Market Notice: Changes to the Government's National Loan Guarantee Scheme

As announced by the Chancellor of the Exchequer on 26th June 2012, the Government is enhancing the National Loan Guarantee Scheme (NLGS) as set out below.

These changes will come into effect on the 20th of July 2012.

Amendments to the NLGS

Eligible companies

Under the amended NLGS, businesses with a turnover of up to £250 million may now be eligible for an NLGS loan.

Banks participating in the NLGS will continue to bear the risk of eligible businesses not repaying loans under this measure, and businesses in financial difficulty will continue to be excluded from participating in the NLGS.

Minimum allocation of guarantees to banks

Under the amended NLGS, the minimum guarantee allocation restriction for participating Banks will be removed.

A participating Banks allocations will continue to be based on factors including the size of the Bank, the volume of the Bank's lending to eligible businesses, and the Bank's capacity to lend to eligible businesses.

Eligible debt instruments

Under the amended NLGS, the restriction on the proportion of Government guarantees with maturity between three and five years will be removed.

All Government-guaranteed debt issued by a participating Bank under the amended NLGS, in relation to liabilities with maturities exceeding three years, will bear a fee at least 10% higher than the European Commission's minimum fee.

This amendment will not apply retroactively to any debt issued by a participating Bank prior to this Market Notice.

Guarantee fees

The amended NLGS is still based on the principle that participating Banks will pass on all the benefit they receive by their participation in the NLGS to UK eligible businesses through the provision of cheaper loans to those eligible businesses.

Under the amended NLGS, the pricing methodology for future Government-guaranteed Bank debt issuance will be adjusted to reflect the maturity of the debt instrument covered by the Government guarantee.

Additionally the existing pricing methodology of the NLGS only covers Government-guaranteed Bank bonds issued in a fixed rate format.

The amended NLGS is no longer restricted to any fixed rate debt issuance by participating Banks, and will now extend to Floating Rate Notes as well.

Passing through the benefit of Government guaranteed debt by Banks to UK businesses

Previously under the NLGS, participating Banks were only able to offer NLGS loans to eligible business for a term between a minimum of one and a maximum of ten years. Under the amended NLGS there will be no restriction on the maximum term of an NLGS loan that a Bank may offer to an eligible business, however all the benefit of an NLGS loan must be received by an eligible business within ten years of the date of a Bank's last debt issuance under the NLGS.

The NLGS also previously allowed participating Banks three months following the date upon which they issued their Government-guaranteed debt to commit NLGS loans to eligible businesses, thereby resulting in all the benefit received by a Bank as a result of their guaranteed debt issuance being passed through to eligible businesses. A Bank then had a further three months to allow for an eligible business to draw down the NLGS loan that it had received. If a Bank did not pass through the benefit received from their guaranteed debt issuance in this way, they would repay this benefit to HM Treasury with interest. Under the amended NLGS, a Bank will now have nine months for NLGS loans to be drawn down by an eligible business receiving it. This amendment reflects standard banking practices whereby businesses have a longer period in which to decide whether or not to draw down a loan.

In addition, in order to maximise the amount of benefit that is passed through to eligible businesses, the requirement for 'undisbursed' benefit to be repaid to HM Treasury with interest will be removed. Instead, under the amended NLGS, interest will still be applied to any benefit received by a Bank as a result of their guaranteed debt issuance and not passed through, but a Bank may choose to either: (i) add any interest to a 'pool' of benefit to be passed through to eligible businesses or (ii) repay the benefit plus any interest to HM Treasury. Interest will continue to accrue on non-disbursed benefit until all benefit has been passed through to eligible businesses or repaid to HM Treasury, and interest will compound on an annual basis.

Other amendments to Scheme rules

The NLGS has also undergone a number of minor amendments to clarify certain issues and ensure the efficient functioning of the scheme.

General enquires related to the scheme, should be addressed to HM Treasury at:
public.enquiries@hm-treasury.gov.uk