Box E: The Reserve Bank's Term Funding Facility (TFF)

The TFF provides low-cost funding to the banking sector to support the supply of credit, particularly to businesses

The Reserve Bank's TFF was announced on 19 March 2020 as part of a comprehensive policy package to support the Australian economy in the face of economic and financial disruptions resulting from the COVID-19 pandemic. The TFF provides a guaranteed source of low-cost funding for the banking system, and so helps to support the supply of credit and lower interest rates for households and businesses. It also provides an incentive for authorised deposit-taking institutions (ADIs) to increase their lending to businesses, especially small and medium-sized enterprises (SMEs).

ADIs currently have access to over $150 billion of TFF funding

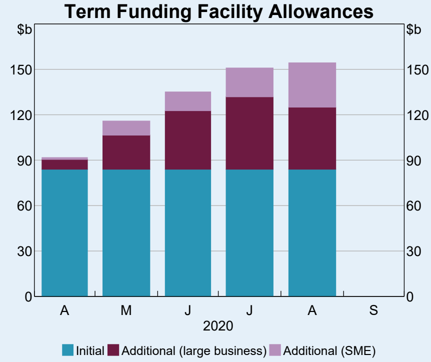
All ADIs that extend credit are eligible to participate in the TFF.[1] This includes more than 130 Australian banks, credit unions and building societies, as well as foreign bank branches and subsidiaries operating in Australia. The amount that each ADI can borrow under the TFF is the sum of two allowances:

- *Initial allowance*: This was fixed at the start of the scheme to be equivalent to 3 per cent of each ADI's total credit outstanding. ADIs can access their initial allowance until 30 September 2020.
- *Additional allowance*: ADIs can access additional funding under the TFF if they expand their business credit, particularly for SMEs (those with turnover of less than $50 million). For every extra dollar of loans an ADI makes to large businesses, ADIs can access one additional dollar of funding from the Reserve Bank. For every extra dollar lent to SMEs, they have access to an additional five dollars of funding. ADIs are able to draw on their additional allowance, which is updated monthly, until 31 March 2021.

In total, ADIs currently have access to just over $154 billion in secured three-year funding from the Reserve Bank (Graph E.1). This is equivalent to around 5 per cent of the stock of ADI credit outstanding. The initial allowance accounts for a little more than half ($84 billion) of TFF funding currently available. The amount of funding available under the additional allowance – $70 billion – has increased markedly since the scheme opened, reflecting an increase in business lending by various ADIs.

Graph E.1

Term Funding Facility Allowances



* Initial allowance drawdown period ends 30 September 2020; additional allowance drawdown period ends 31 March 2021

Source: RBA

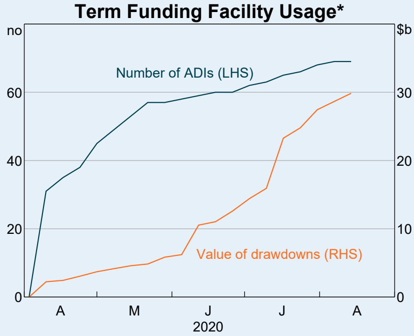
Around half of eligible ADIs have drawn on their TFF allowances to date

ADIs have drawn around $30 billion of TFF funding since the scheme opened in April 2020 (Graph E.2). This consists of 34 per cent of the initial allowance and 2 per cent of the additional allowances currently available under the TFF. The 69 ADIs that have already drawn on the TFF have accessed, on average, around two-thirds of their initial allowance, although there is considerable variation across ADIs (Graph E.3).

TFF drawdowns increased gradually in the first months of the scheme. During this time

Graph E.2

Term Funding Facility Usage*



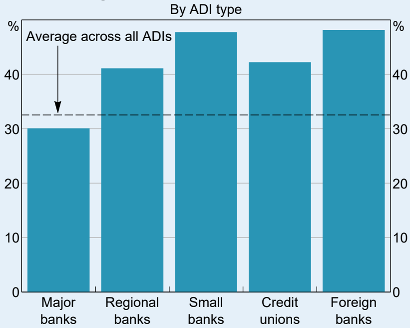
* Partial data for contracted usage in week of 10 August

Source: RBA

Graph E.3

Usage of TFF Initial Allowances

By ADI type



Source: RBA

many ADIs experienced significant inflows of low-cost deposits (see Box D: Recent Growth in the Money Supply and Deposits), and they had also accessed low-cost short-term liquidity from the Reserve Bank's expanded open market operations, which had increased in size and maturity. Combined with expectations of modest credit growth, plentiful short-term liquidity meant that the demand for additional funds by many ADIs was modest.

Drawdowns of the TFF have picked up more recently as ADIs increasingly take up their initial allowance before the deadline of that part of the facility on 30 September. Many ADIs have indicated that they decided to spread out their drawings over the allowance period, which means that their TFF funding will mature in stages in three years' time. This suggests that drawings against the additional allowance may be spread out over the period to 31 March 2021. To date, the overall take-up of the TFF relative to the initial allowance has been consistent with the experience of similar term funding schemes overseas, such as the Bank of England's term funding facilities.

The TFF is helping to keep bank funding costs and lending rates low

The interest rate on TFF drawdowns – fixed at 25 basis points per year for three years – is substantially lower than other sources of ADI funding around the same term. The direct effect of the TFF on funding costs is relatively modest, as total TFF allowances account for a modest portion of ADIs' non-equity funding. However, the TFF also works through indirect channels to lower ADI's funding costs and improve funding conditions. The availability of a low-cost funding alternative in an environment of modest additional funding needs has lessened the demand by ADIs for other sources of funding. As a result, the TFF – jointly with the RBA's other policy measures – has contributed to the downward pressure on funding costs more broadly since February. This has helped to support credit supply to the economy and has contributed to the decline in the borrowing rates faced by households and businesses to historically low levels in recent months.

Endnotes

[1] The Australian Government has a complementary program of support for the non-bank financial sector, small lenders and the securitisation market, which is being implemented by the Australian Office of Financial Management.