Scottish Housing Regulator

Summary of the Annual Loan Portfolio Returns at 31 March 2018

Appendix

About this document

This document is the Appendix referred to in the "Summary of the Annual Loan Portfolio Returns at 31 March 2018" report that sets out the loan portfolio information received from Registered Social Landlords (RSLs). This Appendix gives more detail and analysis of the value, type and purpose of loans, and inter-company borrowing and lending.

Neither the Report itself not this Appendix include information relating to Local Authorities.

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How much do RSLs owe overall?

The total amount of borrowing undertaken by RSLs has continued to grow this year, with both the balance outstanding and total facilities available increasing once again.

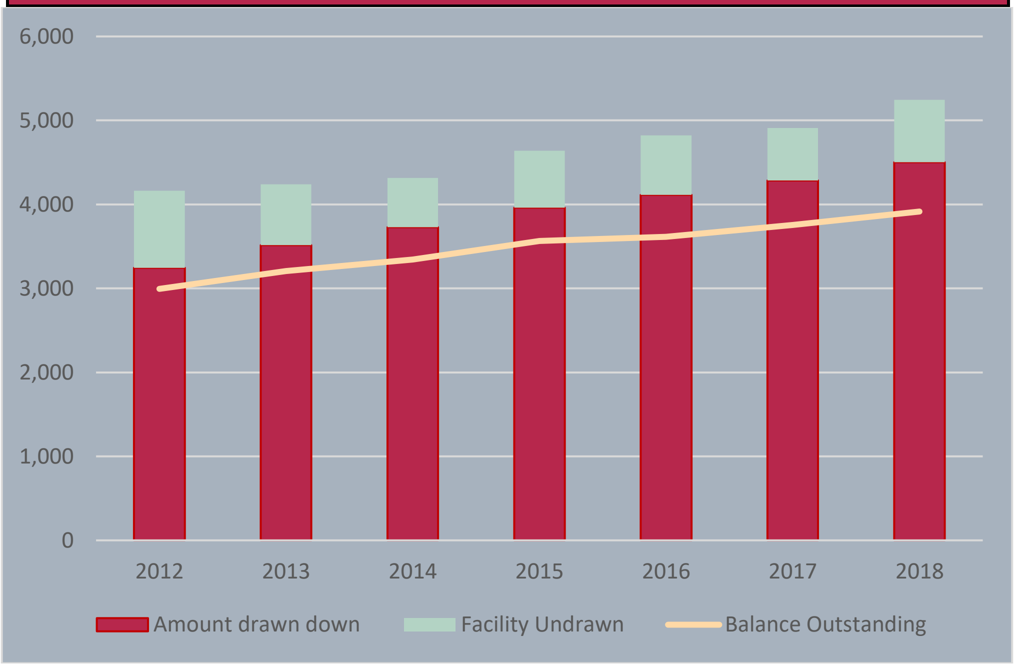
Figure 1: Movement in facilities

£m	Total facilities	Facility un-drawn	Balance outstanding
As at 31 March 2018	5,244.28	743.43	3,914.95
As at 31 March 2017	4,911.75	628.06	3,755.84
Increase/(Decrease) - £'m	332.53	115.37	159.11
Increase/(Decrease) - %	6.77%	18.37%	4.24%

Figure 2: Growth in facilities

Year to 31 March	Growth in facility (£m)	Total facilities	Amount received	Facility un-drawn	Balance outstanding
2012	224.3	5.70%	13.50%	(15.00%)	14.30%
2013	76.0	1.80%	8.30%	(21.20%)	7.10%
2014	78.0	1.80%	6.00%	(18.60%)	4.30%
2015	323.8	7.50%	6.20%	15.50%	6.60%
2016	181.4	3.90%	3.90%	4.10%	1.40%
2017	90.7	1.88%	4.13%	(11.17%)	3.92%
2018	332.7	6.77%	5.07%	18.37%	4.24%

Figure 3: Amounts drawn and balances outstanding



How much more have RSLs already arranged to borrow?

RSLs frequently do not require to draw all of the funds they have agreed with a lender at once. There is therefore often a difference between the total value of the facility and the value that has been drawn down – this is the undrawn amount.

Figure 4: Analysis of facilities undrawn 2013-2018						
	2013	2014	2015	2016	2017	2018
Facility Undrawn £'m	721	588	679	707	628	743
Increase/ (Decrease) %	(21.2)	(18.6)	15.5	4.1	(11.2)	18.4

Figure 5: Undrawn facilities by size			
Range	Number of RSLs at 31 March 2016	Number of RSLs at 31 March 2017	Number of RSLs at 31 March 2018
0 - £1m	12	10	11
£1m - £2m	7	8	6
£2m - £3m	6	7	7
£3m - £4m	1	4	4
£4m - £5m	7	5	4
£5m - £10m	15	13	10
£10m - £15m	5	4	7
£15m - £20m	2	3	3
> £20m	7	7	8
	62	**61**	**60**

Figure 6: Undrawn facilities by proportion undrawn			
% of Facility Undrawn	Number of RSLs at 31 March 2016	Number of RSLs at 31 March 2017	Number of RSLs at 31 March 2018
<5%	10	22	13
<10%	12	0	4
<15%	12	9	7
<20%	8	6	10
<30%	8	14	15
<40%	6	4	5
<50%	3	3	2
<60%	1	2	3
<70%	2	1	1
<100%	-	-	-
100%	-	-	-
	62	**61**	**60**

How much debt do individual RSLs have?

