Private finance for a social purpose: mortgage lenders and housing associations in the UK

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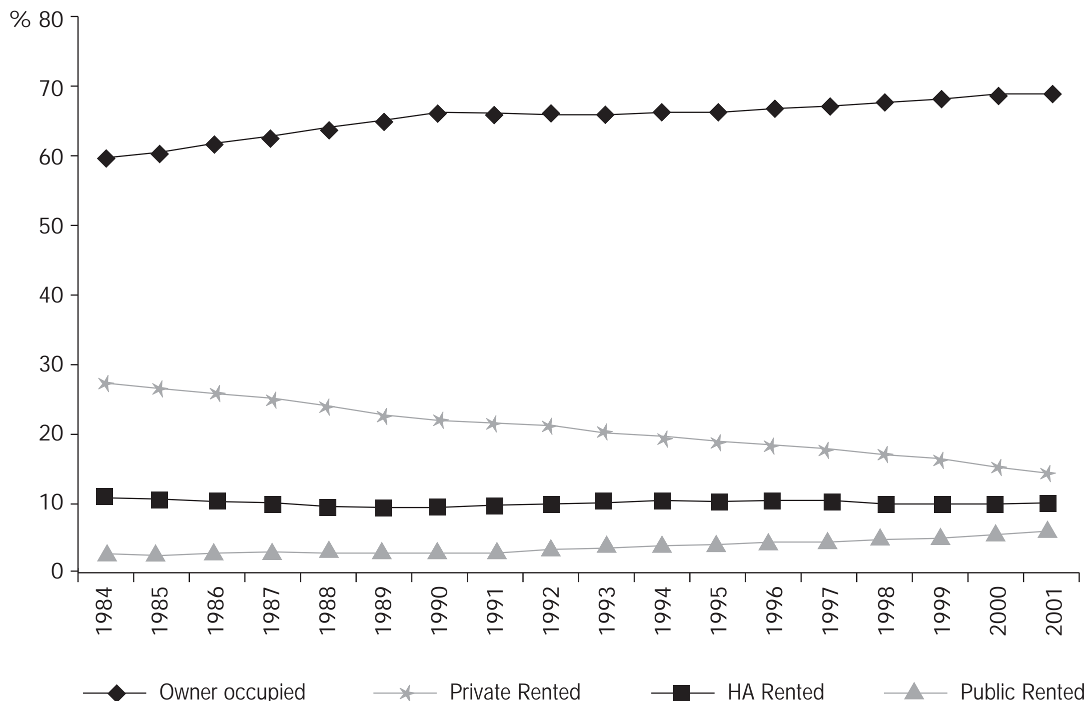
INTRODUCTION

In the UK social housing, ie, low income non profit housing subsidised by government, is provided by both local authorities (municipalities) and housing associations (community based non profits also referred to as registered social landlords - RSLs). Although at the peak around 25% of all homes were provided by local authorities and housing associations (see Chart 1), it is now around 20% with housing associations expanding while local authority ('council') provision has declined (see Table 1). There were approximately 5.3 million units of social housing in the UK in 2001 (21% of the total stock and falling).

Chart 1: Stock of dwellings by tenure, Great Britain



Source: ODPM, Housing and Construction Statistics

Table 1 Social Housing Stock, by country, 2001

	England		Northern Ireland		Scotland		Wales		UK	
	000s	%	000s	%	000s	%	000s	%	000s	%
Local authorities	2,812	66	126	87	558	79	188	77	3,684	69
Housing associations	1,424	34	19	13	145	21	55	23	1,643	31
Total	4,236	100	145	100	703	100	243	100	5,327	100

Source: ONS

This reshaping of the social housing sector in the UK is a product of a number of policies. In 1980 the then Conservative Government introduced the Right to Buy which allowed existing local authority or 'council' tenants to buy their homes. Some 1.5 million homes have been bought under the Right to Buy. The same government also resolved to stop local authorities building homes and shifted resources to housing associations. In the mid 1990s some local authorities moved to shift their housing stock from direct ownership to locally controlled housing associations. This then became a formalised government programme titled large scale voluntary stock transfer (LSVT), ie, where the whole of an authority's stock was sold either to an existing housing association or to a newly created one.

