



## **Term Funding Scheme with additional incentives for SMEs (TFSME): worked examples of TFSME Groups, borrowing allowance and fee**

The following examples illustrate the quantity and pricing of borrowing available from the TFSME under four hypothetical scenarios.

### **TFSME Groups**

The quantity and price of funding available from the TFSME will be based on the quantity of sterling loans as reported to the Bank by a Participant's TFSME Group.

If a Participant is a ring-fenced body<sup>1</sup> (RFB), the Participant's TFSME Group will be comprised of the Participant and all other RFBs within the wider group that are eligible for inclusion in a TFSME Group. Participants that are not RFBs will form a separate TFSME Group, comprising of all eligible non-RFBs within the wider group. Participants within the same TFSME Group share the borrowing allowance for that TFSME Group. Further information can be found in the TFSME Operating Procedures.<sup>2</sup>

### **Borrowing Allowance and Fee**

The quantity and price of borrowing available to banks and building societies in the TFSME will be linked to their performance in lending to the UK real economy, as described more fully in the TFSME documentation available via the Bank's website.<sup>3</sup>

#### *Borrowing Allowance*

The Borrowing Allowance for each Participant will be based on the quantity of sterling loans reported by the Participant's TFSME Group:

- i) The Borrowing Allowance for each TFSME Group is equal to the Initial Allowance plus the Additional Allowance.
- ii) The Initial Allowance for each TFSME Group will be 10% of its Base Stock of eligible loans as at end-December 2019.
- iii) The Additional Allowance for each TFSME Group will be one times any positive Net Lending to non-SMEs (defined as UK resident households, Large Corporates, and certain Non-Bank Credit Providers (NBCPs)) plus five times any positive Net Lending to SMEs during the 'Reference Period', which runs from 31 December 2019 to 31 December 2020. The Additional Allowance will be zero if Net Lending to both SMEs and non-SMEs is negative.

#### *Fee*

The TFSME Interest on TFSME Advances is comprised of three parts:

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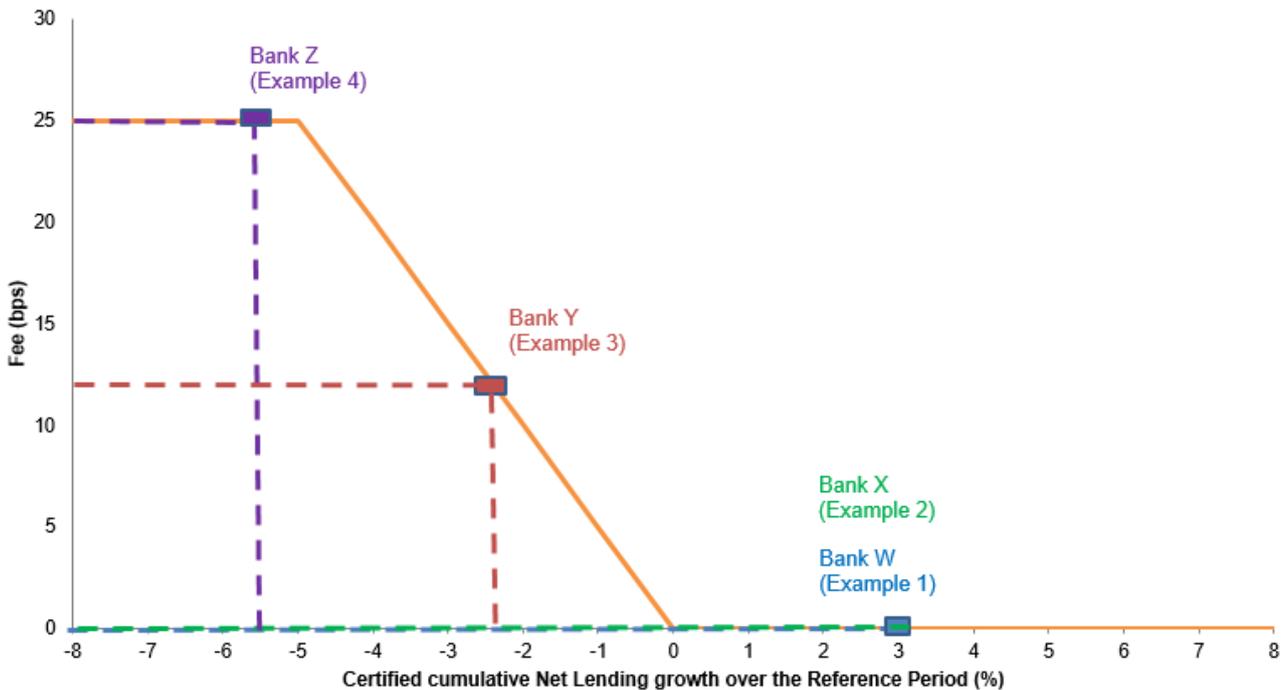
<sup>1</sup> as defined in Part 9B of Financial Services Markets Act 2000 (as amended)

<sup>2</sup> <https://www.bankofengland.co.uk/-/media/boe/files/markets/term-funding-scheme-sme/operating-procedures.pdf>

<sup>3</sup> <https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/documentation>

- i) Bank Rate.
- ii) The TFSME Fee on drawdowns up to the Borrowing Allowance. The TFSME fee is determined by cumulative Net Lending over the Reference Period as a whole, and is: 0bp per annum for positive or stable Net Lending, and increases linearly up to 25bp pa if Net Lending falls by 5% or more, as shown in Chart 1.
- iii) The TFSME Fee on any drawdowns in excess of the Borrowing Allowance is 150bp pa.