On the whole RSLs undertake debt to build new houses and to invest in existing properties. As these are long term investments it makes sense to borrow money to finance the investment and to pay it back over time. As a result most RSLs have debts that they owe to their lenders and in most cases, the amount that they owe for each of these loans will reduce over time.

The amounts owed by each individual RSL is declared in its annual accounts and we report separately on these. The table below groups RSLs by the total value of the facilities they have agreed with lenders and also by the total amount owing to lenders.

This shows that approximately half of all RSLs owe a total of less than £10m each, a similar proportion to recent years.

Figure 7: Debt analysis

Total Facilities (£'m)					Balance outstanding (£'m)			
Range	**Number of RSLs at 31 March 2016**	**Number of RSLs at 31 March 2017**	**Number of RSLs at 31 March 2018**		**Range**	**Number of RSLs at 31 March 2016**	**Number of RSLs at 31 March 2017**	**Number of RSLs at 31 March 2018**
0 – 1*	14	11	10		**0 – 1***	17	16	15
1 – 2	5	5	5		**1 – 2**	10	10	12
2 – 3	7	8	6		**2 – 3**	12	12	10
3 – 4	5	4	5		**3 – 4**	10	9	9
4 – 5	9	10	10		**4 – 5**	11	10	14
5 – 10	29	26	28		**5 – 10**	25	24	22
10 – 15	15	17	14		**10 – 15**	21	19	18
15 – 20	21	19	19		**15 – 20**	12	13	11
20 – 25	10	9	6		**20 – 25**	6	6	7
25 – 30	6	8	10		**25 – 30**	10	7	8
30 – 35	6	6	8		**30 – 35**	3	7	5
35 – 40	3	3	3		**35 – 40**	6	5	5
40 – 45	6	8	8		**40 – 45**	4	4	5
> 45	26	23	24		**> 45**	15	15	15
Total	**162**	**157**	**156**		**Total**	**162**	**157**	**156**

* includes 8 nil returns in 2016 and 2017, and 6 nil returns in 2018.

What type of loans do RSLs have?

The table below shows the different types of loans that RSLs have. The majority of loans are straightforward "traditional" loans with either fixed interest rates, or variable interest rates.

Some RSLs have reported difficulty in securing traditional lending over the long-term and information on new loans taken out this year shows that most had terms of 15 years or less. This may explain why recent years have seen an increase in the value of bond and capital market products, such as private placements. Bonds and private placements now provide 12.3% of all the private finance available to RSLs.

Figure 8: Loan balances by type

Loan Type	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**
Bond/Capital Market product	388	411	440	505
Bridging Finance	0	0	5	8
Development Overdraft	0	0	0	0
Fixed Rate Loan *	1,384	1,420	1,403	1,773
Fixed with embedded Interest Rate Swaps *	492	469	481	108
Fixed without embedded Interest Rate Swaps *	30	46	52	57
Revolving Loan / Facility	106	126	185	196
Variable Rate Loan	1,013	1,057	1,112	1,181
Variable with embedded Interest Rate Swaps	82	77	71	67
Variable without embedded Interest Rate Swaps	68	8	7	21
Working Capital Overdraft (if > £1m)	0	0	0	0
Total	**3,563**	**3,614**	**3,756**	**3,915**

* In previous years some RSLs had incorrectly reported some loans as having embedded interest rate swaps when they do not. This was corrected for 2018.

Who do RSLs borrow from?

RSLs borrow primarily from high street banks and building societies, with a wide range of such organisations active in the RSL sector. There are also a number of specialist lenders that lend to particular types of organisations (e.g. charities) or for specific purposes (e.g. for environmental projects). The total value of these facilities is shown in Figure 9.

There is also an increasing tendency for RSLs to source funds from investors through bonds and private placements, which are shown at Figure 10.

Figure 9: Total facilities by lender

Lender*	2017 £m	2018 £m	Change £'m	Change %
Royal Bank of Scotland plc	1,868	1,926	58	3.1%
Lloyds Group/Bank of Scotland	705	743	38	5.4%
Nationwide Building Society	647	634	(13)	(2.0%)
Santander	209	219	10	4.8%
Clydesdale Bank plc	179	175	(4)	(2.2%)
The Housing Finance Corporation	152	152	0	0.0%
Dexia Municipal Bank plc	133	133	0	0.0%
European Investment Bank (EIB)	124	104	(20)	(16.1%)
Allia	60	99	39	65.0%
Barclays	86	86	0	0.0%
GB Social Housing	58	75	17	29.3%
Inter Group Loan	85	72	-13	-15.3%
Co-operative Bank plc	37	30	-7	-18.9%
Triodos Bank	23	28	5	21.7%
Unity Bank	6	20	14	233.3%
Local Authority	20	20	0	0.0%
Charities Aid Foundation Bank	9	18	9	100.0%
Affordable Housing Finance	17	17	0	0.0%
Scottish Building Society	15	15	0	0.0%
Charity Bank	1	6	5	500.0%
Bank of Ireland	10	6	-4	-40.0%
Energy Savings Trust	4	5	1	100.0%
Scottish Homes	6	5	-1	-16.7%
Amber Fund Management	5	5	0	0.0%
Leeds Building Society	2	2	0	0.0%
Airdrie Savings Bank	1	1	0	0.0%
Other	1	1	0	0.0%
Another RSL	2	0	-2	-100.0%
Total	**4,465**	**4,599**	**132**	**3.0%**

