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**( I N D E X E D 2 ) L I M I T E D**

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*(Incorporated and registered in England with limited liability under the Industrial and Provident Societies Act 1965 under Registered Number 27114R)*

**£31,250,000**

**5.5 per cent. Index-Linked Stock 2024**

**Issue Price 99.460 per cent.**



**S.G. Warburg Securities  
HSBC Markets Limited**

*This document includes particulars given in compliance with the Regulations of the London Stock Exchange (as defined below) for the purpose of giving information with regard to the issue by way of placing of £31,250,000 5.5 per cent. Index-Linked Stock 2024 (the "Stock") of T.H.F.C. (Indexed 2) Limited ("THFCIL 2"). The directors of THFCIL 2, whose names appear on page 39, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*The Stock has not been and will not be registered under the Securities Act of 1933 of the United States, as amended, and is not being offered and may not be offered, sold or delivered, directly or indirectly, in the United States or to U.S. persons.*

*The proceeds of the issue of the Stock will, subject to satisfaction of certain conditions precedent, initially be lent to the thirteen housing associations described below (the "Initial Authorised Borrowers").*

*The Stock is issued at £99.460 per £100 nominal payable in full on acceptance.*

*Application has been made to The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange") for the Stock to be admitted to the Official List. It is expected that the Stock will be admitted on 19th December, 1994.*

*A copy of this document, which comprises listing particulars relating to the issue of the Stock by THFCIL 2 in accordance with the listing rules made under section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies for registration in accordance with section 149 of that Act.*

*In connection with the issue of the Stock, S.G. Warburg Securities Ltd. may over-allot or effect transactions with a view to stabilising or maintaining the market price of the Stock at levels other than those which might otherwise prevail in the open market. Such action, if commenced, may be discontinued at any time.*

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## Financial Terms of the Stock

The Gross Real Rate of Return on the Stock (as defined in the Particulars of the Stock) at the issue price of £99.460 per cent. payable in full on acceptance is 5.384 per cent. per annum assuming that the value of the Index increases at 5 per cent. per annum from its value of 144.2 (being the value of the Index relating to April 1994) and is 5.470 per cent. assuming that the value of the Index increases at 3 per cent. per annum from the aforementioned value.

Interest only will be paid on the Stock up to but excluding the Payment Date falling on 31st May, 2002. Thereafter, THFCIL 2 will make repayment instalments on the Stock according to the Table set out in paragraph 2.4 of the Particulars of the Stock below and accordingly, on each Payment Date (as hereinafter defined) from and including 31st May, 2002, will, save as set out below, make a constant total payment of principal and interest of £3.8575 per £100 nominal of Stock (subject to indexation as mentioned below) comprising an increasing amount of principal and a declining amount of interest (which shall be calculated on the principal amount outstanding from time to time) all as described in paragraph 2 of the Particulars of the Stock. The payment on 30th November, 2024 will be £3.8561, subject to indexation aforesaid. All payments to be made on the Stock will be subject to indexation as provided in paragraph 2 of the Particulars of the Stock.

## Summary

The following information relating to the issue of the Stock is qualified by, and must be read together with, the further detailed information appearing elsewhere herein. The documents referred to under "General Information" are available for inspection. Terms defined in the Particulars of the Stock bear the same meaning in this Summary.

Issuer	T.H.F.C. (Indexed 2) Limited ("THFCIL 2"), incorporated in England with limited liability under the Industrial and Provident Societies Act 1965 under registered number 27114R.
Purpose of the Issue	The purpose of the issue is for THFCIL 2 to obtain private sector funding for the development of housing projects promoted by housing associations registered with the Housing Corporation under section 5 of the Housing Associations Act 1985. The funds raised will, initially, be lent to the registered housing associations listed below (the "Initial Authorised Borrowers") and thereafter only to Authorised Borrowers. All such loans must comply with the provisions applicable to Authorised Loans. A description of the housing association movement is set out on pages 41 to 47 below.
The Stock	£31,250,000 5.5 per cent. Index-Linked Stock 2024.
Status of the Stock	The Stock will rank equally amongst itself and will constitute direct, secured and unconditional obligations of THFCIL 2. The Stock will constitute obligations solely of THFCIL 2 and will not be guaranteed by, or be the responsibility of, any other entity.
Form of the Stock	The Stock will be registered and transferable in amounts and integral multiples of £1 in nominal amount by an instrument of transfer.
Security for the Stock	The Stock will be secured by a first floating charge on the undertaking and all the assets for the time being both present and future wheresoever situate of THFCIL 2 but will not be otherwise guaranteed or secured. THFCIL 2 will give a negative pledge as described in paragraph 7.1 of the Particulars of the Stock below.
THFCIL 2's Asset Value and Income Cover	THFCIL 2 will covenant in the Trust Deed to procure that, subject to a 90 day grace period in the event of any redemption by an Authorised Borrower, the aggregate value of the Indexed Outstanding Principal Amount of Authorised Loans and index-linked investments of THFCIL 2 and cash which the Trustee agrees should be counted shall equal or exceed the Indexed Outstanding Principal Amount of the Stock at that time and that its income and expenditure account will not show any deficit.
Interest Payments	The Stock will bear interest from 16th December, 1994 (the "Closing Date") calculated on the basis of the Outstanding Principal Amount of the Stock at the rate of 5.5 per cent. per annum which will be indexed as described in "Indexation" below and payable semi-annually in arrears on 31st May and 30th November in each year save that the first payment of interest on the Stock will be made on 31st May, 1995 in respect of the period from and including 16th December, 1994 to but excluding 31st May, 1995 and will amount to £2.5152 per £100 nominal of the Stock.
Repayment Instalments	THFCIL 2 shall repay capital in respect of the Stock on the Payment Date on 31st May, 2002 and on each Payment Date thereafter in each case in accordance with the table set out in paragraph 2.4 in the Particulars of the Stock which will be indexed as described in "Indexation" below.
Indexation	All Repayment Instalments, other capital repayments and Interest Payments on the Stock shall be indexed by reference to the United Kingdom General Index of Retail Prices applicable to the eighth month prior to the month in which payment is made (save as provided in the definition of "Index" in the Particulars of the Stock below).

**Annuity Structure**

The aggregate amount of each Interest Payment and Repayment Instalment (prior to indexation) payable on each Payment Date falling on or after 31st May, 2002 shall, over the life of the Stock, be a constant £3.8575 per £100 nominal amount of the Stock.

**Authorised Loans**

THFCIL 2 shall procure that an Authorised Loan is made on or before the Closing Date of the Stock to each Authorised Borrower listed on page 10 below. THFCIL 2 will make Authorised Loans on terms as to payment of principal and interest and indexation corresponding to but payable up to one month prior to payments due on the Stock. All further Authorised Loans will be made, so long as any of the Stock is outstanding, on terms with respect to payment of principal and interest and indexation such that THFCIL 2 shall be entitled to receive payments of interest and principal in such amounts and at such times as will enable THFCIL 2 (when aggregated with THFCIL 2's other income) to make any payments due on the Stock and shall be subject to the conditions referred to in paragraphs (b), (c) and (d) below:

(a) *Conditions Precedent* — Each Initial Authorised Borrower shall not be entitled to draw down any Authorised Loan until THFCIL 2 has confirmed that it has received *inter alia* the following in form and substance satisfactory to it:

- (i) a certificate disclosing any floating charges and, where applicable, a duly executed Deed of Priority;
- (ii) if applicable, a duly executed floating charge together with a certified copy of the consent required under section 9 of the Housing Associations Act 1985 in respect thereof;
- (iii) if applicable, a first fixed charge together with a valuation satisfactory to THFCIL 2 of the assets charged, a certified copy of any section 9 consent required in respect thereof and a solicitor's undertaking to register the fixed charge at HM Land Registry and deposit the title deeds with THFCIL 2; and
- (iv) a duly executed legal opinion from solicitors to the Authorised Borrower.

(b) *Security* — Each Authorised Borrower shall, on or prior to the making of any Authorised Loan, create in favour of THFCIL 2 either:

- (i) a first floating charge over the whole or an Identifiable Part of its undertaking and assets; or
- (ii) a first fixed charge over Property and/or Permitted Investments and/or a first charge over cash which satisfies the fixed charge income and asset cover requirements of paragraphs 7.3.4 and 7.3.6 of the Particulars of the Stock; and

(unless THFCIL 2 is satisfied that such monies are to be expended by the Authorised Borrower for any of the purposes set out in paragraph 7.3.9 of the Particulars of the Stock within two Business Days of the monies being advanced) a first charge over monies lent (which may be invested in investments permitted under Parts I and II of the First Schedule to the Trustee Investments Act 1961) pending investment in assets.

In practice where an Authorised Loan is secured by way of Floating Charge Security, THFCIL 2 will usually require the Authorised Borrower to enter into a first fixed charge over any property on which the monies lent are utilised within six months of such utilisation.

Each Authorised Borrower may, subject to the satisfaction of certain conditions, including any asset and income cover requirements, swap from Floating Charge Security into Fixed Charge Security and vice versa.

(c) *Fixed Charge Asset and Income Cover* — Each Authorised Borrower giving Fixed Charge Security shall covenant to procure that:

- (i) the Fixed Charge Asset Cover shall not be less than 150 per cent. of the Indexed Outstanding Principal Amount of the Authorised Loan at any time and on or after the second anniversary of the Authorised Loan (or such later date as the Trustee may agree) at least 90 per cent. of that amount shall comprise of a charge or charges on Property;
- (ii) the Net Annual Income of the Fixed Charge Security shall not be less than 120 per cent. of the aggregate amount of interest payable in respect of the Authorised Loan up to the end of the Authorised Borrower's next accounting period together with any Repayment Instalments falling due within that period. The amount of interest and Repayment Instalments payable for these purposes will be indexed by reference to an Index (if not already known) calculated in accordance with the formula in paragraph 7.3.6.1 of the Particulars of the Stock.

Until the second Payment Date following the date of the relevant Authorised Loan (or if such Payment Date is more than nine months after the date of the relevant Authorised Loan, the Payment Date next following the date of the relevant Authorised Loan) and provided that the amount of any cash held in an Initial Charge relating to that Authorised Loan equals or exceeds 125 per cent. of the Indexed Outstanding Principal Amount of the relevant part of the relevant Authorised Loan as at the date of the relevant Authorised Loan, the Fixed Charge Asset Cover of such cash shall be deemed to be 150 per cent. of the Indexed Outstanding Principal Amount of the relevant part of the relevant Authorised Loan and the Net Annual Income attributable thereto shall be deemed to be not less than 120 per cent. of the aggregate amount of interest payable in respect of an amount of the relevant Authorised Loan equivalent to the outstanding principal amount of such cash up to the end of the relevant Authorised Borrower's next accounting period together with any Repayment Instalments falling due within that period.

(d) *Floating Charge Asset and Income Cover* — Each Authorised Borrower giving Floating Charge Security shall covenant to procure that:—

- (i) its Asset Cover as reported or certified by its auditors or Valuer shall not be less than 300 per cent. of the Indexed Outstanding Principal Amount of the Authorised Loan if determined by reference to its last audited accounts, or if determined on a Current Valuation Basis, 150 per cent. of such amount. Provision is made for a fixed charge over Property equalling or exceeding 150 per cent. of the Indexed Outstanding Principal Amount of the Authorised Loan to be given to THFCIL 2 within 60 days should the Asset Cover, where determined by reference to accounts, fall below 300 per cent. at any time. For the purposes of determining Floating Charge Asset Cover, all "on-loans" by an Authorised Borrower, other than secured loans to an Associate or any loan in the form of a deposit with a bank or building society, are deducted;
- (ii) its income and expenditure account as reported or certified by its auditors and following certain adjustments as described in paragraph 7.3.7.1 of the Particulars of the Stock does not show a deficit. In the event that a deficit is shown the Authorised Borrower must procure a certificate or report from its auditors

confirming that in their opinion such deficit will not adversely affect the Authorised Borrower's ability to perform its obligations under the Authorised Loan for the next twelve months. THFCIL 2 may require the Authorised Borrower to procure a further certificate or report from a separate firm of chartered accountants to such effect.

- (e) *Representations* — Each Authorised Loan will contain representations to be given by the Authorised Borrower which will be repeated on the date of borrowing and on each date for the payment of interest by an Authorised Borrower thereafter.
- (f) *Covenants* — Each Authorised Loan will also contain standard covenants including, *inter alia*, a covenant in respect of the on-lending of sums advanced under the Authorised Loan; this may only be done with the prior written consent of THFCIL 2.
- (g) *Events of Default* — Each Authorised Loan Agreement will contain standard event of default provisions.

Prepayment or Redemption by an Authorised Borrower and Redemption by THFCIL 2

The table set out below summarises the action which THFCIL 2 may take following the redemption of any Authorised Loan, the price applicable to such redemption and the circumstances in which the Stock may be redeemed.

Authorised Borrower's Redemption and redemption price	Action by THFCIL 2
1. Borrower's Tax Redemption — higher of OPA and IOPA	) (a) Substitution of an alternative Authorised Borrower. ) (b) Invest in index-linked securities. ) (c) Purchase Stock. ) (d) Redeem Stock at the higher of OPA and IOPA.
2. Borrower's Optional Redemption — highest of OPA, IOPA and the amount required to enable THFCIL 2 to repay the corresponding amount of Stock at ARP	) (a) Substitution of an alternative Authorised Borrower. ) (b) Invest in index-linked securities. ) (c) Purchase Stock. ) (d) Redeem Stock at the highest of OPA, IOPA and ARP.
3. Borrower's Indexation Redemption — IOPA	) Redeem Stock at IOPA )
4. Borrower's Illegality Redemption — IOPA	) (a) Substitution of an alternative Authorised Borrower. ) (b) Invest in index-linked securities. ) (c) Purchase Stock. ) (d) Redeem Stock at IOPA.

5. Borrower's Default ) (a) Substitution of an  
 Redemption — higher of ) alternative Authorised  
 OPA and IOPA ) Borrower.  
 ) (b) Invest in index-linked  
 ) securities.  
 ) (c) Purchase Stock.  
 ) (d) Redeem Stock at  
 ) higher of OPA and IOPA.

OPA = Outstanding Principal Amount  
 IOPA = Indexed Outstanding Principal Amount  
 ARP = Adjusted Redemption Price

**Cash Flow**

Payments of interest and capital repayment instalments to THFCIL 2 under each Authorised Loan will in practice be made on a payment date up to one month prior to corresponding payments falling due on the Stock. Interest accrued on such amounts will not necessarily be accumulated as reserves in THFCIL 2.

**THFCIL 2's  
 Payment on an  
 Event of Default**

If the Stock becomes due and payable on an event of default as provided in paragraph 3 of the Particulars of the Stock, the amount payable (in respect of any payment actually made) in respect of the Stock will be the higher of (a) the Indexed Outstanding Principal Amount for any month during which such payment is actually made, and (b) the Outstanding Principal Amount multiplied by the lower of the Issue Price of the Stock and the Issue Price of any Additional Stock forming a single series with the Stock, together in each case with such amounts (if any) referred to in such paragraph.

**United Kingdom  
 Taxation**

Under existing United Kingdom law and practice, payments of interest on the Stock may be made without deduction or withholding for or on account of United Kingdom income tax except where payable to a person whose usual place of abode is not within the United Kingdom. THFCIL 2 will not be required to pay additional amounts should any change in the United Kingdom law or practice make such deduction or withholding necessary. THFCIL 2 has been advised that as the Stock will constitute "qualifying indexed securities" within the meaning of paragraph 2 of Schedule 11 to the Finance Act 1989, and as such will not be a deep gain security for the purposes of that Schedule.

Coopers & Lybrand have advised in connection with the issue of the Stock that, in their opinion, under current legislation, the indexation element of the Repayment Instalments on the Authorised Loans would be exempt from tax in THFCIL 2's hands. This should be an effective match for the indexation element of the Repayment Instalments on the Stock which is not an allowable deduction.



# Description of the Initial Authorised Borrowers

## Authorised Borrowers

Each Authorised Borrower is an entity whose principal purpose, objects and powers are to provide, construct, improve, manage, facilitate or encourage the construction or improvement of housing accommodation. Each is either an industrial and provident society or a charitable trust and all are registered housing associations with the Housing Corporation or Housing for Wales who are responsible for the promotion and supervision of such housing associations and may impose controls and restrictions on them. Each Authorised Borrower is prohibited by its constitution from trading for profit and any surplus which may result from its operations may not be distributed, either directly or indirectly, in any way whatsoever among its members. The assets of THFCIL 2 will primarily be the Authorised Loans to the Authorised Borrowers and the security provided by each Authorised Borrower pursuant to its Authorised Loan Agreement.

To enable THFCIL 2 to ascertain the credit status of each Authorised Borrower, THFCIL 2 carries out an initial appraisal of each housing association applying for loan finance. This includes an analysis of its Balance Sheet and General Income and Expenditure Account for the preceding three years. THFCIL 2 also reviews the reports prepared on each association by the Housing Corporation or Housing for Wales as a result of monitoring visits, performance audits or financial reviews. In addition an assessment is made of the association's proposed programme of expenditure. These procedures will also form the basis of THFCIL 2's normal periodic arrangements for monitoring existing Authorised Loans.

In connection with its periodic monitoring, THFCIL 2 makes certain additional enquiries from each Authorised Borrower. These include verification of its registration with the Housing Corporation or Housing for Wales, and the Registry of Friendly Societies; any amendments to the association's rules; any legal, regulatory or statutory action pending or threatened; its overall financial standing; and its relationships with other lenders generally. These enquiries are supported by certificates received from the relevant housing associations and searches made at the Registry of Friendly Societies every six months.

Opinions as to the legal, valid and binding nature of the Authorised Loans are to be given by each Initial Authorised Borrower's solicitors and by Trowers & Hamlins, acting on behalf of THFCIL 2. In addition, in relation to Initial Authorised Borrowers granting Floating Charge Security, a certificate is given by the auditors of each such borrower confirming that the minimum asset cover requirements have been met and that such borrower's latest income and expenditure account did not show a deficit. In relation to Initial Authorised Borrowers granting Fixed Charge Security, the auditors of the relevant borrower provide a certificate as to the net annual income from the relevant charged property. A valuation will also be provided of the relevant charged asset. Before an Authorised Loan is approved for Authorised Borrowers providing a charge over cash prior to the establishment of fixed charges over property, THFCIL 2 identifies and carries out an appraisal of the properties to be charged.