Although housing associations have been in existence for many years the development of new housing stock became 100% government grant fundable in the 1970s. This led to a rapid expansion of this sector under the supervision of a government Quango, the Housing Corporation (HC). The HC oversaw an annual approved development programme (ADP) through which individual associations were allocated grant to develop new homes. In the late 1980s and reflecting the continuing desire to see housing associations take over from local authorities as the main providers of social housing while at the same time recognising the pressures this put upon budget the government introduced a mixed funding regime. Under this regime housing association grant was to be progressively reduced and replaced by associations borrowing directly from the finance market to fund their development programme. Although it was recognised rents would have to rise to reflect these increased costs the government agreed that housing benefit, the means tested rental assistance payment made to all eligible social housing tenants, would be increased to 'take the strain'. Around 70% of social housing tenants get housing benefit - in full or part. Thus government moved from a regime dominated by capital grants to one increasingly dependent upon revenue contributions by housing benefit (see Whitehead 1999 for a useful summary).

All housing associations in the UK are funded and regulated under government statute and are supervised by government or government created agencies. Housing associations are non profit making bodies controlled by boards (typically unpaid) and operated by paid staff. There are around 3,000 housing associations in the UK. With the growth and expansion of the sector via funded development and stock transfer it was probably inevitable that the sector would become less homogenous. Associations now vary in size from national organisations with many thousands of homes to small very local associations with less than 100 homes and there has been an active merger market as well as the creation of group structures where several associations combine to secure economies of scale in terms of funding and other costs.

As already noted in addition to development funded by a mixture of grant and borrowing (now roughly 50/50) there has been a substantial programme of stock transfer with well over 100 local authorities switching their stock from direct council ownership to housing associations. For the most part, this transfer results in a local authority getting a capital receipt from the sale of its homes. Normally, the receiving housing association has to raise the funds from the finance market to purchase the homes (at the net present value of the 30 year rental income stream minus the cost of repairs) and typically this is 100% debt funded. However in a minority of cases the value of the housing stock to be transferred is so low (because of disrepair and local market conditions) that a government subsidy has been needed. In essence now there are two funding markets, the mixed funded market for mainstream housing associations and the stock transfer market with the latter dominated by a small number of large lenders (reflecting in part the scale of the transactions, typically over £50 million).

The purpose of this paper is to describe recent developments in the private finance market for housing associations in the UK, to assess the strengths and weaknesses of this market from a funder's perspective and to reflect upon its transferability to other markets around the world.

THE PRIVATE FINANCE MARKET FOR SOCIAL HOUSING

Since 1988, there has been an active and growing private finance market for housing associations in the UK. The market came into being when the government wanted to stretch public finances and to bring in

