



## Margins Squeezed to Lowest Ever

### LIBOR plus 5

These rates seem almost too good to be true, but THFC has entered into a £100m facility with the European Investment Bank (EIB) which provides these rates for RSLs. This represents a saving in NPV terms of over £300,000 for a £10m, 20 year loan, compared to current funding margins.

The funding has to be used for urban regeneration projects, and since that is mostly what RSLs do in one form or another, most development projects qualify for it. So far, seven RSLs including Liverpool Housing Trust, Mosaic, Mosscafe, Wandle, West Mercia and Yorkshire Housing have taken up £80m of this innovative funding.

EIB is well known for

funding major regeneration projects costing hundreds of millions of pounds such as Sunderland and Wakefield. However, THFC has persuaded them that there is a lot of excellent regeneration work going on at the micro level. The advantage of this to our borrowers is that the due diligence requirements for projects under this facility are minimal

Peter Mannering, Treasury Manager at Family Mosaic commented "We have secured a £30m EIB loan to fund these [regeneration] schemes because it will provide some of the cheapest funding on the market. The EIB requirements for qualifying schemes were easy to follow. Indeed we found the whole application process straightforward and

painless".

Malcolm Wilson, Finance Director of Wandle Housing Association said "Wandle were delighted to take the EIB loan which provides an opportunity to access a new source of funding at competitive rates".

Guy Millichamp, Group Treasurer at Yorkshire Housing made the point that "delivering successful regeneration is a difficult task, so finding cheap funding is a real bonus and will enable us to do even more for our tenants".

If you are interested in finding out how this facility can benefit you, call Colleen Green 020 7337 9928 or Nigel Perryman 020 7337 9932.

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#### THFC 2006 ANNUAL REPORT AND ACCOUNTS

For copies of our 2006 annual report and accounts, please go to our website at [www.thfcorp.com](http://www.thfcorp.com) and click on the tab "Annual Account" where they are downloadable in .pdf format. You will also be able to download our specially commissioned Market Report written by Prof. Steve Wilcox, chair in Housing Policy at York University. If you prefer hard copies, please contact Isabel Jiménez on 020 7337 9920.

THFC is fast building a reputation for constructing innovative financial solutions for its customers. At the same time it has a unique history, being formed *by* the sector, *for* the sector.

We try to factor that heritage into what we do and the support we provide - in a way that is relevant to Housing Associations today. If you are reading this note, it is likely that you are familiar with our lending activities. In contrast, did you know that the THFC team are active in a number of housing policy initiatives? We have taken

## Market Briefing

part in the lobbying of the Department of Works and Pensions over the potential for payment of housing benefit direct to tenants (we think it is a bad idea). We are also a member of the expert panel advising the current Shared Equity Taskforce set up jointly by Department of Communities and Local Government and the Treasury. We run a set of free regional briefing seminars for Housing Associations on topical finance subjects (see page 3).

To underline our reputation for independent thinking and

to accompany the release of our 2006 Report & Accounts, we commissioned a Market Report from one of the foremost experts in our market: Professor Steve Wilcox from the Centre for Housing Policy at the University of York. He has written us a piece on likely trends in the finance of social housing in the coming year. To read the report go to [www.thfcorp.com](http://www.thfcorp.com)

We welcome feedback both on Steve's article and on THFC generally.

## The THFC Team – some changes

We have had some staff changes at THFC and we are pleased to update you on our team members and their roles.

### Piers Williamson

Piers is Chief Executive of THFC and has been with THFC for four years. Piers leads the organisation and encourages the team to continue to deliver excellent customer service to our borrowers both in loans administration and also in developing innovative financing and refinancing solutions.

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### Fenella Edge

Fenella is Group Treasurer and has been with THFC for almost four years. She is responsible for relationships with THFC's lenders and investors and, through her team, for relationships with borrowers. Her focus is on developing funding ideas which are relevant to the sector's needs both now and in the future.

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### Colleen Green

Colleen is one of two Relationship Managers who are the main point of contact for our borrowers. Colleen has been with THFC for three years and has just returned from maternity leave – now the proud mum of Sam. Colleen will be working three days a week and she will soon be contacting those borrowers for whom she is to be the primary contact to review the current loans and the prospects for working together going forward.

