



Expertise — June 2016

Housing and Regeneration Future funding and security considerations for stock transfer RPs

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It might feel like the ink has only just dried on the LSVT Transfer documents and the last thing on the agenda for the Treasury team is how and where the next funding will come from.

Unfortunately, the funding obtained at the time of transfer will not last forever and given the difficulties in accessing new funding in the current market, RPs should be prepared so that it can seize an opportunity when it arises. Whether you are an RP who has re-developed its housing stock with a view to raising further finance against this in the future or you are an RP who has or is considering a new development programme, then now is the time to start putting systems in place to ensure that your existing portfolio and any new developments can be used as security for future borrowings.

It is wise to start a health-check of your property portfolio and set up internal systems early to avoid being unable to put adequate security in place quickly to meet drawdown requirements.

This article aims to make you aware of the potential security and funding issues that RPs may face to ensure that you are fully prepared for when the funding is needed.

Check your funding documents

First, check to see whether there is a complete prohibition on borrowing from a third party, or if there is a covenant not to borrow elsewhere above a threshold amount. It may be, depending on the financial strength of the RP, that there is a negative covenant preventing any further borrowing at all or restricting it only to the existing lender or lending syndicate. You will also need to check the security covenants as to whether or not you can grant security over any of the assets not already charged to the existing funder. This pool of non-charged assets may be non-existent or insignificant as yet but it is a pool of property that you will want to grow as the RP develops over time and it will be essential to have the covenant relating to both borrowing and security as flexible as possible if you are

to have the freedom to look at securing finance from outside the existing syndicate.

You may even be considering refinancing your funders entirely if those covenants are too restrictive. But bear in mind that there might be significant costs on an early prepayment such as breakage costs for any fixed interest rate arrangements in place or potentially an early prepayment fee.

This is an area where your existing funding syndicate exercises a significant degree of control over your business.

Re-developed housing stock

Using re-developed Stock Transfer units to raise additional finance can be a quick way of raising funds but only if you have all the appropriate documents and information in place.

Do you know which properties you own?

At the time of transfer great reliance is given to the rent roll annexed to the original Transfer document but this needs to be developed into a full asset register. For example RPs will not own certain properties any more (these may have been sold under the Right To Buy); properties in the original list no longer exist as they have been demolished; the footprint of an old housing estate may have completely changed as a result of re-development but is not reflected in Land Registry plans.

Are you sure that your rental list accurately matches the lenders current lists and the valuation lists?

Can you rely on Council Warranties?

Check to see whether you can rely on the warranties provided by the Council on the initial transfer to satisfy the lender on any future funding. This may be because the warranties are not assignable to other lenders or because there has been extensive re-development of the original transfer site and the buildings that were covered by the original warranty have since been demolished and rebuilt. RPs may need to provide additional due diligence to the lender and RPs should ensure they have accurate and full records of all works

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carried out in order to satisfy a lender. Potential contamination of a site is one of the main concerns for a lender and the Council's environmental warranty may not cover the units once they have been re-developed.

New developments

If you are an RP who has started to develop new sites then now is the ideal opportunity to start putting systems in place to ensure that you have adequate records for this new stock to use in future finance raising exercises. Putting in place such systems early on and training staff appropriately can lead to savings long term in terms of staffing costs and legal fees. We can help you put such systems in place and can provide guidance on how to make the property security process more streamlined.

How can we help?

Our Real Estate Finance Security team is able to help you through this process and specialises in providing this service to the housing sector. Our team is made up of experts who will liaise with your treasury and property teams to ensure your property portfolio is accurate and complete. We are available to answer any queries you may have every step of the way. We can help you with your initial property lists, ordering copy titles and deciphering plans to compile an accurate property master list or we can show you ways to carry out these checks in-house and advise you on more complex issues such as valuation issues and environmental matters.

Why use us?

Our experience in acting on refinancing and capital markets financing for stock transfer RPs have shown that the earlier we are involved in the process, the more we can help you and assist in reducing the overall costs associated with the refinancing process.

We also have considerable experience in dealing with and acting for lenders in the sector which means that we understand their concerns and can advise you where further information may be needed to make the properties acceptable security.

We can offer you training on how to establish systems to ensure that the process of collating the paperwork and property lists is as efficient as possible and that your treasury and property or development teams work together to get the documentation needed at the earliest stage possible.

How can you prepare?

Here are some points to consider:

- Property lists – the key part of any finance transaction of this type is to ensure you have a full and accurate list of all the properties that you intend to use as security. Do you know the correct

title numbers for all your properties? Once you have a basic list we can assist you with obtaining the title information if required.

- Property documents – in addition to the original Council warranties and any assignment documents you should have access to all the documentation obtained as a result of any refurbishment or redevelopment work. Locate these documents at an early stage and ensure that they are appropriately scheduled.
- Environmental matters – have you got systems in place to ensure that all such documents have been obtained to prove that your site is free of contamination? Check your records to ascertain whether these are available.
- Planning documents – inadequate planning records and sign offs can cause significant delays in a transaction. We can review any documents you have upfront before you need to put the security in place to ascertain that the property is acceptable to use as security. We can assist you in obtaining complete records if required or suggest other ways to give adequate comfort to the lenders.

These are just a few important issues to consider during the course of what is sometimes a lengthy process. It can seem daunting but it need not be. Please do not hesitate to contact us to arrange training or a meeting to go through your specific requirements or for a general health-check of your finance and security documents. We can then work together to ensure that you are ready to refinance when the opportunity arises.

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