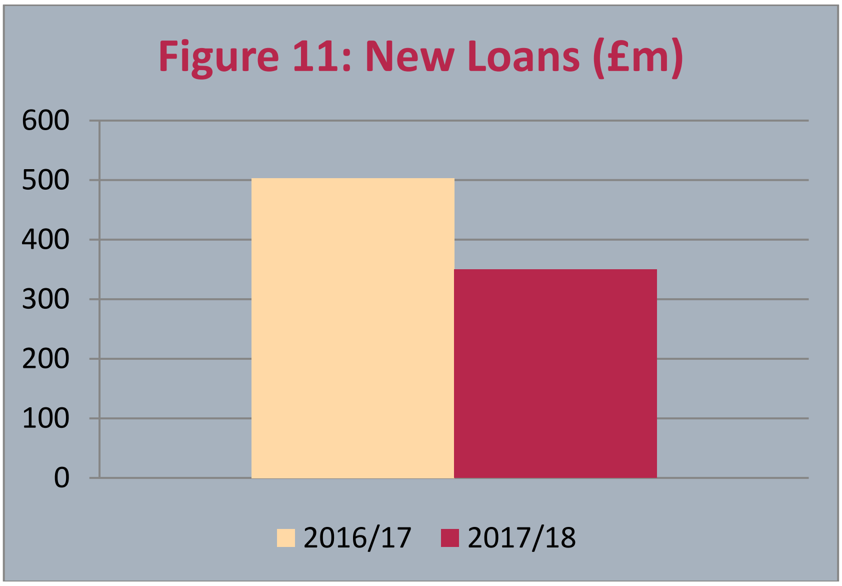
*analysed by lead lender per Loan Portfolio annual return

Figure 10: Bonds and private placements by investor				
Lender	**2017 £m**	**2018 £m**	**Change £'m**	**Change %**
Own Named Bond	330	330	0	0.0%
Black Rock	0	100	100	100.0%
HSBC	0	100	100	100.0%
M&G	60	60	0	0.0%
Canada Life	55	55	0	0.0%
Total	**445**	**645**	**200**	**44.9%**

There are currently 33 lenders and investors providing funds to RSLs through 1,400 separate loans.

What new borrowing have RSLs undertaken this year?

RSLs have taken out 69 new loans this year, totalling over £350m from 17 different lenders.



As shown in Figure 11 the value of new loans in 2017/18 was lower at £350m compared to £504m in 2016/17.

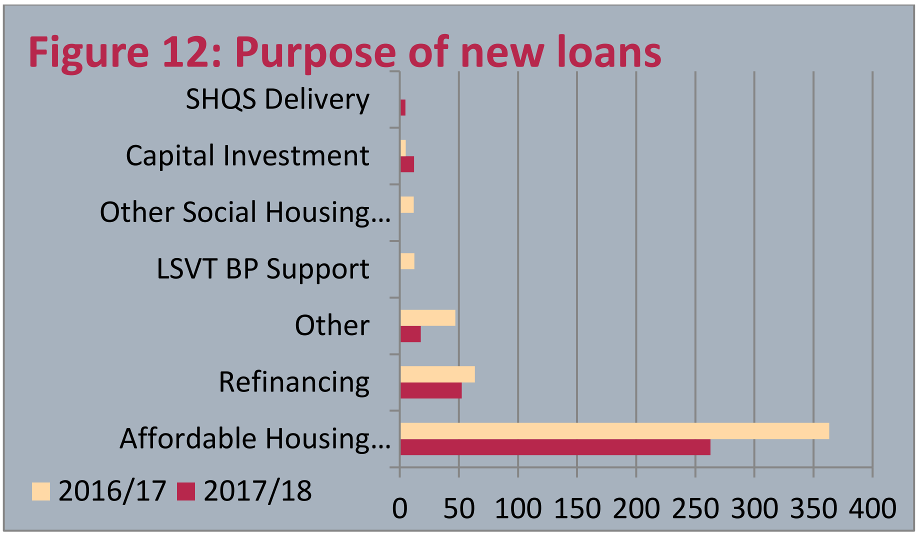
The value of the new loans varied from under £80k to £70m compared to £148k to £80m in 2016/17.

The median value of new loans was £2.5m compared to £2.7m in 2016/17.