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### Nigel Perryman

Nigel is our other Relationship Manager and he has been with THFC for eighteen months. Most of our borrowers will know Nigel as he has been covering pretty much the whole patch while Colleen has been away and he too will soon be contacting those borrowers for whom he

is to be the primary contact going forward.

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### Yang-May Ooi

Yang-May has been on secondment to THFC from Trowers & Hamlins solicitors for almost a year, providing cover during Colleen's maternity leave. She has now joined the permanent staff as Security Portfolio Manager and she will be responsible for all aspects of security associated with our loan portfolio including charging properties and collating valuation data and also with other legal issues, for example, concerning mergers and group structures.

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### Colin Burke

Colin is THFC's Finance Manager and has been with THFC for almost four years. Colin is responsible for the finance function and for loans administration covering both THFC's own loans and those we manage for third parties such as Haven Funding and Harbour. Colin is also THFC's Company Secretary and provides secretarial services to all THFC group companies and third party managed companies.

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### Ian Lloyd

Ian is Finance Assistant and has been with THFC for three years. Ian is responsible for the day to day activities of the finance area and also for overseeing and monitoring the data collected from borrowers in some of the managed company transactions such as Haven Funding and liaising with the Rating Agencies.

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### Samalie Mugambwa

Samalie is our Loans and Credit Administrator and has been with THFC for almost two years. She is responsible for all aspects of loans administration and maintaining our loans database. Samalie is approaching the end of a project to implement a new treasury system which will provide more flexible cashflow analysis and reporting. Samalie is also responsible for overseeing and monitoring the data collected from borrowers in some of the managed company transactions such as Haven Funding and liaising with the Rating Agencies.

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And last but certainly not least.....

### Isabel Jiménez

Isabel joined THFC about six months ago as Executive Assistant. As well as acting as PA to the team and generally making sure the office runs smoothly, she also provides administrative support to Colin as Company Secretary. Amongst other areas, Isabel faces the challenge of keeping THFC's customer database up to date with name changes, group mergers and personnel changes. A never ending task! She's also played an important role recently in updating all of THFC's group accounts to International Financial Reporting Standards (IFRS).

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WE'RE ON THE WEB!

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## Product Update

In a competitive financing market for the sector we are listening to what our customers want and we are focussing on financial solutions with: low margin, asset efficiency, funding diversity.

<p><b>Bond products</b></p> <p>Asset efficient ☺</p> <p>Funding diversity ☺</p> <p>Competitive fixed rate ☺</p>	<p>We are currently putting together a tap of our most recent bond. Outline terms are as follows:</p> <ul style="list-style-type: none"> <li>✦ Maturity – December 2035</li> <li>✦ Effective rate – 4.80% fixed</li> <li>✦ Standard THFC covenants</li> <li>✦ No corporate covenants</li> </ul> <p>This is the most asset efficient public bond structure in the market, achieving, for some borrowers, debt per unit of over £60,000. It is more cost efficient to consider refinancing old THFC bonds via this route rather than through alternative financings.</p>
<p><b>EIB funding</b></p> <p>Low margin ☺</p> <p>Funding diversity ☺</p>	<p>For regeneration projects we have a facility available from the European Investment Bank with a margin of c.5bps over LIBOR, for a 20 year bullet loan. There is a limited amount of due diligence required to get the projects approved and no ongoing project reporting.</p>
<p><b>Commercial Paper</b></p> <p>Low margin ☺</p> <p>Funding diversity ☺</p>	<p>This is a new product THFC is developing for those borrowers with a sizeable working capital requirement. It is a short term product and would allow borrowers to access typically one month, three month or six month funding at LIBOR + 5bps all-in. Borrowers can extend the term of the borrowing by rolling over maturing loans.</p>
<p><b>Bi-lateral facilities</b></p> <p>Competitive margin ☺</p>	<p>We can offer flexible repayment terms for banking style facilities – ranging from five year revolving credit facilities or bullet loans to 25 year annuity structures. Margins range from 25 to 30bps over LIBOR or fixed rate cost of funds. This can prove an efficient use of excess security already charged to THFC.</p>

## THFC Development and Finance Seminar 14 September 2006

THFC joined forces with Clarke Wilmott to offer another in a series of free regional seminars for borrowers. This seminar focused on development and was held in Clarke Wilmott's Bristol offices.

