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## Targeted longer-term refinancing operations (TLTROs)

Brussels, 22 July 2014

CEA-PME Forum "Facilitated Access to  
Finance for SME"

### Overview

- 1 Financing obstacles faced by euro area SMEs
- 2 Recent Eurosystem measures in support of SME financing
- 3 TLTRO – Incentivising euro area banks to lend
- 4 Eurosystem's ABS initiatives
- 4 Conclusions and outlook

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- 1 Financing obstacles faced by euro area SMEs
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- 4 Eurosystem's ABS initiatives
- 4 Conclusions and outlook

3

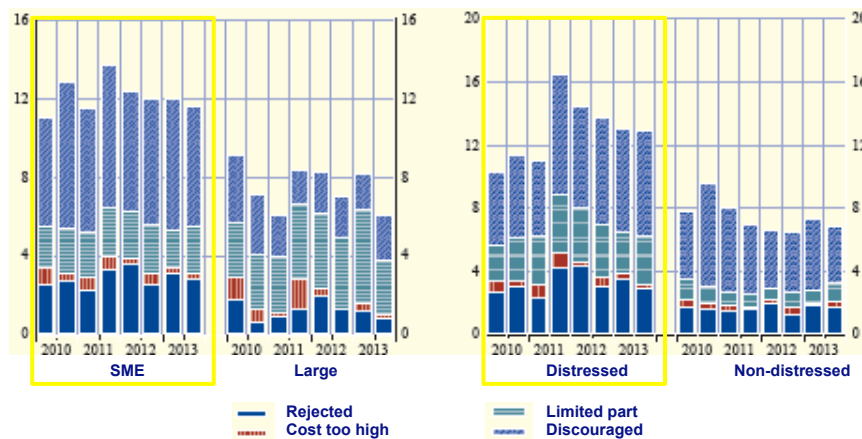
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## Financing obstacles faced by euro area firms

(percentages)

a) Across firm size

b) Across distressed and non-distressed countries



Sources: ECB (SAFE) and ECB calculations [July'14 ECB MoBu]. –  
 Notes: Financing obstacles are defined as the sum of the percentages of firms that applied for a bank loan, but were rejected or received only a limited part of the amount for which they had applied or did not take up the loan because borrowing costs were too high. In addition, it includes the percentage of firms that did not apply because of fear of rejection (discouraged borrowers). Ireland, Greece, Spain, Italy and Portugal are defined here as distressed countries. Data are not available for Cyprus or Slovenia, which also belong to this group.

4

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1 Financing obstacles faced by euro area SMEs

2 **Recent Eurosystem measures supporting SME financing**

3 TLTRO – Incentivising euro area banks to lend

4 Eurosystem's ABS initiatives

4 Conclusions and outlook

5

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## Recent Eurosystem measures supporting SMEs' access to finance

- Several **cuts in official interest rates** to all time low (MRO rate 0.15%)
- **Fixed rate, full allotment (FRFA)** – now extended to end-2016
- **Longer-term refinancing operations incl. VLTROs** (Dec' 11/Feb' 12)

### Collateral framework:

- **Additional credit claims (ACC)** can be pledged with participating NCBS since Feb' 12
  - [May' 14: € 62 billion of which 29% non-financial corporations incl. SMEs; median size of each ACC around € 127,000]
- **SME ABS** eligible assets class: **lowering of minimum ratings** (Dec'11, Jun'12, Jul'12) and **reduction of haircuts** (Jul'12)
  - [May'14: eligible SME ABS 57.8 billion]
- **ABS loan-level data** initiative
  - [(2010) 2013]

6

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## June 2014 decision package

### To provide additional monetary policy accommodation and to support lending to the real economy to pursue price stability mandate

