The Housing Finance Corporation Limited

The Housing Finance Corporation: Investor Non Deal Update

January 2021

bLEND Funding Plc

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About THFC Group

The Housing Finance Corporation Limited

- **THFC** is an independent, specialist, not-for-profit finance company that makes loans to regulated Housing Associations
- The National Housing Federation and the (English) Social Housing Regulator are both shareholders of THFC
- **THFC** funds itself through the issue of bonds to private investors and by borrowing from banks
- **THFC** currently provides over £7.5billion of long term funding to c.145 Housing Association borrower groups throughout the UK
- Further growth will come primarily through MTN issuance by subsidiary **Blend Funding Plc** which, two years from inception, has already grown to over £865million in 3 different maturities
- **THFC**, through its subsidiary **Affordable Housing Finance,** manages £3.2billion of loans guaranteed by UK Government, under a long term Licence

THFC | bLEND Funding Plc | Affordable Housing Finance Plc

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THFC Group Structure

The Housing Finance Corporation Limited

- **The Housing Finance Corporation Limited**
  Total Loans (THFC Limited) £2.826 billion
  8 August 2045
  - ~~T.H.F.C. (Indexed) Limited~~
    ~~£4.850million~~
    ~~30 September 2020~~
  - T.H.F.C. (Indexed 2) Limited
    £23.505million
    30 November 2024
  - T.H.F.C. (First Variable) Limited
    £2.931million
    28 April 2023
  - T.H.F.C. (Social Housing Finance) Limited
    £86.368million
    30 September 2025
  - T.H.F.C. (Services) Limited
    - Affordable Housing Finance PLC
      £3.244billion
      17 January 2048
    - bLEND Funding Plc
      £390million
      5 April 2054
    - T.H.F.C. (Capital) Plc
      £542million
      31 March 2042
    - UK Rents (No.1) Plc
      £18.535million
      6 April 2025

Loan balances as at 31 March 2020
Please see THFC Annual Reports and Accounts for full details (www.thfcorp.com)

Group & THFC Five Year Financial Record

The Housing Finance Corporation Limited

Group

£000's	2016	2017	2018	2019	2020	2021 Forecast
Total Revenues	8,422	10,312	11,462	10,595	8,565	11,669
Total Costs	4,301	4,176	4,354	4,786	5,178	5,396
Surplus after tax	3,289	4,898	5,750	4,698	2,695	5,081
Net Pension Charge	-	-	-	(1,163)	909	0
Group Accum. Reserves	23,916	28,814	34,564	38,099	41,703	46,784
Group Loans Outstanding	4,978m	5,702m	6,717m	7,036m	7,139m	7,416m

THFC

£000's	2016	2017	2018	2019	2020	2021 Forecast
Surplus after tax	748	2,685	1,987	3,304	2,393	2,281*
THFC Accum. Reserves	14,986	17,671	19,658	22,962	25,355	27,636*
THFC Loans Outstanding	2,732m	2,568m	2,727m	2,816m	2,826m	2,846m

Note: Please see THFC Annual Reports and Accounts for full details (www.thfcorp.com)

