

# The Housing Finance Corporation: Investor Non Deal Update September 2019



This presentation has been updated since the investor non deal roadshow meetings on 4<sup>th</sup> and 6<sup>th</sup> September 2019

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THFC

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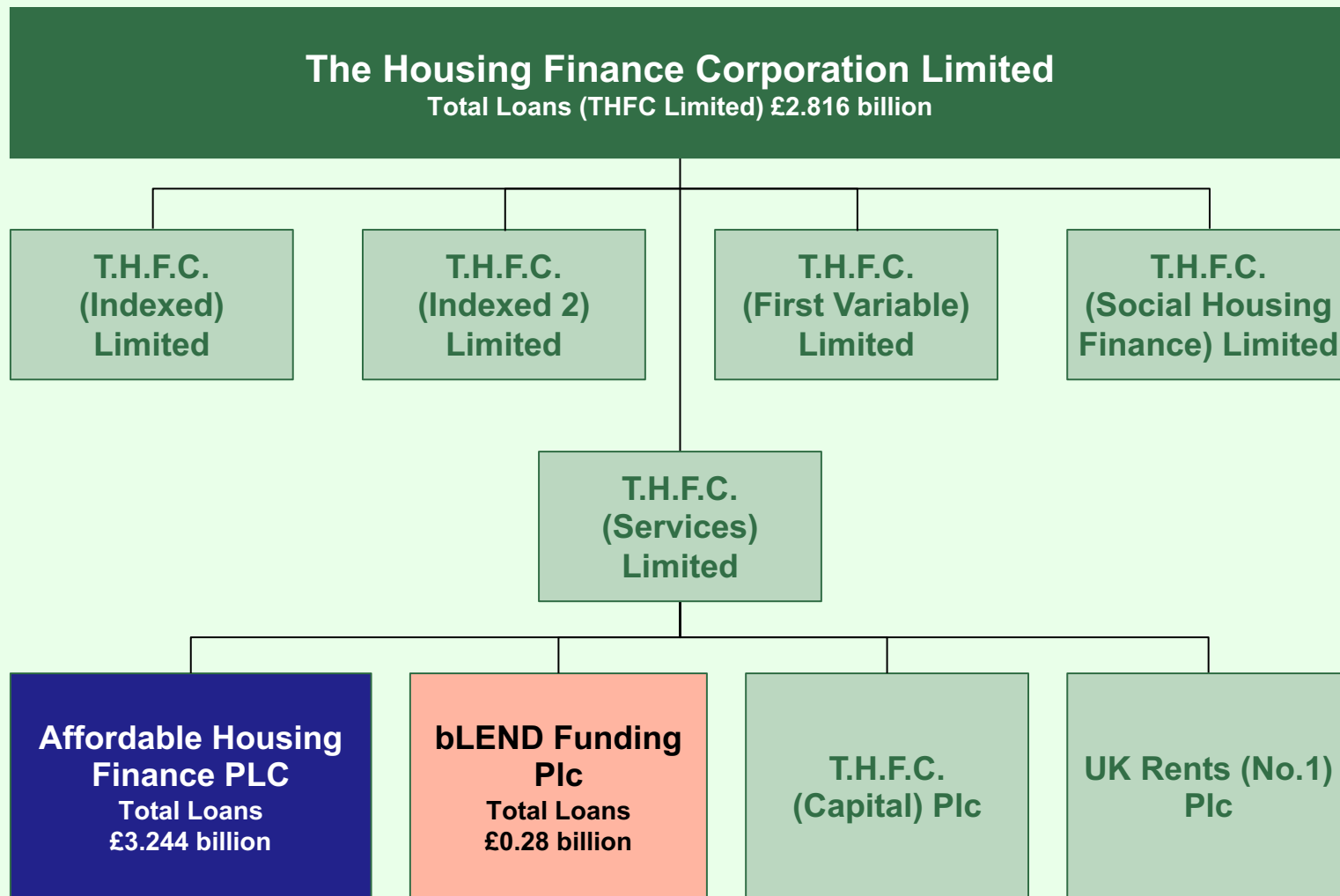
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- ➔ **THFC** is a group of independent, specialist, not-for-profit finance companies that only make loans to UK regulated Housing Associations
- ➔ The National Housing Federation and the (English) Regulator have both been shareholders of THFC since inception
- ➔ **THFC** funds itself through the issue of bonds to private investors and by borrowing from banks
- ➔ **THFC** currently provides over £7bn to 165 Housing Association borrower groups throughout the UK
- ➔ **THFC**, through its subsidiary **Affordable Housing Finance**, is the Licence holder for the Affordable Housing Guarantee Scheme (2013)
- ➔ THFC launched a new non-recourse funding vehicle bLEND in 2018 to provide an alternative, more flexible vehicle than own-name issuance bonds





As at 31 March 2019  
Total loans in THFC Group other than THFC Limited, AHF and Blend = £0.696 billion.

## Group

£000's	2015	2016	2017	2018	2019
Total Revenues	8,344	8,422	10,312	11,462	10,595
Total Costs	3,201	4,301	4,176	4,354	4,786
Surplus after tax	4,062	3,289	4,898	5,750	4,698
Net Pension Charge	-	-	-	-	(1,163)
Group Accum. Reserves	20,627	23,916	28,814	34,564	38,099
Group Loans Outstanding	4,054m	4,978m	5,702m	6,717m	7,036m

