Appendix 1

Acis

Regulator of Social Housing (RSH)

1. Acis are subject to an In Depth Assessment every 3 years. These in depth assessments are heavily weighted to financial viability retaining compliant governance and viability ratings.
2. Acis provide an annual statutory accounts return and annual business plan return, both of which undergo strong review/validation prior to sign off by the regulator.
3. Quarterly regulatory returns primarily focused on cashflow forecast and funding structure, again with full review/validation and sign off by the regulator.
4. Annual stability reviews undertaken by the regulator taking into account all of the above returns and any other available information.

Funders

1. Funders covenants including interest cover, gearing and asset cover monitored and report on an ongoing basis.
2. Funders receive and scrutinise, quarterly management accounts, annual statutory accounts, budgets and business plans.
3. Funders covenants certified by external auditors at year end.

Internal

1. Strong independent board of directors with strong financial skills/experience. Strong scrutiny and challenge of all financial reporting, presented bi-monthly.
2. Finance committee with representative from the board, undertaking further in-depth review of management accounts, treasury reports etc, presented bi-monthly.
3. Board approved treasury policy strategy with ongoing monitoring.
4. Board approved budgets and 30 year business plan including extensive stress testing scenarios and early warning triggers. These are regularly monitored and reported to the board.
5. Detailed long term cashflow forecasts.
6. Detailed assets and liabilities registers which closely tracks all long, short and potential assets and liabilities.

As you can see there is a significant focus by the Regulator of Social Housing (and associated controls) on the financial viability of Registered Providers through their regulatory framework and therefore the risk of a Registered Provider becoming insolvent, without any intervention, is extremely remote.

Longhurst Group

In order to provide affordable homes Registered Providers primarily rely on Private Finance from Banks or the Capital Markets for which our Housing Assets are provided as security for said funding.

There are two basis of valuation, allowable under the terms of our Loan Agreements, which are used to assess the individual property valuations being EUV-SH (Existing Use-Social Housing) and MV-STT (Market Value-Subject to Tenancies) against which funds can be drawn.

The valuation of housing stock owned by RPs depends not only on the market value of the property but is also based on a rent flow that comes from the housing stock normally over a 30-year business plan. When a site is purchased by an Association there is no value in the land until such time as tenants are paying rent.

RPs have agreed funding arrangements which will require security cover from properties owned and valuations of this security are updated on a regular basis. Before funds can be drawn down from the available facility, it is a normal requirement that available properties be placed into charge to meet the security cover requirements.

Our solicitors prepare a Certificate of Title setting out certain statements about the property. Funder's solicitors will need to know whether there is any matter that would affect the RP's ability to receive rent or, significantly, which would restrict the use of the property in any way that would affect the funder's ability to recoup its loan advances with interest and other associated costs.

In the unusual event that a funder would need to exercise its power of sale, it would need to be satisfied that it could sell on the open market free of restrictions, albeit that the properties would still be subject to tenancies. There are basically three levels of valuation that can be attributed to the security by a valuer of housing stock. The first would be the open market value of the property with vacant possession. The second would be the Market Value Subject to Tenancy (MV-STT), being the value of property subject to existing tenancies but without a limitation of affordable housing rents and government imposed policy from time to time. The final level of valuation will be the Existing Use Value of the property (EUV), which will be property subject to the tenancies which can only be rented at affordable rent in accordance with government policies.

In order to obtain the best valuation of tenanted housing stock (i.e. at MV-STT), it is essential that titles to the property to be purchased do not limit the use to "affordable housing". A planning permission should not, likewise, provide for permission for a development to be used as "affordable housing".

The majority of new developments, at present, are Section 106 schemes which provide for quotas of developments to be allocated for affordable housing schemes. In order to elevate a valuation of an affordable housing scheme to MV-STT, it is vital there is a mortgagee exemption provision which has the effect that a mortgagee or chargee (which must include also a receiver) exercising a power of sale be able to dispose of the affordable housing element of the development free from the affordable housing restrictions.

Understandably, Local Authorities wish to reserve affordable housing within their districts and there have evolved a number of versions of mortgagee exemption provisions which require such mortgagees to attempt first of all to transfer the affordable housing stock to another RP or back to the local authority. However, the requirements of funders are becoming ever increasingly demanding and it is essential that a mortgagee exemption provision provides for a mortgagee to be able to secure a sale free from any "sell on" provisions within three months and it is essential that a mortgagee shall be able to be repaid the total of the outstanding mortgage debt plus all interest and associated costs etc.

Some examples and further information is attached to this letter at Annex A.

If a mortgagee exemption provision is not acceptable to a funder, then only an EUV-SH valuation will be achievable, and the registered provider will only be able to draw down the lower EUV-SH value in respect of each unit.

The difference between an EUV and an MV-STT valuation varies from area to area and in respect of unit to unit. A rough estimate, depending on area and rental income streams, is that an EUV valuation is 40% of the market value of the property with an MV-STT valuation being 60%. The significance for a registered provider in agreeing a satisfactory mortgagee exemption provision is, therefore, very significant.

To add some comfort any RP which has been in a potential default position with their lenders has, to date, been transferred to another RP to retain the properties as affordable housing and lenders have not once taken possession of assets and exercised their power of sale.

The table below provides an example of an individual property and the number of existing properties required to secure funding to develop each property.

For developing RP's the ability to achieve an MV-STT valuation is important to ensure we can continue to develop new affordable homes within our area of operation using our existing and future housing assets as security to fund these new homes. Restrictions to valuations for mortgage purposes will affect our future capacity as the number of available properties to offer lenders as security will diminish faster than if a MV-STT valuation is achieved.

OMV	EUV-SH Valuation	MV-STT Valuation	Variance
£120,000	£48,000	£72,000	£24,000
No of properites required as security	2.50	1.67	