**Subject to internal dividend policy*

THFC Track Record in Bond Issuance

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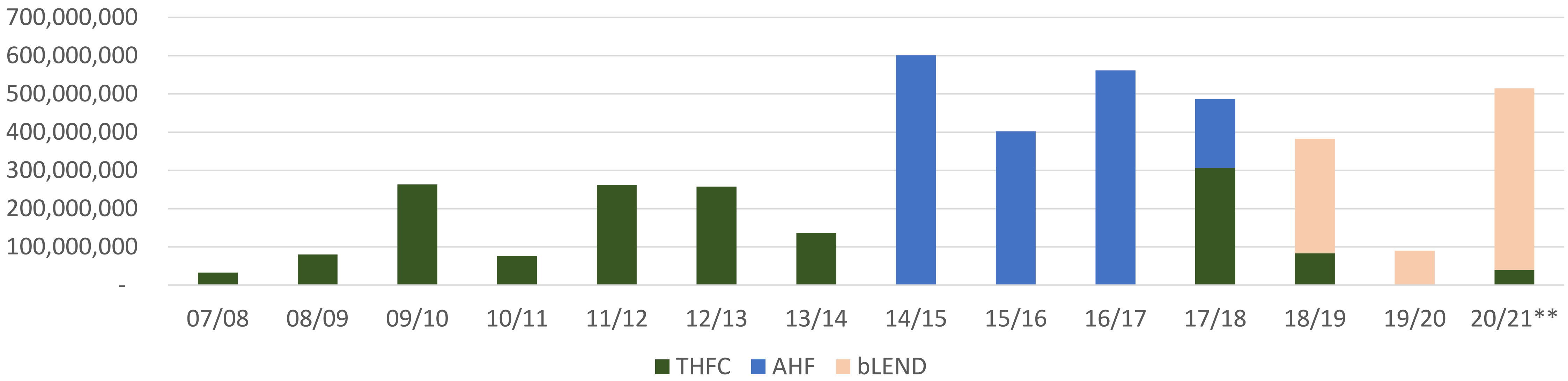

Bond	Rating (S&P/Moodys)	Issued (£000's)
THFC (Funding No 1) 5.125% 2035/37	A/-	249,376,000
THFC (Funding No 2) 6.35% 2039/41	A/-	370,850,000
THFC (Funding No 3) 5.20% 2043/45*	A/-	1,055,300,000
Total THFC Rated Issuance		1,675,526,000
AHF 3.8% due 2042/44	AA/-	600,900,000
AHF 2.893% due 2043/45	AA/-	1,183,200,000
bLEND (MTN Programme)**	-/A2	865,000,000
Total THFC Group rated bonds in issue		4,222,626,000

THFC - S&P rated since 2004

bLEND - Moody's rated since 2018

*Includes £88million retained bonds not yet sold

**Financial year to date – includes £145mill retained bonds issued and sold on a forward basis

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Strategy for Business Growth

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THFC's strong cash generation and stable earnings enables a selective approach to business growth. THFC Board remains committed to **measured** growth based on risk appetite:

THFC lending:

- Provides proven access to the market via market-leading bond
- Investor long (30 year +) familiarity with THFC approach versus portfolio of own name bonds, private placements and other aggregators
- Adding to a £1bn+ bond with market leading rates, typically for smaller borrowers

Growth of bLEND Funding PLC

- EMTN programme established August 2018: focussing on rounded growth HAs, regionally-balanced footprint

Continuing potential for innovation including Green Bond

THFC and Peer Comparisons

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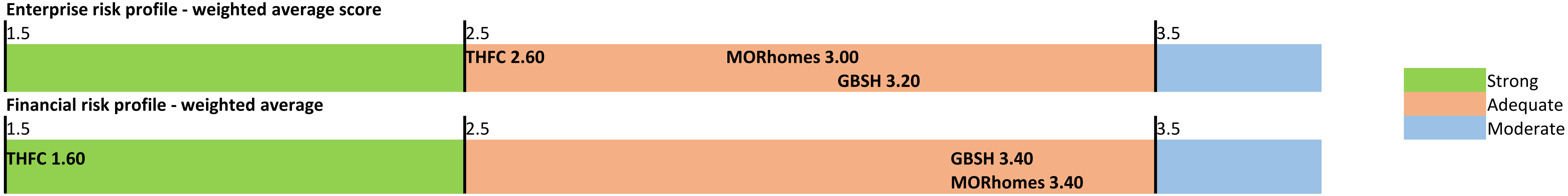
		THFC	SACP/Rating	Trend	MoRHomes	SACP/Rating	Trend	GB SH	SACP/Rating	Trend
		Sep-20	a/A		Dec-20	a-/A-		Jul-20	a-/A-	
Enterprise risk profile	Weightings	THFC score			Mor score			GBSH score		
PICRA	40%	2	Strong	←	2	Strong	←	2	Strong	←
Business position	20%	3	Adequate	←	5	Weak	↑	4	Moderate	←
Mgt & governance	40%	3	Adequate	←	3	Adequate	←	4	Moderate	←
Weighted average		2.60			3.00			3.20		
Rounded (per Table 1)		3			3			3		
		Adequate			Adequate			Adequate		
Financial Risk profile	Weightings	THFC score			Mor score			GBSH score		
Cap adequacy	40%	1	Very strong	←	4	Moderate	↓	4	Moderate	←
Funding & liquidity	60%	2	Strong	←	3	Adequate	←	3	Adequate	←
Weighted average		1.60			3.40			3.4		
Rounded (per Table 1)		2			3			3		
		Strong			Adequate			Adequate		



