

HOUSING FINANCE

# NEWS & VIEWS

EDITION 3 | NOVEMBER 2016

## Deregulating disposals - more questions than answers?

The bid to have RPs reclassified as private sector entities includes deregulation of the disposals regime. The principle set out in the Housing and Planning Act 2016 is clear: RPs disposing of social housing must notify the HCA after the disposal, rather than obtain HCA consent beforehand. But the commencing legislation must provide further details as well as bring this deregulation into law. When must notification be made? What detail must be given?

Once this deregulation begins, the sector will look to its effects. How will funders react – will there be an impact on loan covenants? (Probably, yes.) What will the impact be on social housing stock?

And, ultimately, what will really change? RPs will have to remember the restrictions that remain. Charities law, the Regulatory Framework and existing loan covenants may all continue to restrict disposals. As could any existing contractual restrictions – is tenant or lender consent required? Could a disposal trigger repayment of historic grant? Failure to meet such ongoing obligations may be an event of default, prompt an IDA and/or lead to downgrade.

We will address these questions once the new regime becomes law. In the meantime; do remember that this deregulation is not yet in effect. Until the commencing regulations are passed, the existing disposals regime must be complied with.

## Funding the Right to Buy

It is a fundamental principle of the voluntary extension of the Right to Buy to RP tenants that the RP will be compensated for the tenant's discount and that the property will be replaced. Where will this money come from?

The Housing and Planning Act 2016 includes powers to compensate RPs for the discount through the sale of 'higher' value vacant LA stock. Whether this money will be sufficient to fully compensate the RP for the RTB discount could be an issue. Equally if RPs are to use the RTB proceeds of sale to replace the property is this going to be sufficient to cover the full replacement cost? It is anticipated that these issues will be clarified in regulations, although when they will be available is unknown (and DCLG have advised the regulations are further delayed due to the Brexit vote).

Interestingly the National Federation draft guidance suggests that the compensation could be split as follows: (1) 70% on completion of the RTB sale and (2) 30% when the replacement property build is commenced. Will this split in compensation cause issues for the replacement property being started?

Furthermore, will this split work with existing loans? RPs should be aware that, in certain scenarios, loan covenants may require the borrower to put sale proceeds into a blocked account. Such loan covenants may not anticipate these proceeds being split. RPs entering into RTB transactions should, therefore, check their loan covenants carefully and discuss the RTB process with their funders.

## Upcoming seminars

The following seminars take place in our offices near London Bridge and are free to attend. For more information and to register to attend please visit [www.wslaw.co.uk/events](http://www.wslaw.co.uk/events)

Merger: Best practice - Tuesday 22 November 2016, 8.45 - 9.45am  
Covenant caution - Wednesday 18 January 2017, 8.45 - 9.45am  
Charging & Security - Tuesday 28 February 2017, 8.45 - 9.45am



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2016 WE HAVE ACTED ON  
NEW FINANCINGS OF  
£500 MILLION**

### SOME OF OUR RECENT WORK INCLUDES:

- **FRS102**  
Advising lender and RP clients on documentary amendments following the implementation of FRS102.
- **Longhurst Group Facilities**  
Advising Longhurst on new revolving credit facility and restated facilities for the group.
- **Four Housing / Bernicia merger**  
Acting on the merger of Four Housing Group with Bernicia Group, assisting Four Housing with the finance and governance aspects including due diligence and lender consents.

To find out more contact Louise Leaver, Partner at Winckworth Sherwood on 020 7593 5050 or [lleaver@wslaw.co.uk](mailto:lleaver@wslaw.co.uk)

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