Devonshires

Devonshires Quarterly Banking Update

January 2022

Person Profile: Natalie Swales, Solicitor

Welcome to the January 2022 edition of Devonshires Quarterly Banking Update! I'm Natalie Swales, a Solicitor in the Banking, Governance & Corporate team based in the Leeds office. I can't quite believe it but I recently celebrated four years of being at Devonshires! I feel incredibly privileged to be part of such a fantastic team and to be surrounded by such a supportive network.

My primary specialism is social housing finance and my role predominantly consists of advising borrowers, institutional investors, private bond arrangers and trustees on a range of financial arrangements, including private bond issues, syndicated and bilateral loan facilities, intra-group funding agreements, facility restructurings, group re-financings and interest rate derivatives.

I've worked on a variety of transactions during my time at Devonshires with one of my first transactions being the Notting Hill Genesis merger in 2018.

In the past six months I have advised on the Riverside and One Housing merger together with a number of portfolio refinances and private bond issues. Alongside this I have advised a large number of RP/RSL clients on their SONIA/Base Rate transition documentation.

Outside of work I enjoy travelling, spending time with my young family, exploring the Yorkshire Dales and caring for my miniature Shetland ponies. In my 'spare' time I also chair my sons' school charity organising fundraising events to raise money for additional school resources.

Sector Update: End of LIBOR

As of 31 December 2021, sterling LIBOR - as the floating interest rate benchmark for the vast majority of the sector's private funding arrangements - is no more. Over recent months finance directors and treasury teams have been engaged in the gargantuan task of ensuring that every LIBOR-referencing contract is amended, one by one, to an appropriate alternative benchmark. Our team has supported around 100 clients on the amendment of over 400 financing agreements. The majority of our clients have opted for compounded SONIA as the replacement benchmark, as recommended by the Bank of England's Working Group on Sterling Risk-Free Reference Rates (Working Group). Funders and borrowers alike have been working to ensure their cashflow, systems and documentation can accommodate the differences between LIBOR, a forward-looking term rate, and SONIA, an overnight backward-looking rate. We have advised and negotiated (where necessary) to ensure that, in accordance with regulatory guidelines, each amendment is on terms that are, where possible, commercially and legally equivalent. Most lenders have embedded the conventions for compounding SONIA that are formulated and endorsed by the Working Group, but on rare occasions a lender has opted to reference the SONIA Compounded Index published daily by the Bank of England. In our experience, funders have generally acted reasonably in legal negotiations and, with one or two exceptions, have covered their own legal costs.

Hedging agreements have also required amendment to account for the loss of the LIBOR benchmark. Most of our clients use swaps to hedge specific loan exposures, and so needed a bespoke contract amendment for each LIBOR-referencing swap transaction, in order to accommodate the loan conventions for compounding SONIA rather than the standard ISDA conventions. Our team has advised on around 70 bespoke ISDA amendment agreements, most of them produced only in the final month of 2021.

So what of those LIBOR-referencing contracts which have not yet been amended? The FCA has mandated that ICE Benchmark Administration Limited generates and publishes a synthetic LIBOR rate for certain settings until the end of 2022. This is a temporary measure and therefore it remains imperative to amend all LIBOR-referencing contracts to transition to an appropriate alternative benchmark.

Synthetic LIBOR rates are not representative of the underlying market. They are derived from the forward-looking term versions of the relevant risk-free rate (for sterling the ICE Term SONIA Reference Rates provided by ICE Benchmark Administration) plus the respective ISDA fixed spread adjustment.

Synthetic LIBOR use is prohibited in new contracts, but contractual references to sterling LIBOR (1, 3 and 6 month settings) in any pre-existing contracts will be deemed to refer to sterling synthetic LIBOR for the corresponding setting. However, some contracts contain fallback mechanisms that may operate before synthetic LIBOR can apply. If we can help you on LIBOR transition, please get in touch with your usual Devonshires contact.

Recent Deal: The Riverside Group and One Housing Group Partnership

On 1 December 2021 The Riverside Group and One Housing Group formed a new partnership with One Housing Group joining The Riverside Group as a subsidiary.

Their new partnership now sees them as one of the largest Registered Provider housing association groups in the country, with more than 75,000 homes in the UK.

Devonshires advised on banking, corporate, governance, regulation and pensions aspects of the merger.

The Devonshires team comprised of Partner Gary Grigor assisted by Solicitors Natalie Swales and Charlotte Ingram on banking and Partner Andrew Cowan on corporate.