Devonshires

Devonshires Quarterly Banking Update

February 2023

Person Profile: Julian Barker, Partner

I'm Julian Barker, Partner and Head of the Banking and Capital Markets Team.

I've been at Devonshires for nearly 18 years (almost two thirds of my career!) and a Partner since 2007. Before joining Devonshires, I worked at large city practices such as Allen & Overy and SJ Berwin, advising on commercial property finance and acquisition finance transactions. Some of the largest projects I worked on prior to joining Devonshires included the refinancings of Iceland Foods, City of London Airport and Chelsfield Group, the property developer, investor and asset manager led by the legendary property developer, Elliott Bernerd.

In my time at Devonshires, the Banking and Capital Markets Team has grown from 4 to 14 people. We are now located across our four offices in London, Leeds, Birmingham and Colchester and advise on all aspects of finance made available to Registered Providers.

I've been involved in some of the largest mergers in the sector over the last 15 years, starting with A2 Housing and Dominion in 2008 and most recently Optivo and Southern Housing Group last December.

I'm extremely proud and honoured to lead a wonderful team of dedicated, hard-working and loyal people, all with the common goal of "going the extra mile" for our clients!

Now that my wife and I are almost full time "empty nesters", I've got more time to indulge my unfulfilled sporting ambitions, playing hockey and cricket regularly (I still dream about being the next Ben Stokes!). I'm also a long suffering Nottingham Forest fan!

Sector Update: What is Basel 3.1 and how will it impact social housing lending?

Banks are required to comply with prudential regulatory standards set by the Basel Committee on Banking Supervision (**Basel Framework**). The Basel Framework is developed at inter-government level and executed through national legislation. Since the financial crisis of 2008-9, financial authorities have been collaborating on reforms to the Basel Framework, many of which have already been implemented in the UK, to enhance the resilience of the banking sector. In November 2022 the Bank of England published UK proposals for implementing the final set of reforms, known as Basel 3.1. Basel 3.1 applies to internationally active banks, and the Bank of England is simultaneously consulting on a simpler regime for smaller, non-systemic banks and building societies.

Broadly speaking, the Basel Framework requires that banks maintain a minimum level of regulatory capital, which is determined by reference to a sophisticated set of rules and parameters intended to measure the risk attached to a bank's exposures. A risk weighting is assigned to each exposure, with the outcome that the riskier its assets, the more capital the bank must set aside. Market analysis following the 2008-9 crisis discovered significant variability in the estimated credit risk assigned by different banks to the same exposures through their internal models. Basel 3.1 seeks to improve risk measurements and comparability across banks through changes to various components of rules. It introduces more granularity in the standard assessment of credit risk weighting, including an increased focus on loan to value requirements and borrower credit ratings. There will also be constraints on the use of internal model approaches and a baseline floor on the overall credit risk output generated by a bank's internal models. The proposals include a specific methodology for social housing exposures.

The consultation on UK proposals for implementing Basel 3.1 runs until March 2023, but the rules will only become law in January 2025. Thereafter, the new rules could have an impact on the cost of social housing borrowings in one of two ways. Firstly: funders recover their underlying lending costs, including the costs of maintaining regulatory capital, through the margin applied to interest payable by their borrowers. Therefore, Basel 3.1 is likely to affect the margins offered on new loans. Secondly: almost all loan agreements include an indemnity for increased costs incurred by funders as a result of a change in law after the signing date. This provision usually follows the Loan Market Association's format with an extension to expressly include costs incurred through compliance with capital adequacy rules. If the implementation of Basel 3.1 leads to increased capital requirements for a pre-existing loan, this clause would give funders the right to recover any associated increased costs from the borrower.

If you have any questions or comments please do not hesitate to get in touch with Julian Barker, Alice Overton or Rachel Dros.

Recent Deal: Optivo and Southern Housing Group

OPTIVO

Southern Housing Group

Southern Housing: We advised Optivo and Southern Housing Group on the finance aspects of their merger to create the new G15 association, Southern Housing. Completing just prior to the 2022 Christmas break, the merger created a new association managing 77,000 homes. The finance work involved over £2 billion of new and existing funding, obtaining consents from 15 different funders and negotiating new agreements for the merged entity.