THFC

Comments from The Housing Finance Corporation Limited ("THFC") on "A Policy Framework for Strengthening Oversight and Regulation of Shadow Banking Entities" dated 18.11.2012.

Background

THFC is a fully independent "not for profit" non-bank financial institution that recently celebrated its 25th anniversary. THFC provides long term secured lending to Housing Associations in the UK, and funds itself through the Bond market (THFC has enjoyed an A+ S&P rating for 8 years), and also via the European Investment Bank.

To underline the need for non-bank long term sources of borrowing, statistics from the UK Regulator, the Homes & Communities Agency, revealed that of the £3bn new credit raised in the Social Housing sector in the 6 months to September 2012, only 23% came from traditional bank lenders. THFC's own research conducted Dec 12 indicated that c30% of Bond finance raised in the sector in 2012 was used to repay existing bank lending. THFC's role as an "aggregator" provides an indispensable service to those housing associations that are unable to, or do not wish to, issue bonds in their own name.

THFC's lending to its clients is matched precisely to the maturity of the underlying funding i.e. it does not engage in any maturity transformation. THFC's loans outstanding amounted to GBP2,882m at FYE 3/2012. Formed as an Industrial & Provident Society, THFC has a capital and reserves of GBP12.0m.

Comments on Q1

We agree, and in particular concur that organisations such as THFC that do not engage in maturity or liquidity transformation provide an important and valuable alternative to conventional bank financing and on terms that support the social purpose of the Social Housing sector.

Comments on Q2

We agree that the economic function based approach offers considerable advantage over that based on legal form alone, and that the five economic functions identified appear to capture the key risk areas.

Comments on Q3

THFC would fall outside of the definition of shadow banking as set out in the Policy Framework, but as a dispassionate observer, the proposed information items seem reasonable and proportional. As is typically the case, it will be important to ensure that the regularity and granularity of the underlying data gathering is appropriate and in this context a risk-based approach could provide useful differentiation between institutions.

Comments on Q4

On the matter of the Policy Toolkits we note that the comments relating to leverage (3.2.2 Tool 4) (3.2.3 Tool 1) are in the context of short term funding, and market intermediaries. In this regard, we would want to be certain that any subsequent detailed wording did not inadvertently capture long term lenders such as THFC, that whilst leveraged, do not engage in maturity transformation.

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Comments on Q5

In the context of the UK, our over-riding concern is to argue that non-bank lenders, that do not engage in maturity transformation (and that provide borrowers with an essential alternative to banks), should not fall under the proposed regime.

Conclusion

With the banking industry driven by the need to provide superior returns to shareholders, not-for-profit organisations such as THFC deliver a consistent, economical and reliable service that is closely aligned to the "social good" objectives of the Social Housing sector.

Were the new regime to capture such non-bank entities, the probable regulatory burden on what are typically small organisations could well render them uneconomic or uncompetitive, and thus limit the choice of lender available to a borrowing community that underpins the Government's housing strategy.

We would be very pleased to discuss THFC's role in the context of the Shadow Banking consultation with you in more detail.

Please address any queries on this submission in the first instance to david.stokes@thfcorp.com

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