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Management and Governance

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THFC Management

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 plus assistant RM – long experience at other lenders – up to 6 yrs at THFC
- Treasury team – 5-10yrs THFC experience – recent recruitment
- Security charging team – qualified solicitor, 4 yrs THFC, assistant 14 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 - 18 yrs THFC
- 4 other Finance team members recently recruited (increase by 2)
- IT Director recently recruited
- Qualified solicitor recruited to company secretarial and compliance role

Credit and Risk Director
David Stokes
8 years

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

- Credit and Risk Manager – long experience at other lender – 5 yrs THFC
- Additional team member – 4 yrs THFC

THFC Non Executive Board Members

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George Blunden*	Non Executive Chairman. Former Chair of Southern Housing Group, Stonewater HA and Charity Bank	Appointed 2019
Scott Bottles**	Former Executive Vice President and Senior Credit Officer for International Commercial Real Estate at Wells Fargo	Appointed 2018
Shirley Smith****	Non-executive director at CREFC. Extensive experience in real estate and infrastructure finance	Appointed 2018
Will Perry	Director of Strategy : Regulator of Social Housing	Appointed 2014
Gill Payne *	Former Executive Director of Public Impact National Housing Federation	Appointed 2014
Peter Impey*	Various credit roles and former advisor to MHCLG on the first guarantee scheme. Nominee to AHF board since 2013	Appointed 2020
David Montague	Group Chief Executive L&Q	Appointed 2020
Guy Thomas***	Chartered Accountant, Non-Executive Director of Sainsbury's Bank, Formerly Group Finance Director of Principality Building Society	Appointed 2019
Tony King*	Recently retired Group Treasurer of Sanctuary Group	Appointed 2020

** Member of THFC Credit Committee*

*** Chair of THFC Credit Committee*

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

***** Senior Independent Director and Member of THFC Credit Committee*

Environmental, Social & Governance

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THFC

- THFC has positive social impact by providing competitively priced long-term funding to housing associations for the building of affordable housing
- Existing track record of innovation in green products
- Social Bond Framework; in the process of obtaining external party opinion
- Sustainability Reporting Standard; THFC is encouraging its borrowers to be early adopters
- Ambitious Sustainable Bond Framework to support the retrofit currently in workshop
- THFC's own footprint; new EPC 'A' building and low-emissions business model

Housing Associations

- THFC facilitating borrower sustainability strategies through providing low-cost funding
- Housing Associations combine high-level service provision to existing tenants with the development of new affordable homes
- All social housing stock to be EPC 'C' minimum by 2030
- Housing Associations are crucial to the fulfillment of four of the United Nation's Sustainable Development Goals:

Governance

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- THFC voluntarily complies with the UK Corporate Governance Code (2018) where relevant to a not-for-profit entity without listed equity
- Full risk management framework in place through the Board, Audit and Credit Committees
- Policies in place for monitoring compliance with Money laundering, Bribery Act 2010 and other relevant law
- Conflicts of interest considered at board level
- Board member maximum tenure 9 years (Chair 6 years)
- Regular refresh of board together with periodic, independent, board effectiveness reviews
- Succession plan in place

