



FLA ASSET FINANCE STATE OF THE MARKET – COVID-19 IMPACT

1. The Finance & Leasing Association (FLA) is the leading trade association for the UK consumer credit, motor finance and asset finance sectors. FLA member companies include banks, the finance subsidiaries of major manufacturers and independent finance firms. They offer credit services to customers from all social groups, via credit and store cards, personal loans, point of sale finance, motor finance and a number of other consumer credit products, as well as a wide range of leasing and hire purchase services to businesses of all sizes. Their specialist nature allows them a unique insight into their customers' needs.
2. In 2019, FLA members provided £140 billion of new finance to UK businesses and households. Nearly £105 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. Over £35 billion of finance was provided to businesses (including £20 billion to SMEs) and the public sector to support investment in new equipment, representing over a third of UK investment in machinery, equipment and purchased software.
3. Support for the specialist finance and leasing sector is critical to ensure they can continue to support their customers at this time without taking on perilous levels of business risk, threatening their existence.
4. It is also essential that otherwise solvent and successful businesses can be supported in meeting their existing funding obligations to ensure their survival. No business that would otherwise be successful should be put at risk by this crisis as a result of their obligations.
5. Specialist finance and leasing firms are currently facing unprecedented demands for forbearance from their customers. Our member firms want to do their utmost to support their customers in their time of need, however, to do so they require urgent and rapid support to provide this forbearance sustainably. Existing support schemes, whilst helpful, are unsuitable for this purpose without modification or enhancement to help specialist non-bank funders.
6. This paper sets out the challenge and extreme pressure FLA asset finance members are facing due to the impact of Covid-19. In the last week we asked members about the forbearance requests they received and what schemes they are eligible for. The information below is a snapshot but demonstrates the size of the problem.
7. We have previously made several recommendations to make the government schemes work better. To address the issues outlined here we would like to focus on one of those proposals: opening-up Term Funding to independent, non-banks.



Forbearance

8. The total value of outstanding agreements held by Asset Finance Division members only at the end of February 2020 was £56.5 billion. Of this total, an estimated £8.2 billion (14%) is currently in forbearance. The most recent forecast from members is that the maximum value of outstanding agreements in forbearance could rise to £22.6 billion (40% of the overall total value).
9. In the four weeks to 3 April 2020, AFD members had received an estimated 223,000 requests¹ for forbearance from customers. 50% of these requests had been granted so far^{2,3}.

Eligibility for schemes

10. Based on 20 responses received from AFD members:
 - 45% of respondents are able to access the Coronavirus Business Interruption Loan Scheme (CBILS). Of the members who are able to access CBILS, 56% report that the amount of funding available will be sufficient.
 - 10% of respondents expect to be able to access the Coronavirus Large Business Interruption Loan Scheme (CLBILS).
 - 30% of respondents are able to access the Term Funding Scheme with additional incentives for SMEs (TFSME)
 - 10% of respondents are able to access the COVID-19 Corporate Financing Facility (CCFF).
11. Issues highlighted by members include:
 - Ineligible to access the schemes and little or no access to the other financial support schemes.
 - A lack of clarity over the eligibility criteria. In some cases, the guidance provided with the scheme is contributing to the confusion.
 - Concern over the time taken to process applications generally, and in particular, if not PRA-regulated.

¹ A single request may cover multiple agreements held with the lender.

² Types of forbearance being offered include varying lengths of payment holidays or a reduction in payments.

³ Anecdotal reasons for requests not yet being granted include; waiting for further information or evidence from the borrower, waiting for the borrower to accept the forbearance proposal, in a queue to be processed due to the large number of requests received.



- Respondents' main banks not willing to lend to them through the scheme, even if appears they are eligible. Some members have approached several banks, including their main bank, with no success.
- Concern over whether the size of the loan will be sufficient.

Term Funding for Non-Banks

12. 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. Of the £140 billion of new business in 2019, £46 billion was provided by FLA non-bank members.
13. If those funders and lenders could quickly access a version of TFSME, even more support could be given to UK businesses and households facing significant disruption due to the coronavirus.
14. We have made the case to include independent, non-banks in the scheme. This would immediately relieve the pressure our members are under outlined above allowing them to support SMEs. It would have the additional benefit supporting non-bank funders who provide finance to consumers.
15. However, if the Government and Bank of England are unwilling to do this, we propose that the British Business Bank (BBB) administer a Rapid Access Term Funding-like Scheme for non-bank funders. To ensure UK SMEs receive the support they need at this critical time there would need to be rapid access to the scheme (within days) with the eligibility criteria streamlined. For instance, if the funder is FCA regulated or already part of a BBB scheme, then they would automatically be able to access the funding.
16. Our member firms would be willing to offer seconded staff to the BBB to assist in the administration of the scheme to ensure that the accreditation and implementation is done swiftly.
17. It is essential that any solution is found quickly, as some firms will be unable to survive without support soon. If this were to happen, the economic impact would be significant. Businesses and consumers need access to a competitive and diverse lending sector offering products that meet their needs. With less competition and less capacity, businesses and consumers will find it more difficult to access funding when they need it most.