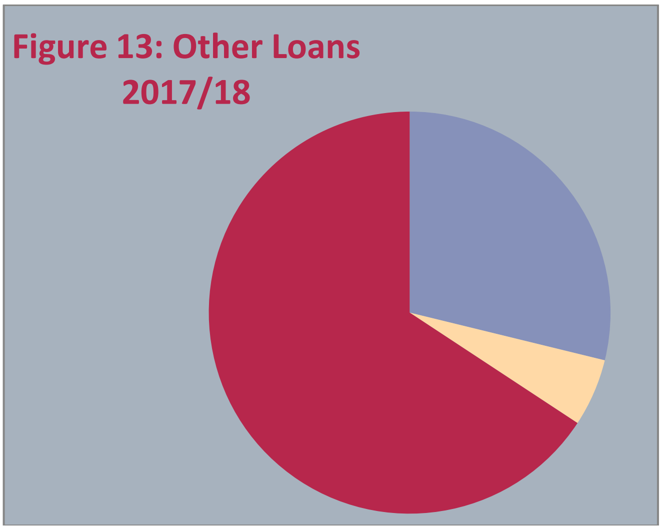
The number of deals above £10m decreased from twelve in 2016/17 to nine in 2017/18.

Why have RSLs taken out new loans this year?

Figure 12 shows that, in common with last year, the majority of new loans have been taken out for the development of new affordable housing or refinancing of existing borrowing.



A closer inspection of loans categorised as "Other" shows that they are all to fund combinations of new development, capital investment and refinancing.



The table below shows this is a similar overall pattern of borrowing to the last five years.

Figure 14: Purpose of recent loans (£m)						
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
SHQS Delivery	4	8	1.5	0	0.3	4.7
Capital Investment	0.8	6.5	825.1	10.7	5	12.1
Other Social Housing Initiatives	2.4	6	1	0.3	11.8	0
LSVT BP Support	0	4	8.1	0.6	12.5	0
Stock Transfer	0	2.4	4	0	0	0
Other	1	4.7	1	0.6	47.1	17.9
Refinancing	50.3	163.4	54.1	34.9	63.6	52.6
Affordable Housing Development	156.8	236.3	596.2	227.7	363.4	262.9
Total	**215.3**	**431.3**	**1491.0**	**274.8**	**503.7**	**350.2**

How much does borrowing cost RSLs?

The new deals secured in 2017/18 had a broad range of interest rates although, as in prior years, the majority of deals RSLs agreed were either fixed rate loans or variable rate loans referencing the 3 month LIBOR rate. Figure 15 summarises the interest rates secured for new loan amounts as at 31st March 2018, and compares this to the previous year. This shows that despite increases in the BoE Base Rate, the margins on new loans have fallen slightly since last year.

Figure 15: Interest rates on new loans

	2016/17					2017/18				
	Loan Amount (£m)	No. loans	Lower quartile	Median	Upper quartile	Loan Amount (£m)	No. loans	Lower quartile	Median	Upper quartile
Base	19.8	9	1.50%	1.50%	1.75%	26.3	11	1.60%	1.65%	1.80%
Fixed Rate percentage	258.3	30	3.08%	3.82%	6.35%	202.9	25	3.07%	3.64%	4.04%
LIBOR 1 month	4.5	3	-	2.25%	-	3.0	2	-	2.25%	-
LIBOR 3 month	201.3	36	1.49%	1.60%	1.75%	113.0	28	1.18%	1.45%	1.75%
LIBOR 6 month	-	-	-	-	-	-	-	-	-	-
LIBOR 12 month	-	-	-	-	-	-	-	-	-	-
Interest Free	0.5	2	-	-	-	1.0	2	-	-	-
RPI Linked	13.6	1	-	1.5%	-	-	-	-	-	-
Lenders mortgage rate	-	-	-	-	-	4.0	1	-	1.85%	-
Other	6.4	2	-	-	-			-	-	-
	504.4	**83**	-	-	-	**350.2**	**69**	-	-	-

Figure 16 summarises the interest rates recorded on all loan amounts outstanding as at 31st March 2018, and compares this to the previous year. In Figures 15 and 16 all variable rate information refers to the margin above the reference interest rate and not the overall rate.

Figure 16: Interest rates on all loans

	2016/17					2017/18				
	Loan Amount (£m)	**No. loans**	**Lower quartile**	**Median**	**Upper quartile**	**Loan Amount (£m)**	**No. loans**	**Lower Quartile**	**Median**	**Upper quartile**
Base	107.6	234	0.45	0.61	1.00	188.1	226	0.45%	0.65%	1.24%
Fixed Rate Percentage	2,376.1	518	4.10	5.04	5.84	2,663.0	525	3.81%	4.90%	5.62%
LIBOR 1 month	142.1	50	0.45	0.83	1.44	143.3	48	0.47%	0.89%	1.50%
LIBOR 3 month	1,067.0	511	0.35	0.58	1.60	1,549.9	514	0.37%	0.72%	1.60%
LIBOR 6 month	4.2	3	-	1.17	2.10	5.5	3	-	2.10%	-
LIBOR 12 month	1.2	3	1.72	1.75	1.80	1.4	3	-	1.75%	-
Interest Free	1.0	6	-	-	-	2.0	8	-	-	-
RPI linked	24.0	3	-	1.31	-	36.7	5	1.50%	1.60%	1.99%
Lenders Mortgage Rate	29.6	21	0.20	0.90	1.35	12.9	17	0.01%	0.75%	1.25%
Other	2.9	2	0	-	-	6.4	2	-	-	-
	3,755.8	**1,351**				**4,609.1**	**1,351**	-	-	-