## Environmental Matters

It is currently not the policy of the directors of THFCIL 2 to commission an environmental survey of housing land or buildings or any Property over which Fixed Charge Security is created. Housing land and buildings and Property are valued in accordance with any relevant Guidance Notes on the valuation of land and buildings for the time being of the Royal Institution of Chartered Surveyors or on any other fair and reasonable basis as may be agreed by the relevant Authorised Borrower, THFCIL 2 and the Trustee. At present, THFCIL 2's valuation procedure does not include a consideration of environmental matters. However, each Authorised Loan Agreement will contain provisions relating to environmental matters substantially to the following effect:—

- (1) a representation to the effect that the relevant Authorised Borrower will comply with the terms and conditions of all environmental licences and authorisations required by any laws or regulations which apply to the relevant Authorised Borrower concerning the protection of human health or the environment or the use of any "Dangerous Substance" (defined to include any natural or artificial substance capable of causing harm to man or any other living organism supported by the environment or damaging the environment or public health or welfare);
- (2) a covenant from the relevant Authorised Borrower to indemnify THFCIL 2 against any cost or expense arising out of any breach of environmental law by the Authorised Borrower; and
- (3) an event of default if the relevant Authorised Borrower fails to comply with any environmental law or the terms and conditions of any environmental licence applicable to it or fails to procure the

compliance with any environmental law or environmental licence applicable to any property owned, leased, occupied or controlled by it where such failure would have a material adverse effect on its financial condition or its ability to perform its obligations under the relevant Authorised Loan Agreement.

#### Details of the Initial Authorised Borrowers

The Initial Authorised Borrowers of THFCIL 2 are set out below together with details of their status, registered numbers, registered addresses and area of operations.

- Key: 1 Industrial & Provident Society; charitable rules  
 2 Industrial & Provident Society; non-charitable rules  
 3 Charitable Trust

Area of operation:	EA	East Anglia	NW	North West
	LN	London	SE	South East
	MD	Midlands	SW	South West
	NA	National	WA	Wales

This information has been certified by each Initial Authorised Borrower.

<u>Association/ Registered Office</u>	<u>Registration: Status Number</u>	<u>Area</u>
Agudas Israel Housing Association Limited 97 Stamford Hill, London N16 5DN	1 23535R	LN
Aldwyck Housing Association Limited Wellington House, Leyton Green, Harpenden, Hertfordshire AL5 2TG	2 21083R	SE
Cheltenham & District Housing Association Limited Harley House, 29 Cambray Place, Cheltenham, Gloucestershire GL50 1JN	2 20520R	SW
Downland Housing Society Limited Downland House, 51 Fishbourne Road, Chichester, West Sussex PO19 3HZ	2 21074R	SE
East Midlands Housing Association Limited Memorial Square, Coalville, Leics. LE67 3TU	2 13002R	MD
Granta Housing Society Limited Lammas Field Pavilion, Newnham Road, Cambridge CB3 9HX	1 21287R	EA
Hexagon Housing Association Limited 139-151 Sydenham Road, Sydenham, London SE26 5HJ	1 19128R	LN
Irwell Valley Housing Association Limited 5th Floor, Paragon House, 48 Seymour Grove, Manchester M16 0LN	1 20684R	NW
Liver Housing Association Limited Columbus Quay, Riverside Drive, Liverpool, Merseyside L3 4DB	2 17704R	NW
Manchester Methodist Housing Association Limited Hopeleigh, 1/3 Fairhope, Salford M6 8AR	1 19554R	NW
Mid Wales Housing Association Limited Ty Castell, Park Street, Newtown, Powys SY16 1EF	2 21416R	WA
The William Sutton Trust Sutton Court, Tring, Hertfordshire HP23 5BB	3 205847	NA
Winchester District Housing Association Limited 33 Staple Gardens, Winchester, Hants SO23 8SR	2 26629R	SW

### Initial Authorised Borrowers granting Floating Charge Security and Initial Authorised Borrowers granting Fixed Charge Security

Each Initial Authorised Borrower granting Floating Charge Security will immediately upon execution of the relevant Authorised Loan Agreement be in compliance with the income and asset cover tests described in paragraphs 7.3.5 and 7.3.7 of the Particulars of the Stock and has received consent under section 9 of the Housing Associations Act 1985 (or an undertaking from the Housing Corporation to issue such consent) to the granting of the floating charge.

Each Initial Authorised Borrower granting Fixed Charge Security will immediately upon execution of the relevant Authorised Loan Agreement be in compliance with the asset and income cover tests described in paragraphs 7.3.4 and 7.3.6 of the Particulars of the Stock and where land or property is being charged immediately has received consent under section 9 of the Housing Associations Act 1985 (or an undertaking from the Housing Corporation or Housing for Wales to issue such consent).

The following tables give summary financial information regarding Initial Authorised Borrowers granting Floating Charge Security and granting Fixed Charge Security. The sources for this information are given in the notes which appear at the end of the tables.

Initial Authorised Borrowers granting Floating Charge Security	Housing Land & Buildings at Cost <sup>(1)</sup>	Housing Association Grant Received <sup>(1)</sup>	Net Assets <sup>(1)</sup>	Authorised Loans <sup>(2)</sup>	Ratio of Net Assets to THFCIL 2 Loans
	£000	£000	£000	£000	
Agudas Israel HA Ltd	19,526	16,764	18,254	500	36.51
Aldwyck HA Ltd	118,011	75,247	94,490	5,000	18.90
Cheltenham & District HA Ltd	29,500	19,578	26,573	1,500	17.72
Downland HS Ltd	105,417	75,163	92,139	3,500	26.33
East Midlands HA Ltd	96,418	73,662	87,061	1,150	75.71
Granta HS Ltd	36,522	32,006	34,533	1,500	23.02
Hexagon HA Ltd	90,213	80,654	87,453	3,500	24.99
Irwell Valley HA Ltd	85,902	76,304	80,280	2,000	40.14
Liver HA Ltd	86,404	65,785	85,477	7,000	12.21
Winchester District HA Ltd	31,977	24,135	28,091	2,000	14.05
<b>Total Floating Charge Security</b>	<b>699,890</b>	<b>539,298</b>	<b>634,351</b>	<b>27,650</b>	<b>22.44</b>

Initial Authorised Borrowers granting Fixed Charge Security	Housing Land & Buildings at Cost <sup>(1)</sup>	Housing Association Grant Received <sup>(1)</sup>	Fixed Asset Value <sup>(3)</sup>	Authorised Loans <sup>(2)</sup>	Ratio of Fixed Asset Value to THFCIL 2 Loans <sup>(4)</sup>
	£000	£000	£000	£000	
Manchester Methodist HA Ltd	33,820	29,115	625	500	1.25
Mid Wales HA Ltd	24,423	19,166	1,375	1,100	1.25
William Sutton Trust	223,114	155,258	3,030	2,000	1.52
<b>Total Fixed Charge Security</b>	<b>281,357</b>	<b>203,539</b>	<b>5,030</b>	<b>3,600</b>	

Notes:—

- (1) Housing Land and Buildings at Cost, Housing Association Grant Received and Net Assets are derived from the latest audited financial statements of each Authorised Borrower amended to reflect auditors' reports dated 30th November, 1994 or later.
- (2) Authorised Loans are derived from Authorised Loan Agreements dated 7th December, 1994.
- (3) Fixed Asset Value is derived from valuers' reports, in the case of property, and auditors' certificates in the case of cash or investments dated 30th November, 1994 or later.
- (4) Pursuant to paragraph 7.3.4.5 of the Particulars of the Stock, each Initial Authorised Borrower may grant Fixed Charged Security over cash held in an Initial Charge until 31st May, 1995 and provided such cash equals or exceeds 125 per cent. of the Indexed Outstanding Principal Amount of the relevant part of the relevant Authorised Loan, the Fixed Charge Asset Value of such cash shall be deemed to satisfy the Fixed Charge Asset Cover requirement set out in paragraph 7.3.4.1 of the Particulars of the Stock.

## Particulars of the Stock

The Stock was created by a resolution of the Board of Directors of T.H.F.C. (Indexed 2) Limited (“THFCIL 2”) passed on 6th December, 1994 and will be constituted and secured by a trust deed dated 16th December, 1994 (the “Trust Deed”) made between THFCIL 2 and The Law Debenture Trust Corporation p.l.c. as trustee (the “Trustee”) for the Stockholders.

The Trust Deed will contain provisions, *inter alia*, to the following effect:

### DEFINITIONS

“*Additional Stock*” means any future pounds sterling index-linked debenture stock to be issued by THFCIL 2 in accordance with paragraph 6 below ranking *pari passu* in point of security with the Stock whether forming a single series consolidated with the Stock or otherwise which has been constituted and secured by a duly executed deed or deeds in favour of the Trustee in such form as the Trustee shall approve, such deed being expressed to be supplemental to the Trust Deed.

“*Adjusted Redemption Price*” means the aggregate of (i) the Indexed Outstanding Principal Amount of the Stock at the time of any repayment and (ii) an additional amount determined by a leading bank and/or broker in London selected by the Trustee as being the excess (if any) over the sum specified in (i) above of the price at which if the Stock was purchased at that price on the Determination Date the Gross Real Rate of Return on the Stock would be equal to the Gross Real Rate of Return on the Qualifying Gilt on the Determination Date.

For this purpose, “*Determination Date*” means the date falling four Business Days prior to the publication of the notice of redemption referred to in paragraph 4 or if no such notice is published, three Business Days prior to the relevant Borrower’s Payment Date (as referred to in paragraph 4.2.1 below).

“*Asset Cover*” means in relation to Floating Charge Security the aggregate of housing land and buildings at cost, other fixed assets and net current assets as the same shall appear in the relevant Authorised Borrower’s latest audited accounts (excluding any amount therein in respect of the amount standing to the credit of any sinking fund charged as security or held in trust only for the repayment of the amount secured) after deducting provisions for future major and cyclical repairs and maintenance to housing accommodation but adjusted at the relevant time for:—

- (i) at the option of either THFCIL 2 or the relevant Authorised Borrower any variation after the relevant audited accounts were made up in such housing land and buildings at cost, other fixed assets and net current assets;
- (ii) the deduction of one and a half times the aggregate amount secured by any fixed or floating charge except the amount of the Authorised Loan for which Asset Cover is being calculated and which is secured by any charge securing either (a) only the Authorised Loan for which Asset Cover is being calculated, or (b) provided the same complies with the relevant provisions of paragraph 7.3.1.2.1, all monies due from that Authorised Borrower to THFCIL 2 after adding back one and a half times the amount standing to the credit of any sinking fund charged or held in trust for the purpose of repaying only the amount so secured;
- (iii) the deduction of any assets representing outstanding loans except for any loan in the form of a deposit with an institution authorised to take deposits under the Banking Act 1987 or a building society within the meaning of the Building Societies Act 1986 and any loan made by an Authorised Borrower to an Associate secured in a manner satisfactory to THFCIL 2; and
- (iv) such other adjustments at the date of the last audited accounts of the relevant Authorised Borrower as the auditors of that Authorised Borrower shall consider appropriate, including without limitation all such adjustments as may from time to time be appropriate following any change in the form of accounts now required to be produced by registered housing associations pursuant to The Registered Housing Associations (Accounting Requirements) Order 1992 or, as the case may be, pursuant to The Registered Housing Associations (Accounting Requirements) (Wales) Order 1994 and including such amount as the auditors of the relevant Authorised Borrower certify or report to be a fair assessment of the amount of Housing Association Grant Receivable.

For the purposes of calculating Asset Cover arrangements may be made for a valuation or a revaluation on a Current Valuation Basis in a manner approved by THFCIL 2 of all housing land and buildings of the Authorised Borrower or (with the consent of THFCIL 2) of a part thereof by the relevant Valuer. Any such

valuation or revaluation may be made at the instance of the Authorised Borrower at intervals of not less than one year after the date of the last preceding valuation or revaluation.

In the event that any Floating Charge Security takes the form of a floating charge over an Identifiable Part of the assets and undertaking of an Authorised Borrower, the Asset Cover in respect of such Identifiable Part, and the Net Assets of an Authorised Borrower relating to such Identifiable Part, shall be subject to the further adjustments set out in paragraphs 7.3.5.2 and 7.3.11 below respectively.

“Associate” of any Authorised Borrower means a Subsidiary of the Authorised Borrower concerned or any corporate body (including for this purpose a company, an industrial and provident society and any fully mutual housing association as defined in section 1(2) of the Housing Associations Act 1985) which is associated with and substantially managed by the relevant Authorised Borrower.

“Authorised Borrower” means a housing association registered with the Housing Corporation under section 5 of the Housing Associations Act 1985.

“Authorised Loan” means a loan by THFCIL 2 to an Authorised Borrower out of funds which are or ought to be in an Issuer’s Account.

“Authorised Loan Agreement” means any agreement between THFCIL 2 and an Authorised Borrower pursuant to which THFCIL 2 agrees to make available an Authorised Loan to such Authorised Borrower on the terms and conditions contained therein.

“Authorised Officer” means, in respect of any Authorised Borrower, any member of its Committee or Board of Management (or equivalent management body) or any officer authorised by such body to sign documents relating to the Authorised Loan on behalf of the Authorised Borrower.

“Base Index” means 144.2 namely the Index issued in May 1994 and relating to April 1994, being the Index applicable to December 1994 or such other value as shall be substituted for this as provided in paragraph 5 below.

“Borrower’s Tax Change” means a change affecting an Authorised Borrower where each of the following conditions is met:—

- (i) an Authorised Borrower is eligible at the date the Authorised Loan is entered into within the terms of section 54(1) of the Housing Act 1988 to receive a grant pursuant to that section from the Secretary of State affording relief from tax chargeable on the Authorised Borrower or any grant replacing or substituted for such grant from time to time in accordance with the relevant statutory provisions for housing associations; and
- (ii) THFCIL 2’s auditors certify or report to THFCIL 2 and the Trustee that housing associations generally or a class of housing associations will cease to be eligible for grant as provided in sub-paragraph (i) above on account of grant no longer being made in respect of tax which would not have been chargeable had payments representing indexation of the Outstanding Principal Amount been treated as tax deductible expenditure; and
- (iii) THFCIL 2’s or the relevant Authorised Borrower’s auditors certify or report to THFCIL 2 and the Trustee that any particular Authorised Borrower which would have been eligible to receive grant either in the current year or in future years will not do so by virtue of the change referred to in sub-paragraph (ii) above

provided that for the purposes of paragraph 4.2.1.1 the date of a Borrower’s Tax Change shall be the date on which the certificate or report referred to in sub-paragraph (ii) above is made.

“Borrowing” means any indebtedness whether as principal or surety and whether present or future actual or contingent incurred in respect of:—

- (i) any money borrowed or raised (including any minimum or fixed premiums payable on final repayment);
- (ii) the principal amount for the time being owing in respect of any bond, note, loan stock, debenture or similar instrument;
- (iii) the principal amount for the time being raised by or drawn under any acceptance or documentary credit facility or credit or loan facility and whether or not such facility was made available in the same or any preceding financial year of the relevant Authorised Borrower and whether or not any amounts have previously been drawn down under such facility;

- (iv) any rental payments under leases and hire purchase agreements and instalments under conditional sale agreements whether in respect of land, machinery, equipment or otherwise entered into primarily as a method of raising finance or of financing the acquisition of the asset leased;
- (v) any guarantees, bonds, stand-by letters of credit or other instruments issued in connection with the performance of contracts; or
- (vi) any guarantees, indemnities or other assurances against financial loss in respect of the Borrowing of any person falling within any of the foregoing provisions of this definition

but for the avoidance of doubt excluding the amount of any Housing Association Grant.

“*Business Day*” means any day other than a Saturday or a Sunday on which banks are open for business in London.

“*Current Valuation Basis*” means for the purpose of any valuation or revaluation of:—

- (i) housing land and buildings or Property, a valuation carried out by a Valuer in accordance with any relevant Guidance Notes on the valuation of land and buildings for the time being of the Royal Institution of Chartered Surveyors or on such other fair and reasonable basis as the Authorised Borrower, THFCIL 2 and the Trustee shall agree (or failing agreement as may be determined in its absolute discretion by a Valuer appointed by THFCIL 2 with the consent of the Trustee for the purpose) taking account, *inter alia*, of the market for such properties and (in the case of properties which are let) the expectation of their becoming vacant over a period and the expectation of right to buy sales;

a Valuer shall be entitled to value or revalue all the housing land and buildings, or Property, of an Authorised Borrower (or the relevant part thereof) on the basis of a sample of not less than 10 per cent. of that Authorised Borrower’s individual properties approved by THFCIL 2 as representing a reasonable cross-section of all (or the relevant part) of its housing land and buildings or Property, as the case may be;

- (ii) Permitted Investments which are listed on the London Stock Exchange, the price thereof (net of accrued interest) based on the middle market quotation as derived from the London Stock Exchange Daily Official List on the date of valuation or revaluation or the par value of such Permitted Investments (whichever is the lesser);
- (iii) Permitted Investments which are not so listed, a valuation thereof as agreed between the Authorised Borrower and THFCIL 2 or in the absence of such agreement as determined by a merchant bank approved by THFCIL 2; and
- (iv) cash, a determination by THFCIL 2 of the amount thereof for the time being.

“*Extraordinary Resolution*” has the meaning given to it in the Trust Deed.

“*Fixed Charge Asset Cover*” means the value of the relevant Fixed Charge Security determined on a Current Valuation Basis. For the purposes of paragraph 7.3.4 the Fixed Charge Asset Cover shall have been determined in the case of Property at least within the previous five years and in the case of Permitted Investments and cash at the most recent practicable date.

“*Fixed Charge Security*” has the meaning ascribed to it in paragraph 7.3.1.1.2 below.

“*Floating Charge*” means the floating charge executed or to be executed by THFCIL 2 pursuant to paragraph 1 below.

“*Floating Charge Security*” has the meaning ascribed to it in paragraph 7.3.1.1.1 below.

“*Gross Real Rate of Return on the Stock*” will be calculated in accordance with the following method, which has been produced by Professor A. D. Wilkie, Fellow of the Faculty of Actuaries and Fellow of the Institute of Actuaries and a partner in R. Watson & Sons. Consulting Actuaries.

J(P) is the value of the gross real rate of return, J, such that the present value of future payments of interest and capital to be made on the Stock as at the Calculation Date, at rate J, PV(J), is equal to a specified value, P (which may be the market price of the Stock including accrued interest, or such other price as is relevant in the circumstances), assuming a rate of increase of the Index of R per cent. per annum.