## THFC

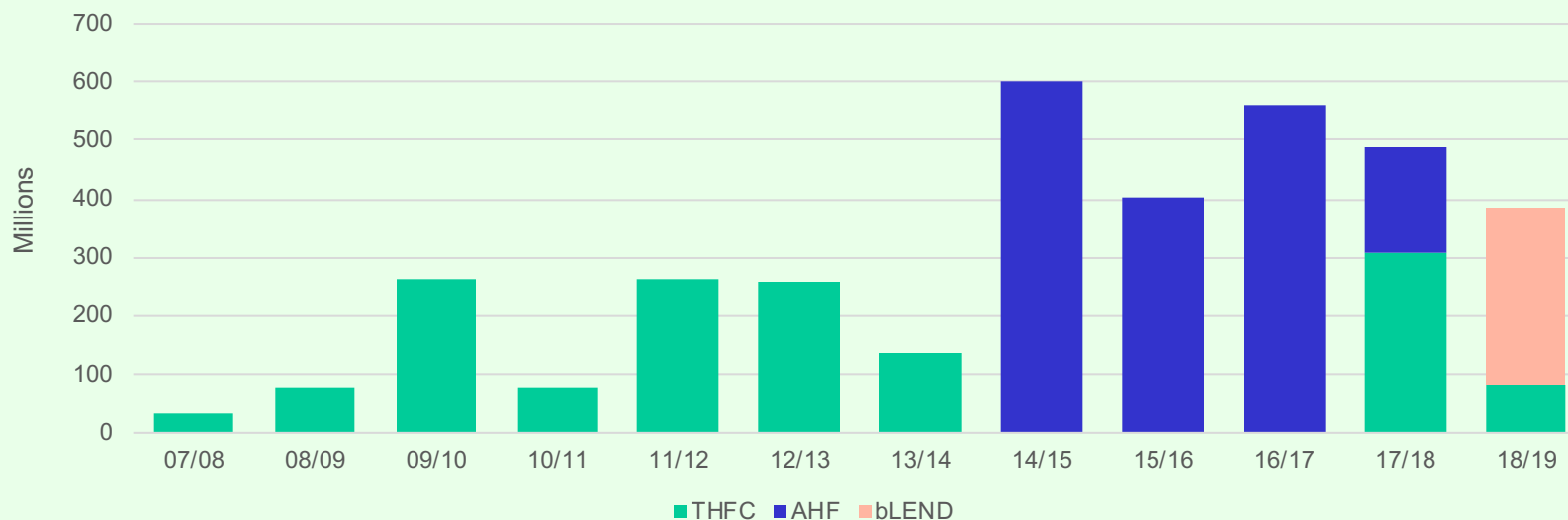
£000's	2015	2016	2017	2018	2019
Surplus after tax	1,990	748	2,685	1,987	3,304
THFC Accum. Reserves	14,238	14,986	17,671	19,658	22,962
THFC Loans Outstanding	2,574m	2,732m	2,568m	2,727m	2,816m

Notes: Loans outstanding excludes premium/discount  
Please see THFC Annual Reports and Accounts for full details ([www.thfcorp.com](http://www.thfcorp.com))

# THFC Track Record in Bond Issuance\*

# THFC

The Housing Finance Corporation



Bond	Rating (S&P/Moodys)	Issued (£000's)
THFC (Funding No.1) 5.125% 2035/37	A/-	249,376
THFC (Funding No. 2) 6.35% 2039/41	A/-	370,850
THFC (Funding No.3) 5.20% 2043/45	A/-	1,015,300
<b>Total THFC Rated Issuance</b>		<b>1,635,526</b>
AHF 3.80% due 2042/44	AA/-	600,900
AHF 2.893% due 2043/45	AA/-	1,143,200
bLEND (MTN Programme)	-/A2	300,000
<b>Total THFC Group rated bonds in issue</b>		<b>3,679,626</b>

\*Includes retained bonds not yet sold. As at 31 March 2019



- ➔ THFC's strong cash generation and stable earnings enables a two-pronged approach to business growth
  1. THFC Board remains committed to **measured** growth based on risk appetite and sustainability. THFC lending:
    - Provides proven access to the market
    - Investor familiarity with THFC and what differentiates investing in THFC versus a portfolio of own name bonds and private placements, delivers competitive pricing
  2. Launch of bLEND Funding PLC — new subsidiary that is non-recourse to THFC:
    - EMTN programme established August 2018
    - First transaction completed in September 2018 for £250m
    - £345m issued to date over 4 transactions — growth phase over the next two years, portfolio targeted to reach £1bn within five years
    - Fee income flows to THFC Services via Management Services Agreement
- ➔ In addition, performance in relation to existing Guarantee scheme puts AHF in a strong position to bid for new Guarantee scheme (AHGS2020)



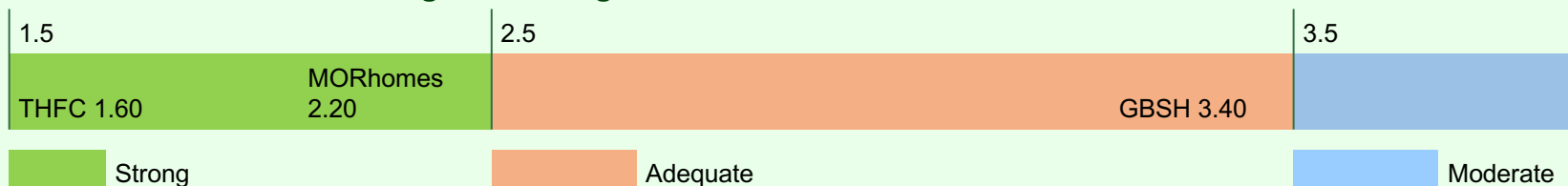
# THFC Rating under New Criteria and Peer Comparisons

		THFC	SACP/Rating a/A	MoRHomes	SACP/Rating a-/A-	GB SH	SACP/Rating a-/A-
<b>Enterprise Risk Profile</b>	Weightings	THFC score		Mor score		GBSH score	
PICRA	40%	2	Strong	2	Strong	2	Strong
Business position	20%	3	Adequate	6	Very weak	4	Moderate
Mgt & governance	40%	3	Adequate	3	Adequate	4	Moderate
Weighted average		2.60		3.20		3.20	
Rounded (per Table 1)		3		3		3	
		Adequate		Adequate		Adequate	
<b>Financial Risk Profile</b>	Weightings	THFC score		Mor score		GBSH score	
Capital adequacy	40%	1	Very strong	1	Very strong	4	Moderate
Funding & liquidity	60%	2	Strong	3	Adequate	3	Adequate
Weighted average		1.60		2.20		3.4	
Rounded (per Table 1)		2		2		3	
		Strong		Strong		Adequate	

## Enterprise Risk Profile — Weighted Average Score



## Financial Risk Profile — Weighted Average Score





## **Management and Governance**



**Chief Executive**  
*Piers Williamson*  
18 years

**Executive Assistants**

**Group Treasurer**  
*Fenella Edge*  
18 years

- ➔ Relationship Management
- ➔ Security Portfolio Management
- ➔ Treasury and Portfolio Management