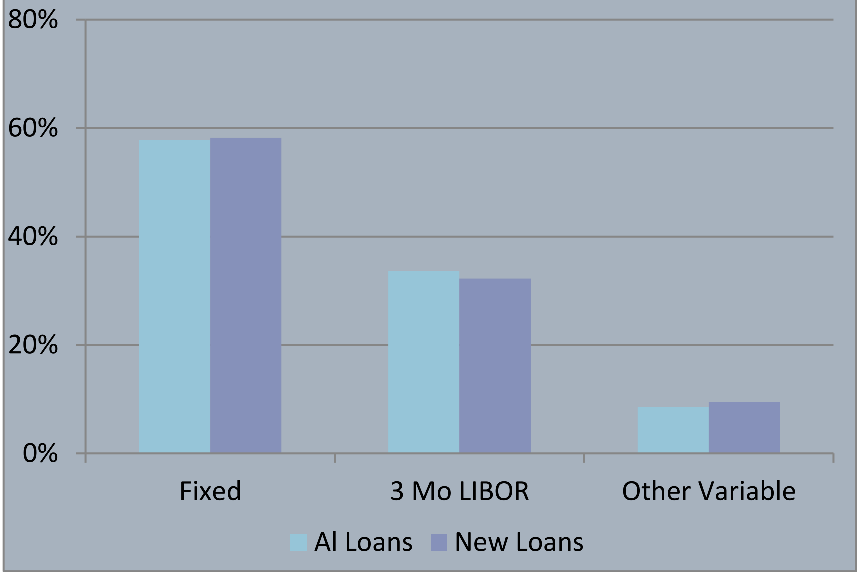
Fixed interest rates provide certainty to RSLs over the amount of interest that they will need to pay on a loan. Given that their income is a relatively fixed amount this allows them to plan their expenditure for the coming years in the knowledge that they will be able to afford to service their debt. However, fixing interest rates comes at a price as fixed interest rates are generally higher than variable rates.

By comparison, variable rate loans generally provide cheaper borrowing but with less certainty over the interest charges that the RSL will need to pay. RSLs generally have a mix of fixed and variable interest rates to mitigate the risks of the two types of loan.

82% of all variable rate loans held by RSLs reference the 3 Month LIBOR rate. This has been below 1.0% for over six years.

Figure 17 shows the proportion of new loans by interest rate type against the same figures for all loans.

Figure 17: Amount owed by type of interest



New loans taken out in 2017/18 show a similar tendency for fixed or variable rate loans as 2016/17, although with a slight move away from the 3 Month LIBOR Rate. This may reflect the proposed replacement of LIBOR with the Sterling Overnight Interest Average (SONIA) after 2021.

When will RSLs repay their debt?

Many loans held by RSLs are fully amortised across the period of the loan i.e. they are repaid in equal instalments across the life of the loan. Other loans may have parts of the loan deferred e.g. RSLs may pay interest only for a period and then start making regular repayments, or they may make bullet repayments at set points during the loan period. Others loans are fully deferred, with no repayment of capital until the end of the loan period, when debt may be repaid, or refinanced with another loan. It is therefore difficult to provide an absolute profile for when debt will be repaid.

Figures 18 and 19 shows the remaining life of all existing loans, and splits them into three groups determined by the repayment types: fully deferred, partially deferred or fully amortised

