Summary of the Annual Loan Portfolio Returns at 31 March 2020

Key messages and highlights from the 2020 returns

Lender and investor confidence in Scottish social housing continues as the sector remains financially strong with access to substantial long term funding.

The majority of new loans fund affordable housing development, as RSL development programmes continue to be a major contributor towards the Scottish Government's

50,000
new homes target

The total amount of investment reached
£6.2 billion

20%
of all lending is now from the bond and capital markets.

Largest drawdown of available facilities since 2012 at **£409 million** or **8.6%**

With just over
£1 billion
of undrawn facilities the sector is well placed to deal with the financial challenges of COVID-19

3 new entrants to the field of lenders and investors

- Scottish Widows
- Sun Life
- Pension Insurance Corporation

How much debt do RSLs have?

Facilities available to RSLs

£ 6.18 billion ^ 3.5%

Balance outstanding

£ 4.52 billion ^ 9.0%

Average loan/unit

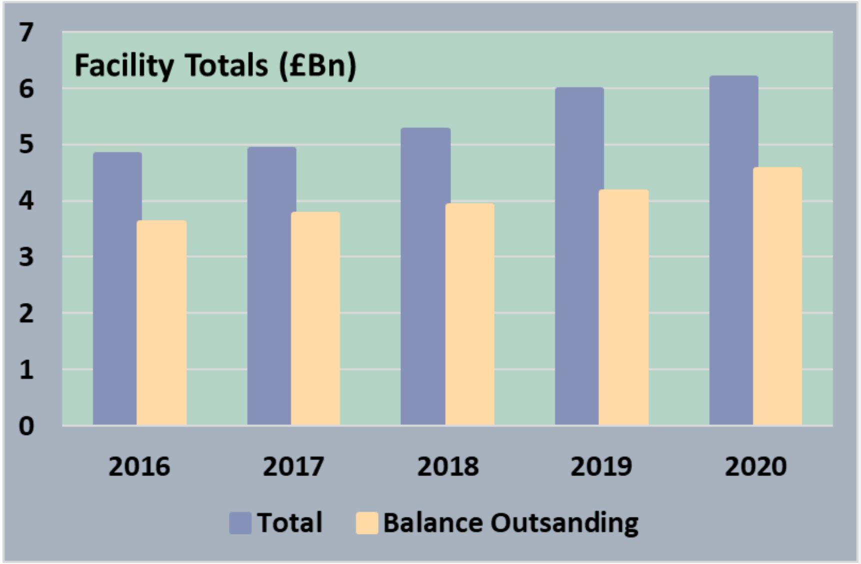
£ 15.0k ^ 7.0%

Total amount drawn down

18/19
£4.8 billion

19/20
£5.2 billion

Forecast to exceed
£6.0 billion
by 2025



Interest charges
£192 million

That's 14% of landlords' income from rent and service charges

How has RSL debt changed this year?

The total amount borrowed by RSLs has increased by almost £1Bn from £3.56Bn to £4.52Bn since 2015, and despite a smaller increase in the value of new facilities added in 2020, the total amount borrowed by the sector continues to grow.

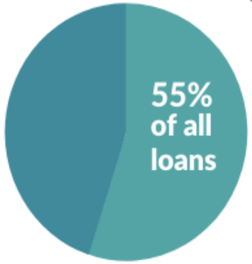
2019	<------------ During the year ------------>		2020
RSL debt	RSLs drew down	RSLs repaid	RSL debt
£ 4.15 billion	£ 0.8 billion	£ 0.43 billion	£ 4.52billion

Who lends to RSLs?

39 lenders and investors

nearly **1,500** separate loans

The 3 largest lenders managed



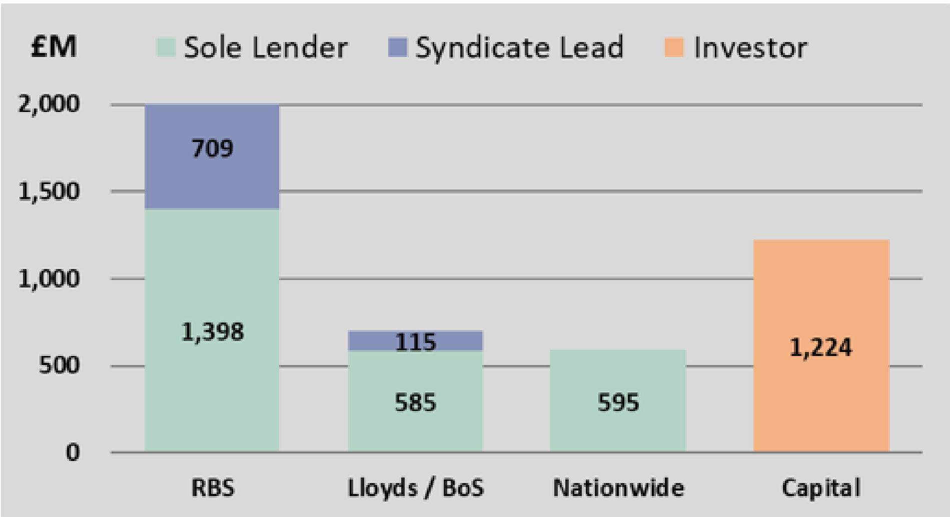
Royal Bank of Scotland	34%
Lloyds Group/Bank of Scotland	11%
Nationwide Building Society	10%