**Chart 1: TFSME Fee on drawings up to the Borrowing Allowance**



During the TFSME Drawdown Period, Participants will accrue TFSME Interest based on Bank Rate and an initial flat TFSME Fee of 0bp per annum on their drawings. Any additional TFSME Interest required on drawings during the TFSME Drawdown Period, including any TFSME Fee for excess drawings, will be charged as a lump sum after the end of the TFSME Drawdown Period.

**Example 1 – A Participant increases its lending to SMEs and non-SMEs**

*Borrowing Allowance*

Bank W certifies a Base Stock of eligible loans of £100 as at 31 December 2019. Bank W therefore has an Initial Allowance (IA) of £10 (10% of its Base Stock).

Bank W increases its Non-SME Net Lending by £2 over the Reference Period. Bank W also increases its Net Lending to SMEs by £1 during the Reference Period. Bank W’s weighted sum of net lending is therefore £7 (see Table 1). So Bank W generates an Additional Allowance (AA) of £7 over the Reference Period.

**Table 1: Calculation of Additional Borrowing Allowance for Bank W**

	Net lending	Weight	Weighted net lending
SMEs	£1	5	£5
Non-SMEs	£2	1	£2
<b><u>Additional Allowance</u></b>			<b><u>£7</u></b>

Bank W therefore has a total Borrowing Allowance (IA+AA) of £17 by the end of the Reference Period.

#### *Drawings*

Bank W steadily draws from the TFSME over the Drawdown Period, up to its maximum Borrowing Allowance of £17 by the end of the Drawdown Period on 30 April 2021.

#### *Fee*

Over the Reference Period as a whole, Bank W increased its total net lending, and therefore pays a Fee of 0bp pa on all drawings up to its Borrowing Allowance on each day.

Bank W had no 'excess' drawings above its Borrowing Allowance at any point, so Bank W is not required to pay any Fee for excess drawings. So the total TFSME Fee payable by Bank W is 0bps.

#### **Example 2 – A Participant has excess drawings**

##### *Borrowing Allowance*

Bank X certifies a Base Stock of eligible loans of £100 as at 31 December 2019. Bank X therefore has an IA of £10.

During the first three quarters of 2020, Bank X increases its Net Lending to SMEs by £0.1 per quarter, and its Net Lending to Non-SMEs by £1 per quarter. Bank X's weighted sum of net lending is therefore £4.5 (see Table 2). So Bank X generates an Additional Allowance (AA) of £4.5 over the first three quarters of the reference period.

**Table 2: Calculation of Additional Allowance for Bank W after 3 quarters of the Reference Period**

	Weight	Q1 Net Lending	Q2 Net Lending	Q3 Net Lending	Cumulative Net Lending at end of Q3	Weighted Net Lending at end of Q3
SMEs	5	0.1	0.1	0.1	0.3	1.5
Non-SMEs	1	1	1	1	3	3
<b><u>Additional Allowance</u></b>						<b><u>4.5</u></b>

Bank X records -£0.3 of Net Lending to SMEs and £0 Net Lending to Non-SMEs during Q4 2020. This brings its Additional Allowance down to £3, and its total Borrowing Allowance down to £13.

**Table 3: Calculation of Additional Allowance for Bank W after 4 quarters of the Reference Period**

	Weight	Q1 Net Lending	Q2 Net Lending	Q3 Net Lending	Q4 Net Lending	Cumulative Net Lending at end of Reference Period	Weighted Net Lending at end of Reference Period
SMEs	5	0.1	0.1	0.1	-0.3	0	0
Non-SMEs	1	1	1	1	0	3	3
<b><u>AA</u></b>							<b><u>3</u></b>

### *Drawings*

By December 2020, Bank X had drawn £14.5, based on its total Borrowing Allowance at end 2020Q3. Bank X maintained its drawings at £14.5 until end Q1 2021, when it reduced its drawings to £13.

### *Fee*

Over the Reference Period as a whole, Bank X increased its net lending, and therefore pays a Fee of 0bp pa on all drawings up to its Borrowing Allowance on each day.

For the period of Q1 2021, Bank X had £1.5 of drawings in excess of its Borrowing Allowance. Bank X was charged an extra 150bp pa on its excess drawings for every day that its drawings exceeded its borrowing allowance.

At the end of Q1 2021 Bank X reduced its drawings by £1.5, so that it no longer had any drawings in excess of its Borrowing Allowance. From then on it continued to pay a Fee of 0bp pa on its outstanding drawings quarterly until its drawings were repaid.

### **Example 3 – A Participant reduces its net lending**

#### *Borrowing Allowance*

Bank Y certifies a Base Stock of eligible loans of £100 as at 31 December 2019. Bank Y therefore has an IA of £10.

Bank Y has Net Lending to Non-SMEs of -£0.5 per quarter over the Reference Period (see Table 4). Bank Y also has Net Lending to SMEs of -£0.1 per quarter during the Reference Period. So Bank Y's total cumulative net lending over the Reference Period is -£2.4.

The Additional Allowance will be zero if Net Lending to both SMEs and non-SMEs is negative. So Bank Y's Additional Allowance is zero, and its total Borrowing Allowance (IA+AA) is £10.



## *Fee*

Bank Z draws up to, but not beyond, its maximum allowance of £12.

Over the Reference Period as a whole, Bank Z recorded total Net Lending of -5.6%. As illustrated in Chart 1, a 5.6% reduction in Net Lending equates to a 25bp pa Fee. So Bank Z is charged a Fee of 25bps on all drawings up to its Borrowing Allowance on each day. Bank Z has no 'excess' drawings above its Borrowing Allowance at any point.

Bank Z pays the 25bp Fee for all drawings made in the Drawdown Period in as a lump sum after the end of the Drawdown Period. It then pays the 25bp Fee on its outstanding drawings quarterly from the end of the Drawdown Period until its drawings are repaid.