Figure 18: Amounts owed (£m) – Years to maturity

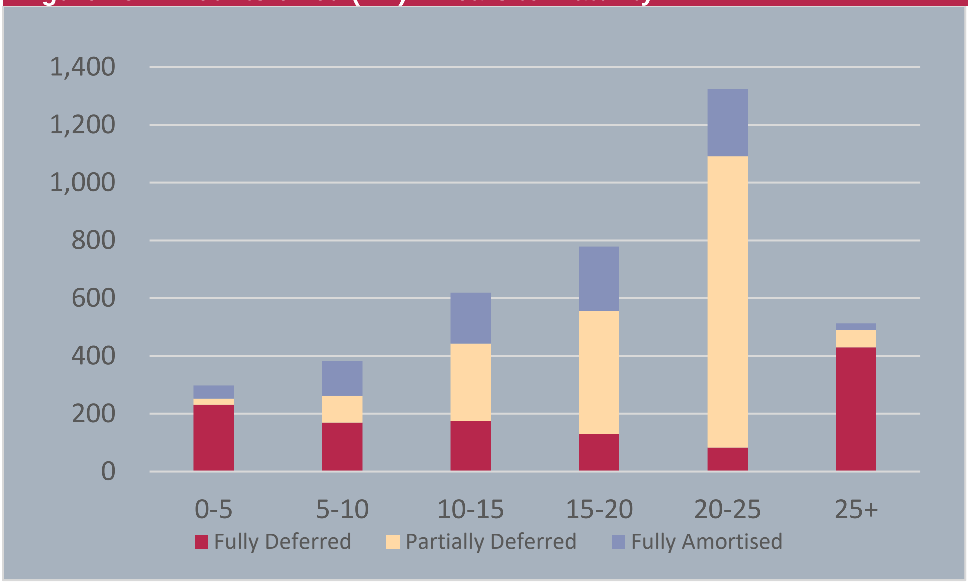
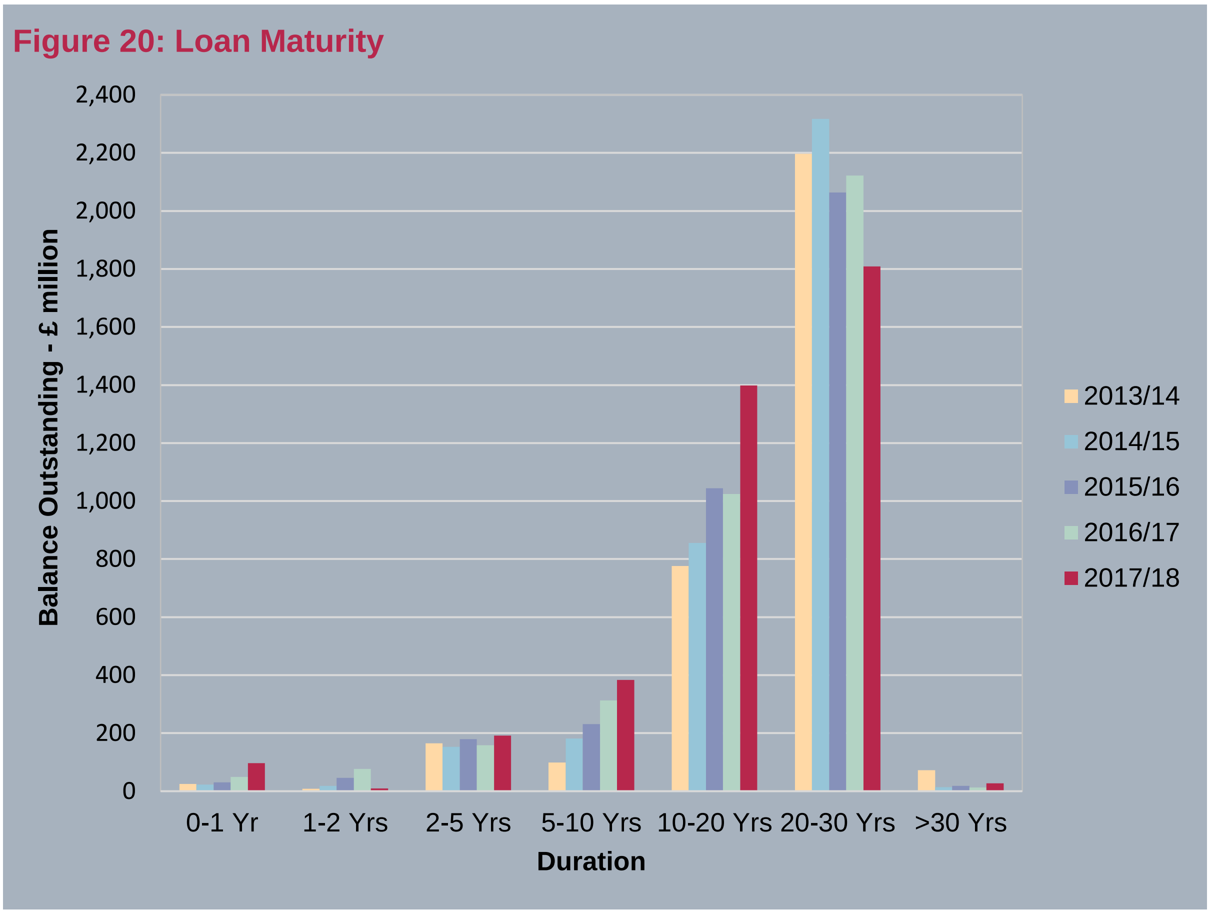


Figure 19: Outstanding loans – Years to maturity							
£m / Years	**0-5**	**5-10**	**10-15**	**15-20**	**20-25**	**25+**	**Total**
Fully Deferred	232.0	169.3	174.5	131.1	83.3	430.0	1,220.2
Partially Deferred	20.1	93.5	268.5	425.3	1,008.0	60.9	1,876.2
Fully Amortised	46.2	120.1	176.1	222.3	232.1	21.8	818.6
Total	**298.2**	**383.0**	**619.1**	**778.7**	**1,323.3**	**512.6**	**3,915.0**
Percentage	7.6%	9.8%	15.8%	19.9%	33.8%	13.1%	
Total 2017	**284.7**	**312.8**	**498.3**	**525.5**	**1,500.8**	**633.6**	**3,755.8**
Percentage 2017	7.6%	8.3%	13.3%	14.0%	40.0%	16.9%	

Figure 20 shows the analysis of debt maturity over the last five years. There has been a marked change in the balances due in 10-20 years, which have increased, and 20-30 years which have decreased. This is due to some existing loans falling into the nearer category due to the passage of time, but also to the refinancing of existing debt where it has not been possible to secure loans over a longer period of time.



