Forward planning

A lot can change in a quarter of a century. Paul Hebden speaks to a lender with his eye on the future of housing association finance.

The word on the street in the City hints that there is increasing volatility at an end to the easy relationship between housing associations and lenders.

A mature lending market based on fixed rate 25-year loan finance is unlikely to expand beyond the present or so institutions currently prepared to lend to RSLs. An already over-concentrated social housing finance sector is tightening further, not larger.

Financial directors about to sit their wrists need not worry, if it is not the death of the world, merely the product of an approach to lending that is becoming slightly outmoded. Instead they need to look to the future - to the next quarter of a century to be exact.

Innovation has been the central concept ever since housing associations first went cap-in-hand to the City asking banks to fund their operations. And there is no reason why viable funding options cannot continue to be developed, so long as RSL lenders are prepared to continue innovating.

The Housing Finance Corporation, now five months into the job as chief executive of The Housing Finance Corporation, "looks to the future, it helps to have an understanding of the past," he says. "If you look back 25 years that takes you back through all sorts of changes, it takes you back to the oil crisis."

His point is that a lot can change over the time scale that traditional housing association loans operate.

The Housing Finance Corporation was originally set up to facilitate lending to the RSL market, it now acts as a catalyst for the lending market.

And in a changing funding environment, Mr Williamson plans to put THFC ahead of the game.

"Our role now is to take stock of where we are and what we've got. We've got an enormous amount of critical mass behind us, we've got 133 different RSLs that borrow from us, we have £1.5 billion of owned assets and three substantial management contracts, including Sunderland Housing Group," he explains.

"But we need to refresh our ideas, and our funding ideas; and make them more relevant. We've been going through an introspective period of looking at what we do well and then looking to reposition ourselves within the market," he adds.

In future we could see more housing associations getting into a credit rating, with bond finance increasing a part of the funding packages to which RSLs turn.

THFC is unlikely to be able to compete with the traditional lenders using fixed rate loans.

"I would like to see THFC jump a funding generation to take it from a reactive identity back into market leading again. There are things we can do in the capital markets from a rated sense that are additive," he says.

"Funding over 25 years is a very long time and you have to plan ahead for that. That should mean that you diversify your funding more."

Time and again lenders point to the sector's revenue stream as the reason it is seen as such a safe investment.

But there are systemic risks which will increasingly play upon the minds of lenders as the annual round of housing association lending comes around.

Rent restructuring is one thing, uncertainty over the regulatory regime is another. The perennial concerns over where the money comes from and what happens if something goes wrong will continue to dominate the decision-making process for lenders.

But the nature of an over-concentrated market is such that if something suddenly appears wrong with the sector, the funding could dry up quickly.

Mr Williamson says: "My view is that if you are involved in a particularly concentrated type of sector then you have to address particular types of risk."

"RSLs are capital intensive borrowers, if you area financial director of an RSL and you are continually coming to the market year after year with a particularly large capital funding demand there will come a point that the existing players will say "no I can't do that."

The financial bottom line may show healthier figures than ever, your organisation may be going from strength to strength, but if the lenders suddenly lose confidence in a sector things can turn nasty."

"My experience is that it can happen and it takes you by surprise," Mr Williamson says. He believes that the solution lies in diverse funding mechanisms.

"A prudent financial director should always plan for that happening. Funding over 25 years is a very long time and you have to plan ahead for that. That should mean that you diversify your funding more."

Western countries have already moved to more diverse funding mechanisms, Mr Williamson says: "The capital markets are an efficient way to source cost-effective fixed rate funding particularly if you have a strong credit rating. That's an important contribution to how you would get true diversification."

"Add to that phenomena like the euro, or the traditional lenders using fixed rate loans."

More and more associations are starting to realise that the easiest way of putting your eggs in one basket and just borrowing 25-year fixed loans can have downsides, he says.

So the financial director who can look to the future is likely to better weather panics the City institutions are happy to do business with.

And a diverse range of funding mechanisms should protect against any sudden loss of confidence experienced by traditional lenders.