Aggregate total facility from the top 3 fell by:

£44 million

Over **2,300** lending covenants

Major lenders



RSLs are increasingly sourcing investment from the Capital markets.

So far £1.2 billion has been raised across eight investors and 24 RSLs.

Total Facilities by Lender				
Lender *	2019 £m	2020 £m	Change £'m	Change %
Royal Bank of Scotland plc	2,055	2,107	51	2.5%
Lloyds Group	745	700	-45	-6.0%
Nationwide Building Society	645	595	-50	-7.8%
European Investment Bank	289	289	0	0.1%
Santander	220	215	-5	-2.1%
Allia	124	193	69	55.8%
Clydesdale Bank plc	182	169	-13	-7.4%
The Housing Finance Corporation	152	153	1	1.0%
HSBC **	100	100	0	0.0%
GB Social Housing	94	94	-0	0.0%
Barclays	86	86	0	0.4%
Triodos Bank	35	45	10	27.6%
Charities Aid Foundation Bank	26	41	15	57.5%
Co-operative Bank PLC	31	30	-1	-2.0%
Handelsbanken	25	25	0	0.0%
Unity Trust Bank	24	24	-0	-1.3%
Local Authority	20	20	-0	-0.4%
Affordable Housing Finance	17	17	-0	-1.2%
Scottish Building Society	15	15	0	2.1%
Scottish Government	0	13	13	100.0%
Energy Savings Trust	7	9	2	25.1%
Charity Bank Ltd	6	6	0	5.8%
Dexia Municipal Bank plc	133	3	-130	-97.6%
Scottish Homes	3	2	-1	-28.9%
Leeds Building Society	2	2	-0	-16.2%
Other	2	2	0	10.8%
Bank of Ireland	6	0	-6	-100.0%
Inter Group ***	57	0	-57	-100.0%
Total	**5,101**	**4,955**	**-146**	**-2.9%**

* analysed by lead lender per Loan Portfolio annual returns
** last year HSBC's 2019 figure was incorrectly reported as £135m
*** last year's total facilities figure incorrectly included £57m of Inter-Group Loans

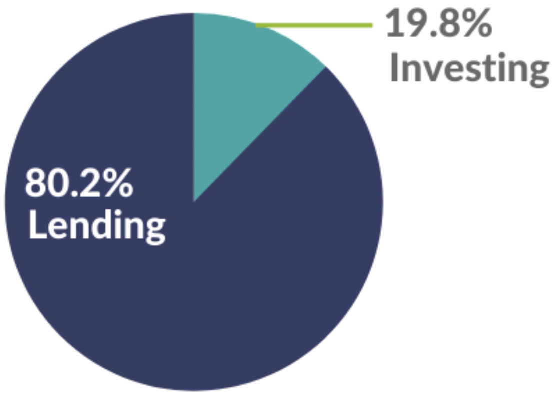
- RSLs continue to borrow from the recognised high street banks and building societies.
- RBS remain the biggest lender, having strengthened their position.
- Lloyds and Nationwide have seen a marginal drop in their market share, but remain the second and third largest lenders to the sector.
- Allia and Charities Aid Foundation Bank (CAF) both increased their lending to the sector by more than 50% and there are also a number of specialist lenders that lend to particular types of organisations (e.g. charities) or for specific purposes (e.g. environmental projects).
- The total value of these facilities in 2020 was £4,955m, representing a reduction of £146m or 2.9% on the 2019 facilities total of £5,101m.

Bonds and private placements by investor				
Lender*	**2019 £m**	**2020 £m**	**Change £'m**	**Change %**
Own Named Bond	330	330	0	0.0%
M&G	100	214	114	114.0%
Canada Life	155	205	50	32.3%
MetLife	135	175	40	29.6%
Black Rock	150	150	0	0.0%
Sun Life	0	70	70	100%
Pension Insurance Corporation	0	40	40	100%
Scottish Widows	0	40	40	100%
Total	**870**	**1,224**	**354**	**40.7%**

- There has been another significant increase in RSLs sourcing funds through bonds and private placements with the combined bond and capital markets investment now the second largest source of funds for RSLs.
- To date, eight capital market investors have made a total of £1.22Bn available to 24 different RSLs
- Recent demand for Environmental, Social and Governance investments and increasing use of ESG reporting standards has the potential to further increase the range of lenders and investors in the sector and lower costs.
- This type of lending tends to bring new stakeholders and accountabilities to organisations and RSLs should be aware of this.