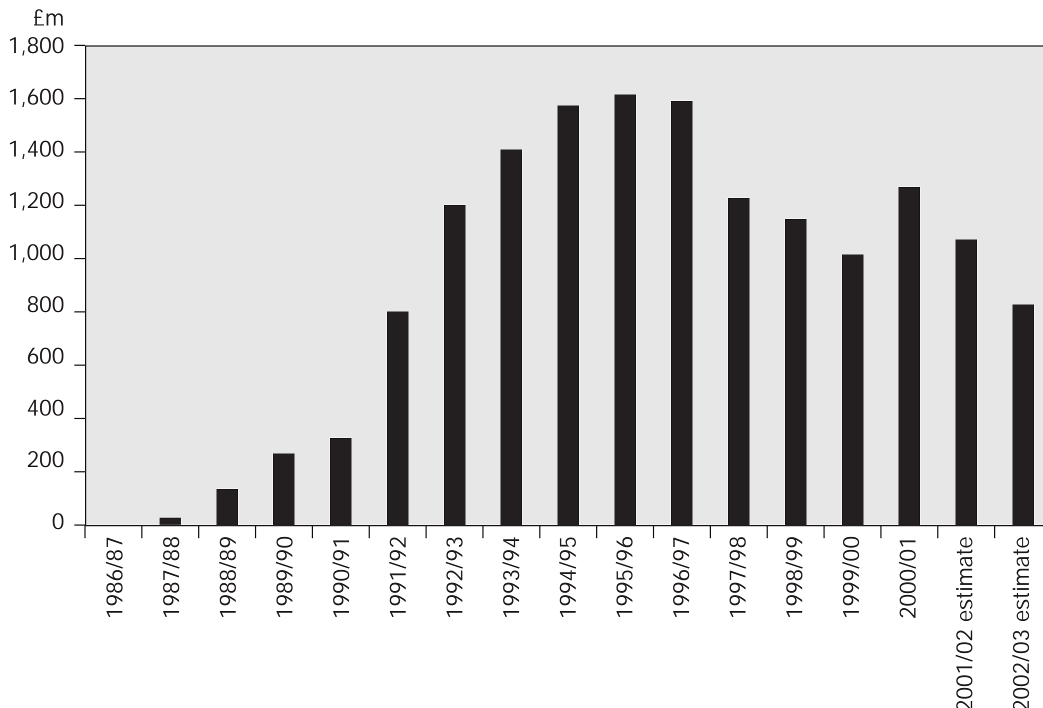
stronger private sector disciplines. Given the private finance would be first charge and the public funds second charge, the housing association sector was government regulated and that debt was repaid from rents which were effectively guaranteed by a government assistance payment, housing benefit, it was felt the private market would take this on. The market began slowly but has now built up to over £29 billion of lending with no losses to date (see Chart 2; note this is for Great Britain rather than UK).

The private finance market for housing associations has been in place since 1987/88. By the end of 2002 it will have grown to around £29 billion across the UK, surpassing to date the total of private finance raised for all other private finance initiatives in the UK. As always there is a danger this success is taken for granted and that government wittingly or unwittingly erodes both the security of current funding and the appetite for further lending and investment. I return to this issue later in the article.

This market is made up of finance suppliers who are UK and foreign banks, building societies and some specialist loan vehicles and the borrowers, basically most registered housing associations in the UK (some are too small and/or too inactive to borrow). There are well over 150 lenders in the market across the UK although it is dominated by a small number of very large lenders. The majority of lenders are UK based. The number of foreign banks participating in the market has fluctuated over time. In the 1990s the Housing Corporation had a specific remit to widen the market and encouraged a number of such banks to enter what in reality is a specialist market. However, over time many have departed reflecting the continuing need for specialist knowledge and the intensity of competition from other lenders. Because some of the bigger lenders operate with a minimum loan size this has left space in the market for smaller lenders. Some borrowers form 'clubs' to allow aggregated lending for which there is more competition and lower margins. Potential borrowers may make direct approaches to lenders (who may or may not run the association's banking facilities) or go via financial advisers. The lending decision is based upon an assessment of the specific borrowing proposition and the overall strength of the association and particularly its management and its financial position - balance sheet, reserves etc. Over time lending deals have become reasonably standardised albeit there are always differences to be accounted for and of course there is continuing innovation in terms of the structuring of loans.

Lending in the early years was understandably cautious reflecting a new market and limited competition. Margins were therefore higher and loan terms more demanding (eg, asset cover and income cover ratios were close to 150% but both have fallen to around 100% to 120%. Over time there has been a move towards fixed rate borrowing and more recently some modest use of derivatives though this is controlled. As associations have become

Chart 2: Housing associations' annual private finance raised, Great Britain



Source: UK Housing Review 2002/2003, table 57

more experienced they have often re-financed loans and sought to achieve a balanced borrowing portfolio mixing fixed and variable rate loans and short and long term debt. The housing associations have a primary task which is providing good quality homes and the management of finance tends to be a secondary issue. The lenders recognise that they must build close relationships with associations who in many cases are seeking simplicity and certainty.

