COVID-19 FAQ 2: What are the lending expectations on FIs and what schemes are available to support them?

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This FAQ looks at the expectations imposed on financial institutions to continue to provide credit in their local economies, and at the government or central bank facilities in place to support them.

In response to the COVID-19 pandemic, governments and central banks in various jurisdictions across the globe have introduced measures and implemented funding and liquidity schemes on a scale not seen since the Second World War to promote continued lending by financial institutions. It is clear that the authorities in different jurisdictions are focused on ensuring the continuation of banks' ability to lend, supporting the flow of liquidity to businesses and consumers. An additional objective in common to a number of schemes is to ensure that lenders pass on the benefits of currently low central bank base rates.

It is interesting to note that a number of jurisdictions, such as France and the UK, have initiated schemes focused specifically on creating additional incentives for the lending sector to support SMEs. During periods of economic uncertainty, SMEs typically suffer the most, not just due to the economic downturn itself, but also due to heightened risk aversion which can adversely impact their ability to access finance or capital. This is demonstrated by the EC's opening remarks in announcing its own SME-focused COSME scheme: *"[SMEs] represent over 99% of businesses in the EU. They employ two out of every three employees, create 85% of all new jobs and generate about three-fifth of the EU value-added. Tailor-made support to help them grow and innovate is essential. At all stages of development, small businesses struggle more than large enterprises to get finance."*

A. What are the governmental and regulatory expectations for continued lending?

Country	Description of Program
United States	The US federal financial regulators have not issued any rule, guidance or statement to require the financial institutions they supervise to continue to lend during the COVID-19 pandemic. However, US financial and banking regulators have issued a number of statements *encouraging* financial institutions to continue to lend to consumers and businesses. The guidance carries through a number of key themes: • Lending should be consistent with safe and sound practices. • Prudent efforts by financial institutions that are consistent with safe and sound lending practices should not be subject to examiner criticism. • Loans to consumers must be offered in a manner that provides fair treatment of consumers and complies with applicable fair lending and other laws and regulations. The guidance applies to all financial institutions supervised by US federal and state banking regulators, including the US bank subsidiaries and US branches of non-US banks
European Union	While there is no direct legal or political pressure on banks to lend from the EU institutions, they have acknowledged the financing needs of households and firms.
United Kingdom	By way of recommendation, HM Treasury, the Bank of England and the FCA have explained the vital importance of the government, the regulators and the industry working together to mitigate the effects of COVID-19 in a joint letter to the CEOs of UK banks. In particular, the expectation was clearly positioned that banks had a role in passing through the benefits of the various COVID-19 initiatives, noting, "*This will require a willingness to maintain and extend lending despite uncertain economic conditions. We must ensure that firms whose business models were viable before this crisis remain viable once it is over.*" *See*: Joint Letter to UK banks from HM Treasury, the Bank of England and the FCA, CBILS, CLBILS
France	The French government has stated that credit institutions and financing companies must continue to fulfil their role of financing households and businesses. The amended 2020 budget bill (ABB), and its implementing decree dated March 23, 2020 (applicable as of March 25, 2020), provide that the French State will guarantee the reimbursement of certain eligible loans up to an aggregate amount of 300 billion euros, to be managed by Bpifrance Financement SA which will act on behalf, and under the control, of the State. The loans will provide for a one-year grace period and the ability, upon borrower's unilateral decision, to extend the maturity of the loan for one to five additional years at the end of the first year, the total term of the loan not exceeding six years.
Germany	Banks are encouraged to lend, particularly regarding loans under government programs.
Italy	Banks are incentivized to continue lending thanks to government guarantee schemes, which are aimed at relieving all or a significant part of credit risk.
Spain	New legislative measures created a €100 billion line of public guarantees ("Line of Guarantees"). For banks to have access to the Line of Guarantees, they should keep providing liquidity to the market. In particular, the regulations contemplate that those banks willing to benefit from the Line of Guarantees shall commit not to reduce the limits of the revolving lines extended until September 30, 2020. Besides, the interest rate for new financings shall be in line with that of financings granted prior to COVID-19. *See*: RDL 8/2020

Country	Description of Program
Sweden	Banks are under political pressure to continue to lend in particular to SMEs. The Swedish regulator has made official statements saying it expects banks to continue to provide credit to Swedish businesses.
Belgium	A federal government guarantee scheme has been introduced in respect of banks' credit portfolios, including new loans and credit facilities with a maximum maturity of 12 months, granted up to and including September 30, 2020 to viable companies experiencing payment difficulties.
UAE	The CBUAE recommends that banks provide additional financing at reduced rates during the relief period to their private sector corporates, SMEs and individuals, including, but not limited to, working capital relief, granting new credit lines, re-scheduling of loans and reducing fees and commissions.

