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| Owner: | Director of Finance |  | Next review date: | January 2021 |

Approved by: Executive Committee

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| **LOANS AND GRANTS POLICY – FINANCING TO MEMBER SOCIETIES** |
| The Abbeyfield Society has a Loans and Grant Policy, for which the procedure attached, has been updated to reflect our experience in applying this policy and changes to market conditions and investor requirements. The purpose of the policy is to support the strategy for growth by making financing available to Member Societies to support projects in certain circumstances. We intend to create this growth through investing in new developments, new services and refurbishment of some existing houses and homes, all within our overall Charitable purpose. Under the new policy, capital is generally subject to repayment, thus allowing capital to be recycled over a period of time through re-investment in multiple projects.The objectives of this policy are to:* Clarify Abbeyfield’s strategy and process as regarding financing of Member Society schemes and the appraisal thereof.
* Engender and accelerate sustainable resident growth.
* Enhance the governance and management as relating to developments.
* Encourage partnerships across All Abbeyfield as a means of achieving the above.

We are pleased to have lent money to Abbeyfield Southern Oaks and Worcester to help these Member Societies develop, as well as extend loan duration to other societies. This policy applies to the Abbeyfield Society and all Abbeyfield Member Societies. It excludes International Members as they provide services in a different legal environment, when considering Abbeyfield’s financing options. |
| **Abbreviations** Abbeyfield = The Abbeyfield Society managed operationsSociety = Member Society **Policy principles**It is the goal of Abbeyfield to facilitate growth across the whole organisation in support of the development strategy. This policy will consider the role of loans and grant contributions to achieve this, and support the ethos and quality standards of the movement.It will be a general principle of this policy, to seek to finance Member Society projects in a manner that allows the same Abbeyfield capital to be recycled over time. Abbeyfield will consider, with the Member Society, how best to finance the Abbeyfield element of the proposed scheme whether through other support, loan, or grant – in that order.Members are encouraged to contact TAS as soon as the believe there may be a loan or grant requirement – early involvement will help the overall process and speed decision making.To help Member Societies with their financing requirements, please contact our Finance Director, Nigel Hopkins, who will be able to help you with the relevant options. Abbeyfield has created a list of banks and financial institutions that Members should work with, and only if those organisations are unwilling to lend to the Member then Abbeyfield may consider lending. The list of banks and financial institutions currently is:* Barclays – their indicative terms for Members as included in Appendix A
* Charity Bank
* Unity Bank
* Clydesdale.

In addition, Abbeyfield and Member Societies are also looking at unused Pooled Resources to help Member’s finance projects. More details on this scheme will be issued when it is available.Funders and regulatory authorities are demanding a more professional approach to a large developments and related financing. There is a trend for larger developments taking a number of years to get full funding and regulatory approval. TAS is well placed to offer assistance to Member Societies on this process. If you are considering a large development, we will encourage you to contact us at an early stage, so that we can offer assistance.If Abbeyfield supported financing is required, it will primarily be aimed at bricks and mortar projects that are a good fit with the Abbeyfield strategy and generate a healthy surplus. This will be reviewed in the context of each application. Loans to Member Societies will be weighted towards those that are in line with the Abbeyfield Strategy. . Member Society pricing policies should generate sufficient reserves to finance major maintenance and refurbishment. Applying Societies should demonstrate that a sufficient capital portion of the proposed scheme will be raised through their own equity capital and/or external finance. Once you have explored external finance, and if there is still a short fall, TAS will consider your application. Abbeyfield secured loans will not exceed 65% of the actual costs of the project, and will only be made provided Abbeyfield has the funding to capacity to make the loan.The applying Society is expected to consider using under utilised assets, in their own or nearby regions first. In formulating their project funding proposal. Abbeyfield is also looking at setting up a reserve Pooling arrangement which will help fund Member Societies developments etc. For applications over £250k, awards will only be made after a significant rigorous appraisal requirement of:* The financial information;
* The proposed management of the project;
* The Society’s governance structure;
* The current record and ability to generate surpluses within the applying Society;
* The experience of volunteers; and
* Proposed performance covenants.

