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News release

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

The Bank of England and HM Treasury are today announcing a two-year extension to the Funding for Lending Scheme (FLS). This extension will provide participants with additional flexibility to draw unused drawing allowances earned for positive net lending, with funding remaining available to support further improvements in credit conditions for small and medium-sized enterprises (SMEs). The extension will also ensure that the scheme is gradually phased out, with borrowing allowances reducing over time, thereby minimising risks to the economic recovery from the withdrawal of funding support.

The FLS has contributed to a substantial fall in bank funding costs since its launch in 2012. That has fed through to improvements in credit conditions for households and businesses. Reflecting these improvements, the scope of the scheme has been narrowed several times since it was launched. Most recently, the Scheme was re-focused towards lending to SMEs.

A variety of sources indicate that credit conditions for SMEs have been improving: SME lending volumes have increased by £2.1 billion in 2015 so far¹, and net lending to SMEs by FLS participants was positive in the first two quarters of 2015. However, credit conditions for SMEs remain tighter than for large corporations.

The extension announced today will continue the tapering of the scheme, while ensuring a continuation of the temporary support provided so as not to risk hindering the recovery in SME credit conditions. This extension will also complement other initiatives undertaken by the Treasury and the Bank of England that tackle longer term structural constraints on SME lending. These include: the Bank's work on widening access to credit data to improve the quality of credit scores provided to trade creditors; the joint Bank of England-ECB initiative to improve the functioning of the securitisation markets, including securitisation of SME loans; and the continued expansion of the activities of the British Business Bank to support access to finance for SMEs.

¹ All currency net lending to SMEs by UK resident banks and building societies. Data to end-October 2015.

Following today's announcement, the drawdown window for the FLS extension will remain open until 31 January 2018. Current participants in the FLS extension will remain part of the scheme and will continue to be able to draw against existing unused borrowing allowances beyond 31 January 2016, but will not generate additional allowances from lending beyond the end of 2015². From 1 February 2016, participants will initially retain full access to draw against their borrowing allowance. Allowances will reduce by 25% after six months, and by the same amount every six months thereafter until the end of January 2018 when the scheme will close. This will mean that funding will continue to remain available to support further improvements in SME credit conditions. The tapering of allowances will result in a smooth withdrawal of this support and bring the drawdown window to a natural close after two years. 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.

There will be a separate part of the scheme that allows only new banks to generate and draw against new allowances over the two-year extension. This is to ensure that new banks, which may not otherwise have any borrowing allowances under this extension given the lack of a prior lending history, are not put at a disadvantage relative to other banks that have access to the scheme. New banks that have been authorised or had a significant change in control since 1 April 2013 and with a lending stock smaller than £50m at end-2015 will generate borrowing allowances through their net lending to households and businesses. Lending to SMEs will be incentivised through £5 of allowances generated for every £1 of net lending by these newer banks.

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 (FPC) welcomes these changes.

Commenting on these changes to the scheme, Mark Carney, Governor of the Bank of England said: *"Since its launch in 2012, the FLS has provided an important source of funding support to banks, which has flowed through to improved credit conditions across the economy. As conditions have normalised for particular sectors over the life of the FLS, we have consistently reduced the scope of this temporary scheme and focussed support where it is needed most. The announcement today continues that tapering, supporting continued improvement in SME credit conditions as the economic recovery takes hold, while gradually withdrawing that support over the next two years."*

² At the end of Q2 2015, FLS participants had generated £57.1 billion of borrowing allowances, of which £33.3 billion were unused.

Commenting on these changes to the scheme, George Osborne, Chancellor of the Exchequer said: *“The Funding for Lending Scheme, which we launched with the Bank of England in 2012, has been a vital part of supporting the recovery, ensuring lending to households and businesses. It was due to expire in January but I am pleased to say that we are extending the scheme until 2018, supporting more loans. Given the improvement we’ve seen in credit conditions for households and large businesses, as our long-term economic plan moves from rescue to rebuild it is right that we continue to focus the scheme’s firepower on the small businesses that are the lifeblood of the economy. The Funding for Lending Scheme will be gradually wound down as the recovery strengthens, delivering a managed exit from the scheme.”*

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Notes to Editors

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

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

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