TERM FUNDING PIPELINE FOR NON-BANK FUNDERS

1. The Bank of England's Term Funding Scheme is only available to banks. However, our non-bank members play a significant role in supporting businesses and households across all sectors of the economy – including essential specialist finance to businesses in areas where banks do not typically offer finance. This is especially the case for those SMEs that would ordinarily fall outside of a bank's normal credit risk appetite, such as start-ups or very small businesses.

2. Of the £138 billion of new business in the twelve months to March 2020, £44 billion was provided by FLA non-bank members. Non-bank funders therefore play a significant role in providing specialist finance to businesses. Making term funding available to the funders of these businesses would allow them to support their customers and their recovery from the impact of Covid-19.

3. The latest FLA figures show that members had received over 1.5 million requests for Covid-19 related forbearance in the ten weeks ending 15 May, with over 1.3 million granted. Non-bank lenders require urgent access to funding to support this huge demand for forbearance and be able to provide new credit over the next 12 months. Our analysis shows that in the asset finance market this could potentially leave up to 120,000 businesses without finance for investment in equipment and put at risk up to 550,000 jobs. Similarly, the motor finance market may be unable to meet demand for finance from up to half a million customers.

4. Term funding would also ensure that SMEs continue to have access to a diverse market for funding which includes specialist and non-bank funders. Without these funders, SMEs would face an uncompetitive market for funding with little innovation. If no support is provided to these lenders and the funding capability and capacity of non-bank funders is lost or reduced, it cannot easily or quickly be replaced. Funding from banks fulfils a different market need.

5. Non-bank funders often rely on the wholesale funding market to support their businesses. This market is currently severely disrupted by Covid-19 as wholesale funding providers reassess their risk profiles. Term funding would provide an alternative to this market allowing SME customers to continue to benefit from the specialist service that non-bank funders provide.

6. Without support, non-bank lenders could fall into a "liquidity trap", where they would face significant constraints on their ability to enter into new contracts with SMEs including via CBILS lending, and would consequently be forced to seek repayments of loans from customers that are not yet in a position to pay.

7. We have consistently argued that non-bank funders should be able to access Term Funding Schemes. While we accept that there are policy implications to this that present challenges to the Bank of England and Government, we believe it would be the quickest and most effective route to provide support to UK businesses and households facing significant disruption due to Covid-19, who are unable to access funding from banks.

8. We also note that the Term Funding transmission mechanism – where funding provided to banks should then flow to non-banks – has so far failed because the banks do not have sufficient incentives to support non-banks, and the Bank and Treasury need to address this policy failure.

9. If the Bank of England is unwilling to allow non-banks to access Term Funding, we propose a *Term Funding Pipeline*. This would fund non-banks indirectly and it would be an accredited, monitored scheme backed by government guarantee.

10. The Term Funding Pipeline would work in the following way. A portion of the term-funding provided to banks would be ring-fenced for use by non-bank funders. To ensure that this is a commercially viable and attractive prospect for the banks, the Government would provide an 100% guarantee (as it is doing under the Bounce Back Loan Scheme) for this funding. The banks who access this new non-bank fund would see a reduction in the interest they are charged compared to what is charged for the current Term Funding they have already accessed.

11. We further recommend that the Bank of England pro-actively monitors the implementation of this new Term Funding Pipeline to ensure that the banks deliver this mandated ring-fenced funding to the non-bank funders.

12. In addition, banks taking part would commit to not taking further security for funding delivered to non-bank lenders via the scheme, and to not imposing any conditions on the non-bank lenders' ability to offer forbearance to their own customers funded via the scheme. Banks would also commit to charging a reasonable market rate for the funding. This is critical to ensure the success of the scheme and ensure that liquidity is provided without unreasonable conditions.

13. The current term-funding is only accessible to banks which are PRA regulated. This provides assurance to the Bank of England that the bank has been stress-tested, that it is a viable prospect and is well-run. As non-banks are not subject to this regulation (although they are prudentially regulated by the FCA), the British Business Bank would offer a stand-alone accreditation process for non-bank funders, using the same process as used for CBILs. If a lender is financing consumers and therefore not BBB accredited, we propose that the lender be FCA regulated. This would provide comfort to banks that the non-bank funder is in position to repay the term funding.