

Update on interest costs charged to levy payers for 2008 failures

On 31 March 2017, UK Asset Resolution announced the sale by Bradford & Bingley of certain mortgage assets. FSCS borrowed from HM Treasury for its costs of the Bradford & Bingley resolution in 2008, amounting to £15,654m. Interest accrues on the loan at the higher of 12 month GBP LIBOR plus 1.11% or the relevant rate notified by the Debt Management Office each month. The LIBOR-based rate has been the applicable rate for each month in 2016/17. The interest accrued is payable annually, six months in arrears. Therefore, each summer, FSCS raises a levy on deposit takers for the interest accrued in the 12 months ending on 31 March of that year.

FSCS has announced that it will levy £202m in summer 2017 for the interest accrued up to 31 March 2017. This amount is not affected by the recently announced transaction. The amount to be levied is lower than the total interest accrued during the year (which amounted to £306m) as FSCS is able to meet part of the cost from recoveries made on other estates.

On 25 April 2017, as a result of the recent transaction, by applying proceeds of the sale, the balance that FSCS owes to HM Treasury reduced to £4,678m. From that date, interest will accrue on that lower balance. FSCS has now forecast interest costs for 2017/18, which will be levied in summer 2018, in the amount of £106m for the year.

Levy payers should be aware that the amount actually raised by levy in summer 2018 may be substantially different. The charge for the year will be dependent on interest rates which may move between now and March 2018. Further, FSCS is currently holding funds to enable payment of the final amount due to HM Treasury for the resolution of Dunfermline Building Society. The amount due has not yet been agreed with HM Treasury, but agreement is expected later in 2017. If the amount agreed with HM Treasury varies from the sum held for that purpose, it is expected that will be reflected in the levy raised in summer 2018. FSCS is also due further dividends from some of the banking failures of 2008, notably Heritable Bank and Kaupthing Singer & Friedlander. If such dividends are received in this year, they may be used to reduce the amount of levy raised to pay the interest due to HM Treasury on the remaining loan for Bradford & Bingley.

UK Asset Resolution's announcement of the sale also noted that there may be further sales of mortgage assets in the near future, the proceeds of which may further reduce the balance of FSCS's loan with HM Treasury and, therefore, the amount of interest accruing.

In summary, FSCS will raise a levy of £202m in summer 2017 as previously announced. For summer 2018, the levy is expected to cover the forecast interest cost of £106m, but the amount raised may differ materially due to the impact of interest rates, Dunfermline, other recoveries and any further B&B asset sales.

FSCS will continue to provide updates to the industry through our *Outlook* publication and other updates on our website.