



Ministry of Housing,
Communities &
Local Government

Private Rented Sector Housing Guarantee Scheme



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Ministry of Housing, Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

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Private Rented Sector Housing Guarantee Scheme

1. Project Eligibility

- 1.1 Guarantees will only support projects that will deliver additional new-build private rented homes.
- 1.2 Minimum size of project: Total project to have a minimum value of £10m. However the “project” can comprise of more than one development site, which cumulatively meet the minimum value requirement.
- 1.3 Type of property and mix: All standard new-build residential properties permitted.
- 1.4 Units must be used for private rent for the period of the debt guarantee. Borrowers must agree to use “best endeavours” to ensure that properties are actively marketed for rent.
- 1.5 Guaranteed debt only available from practical completion/purchase of completed units, but a letter of comfort that the project has qualified for guarantee support may be issued to support borrowers’ ability to access development finance.
- 1.6 Borrowers will need to detail how property and tenant management services will be provided.
- 1.7 Borrowers will need to be classified to the private sector, or a Private Registered Provider as defined in the Housing and Regeneration Act 2008 Section 80(3) (or equivalent in the Devolved Administrations).
- 1.8 Properties will need to be located in the United Kingdom.

2. Financial Structure

- 2.1 Maximum loan/equity 80/20.
- 2.2 Minimum projected rent/interest cover: Net – 1.2:1. Projections must be supported by approved professional property advice, addressed for the benefit of the lender and the guarantor.

3. Security and Recourse

- 3.1 First fixed charge over the project assets (and first floating charge over other company assets where a special purpose vehicle is used) including a formal assignment of rents.
- 3.2 Loan not to be greater than 80 per cent. of value, evidenced by professional valuation addressed for the benefit of the lender and guarantor.

- 3.3 Minimum rent/interest cover at all times: Net – 1.2:1.
- 3.4 First fixed charge over additional approved assets if required to meet minimum debt/equity and interest cover ratio.
- 3.5 Annual revaluation obligations.
- 3.6 Security release permitted when asset cover exceeds 200 per cent., evidenced by professional valuation.
- 3.7 Recourse limited to project assets and contributed capital.

4. Fees and Costs

- 4.1 Approved Borrowers will be required to meet the costs of arranging the relevant Guarantee, together with a Guarantor fee payable alongside each interest payment.
- 4.2 Approved Borrowers will also need to pay an administration fee to cover pro rata their share of the administration costs of managing and monitoring the facility.

5. Covenants

- 5.1 Maintenance of loan to value and interest cover covenants.
- 5.2 Financial and property performance monitoring reports.
- 5.3 Standard financial and corporate covenants for long term secured debt facilities.

6. Documentation

- 6.1 Standard loan and security documentation to be entered into.

7. Application

- 7.1 Borrowers will be required to complete a standard application form which will detail the information required to support the application.
- 7.2 All applications will be subject to full due diligence and approval prior to any offer of a debt guarantee being made. Any such offer will be at the complete discretion of the Guarantor. No offer nor commitment to provide a Guarantee is implied by the publication of these scheme rules. The Guarantor reserves the right to amend the scheme rules at any time.

Frequently asked questions (FAQs)

Note – These FAQs are intended to supplement the scheme rules.

Q1. How do I apply?

A. The Government has appointed PRS Operations Ltd, a subsidiary of Venn Partners LLP, as delivery partner for the Private Rented Sector Housing Guarantee Scheme. Interested investors and borrowers should contact Venn Partners (<http://www.venn-partners.com/prs>).

Q2. How long will the debt guarantees be available for?

A. Applications for the private rented sector debt guarantee must receive approval in principle from Government by 31 December 2018. The guaranteed funding will then be raised after the project is completed, in line with scheme rule 1.5.

Q3. How long is the debt for?

A. The debt will be available for up to 30 years. If there is significant demand from borrowers for shorter term debt the Government and PRS Operations Ltd would consider this, subject to satisfaction with the refinancing risk at the end of the guaranteed debt period.

Q4. Is there a maximum size of debt?

A. There is no maximum debt size.

Q5. Where is funding under the Scheme available?

A. Funding is available for projects in England, Wales, Scotland and Northern Ireland.

Q6. What do you mean by “classified to the private sector”?

A. Borrowers must not be classified to the UK public sector. Furthermore, the guaranteed debt must not be classified to UK public sector debt. The exception to this is that Private Registered Providers (i.e. registered non-Local Authority Housing Associations in England) - who were reclassified to be public corporations by ONS on 30 October 2015 – are to remain eligible for the scheme. Their debt is classified to the UK public sector but Government aims to return Housing Associations to being classified to the private sector in future so they are to remain eligible for programmes that they could access before the reclassification decision.

Q7. Does this finance cover the development period?

A. No. Finance will be available pursuant to rule 1.5. Government may offer a letter of comfort to help the developer secure development finance.

Q8. What do you mean by “practical completion” under rule 1.5?

A. Finance will generally be available once projects have stabilised. Stabilisation will be achieved when the project has met the business plan base case projections

presented by the borrower and agreed by PRS Operations Ltd and the guarantor in terms of, but not limited to, occupancy, rental levels, gross income and net operating income.