THE CURRENT UK MARKET

Although there is a UK lending market, in reality there are variations across the four countries reflecting both national housing structures, different regulatory and policy regimes and the headquartering of financial institutions.

England dominates the UK private finance market. The joint Housing Corporation and National Housing Federation (NHF; the trade body for housing associations) Private Finance Survey (NHF/HC, 2003a) showed that as at 31 March 2002 total finance raised was £26 billion of which £19.8 billion had been drawn. 42% of the total funding raised was for stock transfer associations although this market declined in the year reflecting a change of government policy. In the year 2001/02 around £3 billion was advanced, with £700 million for stock transfer and the rest for new development and re-financing of existing housing association debt. Banks had around 60% of the total market with building societies 20% and institutional finance through the Stock Market 15%. However, building societies were more strongly represented at both ends of the spectrum of lending, to stock transfer associations and associations under 1000 units. As of 31 March 2002 17 lenders provided 78% of funding and 4 just over 50% (7 lenders have committed over £1 billion). The lending league was headed by the Nationwide Building Society with over £3.6 billion of funds committed. Royal Bank of Canada Capital Markets had been the lead arranger for £1.5 billion of bond issues, about 38% of the issue value to date.

Unhedged variable rate lending continues to dominate the market (47% of funds) and as a generality the terms under which funding was raised hardened in the year. New variable rate borrowing had an average margin over LIBOR (the interbank rate) of 50 basis points (ie, 0.5%), up from 43 basis points the previous year

SCOTLAND, NORTHERN IRELAND AND WALES

The housing association sector is Scotland is small relative to England (80 associations compared to 2,300) and many are tenant based and very localised. Communities Scotland's Loan Portfolio Bulletin (Communities Scotland, 2002) indicates that as of 30 September 2001 total loan approvals stood at £1.22 billion up from £1.036 billion a year earlier. Most loans are for new schemes and debt re-financing was a small part of the market. The Royal Bank of Scotland, with over £300 million of loans, dominates lending in Scotland. There are five lenders with total loans in excess of £100 million and who have over 75% of the market. Fixed rate lending has been declining and variable rate loans dominate as in England. Interest rates and fees remain low and the Bulletin comments on the 'very competitive nature of the market'.

The Northern Ireland market has been slow to develop, not least because of the much higher grant rate in the province and the surpluses generated by housing associations. In 2001/02 a further £30 million of private finance was put in place with Northern Ireland banks and notably First Trust Bank dominating the market. The total market in the province now exceeds £200 million. In Wales, private finance facilities totalled £751 million as at end of March 2002, up from £700 million the year before. Banks hold 54% of this funding albeit that Nationwide Building Society remains the market leader.

THE STOCK TRANSFER MARKET

'Traditional' housing associations have raised around 60% of the private finance in place to date and given the number of such associations (over 1,500) this remains a very significant market. However if the stock transfer programme in England continues as strongly as it has in the past and stock transfer begins in a serious way in Scotland and Wales then the funding market will become ever more dominated by this sector and all the policy issues that pertain to it. However the pace of stock transfers in England fell sharply in 2001/02 to seven transfers and 35,390 homes though it rose again in 2002/03 to a record 24 transfers and 167,601 dwellings (and £2.114 billion private finance). This compares to the previous record level of 17 transfers of just over 132,000 dwellings in 2000/01 (Table 2).

However, a substantial part of that decline was the result of the switch to a two year programme for transfers, introduced to avoid the end of March rush for transfers and finance that was a feature of the very tight time frame of the old annual programme. This partly explains the big increase in 2002/03. For 2003/04 the current estimate is around 13 transfers and 50,000 homes with again many of those approved actually transferring in 2004/05 (an estimated 100, 000 homes). Partially updating Table 2, by March 2003 some 137 authorities had transferred stock totalling 736,364 homes.