PV(J) is calculated from the formula:—

$$PV(J) = U^F \sum_{M=1}^{M=373} \{CQ(M) \cdot V(M) + IQ(M) \cdot V(M)\}$$

where, for each month M:—

CQ(M), the indexed amount of the capital repayment in month M, actual or forecast, is calculated from the formula:—

$CQ(M) = C(M) \cdot QF(M-8)/QB$ , calculated to four decimal places of £1 rounded down if necessary;

IQ(M), the indexed amount of the interest payment in month M, actual or forecast, is calculated from the formula:—

$IQ(M) = I(M) \cdot QF(M-8)/QB$ , calculated to four decimal places of £1 rounded down if necessary;

V(M), the discount factor in month M, is calculated from the formulae:—

$V(M) = 0$  if no payment is due in month M,

$V(M) = 0$  if the payment due in month M has already been made,

$V(M) = 0$  if the payment due in month M is “ex-dividend”

$V(M) = 1$  for month  $M = N$  if the payment due in month N is not “ex-dividend”

$V(M) = U^{(M-N)/6}$  otherwise;

QF(M), the actual or forecast value of the Index in month M, is calculated by the formulae:—

$QF(M) = Q(M)$  if M is less than or equal to L,

$QF(M) = W^{(M-L)} \cdot Q(L)$  if M is greater than L;

W, the monthly inflation factor, is calculated from the formula:—

$$W = (1 + R/100)^{1/12}$$

U, the half-yearly discounting factor in money terms, is calculated from the formula:—

$$U = 1 / \left\{ (1 + J/200) \cdot (1 + R/100)^{1/2} \right\}$$

and the fractional period from the Calculation Date to the Next Payment Date is calculated from the formula:—

$$F = G/H(N)$$

In addition:—

M is the “Month Number” of any month and is the number of consecutive months from November 1993 up to and including the said month so that November 1993 is month number 1 and November 2024 is month number 373.

C(M) is the “Repayment Instalment per £100 nominal of Stock” in any month in which a payment is made and is the amount shown for that month in the table in paragraph 2.4.

I(M) is the “Interest Payment per £100 nominal of Stock” in any month in which a payment is made and is the amount shown for that month in the table in paragraph 2.4.

L is the month number of the latest month relating to which the Index has been issued.

Q(M) is the “Index Value” for month number M and is the value of the Index relating to that month.

QB is the Base Index.

The “Calculation Date” is the day as at which the present value of the Stock is to be calculated, or the Gross Real Rate of Return on the Stock is to be calculated.

The “Next Payment Date” is the Payment Date given in the table in paragraph 2.4 which is the same as the Calculation Date or is the Payment Date next following the Calculation Date.

N is the month number of the Next Payment Date.

G is the number of calendar days from the Calculation Date to the Next Payment Date, including one but not the other of these dates.

H(N) is the number of days in the half-year to the Next Payment Date from the Payment Date preceding the Next Payment Date or from 30th November, 1994 if the Next Payment Date is 31st May, 1995, the values of H(N) being as shown in the table in paragraph 2.4.

R is the assumed rate of increase of the Index per cent. per annum from the latest published value, Q (L).

Such method requires the adoption of an assumed inflation rate, which shall be such rate as the Trustee, after consultation (if practicable) with THFCIL 2, and on the advice of three brokers and/or gilt-edged market makers (or such other three persons operating in the gilt-edged market as the Trustee may approve), may agree to be appropriate.

*Note* — The above formula enables a price to be calculated from a given Gross Real Rate of Return. The Gross Real Rate of Return cannot be calculated explicitly but can be estimated to any required accuracy by using an appropriate iterative method.

“*Gross Real Rate of Return on the Qualifying Gilt*” shall be calculated on the basis of the arithmetic mean of the offered prices quoted for the Qualifying Gilt on a dealing basis by three gilt-edged market makers at or about 3 p.m. on the Determination Date (as defined above) and on the basis that the Gross Real Rate of Return in respect of the Qualifying Gilt shall be calculated on the basis indicated in the Bank of England Quarterly Bulletin, December 1983 as having been adopted by the Sub-committee of the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Vol. 111, Part 1 1984, pages 162 to 166. Such method is calculated taking accrued interest as part of the price and using a true compound interest formula and requires the adoption of an assumed inflation rate, which shall be the same rate as the Trustee agrees to be appropriate in calculating the Gross Real Rate of Return on the Stock.

“*housing association*” means a housing association as defined in section 1 of the Housing Associations Act 1985.

“*Housing Association Grant*” or “HAG” means a grant or subsidy payable to any Authorised Borrower (i) pursuant to section 50 of the Housing Act 1988 or any grant replacing or substituted for such from time to time (ii) by any central government authority (iii) by a public sector authority as defined in section 573 of the Housing Act 1985 other than a housing association (iv) by a body falling within section 4(c) or 4(d) of the Housing Act 1985 (v) by a District Health Authority as defined in section 1 of the Health Services Act 1980 (vi) by a Housing Action Trust within the meaning of the Housing Act 1988 or (vii) being a grant or subsidy which in the opinion of the Authorised Borrower’s auditors is equivalent thereto PROVIDED THAT any such grant or subsidy referred to in sub-paragraphs (i) to (vii) above is or will be a capital grant ranking in the event of it becoming repayable after any Fixed Charge Security, Floating Charge Security or any other security, as the case may be, granted by an Authorised Borrower to THFCIL 2.

“*Housing Association Grant Receivable*” means any loan to the relevant Authorised Borrower existing at the date of the last audited accounts of the Authorised Borrower concerned which is convertible into Housing Association Grant in the twelve-month period following the date of its audited accounts.

“*Housing Corporation*” means the Housing Corporation, Scottish Homes or Housing for Wales each of which is defined as the “Corporation” in section 2A (4) of the Housing Associations Act 1985 (as amended from time to time) or any public sector body which in the opinion of the Trustee is equivalent thereto.

“*Identifiable Part*” means the whole property, undertaking and assets of an Authorised Borrower excluding only certain specified property and assets as agreed by THFCIL 2 with the Authorised Borrower.

“*Index*” means, subject as provided in paragraph 5 below, the United Kingdom General Index of Retail Prices (for all items) published by the Central Statistical Office (January 1987 = 100) or any comparable index which may replace the Index for the purpose of calculating the amount payable on repayment of the 2½ per cent. Index-Linked Treasury Stock 2009 or such index-linked Treasury Stock having a final maturity after the final maturity of the Stock as may be nominated for that purpose by the Trustee (other than an index giving rise to a redemption of the Stock pursuant to paragraph 4.4 below) provided that the Trustee is satisfied that any comparable index constitutes a retail prices index for the purposes of Schedule 11 to the Finance Act 1989 or any equivalent legislation.



Any reference to the Index applicable to a particular month shall, save as provided in paragraphs 5, 7.3.6 and 7.3.11, be construed as a reference to the Index issued seven months prior to the relevant month and relating to the month before that seventh prior month.

“*Indexed Outstanding Principal Amount*” means the Outstanding Principal Amount multiplied by the Index applicable to the month in which the Indexed Outstanding Principal Amount falls to be determined divided by the Base Index and calculated to four decimal places of £1 per £100 nominal of the Stock (rounded down where necessary).

“*Initial Authorised Borrowers*” means the thirteen Authorised Borrowers listed above each of whom entered into an Authorised Loan Agreement with THFCIL 2 on 7th December, 1994.

“*Initial Charge*” means the charge defined as such in paragraph 7.3.1.1.

“*Interest Payment*” means a payment of interest on the Stock as described in paragraph 2 below.

“*Issue Price*” means the price, expressed as a percentage of the nominal amount of the Stock (or, if lower, of any Additional Stock forming a single series with the Stock), at which such Stock is issued.

“*Issuer’s Account*” has the meaning ascribed to it in paragraph 7.2 below.

“*Minimum Fixed Asset Cover Level*” has the meaning ascribed to it in paragraph 7.3.4 below.

“*Net Annual Income*” means, at any time, the aggregate of:—

- (i) in relation to Permitted Investments and cash, the amount as reported by the auditors of the relevant Authorised Borrower to THFCIL 2 of the annual income from such Permitted Investments and cash based on the rate then accruing therefrom before deducting taxation; and
- (ii) in relation to any Property, the amount as reported by the auditors of the relevant Authorised Borrower to THFCIL 2 of the annual income from such Property then accruing or due to commence to accrue within three months thereafter (such income to be annualised by the auditors where it is not receivable on an annual basis) after deducting any value added tax but before deducting any other taxation and after making proper provision for annual expenditure provided that no Net Annual Income shall be attributed to any leasehold Property the term of which expires before the latest maturity date of the Stock and any Additional Stock.

For these purposes, “annual expenditure” in respect of any Property shall be the figure certified by the Valuer appointed by the relevant Authorised Borrower (at the expense of such Authorised Borrower) as the minimum level of expenditure (taking into account without limitation ground and head rents, rates (or equivalent), insurance, repairs, maintenance and other outgoings, amortisation of leaseholds in accordance with generally accepted principles from time to time in force and depreciation of any fixed plant and machinery thereon) which would be required in respect of the next twelve months to manage and maintain such Property in good and tenantable repair and condition (a “Valuer’s Certificate”).

In the event that a Valuer’s Certificate shall not have been obtained in relation to any period, the annual expenditure in respect of such period shall be determined in accordance with the following formula:—

$$NA=OA \times \left( \frac{NIF}{OIF} + \frac{N}{100} \right)$$

Where:—

NA equals the annual expenditure figure being determined;

OA equals the annual expenditure figure shown in the last Valuer’s Certificate;

NIF equals the Index applicable to the month in respect of which the new annual expenditure figure falls to be determined;

OIF equals the Index applicable to the month in respect of which the annual expenditure figure was determined in the last Valuer’s Certificate; and

N equals the number of years (including fractions thereof) since the date of the last Valuer’s Certificate,

provided always that at least one Valuer’s Certificate shall be provided in accordance herewith in any five year period and upon any valuation or revaluation of any Property forming part of the Fixed Charge Security.

“*Net Assets*” means in relation to an Authorised Borrower the Asset Cover of that Authorised Borrower adjusted by adding back 33 $\frac{1}{3}$  per cent. of the net amount deducted in computing such Asset Cover pursuant to paragraph (ii) of the definition of Asset Cover set out above.

“*Outstanding Principal Amount*” means:—

- (a) in respect of the Stock, the aggregate principal amount of the Stock outstanding from time to time before indexation as described in paragraph 2.5 below; and
- (b) in respect of each Authorised Loan, the aggregate principal amount of the Authorised Loan outstanding from time to time before indexation in accordance with the terms of the Authorised Loan Agreement in question provided that if the Authorised Loan Agreement provides that, for the purposes of determining the Indexed Outstanding Principal Amount, the “base index” shall be defined by reference to the Index but not to the Index issued in May 1994 and relating to April 1994, then the Outstanding Principal Amount of such Authorised Loan shall be the aggregate principal amount aforesaid, multiplied by the Base Index and divided by the number shown as the “base index” in the Authorised Loan Agreement concerned.

“*Pari Passu Borrowings*” means the aggregate principal amount for the time being outstanding of all amounts owing on the security of any mortgage or charge given by THFCIL 2 and ranking in point of security *pari passu* with the Floating Charge and any floating charge securing Additional Stock.

“*Payment Date*” means 31st May and 30th November in each year from and including 31st May, 1995 to and including 30th November, 2024.

“*Payment Period*” means (i) from and including 16th December, 1994 to but excluding 31st May, 1995 and thereafter each period from and including a Payment Date to but excluding the next succeeding Payment Date or, if earlier, the date on which a notice is given under paragraph 3 below declaring the Stock to be immediately due and repayable or the Stock falls to be redeemed under paragraph 4.3 or 4.4 and (ii) if such a notice is given or if for any reason repayment by THFCIL 2 under paragraph 4 below or otherwise of the principal of the Stock (including any Repayment Instalment) is improperly withheld or refused, each successive period of one month, the first beginning on and including the date on which such notice is given or (as the case may be) on the due date for such repayment provided that, if part only of the Stock falls due for repayment on such date under paragraph 4 below, sub-paragraph (i) above shall continue to apply to the remainder of the Stock.

“*Permitted Investments*” means any investments permitted under Part I or Part II of the First Schedule to the Trustee Investments Act 1961 of which THFCIL 2 or the relevant Authorised Borrower (as the case may be) is the beneficial owner having a maturity of not more than five years from the date of such investments being charged as any Fixed Charge Security or purchased by THFCIL 2 (as the case may be).

“*Property*” means a fee simple absolute in possession or a lease created by a deed for an unexpired term exceeding 30 years at the date of execution of any Fixed Charge Security and at any time thereafter provided always that if at any time while the relevant Authorised Loan is outstanding such unexpired term is less than 70 years such Property shall be revalued from that time at least every three years by a Valuer on a Current Valuation Basis.

“*Qualifying Gilt*” means the 2 $\frac{1}{2}$  per cent. Index-Linked Treasury Stock 2009 (or, if such stock is not in existence or if another stock exists which has a maturity which is closer to the average life of the Stock, such other index-linked or other stock issued by or on behalf of H.M. Government as the Trustee may determine to be appropriate, on the advice of three brokers and/or gilt-edged market makers or such other three persons operating in the gilt-edged market as the Trustee, after consultation (if practicable) with THFCIL 2, may approve).

“*Record Date*” means the thirtieth day before a Payment Date or, where applicable the thirtieth day before the first day of a Payment Period within sub-paragraph (ii) of the definition thereof but should such thirtieth day fall on a day on which the specified office of the Registrar is not open for business then the Record Date shall mean the first day thereafter on which such specified office is open for business.

“*Register*” means the register of Stockholders maintained by the Registrar.

“*Registrar*” means the registrar for the time being appointed by THFCIL 2 in respect of the Stock, the initial Registrar being Barclays Bank PLC.

“*Repayment Instalment*” means:—

- (a) in respect of the Stock, each repayment instalment as described in paragraph 2.4 below; or
- (b) in respect of each Authorised Loan, each repayment instalment scheduled for repayment in accordance with the terms of the Authorised Loan Agreement in question.

“*Stock*” means the £31,250,000 5.5 per cent. Index-Linked Stock 2024 of THFCIL 2.

“*Stockholders*” means the holders of the Stock.

“*Subsidiary*” means an industrial and provident society or company which is for the time being a subsidiary (within the meaning of section 15 of the Friendly and Industrial and Provident Societies Act 1968) of THFCIL 2 or an Authorised Borrower, as the case may be, and the word “*Subsidiaries*” shall be construed accordingly.

“*Substitute Fixed Assets*” means any Property, Permitted Investments or cash of which an Authorised Borrower is the beneficial owner which THFCIL 2, in accordance with paragraphs 7.3.4.3 and 7.3.6.2 below, accepts as Fixed Charge Security in substitution for any Property, Permitted Investments or cash, as the case may be, currently forming part of any Fixed Charge Security.

“*Valuer*” means an independent professional valuer who is an associate or a fellow of the Royal Institution of Chartered Surveyors and who has been approved by THFCIL 2 (such approval not to be unreasonably withheld).

## **1. Security**

The Stock will be secured by a first floating charge on the undertaking and all the assets for the time being both present and future wheresoever situate of THFCIL 2 but will not be otherwise guaranteed or secured.

## **2. Payments on the Stock**

### **2.1 *Accrual of Interest***

The Stock will bear interest from and including 16th December, 1994 calculated on the basis of the Outstanding Principal Amount of the Stock at the rate provided in paragraph 2.2 below. Interest on the Stock (or any part thereof) will be subject to indexation as provided in paragraph 2.5 and will cease to accrue from the due date for redemption thereof unless payment of principal or premium (if any) is improperly withheld or refused. In such event, interest will continue to accrue on the Outstanding Principal Amount of the Stock (as well after as before any judgment) up to but excluding the date on which payment in full of the principal and premium (if any) in respect thereof is made in accordance with the provisions of the Trust Deed.

### **2.2 *Interest Rate***

The rate of interest in respect of the Stock (or any part thereof) will be 5.5 per cent. per annum.

### **2.3 *Interest Payments***

Interest in respect of the Stock will be paid in arrear on each Payment Date while any Stock remains outstanding in respect of the Payment Period ending immediately prior to such date. The first payment of interest on the Stock will be made on 31st May, 1995 in respect of the period from and including 16th December, 1994 to but excluding 31st May, 1995. Each Interest Payment (prior to indexation) in respect of £100 nominal of the Stock for each other Payment Period, up to and including 30th November, 2024 shall be fifty per cent. of the product of the interest rate specified in paragraph 2.2 and the Outstanding Principal Amount of the Stock.

Interest will be paid subject to such deduction or withholding of United Kingdom tax at source as may from time to time be required by law.

### **2.4 *Repayment Instalments***

THFCIL 2 shall make a repayment of an amount per £100 nominal of the Stock as set out in the table below on each Payment Date as set out in the table below. Each Repayment Instalment shall be subject to indexation as provided in paragraph 2.5 below.

The aggregate amount of each Interest Payment and Repayment Instalment (prior to indexation) payable on each Payment Date falling on or after 31st May, 2002 shall be constant over the life of the Stock at £3.8575 per £100 nominal of the Stock save that the payment on 30th November, 2024 will be £3.8561.

The amount of each Repayment Instalment and Interest Payment (prior to indexation) is shown in the table set out below. The amount shown in the table below under the heading "Capital outstanding per £100 nominal of Stock" in respect of a Payment Date assumes that the Repayment Instalment due on that Payment Date has been paid.