- ➔ 3 RMs — long experience at other lenders — up to 5 yrs at THFC — recent recruitment
- ➔ Treasury team — 5-10 yrs THFC experience — recruitment underway
- ➔ Security charging team — qualified solicitor, 3 yrs THFC, assistant 13 yrs THFC

**Finance Director and Company Secretary**  
*Colin Burke*  
18 years

- ➔ Accounting and Finance
- ➔ Managed Companies — Monitoring and Reporting
- ➔ Company Secretarial
- ➔ IT strategy and infrastructure

- ➔ Finance Manager — qualified accountant — 17 yrs THFC
- ➔ 4 other Finance team members recently recruited (increase by 2)
- ➔ IT Director recently recruited

**Credit and Risk Director**  
*David Stokes*  
7 years

- ➔ Borrower risk assessment
- ➔ Risk appetite
- ➔ Risk framework
- ➔ Credit grading models

- ➔ Credit and Risk Manager — long experience at other lender — 4 yrs THFC
- ➔ Additional team member — 3 yrs THFC

<b>George Blunden*</b>	Non Executive Chairman, Chair of Stonewater and formerly chair of Charity bank	Appointed 2019
<b>Scott Bottles**</b>	Former Executive Vice President and Senior Credit Officer for International Commercial Real Estate at Wells Fargo	Appointed 2018
<b>Shirley Smith*</b>	Non-executive director at CREFC (Europe)	Appointed 2018
<b>Will Perry</b>	Director of Strategy Regulator of Social Housing	Appointed 2014
<b>Gill Payne *</b>	Former Executive Director of Public Impact National Housing Federation	Appointed 2014
<b>Keith Exford CBE</b>	Former Group Chief Executive Clarion Housing Group	Appointed 2011
<b>Guy Thomas***</b>	Chartered Accountant, Non-Executive Director of Sainsbury's Bank, Formerly Group Finance Director of Principality Building Society	Appointed 2019
<b>Deborah Shackleton CBE *</b>	Former Chief Executive Riverside Housing Group, Chair Grainger Trust	Appointed 2011