- **Cut in key ECB interest rates** (i.e. MRO rate to 0.15%, MLF rate 0.40% and DF rate to -0.10%, with negative interest rate also on reserve holdings in excess of the minimum reserve requirements and on certain other deposits held by banks with the Eurosystem)
- **Targeted Longer-Term Refinancing Operations (TLTRO)** to support bank lending to households and non-financial corporations, excluding loans to households for house purchase
- **Preparatory work** related to **outright purchases of asset-backed securities (ABS)** to enhance the functioning of the monetary policy transmission mechanism
- Confirmation of **forward guidance**
- To contain volatility in money markets: **Extension of fixed rate, full allotment (FRFA)** tender procedures to December 2016 and **suspension of the weekly fine-tuning operation** to sterilise the liquidity injected under the Securities Markets Programme (SMP)

7

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- 3 TLTRO – Incentivising euro area banks to lend**
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- 4 Conclusions and outlook

8

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## TLTRO – Incentivising euro area banks to lend to the real economy

**Aim:** Enhance the **functioning of monetary policy transmission** mechanism by **supporting lending to real economy** in pursuit of **price stability** mandate.

### TLTROs:

• Series of **targeted longer-term refinancing operations** starting in Sep' 14 and maturing in Sep' 18.

• **Attractive funding conditions** (MRO + 10 bp)

### • Incentives for lending:

- **Allowances directly depending on lending:** initial allowance on existing stock of loans; additional allowances on new net lending [both in terms of loans to non-financial private sector excl. loans to households for house purchases]
- **Regular monitoring** via detailed reporting requirements
- **Mandatory repayment** if lending **below benchmark**

9

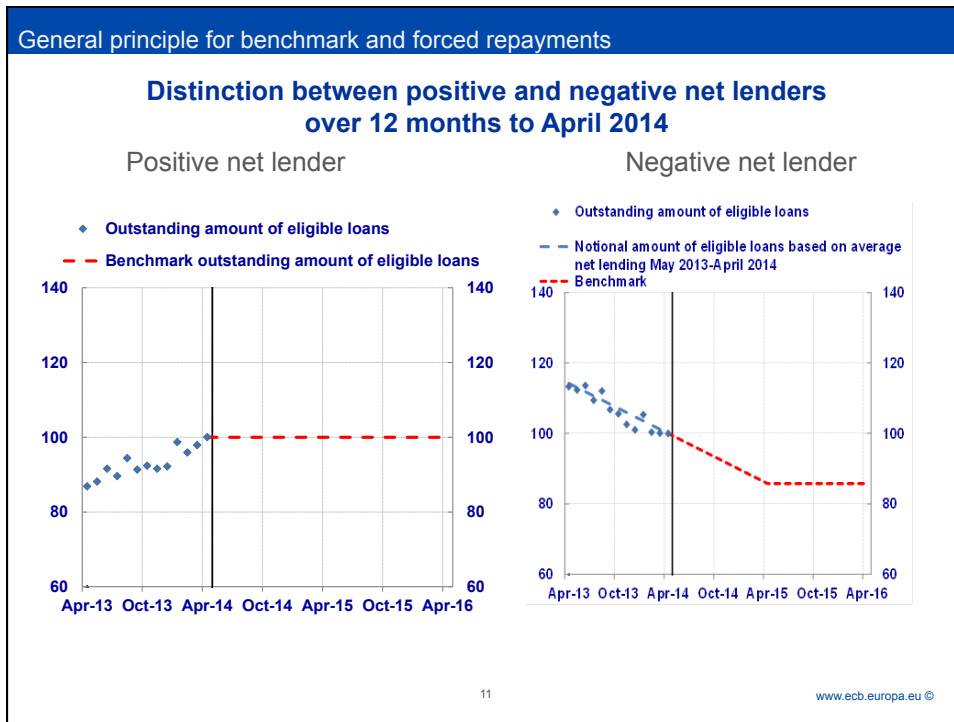
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## Design of the TLTROs – overview