Month Number	Payment Date	Repayment Instalment per £100 nominal of Stock C(M)	Interest Payment per £100 nominal of Stock I(M)	Capital outstanding per £100 nominal of Stock	Number of days H(N)
19	31st May, 1995	0.0000	2.5014	100.0000	182
25	30th November, 1995	0.0000	2.7500	100.0000	183
31	31st May, 1996	0.0000	2.7500	100.0000	183
37	30th November, 1996	0.0000	2.7500	100.0000	183
43	31st May, 1997	0.0000	2.7500	100.0000	182
49	30th November, 1997	0.0000	2.7500	100.0000	183
55	31st May, 1998	0.0000	2.7500	100.0000	182
61	30th November, 1998	0.0000	2.7500	100.0000	183
67	31st May, 1999	0.0000	2.7500	100.0000	182
73	30th November, 1999	0.0000	2.7500	100.0000	183
79	31st May, 2000	0.0000	2.7500	100.0000	183
85	30th November, 2000	0.0000	2.7500	100.0000	183
91	31st May, 2001	0.0000	2.7500	100.0000	182
97	30th November, 2001	0.0000	2.7500	100.0000	183
103	31st May, 2002	1.1075	2.7500	98.8925	182
109	30th November, 2002	1.1380	2.7195	97.7545	183
115	31st May, 2003	1.1693	2.6882	96.5852	182
121	30th November, 2003	1.2014	2.6561	95.3838	183
127	31st May, 2004	1.2344	2.6231	94.1494	183
133	30th November, 2004	1.2684	2.5891	92.8810	183
139	31st May, 2005	1.3033	2.5542	91.5777	182
145	30th November, 2005	1.3391	2.5184	90.2386	183
151	31st May, 2006	1.3759	2.4816	88.8627	182
157	30th November, 2006	1.4138	2.4437	87.4489	183
163	31st May, 2007	1.4527	2.4048	85.9962	182
169	30th November, 2007	1.4926	2.3649	84.5036	183
175	31st May, 2008	1.5337	2.3238	82.9699	183
181	30th November, 2008	1.5758	2.2817	81.3941	183
187	31st May, 2009	1.6192	2.2383	79.7749	182
193	30th November, 2009	1.6637	2.1938	78.1112	183
199	31st May, 2010	1.7094	2.1481	76.4018	182
205	30th November, 2010	1.7565	2.1010	74.6453	183
211	31st May, 2011	1.8048	2.0527	72.8405	182
217	30th November, 2011	1.8544	2.0031	70.9861	183
223	31st May, 2012	1.9054	1.9521	69.0807	183
229	30th November, 2012	1.9578	1.8997	67.1229	183
235	31st May, 2013	2.0116	1.8459	65.1113	182
241	30th November, 2013	2.0669	1.7906	63.0444	183
247	31st May, 2014	2.1238	1.7337	60.9206	182
253	30th November, 2014	2.1822	1.6753	58.7384	183
259	31st May, 2015	2.2422	1.6153	56.4962	182
265	30th November, 2015	2.3039	1.5536	54.1923	183
271	31st May, 2016	2.3672	1.4903	51.8251	183
277	30th November, 2016	2.4323	1.4252	49.3928	183
283	31st May, 2017	2.4992	1.3583	46.8936	182
289	30th November, 2017	2.5679	1.2896	44.3257	183
295	31st May, 2018	2.6385	1.2190	41.6872	182
301	30th November, 2018	2.7111	1.1464	38.9761	183
307	31st May, 2019	2.7857	1.0718	36.1904	182
313	30th November, 2019	2.8623	0.9952	33.3281	183
319	31st May, 2020	2.9410	0.9165	30.3871	183
325	30th November, 2020	3.0219	0.8356	27.3652	183
331	31st May, 2021	3.1050	0.7525	24.2602	182
337	30th November, 2021	3.1903	0.6672	21.0699	183
343	31st May, 2022	3.2781	0.5794	17.7918	182
349	30th November, 2022	3.3682	0.4893	14.4236	183
355	31st May, 2023	3.4609	0.3966	10.9627	182
361	30th November, 2023	3.5560	0.3015	7.4067	183
367	31st May, 2024	3.6538	0.2037	3.7529	183
373	30th November, 2024	3.7529	0.1032	0.0000	183

### 2.5 *Indexation and Payment Amounts*

Subject as otherwise provided herein, the amount of each Interest Payment and each Repayment Instalment payable in respect of the Stock on each Payment Date shall be the amount provided in paragraph 2.3 or 2.4, as the case may be, multiplied by the Index applicable to the month in which such Payment Date falls, divided by the Base Index and calculated to four decimal places of £1 per £100 nominal of Stock (rounded down where necessary).

The amount payable in respect of each £100 nominal of the Stock on 31st May, 1995 will be £2.5152 and the amounts payable on each £100 nominal of the Stock on each Payment Date (other than the said date) expressed in pounds sterling will be notified to the Stockholders not later than the previous Payment Date subject to the provisions of paragraph 5 not having taken effect.

If interest on the Stock is required to be calculated for a period not ending on a Payment Date, such interest shall be calculated on the basis of the actual number of days elapsed and a 365-day year, and shall be multiplied by the Index applicable to the month in which payment of such interest is made (as further provided in the Trust Deed) divided by the Base Index and calculated to four decimal places of £1 per £100 nominal of Stock (rounded down where necessary).

### 2.6 *Non-Business Days*

In the event that any payment in respect of the Stock is due on a day which is not a Business Day, the due date for that payment shall instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not).

### 2.7 *Manner of Payments*

Payments in respect of the Stock will be made in pounds sterling by cheque drawn on a town clearing branch of a bank in London which will be posted, not later than the day preceding the due date for the relevant payment, at the Stockholders' risk to persons who are registered as Stockholders at the close of business on the relevant Record Date or to their nominated agents, and made payable to such Stockholders. In the case of joint holders in respect of a particular holding, the cheque (made payable to all such holders) will be sent to the first named on the Register unless instructions to the contrary are given in writing to the Registrar by all such holders.

## 3. **Events of Default**

THFCIL 2 shall be under a duty not to cause or permit an event of default (as set out below). The Stock shall become immediately due and payable upon notice from the Trustee to THFCIL 2 if any of the events set out below shall occur, thereby breaching such duty (but only if the Trustee so determines or is requested in writing by the registered holders of at least one-fifth of the nominal amount of the Stock or is requested by an Extraordinary Resolution of Stockholders to demand payment) that is to say:

- 3.1 if THFCIL 2 defaults in the payment when due of any monies payable on early redemption of the Stock (including any amounts representing indexation thereon) or for a period of fourteen days in the payment of any interest or any Repayment Instalment or in the payment of the equivalent amounts under any other class of stock constituted by the Trust Deed or by any deed supplemental thereto; or
- 3.2 if THFCIL 2 makes default in the performance or observance of any covenant (including, without limitation, the income cover and asset value covenants described in paragraphs 7.5 and 7.6 below), undertaking, condition or provision binding on it under or pursuant to the Trust Deed or any deed supplemental thereto (other than any default in the payment when due of any principal moneys or premium (if any) or interest on any class of stock constituted by the Trust Deed or by any deed supplemental thereto) and (save as provided in the final sentence of paragraph 7.5 and except where such default shall be incapable of remedy or the Trustee shall certify in writing that in its opinion any delay would be materially prejudicial to the interests of the Stockholders) the same is not remedied to the satisfaction of the Trustee within twenty-one days after notice in writing of such default shall have been given to THFCIL 2 by the Trustee; or
- 3.3 if the security for any debenture, mortgage or charge of THFCIL 2 shall become enforceable and steps are taken to enforce the same or any unsecured loan stock, debenture or other indebtedness of THFCIL 2 shall by reason of default become repayable prior to the due date for repayment or shall

not be repaid when due and validly demanded and steps are taken to obtain repayment of the same;  
or

- 3.4 if any guarantee of any loan or debt of any third party given by THFCIL 2 shall not be honoured when due and called upon and steps are taken to enforce the same; or
- 3.5 if an encumbrancer takes possession or a trustee, receiver or similar officer is appointed of the whole or any material part of the assets or undertaking of THFCIL 2 or if a distress or execution or other process is levied or enforced upon or sued out against any of the chattels or properties of THFCIL 2 being material in relation to the assets of THFCIL 2 taken as a whole and is not discharged within fourteen days of being so levied or enforced upon or sued out; or
- 3.6 if any steps are taken or if an order is made or an effective resolution is passed for the dissolution or winding up of THFCIL 2; or
- 3.7 if any of certain other events specified in the Trust Deed relating to the insolvency or cessation of the business or a substantial part of the business of THFCIL 2 occurs; or
- 3.8 if THFCIL 2 ceases without the consent of the Trustee either to be a registered industrial and provident society or to be incorporated in England;

AND except in the case of an event of default within paragraph 3.1, 3.6 or 3.8 above and except as provided in the final sentence of paragraph 7.5 the Trustee shall have certified in writing to THFCIL 2 that such an event is in its opinion materially prejudicial to the interests of the Stockholders.

If the Stock becomes due and payable as described above, the amount payable in respect of the Stock will be (in respect of any payment actually made) whichever is the higher of (a) the Indexed Outstanding Principal Amount for any month during which such payment is actually made, and (b) the Outstanding Principal Amount multiplied by the Issue Price, together in each case with any accrued interest then unpaid provided that if the Indexed Outstanding Principal Amount for any month in which the Stock becomes due and payable is greater than such higher amount then THFCIL 2 shall pay by way of compensation for delay in payment an additional amount equal to that difference.

*Note: An event of default by an Authorised Borrower under an Authorised Loan will not of itself constitute an event of default by THFCIL 2 under the Trust Deed.*

#### **4. Purchase and Redemption**

##### **4.1 Purchase**

THFCIL 2 and any Subsidiary will be entitled to purchase the Stock at any time and at any price. Any Stock purchased or redeemed by THFCIL 2 shall be cancelled and may not be reissued or resold.

##### **4.2 Redemption**

4.2.1 Each Authorised Loan Agreement between THFCIL 2 and each Initial Authorised Borrower entered into on 7th December, 1994 provides that the relevant Authorised Loan will be repayable only in the following circumstances:

4.2.1.1 at the option of the relevant Authorised Borrower following a Borrower's Tax Change (a "Borrower's Tax Redemption") which option shall only be exercisable once on the second date for early repayment specified in the relevant Authorised Borrower's Authorised Loan Agreement (a "Borrower's Payment Date") after such Borrower's Tax Change provided that if such Borrower's Payment Date is more than nine months after the Borrower's Tax Change concerned then such option shall only be exercisable on the Borrower's Payment Date immediately following such Borrower's Tax Change;

4.2.1.2 at the option of the relevant Authorised Borrower on any Borrower's Payment Date after the fifth anniversary of the date of the relevant Authorised Loan (a "Borrower's Optional Redemption");

4.2.1.3 following an event of default by an Authorised Borrower in accordance with the terms of the relevant Authorised Loan Agreement (a "Borrower's Default Redemption");

4.2.1.4 at the option of THFCIL 2 if it becomes illegal for THFCIL 2 to fund the Authorised Loan or allow the Authorised Loan to remain outstanding (a "Borrower's Illegality Redemption"); and

4.2.1.5 on the Authorised Borrower becoming obliged to redeem the relevant Authorised Loan on

grounds of unavailability of a suitable Index for indexation purposes (a “Borrower’s Indexation Redemption” and together with a Borrower’s Tax Redemption, a Borrower’s Optional Redemption, a Borrower’s Default Redemption and a Borrower’s Illegality Redemption, “Borrower’s Redemptions”).

- 4.2.2 The price payable by an Authorised Borrower in the case of each of a Borrower’s Tax Redemption and a Borrower’s Default Redemption shall be the higher of the Outstanding Principal Amount and the Indexed Outstanding Principal Amount and in the case of a Borrower’s Indexation Redemption and a Borrower’s Illegality Redemption shall be the Indexed Outstanding Principal Amount, together in each case with any accrued interest then unpaid in respect of the Authorised Loan concerned.
- 4.2.3 The price payable on a Borrower’s Optional Redemption shall be the highest of the Outstanding Principal Amount, the Indexed Outstanding Principal Amount and that amount which would be required to enable THFCIL 2 to redeem at the Adjusted Redemption Price on the Payment Date immediately following the relevant Borrower’s Payment Date an Outstanding Principal Amount of Stock equal to the Outstanding Principal Amount of the Authorised Loan concerned, together with any accrued interest then unpaid.
- 4.2.4 Forthwith upon the occurrence of a Borrower’s Tax Change as certified by THFCIL 2’s auditors, THFCIL 2 shall give notice of such change to the Trustee and the Stockholders and forthwith upon receiving notice of any proposed Borrower’s Redemption, THFCIL 2 shall deliver to the Trustee a certificate signed by two directors of THFCIL 2 specifying (i) the Authorised Borrower in respect of the Authorised Loan in question and (ii) the nature of the Borrower’s Redemption concerned.
- 4.2.5 Upon any Borrower’s Redemption THFCIL 2 shall be entitled:
- 4.2.5.1 to procure a substitute Authorised Borrower or Authorised Borrowers (provided that in the case of repayment by an Authorised Borrower which has charitable status for tax purposes, the substitute Authorised Borrower also has charitable status for tax purposes) to enter into an index-linked Authorised Loan on terms no less onerous to the substitute Authorised Borrower or, as the case may be, Authorised Borrowers, and no less beneficial to THFCIL 2 than those set out in paragraph 7.3 below; or
  - 4.2.5.2 with the consent of the Trustee, to invest the principal amount (and any amount representing indexation thereof) repaid by the Authorised Borrower concerned or any part thereof in index-linked securities approved by the Trustee; or
  - 4.2.5.3 to purchase Stock; or
  - 4.2.5.4 to redeem Stock in accordance with paragraph 4.3 below,
- provided that in the case of a Borrower’s Indexation Redemption, THFCIL 2 shall only be entitled to redeem Stock pursuant to paragraph 4.2.5.4 above.
- 4.3 Any redemption of Stock by THFCIL 2 pursuant to paragraph 4.2.5.4 above shall take place in the following manner:
- 4.3.1 in the case of either a Borrower’s Tax Redemption or a Borrower’s Default Redemption, THFCIL 2 shall give not less than 30 days’ and not more than 60 days’ notice to the Trustee of the date fixed for redemption of Stock, which shall be the Payment Date on the Stock immediately following the Borrower’s Payment Date concerned. The price payable by THFCIL 2 on such redemption shall be the higher of the Outstanding Principal Amount of the Stock to be redeemed and the Indexed Outstanding Principal Amount of the Stock to be redeemed together with any interest accrued thereon but unpaid;
  - 4.3.2 in the case of a Borrower’s Optional Redemption, THFCIL 2 shall give not less than 30 days’ and not more than 60 days’ notice to the Trustee of the date fixed for redemption of Stock, which shall be the Payment Date immediately following the Borrower’s Payment Date concerned. The price payable by THFCIL 2 on such redemption shall be the highest of the Outstanding Principal Amount of the Stock to be redeemed, the Indexed Outstanding Principal Amount of the Stock to be redeemed and the Adjusted Redemption Price of the Stock to be redeemed together with any interest accrued thereon but unpaid; and
  - 4.3.3 in the case of a Borrower’s Illegality Redemption, THFCIL 2 shall give not less than 30 days’ nor more than 60 days’ notice to the Trustee of the date fixed for redemption,

which shall be not less than 30 days and not more than 60 days after the prepayment of the Authorised Loan(s) concerned. The price payable by THFCIL 2 on such redemption shall be the Indexed Outstanding Principal Amount of the Stock to be redeemed together with any interest accrued thereon but unpaid.

- 4.4 If the Index ceases to be published (which shall be deemed to occur if the Index has not been published within four months after the end of the month to which it relates) and is not replaced by a comparable index or any change is made which, in the opinion of a bank or other expert in London appointed by THFCIL 2 or (where applicable) the Trustee in accordance with paragraph 5.2 below, constitutes a fundamental change in the rules governing the Index and such change would, in the opinion of the Trustee, be detrimental to the interests of the Stockholders and if such bank or other expert fails within 30 days after its appointment (or such longer period as the Trustee considers reasonable), or states to THFCIL 2 and the Trustee that it is unable, to recommend for the purposes of the Stock any adjustments to the Index or any substitute index (with or without adjustments) as described in and subject as provided in paragraph 5.2 below (an "Index Failure"), THFCIL 2 shall, within 30 days (or such longer period as the Trustee considers reasonable) after the expiry of such period or (as the case may be) after the date of such statement, redeem the whole of the Stock then outstanding, together with accrued interest, at a price equal to the Indexed Outstanding Principal Amount. The Trustee shall give notice of any Index Failure to the Stockholders within 7 days of its determination of the occurrence of such Index Failure.
- 4.5 Where power is reserved on the part of any Authorised Borrower to redeem the relevant Authorised Loan it shall give THFCIL 2, in the case of a Borrower's Tax Redemption, at least four weeks' prior notice and, in the case of a Borrower's Optional Redemption, at least six weeks' prior notice.
- 4.6 Stock to be redeemed by THFCIL 2 in accordance with paragraph 4.3.1, 4.3.2, 4.3.3 or 4.4 above will be repaid and reduced *pro rata* to existing holdings.
- 4.7 Except insofar as previously purchased or redeemed, the Stock will be redeemed in the manner and on the dates provided in paragraph 2 above.

## **5. Changes in Circumstances Affecting the Index**

### **5.1 *Change in Base***

If at any time and from time to time the Index shall be changed by the substitution of a new base therefor (so that the base of 100 ceases to be the index for January 1987 or such other date or month as may already have been substituted) then with effect from the date or month as from and including which such substitution takes effect:

- 5.1.1 the definition of Index shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, for such other date or month as may have been substituted); and
- 5.1.2 the definition of Base Index (and any related definitions) shall be amended in such manner as in the opinion of the Trustee after consultation with THFCIL 2 is most appropriate to implement such change.

### **5.2 *Cessation of or Fundamental Change to the Index***

If the Index ceases to be published (which shall be deemed to occur if the Index has not been published within four months after the end of the month to which it relates) or any change is made which, in the opinion of a bank or other expert in London appointed by THFCIL 2 with the approval of the Trustee or (failing such appointment within 30 days after the Trustee shall have requested the same) appointed by the Trustee, constitutes a fundamental change in the rules governing the Index and the change would, in the opinion of the Trustee, be detrimental to the interests of the Stockholders and if within 30 days after its appointment (or such longer period as the Trustee considers reasonable) such bank or other expert recommends for the purposes of the Stock one or more adjustments to the Index or a substitute index (with or without adjustments) provided that the Trustee is satisfied that the Stock will continue to be a qualifying indexed security and not a deep gain security (as that term is defined in Schedule 11 to the Finance Act 1989 or equivalent legislation), the Index shall be adjusted as so recommended or (as the case may be) shall be replaced by the substitute index so recommended (as so adjusted, if so recommended) and references in these Particulars of the Stock to the Index shall be construed accordingly.