THFC Sector Thematic Review

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- **Covid** – Increases in rent arrears did not materialise in 2020, in part due to the expanded uptake of Universal Credit. Risk of future increased unemployment persists, as well as the impact of general economic distress caused by Covid disruption, **but HAs have proved resilient/counter-cyclical to date**
- **Remediation and fire safety.** Growing trend. Associated costs continue to be an issue for affected HAs, with 2021 expected to see implementation of the Fire Safety Bill and any recommendations from the Grenfell Inquiry, increasing pressure on HAs to complete works
- **Decarbonisation.** Government target for all social homes to be EPC 'C' minimum by 2030, in addition to the phase out of gas boilers by 2033. Costs of stock decarbonisation estimated at over £100bn, and lack of clear financial pathway remains a future challenge for HAs
- **Sales Risk and sales market confidence.** House prices continue to rise, but current fears of market confidence tailing off, particularly after the Stamp Duty holiday ends in March. Anticipated development in 2020/21 36% lower than 19/20 forecasts, **with HAs reducing outright-sale development in favour of renewed focus on core social activities**
- **Government Policy.** Implementation delayed by Covid, but pipeline of new policies on Right to Shared Ownership, the Planning White Paper, new Help to Buy scheme(s)? and AHP. Planning WP in particular has faced opposition over perceived relaxing of building standards. **All have the potential to significantly impact development programmes and funding requirements of the sector**
- **Brexit** Little widespread impact so far (outside of Northern Ireland), but 'slow burn' trade disruption could still pose challenges for supply chains and/or employment, as well as tariffs on construction materials
- **'New normal' working.** Relative success of remote working among HAs and likely ongoing need for it due to Covid means the 'new normal' will continue to be a feature of the work for HAs, with a number incorporating into long-term business strategy already

Sector Credit Risks

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- **Covid** – The main concern early in 2020 but the feared major loss of rents did not materialise, with HAs proving highly resilient and counter cyclical. Our M/I shows only a modest rise in rent arrears across the THFC portfolio. HAs have deep housing management skills, and have supported tenants accessing housing benefit/Universal Credit, which underpins rental income

- **Fire safety** – Remediation costs are significant for affected HAs (particularly those in City Centres), with new works emerging as a result of intrusive surveys. Cladding and non-cladding related expense, coupled with prudent Covid assumptions, have manifested themselves in many of our borrowers forecasting lower levels of interest cover over the next 5 years

- **Sales** – One of THFC's major concerns in 2019/20, but HAs had already cut back on market sale development early in 2020 due to a cooling market, and cut programmes again more recently, because of the need for substantial investment in existing stock. (Regulator quotes "market facing development down 40%" and "forecast market sales receipts over the next 5 years down £6bn")

- **Cash flow strain** – Sector remains liquid, having prepared for a hard-Brexit, but fire safety expense, catch-up on repairs and maintenance, and development (which restarted Autumn 2020) see higher debt levels than previously forecast. Sales cross-subsidy continues to provide a means to fund affordable rented units, but at lower subsidy levels than before. Where sales do feature, unemployment levels/mortgage availability continue to be important risk points