B. What key liquidity and funding schemes established by central banks are available to support lending activities?

Chart B.1 Types of funding/liquidity programs by jurisdiction

Facility Type	US	UK[1]	EU	DE[1]	FR[1]	IT[1]	ESP[1]	SWE[1]	BEL[1]	UAE[1]
Direct borrowing from central bank	Y	Y	Y	Y	Y	N	N	Y	N	Y
Commercial paper funding facility	Y	Y	Y	Y	Y	N	N	Y	N	N
Primary dealer credit facility	Y	N	Y	Y	Y	N	N	Y	N	N
Money market liquidity facility	Y	N	N	N	Y	N	N	N	N	N
Asset-backed securities lending facility	Y	Y	Y	Y	Y	N	N	N	N	N
Small business lending facility	Y	Y	Y	Y	Y	N	Y	N	N	Y
Medium-size business lending facility	Y	Y	Y	Y	Y	N	Y	N	N	Y

1 Please note, responses refer to specific country level initiatives, subject to what is available at EU level.

Chart B.2 Overview of key funding/liquidity schemes

<table>
<tr><th>Country</th><th>Description of Program</th></tr>
<tr><td>US</td><td>The Federal Reserve, as the US central bank, has implemented a number of liquidity facilities and investment programs that are designed to make funding available to financial institutions for the purpose of providing loans to consumers and businesses affected by the COVID-19 pandemic. Those schemes include:

• Main Street New and Expanded Loan Facilities (MSNLF, MSELF and MSPLF) to purchase eligible loans made to medium-sized businesses with up to 15,000 employees and $5 billion in revenues. See: Link.

• Paycheck Protection Program Liquidity Facility (PPPLF) to provide funding to lenders for loans to small businesses. See: Link.

• Primary Dealer Credit Facility (PDCF) to permit banks and other institutions registered as primary dealers to borrow funds for up to 90 days upon the pledge of eligible investment grade collateral. See: Link.

• Money Market Mutual Fund Liquidity Facility (MMLF) to provide funding for the purchase of assets from money market and mutual funds upon the pledge of eligible investment grade collateral. See: Link.</td></tr>
<tr><td>EU</td><td>The ECB has offered additional longer-term refinancing operations ("LTROs") and easing of conditions for targeted longer-term refinancing operations ("TLTRO III"). A temporary envelope has been offered for additional net asset purchases of €120 billion until the end of the year. A €750 billion Pandemic Emergency Purchase Program ("PEPP") has been introduced to enhance the current Asset Purchase Program ("APP").

The EC has also made other schemes available, for example, the COSME scheme under which the European Investment Fund will provide enhanced guarantees and counter-guarantees to incentivize financial intermediaries to provide working capital financing to European SMEs hit by the economic impact of the coronavirus pandemic.

See: New LTRO TLTRO III PEPP Package of temporary collateral easing measures</td></tr>
<tr><td>UK</td><td>Three key lender guarantee schemes have been announced: the Coronavirus Business Interruption Loan Scheme (for SMEs with an annual turnover of up to £45m), the Coronavirus Large Business Interruption Loan Scheme (for businesses with annual turnover of between £45m and £500m) and the Bounce Back Loan Scheme. The schemes are to be delivered by accredited lenders who will benefit from a government guarantee of up to 80% on each loan made under the CBILS and CLBILS schemes and 100 percent under the BBLS (subject to per-lender cap on claims).

The Bank of England has introduced the Term Funding Scheme with additional incentives for SMEs ("TFSME"). Over the next 12 months, the TSFME will offer four-year funding of at least 10 percent of lender-participants' stock of real economy lending at interest rates at, or very close to, Bank Rates. The intention is to incentivize lending but also to ensure the cut in the base rate is passed on to the real economy. The scheme offers additional incentives for lending to SMEs. On May 2, the Bank of England announced further amendments to TFSME to support lending through the BBLS which will allow TFSME participants to extend the term of some of the cheap funding they access via TFSME to align with the six-year term of loans made pursuant to BBLS.

The Bank of England has also launched a direct offer to UK companies that make a material contribution to the UK economy whereby it will buy eligible commercial paper issued by these companies. Banks call apply to act as dealers in this CCFF scheme.</td></tr>
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Country	Description of Program
France	On March 13, 2020, the Banque de France announced its decision to extend the range of banks' exposures towards SMEs that it is prepared to refinance in order to provide additional facilities for banks that lend to SMEs.
Sweden	The Swedish Central Bank has announced it will make available funding to banks in an amount of up to approx. €45 billion by way of loans. The scheme aims to safeguard credit supply and the funds are to be used by the banks for onward lending to businesses. *See*: Link Furthermore, the Swedish Central Bank and the US Federal Reserve have agreed to a swap facility of USD 60 billion, in order to ensure the continued supply of US dollar to Swedish banks. *See*: Link
UAE	The Targeted Economic Support Scheme ("TESS") includes a "Zero Cost Facility" ("ZCF") which is the collateralized CBUAE liquidity facility being provided to banks under CBUAE's TESS. Funds borrowed under the ZCF will be priced at zero interest/profit rate and Eligible Counterparties are expected to pass on the benefits of such a no cost liquidity facility, at the minimum, to their clients who have been identified to be eligible as per TESS. *See*: Link
Germany	Please refer to the EU section.
Italy	Please refer to the EU section.
Belgium	Please refer to the EU section.
Spain	Please refer to the EU section.

Our FIA team has developed the ***COVID-19 Regulatory and Legislative Dashboard*** *as a resource to help affected financial institutions, companies, governments and individuals navigate the local and cross-border complexities of the crisis and the policy response. Please refer to the Dashboard for our periodic updates and insights on the issues addressed in this FAQ.*

Find out more about the business response to the Coronavirus outbreak: ***Coronavirus: Managing business impact and legal risks***.

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