## **6. Additional Stock and Borrowing Powers**

- 6.1 Subject to the provisions of these Particulars of the Stock, THFCIL 2 will be entitled to create and issue for cash Additional Stock ranking *pari passu* in point of security with the Stock (provided that no Additional Stock shall be issued by way of collateral security) either so as to be identical or identical except as regards the date for and amount of the first payment of interest to, and form a single series with, the Stock or on such terms (including interest, repayment and otherwise) as THFCIL 2 thinks fit (but provided that first, no Additional Stock shall be issued in the event that the Trustee is to its satisfaction advised that such Additional Stock constitutes a deep gain security as defined in Schedule 11 to the Finance Act 1989 or equivalent legislation, second, no Additional Stock shall be issued in the event that the Trustee is to its satisfaction advised that the issue of such Additional Stock shall mean that the Stock shall cease to constitute a Qualifying Indexed Security or cause the Stock to become a deep gain security (as so defined); and third, such Additional Stock shall only be issued in the event that the Trustee is to its satisfaction advised that the effective tax treatment for the purposes of United Kingdom taxation of any such Additional Stock will be identical to the effective tax treatment for the purposes of United Kingdom taxation of the Stock). Any Additional Stock shall, if issued so as to form a single series with the Stock, be constituted by a trust deed supplemental to the Trust Deed and may in any other case with the consent of the Trustee be so constituted. The Trustee shall be empowered to make such changes as may be necessary to the terms of the Stock (including changes to the Base Index and any related definitions) (subject to its being satisfied that the changes are not detrimental to the interests of the existing Stockholders) to ensure that any such Additional Stock forming a single series with the Stock either constitutes a qualifying indexed security or does not constitute a deep gain security as defined in Schedule 11 to the Finance Act 1989 or equivalent legislation.

THFCIL 2 may exercise its rights and powers of purchase and redemption as regards the Stock and any Additional Stock (not being a series which is identical and forms a single series with the Stock) at its absolute discretion and without obligation to maintain any ratio between the amounts for the time being outstanding of any series.

- 6.2 Power is reserved to THFCIL 2 from time to time and at any time to borrow or secure or allow to subsist borrowings ranking *pari passu* in point of security with the Stock and any Additional Stock subject only to the restrictions referred to in paragraph 7 below.
- 6.3 Subject to the restrictions referred to in paragraph 7 below power will be reserved to THFCIL 2 from time to time and at any time to borrow further monies and to grant security for such further monies subject to the limits specified in its rules from time to time registered under the Industrial and Provident Societies Act 1965.

## **7. Undertakings**

### **7.1 Negative Pledge**

THFCIL 2 shall not be entitled to create or leave outstanding any charge or mortgage on the whole or any part of its undertaking or assets, present or future, which will rank in priority to the Floating Charge or any floating charges created by it as security for Additional Stock.

### **7.2 Issuer's Account**

THFCIL 2 shall credit the net proceeds of the issue of the Stock, all issues of Additional Stock and all *Pari Passu* Borrowings into a separate bank account (or at THFCIL 2's discretion, separate bank accounts) (each for the purposes of this paragraph an "Issuer's Account").

Each Issuer's Account shall be held in the name of THFCIL 2 with a leading United Kingdom clearing bank or with such other bank as the Trustee may approve.

All receipts arising from or in respect of the investment or other use of the proceeds of the Stock, any Additional Stock and any *Pari Passu* Borrowings and all payments of principal, premium and interest received from Authorised Borrowers will be paid into an Issuer's Account along with such other monies as THFCIL 2 may think fit.

The only payments which may be made from an Issuer's Account by THFCIL 2 are as follows:—

- 7.2.1 the payments of principal on and all other costs of a capital nature in connection with the issue, maintenance, purchase, redemption or repayment of the Stock, any Additional Stock and any *Pari Passu* Borrowings;

- 7.2.2 Interest Payments and payments of Repayment Instalments or equivalent payments;
- 7.2.3 the making of Permitted Investments maturing and providing for payment for value on or before the next Payment Date or investments permitted pursuant to paragraph 4.2.5.2 above;
- 7.2.4 the making of Authorised Loans on terms no less onerous to the Authorised Borrower or Authorised Borrowers concerned and no less beneficial to THFCIL 2 than those described in paragraph 7.3 below;
- 7.2.5 the payment to THFCIL 2 or as it may direct of interest earned on monies held from time to time in an Issuer's Account; and
- 7.2.6 all other costs of a capital nature incurred by THFCIL 2 in connection with the investment of monies held in the relevant Issuer's Account in accordance with paragraphs 7.2.3 and 7.2.4 and any other sums of a capital nature which in the opinion of THFCIL 2's auditors are referable to the borrowings represented by the Stock, any Additional Stock, any *Pari Passu* Borrowings and the use of the proceeds thereof.

### 7.3 *Authorised Loan Agreements*

THFCIL 2 shall procure that an Authorised Loan is made on or before the closing date in respect of the issue of the Stock to each of the Initial Authorised Borrowers and each such Authorised Loan shall remain for so long as any part of it is outstanding, on terms with respect to payment of principal and interest and indexation such that THFCIL 2 shall be entitled to receive payments of principal and interest in such amounts and at such times as will enable THFCIL 2 (when aggregated where appropriate with THFCIL 2's other income) to make payments due on a corresponding nominal amount of the Stock. All Authorised Loans shall be index-linked and, unless the Trustee shall otherwise determine, having taken such advice as the Trustee thinks fit, subject to terms and conditions no less onerous to each Authorised Borrower and no less beneficial to THFCIL 2 than the following:

#### 7.3.1 *Security*

7.3.1.1 Each Authorised Borrower shall on or prior to the making of any Authorised Loan create in favour of THFCIL 2 by way of security for (i) that Authorised Loan or (ii) on the terms set out in paragraph 7.3.1.2 below, all monies due from that Authorised Borrower to THFCIL 2 either:—

- 7.3.1.1.1 a first floating charge (subject only to any charges permitted by paragraph 7.3.3 below) over the whole (or an Identifiable Part) of its undertaking and assets both present and future wheresoever situate ("Floating Charge Security"); or
- 7.3.1.1.2 a first fixed charge over Property and/or Permitted Investments and/or a first charge over cash ("Fixed Charge Security" which term shall include all first charges over cash and all first fixed charges entered into pursuant to paragraphs 7.3.4 and 7.3.6 below); and

(unless that Authorised Borrower demonstrates to the satisfaction of THFCIL 2 that all amounts drawn down under the relevant Authorised Loan Agreement are to be immediately (or within two Business Days of such drawdown) expended by such Authorised Borrower for any one or more of the purposes set out in paragraph 7.3.9 below)

a first charge (the "Initial Charge") over an account containing cash and a first fixed charge over any investments representing monies lent by THFCIL 2 pending investment in assets.

Each Authorised Borrower shall covenant to provide THFCIL 2 with a programme of expenditure (in a form and content satisfactory to THFCIL 2) relating to the use of monies to be released from the Initial Charge, prior to any such release.

7.3.1.2.1 Any charge granted to THFCIL 2 pursuant to paragraph 7.3.1.1(ii) or as referred to in sub-paragraph (ii)(b) of the definition of "Asset Cover" or paragraph 7.3.4.4(b) (each an "All Monies Charge") shall stand as security for the repayment to THFCIL 2 (subject to the repayment of indebtedness having

priority to the monies due under such charge and after any costs, charges, expenses and liabilities incurred in the execution of its powers or otherwise in relation to such charge (including the remuneration of any receiver)), in order of priority:—

FIRST in or towards repayment of that Authorised Loan, interest, costs and all other expenses in respect of which that charge shall have been granted to THFCIL 2;

SECONDLY in or towards repayment of the principal amount of any other Borrowings made by THFCIL 2 to the relevant Authorised Borrower and any other indebtedness owed by the relevant Authorised Borrower to THFCIL 2 and all such interest, monies, costs and expenses relating thereto in the proportion which the outstanding principal amount of that Borrowing or indebtedness bears to the total amount of such Borrowing and indebtedness at the date of such payment; and

THIRDLY in or towards the payment of the surplus (if any) of such monies to the Authorised Borrower or other person or persons for the time being entitled thereto in priority to the Authorised Borrower as the case may be.

- 7.3.1.2.2 If THFCIL 2 shall procure that an Authorised Loan is secured in favour of THFCIL 2 by way of an All Monies Charge, then each reference to an Authorised Loan (howsoever described) in the Definitions of Outstanding Principal Amount, Property and Repayment Instalment, and in paragraphs 7.3.3, 7.3.4, 7.3.5, 7.3.6 and 7.3.7 shall be construed in relation to that All Monies Charge as a reference only to the Authorised Loan in respect of which any monies arising from the security of that All Monies Charge are required first to be applied pursuant to paragraph 7.3.1.2.1 by THFCIL 2 and not to any other Borrowing made from THFCIL 2 nor to any other indebtedness to THFCIL 2 nor to any interest, monies, costs and expenses relating to such other Borrowing or indebtedness and any provision relating to such references shall be construed accordingly.

### 7.3.2 *Change of Security Basis*

In the event that THFCIL 2 is to its satisfaction advised that there has been no change in any legislation, regulation, provision or rule of law or practice relating to or capable of applying to the relevant Authorised Borrower which has or in the opinion of THFCIL 2 could have a material adverse effect on the rights of THFCIL 2 to enforce or exercise any of its rights (whether before or following enforcement) in respect of the relevant Floating Charge Security or Fixed Charge Security, as the case may be, the Authorised Borrower may, subject to THFCIL 2's prior written consent (such consent not to be unreasonably withheld or delayed):

- 7.3.2.1 require the release of the relevant Floating Charge Security subject to the execution by the Authorised Borrower of a first fixed charge which satisfies the requirements of paragraphs 7.3.4.1 and 7.3.6 below; or
- 7.3.2.2 require the release of the relevant Fixed Charge Security subject to the execution by the Authorised Borrower of a first floating charge (subject only to any charges permitted by paragraph 7.3.3 below) over all (or an Identifiable Part) of its undertaking and assets both present and future wheresoever situate which satisfies the requirements of paragraphs 7.3.5 and 7.3.7 below.

### 7.3.3 *Negative Pledge*

Each Authorised Borrower shall undertake not to create or leave outstanding any mortgage or charge on the whole or any part of the property charged in accordance with any provision of this paragraph 7.3 ranking in priority to or *pari passu* with the charges created pursuant to this paragraph except, in the case of Floating Charge Security only, within the following limits:—

- 7.3.3.1 a fixed mortgage or charge on specific property, whether or not existing at the date of the making of the Authorised Loan, which is not given by way of collateral security for the indebtedness or other liabilities of any other person;
- 7.3.3.2 the creation of charges (including charges to secure other advances from THFCIL 2) ranking *pari passu* with the Floating Charge Security;

provided that in either case the minimum Asset Cover continues to be provided to THFCIL 2 in accordance with paragraph 7.3.5 below.

7.3.4 *Fixed Charge Asset Cover*

7.3.4.1 Each Authorised Borrower shall, subject to paragraph 7.3.4.5, covenant to procure that in relation to any Fixed Charge Security, the Fixed Charge Asset Cover shall be not less than 150 per cent. of the Indexed Outstanding Principal Amount of the relevant Authorised Loan (the "Minimum Fixed Asset Cover Level") in respect of which at all times (after taking account of any substitution, withdrawal or charging of additional assets as specified in paragraphs 7.3.4.2 to 7.3.4.4 below) on or after the second anniversary of the Authorised Loan (or such later date as the Trustee shall agree in respect of any particular Authorised Borrower or Authorised Borrowers where in the opinion of the Trustee the interests of the Stockholders will not be materially prejudiced by such extension of time) at least 90 per cent. of such Minimum Fixed Asset Cover Level shall be provided by a charge or charges on Property. Each Authorised Borrower shall be entitled to procure a revaluation of any Fixed Charge Security for the purposes of this paragraph at any time but not more than once in each accounting period of that Authorised Borrower.

7.3.4.2 Subject to the provisions of paragraph 7.3.4.1 above and paragraphs 7.3.4.5 and 7.3.6.2 below, each Authorised Borrower may withdraw any part of the relevant Fixed Charge Security charged by it in favour of THFCIL 2 provided that THFCIL 2 shall be satisfied that at the time of such withdrawal the Fixed Charge Asset Cover of the Property and/or Permitted Investments and/or cash remaining following such withdrawal will be equal to at least 200 per cent. of the Indexed Outstanding Principal Amount of the relevant Authorised Loan at the date of such withdrawal and in addition each such Authorised Borrower granting Fixed Charge Security may within the first month withdraw any further part of its Fixed Charge Security charged by it in favour of THFCIL 2 provided that THFCIL 2 shall be satisfied that at the time of such withdrawal the Fixed Charge Asset Cover of the Property and/or Permitted Investments and/or cash remaining following such withdrawal will be equal to at least 150 per cent. of the Indexed Outstanding Principal Amount of the relevant Authorised Loan at the date of such withdrawal.

7.3.4.3 Subject to the provisions of paragraphs 7.3.4.1 above and 7.3.4.5 and 7.3.6.2 below each Authorised Borrower may withdraw all or any part of the relevant Fixed Charge Security charged by it in favour of THFCIL 2 upon the relevant Authorised Borrower charging in favour of THFCIL 2 Substitute Fixed Assets at least equal in value to the Fixed Charge Security withdrawn, to be held by way of first fixed charge and to the satisfaction of THFCIL 2 as part of the relevant Fixed Charge Security, provided that THFCIL 2 shall be satisfied that at the time of such substitution the Fixed Charge Asset Cover of the Fixed Charge Security remaining following such substitution will be equal to at least 150 per cent. of the Indexed Outstanding Principal Amount of the relevant Authorised Loan at the date of such substitution.

Any excess in the Fixed Charge Asset Cover of Substitute Fixed Assets as evidenced in the most recent valuation thereof over the Fixed Charge Asset Cover of the Fixed Charge Security or the part thereof withdrawn shall, if the relevant Authorised Borrower so requests, be taken into account in any subsequent substitution prior to the next revaluation pursuant to paragraph 7.3.10 below or procured by the Authorised Borrower pursuant to paragraph 7.3.4.1 above.

7.3.4.4 Subject to paragraph 7.3.4.5, if at any time the Fixed Charge Asset Cover of any Fixed Charge Security relating to either (a) an Authorised Loan or (b) subject to paragraph 7.3.1.2.1 all monies due from that Authorised Borrower to THFCIL 2 falls below 150 per cent. of the Indexed Outstanding Principal Amount of the relevant Authorised Loan, the

relevant Authorised Borrower shall within three months charge by way of first fixed charge in favour of THFCIL 2 such additional cash and/or Permitted Investments and/or Property as may be required to procure that the Fixed Charge Asset Cover of the relevant Fixed Charge Security satisfies the requirements of paragraph 7.3.4.1 above.

7.3.4.5 For the purposes of this paragraph 7.3.4, until the second Payment Date following the date of the relevant Authorised Loan (or if such Payment Date is more than nine months after the date of the relevant Authorised Loan, the Payment Date next following the date of the relevant Authorised Loan) and provided that the amount of any cash held in an Initial Charge relating to that Authorised Loan equals or exceeds 125 per cent. of the Indexed Outstanding Principal Amount of the relevant part of the relevant Authorised Loan as at the making of the relevant Authorised Loan, the Fixed Charge Asset Cover of such cash shall be deemed to be 150 per cent. of the Indexed Outstanding Principal Amount of the relevant part of the relevant Authorised Loan.

For the purposes of this paragraph 7.3.4.5, the relevant part of the relevant Authorised Loan shall mean that proportion of such Authorised Loan in respect of which Fixed Charge Asset Cover in accordance with paragraph 7.3.4.1 shall not have been provided.

7.3.5 *Floating Charge Asset Cover*

7.3.5.1 Each Authorised Borrower shall covenant to procure that, in relation to any Floating Charge Security, the Asset Cover, which shall be certified or reported on by its auditors or Valuer, as the case may be, on or within 28 days prior to the date each Authorised Borrower enters into the relevant Authorised Loan and as soon as practicable, but in any event not later than the earlier of 210 days after the end of each of its accounting periods and one week after the date of its auditors' report on the accounts in respect of such period, shall be, if determined by reference to the last audited accounts of any Authorised Borrower, not less than 300 per cent. of the Indexed Outstanding Principal Amount of the relevant Authorised Loan or if determined on a Current Valuation Basis, 150 per cent. of the Indexed Outstanding Principal Amount of the relevant Authorised Loan.

7.3.5.2 If at any time the Asset Cover, (adjusted, where an Authorised Borrower provides Floating Charge Security over an Identifiable Part of its property, undertaking and assets, by the exclusion from account of the specified property and assets excluded from the Identifiable Part and of any amount secured solely by way of mortgage and/or charge on such excluded property and assets) as determined by reference to the last audited accounts of the relevant Authorised Borrower, falls below 300 per cent. of the Indexed Outstanding Principal Amount of the Authorised Loan the Authorised Borrower shall deliver to THFCIL 2 within sixty days:—

- (i) a valuation of Property determined on a Current Valuation Basis which equals or exceeds 150 per cent. of the Indexed Outstanding Principal Amount of the relevant Authorised Loan; and
- (ii) a first fixed charge over all the Property the subject of such valuation.

7.3.6 *Fixed Charge Income Cover*

7.3.6.1 Subject to paragraph 7.3.6.4, each Authorised Borrower shall covenant to procure that in relation to any Fixed Charge Security, the Net Annual Income of the relevant Fixed Charge Security, as certified or reported on by its Valuer or auditors, on or within 28 days prior to the date the Authorised Borrower enters into the relevant Authorised Loan or, where an Initial Charge is provided by an Authorised Borrower or where an Authorised Borrower provides Floating Charge Security at the date of the Authorised Loan on, or within 28 days prior to the date such Authorised Borrower enters into the relevant Fixed Charge Security and, in either case, as soon as practicable but in any event not later than the earlier of 210 days after the end of each of its accounting periods and one week after the date of its auditors' report in respect of such period, shall be not less than 120 per cent. of the aggregate amount of interest payable in respect of the Authorised Loan up to the end of the next succeeding accounting period or, in relation to the certificate or report given within 28 days prior to either the date the Authorised Borrower enters into the relevant Authorised Loan or, where an Initial Charge or Floating Charge Security is provided as aforesaid, the date such Authorised Borrower enters into the relevant Fixed

Charge Security, as the case may be, for the period of twelve months from the date of such certificate or report together with any Repayment Instalments falling due within that period where the value of the Index (unless already known) used in computing the aggregate of such interest and Repayment Instalments is calculated as follows:—

$$FI = \frac{I(L)}{I(L-12)} \times I(M-12)$$

Where

FI is the forecast value of the Index for month M applicable to month M+8

I(L) is the value of the Index for month L

M is the month number of the month for which the value of the Index is being calculated

and

L is the month number of the latest month at that time relating to which the Index has been issued.