The range of topical sessions included:

- Piers Williamson, THFC's Chief Executive examined issues relating to Low Cost Home Ownership (LCHO) and Intermediate Housing.

- Housing market trends were analysed from a regional lender's perspective by Peter Hughes, Head of Commercial Lending, Principality Building Society and from a national valuer perspective by Michael Miles of Mazars.

- Andrew Campbell and Chris Charlton of Clarke Wilmott gave their view of the legal implications of Planning-gain Supplement and Roof Tax for affordable housing provision.

- David Levenson, Director of Tribal HCH looked at experiences of Housing Associations entering Joint Ventures with commercial housebuilders.

If anyone would like copies of seminar handouts from the day, please contact Isabel Jiménez on 020 7337 9920.



## THFC Covenant Flexibility

As THFC is an issuer of long term bonds, our core lending terms reflect our investment needs for certainty and stability. Changes to certain terms require the approval of the majority of our bondholders and a number of our lenders.

When we did the first bond issues in the late 1980s the financing of social housing was very different from today. Private finance was limited and institutional investors were asked to invest in a somewhat unknown quantity. In return, they required asset cover levels that, today, are viewed as very conservative.

Some of those investors own THFC bonds which still have 20 years to run before they mature and investors would wish to receive compensation to reduce the asset cover requirement (which increases their risk). So although there is a mechanism for obtaining majority approval to change our core terms, some aspects are “off limits”.

THFC is conscious though that our

borrowers’ needs have changed considerably in recent years especially with respect to group structures. A number of our clients now wish to route all their funding through a non-registered funding vehicle and to have more flexibility with regard to the pooling of security within the group. While neither of these scenarios is possible under THFC’s current terms, we have consulted with our main investors and have put forward a number of changes to our core terms which would facilitate such arrangements. We obtained the support of the Association of British Insurers and organised a series of extraordinary general meetings of our stockholders to consider the special resolutions which needed to be passed.

After a great deal of chivvying and chasing, the required number of investors voted unanimously to agree to the changes. We have one consent outstanding from lenders and a private placement holder and once we receive those, our changes can be implemented. It is important

to note that these changes only apply to THFC Limited rather than to loans from any of our subsidiaries.

Highlights include:

- ✦ The ability to lend to unregistered group funding vehicles
- ✦ The ability to accept collateral security from other group members
- ✦ The ability to accept security charged to a security trustee
- ✦ More flexibility around small asset cover and income cover shortfalls
- ✦ More flexibility around the timing of prepayments
- ✦ The ability to accept the underlying THFC bonds in prepayment of a bond related loan, allowing the borrower to effectively prepay at the market price rather than the more onerous Adjusted Redemption Price.

If you would like more details, please contact Fenella Edge, Group Treasurer on 020 7337 9923.

## Annual Covenant Compliance Certificates – Reminder!

For those borrowers with financial years ending 31 March, your annual compliance certificates are due by the end of September. The following bullets summarise what is required:

- **Auditor or Officer?** THFC Limited borrowers can give us certificates signed by an authorised officer. All other borrowers with: THFC(Indexed), THFC(SHF) and THFC (First Variable) will need their auditors to issue the certificates.
- **Fixed or Floating Charge Security?** For borrowers whose

loans are secured by fixed charges, an income cover certificate is required. This confirms that income cover is not less than the covenanted level. Borrowers with loans that pre-date November 1991 should contact their Relationship Manager for clarification of their exact requirement. Borrowers with floating charges will need to provide calculations for each loan demonstrating that covenanted levels of asset cover have been maintained.

- **Certificate of No Default –** This should be provided in all instances.

If you need clarification on any of the above points, please contact your Relationship manager – either Nigel or Colleen. We will also be able to provide proforma certificates to save you time. In particular, we have made some changes to the floating charge asset cover calculation sheet and added specific guidance notes to make it easier to complete.

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