



SOCIAL HOUSING FINANCE

BANKING HANDY GUIDE

An introduction

Social housing finance is the financing of social housing providers such as housing associations, commonly used to support investment in their housing stock or the development of new housing. Such finance is generally provided either as debt under a facility agreement from a bank, building society or other specialist lender, or under a capital markets-based structure involving a private placement or bond issue. This guide focuses on debt facilities and private placements.

While social housing finance has many of the same features as a general corporate finance deal and the documentation used is similar in format, it contains a number of peculiarities due to the nature of the activities being financed and the structures generally applied to such finance.

●● Borrower covenants focus on a negative pledge and restrictions on disposal of assets, mergers and on-lending.

This guide looks at some of the key features of social housing finance before discussing some of the key terminology you would expect to come across in this context.

What are the key features?

Loan facilities tend to comprise a mixture of term loans and revolving credit facilities and are generally governed by a LMA-based facility agreement. Private placements are governed by a note purchase agreement under which loan notes are issued to investors.

Repayment is either amortised or bullet.

Interest is usually linked to LIBOR with fixed rate loan options being provided by way of embedded hedging. ISDA-linked hedging is unusual except for larger social housing providers.

In contrast to recently formed social housing providers, where business plan approval is the norm, mature social housing providers are frequently multi-financed with lenders and investors relying on ring-fenced pools of security, coupled with control

There are generally three financial covenants. First, there is an interest cover covenant, measuring adjusted operating surplus (as adjusted to accommodate accounting principle FRS102) to net interest payable. Secondly, there is generally a gearing covenant, often measuring historic cost of properties or gross debt to total financial indebtedness. Lastly, there is generally an asset cover covenant, measuring the value of the charged properties to the amount outstanding.

Security takes the form of a legal charge (or standard security in Scotland). Floating charges are rare. Security is often held by an independent security trustee appointed for this purpose under a security trust deed.

Borrower covenants focus on a negative pledge and restrictions on disposal of assets, mergers and on-lending. Development-related covenants are generally light.

Classic events of default, such as non-payment, breach of financial covenants and insolvency apply but with an added focus on regulatory intervention reflecting the weight lenders and investors place on the regulatory framework applying to the social housing sector.



Key terminology

Borrower

The social housing provider in its capacity as borrower of loan facilities.

Break costs

The cost of prepayment of a loan during its interest period.

Business plan

The Borrower's business plan, commonly incorporating long term financial projections covering the Borrower's statement of comprehensive income, statement of financial position and statement of cash flow together with an annual budget for expenditure. A copy of this is provided to the Lender annually for information purposes in the case of mature social housing providers, or for approval in the case of less mature providers operating on the basis of business plan-linked financial covenants.



EUV-SH and MV-ST

Valuation methodologies applied to the Borrower's housing stock, with EUV-SH standing for Existing Value – Social Housing and producing a lower value due to assumed use as social housing (with associated rental value) when compared to MV-ST which stands for Market Value – Subject to Tenancies which assumes that the housing units are let at market rents.

Facility agreement

An agreement governing the lender/borrower lending arrangement.

Fixed rate loan

A loan drawn on a fixed rate of interest.

Issuer

The social housing provider in its capacity as the issuer of loan notes to investors.

LIBOR

A market bench-mark over which an interest margin is charged.

LMA

The Loan Market Association, a body which issues market-facing facility documentation and on which facility agreements to social housing providers are generally based.

Loan notes

An extended form of an IOU from one party to another that enables a payee to receive payments, with an interest rate attached, over a set period of time, with the notes either being amortised or repayable by way of a bullet repayment on expiry. Loan notes are the form of investment generally held by investors under a private placement.

Make-whole amount

The amount payable by an Issuer in the relevant “early repayment of loan” notes.

Mark-to-market cost

An amount due on prepaying a fixed rate loan prior to maturity.

Note purchase agreement

The document under which a social housing provider authorises the issue of, and sells loan notes to, an investor.

Private placement

A fund raising exercise under which a social housing providers sells loan notes to an investor or group of investors selected for this purpose, commonly pension funds or similar, and distinct from a public offering.

Private placement memorandum

A marketing document used for the purpose of selling loan notes to investors.

Registered society

An entity registered under the Co-operative and Community Benefit Societies Act 2014, including former industrial and provident societies, and a common form of constitution for housing associations.

Regulator

In England, this is the Regulator of Social Housing, being the Regulation Committee, a statutory committee of Homes England. In Scotland this is the Scottish Housing Regulator, established under the Housing (Scotland) Act 2010.



Did you know?

The Brodies team has been involved in all of the whole stock transfers completed in Scotland. They also advised on the first private placement and the first listed bond issue by a social housing provider in Scotland.



Road show

A marketing exercise under which social housing providers market a proposed private placement to investors.

Security trust deed

A deed under which an independent corporate trustee is appointed to hold security for named beneficiaries.

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