Group Structures and Subsidiaries

Figure 21: Group structures and subsidiaries					
Number of Subsidiaries	**Number of RSLs**				
	31-Mar-14	**31-Mar-15**	**31-Mar-16**	**31-Mar-17**	**31-Mar-18**
1	54	57	58	48	51
2	23	17	17	19	17
3	4	5	4	5	5
4	2	2	2	2	2
5	0	0	1	2	2
6	0	0	0	0	0
7	2	0	0	0	0
8	1	0	0	0	0
9	0	2	1	1	0
10	0	1	1	1	2
>10	0	0	1	1	1
Total RSLs	**86**	**84**	**85**	**79**	**80**

As RSLs have diversified into non-core and commercial activities to complement their social housing activities many of them have established subsidiaries. The RSL is normally the parent within these group structures. There are also an increasing number of RSLs forming groups with other RSLs.

An increasing number of RSLs are also changing their approach to treasury management within groups with a move towards centralised borrowing arrangements accompanied with on-lending to subsidiary RSLs. As group structures evolve and become more complex RSLs need to manage relationships and performance (including financial health) to ensure that any risks to the RSL and its tenants are managed effectively.

Figure 21 shows that in 2017/18 the number of RSL groups increased by 1 to 80, with some minor changes to the number of RSLs in each category. This was often the result of changes in the structure of RSL groups, rather than the closure of non-registered subsidiaries. Despite this the total number of subsidiaries has increased by 4 to 154.

How much do RSLs lend to others?

The sole reason for lending to other organisations is to support the activities of subsidiaries within group structures, and the largest proportion of this (95.2%) is to support other RSLs within the group where central treasury management structures have been introduced. This is reflected by the Working Capital section in the tables below. The remaining 4.8% is lending to non-RSLs within group structures. There is no lending by RSLs to organisations that are wholly outside of the sector.

Figure 22: Group Lending Purpose

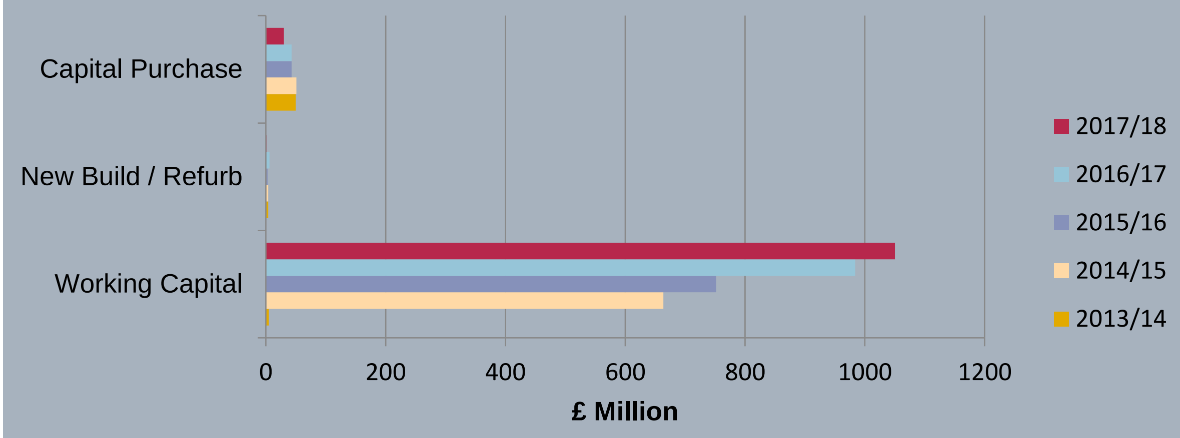


Figure 23: Value of group lending by type

£m	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Working Capital	2.5	4.5	663.9	751.5	984.2	1,053.2
New Build / Refurbishment Project	10.0	4.2	3.8	3.0	6.0	6.3
Capital Purchase	50.6	50.1	51.9	43.1	42.6	41.8
Total	**63.1**	**58.8**	**719.6**	**797.6**	**1,032.8**	**1,101.3**

The significant increase in group lending in 2014/15 coincided with the issue of the first public bond by an RSL in Scotland. This was issued by Wheatley Housing Group to replace and expand upon existing borrowing and to create a central treasury structure. The subsequent increase in overall group lending in subsequent years coincided with the expansion of the Wheatley Housing Group treasury structure to include two further RSLs and funding for additional development.

Figure 24: Lending to Unregistered Subsidiaries

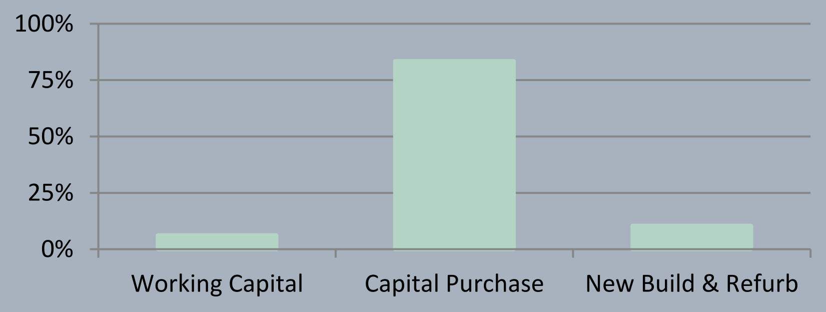


Figure 24 looks at the borrowing to non-registered bodies in more detail. This shows that of the total of £49.9m, 83% is for Capital Purchases including commercial, market and mid-market properties for rental, and for the purchase of other non-current assets, such as IT, for use by the subsidiary.

