

Appendix A

Julie Fletcher
Head of Housing Strategy
South Cambridgeshire Hall
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Cambourne
Cambridge
CB23 6EA

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Dear Julie,

Viability of development at Whittlesford Mortgagee in Possession clause in Section 106 Agreement

Like other housing associations, CHS heavily rely on borrowing from the private finance market in order to finance the delivery of new affordable housing. In order to raise that money it is important that CHS is able to provide the lenders adequate security, by way of the housing stock, to support the borrowing. In assessing the security the lenders would want to be able to repossess homes built for affordable housing and sell them on, without any restriction on valuation/occupancy in order to recoup unpaid debt. The lender may accept the need to allow the Local Authority a short time to nominate a buyer (an alternative housing association), thus maintaining the housing in the affordable sector, but this would not be more than a couple of months and some lenders may reject this completely.

Having a Mortgagee in Possession (MIP) clause in the Section 106 Agreement will address the lenders security concerns and is necessary if CHS is to continue with our affordable housing development programme. This will apply to all developments whether in existing towns and villages or in rural sites adjacent to existing towns and villages.

Another associated issue is the security cover covenant that CHS, like other housing associations, is required to have. The security covenants are based on Existing Use Value – Social Housing (EUV – SH) or Market Value – Subject to Tenancy (MV-ST) of housing properties used as security. The value of security for EUV-SH is generally c. £25k less than MV-ST value. Therefore, CHS's ability to borrow is significantly reduced if MV-ST value cannot be applied due to the restrictive conditions on tenure or if MIP clause is too restrictive. The result of this would be that either the number of affordable homes that CHS can develop would significantly reduce, and the same would apply for other housing associations, or that we develop in other Local Authority areas where the inclusion of an appropriate MIP clause makes the programme viable.

In addition to the loan issue for CHS, we rely on the sale of shared ownership homes to cross subsidise the development of rented homes, thus making a project including this one at Whittlesford viable. The mortgage providers lending to shared owners who are buying housing from us also require a MIP clause and without this the homes cannot easily be sold and the project is not viable.

In view of the above, it is important that South Cambridgeshire District Council include appropriate MIP clauses in your Section 106 Agreements and note that whilst

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a standard clause should probably be included to start each S106 negotiation off, different lenders adopt different views regarding the exact wording and some flexibility will be needed for Officers to agree specific clauses with us to satisfy our lenders.

For the avoidance of doubt, the absence of an appropriate Mortgagee in Possession Clause in the Section 106 for our development at Whittlesford will render it unviable and will cause CHS Group to cease developing affordable housing in South Cambs.

I am happy to discuss further any of the points above.

Yours sincerely,

Surjit Dhande

CHS Group Finance Director