<b>Initial borrowing allowance</b>	<b>7% of counterparty's stock of loans</b> to euro area non-financial private sector (NFPS), excl. loans to households for house purchase
<b>Additional borrowing allowances</b>	<b>Net lending</b> to NFPS, excl. loans to households for house purchase, in excess of benchmark <b>multiplied by a factor of 3</b>
<b>Frequency of operations</b>	Twice for initial allowance (Sep and Dec 2014); quarterly for additional allowances (from Mar 2015 - Jun 2016)
<b>Maturity of operations</b>	Maximum 4 years for first operation; then shrinking as all operations mature on a fixed date (Sep 2018)
<b>Pricing scheme</b>	Fixed over life of each operation at MRO rate prevailing at the time of each operation plus 10bps spread
<b>Early repayment option</b>	As of 24 months after start of each operation, option to repay early at semi-annual frequency
<b>Benchmark calibration</b>	<ul style="list-style-type: none"> <li>• <b>Zero for counterparties w. positive net lending</b> over 12m period 1 May 2013 - 30 Apr 2014 ("reference period")</li> <li>• <b>Broken trend for counterparties w. negative net lending:</b> <ul style="list-style-type: none"> <li>A. <i>until 30 Apr 2015:</i> monthly avg. net lending over reference period times number of months elapsed since 30 Apr 2014;</li> <li>B. <i>from 1 May 2015 onwards:</i> zero</li> </ul> </li> </ul>
<b>Mandatory repayment</b>	<b>Counterparty need to repay TLTRO borrowings in full</b> (two years after first operation) if its net lending falls short of benchmark

10

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## Eurosystem's ABS initiatives

### Collateral framework – SME ABS eligible assets class:

- lowering of **minimum ratings** (Dec'11, Jun'12, Jul'12)
- reduction of **haircuts** (Jul'12)
- **Loan-level data** initiative ((2010) Jan'13)

### Current initiatives supporting ABS market revitalization

- Increased **transparency** on underlying assets
- Develop high-level principles of '**qualifying securitisations (QS)**'
  - Joint discussion papers ECB/Bank of England (Mar/May 2014)
- QS criterion potential basis for preferential regulatory treatment
- Intensification of **preparatory work** for **outright purchases** in ABS market

13

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- 4 **Conclusions and outlook**

14

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### Conclusions and outlook

- The **Eurosystem** has taken a number of actions currently helping to restore normal functioning of monetary policy transmission mechanism. Thereby, it is **facilitating financing of SMEs** given their particular bank dependence.
- Targeted longer-term refinancing operations (**TLTROs**) specifically aimed at **facilitating loan provision to real economy**. They **incentivise banks to use funds for lending** via lending related benchmarks for funding allowances, regular reporting requirements and mandatory repayments.
- Together with recent changes in the collateral framework, **TLTROs support provision of credit to SMEs**.
- In addition, current initiatives **supporting ABS market** revitalization to **foster banks' lending capacities** by developing high-level principles of **'qualifying securitisations (QS)'** and preparatory work related to outright purchases in ABS market
- Finally, **structural policies** aimed at broader range of financing alternatives, at more harmonised fiscal treatment of debt /equity and at increased overall competitiveness crucial for SMEs in Europe.