PRIVATE FINANCE: CURRENT POLICY ENVIRONMENT

There have been continuous changes in both policy and market competition and conditions in the private finance market for housing associations over the period since 1987. For a substantial part of that period (mainly 1993 onwards) interest rates and other costs were falling and this meant there was some built in cover for housing associations business plans. However, those favourable conditions are now largely passed and in recent months Standard and Poors has noted (Standard and Poors, 2002) overall 'credit risk in the sector is increasing'.

Although funders are adept at dealing with market driven change they have also had to

Table 2: Large scale voluntary transfers of council housing in England, December 1988 - March 2002

	Number of councils	Number of Dwellings	Total Transfer price	Average price per dwelling	Loan Facilities at transfer	Council Housing debt	Set up costs	Treasury 'levy'	Useable receipt	Net balance
			£m	£	£m	£m	£m	£m	£m	£m
1988/89	2	11,176	98.4	8,740	130.7	46	2.9	-	23.9	25.6
1989/90	2	14,405	102.2	7,090	123.5	66	3	-	24.8	8.4
1990/91	11	45,512	414.4	9,110	708.4	176.6	21.9	-	98.1	117.8
1991/92	2	10,791	92.1	8,540	176.5	51.1	4.9	-	21.8	14.3
1992/93	4	26,325	238	9,040	319	19.8	12.2	-	56.5	149.6
1993/94	9	30,103	270.5	8,990	455.3	96.6	13.9	22.8	58.4	78.7
1994/95	10	40,510	406.3	10,034	745.4	111.3	22.3	53.4	84.5	135.4
1995/96	11	44,595	477.8	10,691	963.1	208.8	23.1	47.4	98.6	107.2
1996/97	5	22,248	192.6	8,593	419.5	63.5	10.9	9.6	43.5	69.9
1997/98	6	24,405	259.6	10,637	498.2	34	14.2	-	61.4	150.1
1998/99	11	56,072	484.1	8,613	938	217.7	20.6	-	115.9	151.4
1999/00	14	80,405	658.9	7,992	1,191.0	317.2	47.8	9.6	150.4	199.7
2000/01	17	132,360	795.2	6,023	1,859.0	519.4	37.7	17.9	184.9	298.2
2001/02	7	35,390	377.7	9,415	647.5	53.2	15.85	9.2	74.9	174.6
Total	104	574,337	4867.8	7,787	9,175.1	1,981.2	251	219.9	1,097.6	1,680.9

Sources: Department of Transport, Local Government and the Regions, author's calculations.

Notes: The net balance is the sum available after the council housing debt and the set up costs and the useable receipt have all been covered. The net balance must first be set aside against any other outstanding council debt (on the 'General Fund'). Any remaining receipt can then also be used for capital investment. ERCF supported transfers are not included in the above table.

become used to both defending their interests and those of their borrowers against policy proposals emanating from a wide range of government departments in Whitehall and the devolved administrations across the UK (the governments of Northern Ireland, Scotland and Wales). Partly this reflects continuing pressure from HM Treasury to secure 'best value for money' in any dealings with the private sector but also because of changes in demand and the need to make stock transfer in particular more appealing to existing council tenants (who have to vote to support the transfer of their homes to a new housing association).

The discussion of stock transfer has already raised some of the issues that are currently bearing down upon the market for private finance. Of a myriad of other issues perhaps two require brief mention. These are the changing regime for housing association investment, housing benefit reform and government controlled rent restructuring.

HOUSING ASSOCIATION INVESTMENT

In a separate development in the Chancellor of the Exchequer's 2002 Budget Statement and in the White Paper on regional government, the possibility was raised that the HC might also lose its investment role to the proposed Regional Assemblies and/or that new regional investment mechanisms were to be created. The likelihood that this will occur appears to have receded but the possibility of change cannot be ruled out. For lenders the concern has been that this might lead to a more explicit politicisation of investment decisions and this in conjunction with the Housing Corporation plans to target its investment more tightly does raise the prospect of a tighter regime and one which may expose some associations and their lenders to greater risk of default.