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THFC Limited

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THFC Limited Loan Portfolio

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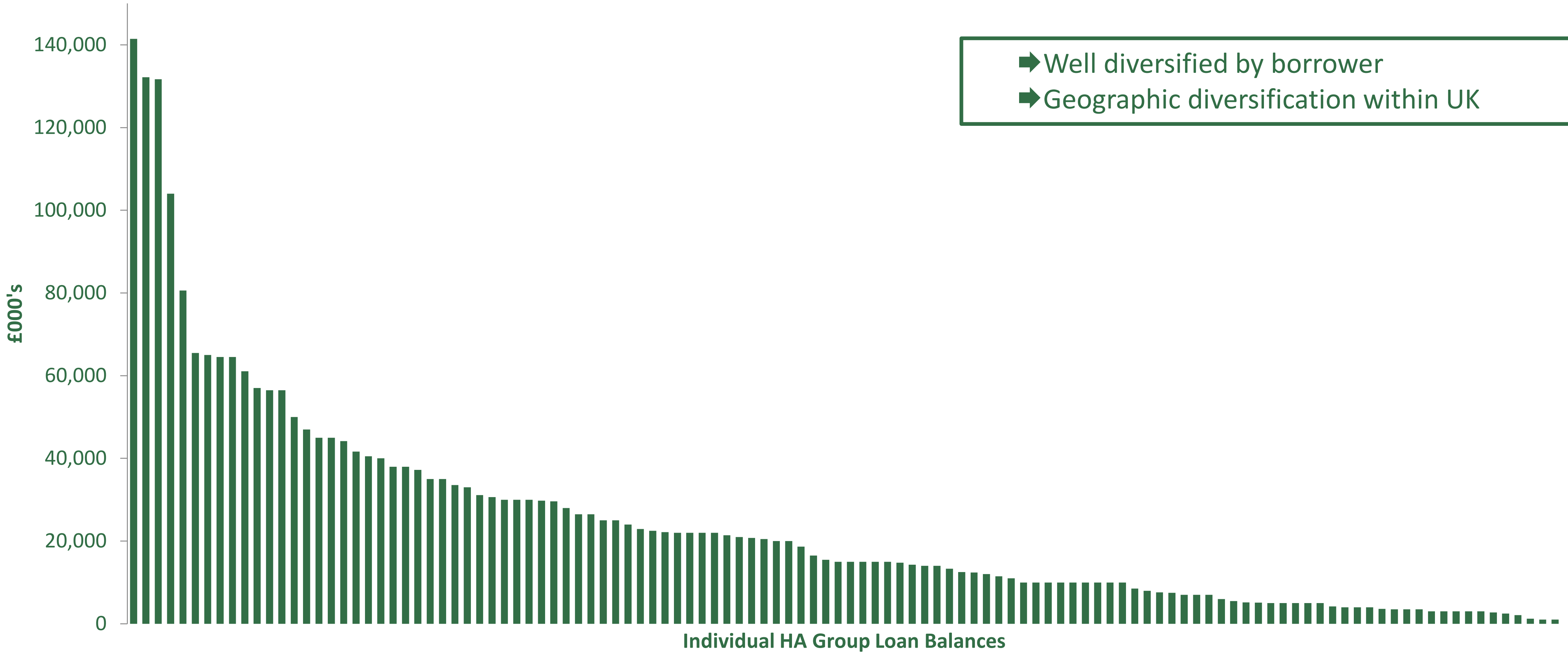

- Well diversified by borrower
- Geographic diversification within UK

THFC Limited — Exposure balances by Borrower (Group) at 31 March 2020

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Strong Over-Collateralisation in THFC Limited
Fixed Charge Asset Cover – 31 March 2020

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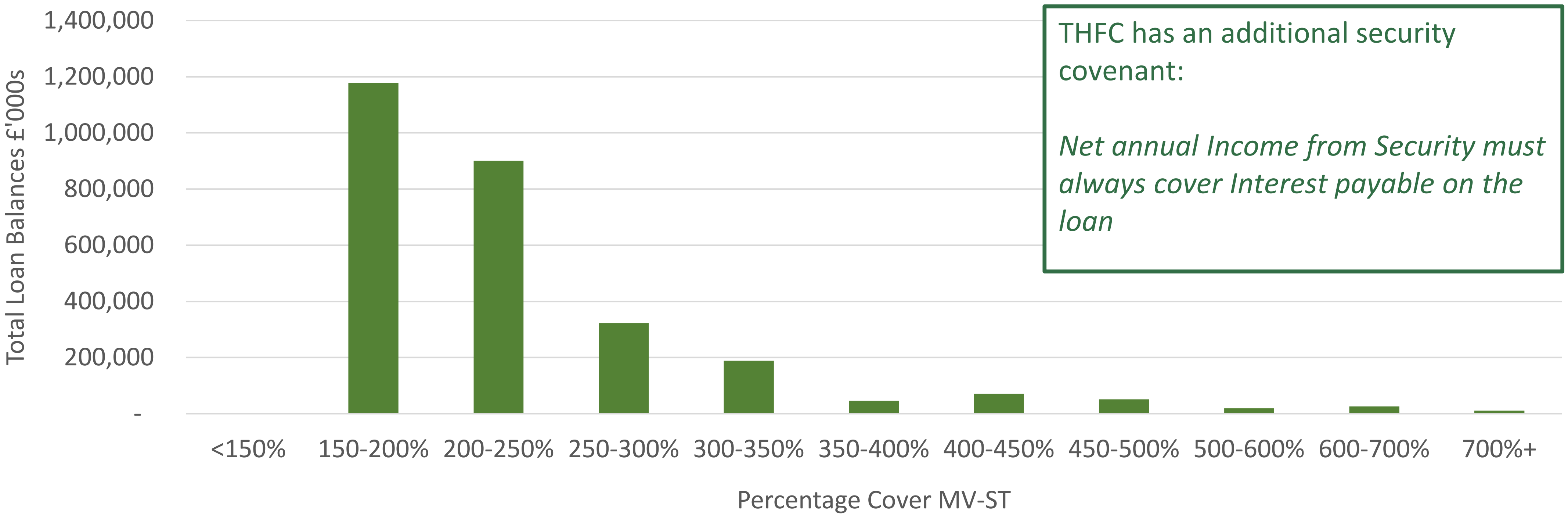