What type of private finance do RSLs have?

Types of private finance



	Total	Outstanding
Lending	£ 5.0 billion	£ 3.4 billion
	v 3%	v 0.2%
Investing	£ 1.2 billion	£ 1.1 billion
	^ 41%	^ 38%

While most debt continues to relate to traditional borrowing from the recognised high street banks, the proportion being sourced from the bond and capital markets has continued to increase, from zero only five years ago to 20% of all funds now available to the sector.

The London Inter-bank Offered Rate (LIBOR) that underpins many financial and some non-financial contracts is expected to be phased-out by 31 December 2021. With around 40% of all loans referenced to LIBOR, RSLs should be examining all financial contracts and discussing transition with lenders.

The utilisation of revolving credit facilities also continues to grow, having increased by £100m since 2018 and here RSLs should be mindful of the refinancing risk attached as they will likely find themselves needing to re-tender or at least re-negotiate on a more frequent basis.

All financial products carry a certain degree of risk. We would expect RSLs to seek advice where appropriate, and for that advice to be both impartial and independent.

Whilst SHR does not support one particular form of borrowing over another we do expect Governing Bodies to have a clearly expressed strategy which reflects their risk appetite and wider operating environment and possess the necessary skills and experience to allow them to understand and effectively challenge any advice given. An effective approach to Treasury Management is essential if RSLs are to comply with Regulatory Standard 3. The importance of relationships and communication with funders remains vital.

The table below shows the wide variety of loan types and balances that RSLs have:

Loan Balances by Type					
Loan Type	**2016**	**2017**	**2018**	**2019**	**2020**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
Bond/Capital Market product	411	440	571	766	901
Bridging Finance	0	5	8	0	0
Development Overdraft	0	0	0	3	2
Fixed Rate Loan	1,420	1,392	1,707	1,890	2,310
Fixed with embedded Interest Rate Swaps	469	481	108	89	90
Fixed without embedded Interest Rate Swaps	46	52	57	10	10
Revolving Loan / Facility	126	185	196	238	296
Variable Rate Loan	1,057	1,102	1,181	1,085	865
Variable with embedded Interest Rate Swaps	77	71	67	63	49
Variable without embedded Interest Rate Swaps	8	7	21	7	0
Total	**3,614**	**3,735**	**3,915**	**4,150**	**4,522**

What new borrowing have RSLs undertaken this year?

Value of new loans

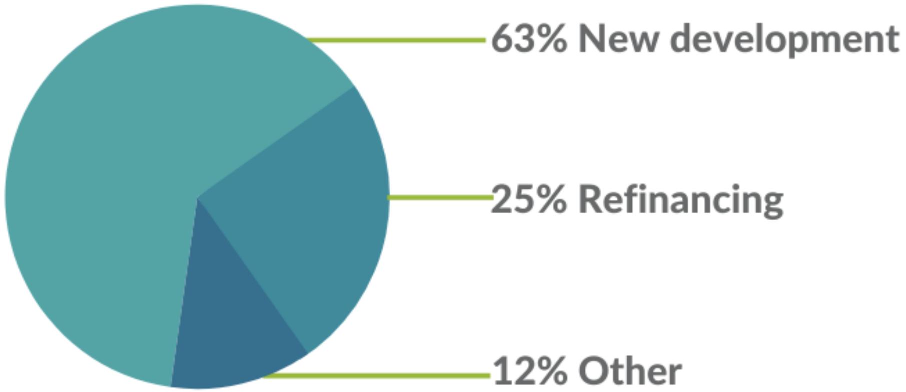
£ 802 million

v 12%

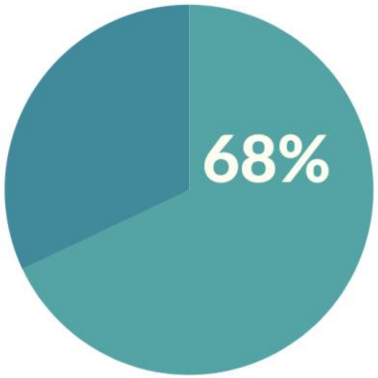
Number of new loans

18/19	19/20
86	118 ↑

Reasons for new loans



Housing used as security for loans



Security value

£ 7.23 billion

117% of the available facilities

More information…

Read a detailed statistical analysis on our website

www.housingregulator.gov.scot

Scottish Housing Regulator