\* Member of THFC Credit Committee

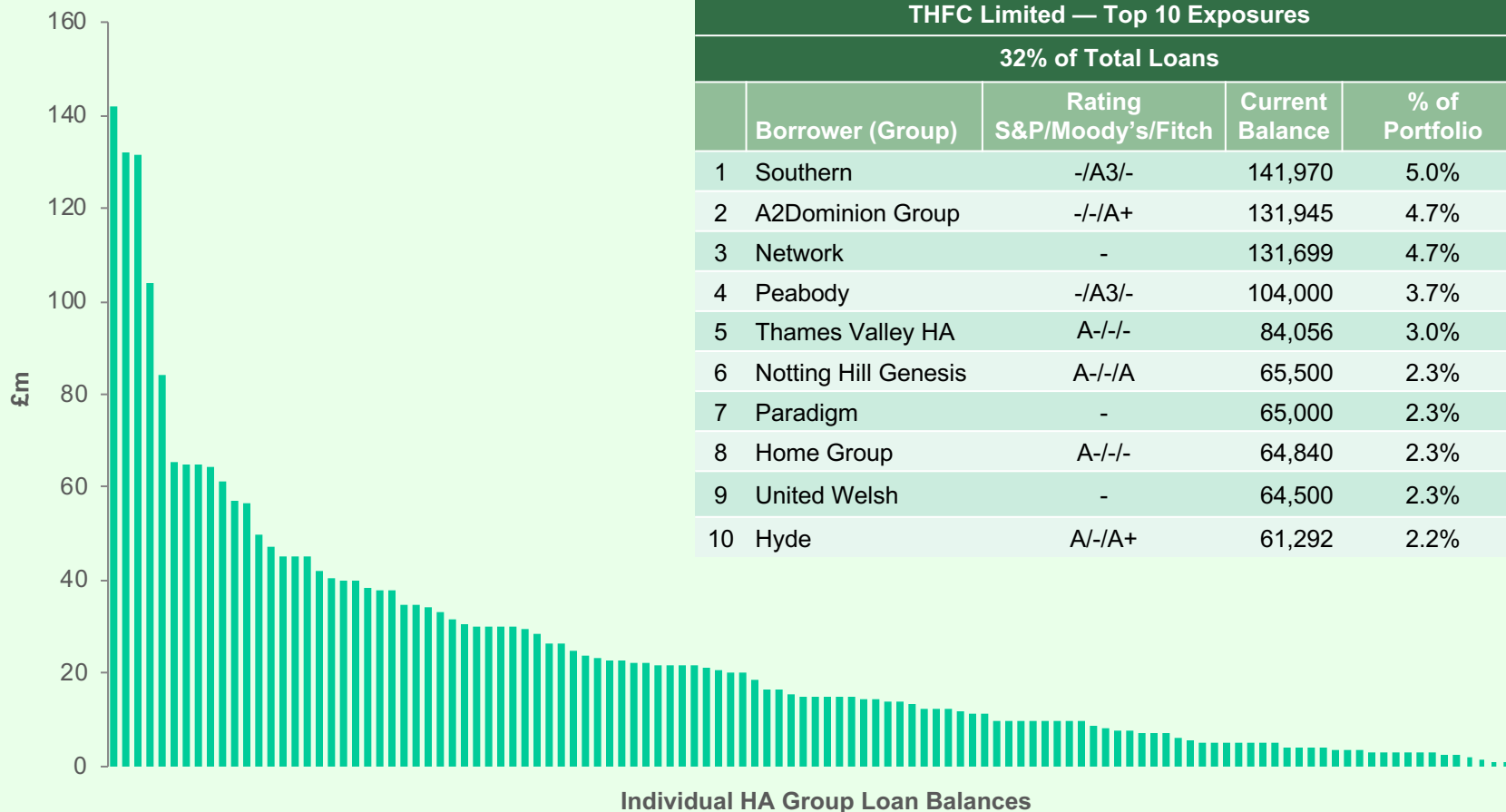
\*\* Chair of THFC Credit Committee

\*\*\* Chair of THFC Audit Committee and Member of THFC Credit Committee



**THFC Limited**

- ➔ Well diversified by borrower
- ➔ Geographic diversification within UK



THFC Limited — Exposure balances by Borrower (Group) at 31 March 2019

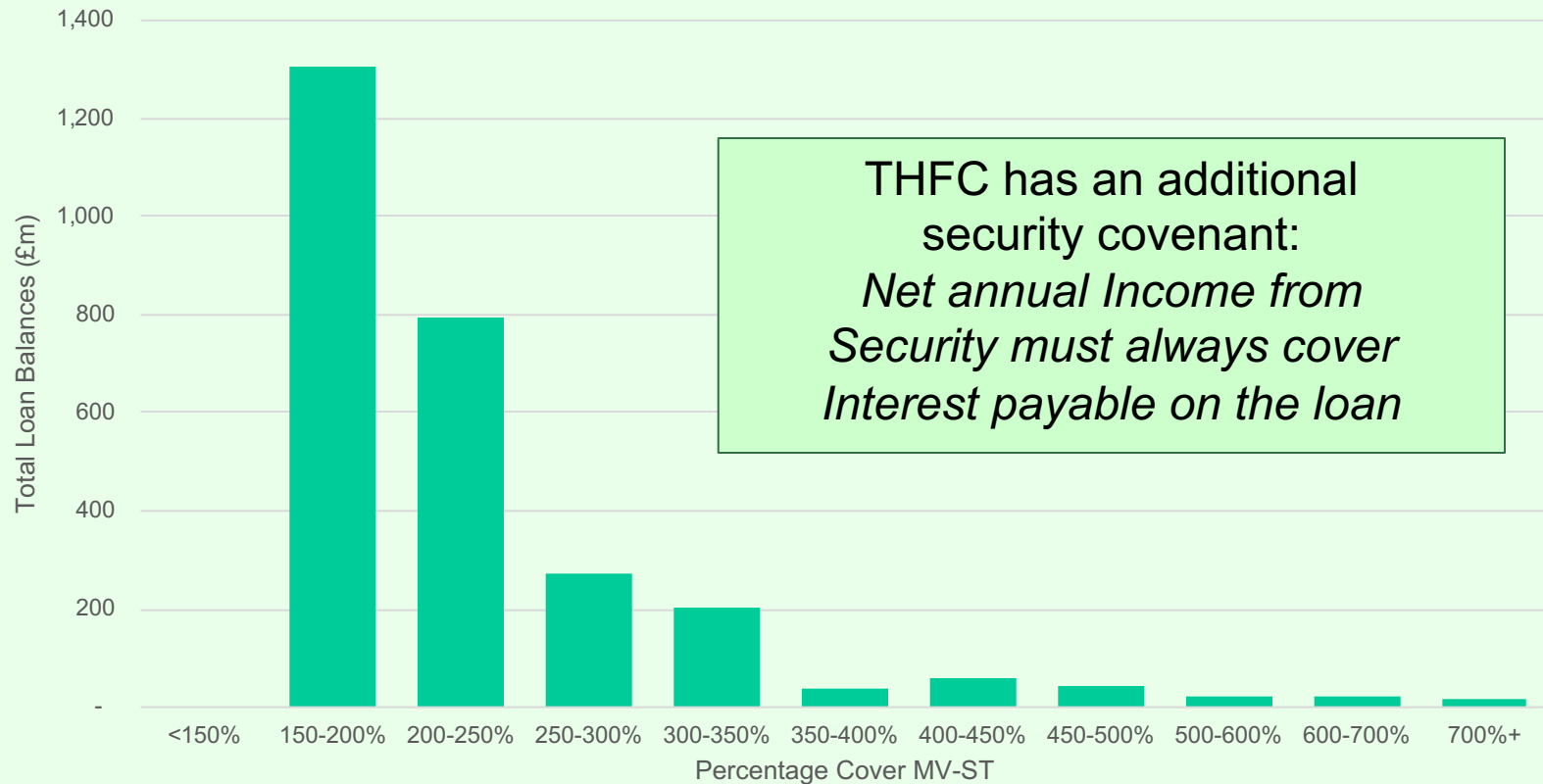
# Strong Over-Collateralisation

## THFC Limited — Fixed Charge Asset Cover

### 31 March 2019

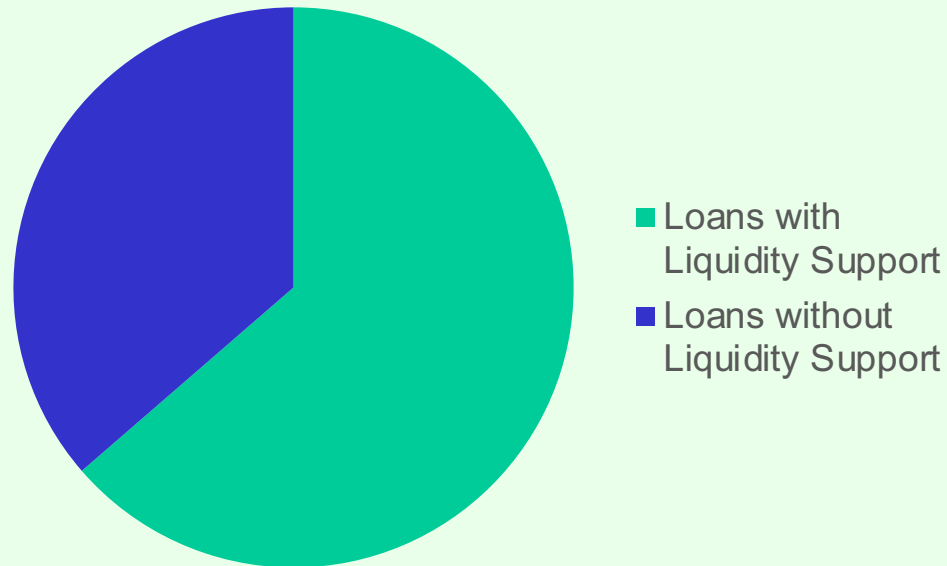
THFC

The Housing Finance Corporation



- ➔ Significant new business written since 2009 with asset cover between 150% and 200%
- ➔ Withdrawal threshold at 200% improves over-collateralisation over the long term
- ➔ Significantly more conservative compared to own-name bond issues where 115% MVT cover is the norm