The level of such an appraisal will vary in line with the project size and complexity.In addition to the requirements for loans over £250k, a new category of loan has been created for those in excess of £1m. For loans over £1million, the applying Society will be asked to demonstrate their position with external funders. Applying Societies should be aware, that in order to achieve its strategic aims, Abbeyfield needs to carefully balance cash demands between projects that help grow the Abbeyfield Movement and projects that are specific to Abbeyfield’s own strategy.**Emerging market conditions:** Since the last version of this policy was issued in 2018, overall market conditions have become more unstable. Inflation which was <2% is now around 4% and may become higher and interest rates which have remain flat since 2009 are on the increase. Typically interest rates rise with expectations of inflation and Members need to assess the impact of these changes on their finances and loan requests. For loans in excess of £1m, applying Societies will need to demonstrate that their business model can withstand specific stress testing. A significant risk of sales of new units is increasing while Brexit is being considered. |
| **Loan Policy**All financing applications will have to be recommended by the relevant Partnership Manager.***Loans up to £100,000:*** These loans will be administered from Abbeyfield’s national office and require approval of the CEO. These loans will bear interest (see below) with capital repayments spread over up to five years. The minimum level of appraisal information required will be specified by application but will usually be much less than that required of a significant appraisal.***Loans of £100,001 up to £250,000:*** The supporting documentation will be reviewed by the Finance Director and require approval of the CEO. These loans will bear interest (see below) with capital repayments spread over up to ten years and will be secured. The minimum level of appraisal information required will be specified by application but will usually be less than that required of a significant appraisal.***Loans of £250,001 plus:*** These loans will bear interest (see below) with capital repayments spread over up to ten years and will be secured. All such loans will require a Significant Appraisal application. The supporting documentation will be reviewed by the Finance Director and presented to the Abbeyfield Board for approval.The Finance Committee has agreed that the minimum interest rate, on these loans, will be 2.65% plus LIBOR, which is a discount to the commercial rate offered by Barclays. Any loan which is not utilised within three months of being granted may be revoked and the Member Society may be asked to submit a revised loan application, with revised up to date financial information. A non utilisation fee of 0.4% will be applied after the three month term, if the member wants to keep the loan application in place.Should the loan covenants be breached, the Finance Committee has the right to set the rate at a penalty rate from the date of breach. The penalty rate will be that applying at the time of formal sanction. The penalty rate will be set formally by the Finance Committee from time to time, and is currently 15%.A minimum contingency of 10% must be included in all loan requests, which may well offset the impact of the stress tests. The application needs to state as to how the contingency may be used and assessed on an ongoing basisOn lending limits – the RCF in place with Barclays limits the amount of on lending to Members to be £14m to include all outstanding capital and rolled up interest.***Bridging loans:*** Bridging loans will not exceed £100,000 and will require a recommendation by the relevant Partnership Manager. The supporting documentation will be reviewed by the Finance Director and presented in line with the above limits for approval. These loans will bear interest of LIBOR plus 2.65%, and must be secured, and will have a maximum term of one year. If not repaid as contracted the bridging loan will be in a penalty position, unless refinanced into a term loan with Abbeyfield, in line with the loan rules and processes above, and Abbeyfield will charge a penalty interest rate and will recover its funds against the security. |
| **Applications**3) Appraisal. 1. **Funding requests up to £250k** will require a basic appraisal. A Basic Appraisal will include:

1. An Executive Summary2. Purpose of Scheme, Changes or Additions and context including:a. Local Councils and other stakeholders / partnersb. HCA grant availability if appropriatec. Tenure: Additional Number of Rented, Leasehold, Extra Care, Dementia Etc Units to be created OR definition of Major Works required. d. Independent Valuation Report for Leasehold Unitse. Demographics: Elderly population age analysis and demand for services in region if appropriate3. Rent and Domiciliary Care Fee Levels locally if alterations will be impacted4. Strategic Fit within the recognised Abbeyfield improvement Strategy5. The Society’s Governance and Management Structure / Capability to manage the improvements6. Quality and suitability of Volunteers and future ambition7. Fundraising Strategy and contribution potential 8. Proposed closures and/or mergers, if any, forming part of the business case9. Abbeyfield managed and independent houses locally, if impacted10. Scheme Design or Definition of Improvement and compliance criteria / fit11. Summary of Construction and Development Costs12. Status of Planning Application, if any, and timelines of proposed programme13. Project Sponsors14. Finances:a. Proposed altered Rents, Service Charges, Care Fees and any other revenue criteria changesb. Salary projections and estimated Operating Costsc. Operational Business Model including I & E and Cash Flow statementd. Estimated positive effect on Society’s Financial Performance or service deliverye. Latest existing financial performance including last Audited Accounts and/or latest Management Accountsf . Funding Structure of Project: Society’s Equity available, Bank Finance, Fundraising, Grants and funding request from The Abbeyfield Society (TAS) b) **Funding** **Requests between £250k and £1m** will require a significant appraisal. The business plan behind all major development projects must be compelling and a significant appraisal process will include the above and show the order of injection of finance* Society Equity,
* External Bank Funding
* TAS Loan

This application will contain a minimum of that information required in the standard application but the final executive summary will be in the latest development board appraisal format as in use in that time by Abbeyfield. It will be supported by a Balance Sheet, I & E and Cashflow Statement. This is straight forward where a distinct new development is being sought. Where the development is an overlay to an existing operation, then the appraisal will need to separate the incremental Cash flows and I & E as relating to the proposed development in their own right and have it appraised in the manner above. Additionally, a consolidated position will need to be presented.The application will also address how these factors support the application:* The proposed management of the project
* The Society’s governance structure
* The current record and ability to generate surpluses within the applying Society
* The experience of volunteers
* Where a loan is required to develop new units, as a condition of that loan, TAS will need to approve the marketing agents appointed by the Society.

c) **Funding requests over £1m will also require a significant appraisal.**  A formal due diligence and stress testing of the Member Society and loan application will be carried out by an external firm, reporting to both Abbeyfield and the Member Society. This will allow both sets of trustees to be aware of the financial strength and capacity of the member Society and how the repayment of the loan may be impacted by various events. For loans over £2.5m Barclays approval will be needed (this is part of the new on lending rules in the 2018 RCF) and TAS will insist on formal step-in rights to be included in the agreement.Loans of this level might require various iterations, for items such as contractors quotes, modelling and other funders agreements, therefore please allow enough time for the Abbeyfield executive to review and Finance Committee and Board timetabled meetings (as below).**Submission**All final applications to be forwarded to the Abbeyfield Finance Director and copied to the Abbeyfield CEO. Submissions must be received at least 21 working days before the Abbeyfield Finance Committee and respective Board meeting. They will be responsible for submitting the final application to the Finance committee and Board – a meeting with the Finance Committee and the lender will also be set up.  |
| **Legal & Other Fees**All costs incurred by Abbeyfield in formalising security and drawing up legal contracts will be borne by the Member Society. Should other professional fees be considered necessary to be incurred by Abbeyfield, these will be agreed in advance and are recoverable by Abbeyfield from the Member Society. For loans in excess of £250k a facility fee of 0.65% will be charged to the Member and will be payable in full at the time of loan agreement, to cover all related costs of the loan. |
| **Fund Monitor**For loans in excess of £1m for capital projects, Abbeyfield will monitor the project throughout its duration and periodically report the status of the project to the Finance Committee. This monitoring will be similar to that undertaken by the primary lender and Abbeyfield will, as far as possible, carry out their monitoring in tandem to minimise duplication.The Society will reimburse Abbeyfield; based on actual time and expenses incurred which will be charged at cost.  |
| **Grants Policy**All grant applications will have to be recommended by the relevant Partnership Manager.Outright grants will usually only be made in socially charitable developments as defined by the Board at that time.Grants will be secured. The Grant must be repaid in the event that a Member Society:* Sells the property
* Ceases to be an Abbeyfield member