- 7.3.6.2 Subject to the provisions of paragraphs 7.3.4.2 and 7.3.4.3 above and 7.3.6.4 below, each Authorised Borrower may withdraw all or any part of the relevant Fixed Charge Security charged by it in favour of THFCIL 2 or substitute other Property and/or Permitted Investments and/or cash for any Fixed Charge Security withdrawn provided that THFCIL 2 shall be satisfied that at the time of such withdrawal or substitution the Net Annual Income of the Property and/or Permitted Investments and/or cash remaining following such withdrawal or substitution is equal to not less than 120 per cent. of the aggregate amount of interest and Repayment Instalments calculated pursuant to paragraph 7.3.6.1 above.
- 7.3.6.3 Subject to paragraph 7.3.6.4 below, if at any time the Net Annual Income of any Fixed Charge Security falls below 120 per cent. of the aggregate amount of interest and Repayment Instalments (calculated pursuant to paragraph 7.3.6.1 above) the relevant Authorised Borrower shall within three months charge by way of first fixed charge in favour of THFCIL 2 such additional cash and/or Permitted Investments and/or Property as may be required to procure that the Net Annual Income of the relevant Fixed Charge Security equals or exceeds that level.
- 7.3.6.4 For the purposes of this paragraph 7.3.6, until that date which is specified in paragraph 7.3.4.5 above and provided that the amount of any cash held in an Initial Charge relating to the relevant Authorised Loan satisfies the requirements set out in paragraph 7.3.4.5 above, the Net Annual Income of the cash held in an Initial Charge shall be deemed to satisfy the requirements set out in paragraph 7.3.6.1 above in respect of an amount of the relevant Authorised Loan equivalent to the outstanding principal amount of such cash and, for the purposes of sub-paragraph (i) of the definition of Net Annual Income above and of paragraph 7.3.6.1 above, no certificate or report by any auditor or Valuer to THFCIL 2 shall be required therefor.
- 7.3.7 *Floating Charge Income Cover*
- 7.3.7.1 Each Authorised Borrower shall covenant to procure that in relation to any Floating Charge Security, and subject to paragraph 7.3.7.2 below, its auditors shall certify or report to THFCIL 2 on or within 28 days prior to the date the Authorised Borrower enters into the relevant Authorised Loan and as soon as practicable, but in any event not later than the earlier of 210 days after the end of each of its accounting periods and one week after the date of its auditors' report on the accounts in respect of such period, that on the basis of its accounts in respect of such accounting period its income and expenditure account (or where an Identifiable Part of the Authorised Borrower's undertaking and assets is charged, its income and expenditure account in relation to such part) does not show any deficit at the end of that period after the following adjustments:—
- 7.3.7.1.1 adding back any transfer to reserves made at the end of the relevant accounting period where the reserves in question can in the opinion of the auditors prudently be used for the purposes of paying interest and capital repayments on the Authorised Loan and without recourse to other funds of the Authorised

Borrower and where such reserves are not a sinking fund or funds against major repairs to the housing stock of the Authorised Borrower;

- 7.3.7.1.2 adding back any sum included as expenditure in the accounts in respect of depreciation on any housing land and buildings;
  - 7.3.7.1.3 including all revenue grants received and receivable by the Authorised Borrower in the relevant accounting period including but without limitation revenue deficit grant payable under section 51 of the Housing Act 1988, hostel deficit grant payable under section 55 of the Housing Associations Act 1985 and tax relief grant payable under section 54 of the Housing Act 1988 or any other grant which in the opinion of the auditors of the relevant Authorised Borrower is equivalent thereto or which replaces or is substituted for such grant from time to time in accordance with the relevant statutory provisions for housing associations;
  - 7.3.7.1.4 adding back the excess of the amount payable, derived from the effective annual rate payable by the Authorised Borrower on any Borrowing, over the amount of interest paid or accrued on such Borrowing in respect of the accounting period;
  - 7.3.7.1.5 adding back any brought forward deficit at the beginning of the accounting period or excluding any brought forward surplus at the beginning of the accounting period as the case may be;
  - 7.3.7.1.6 where an Identifiable Part of the Authorised Borrower's undertaking and assets is charged, excluding from account any income from the specified property and assets excluded from the Identifiable Part and any expenditure incurred solely in relation to such specified excluded property and assets; and
  - 7.3.7.1.7 after making such other adjustments as the auditors of the relevant Authorised Borrower may think appropriate.
- 7.3.7.2 In the event that any Authorised Borrower is unable to comply with the provisions of paragraph 7.3.7.1 above so that the income and expenditure account adjusted as aforesaid of such Authorised Borrower shows a deficit, then the Authorised Borrower shall procure that the auditors of the relevant Authorised Borrower shall provide to THFCIL 2 as soon as practicable but in any event not later than the earlier of 210 days after the end of the relevant accounting period and one week after the date of the auditors' report on the accounts in respect of such period, a certificate or report confirming the amount of the deficit shown in such accounts adjusted in accordance with paragraphs 7.3.7.1.1 to 7 and that in the auditors' opinion the deficit will not adversely affect the ability of the Authorised Borrower to perform its obligations under the Authorised Loan Agreement and that taking into account the Authorised Borrower's business as carried on since the end of such relevant accounting period and having regard to the level of reserves of the Authorised Borrower and its projected or expected expenditure and business over the period of twelve months following the date of the auditors' certificate or report, the Authorised Borrower will, in the auditors' opinion, be able to meet its obligations under the Authorised Loan Agreement over such period of twelve months.
- 7.3.7.3 THFCIL 2 may require the Authorised Borrower to procure the provision of a further certificate or report from a firm of chartered accountants other than the Authorised Borrower's auditors in relation to the accounts in respect of which such auditor's certificate or report has been given in accordance with paragraphs 7.3.7.1 and 7.3.7.2 certifying or reporting that in the opinion of the chartered accountants providing such certificate or report, the deficit shown in such accounts of such Authorised Borrower adjusted in the manner provided in paragraph 7.3.7.1 above is not materially detrimental to the interests of THFCIL 2 and does not affect the ability of the Authorised Borrower to meet its obligations under the Authorised Loan Agreement as aforesaid in paragraph 7.3.7.2 above. Such certificate or report will be provided by such other firm of chartered accountants as THFCIL 2 may nominate after consultation with the Authorised Borrower, at the cost of THFCIL 2. Any failure by the relevant Authorised Borrower to procure the provision of such further certificate or report within 90 days of THFCIL 2's

written request for the same shall be deemed to constitute an event of default in relation to the Authorised Loan concerned.

7.3.8 *Redemption*

Each Authorised Loan Agreement will provide for redemption on the terms described in paragraphs 4.2 and 4.5, save that THFCIL 2 shall be entitled, in the case of loans other than the initial loans made to the Initial Authorised Borrowers, to determine whether such loans should allow for redemption at the option of the Authorised Borrower concerned or for redemption by an Authorised Borrower on a Borrower's Tax Change and the earliest date for any Borrower's Illegality Redemption.

7.3.9 *Purpose*

Any Authorised Loan shall only be used by an Authorised Borrower for the following purposes:—

- (i) to provide finance for the purchase and/or acquisition and/or development and/or repair and/or improvement and/or refurbishment and/or refinancing of existing loans or drawings from the relevant Authorised Borrower's other resources where such drawings were on a short term basis in each case relating to freehold or leasehold property and where any such property which is not housing is purchased, acquired, developed, repaired, improved, refurbished or refinanced with monies borrowed under an Authorised Loan, the purpose for which that property is purchased, acquired, developed, repaired, improved, refurbished or refinanced must be ancillary to the provision of housing (including estate and other office premises) and THFCIL 2 must be reasonably satisfied that the purchase, acquisition, development, repair, improvement, refurbishment or refinancing costs of such property will not amount to more than 5 per cent. of the total value of all freehold and leasehold property held by the relevant Authorised Borrower immediately after the purchase, acquisition, development, repair, improvement, refurbishment or refinancing of the relevant property;
- (ii) pending sub-paragraph (i) above (and sub-paragraph (iii) below), the making of investments in assets which for the time being come within Parts I or II of the First Schedule to the Trustee Investment Act 1961; and
- (iii) the payment of any necessary ancillary costs in relation to sub-paragraph (i) and sub-paragraph (ii) above and the cost of taking the Authorised Loan and the provision of any security in connection therewith providing that these costs do not exceed 5 per cent. of the Authorised Loan.

7.3.10 *Revaluation*

THFCIL 2 may at any time following a valuation by a Valuer of the relevant asset require the revaluation of the assets charged pursuant to paragraph 7.3.1 above (which in the case of Property which is the subject of Fixed Charge Security shall include a determination of annual expenditure for the purposes of the determination of Net Annual Income) provided that not more than one revaluation shall be made in any one accounting period of the relevant Authorised Borrower.

7.3.11 *Borrowing Limits*

Each Authorised Borrower shall, in relation to any Floating Charge Security, procure that the aggregate amount of its unsecured Borrowings from time to time shall not equal or exceed 5 per cent. of the Net Assets (adjusted, where an Authorised Borrower provides Floating Charge Security over an Identifiable Part of its property, undertaking and assets, by the exclusion from account of the specified property and assets excluded from the Identifiable Part and of any amount secured solely by way of mortgage and/or charge on such excluded property and assets) of that Authorised Borrower at that time provided that the above limit shall not prohibit the Authorised Borrower from entering into or incurring any unsecured Borrowing if THFCIL 2 shall receive written details of any proposed unsecured Borrowings in excess of such limit together with a certificate satisfactory to THFCIL 2 from two Authorised Officers of the Authorised Borrower, one of whom is the



finance director (such certification to be ratified by the Committee of Management (or equivalent management body) of that Authorised Borrower within four weeks of the date of the certificate), certifying that, having made due and careful enquiry, in their reasonable opinion the entry into or the incurring of such unsecured Borrowings, taking into account the Authorised Borrower's existing assets and liabilities and its projected or expected expenditure and business over the period of the entry into or incurring of such unsecured Borrowings, would not adversely affect its ability to comply with the covenants contained in paragraphs 7.3.5 and 7.3.7 above or its ability to meet interest payments and Repayment Instalments due in the foreseeable future and at least in the next twelve months where the value of the Index (unless already known) used in computing the aggregate of such interest and Repayment Instalments is calculated as follows:—

$$FI = \frac{I(L)}{I(L - 12)} \times I(M - 12)$$

Where:—

FI is the forecast value of the Index for month M applicable to month M + 8

I(L) is the value of the Index for month L

M is the month number of the month for which the value of the Index is being calculated

and

L is the month number of the latest month at that time relating to which the Index has been issued.

For the purposes of this paragraph 7.3.11, any Borrowing made by an Authorised Borrower from THFCIL 2 which shall be secured in favour of THFCIL 2 by virtue only of security granted to THFCIL 2 on the occasion of THFCIL 2 making available to the Authorised Borrower other Borrowings which are secured by that security shall be deemed to be unsecured.

#### 7.3.12 *On-lending*

Each Authorised Borrower shall undertake not to on-lend any monies lent to such Authorised Borrower by THFCIL 2 without the prior written consent of THFCIL 2, which shall only be given upon receipt by THFCIL 2 of evidence that such on-lending is lawful and within the powers of the Authorised Borrower, including, *inter alia*, receipt of the consent of the Housing Corporation to such on-lending if required.

#### 7.3.13 *Disposals*

In the case of Floating Charge Security, each Authorised Borrower shall undertake not to sell, transfer, or otherwise dispose of (whether by a single transaction or a number of transactions, related or not) the whole or any part of its undertaking or assets being substantial in relation to the undertaking or assets of the relevant Authorised Borrower taken as a whole (or, where an Identifiable Part of the Authorised Borrower's undertaking and assets is charged, in relation to such part). In determining whether the provisions of this paragraph 7.3.13 have been observed and performed the following transactions shall be disregarded:—

7.3.13.1 the sale, transfer, lease or disposal by the Authorised Borrower of any of its assets in the course of business normally carried on from time to time by housing associations registered under section 5 of the Housing Associations Act 1985;

7.3.13.2 the exchange of assets belonging to the Authorised Borrower for other assets of a similar nature and of approximately equal value;

7.3.13.3 the sale of assets belonging to the Authorised Borrower for cash and the application of a sum approximately equal to the proceeds of sale within a period of 12 months in the acquisition of other assets to be used in a business or undertaking of a similar nature to that in which any of the assets of the Authorised Borrower are employed;

- 7.3.13.4 the application of the proceeds of an issue of loan capital for the purposes for which such issue is intended as stated in the prospectus or other issue document;
- 7.3.13.5 the application by the Authorised Borrower of any funds not immediately required for the purpose of its business or undertaking in the acquisition of investments authorised by its Rules and the subsequent sale or exchange of the same; and
- 7.3.13.6 any transactions to which THFCIL 2 shall have previously given its consent.

7.3.14 *Assignment*

Each Authorised Loan (and all Fixed Charge Security or Floating Charge Security entered into thereunder) shall permit the assignment or charging of the benefit of the same subject to the consent of the Trustee or if so required by a central bank or other fiscal, monetary or other authority.

7.4 *Pari Passu Borrowings*

No Pari Passu Borrowings shall be made by THFCIL 2 unless the beneficiary of any charge ranking *pari passu* with the Floating Charge and any floating charges securing Additional Stock shall have entered into a deed in such form as the Trustee shall properly require in order to protect the interests of the Stockholders, governing the appointment of joint receivers and other matters incidental to the exercise by the Trustee and by such beneficiary of their rights under the respective charges.

7.5 *Income cover*

THFCIL 2 shall procure that, subject as provided below, its auditors shall certify or report to the Trustee as soon as practicable but in any event not later than the earlier of 180 days after the end of each relevant accounting period and one week after the date of its auditors' report on the accounts in respect of such period, that on the basis of its accounts in respect of such accounting period its income and expenditure account does not show any deficit at the end of that period.

In the event that the income and expenditure account of THFCIL 2 shows a deficit, then THFCIL 2 shall procure that the auditors of THFCIL 2 shall provide to the Trustee and to the Stockholders as soon as practicable but in any event not later than the earlier of 180 days after the end of the relevant accounting period and one week after the date of the auditors' report on the accounts in respect of such period, a certificate or report confirming that in the auditors' opinion the deficit shown in such accounts will not adversely affect the ability of THFCIL 2 to perform its obligations under the Trust Deed over the period of twelve months following the date of the auditors' certificate or report.

Under the Trust Deed, the Trustee may be required in relation to the certificate or report referred to in the preceding paragraph provided by the auditors of THFCIL 2 subject to the provisions for its indemnification contained therein, by the written request and at the expense of the holder or holders of not less than one quarter in nominal amount of the Stock outstanding made to the Trustee within 30 days after the date on which any such certificate or report has been given by the auditors to Stockholders in accordance with this paragraph 7.5 to require THFCIL 2 to procure the provision of a further certificate or report from a firm of chartered accountants other than THFCIL 2's auditors in relation to the accounts in respect of which such auditors' certificate or report has been given certifying or confirming that, in the opinion of the chartered accountants providing such certificate or report the deficit shown in THFCIL 2's accounts is not materially detrimental to the interests of the Stockholders and does not affect the ability of THFCIL 2 to meet its financial obligations under the Trust Deed over the period of twelve months following the date of its auditors' certificate or report. Such certificate or report will be provided by such other firm of chartered accountants as the Trustee may nominate after consultation with THFCIL 2.

Any failure by THFCIL 2 to procure the provision of such further certificate or report within 90 days of the Trustee's written request for the same shall be deemed to constitute an event of default in consequence of which the Stock shall upon notice from the Trustee to THFCIL 2 become immediately due and payable under paragraph 3 without the need for the Trustee to provide any certificate that such event is materially prejudicial to the interests of the Stockholders.

7.6 *Asset Value*

THFCIL 2 shall procure that for so long as any of the Stock is outstanding the aggregate value of the

Indexed Outstanding Principal Amount of Authorised Loans not due and repayable, the index-linked investments approved by the Trustee as security for the Stock and purchased with sums repaid by any Authorised Borrower as referred to in paragraph 4.2.5.2 above and any amount which the Trustee agrees should be counted which is standing to the credit of an Issuer's Account shall equal or exceed the Indexed Outstanding Principal Amount of the Stock at that time (the "Asset Cover Requirement") provided that THFCIL 2 shall have 90 days from the date of any Borrower's Redemption in which to satisfy the provisions of this paragraph during which period the Asset Cover Requirement shall not apply.

THFCIL 2 shall procure that its auditors shall certify or report to the Trustee as soon as practicable but in any event not later than the earlier of 180 days after the end of each relevant accounting period and one week after the date of its auditors' report on the accounts in respect of such period, that on the basis of its accounts in respect of such accounting period the Asset Cover Requirement has been met.

THFCIL 2 shall also, within 90 days of any Borrower's Redemption, certify to the Trustee that the Asset Cover Requirement has been complied with.

#### 7.7 *Charged Accounts*

THFCIL 2 undertakes to procure that where a first charge over cash is granted to THFCIL 2 by any Authorised Borrower as part of any Fixed Charge Security or Initial Charge, no monies may be released from the account containing the cash charged, without the prior written consent of THFCIL 2 (which consent may be given specifically in relation to any transaction, or generally).

#### 7.8 *Disposals*

Save as mentioned in paragraph 7.9 below, THFCIL 2 shall not sell, transfer or otherwise dispose of (whether by a single transaction or a number of transactions, related or not) the whole or any part of its undertaking or assets being substantial in relation to the undertaking or assets of THFCIL 2.

#### 7.9 *Exempt Transactions*

In determining whether the provisions of paragraph 7.8 above have been observed and performed the following transactions shall be disregarded:—

- 7.9.1 the making of Authorised Loans and the repayment by any Authorised Borrower of any Authorised Loan and the making of further Authorised Loans;
- 7.9.2 the application of the proceeds of an issue of share or loan capital for the purposes for which such issue is intended as stated in the prospectus or other issue document;
- 7.9.3 the application by THFCIL 2 (in accordance with paragraph 7.2.3 where applicable) of any funds not immediately required for the purpose of its business or undertaking in the acquisition of investments and the subsequent sale of the same; and
- 7.9.4 any transaction to which the Trustee shall have previously given its consent.

#### 7.10 *Authorised business*

THFCIL 2 shall not carry on any undertaking or business except that of giving advice and making Authorised Loans to Authorised Borrowers.

