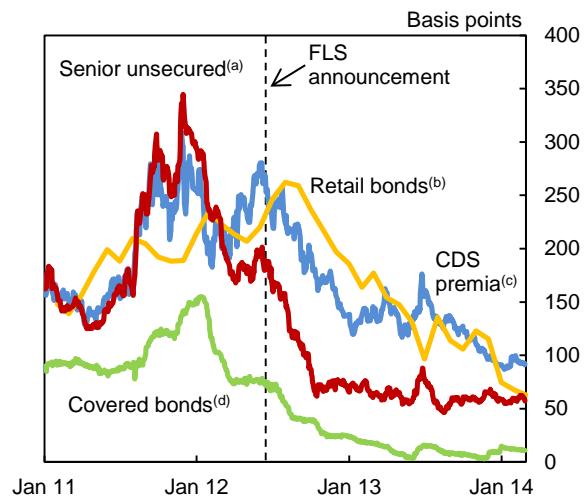
**Chart 1 Net lending by FLS participants<sup>(a)(b)</sup>**



Source: Bank of England.

- (a) Net flows of sterling lending to UK households and private non-financial corporations. Non seasonally adjusted.
- (b) Data from 2013 Q2 for RBS and Santander include lending related to non-bank credit providers.

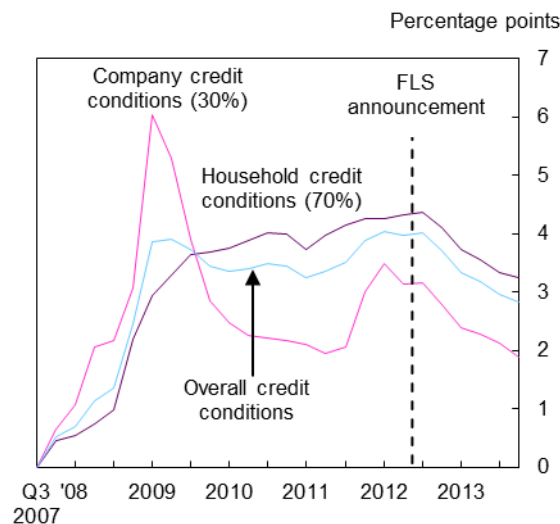
**Chart 2 UK banks' indicative longer-term funding spreads**



Sources: Bank of England, Bloomberg, Markit Group Limited and Bank calculations.

- (a) Constant-maturity unweighted average of secondary market spreads to swaps for the major UK lenders' five-year euro senior unsecured bonds or, where not available, a suitable proxy.
- (b) Sterling. Average of two and three-year spreads on retail bonds. Spreads over relevant swap rates.
- (c) Unweighted average of the five-year senior CDS premia for the major UK lenders.
- (d) Constant-maturity unweighted average of secondary market spreads to swaps for the major UK lenders' five-year euro-denominated covered bonds or, where not available, a suitable proxy.

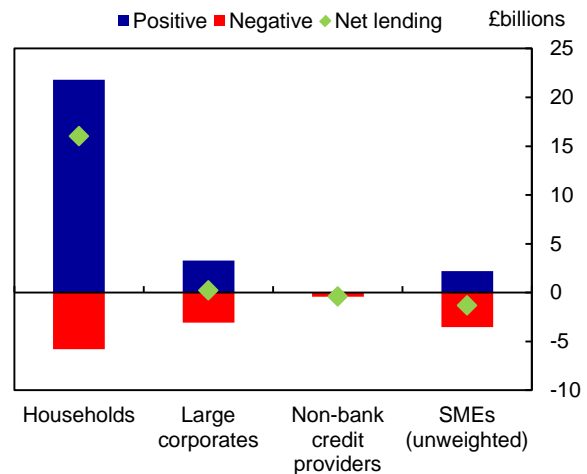
**Chart 3 Changes since 2007 Q3 in indicators of household and company credit spreads<sup>(a)</sup>**



Sources: Bank of England, BDRG Continental *SME Finance Monitor*, Bloomberg, BofA Merrill Lynch Global Research, used with permission, British Household Panel Survey, Department for Business, Innovation and Skills and Bank calculations.

- (a) See *Inflation Report*, February 2014 (page 16) for more information.

**Chart 4 Net lending by FLS Extension participants over 2013 Q2-Q4<sup>(a)</sup>**



Source: Bank of England.

- (a) For more details of the sector definitions within FLS see the Market Notice at [www.bankofengland.co.uk/markets/Documents/marketnotice131219cons.pdf](http://www.bankofengland.co.uk/markets/Documents/marketnotice131219cons.pdf).

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