The Member Society will have sole responsibility for insuring and maintaining the property to a standard acceptable to Abbeyfield. Abbeyfield reserves the right to have the property inspected as and when required. The Member Society will be required to carry out any repair work recommended by the inspection report within six months of the Member Society being notified.Grant applications will need an executive summary, an explanation as to how the grant will promote the charitable objectives of the Society and family, an outline of the key requirements of the grant and expected outcomes. The supporting documentation will be reviewed by the Finance Director and presented to the Abbeyfield Board for approval. |
| **Termination of loans and grants**Any loan or grant arrangements agreed by Abbeyfield may be terminated at any time by the Abbeyfield Board for the following reasons:-1. Default in the payment of interest or capital;
2. The society leaving the Abbeyfield movement;
3. The disposal in any way of the property involved in the project;
4. The creation of any subsequent charge or mortgage on the property without the prior consent of Abbeyfield;
5. The termination, dissolution or liquidation of the activities of the borrowing society;
6. Any material changes in the financial or other circumstances of the borrowing society as determined by Abbeyfield.
7. Failure to achieve or remedy contracted operational performance targets.

Over and above covenant and performance clauses, if loan repayments are not made according to the contract and no reasonable refinancing terms can be agreed, Abbeyfield will have the right to make such changes to the Society’s Trustees so as to provide TAS with assurance that the Society’s affairs will be managed in the best interests of both the residents and the Abbeyfield Movement.. This right would only be exercised when absolutely necessary. For loans in excess of £250k the Member Society will be asked to agree to a Step in Right protocol, as issued by the Legal Department.  |
| **Contract Formalities**All agreements reached will be captured in a formal agreement between the borrower and Abbeyfield. For loans under £1 million, these agreements will be prepared by Abbeyfield officers at Head Office, where the original document will be held, with copies made available to the borrowing Member Society.Formal agreements reached may include, but not limited to* Loan agreements;
* Management service agreements; and
* Rental Agreements;

For loans over £1million, Abbeyfield will instruct solicitors to prepare the loan documentation. The reasonable legal costs will be paid by the borrowing Society.Where there are two or more lenders invoked in the loan, then Abbeyfield will work openly with the other lenders and the Member Society to ensure that the best possible contractual arrangements can be made for the benefit of all lending parties. This process will include the open sharing of information which is not commercially reserved. |
| **Term of financing**The maximum available term for a loan will normally be ten years, with the rate of repayment to be agreed between the borrower and the Abbeyfield Board. However, the Abbeyfield Board will consider variations to this requirement and be flexible to the circumstances.Grant arrangements will be indefinite, subject to the Society remaining part of the Abbeyfield movement and retaining ownership of the property. |
| **Security**The borrowing Society will provide real security for the loan by way of a specific charge over the property being acquired and/or developed and/or a floating charge over the assets of the society. Where this security will be a material barrier to obtaining external finance, a position where the Abbeyfield loans are subordinated to the senior lender can be proposed as a part of the application and will form a part of the risk capital calculation. A negotiated position will need to be reached for all successful applications. |
| **Restricted legacies**In all cases where funds are made available for a specific project by direct donation or as a result of a legacy, they are subject to the wishes of such donors or testators involved with such funds.The day-to-day administration of the loans is the responsibility of the Finance Department who may request assistance from our Membership Directorate from time to time. Any application for use of these legacies will fall under the constraints and requirements of this policy.  |
| **Regulation**Abbeyfield is regulated by the Regulator for Social Housing and Homes England, who have a responsibility to ensure that the use of its funds represent Value for Money (VFM). This is why loan and grants can only be offered in support of the agreed Abbeyfield strategy. Abbeyfield needs to protect itself and the Movement from any losses that may occur on non-repayment of loans. |
| Forms and examples, for both standard and significant funding applications, are available from Abbeyfield Head Office upon request.Summary of approval authority limits as follows: |
| Policy to be updated every 2 years, subject to any regulatory or legislative updates. |

**Appendix a**

**Barclays Indicative Terms**

