

Bank of England

16 April 2025

Sterling Monetary Framework

Level C Loan Collateral

Participants must meet the following criteria:

- Participants must meet the Bank's expectations for a prudent lender within the business line being considered.

Loan portfolios must meet the following criteria:

- At the time of prepositioning and on an ongoing basis, individual loan portfolios must have a minimum notional value of £25m.
- At the time of prepositioning and on an ongoing basis, individual portfolios must be sufficiently diverse such that the largest ultimate obligor comprises no more than 10% of the portfolio's current balance and top 5 obligors comprise no more than 30%. The portfolio should have a minimum effective number of borrowers of 30¹.
- Assets within the pool must be sufficiently similar such that they can be risk managed as a single pool.

Individual loans must meet the following criteria:

- The loan must be a residential mortgage, consumer loan (excluding credit cards), asset finance, auto loan, private finance initiative loan, social housing loan, commercial real estate loan or corporate loan to a non-bank (including small and medium-sized enterprises).
- Asset finance and term loans under HM Treasury's Coronavirus Business Interruption Loan Scheme (CBILS) or Coronavirus Large Business Interruption Loan Scheme (CLBILS) and loans under the Bounce Back Loan Scheme (BBLs), qualify under these criteria.
- Loans under BBLs, CBILS or CLBILS must be pledged in separate pools and cannot be added to existing loan pools. Only loans with a valid government guarantee are eligible. If a loan guarantee is cancelled by the guarantor or the guarantee agreement is terminated by either party, then the loan will cease to be eligible.
- The loan must be fully drawn, senior and for a fixed term, or a loan under a revolving credit facility (Excluding credit cards).
- The borrower must be domiciled in the United Kingdom with, in the case of a corporate, its centre of main interest in the UK.
- The loan must be denominated in sterling, euro or US dollars. In a given portfolio, all loans must be of the same denomination.

¹ Effective Number of Borrowers = $\frac{1}{\sum W_m^2}$ where W_m = Weight of the exposure to obligor m in the pool

- Loans where the borrower is paying, will revert to paying, or may be required to pay, interest or any other amount calculated by reference to US dollar credit sensitive rates² will not be eligible.
- The residual loan maturity at prepositioning (excluding consumer, auto loans and asset finance) must be between three months and forty years.
- At the time of prepositioning, loans must meet the Bank's minimum seasoning requirements: one month for asset finance (including under HM Treasury's CBILS and CLBILS), auto loans and consumer loans; two months for residential mortgages; and three months for corporate, PFI, SME and social housing loans.
- For term loans under HM Treasury's CBILS and CLBILS only, the minimum seasoning requirement is two months; for loans under BBLs only, no minimum seasoning requirement applies.
- The loan and, where applicable, the security must be governed by the laws of England and Wales, Scotland or Northern Ireland.
- The loan must have been originated by the Participant (or where applicable, third party lender) in accordance with the Participant's (or where applicable, third-party lender's) standard lending criteria.
- In the event that the Participant's documentation lists the owner of a loan asset as being a legal entity other than the Participant, evidence, such as a formal legal opinion from legal counsel, that the Participant is the legal and beneficial owner of the loan asset will be required.
- The underlying loan documentation must not include restrictions on the disclosure of communications, financial and/or other information to the Bank, subject to appropriate confidentiality undertakings.
- No borrower should be in arrears or in default at the point of prepositioning. Loans that subsequently fall into arrears or default post-prepositioning should be retained in loan portfolios and will be assigned an appropriate default probability.
- Loans secured by rental properties in England and Wales must have a current Energy Performance Certificate (EPC) rating of at least 'E' unless the SMF counterparty can confirm that the property has a valid exemption in place, in line with the Domestic Minimum Energy Efficiency Standard (MEES) Regulations. Loans that fall outside this criteria will be assigned with zero nominal value.

Additionally, the loan must have a low expected probability of default, as determined by the Bank, and evidenced by a Participant's internally or externally assigned rating, or as otherwise agreed with the Bank.

The Bank reserves the right to reject any loan portfolio or individual loan offered or provided as collateral, for any reason, at any time.

The following types of loans will not be eligible:

- Loans to banks, building societies, bank holding companies, and companies within banking groups.

² This includes AMERIBOR, Bloomberg Short-Term Bank Yield Index (BSBY), USD Credit Inclusive Term Rate (CRITR), USD Credit Inclusive Term Spread (CRITS) and other similar rates.

- Loans under partially drawn term loan facilities, where the lender of record may be legally required to provide further advances, or where part of the term loan is made available by letter of credit/bank guarantee.
- Term loan facilities where the Bank's eligibility criteria are met only as a result of any letters of credit/bank guarantees.
- Loans where a subordinated creditor has material control over the exercise of the rights of the senior lender(s), or where the rights of the senior lender(s) are subject to onerous restrictions.
- Subordinated debt (including second ranking loans).

The Bank will keep its eligibility criteria under review. The Bank reserves the right to reject any security, loan portfolio or individual loan offered or provided as collateral, for any reason, at any time. Participants should always consult the SMF Documentation, including any relevant market notices, for a complete guide to eligible collateral.