Appendix 1 – Supporting statement from Homes England

Homes England Statement on State Aid and Lending

1. My name is Gareth Blacker, Director of Strategic Development and Infrastructure at Homes England. I am a chartered surveyor specialising in major project development and development infrastructure finance.

2. Homes England provide infrastructure loans to unlock or accelerate large scale housing development projects. Over the past six years Homes England has contracted or committed approximately £2.5billion of infrastructure loans. This finance has unlocked or accelerated the delivery of approximately 200,000 homes. The quantum of individual infrastructure loans has ranged from £10million to £200 million. The term of the loans is typically between 8 and 12 years. The interest rate applied to the loans has usually been a margin ranging from 220bps to 450bps above a variable EC reference rate (currently 0.90%). Recipients of the funding has usually been major developers with the ability to deliver large projects including Canary Wharf Group, Urban and Civic, Quintain and Delancey.

3. Both Homes England and the developers need to be satisfied that the lending transactions are State Aid compliant. This is achieved by following EC guidance, the details of which are set out in the following paragraphs.

4. Homes England reviews creditworthiness and collateralisation for the purpose of interest rate setting. This approach follows the EC adopted market methodology for setting reference rates which are applied as a proxy for the "market rate", as set out in the Communication from the Commission on the revision of the method for setting the reference and discount rates (2008/C 14/02). It has been set out with the benefit of state aid advice.

5. The Commission use the reference rate methodology as the basis for considering the minimum interest rate to be used as, in most cases, there will be no actual market rate to compare. On that basis, we consider that it is appropriate for Homes England to use the Commission's reference rate methodology in order to calculate for State Aid purposes the "market" interest rate applicable to loans.

6. The combination of the Creditworthiness and Collateralisation generates a Margin to be added to the EC base rate (see below). The following table sets out the range of Margins to be applied (in basis points):

Creditworthiness	**Collateralisation**		
	High	Normal	Low
Strong (AAA-A)	60	75	100
Good (BBB)	75	100	220
Satisfactory (BB)	100	220	400
Weak (B)	220	400	650
Bad/Financial Difficulties (CCC and below)	400	650	1000

Creditworthiness

7. Where borrowers have a rating from a recognised Credit Rating Agency this will be used. Where the borrower does not have a rating, Homes England will review its creditworthiness. This involves an assessment of the borrower's financial standing and the risks associated with lending to that business - likelihood of default (encompassing both capacity and willingness to pay) is an important factor. Considerations may include:
    - Financial analysis - profitability, net asset position/balance sheet strength, gearing, etc.
    - Assessment of the trading history/development experience of a borrower – evidence of a "track-record" of delivery.
    - The ability of the borrower to service the loan (interest and capital when required under the legal agreements) in the context of its existing commitments.
    - Accounts, credit-checks, references - leading to an overall profile of a borrower.
    - Benchmarking against peer companies.

Collateralisation

8. This considers the value of the security offered against the loan therefore enabling the lender to assess potential losses. This will include the value of the property, the security offered (i.e. first/ slash second charge) and also the bidder's balance sheet strength. Homes England will require evidence of the schemes potential to service and repay the loan from the scheme cashflow (assessed by its advisors) and adequate security (supporting the level of proposed borrowing) to minimise its loss in a default scenario (e.g. a legal charge, parent company guarantee, performance bond, debenture). This assessment of the strength of cover then defines the high, normal or low category, against which the pricing is set - as shown in the table in paragraph six.

Gareth Blacker

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