THFC has an additional security covenant:

Net annual Income from Security must always cover Interest payable on the loan

- 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

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Loans with Bespoke Liquidity Support

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- THFC Limited – all loans funded by rated bonds, and a number of additional loans, have bespoke liquidity support
- All new loans in THFC Group since 2014 (including THFC, AHF and bLEND) have debt service/liquidity reserves
- 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
- Over 60% of the THFC Limited portfolio has bespoke liquidity support – projected to rise to over 65% within 5 years

Loans with No Bespoke Liquidity Support

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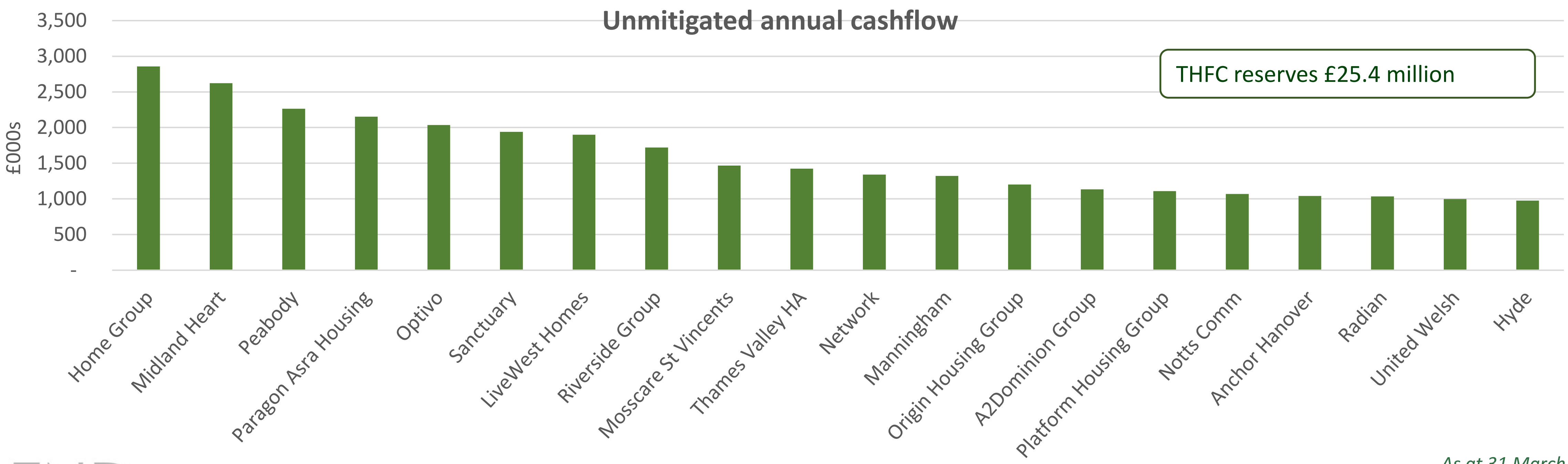
- Loans funded by Debenture Stocks and bank loans
- THFC can utilise its own reserves to temporarily cover cash-flow shortfalls while enforcing security in relation to the defaulted loan and realising proceeds of sale
- Key metric for each borrower – **total annual cashflow due, with no liquidity risk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