#### 7.11 *Application of Monies by THFCIL 2*

THFCIL 2 covenants with the Trustee that it will promptly and diligently apply the monies arising from the enforcement by it of an All Monies Charge or under any powers thereby conferred upon it or a receiver appointed in respect thereof in the order of priority indicated in paragraph 7.3.1.2 above.

#### 7.12 *Amendments and Waivers*

THFCIL 2 shall covenant with the Trustee that save with the prior written consent of the Trustee it will not assent to any modification, abrogation, waiver or release in respect of any of the obligations of any Authorised Borrower under any Authorised Loan made by it prior to the repayment in full to THFCIL 2 of all monies owing in respect of that Authorised Loan if such modification, abrogation, waiver or release would have the effect of making the terms and conditions on which the amount for the time being outstanding of the Authorised Loan is lent less onerous to the Authorised Borrower or less beneficial to THFCIL 2 than the terms and conditions set out in paragraph 7.3 above. THFCIL 2

will covenant with the Trustee that it will promptly and diligently enforce in all material respects the terms in such Authorised Loans equivalent to those listed in paragraph 7.3 above together with the payment terms of the Authorised Loans unless the Trustee shall have consented to any waiver or release of any specific default in connection therewith in circumstances where in the opinion of the Trustee the interests of the Stockholders will not be materially prejudiced thereby.

## **8. Modification of Rights**

8.1 Stockholders will have power by Extraordinary Resolution *inter alia* to sanction any compromise or arrangement proposed to be made between THFCIL 2 and such Stockholders and to assent to the modification of any of the provisions contained in the Trust Deed.

8.2 The Trustee may concur with THFCIL 2 in making any modification of any of the provisions contained in the Trust Deed required to obtain or maintain a listing for the Stock on the London Stock Exchange or which in the opinion of the Trustee will not be materially prejudicial to the interests of the Stockholders or which is to correct a manifest error and may waive or authorise on such terms as seem expedient any breach by THFCIL 2 of the terms of the Trust Deed but only insofar as in its opinion the interests of the Stockholders will not be materially prejudiced thereby.

## **9. Transfer**

The Stock will be registered and transferable in amounts and integral multiples of £1 in nominal amount by an instrument of transfer.

## **10. Listing**

THFCIL 2 will promptly apply for and will use its best endeavours to obtain a listing for the Stock on the London Stock Exchange and, for so long as any of the Stock remains outstanding, to maintain such listing.

## **11. Indemnification and Replacement of the Trustee**

11.1 The Trust Deed will contain provisions for indemnifying the Trustee and for relieving it from certain responsibilities including provisions absolving it from registering any notice or other entry under the Land Registration Acts 1925 to 1988 against any registered land for the time being subject to any floating charge securing the Stock or any Additional Stock or any guarantee thereof. The Trustee is not required to approve specifically the terms of any Authorised Loan or inquire as to compliance by Authorised Borrowers with the terms of any Authorised Loan and may rely on certificates of THFCIL 2 and/or THFCIL 2's auditors and/or THFCIL 2's solicitors as to compliance of all Authorised Loans with the requirements set out above, and as to compliance by THFCIL 2 with its obligations generally.

11.2 The statutory power to appoint new trustees will be vested in THFCIL 2 but before being appointed a new trustee must be approved by an Extraordinary Resolution.

## **12. Replacement of Stock Certificates**

Should any certificate for Stock be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar upon payment by the claimant of any reasonable expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as THFCIL 2 may require.

## **13. Validity of Claims**

The Trust Deed does not and will not specify any time limit on the validity of claims against THFCIL 2 for payments of interest or repayment of principal.

## **14. Notices**

All notices will be valid if despatched by first class post in a prepaid envelope to each Stockholder at his registered address (or, in the case of joint holders, to the address of the holder whose name stands first in the Register). Any such notice will be deemed to have been given on the day following the day of despatch.

**15. Governing Law**

The Stock and the Trust Deed are governed by and shall be construed in accordance with English law.

**NET PROCEEDS**

The net proceeds of the issue are estimated to total £30,887,000.

The funds raised will, initially, be lent to the Initial Authorised Borrowers to be used for the purposes described in paragraph 7.3.9 of the Particulars of the Stock.

# United Kingdom Taxation

The statements below are based on current law and practice in the United Kingdom. They are general in nature, apply only to persons who are the beneficial owners of the Stock and may not apply to certain classes of taxpayer (such as dealers and companies associated with banks). **Persons who are subject to taxation in jurisdictions other than the United Kingdom or who are in any doubt as to their tax position should consult their professional advisers.**

## 1. Interest

- (a) Payments of interest on the Stock may be paid without deduction of tax except to a holder of the Stock whose usual place of abode is not within the United Kingdom.
- (b) Payments of interest on Stock which is held by a holder whose usual place of abode is not within the United Kingdom will be made under deduction of United Kingdom income tax at the basic rate (currently 25 per cent.), unless THFCIL 2 is authorised by the Inland Revenue to make payment free of deduction or subject to a reduced rate of tax to that holder under the terms of a double taxation treaty. Such authorisation will be given only on prior application to the Commissioners of Inland Revenue by the Stockholder concerned.

## 2. Accrued Income Scheme

The accrued income scheme will, subject to certain exemptions, apply to a holder of the Stock so that on a transfer of Stock during a Payment Period, the interest will be apportioned for tax purposes between transferor and transferee.

## 3. Qualifying Indexed Securities

THFCIL 2 has been advised that the Stock will constitute “qualifying indexed securities” within paragraph 2 of Schedule 11 to the Finance Act 1989. As such, it will not be a deep gain security for the purposes of Schedule 11 to the Finance Act 1989. Consequently, there will be no charge to tax on that element of each repayment which represents the excess over the Outstanding Principal Amount resulting from indexation.

## 4. Capital Gains Tax

THFCIL 2 has been advised that the Stock will constitute a “qualifying corporate bond” within section 117 of the Taxation of Chargeable Gains Act 1992. As such, no gain or loss will be realised for the purpose of United Kingdom taxation on capital gains on any disposal of the Stock.

## 5. Stamp Duty

No stamp duty, stamp duty reserve tax or similar tax or duty is imposed in the United Kingdom on the issue, transfer or redemption of the Stock.

## **T.H.F.C. (Indexed 2) Limited**

T.H.F.C. (Indexed 2) Limited ("THFCIL 2") was incorporated on 29th May, 1990 but remained dormant until activated for the purposes of raising private sector funding for housing by the issue of index-linked stock and on-lending of the net proceeds to Authorised Borrowers. It is a registered industrial and provident society, and its affairs are governed by the provisions of the Industrial and Provident Societies Acts 1965 to 1978. It is a wholly owned subsidiary of The Housing Finance Corporation Limited ("THFC") (described further below).

The principal object of THFCIL 2 as contained in its rules is the lending of money and the giving of advice to housing associations as defined in section 1 of the Housing Associations Act 1985. It is prohibited by its rules from trading for profit.

THFCIL 2 is a single purpose vehicle used for the raising and on-lending of index-linked funds in order to keep the interest of index-linked stockholders and THFC's conventional stockholders distinct.

### **Management**

THFC has established a wholly-owned subsidiary, T.H.F.C. (Services) Limited, whose registered office is at 37 Sun Street, London EC2M 2PY, which provides management and loans administration services under management agreements to THFC and its non-charging subsidiaries, including THFCIL 2. THFCIL 2 entered into such a management agreement (the "Management Agreement") with T.H.F.C. (Services) Limited on 6th December, 1994. Each Authorised Loan Agreement contains a provision for the payment of an annual administration fee by the Authorised Borrower to THFCIL 2, from which an annual fee of £12,000, or such other fee as may be agreed from time to time, is payable to T.H.F.C. (Services) Limited under the terms of the Management Agreement. The Management Agreement can be terminated by either party on or after 31st March, 1999 by one year's notice in writing.

Barbara Ainger, General Manager of THFC since June 1988, was appointed Chief Executive of THFC in October 1994. She was previously Private Finance Manager of the Housing Corporation.

The Directors of THFC, THFCIL 2 and T.H.F.C. (Services) Limited, all of 6 New Square, Lincoln's Inn, London WC2A 3RP are as follows:—

George John James Dennis, Chairman, who was until recently Managing Director of National Bank of Kuwait Investment Management Limited and is a director of several other companies, including, Hill Samuel Property Unit Trust, New Frontiers Trust plc, The Sunbelt Trust and Market Analytical Techniques and is adviser to certain investment organisations.

Alan Naismith Binder, OBE, Chairman of Mills and Allen, of United Communications Limited and of Expro International Group Limited and formerly President of Shell International Trading Company, a division of Shell International Petroleum Company Limited.

James Edward Coulter, who is Chief Executive of The National Federation of Housing Associations and a director of Homeless Network.

Dr David Ronald Creed, who is Group Treasurer of Tate & Lyle PLC.

Ralph Anthony Jeffrey Mayer, who is a board member and Chief Executive of the Housing Corporation.

John Dudley Webster, Company Director and former Director of Sun Life Corporation plc.

Stephen Fitzmaurice Wood, who is Deputy Chief General Manager of the Co-operative Insurance Society ("CIS") and is a director of several companies in connection with CIS and its investments.

Each Director is non-executive and will not receive remuneration from THFCIL 2 in 1994. None of the Directors has any existing or proposed service contract with THFCIL 2 other than any contract expiring or determinable by THFCIL 2 without payment of compensation (other than statutory compensation) within one year. The Directors are responsible for the taking of decisions by THFCIL 2 to borrow and to lend funds and the terms of those borrowings and loans.

### **Shareholders of THFC and THFCIL 2**

The Housing Corporation, The National Federation of Housing Associations, Mr Dennis, Mr Binder, Dr Creed, Mr Webster and Mr Wood each hold one fully paid share of £1 in THFC. Those shares represent the entire authorised and issued share capital of THFC.

The directors of THFCIL 2 (with the exception of Mr Coulter) and The National Federation of Housing Associations each hold one fully paid share of £1 in THFCIL 2 as nominees for THFC. Those shares represent the entire issued share capital of THFCIL 2.

#### **The Housing Finance Corporation Limited**

THFC was established in 1987 as the result of a joint initiative by the Housing Corporation and The National Federation of Housing Associations to raise funds from private sector sources for investment in the development of social housing by registered housing associations, unregistered self-build societies and charities having a housing function.

THFC is an industrial and provident society controlled by the above listed board of seven directors. The Housing Corporation and The National Federation of Housing Associations are both represented on the THFC board by their respective chief officers. The remainder of the board consists of representatives from both the financial and the commercial sectors.

As at 30th September, 1994 THFC had approximately £536 million of loans outstanding to 101 housing associations, mainly for development projects. The funds have been raised from a variety of sources including publicly issued debenture stocks, privately placed debenture stocks and bank loans.



# Housing Associations

## *History*

Housing associations are organisations established for the purpose of, or amongst whose objects and powers are included those of, providing, constructing, improving or managing or facilitating or encouraging the construction or improvement of, housing accommodation. They operate throughout the United Kingdom, some working on a national basis and others in specific areas of the country. They are autonomous bodies with a varied background and constitutional structure.

## *Almshouse Origins*

Of the total stock of homes provided by all varieties of housing associations, some five per cent. are owned by almshouse trusts. Almshouses date back to the 12th century and were formed by local benefactors or trade guilds. Social housing provision had its origins in this group.

## *The 19th Century*

In the 19th century the rapid increases in population in the cities resulting from the Industrial Revolution led to a gradual recognition of the direct link between good health and good housing. 1830 saw the formation of the Society for the Improvement of the Labouring Classes and the concept of good housing being provided at low cost plus a limited return on capital began to gain momentum. The ability of tenants to pay rent was balanced against a maximum 5 per cent. return on capital: "Five per cent. philanthropy". Towards the end of the century major charitable trusts were endowed by men like George Peabody, Sir Edward Guinness, Samuel Lewis and William Sutton. These trusts provided what were then very high standard dwellings for "the working classes", many of which having undergone major improvements remain today.

## *Inter War*

In the inter war years legislation enabled local authorities to begin building their own housing estates initially under the "homes for heroes" banner, but housing associations continued to be established by people interested in the plight of those living in slums. These associations drew on the ideas of Octavia Hill for the good management and maintenance of their properties and set very high standards of training for their staff.

## *Post War*

The 1950s and 1960s saw the growth of national charitable associations for the elderly such as Anchor Housing Association and inner-city associations concentrating on the growing problems of over-crowding and homelessness. The 1957 Housing Act first enabled local authorities to grant mortgage loans to housing associations, and pressure from the inner-city associations sponsored by the housing charity Shelter led to special subsidies for improving older properties being made available under the Housing Subsidies Act 1967.

From the end of the second world war up to the 1960s central government housing policy was governed by two main principles: the promotion of the owner occupied sector and the provision of council housing. Partly because of this but largely also because of rent control legislation the private landlord was a declining source of accommodation. Those unable to obtain council housing or to purchase their own property were facing growing problems. Housing associations were seen as an opportunity to provide some flexibility, diversity and variety. In addition, they had by this time developed special skills in the preservation, rehabilitation and management of existing older housing.

## *1974*

Two White Papers published by the Conservative government of the early 1970s led to a Housing and Planning Bill. The general election of February 1974 prevented that legislation being enacted but the new Labour administration introduced an almost identical Bill and this became the Housing Act 1974. It is significant to note that the rapid growth of housing associations and their increasing strength are based upon far-reaching legislation supported equally by the two main political parties.

The 1974 Act provided a capital subsidy for housing associations — Housing Association Grant — and underpinned this with revenue subsidies. Grants were payable only to associations subject to a new process of registration by the Housing Corporation which was given new powers and responsibilities to promote and supervise the work of associations.

### ***Post 1974***

Government funding of housing associations between 1974 and 1980 concentrated on the provision of housing at “fair rents” (i.e. Rent Officer controlled rents) with emphasis on urban rehabilitation, housing for the elderly and housing for people with special needs.

Since 1980 associations have also been used to increase home ownership. The “right to buy” was introduced by the Housing Act 1980 for tenants of non-charitable housing associations and associations have also received government funds for shared-ownership, improvement for sale and leasehold for the elderly programmes.

Recent local government legislation permits the transfer of local authority housing stock to other landlords. As at 1st December, 1994, 34 local authorities had transferred their entire housing stock to new registered housing associations adding another dimension to the housing association sector.

The Housing Act 1988 provides the context for private sector investment in housing association activity. It changed the legal basis for fixing rents from 1st January, 1989: lettings to new tenants are now made on an assured tenancy basis which means that housing associations may set initial rent levels without reference to any outside body such as the Rent Officer. Rents can be reviewed annually either by means of specific rent review provisions within tenancy agreements or through the mechanisms for determining market rents contained in the Housing Act 1988. For registered housing associations carrying out schemes utilising public subsidy the overriding objective is that rents must be affordable by those in low paid employment. Housing association tenancies will normally be made on a periodic basis.

### ***Supervision — The Housing Corporation***

The Housing Corporation was established by Parliament in 1964 with a Board appointed by the Secretaries of State for the Environment, Wales and Scotland to assist housing societies to set up cost-rent and co-ownership schemes.

The Housing Act 1974 extended the Housing Corporation’s powers to the promotion and control of registered housing associations.

The Housing Associations Act 1985 consolidated the previous legislation and as amended is the current reference point for housing association legislation.

The Housing Act 1988 and the Housing (Scotland) Act 1988 devolved the Housing Corporation’s functions in Wales and in Scotland to Housing for Wales and Scottish Homes (with the Housing Corporation in England, each “the Corporation”).

Section 83 of the Housing Associations Act 1985 permits the Corporation, subject to the consent of the Secretary of State and the Treasury, to guarantee loans to registered housing associations, unregistered self-build societies and bodies in which the Corporation holds an interest. In practice, the Treasury currently permits the Corporation to provide only working capital guarantees to cover bank overdrafts for registered associations arising from cash flow deficiencies in certain circumstances. The Treasury will not permit the Corporation to use its guarantee powers or other forms of indemnity to underwrite long-term private finance for housing association schemes.

The functions of the Corporation are as:—

#### ***Supervisor***

to maintain a register of housing associations, and to exercise supervision and control over registered housing associations.

The Corporation discharges its responsibility for supervision and control by:—

- receiving and examining annual audited accounts;
- receiving and examining annual returns which are submitted as at 31st March in each year;
- receiving and monitoring quarterly financial returns;
- conducting monitoring visits and scheme audits; any apparent problems are investigated and can lead to a supervision case;
- exercising its obligations to give prior consent to any disposal of association’s properties;
- exercising its statutory powers to ensure proper conduct of an association’s affairs.

### *Funder*

since the Housing Act 1988 came into force the Corporation has been given the power to make grants to registered housing associations in respect of expenditure incurred by them. Previously such grants were made by the Secretary of State for the Environment.

### *Promoter*

to promote and assist the development of registered housing associations and of unregistered self-build societies;

to facilitate the proper exercise and performance of the functions, and to publicise the aims and principles, of registered associations.

### *Developer*

the Corporation may develop dwellings for letting or for sale. As far as THFCIL 2 is aware, this power is currently unused.

### ***Statutory Powers of Intervention***

Where a monitoring visit, or other contact, discloses matters of potentially serious concern, which cannot be resolved voluntarily by the association, the Corporation has statutory powers to appoint inquirers with sweeping powers of investigation. Following this the Corporation may dismiss committee members, appoint new ones or direct (with the Secretary of State's consent) the transfer of property to another registered association. With its knowledge of other associations the Corporation is in a position to facilitate and promote a voluntary transfer of some or all of an association's portfolio if this is the best solution. The Corporation has the general power to make appointments to the committees of management. In 1993/4 in England one major Section 20 Enquiry was concluded; no new statutory appointments to management committees were made but 14 existing appointments remained in place; and no forced takeovers were necessary.

### ***Consent to Dispose***

Section 9 of the Housing Associations Act 1985 requires all registered housing associations to obtain the Corporation's consent before they dispose of any interest in land (other than the granting of certain individual tenancies or statutory, right to buy, sales) either through sale or by way of mortgage, regardless of how the transaction is financed. Without this consent the transaction may be void.

Section 9 Consent is a discretionary power, not an automatic process. Consent cannot be arbitrarily withheld and, in fulfilling its safeguarding role, the Corporation is likely to take into account the protection of the association's assets, tenants and also any public monies invested in the association. This assessment affords an opportunity for the Corporation to monitor the nature and extent of privately funded developments by housing associations and to consider the overall impact of a succession of such developments on the financial position of individual associations.

