



# HM TREASURY

## National Loan Guarantee Scheme

### How it will work

- The scheme will allow banks to raise up to £20bn of funding guaranteed by the Government, to lend directly to smaller businesses (who are more reliant on bank finance) at a lower cost than would otherwise be the case.
- UK businesses with a turnover of up to £50m will be eligible to benefit from the scheme.
- Banks will be able to apply for Government guarantees within a two year window for a fee. They can use the guarantee to raise funds at a lower cost.
- In order to qualify for the guarantees, banks will demonstrate that they can pass the benefits of the guarantee through to cheaper loans (as in the European Investment Bank's (EIB) well-established 'Loans for SMEs' scheme).
- Participating banks will retain the full credit risk of the loans they make under the scheme.
- In many cases the scheme will lead to a reduction in the cost of business loans of up to 1 percentage point.
- A range of banks will be able to access the scheme.

### Impact on the public finances

- The Government has reduced the maximum amount available for private sector asset purchases under the Bank of England's Asset Purchase Facility (APF) by £40bn to £10bn. The reduction of the APF ceiling provides the scope for this package of interventions.
- Guarantees issued under the scheme are expected to be contingent liabilities, with no impact on public sector net debt.
- The fees received from banks will reduce borrowing and debt.

- If a bank were to default, Government would have to meet obligations arising from the guaranteed debt, but as a general creditor would have some claim on the banks assets. Any losses resulting from the guarantee would increase borrowing and debt.
- The most likely outcome is that this scheme makes a small positive return for the Exchequer.

### **Introduction of the scheme**

- The scheme will be up and running early next year.
- The Government is engaged in discussions with the industry about getting the scheme up and running as soon as possible and how best to ensure that lending to small businesses is not disrupted ahead of the introduction of the scheme.
- Banks' access to the scheme will be based on their record of lending to smaller businesses, providing the banks with an incentive to increase lending. The Bank of England, acting as HM Treasury's agent, will collect lending data to support this.

### **Ensuring that the scheme benefits businesses**

- Similar schemes exist, such as the EIB's 'Loans for SMEs' scheme, which have mechanisms to make sure the cheaper cost of funding is passed through. Similar processes will be put in place and participating banks will provide the Treasury with a full audit trail.
- HM Treasury will put in place strong scheme rules, or contractual terms, obliging banks to pass on the lower cost of funding to borrowers. Rates on loans covered by the scheme will be expected to be lower than rates on loans to similarly rated companies not covered by the scheme. Banks will have to demonstrate that this is the case. Banks will also be required to show that all of the Government guaranteed funding is disbursed in loans to target businesses.
- HM Treasury are considering the range of responses the Government would take if a bank failed to meet its obligations under the scheme.

### **State aid**

- The proposal has been designed to be compatible with the state aid rules.

### Scheme implementation

- The scheme will be run by the Treasury Group, the provision of guarantees being administered by the United Kingdom Debt Management Office.

### Next steps

- The Government will be discussing further scheme details with the banks and business groups over the coming weeks. Further details will be published shortly.

HM Treasury, 6 December 2011