As at 31 March 2020

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bLEND track record

- bLEND now well established and Moody's credit process working well
- 2047 and 2054 series now both of benchmark size
- 14 borrowers
- £865m issued to date — portfolio originally targeted to reach £1bn within five years
- £145m of deferred draw downs arranged in 2020 across 4 transactions
- Fee income flows to THFC Services via Management Services Agreement
- Focus on selective growth within the target client group

bLEND rated A2 by Moody's

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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 (subject to concentration limits)
- 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, based on the distribution of Moody's public HA ratings
- A2 builds in resilience in case of UK Sovereign downgrade or Social Housing sector downgrade

bLEND – Underlying Borrowers

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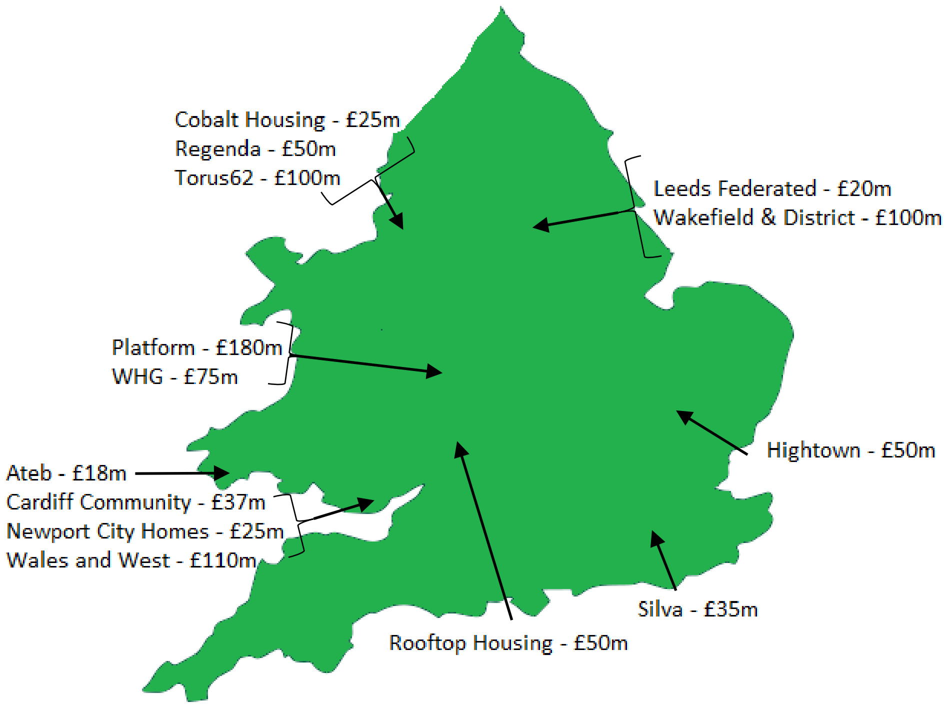
- Geographically diverse portfolio with a focus outside of London.
- Growth to 14 borrowers from 6 at Mar 20 year end including 4 borrowers new to group – Wakefield, WHG, Rooftop, Cobalt
- Development plans are for predominantly affordable housing with limited exposure to outright market sales
- Loans are always fully secured by either cash or Property Security
- Borrower business model focussed on predominantly social and affordable housing

Further info available at https://blendfundingplc.com/portfolio-data/

Balance between customer confidentiality with transparency. Will continue to try to optimise information on website based on public information



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Conclusion

Conclusion

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- HAs have proved their resilience and counter-cyclical benefits through the Covid pandemic to date. 2021/22 will prove the real test
- Exposure to sales risk still there, but moving down the risk priorities
- Remediation and decarbonisation are moving up the priorities
- Much of ‘novel’ Government policy to be tested. Questionable how material it will be to risk profiles

- Solid financial performance: Group reserves doubled in 5 years. Now the largest mutual lender to HAs
- Group has issued approaching £4.25Bn of rated bonds since 2006. Working on it’s 3rd £1Bn+ project: bLEND
- bLEND has delivered 3 maturities in a little over 2 years and 14 HAs to date building a portfolio of geographically diversified non-sales centric HAs
- 2021/2 will build on a number of ESG themes