### ***Registration of Housing Associations***

Housing associations must be registered in the Register of Housing Associations maintained by the Corporation pursuant to section 3 of the Housing Associations Act 1985 in order to be eligible to receive grants from such organisations.

Housing for Wales regulates the affairs of housing associations either whose registered office as an industrial and provident society or registered address as a charity is in Wales. Scottish Homes regulates the affairs of housing associations whose registered office as an industrial and provident society is in Scotland. The Housing Corporation regulates the affairs of any other housing associations. To be registered with the Corporation, a housing association:—

- (a) must be either a registered charity or a body corporate with limited liability registered under the Industrial and Provident Societies Act 1965;
- (b) if not a registered charity, may not trade for profit and must have its permitted purposes and objects regulated by the Housing Associations Act 1985. This Act was amended by the Housing Act 1988 and the permissible purposes and objects were extended;
- (c) must demonstrate it is under the control of responsible persons of appropriate experience;

- (d) must demonstrate that it operates or will operate on a sound and proper financial basis; and
- (e) must demonstrate that it will conduct its business in accordance with good practice and will follow standards set down or endorsed by the Corporation.

***Housing Associations Registered at 31.3.94***

Associations registered in England

Abbeyfields	353
Other hostels	107
Almshouses	606
General renting	795
Co-operatives	259
Co-ownerships	67
Sale/Lease	65
	2,252
Associations registered in Wales	99
Associations registered in Scotland	266
	2,617

**Management of Housing Associations**

Housing associations are controlled by a Management Committee (or equivalent management body) which is a non-executive board of unpaid individuals with skills and experience relevant to the work of the association. No business which trades for profit and of which a member of the Management Committee is a principal proprietor or the management of which such a person is directly concerned with, can be paid for work carried out for an association. The principal role of the Committee is the overall control of an association's operations and the formulation of policies.

The daily management of housing associations is generally the responsibility of paid professional staff reporting through a chief executive to the Management Committee.

**Maintenance of Housing Association Properties**

Housing association properties are predominantly low rise and of a traditional construction. A framework of management and maintenance allowances is set annually by the Corporation. These allowances are notional levels of expenditure set for different physical types of property in different regions of the country. They are calculated with reference to actual experience of associations after consultation with their representative bodies.

Management and maintenance allowances have historically been used to determine levels of grants on a scheme by scheme basis as well as eligibility for grants to meet revenue deficits. Since 1988, allowances have been used to establish project viability and determine overall grant levels. Associations budget for both day-to-day and cyclical maintenance and are normally obliged to set aside a proportion of surplus rents to create designated reserves for major repairs and improvements.

**Capital Structure**

***The HAG System***

The Housing Act 1974 introduced Housing Association Grant ("HAG") payable by the Department of the Environment on approved schemes, financed either by the Corporation or by local housing authorities. HAG is a capital grant, based on qualifying costs (including capitalised interest) incurred during the development period of a scheme.

The amount payable under the 1974 Act was finally determined after the completion of each scheme. It was assumed that, in the first year, the registered housing association would incur a standard level of management and maintenance costs (including a provision for cyclical maintenance) on the scheme and that these would represent the first claim upon rental income, after allowing 4 per cent. for voids and bad debts.

Any balance of fair rent was available to meet mortgage repayments. At year one the total mortgage repayable was computed from this sum. This was at a fixed rate of interest, over 30 (for rehabilitated schemes)

or 60 (for new build schemes) years. The sum formed the residual loan outstanding and was secured by a mortgage to the Corporation or local authority.

The excess of the capital costs incurred over the mortgage that could be serviced was met by HAG. This traditionally covered between 80 per cent. and 90 per cent. of the capital costs but in some cases could be 100 per cent. No sinking fund for major repairs was provided, on the assumption that further HAG funding would subsequently be made available for such works.

The HAG system was designed to ensure that all costs deemed by the Corporation to be qualifying costs of housing developments were met by a combination of HAG and residual loans. Where associations incurred non-qualifying costs e.g. by building to standards above those required by the Corporation such expenditure had to be met from their reserves.

Part II of the Housing Act 1988 introduced new principles for the payment of HAG from 1st April, 1989. In most cases HAG is now fixed in advance against a forecast development cost. The residual borrowing requirements will generally be met from funds from the private sector in the form of commercial loans. Average HAG levels for 1994/95 were set at 62 per cent. of cost and will reduce to 58 per cent. for 1995/96 which reflects the lower procurement costs and interest rates currently prevailing.

### ***Repayment of HAG***

Section 52 of the Housing Act 1988 provides for HAG to be repayable on the occurrence of any event determined by the Corporation as being a "relevant event". In the Housing Association Grant for Eligible Activities General Determination 1989 "relevant events" include the sale of property otherwise than to a registered housing association and the use of property for a purpose other than that for which grant was originally paid. When HAG is repayable it is at historic cost, there being no provision for the sum to be indexed or interest bearing prior to the occurrence of the "relevant event". The Corporation may, however, charge interest from the date of the "relevant event".

In the event of a disposal or of the winding-up of an association, the lending authority, or any private lender with a charge over the property, ranks in priority to HAG as a secured creditor in respect of outstanding loans to the extent of the value of the property charged. In Wales, where Housing for Wales takes a charge over property to secure HAG, the prior ranking of the private lender is achieved by means of a Deed of Postponement of this charge.

### **Financial Viability of Housing Associations**

#### ***Form and content of Housing Association Accounts***

For accounting periods commencing on or after 1st April, 1992, housing associations have had to comply with The Registered Housing Association (Accounting Requirements) Order 1992 or The Registered Housing Associations (Accounting Requirements) (Wales) Order 1994, as the case may be.

The format of accounts for housing associations is set out in the statutory instruments and requires the balance sheet to include headings and sub-headings in accordance with Format 1 of Part 1 of Schedule 4 to the Companies Act 1985 and the income and expenditure account to include headings and sub-headings in accordance with Format 1 or Format 2 of Part 1 of Schedule 4 to the Companies Act 1985. In practical terms the format of the accounts will be that of commercial companies with extra disclosures which are set out in the statutory instrument. It is compulsory for housing associations to use this format for accounting periods commencing on or after 1st April, 1993.

A Statement of Recommended Practice (SORP) has been published under the Code of Practice of the Accounting Standards Board further to ensure consistency of accounting practices within the housing association movement.

This includes recommendations on the options available to associations for the valuation of their property assets in the balance sheet. It is expected that most associations will continue to use an historic cost basis for the time being, although some may adopt alternative methods such as tenanted market valuations or cash flow valuations.

The required format of accounts for any accounting period commencing prior to 1st April, 1992 was that set out in The Registered Housing Association (Accounting Requirements) Order 1988 (as amended).

This format differed in many significant respects from that adopted by commercial companies, and lenders may have found certain unusual facets difficult to interpret. Housing associations' balance sheets have not generally shown them as organisations of any substantial net worth, particularly their property assets where

they are shown at historic cost and net of any grant (such as HAG). The evaluation of Accumulated Surpluses (or Deficits) and Property Equity raises complex issues.

### ***Accumulated Surpluses***

Historically the grant and subsidy system within which housing associations operated was designed to enable them to do no more than break-even on their revenue accounts. In practice, some associations have been able to accumulate surpluses, largely by carrying out their development operations at costs below the allowances provided for in the grant system or by using in-house architects charged out at scale fees.

Some have access to substantial charitable funds or are the parent of a group of organisations which covenant to pay surpluses to them.

A number have received substantial sums through the exercise by their tenants of the "right to buy". The association is entitled to net proceeds after repayment of outstanding residual mortgages, HAG and associated costs of such "right to buy" disposals.

### ***Property Equity Value***

The current value of the unencumbered equity in existing properties and the ability to realise that equity is clearly fundamental to the opportunity for housing associations to raise private loans. It is important for the Corporation and associations to be able to assess these factors and to determine an appropriate level of activity in combined publicly and privately funded, and wholly privately funded schemes, for each association and the risks to public funds attributable to such activity. To facilitate this, the Corporation has developed parameters by which it will measure the financial viability of housing associations and assess the capacity of each to raise private loans to finance mixed, and wholly privately, funded schemes.

Where HAG has not contributed towards the cost of housing developments, associations generally hold the full equity value in their property, as their only obligation is to repay any residual loans. However, if the property has subsequently received some HAG, e.g. for major repairs or re-improvement, the equity is diluted by the amount of HAG. Associations are not required to show such property separately in their balance sheet and there are, at present, no reliable estimates of the value of the equity in housing associations' non-HAG funded property, but in any case this would be shown at the historic cost of provision.

### ***Potential for Realising Equity Value***

Housing association properties are virtually all tenanted and it would be impossible to realise all the vacant possession equity value at one time. However, the equity can be realised progressively as individual houses become vacant. At any one point there is a pool of vacant houses the full equity value of which can be realised immediately. The rate of turnover of association tenancies nationally is computed at about 5–10 per cent. per annum. In addition associations can, where their rules permit, choose to sell to their tenants, possibly at a modest discount to encourage take up, subject to Section 9 consent from the Corporation.

## **Revenue Funding and Income Cover**

### ***Rental Income***

An association's rental income from property is its main revenue item. Until January 1989, the rents on "secure tenancies" were determined by a Rent Officer. The Housing Act 1988 changed the legal basis for fixing rents from that date: lettings to new tenants are now made on an assured tenancy basis which means that housing associations may set initial rent levels without reference to any outside body such as the Rent Officer. Nevertheless housing associations are expected to take account of the need to cover the costs (after subsidy) of loan charges, and of management and maintenance including the requirement to make prudent provision for major repairs; and in setting the rent for each dwelling, its size, amenities, location and condition.

Approximately 70 per cent. of housing association tenants receive public assistance in meeting their rents through payment of housing benefit and in some circumstances the housing association receives payment direct from the local authority. All housing association rents are set at levels within local housing benefit limits.

Demand for housing association properties greatly exceeds supply and associations typically therefore have little difficulty in keeping void rents to a minimum. Rent arrears are also kept low through the establishment of early contact with tenants in arrears, debt counselling and other forms of assistance. The ultimate sanction for rent arrears is eviction. Associations typically make a provision of 4 per cent. for bad debts and void rents and generally succeed in working well within that figure.

### ***Operating Surpluses***

Some associations generate modest levels of additional income from other sources e.g. contractual arrangements with local authorities to provide and manage short-term housing for the homeless; letting of commercial units acquired alongside residential units in mixed portfolios; voluntary donations through charitable appeals.

As associations are not able to distribute profits to their members and have in any case worked in a funding regime which was previously designed only to break-even, relatively few have built up substantial undesignated reserves.

### **Post 1989**

The 1988 Housing Act provided the context for renewed investment in the housing association movement. It introduced the assured tenancy regime, whereby associations can achieve predictable rental income streams. It halted right to buy sales at a discount on all new housing association tenancies. It also introduced a subsidy system which gives associations greater freedom to utilise their very considerable capital assets and to build up liquid reserves. Substantial public funds are now being committed to the sector amounting to over £2 billion in England and Wales for 1994/95.

# Auditors' Report

The following is the text of a report received by the Directors of THFCIL 2, the Managers and the Trustee from KPMG Peat Marwick, Chartered Accountants, the auditors of THFCIL 2:—

The Directors  
T.H.F.C. (Indexed 2) Limited  
37 Sun Street  
London EC2M 2PY

The Directors  
S.G. Warburg Securities Ltd.  
1 Finsbury Avenue  
London EC2M 2PA

The Directors  
Midland Bank plc  
Thames Exchange  
10 Queen Street Place  
London EC4R 1BQ

The Directors  
The Law Debenture Trust Corporation p.l.c.  
Princes House  
95 Gresham Street  
London EC2V 7LY

7 December 1994

Gentlemen

We have examined the audited accounts of T.H.F.C. (Indexed 2) Limited ("THFCIL 2") for the year ended 31 March 1994. THFCIL 2 was incorporated on 29 May 1990 as Housing Finance Placements (2) Limited and changed its name to THFCIL 2 on 2 December 1994. The balance sheet set out below is based on the audited accounts of THFCIL 2. No profit and loss account has been prepared as, since the date of incorporation, THFCIL 2 has received no income nor incurred any expenditure. In our opinion these accounts give a true and fair view of the state of THFCIL 2's affairs at 31 March 1994.

## Balance sheet at 31 March 1994

	1994
	£
Fixed assets	—
Current assets	7
Current liabilities	—
Net current assets	7
Capital and Reserves	—
Unissued share capital	7

Yours faithfully

KPMG Peat Marwick  
*Chartered Accountants*



## Subscription and Placing

On 7th December, 1994, THFCIL 2 entered into an agreement (the "Placing Agreement") with S.G. Warburg Securities Ltd. and Midland Bank plc (the "Managers") under the terms of which the Managers have conditionally agreed, for a fee of  $\frac{5}{8}$  per cent. of the nominal amount of the Stock, on behalf of THFCIL 2, to procure subscribers for the Stock at a price of £99.460 per £100 nominal of the Stock and to the extent that the Stock is not subscribed to subscribe for Stock. The Placing Agreement is conditional, *inter alia*, on the London Stock Exchange admitting the Stock to the Official List, subject to allotment, not later than 19th December, 1994. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Placing Agreement prior to the closing of the issue of the Stock.

All applicable provisions of the Financial Services Act 1986 must be complied with in respect to anything done in relation to the Stock in, from or otherwise involving the United Kingdom, and each Manager has agreed that it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the Stock, other than any document which consists of or a part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by the listing rules made by the London Stock Exchange under Part IV of the Financial Services Act 1986, to a person who is of a kind described in Article 9(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1988 or to whom the document may otherwise lawfully be issued or passed on.

The Stock has not been and will not be registered under the Securities Act of 1933 of the United States, as amended, and, accordingly, in connection with the distribution of the Stock, it may not be offered, sold or delivered, directly or indirectly, in the United States or to or for the account of any U.S. person.

The Stock is payable in full on acceptance. It is expected that Stock Certificates will be despatched to Stockholders on or about 16th December, 1994. Pending such despatch, transfers will be certified against the register. No temporary documents of title will be issued.

## General Information

1. There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened) which may have or which have had during the last twelve months a significant effect on the financial position of THFCIL 2.
2. Dealings in the Stock will be effected through the London Stock Exchange's Talisman system and will settle within five business days of the date of the transaction.
3. Apart from the Stock presently being issued, THFCIL 2 has no other borrowings or indebtedness or other contingent liabilities.
4. The Trust Deed does not and will not specify any time limit on the validity of claims against THFCIL 2 to interest or repayment of principal.
5. Coopers & Lybrand have advised that, in their opinion, under current legislation, the indexation element of the Repayment Instalments on the Authorised Loans would be exempt from tax in THFCIL 2's hands. This should be an effective match for the indexation element of the Repayment Instalments on the Stock which is not an allowable deduction.
6. KPMG Peat Marwick have given and have not withdrawn their written consent to the inclusion of their name and report and references to themselves in the form and context in which they appear in this document and have authorised the contents of their report for the purposes of section 152(1)(e) Financial Services Act 1986.
7. KPMG Peat Marwick, Chartered Accountants, are the auditors of THFCIL 2 and have audited the annual accounts of THFCIL 2 for the financial year ended 31st March, 1994. The auditors' report on these accounts was unqualified.
8. Coopers & Lybrand have given and have not withdrawn their written consent to the issue of this document with the inclusion of their name, references to their opinion and references to themselves in the form and context in which they appear and have authorised the inclusion herein of their name and such references for the purposes of section 152(1)(e) Financial Services Act 1986.
9. R. Watson & Sons have given and have not withdrawn their written consent to the issue of this document with the inclusion of their name and method for calculating the Gross Real Rate of Return on the Stock and references to themselves in the form and context in which they appear and have authorised the inclusion herein of their name and such method for the purposes of section 152(1)(e) Financial Services Act 1986.
10. Trowers & Hamlins act for THFCIL 2 and for a number of the associations borrowing from THFCIL 2.
11. There has been no significant change in the financial and trading position of THFCIL 2 and no material adverse change in the financial and trading position or prospects of THFCIL 2 since 31st March, 1994.

**Note:** The Trustee will register particulars of the Floating Charge created pursuant to the Trust Deed with the Registrar of Friendly Societies. Such registration may not constitute notice of such charge to any subsequent chargee.

### Documents Available for Inspection

Copies of the following documents may be inspected at the registered office of THFCIL 2, 6 New Square, Lincoln's Inn, London WC2A 3RP during usual business hours on any weekday (Saturday and public holidays excepted) for the period of 14 days from the date of this document:—

- (a) the rules of THFCIL 2;
- (b) a draft (subject to modification) of the Trust Deed;
- (c) the *pro forma* Authorised Loan Agreement and the associated security documents;
- (d) the Placing Agreement referred to above;
- (e) the report and written consent of KPMG Peat Marwick referred to above;
- (f) the audited accounts of THFCIL 2 for the year ended 31st March, 1994;
- (g) the Management Agreement;
- (h) the written consent and opinion of Coopers & Lybrand referred to above;
- (i) the written consent of R. Watson & Sons referred to above; and
- (j) the basis prepared by R. Watson & Sons for the calculation of the Gross Real Rate of Return on the Stock.

**Registered Office of THFCIL 2**  
6 New Square  
Lincoln's Inn  
London WC2A 3RP

**Head Office of THFCIL 2**  
37 Sun Street  
London EC2M 2PY

**Auditors**

KPMG Peat Marwick  
Chartered Accountants  
1 Puddle Dock  
London EC4V 3PD

**Listing Agent**

S.G. Warburg Securities Ltd.  
1 Finsbury Avenue  
London EC2M 2PA

**Trustee**

The Law Debenture Trust Corporation p.l.c.  
Princes House  
95 Gresham Street  
London EC2V 7LY

**Financial Advisers to THFCIL 2**

European Capital Company Limited  
3 Lombard Street  
London EC3V 9AA

**Solicitors to THFCIL 2**

Trowers & Hamlins  
6 New Square  
Lincoln's Inn  
London WC2A 3RP

**Solicitors to the Managers**

Allen & Overy  
9 Cheapside  
London EC2V 6AD

**Solicitors to the Trustee**

Simmons & Simmons  
14 Dominion Street  
London EC2M 2RJ

**Receiving Bank and Registrar**

Barclays Bank PLC  
P O Box 34  
Octagon House  
Gadbrook Park  
Northwich  
Cheshire CW9 7RD

**Williams Lea** & co

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