

For release on 22 July, 2010

The Bank of England (BoE) intends to extend the range of collateral eligible in the Discount Window Facility (DWF) to include portfolios of loans to individuals and non-banks.

The LMA welcomes the decision of the Bank of England to include loans, which meet certain criteria, as eligible security in the DWF and sees it as a significant initiative in improving liquidity and reducing risk in the financial system.

The LMA has argued for the inclusion of loans as eligible collateral for central bank liquidity facilities for some time and responded to the BoE's recent consultation paper on this matter. The LMA response followed a consultation with its own members as to the likely demand for including loans as collateral. It was clear from this, that despite the need for some operational and process issues to be addressed, there would be interest from LMA members in working with the BoE to position loans as collateral, particularly as a source of liquidity in stressed market conditions.

The LMA has offered to work with the BoE on this initiative, particularly in the area of documentation, to facilitate the positioning of loans into the DWF.

Clare Dawson, Managing Director at the LMA, said "It is very encouraging to see the Bank of England looking at additional ways to improve liquidity to ensure the stability of the financial system. These measures will further promote the use of the loan product, which must be of assistance to economic recovery".

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Loan Market Association

The Loan Market Association was founded in December 1996 by seven leading international banks in London. Its aim was to encourage liquidity and efficiency in both the primary and secondary loan markets by promoting market depth and transparency, as well as by developing standard forms of documentation and codes of market practice. Banks, law firms and other market practitioners/participants are welcome to apply to join the LMA.

The Association was established in anticipation of changing market conditions and of a perceived willingness on the part of the banking community to bring greater clarity, efficiency and liquidity to the relatively under-developed secondary market.

The LMA has gained recognition in the market and has expanded its activities to include all aspects of the primary and secondary syndicated loan markets. It sees its overall mission as acting as the authoritative voice of the syndicated loan market in Europe vis à vis banks, borrowers, regulators and other affected parties.

For more information, please visit www.lma.eu.com.