- ➔ THFC Limited — all loans funded by rated bonds, and a number of additional loans, have bespoke liquidity support
- ➔ Liquidity support is sized at 12 months interest as a minimum (24 months for loans funded by THFC Funding No 1 bonds) and all liquidity support is held as cash or gilts
- ➔ c.65% of the THFC Limited loan portfolio has bespoke liquidity support — projected to rise to c.80% within 5 years

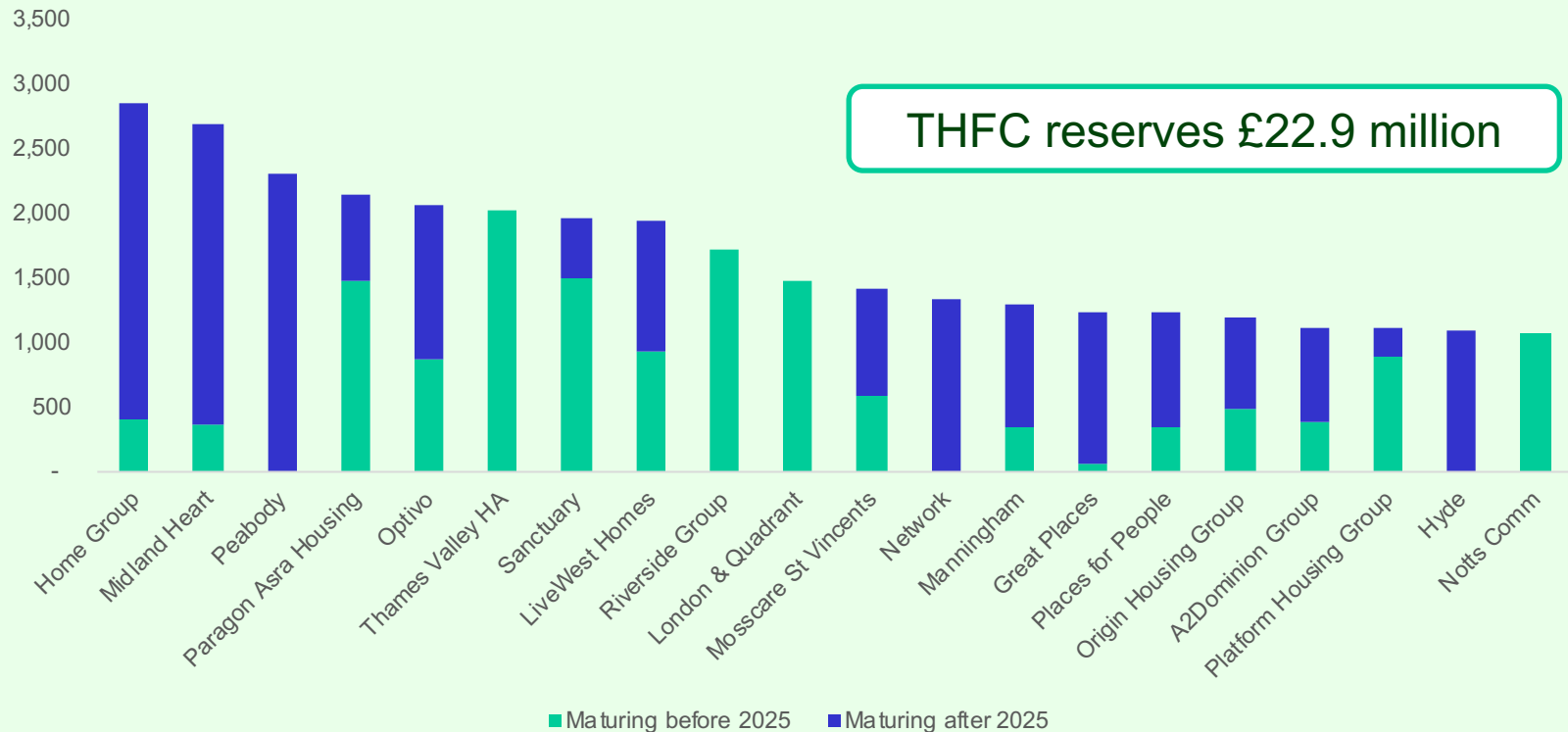


As at 31 March 2019



# Loans with No Bespoke Liquidity Support

- ➔ Loans funded by Debenture Stocks and bank loans
- ➔ THFC can utilise its own reserves to temporarily cover cash-flow shortfalls while enforcing security in relation to the defaulted loan and realising proceeds of sale
- ➔ Key metric for each borrower — **total annual cashflow due, with no liquidity risk mitigation.**
- ➔ Top 20 borrowers below — includes capital repayments for amortising loans but bullet maturities monitored separately



