
THFC Group Credit Committee Terms of Reference

1 Constitution

For the purposes of this document, reference to The Housing Finance Corporation Limited ("THFC") includes the equivalent functions for all its subsidiary companies (except Affordable Housing Finance Plc), together known as "the Group". The Committee is empowered to act for the Group.

2 Membership

Committee members shall be appointed by the Board of THFC and shall comprise a minimum of four non-executive directors of THFC, together with the Chief Executive, the Group Treasurer and the Credit and Risk Director of THFC. The Board shall appoint one of the non-executive directors as the Credit Committee Chair.

Mr Scott Bottles has been appointed Chair of Credit Committee.

3 Relevant Skills

In THFC's overall risk review, credit risk is recognised as one of the highest-ranking risks. At the same time, in order to compete, THFC has to be flexible in its approach to credit within the risk appetite set by the Board.

As a consequence, it is recommended that at least one member of the Credit Committee should have recent proven financial experience. It is also desirable that the non-executive Director members of the Committee have a good knowledge of the housing association sector.

4 Meetings

The Committee shall meet quarterly with additional meetings called as necessary to review individual credits or other urgent business.

5 Quorum

As a minimum, two non-executive directors and one of the Chief Executive, the Group Treasurer or Credit and Risk Director shall constitute a quorum.

A member may attend (and be deemed present at) a meeting by telephone or other electronic device.

If the Committee Chair is unable to attend, one of the other non-executive directors will be appointed Chair of the meeting. In exceptional circumstances, and if agreed by the non-executive directors present, the Chief Executive or Credit & Risk Director may chair the meeting.

6 Voting

The votes of both non-executive and executive members present (this includes those attending by telephone or other electronic means) at any meeting shall count in the quorum when voting on any decision of the Committee.

However, for a decision to be carried there must be a separate majority in favour of the decision from the non-executive members present and the executive members present.

Where appropriate the Chair will have a casting vote on any business of the meeting.

7 Attendance at meetings

Attendees at Committee meetings shall normally be any Relationship Manager presenting a paper to the Committee, together with the Company Secretary. Other directors may attend meetings and/or request papers.

8 Responsibilities

The Board is responsible for approving THFC's strategy and the overall level of acceptable risks. The Committee is primarily responsible for the assessment of individual credit propositions and ensuring appropriate review of the existing loan portfolio. The Committee reports periodically to the Board.

a. *Loan approvals*

The Committee has delegated authority to approve credits. Approval of a credit by the Committee is of itself sufficient for a conditional offer of credit to be put to a Borrower. Approval is signified by a separate majority vote of both the non-executive and executive members of Credit Committee with all minutes and credit decisions advised to the Board for noting. Credit approvals are valid for a maximum period of 12 months. The Board retains the power to approve individual borrower loan agreements (which it can delegate where it sees fit).

Where a credit application highlights an area of risk that requires specific negotiation of a standard loan term then the Committee may delegate completion of the issue to the executive provided the entire Committee is notified by e-mail of the process and final outcome. The Committee may alternatively delegate the issue for negotiation by the executive without further recourse to members. In all cases resultant actions/responses should be appropriately minuted in the following Committee papers.

b. *Breaches of covenant*

Once a year the Board receives a detailed Exceptions Report for all Group companies, setting out all borrower non-compliance with financial covenants. The Board has delegated the review of this detailed report to Credit Committee, and this takes place on a quarterly basis.

c. *Borrower watch list*

A watch list is prepared by the relationship managers, and reviewed quarterly by the Committee. This report gives an overall summary of any borrowers where there are concerns over their financial performance or governance, or where there are perceived to be wider risk concerns. The Committee may ask for a more detailed report on any such borrowers as it sees fit.

d. *Credit Proposals*

All borrowers are subject to detailed due diligence and a written credit proposal prior to a loan being granted which involves a full financial and non-financial analysis, including scrutiny of regulatory and audit reports, comparison of performance indicators and an assessment of management capabilities. New or increased credit exposures are reviewed, recommended, approved or rejected by Credit Committee.

e. *Credit Grading Model*

THFC's bespoke credit grading model ranks all current and prospective borrowers against a number of parameters. This model enables internal ratings to be derived for each borrower. This exercise is an integral part of the credit assessment process and a necessary component in the maintenance of THFC's external credit rating. The internal credit grading, together with regular reviews of credit information and customer visits, provides the basis for credit monitoring and reports to the Credit Committee on the portfolio.

The Credit & Risk Director is responsible for the periodic review of the Credit Grading model.

f. *Portfolio and Liquidity Risk Reporting*

On a quarterly basis, the Committee is presented with the "Portfolio Dashboard" report, which includes:

- Key portfolio metrics;
- A summary of the largest borrowers;
- An assessment of portfolio quality;
- Borrower watch list summary data;
- Portfolio concentration statistics.

Summary portfolio data is currently also reproduced annually in THFC's report and accounts.

g. Periodic Review of the Portfolio

In addition to the above reporting, THFC undertakes written annual reviews for all borrowers with an exposure of £5m or more, and those below £5m are reviewed every 3 years.

A report summarising reviews undertaken, will be circulated to Credit Committee members for information purposes at the quarterly committees.

9 Authorities

The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference.

10 Reporting responsibilities

The Committee shall:

- a. Report to the Board after each meeting on the nature and content of its discussion.

Committee minutes shall be presented to the Board and the Chair of the Committee shall present any issues arising of which the Board should be made aware.

11 Annual review

The Committee is required to review annually its terms of reference and its own effectiveness and to recommend any necessary changes to the Board.

These terms of reference were last approved by the Board on 24 May 2022.

Ray Walker
Company Secretary
24 May 2022



The Housing Finance Corporation Limited