Q9. Are there any restrictions on the start or completion date of properties provided as security?

A. The scheme requires fixed asset security, and will look for security from the assets being built, which must have started on site after 20th June 2013, as per the answer to Q12. The scheme will consider accepting existing PRS stock that pre-dates 20th June 2013 as security where it can be demonstrated that this stock was built for and is held for private rent and PRS funding provided in respect of that pre-existing stock is used for the construction of additional private rented sector homes. Any such decision would be subject to full due diligence and credit assessment, to ensure value for money for the tax payer.

Q10. What about asset management flexibility? Can I substitute assets?

A. Some asset substitution will be allowed, subject to substituted assets being equivalent in value and rent (and being no more than 10% of the total value in aggregate). Above this, further scrutiny will apply.

Q11. If I sell on the portfolio/properties, does the benefit of the guarantee pass to the new owner, or do I have to repay early?

A. The guarantee applies to the approved borrower against specific assets. There will be some flexibility to substitute assets (see above), but the assets cannot be sold on with the benefit of the guarantee.

Q12. What do you mean by “additional new build”?

A. Under the scheme rules, “additional new build” homes can include all homes that have not started on site at the point of debt guarantee application or that have started on site at any point since 20th June 2013. In all other respects they will need to meet the definition of start on site used by the HCA (set out in the current Framework Delivery Agreement and in the Capital Funding Guide).

Q13. Are conversions from other uses, such as offices, eligible for the scheme?

A. Yes. Projects involving conversion from commercial to residential property will be eligible under the scheme as they will provide additional housing units and support jobs.

Q14. Are there exclusions? For example, is purpose-built student housing permitted?

A. Yes, there are exclusions. Student housing, specialist supported housing/care homes and serviced accommodation projects are ineligible for funding under the scheme, which is designed to stimulate and support investment in and development of professionally managed, high quality and well-designed homes built for residential private rent (rather than commercial or care purposes).

Q15. What do you mean by minimum value in rule 1.2? Is this the transactional value or the gross development value?

A. This is the PRS investment value, based on a PRS investment valuation as evidenced by professional valuation, as opposed to the 'break-up' valuation. This valuation also applies to scheme rules 2.1 and 3.2.

Q16. I'm a developer, who would also like to be the long term PRS investor. Can my equity contribution be funded from my developer's profit?

A. If the developer is also the investor, the developer/investor will still only be able to access an 80% loan to value loan at the maximum. The equity funding will need to come from the developer/investor, whether it comes from development profits or other sources. The minimum security requirements at 3.2 and 3.3 must still be met.

Q17. My rent/interest cover will be lower than 1.2:1 until the building is fully let – is there an initial period during which this is acceptable? How long? Are there any other interest cover requirements?

A. The loan may be drawn down pursuant to scheme rule 1.5, before the scheme is fully let, although Government will look to cover any lettings risk using the same methods used by development debt financiers e.g. guarantees, cash collateral. The amount of such assurance will depend on each specific scheme and the expected lettings period. Approved Borrowers will be required to maintain a deposit equivalent to 12 months' interest cover, kept in a liquidity reserve account throughout the life of the loan.

Q18. Will the letter of comfort be unconditional?

A. No. The letter of comfort will be indicative and non-binding. Final commitment will be subject, inter alia, to the Government being satisfied that the proposed scheme was delivered as planned and approved and that the approved credit profile has not materially adversely changed.

Q19. Will there be an application fee? If so, how much will it be and when will it be payable?

A. Yes. The application fee is part of the arrangement fee. It will be an upfront fee payable at the point of initial approval of the loan. This application fee will range from £5,000 up to a maximum £25,000 depending on the size of the loan approved (calculated on the notional amount of the approved loan and subject to the £5,000 floor and £25,000 cap).

Q20. Are there any break costs if I am approved, but then later change my mind and no longer wish to take up the guaranteed debt funding?

A. Yes. A break cost in an amount equal to the application fee would be charged should the potential borrower receive the upfront financing comfort letter, but later decide not to take up the guaranteed funding, or if the project has materially deviated from the initially approved one. For the avoidance of doubt, this break cost fee is chargeable in addition to the application fee.

Q.21. How are the administrative costs of operating the scheme covered?

A. The administrative costs of the scheme are passed onto borrowers on a pro-rata basis, and may vary over time, depending for example on the size that the scheme achieves.

Q.22. Are there any costs associated with pre-paying a loan?

A. Yes, since the loans are 'match-funded' through the issuance of fixed rate Government guaranteed bonds, any pre-payment under a loan will need to be sufficient to pay the pre-payment amount that will become due on the bond. This amount includes a make-whole for future interest that would have been due until the scheduled maturity of the bond – this is known as 'spens' in the bond market.

Q.23. Will there be a requirement for a borrower under the scheme to establish any reserve amounts?

A. Yes. In addition to the liquidity reserve account each borrower will be required to set up both a capital expenditure reserve account (to meet forecast and additional expenditure on the asset) and a sinking fund account (to meet any shortfalls or additional requirements in respect of facility covenants such as loan to value and interest cover ratio covenants).