Note: As at 31 March 2019

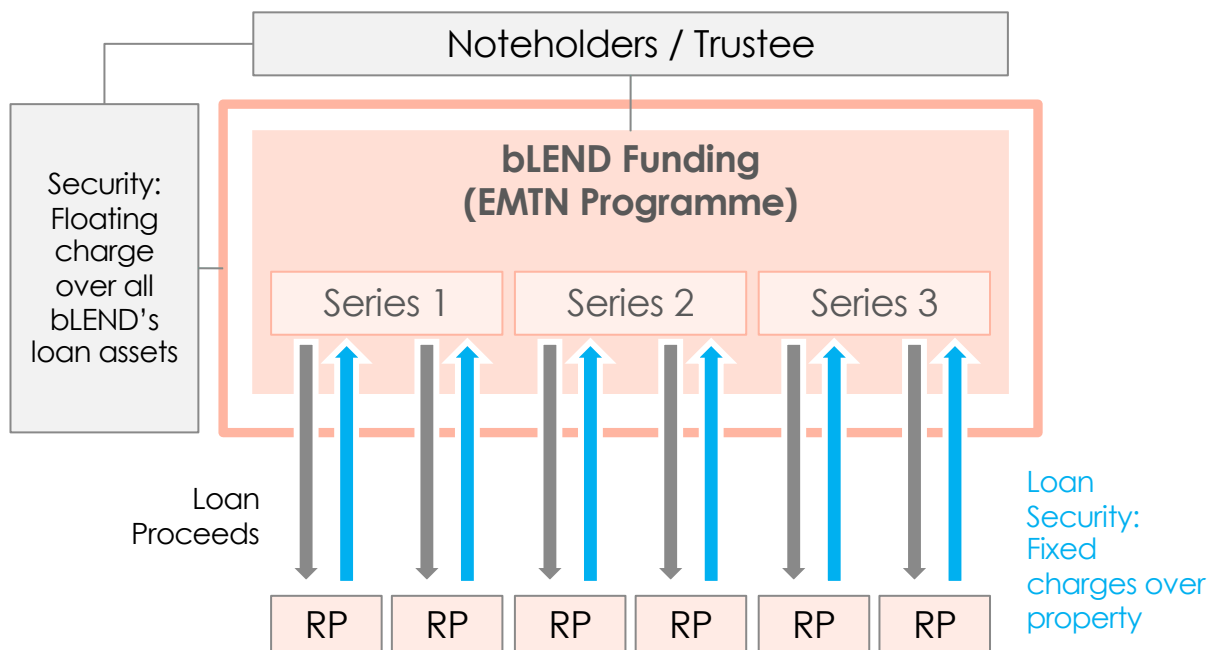
# bLEND Funding Plc

## Strategy for Growth

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- bLEND now well established
- Moody's credit process working well
- Target modest growth, aligned with 5 year Business Plan of £1bn (with scope to outperform)
- A2 builds in resilience in case of UK Sovereign downgrade or Social Housing sector downgrade
- Grow a variety of bond maturities to build a bLEND curve
- Additive to THFC and AHF offering

# Programme Structure



- Ringfenced debt service reserves for each underlying loan
- No cross-collateralisation or cross-guarantees between borrowers

EMTN programme key features:

- Issue proceeds to be on-lent to registered housing associations
- Sterling only
- Primarily soft bullet with 2 year tail
- Floating rate coupons and amortising profiles are also possible under the programme

# A2 Rating

## Rated by Moody's under its Public Sector Pool Financings Methodology

### Pool Participant Ratings

- Pool participants are either rated publicly by Moody's or privately by Moody's
- Privately rated borrowers submit the same information as for a Moody's public rating



### Pool Rating

- The pool rating outcome reflects the weighted average credit quality
- The rating is of the whole pool of loans funded by all series of Notes
- A new borrower cannot be added to the pool if that would result in a downgrade of the programme
- Aggregate rating of portfolio at A2 - reflecting a stronger than average credit profile for the HAs in the pool, based on the distribution of Moody's public HA ratings

## Moody's Credit Process

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- All bLEND borrowers must be rated by Moody's either by way of a public rating or a private rating
- The data required by Moody's is the same as that for a public rating including financial statements, business plans, stress testing and treasury policy
- The primary differences between a public rating and a private rating is that Moody's do not have a meeting with management and that the outcome of an individual participant's private rating is not available to investors
- As a condition of a Borrower's loan, it commits to provide the information required by Moody's to maintain a private rating for the life of the loan or to maintain a Moody's public rating

## bLEND Covenants vs Typical Own Name Bond

- Purpose – to finance the purchase, acquisition, development, repair or improvement of property to be used for housing or the refinancing of existing loans for such purpose
- Only lending to Registered Providers of social housing
- Property security and covenants (minimum “core terms”)

	<b>bLEND Funding Plc</b>	<b>“Typical HA” Own Name Bond</b>
<b>Asset cover</b>	120% (MV-ST valuation) 110% (EUV-SH valuation)	115% (MV-ST valuation) 105% (EUV-SH valuation)
<b>Net annual income cover</b>	100% of annual interest payable	None
<b>Debt service reserve</b>	Dedicated cash reserve equal to 12 months interest	None

# Underlying Borrowers

All the underlying borrowers are existing THFC Group customers

Association	Nominal bLEND loan	No of units Owned	Housing properties £k	Net debt £k	Operating surplus £k	Net interest payable £k	Social Housing Lettings Turnover £k	Total Turnover £k	Regulatory status	Year End
Fortis Living *	£70m	15,939	833,837	276,344	43,724	-9,982	79,471	101,357	G1/V1	Mar-18
Hightown Housing Association	£50m	6,240	670,820	392,323	29,437	-10,746	60,358	84,693	G1/V1	Mar-19
Regenda	£25m	13,077	477,951	183,122	20,511	-8,748	58,858	67,995	G1/V1	Mar-18
Wales and West	£90m	10,772	587,638	200,932	16,242	-8,075	61,560	64,317	Standard	Dec-18
Waterloo Housing Group *	£110m	26,607	1,338,119	649,421	69,103	-29,651	122,615	142,109	G1/V1	Mar-18

\*Merger completed October 2018. Both RPs are subsidiaries of Platform Housing Group and are likely to amalgamate in the near future

- Loans are always fully secured by either cash or Property Security



## Borrower Security Position

Borrower	Loan facility nominal amount £k	Aggregate outstanding amount of drawn Loan £k	Interest payable £k	Value of EUV-SH Charged Properties £k	Value of MV-ST Charged Properties £k	Cash security £k	Asset cover ratio (Min 1x)	Net annual income of Charged properties £k	Income cover ratio (Min 1x)
Fortis Living	70,000	70,000	2,421	41,455	39,536	0	<b>1.01</b>	4,599	<b>1.90</b>
Hightown	50,000	30,000	895	17,715	15,902	646	<b>1.00</b>	1,651	<b>1.88</b>
Regenda	25,000	25,000	746	0	0	25,095	<b>1.00</b>	0	<b>1.00</b>
Wales and West	90,000	90,000	3,006	3,908	104,471	0	<b>1.01</b>	5,462	<b>1.82</b>
Waterloo HG	110,000	110,000	3,805	55,854	72,921	0	<b>1.00</b>	6,160	<b>1.62</b>