The flipside of lending within group structures is borrowing within group structures. This is shown in Figure 25. As a result in the most part these amounts cancel out within groups. However there are some RSLs that are in groups where the parent is an English registered provider. In these cases the amounts do not match, meaning that the intra-group borrowing figure is higher than the intra-group lending figure.

Figure 25: Group borrowing by type

£m	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
New Build / Refurbishment Project	55.3	57.1	55.1	56.0	47.6	41.9
Working Capital	124.3	109.0	750.6	824.4	1,107.8	1,208.7
Total	**179.6**	**166.1**	**805.7**	**880.4**	**1,155.4**	**1,250.6**

Free Standing Derivatives

Some RSLs have loans which include an arrangement called a derivative. Whilst there are many forms of derivative the ones used by RSLs are arrangements that allow them to “swap” a variable interest rate for a fixed interest rate. Many of these arrangements are part of, or *embedded* within, the loan agreement. Some however are not embedded in the loan agreement and are stand-alone arrangements between an RSL and a bank. These are called “free-standing derivatives”. Figure 26 shows the number of each type of free-standing derivative categorised by the interest rate to which they refer.

Figure 26: Free standing derivatives

	No. of FSD Contracts				
Reference Interest Rate	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Fixed Rate	13	13	10	10	9*
LIBOR 1 Month	1	1	1	0	0
LIBOR 3 Month	14	12	12	13	13
RPI-Linked	2	2	1	1	1
Total	**30**	**28**	**24**	**24**	**23**

* An RSL had previously been reporting a free standing derivative incorrectly.

Glossary of terms used in the report

Affordable Housing	Affordable housing includes social rented, mid-market rented and shared equity / ownership housing, provided to specified eligible households whose needs are not met by the market. It can be a new-build property or a private sector property that has been purchased for use as an affordable home.
Bond	A bond is a debt instrument in which an investor loans money to an entity which borrows the funds for a defined period of time. They are included with other loans in this report.
Capital Expenditure	Expenditure to acquire or improve a long-term asset. This includes both whole houses and replacement of major components, such as kitchens, bathrooms, roofs etc.
Deal Expiry Date	The deal expiry date refers to the date at which the current agreed interest rate lapses and usually reverts to the lender's Standard Variable Rate. This 'new' interest rate is then applicable for the remainder of the loan term, or until the rate is re-negotiated. As a result, the deal expiry date is not necessarily the same as the loan maturity date, as it is possible, for example, to have a 10-year loan with an initial 5-year fixed interest rate.
Debt Instrument	A paper or electronic obligation that enables the issuing party to raise funds by promising to repay a lender in accordance with terms of a contract.
Derivative	A security with a price that is dependent upon or derived from one or more underlying assets. The derivative itself is a contract between two or more parties based upon the asset or assets. Its value is determined by fluctuations in the underlying asset. Most commonly for RSLs this is a mechanism to swap a variable rate of interest on a loan for a fixed rate of interest.
Facility	An overarching agreement with a lender to be able to draw a specified amount of funding, perhaps over a period of time, and perhaps with a number of separate loans with similar or different terms and conditions.
Fixed Interest Rate	An interest rate on a liability that remains the same either for the entire term of the loan or for part of the term.
LIBOR	London Interbank Offered Rate. A benchmark rate that some of the world's leading banks charge each other for short-term loans. LIBOR comes in 7 maturities from overnight to 12 months.
Loan Facility	A credit arrangement through which a person or organisation can borrow money up to an agreed sum.
Maturity Date	The final payment date of a loan or other financial instrument, at which point the principal (and all remaining interest) is due to be paid.
Mid-Market Rent	Tenures which help working households on modest incomes to access affordable rented accommodation
New Loan	A loan first reported in the current year's return.
Security	For RSLs this is generally an heritable security over houses and other property that would allow a lender to use the proceeds of the sale of such properties to meet a liability to the lender in the event that the RSLs failed to meet its repayment obligations,

	similar to that exercisable by a lender under a mortgage on a private house.
Social Rent	Rent payable on social housing let under a Scottish Secure Tenancy Agreement. SST’s can only be offered by local authorities, RSLs and water and sewerage authorities. It is subject to certain regional limits, and is for example distinct from other types of affordable housing such as mid-market rent.
Syndicates	Some RSLs have loans from syndicates, where funds from a number of Lenders are aggregated and managed by a single lead lender.
Treasury Management	A policy governing the way an organisation manages borrowing and investments.
Undrawn amount	The amount of funding within a facility that has been agreed but not yet drawn down.
Variable Interest Rate	An interest rate on a liability that fluctuates over time because it is based on an underlying benchmark interest rate or index that changes periodically.