15

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**Thank you!**

16

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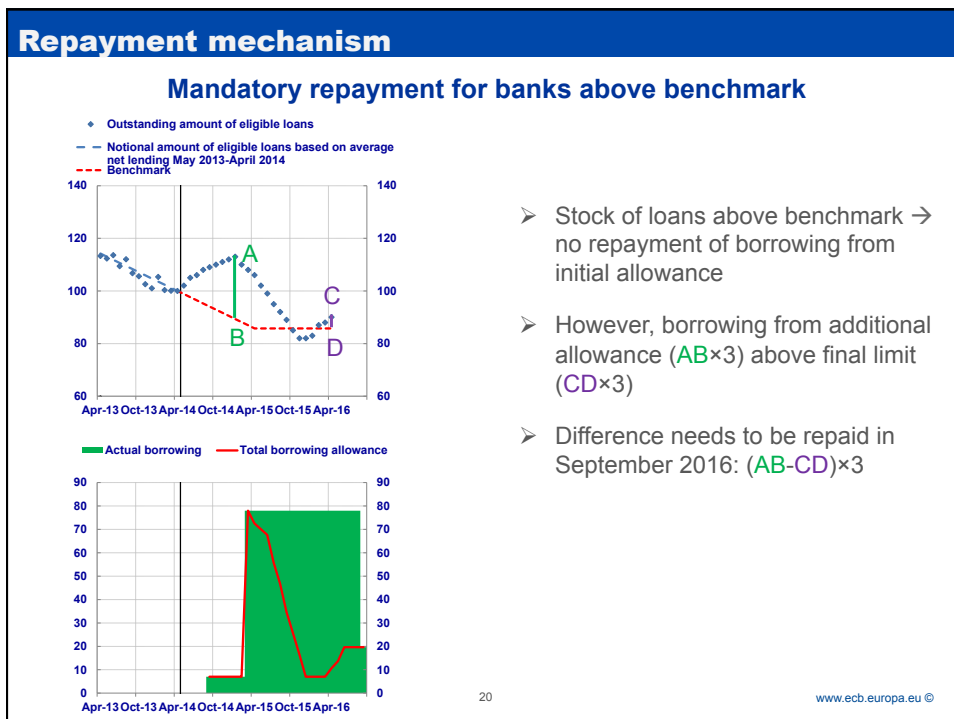


## Background

	First TLTRO	Second TLTRO
Lead institutions apply to their respective home NCB for TLTRO group treatment	By 8 Aug 2014, 3.30 p.m. (application must be based on the most up-to-date data on close links and indirect reserve holdings as at 31 July 2014)	
NCBs provide confirmation to lead institutions regarding TLTRO group treatment	On 25 Aug 2014, by 3.30 p.m. at the latest	
Counterparties interested in participating and those that participated in previous TLTROs send completed reporting templates to NCBs	By 28 Aug 2014, 3.30 p.m. Reporting period: 1 May 2013 to 30 April 2014 Data vintage used for BSI transmission with July 2014 as the reference month	By 20 Nov 2014, 3.30 p.m. Reporting period: 1 May 2014 to 31 October 2014 Data vintage used for BSI transmission with October 2014 as the reference month
NCBs inform counterparties about their borrowing limits	On 11 Sept 2014, by 3.30 p.m. at the latest	On 4 Dec 2014, by 3.30 p.m. at the latest
Announcement of the TLTRO	16 Sep 2014 (3.30 p.m.)	09 Dec 2014 (3.30 p.m.)
Deadline for counterparties to submit bids to NCBs	17 Sept 2014 (9.30 a.m.)	10 Dec 2014 (9.30 a.m.)
Allotment	18 Sept 2014 (11.15 a.m.)	11 Dec 2014 (11.15 a.m.)
Settlement	24 Sept 2014	17 Dec 2014

	First TLTRO	Second TLTRO
Counterparties send updated reporting templates (for calculating mandatory early repayments) to NCBs	By 3.30 p.m. on 17 August 2016 Reporting period: 1 May 2014 to 30 April 2016 (Data vintage will be published later)	
NCBs inform counterparties about mandatory early repayments	On 31 Aug 2016, by 3.30 p.m. at the latest	
Settlement of mandatory early repayments	29 Sept 2016	
Settlement of first voluntary early repayment	28 Sept 2016	21 Dec 2016
Maturity	26 Sept 2018	

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- Stock of loans above benchmark → no repayment of borrowing from initial allowance
- However, borrowing from additional allowance ( $AB \times 3$ ) above final limit ( $CD \times 3$ )
- Difference needs to be repaid in September 2016:  $(AB - CD) \times 3$