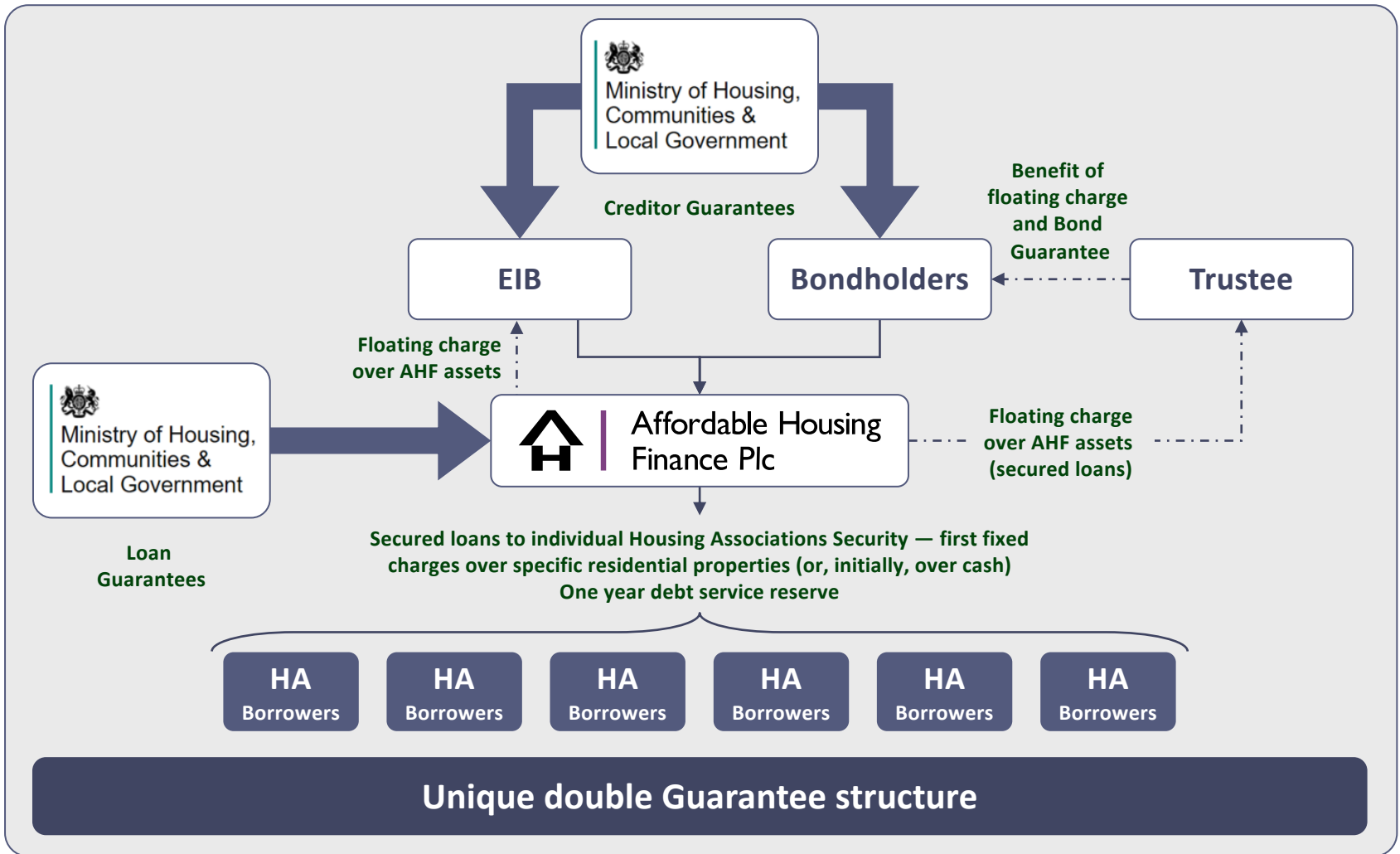
# bLEND MTN Programme Issuance

Series	Maturity	Coupon	As at 31 March 2019		As at 31 August 2019	
			Issued £m	Of which retained £m	Issued £m	Of which retained £m
1	21 Sep 2047	3.459%	250	0	250	0
2	15 Mar 2034	2.984%	50	20	75	20
3	5 Apr 2054	2.922%	0	0	20	0



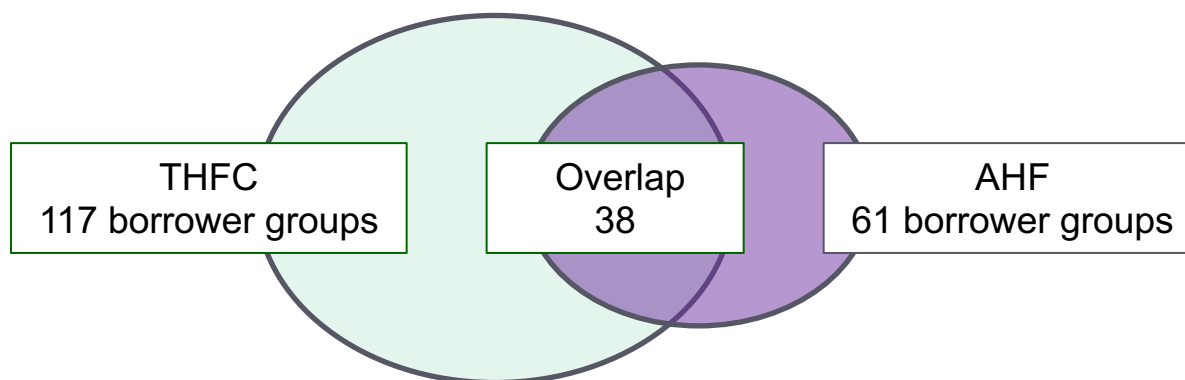
Affordable Housing  
Finance Plc

# Structure Overview



Original portfolio now in care and maintenance for next 27 years, but with an emphasis of active monitoring on behalf of Her Majesty's Government

Bonds currently rated AA by S&P which reduces the possibility of a downgrade to single A in the event of a Sovereign/social housing sector downgrade.



