

The Funding Climate

Financing Affordable Rural Homes

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Introduction

- Current Funding Market for Affordable Housing
 - Who, What terms, What lenders expect
- Opportunities for Rural Development
 - Special circumstances?
- Prospects for the future
 - Better or Worse?

Current Position

- No shortage of private finance
- Mix of banks, bond aggregators and direct investment by insurance funds
- Affordable Housing Finance Ltd.
- Much more commercial environment

Bank Facilities

- Around 10 potential lenders
- Mostly limit to 10 years BUT
- Some longer term facilities becoming available
- Longer facilities are more expensive
- Minimum amount £5.0m
- Financial Covenants and Asset Cover tighter

Bank Terms

- Maximum Term of 10 years but improving
- Variable rate Term Loan or Revolving Credit facility
- Minimum Asset Cover 115% EUV-SH or 130% MV-T
- Minimum Interest Cover 110% in every year
- Maximum Gearing 75% of Net Tangible Worth
- Margin 1.65% to 2.25% depending on structure
- Arrangement Fee 0.75% to 1.25%
- Non-utilisation fee half of margin
- Negotiable range of repayment structures

Long Term Capital Market Funding

- Public Bonds – minimum £100m
- Aggregated Bonds – minimum £1.0m
- Private Placements – minimum £5.0m
- Direct Investment - minimum £10.0m
- Sale and Leaseback – big deals
- Lease and Leaseback – big deals

Aggregated Bond Terms

- Maximum of 30 years
- Fixed or Inflation Linked Coupon
- Minimum Asset Cover of 105% EUV-SH or 115% MV-T
- Minimum Interest Cover 100% in every year
- No Gearing Covenant
- Coupon 1.0% to 2.0% over reference Gilt
- All-in cost less than 5.0%
- Arrangement Fee 0.5% to 1.0%
- Bullet repayment or stage repayments
- Full facility secured and drawn on completion

National Housing Guarantee Scheme

- 30 year fixed rate aggregated bonds
- Guaranteed by central government
- Minimum Asset Cover of 115% EUV-SH
- Minimum Interest Cover 100% in every year
- No Gearing Covenant
- Coupon likely to be 0.25% to 0.50% over reference Gilt
- All-in cost less than 4.0%
- Arrangement Fee 0.35% or 1.0% for EIB money
- Bullet repayment
- Full facility secured and drawn on completion

National Housing Guarantee Scheme

- One way link to capital grant
- If grant is allocated HARP expected to apply for Loan Guarantee Scheme funding or explain why not
- Guaranteed Loans are available without grant
- Development must be additional to AHP
- Development must be new build
- Government development package

Lender Expectations

- Viable going concern business making operating surpluses
- Unencumbered stock to charge as security
- Adequate forecast cashflow to service debt
- Strong financial governance
- Well informed and fully engaged Board
- Talented, experienced finance team

Opportunities for Rural Development

- No different to urban development
- The same commercial parameters apply
- Variety of funding available
- Specialised products for small Associations
- Stock valuation may be an issue due to Title Restrictions

Future Challenge

- Viable, sustainable development
- Much lower grant rates
- Much higher proportion of private finance
- Internal cross-subsidy or equity input required
- New development model required to be sustainable

The Future

- Bank market is improving but will never return to pre-credit crunch conditions
- More lenders and investors are likely to enter the market
- More competition means better terms and more variety
- All lending will be at commercial terms

New Funding

- When to approach the market?
 - Lead time of 6 months for bank finance
 - Lead time of 12 months for bond type finance
- May need to tailor development to funders requirements
 - Do not develop stock with no security value
 - Schemes must be viable in current market conditions