- Total of £3.244bn of loans written in original scheme for 61 borrower groups
- £1.744bn raised through issuance of bonds, £1.5bn raised through EIB
- New Guarantee Scheme (AHGS2020) announced in March 2019 budget
- Performance in relation to the existing scheme puts AHF in a strong position to bid for AHGS2020

## Review of the Sector

2015/16 Policy	2018/19 Policy
Home ownership for everyone	Wider choices of tenure reflecting affordability
£4.7bn grant primarily for home-ownership (back-loaded)	Additional grant for broader mix of tenures including Social Rent
Voluntary RTB for HAs	Pilots...but unaffordable?
4 * 1% Rent Cuts to 2019	Post 2020: CPI +1%
Re-classification	De-classification
Welfare expenditure control	Welfare expenditure control
	Homes England innovative investment role
	£8bn Housing Guarantees (potentially applied across a variety of tenures)

BUT ... uncertain policy environment created by newly formed Government

- ➔ Prevalence of development with lower grant, combined with MHCLG drive for more output
- ➔ Potential softening of house prices outside London, combined with start of upward interest rate movement
- ➔ Combined uncertainty of Brexit and potential for private sector rent controls
- ➔ Skills shortages...higher costs
- ➔ Scaling up of universal credit roll-out
- ➔ Hackitt — fire safety and building regulations...higher costs

### ***Balanced by:***

- ➔ Certainty of rent settlement for HAs post 2020
- ➔ Continued Government investment (grant and other investment)
- ➔ Pro-active regulatory intervention
- ➔ Risk mitigants:
  - Slow down or stop development
  - Alternative use of developed stock (in some cases supported by additional capital grant)





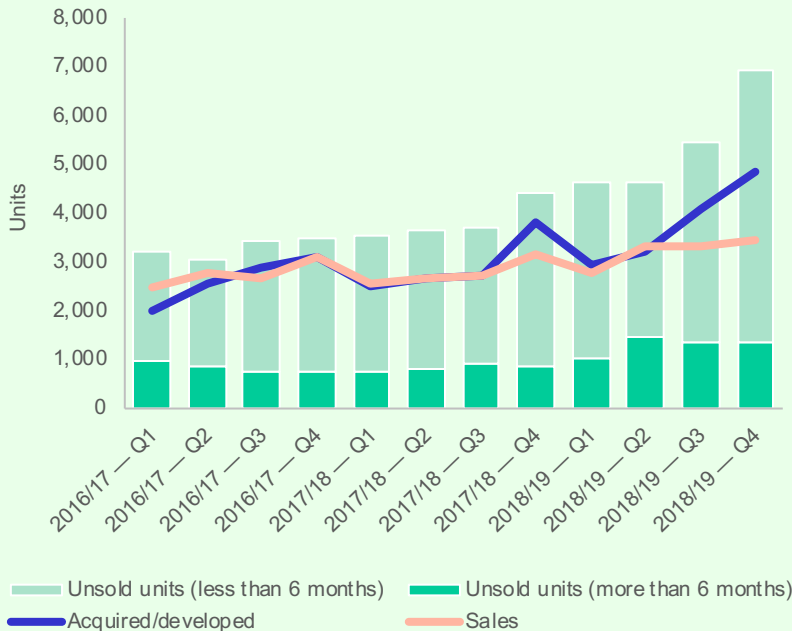
- ➔ Sector generally very liquid
- ➔ Development and sales risk mitigation
- ➔ Exposure to cost inflation
- ➔ Slow down in cash receipts
- ➔ Potential for failure of contractors in a slow down
- ➔ Role of Homes England/flexibility of tenure
- ➔ Seen as the one part of the housing sector where Government can influence (but noting current potential policy paralysis)



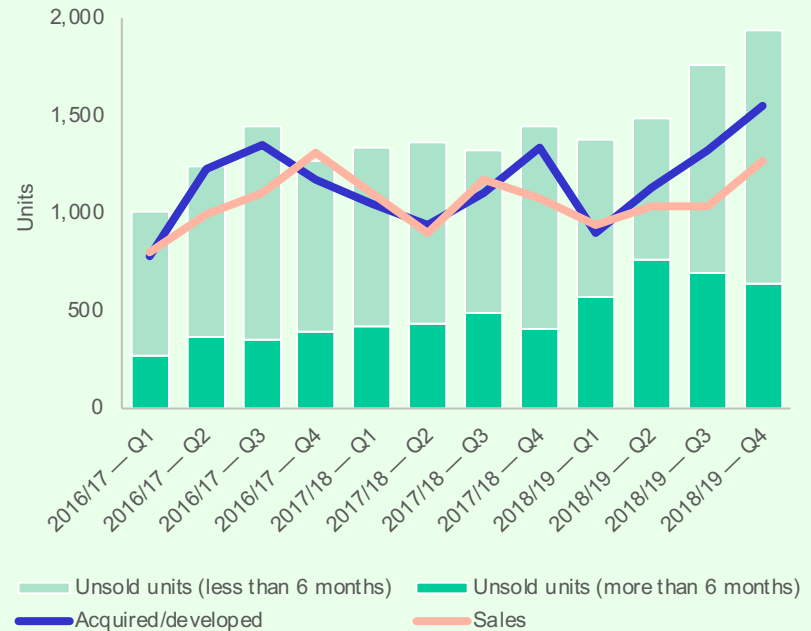
- ➔ Continuing concerns at the asymmetric UK housing market and particularly development for sale in London and the South East
- ➔ Increasing incidence of bulk sales to/from HAs and also the tenure conversion of outright sale units to shared ownership or affordable rents
- ➔ The threat of a no-deal or “hard” Brexit continues to weigh on the market, particularly in London, where transaction volumes remain low by historical standards
- ➔ Help to Buy continues to stimulate the market, with the scheme extended to 2023 albeit on more restrictive terms
- ➔ THFC follows the build for sale market closely and has robust borrower monitoring procedures in place with Board oversight

The Social Housing Regulator maintains a high level of scrutiny regarding sector risks, and especially development for sale. From the 3/19 Quarterly Survey:

**AHO/LCHO Unsold Units**



**Market Sales**



Development for sale is concentrated in a small number of HA's with six providers holding 100 unsold market sale units each, accounting for more than half of the total unsold units.

THFC has a bespoke monitoring and reporting system for “higher risk” associations.

- ➔ Outturn for 2019 shows continued financial strengthening even with no AHF underwriting
- ➔ Board “refresh” and team strengthening
- ➔ Confirmed strategy of measured growth in THFC and bLEND
- ➔ Strong positioning for AHGS 2020
- ➔ Significantly improved IT resilience
- ➔ New premises to accommodate current growth and provide capacity for the future





## **Questions**



## Contact Details

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