RENT RESTRUCTURING AND HOUSING BENEFIT REFORM

Housing associations in England are beginning to adapt to the rigours of the government's new rent restructuring regime

(see Wilcox and Williams, 2001 for details). Basically housing association rents have been linked to local property values in order to bring greater market logic to the sector. Previously rents were based around costs albeit that pooling arrangements meant there was some averaging out. In some areas rents must rise and in others they must fall. Although this is to be done over ten years and there are 'waivers' for associations who cannot immediately begin the process this new regime will ultimately limit what associations can do. Although government agrees that in possession a lender has the right to increase rents it must be recognised that this would immediately impact upon that association's local competitiveness.

Having introduced what some would see as 'rent control' and a major change in the rules of the 'game' the government has now announced that it is to introduce pilot reforms for the provision of housing benefit to tenants initially in the deregulated private rented sector (Department of Work and Pensions, 2002). In the pilot areas claimants will get a flat rate allowance based on average rents for properties of the size they require. The thinking is that tenants are now paying rents that are more closely related to the value of their homes. However the intention is to go further with this market logic and incentivise tenants to 'shop' around and to look for the homes that they want and wish to 'pay' for. Following the pilots the government intends to refine this policy and roll it out across the private rented sector as a whole. In the longer run the stated policy intention is to extend this approach to the social rented sector once rent restructuring has been substantively implemented. This would be a UK wide reform. While it is far too early to assess the potential impact of such a reform, inevitably these long-term proposals add an element of uncertainty regarding social sector landlords' future rental incomes.

While recent reports (HC/NHF, 2003b and WFHA, 2002) suggest that the housing association sector in England and Wales is in reasonably good health concerns have been raised about the impact of restricted rental growth on balance sheets and debt servicing capacity. Over time it will limit some associations' ability to raise more debt. There are also a number of other factors that will impinge on the future prospects for the stock transfer programme in England. The process of rent restructuring now underway is progressively reducing the scope for some councils to fund investment programmes out of rental income. Rents directly financed some £622 million of councils investment in their stock in 1995/96, by 2000/01 this had been cut back to just £224 million and this will continue to fall. The small number of councils most affected by this process will clearly have new reasons to consider stock transfer as an option. The recent Office of the Deputy Prime Minister's (ODPM) report on sources of finance for housing stock transfers confirmed that the current funding arrangements provided value for money but noted that the market was vulnerable to the departure of a major lender (ODPM, 2002).

A recent reform of the government's capital finance regime for council housing has also increased pressures. Debt free councils are to be brought within the regime that redistributes spending power based on capital receipts derived from the sale of council housing and the arrangements whereby councils can fund new housing association developments through central government funded local authority social housing grant are being ended. This amounted to £433 million in 2000/01 and its loss will be a major blow to many housing associations. Further encouragement is to be given to the setting up of 'Arms Length Management Organisations', or 'ALMOs' to which local authorities can transfer their stock while still retaining ownership. These ALMOs are to be funded to allow them to improve the housing stock and this is emerging as a clear alternative to transfer. Given they will be publicly funded this reduces the opportunities for private finance.

STOCK TRANSFERS IN SCOTLAND AND WALES

The Scottish Parliament's strong support for stock transfers has been rewarded with positive tenant ballots for transfer in both the City of Glasgow and the Scottish Borders. The Glasgow transfer was both very large (over 80,000 dwellings) and very complex (requiring £725 million of private funding) and presents challenges to both funders and all those involved in the transfer process. Resolving the many difficult issues involved in this unique transfer was not been made any easier by the tight timetable the Scottish Parliament had imposed for the completion of the transfer. Clearly the successful transfer of Glasgow's stock will be a major factor for many local authorities uncertain as to whether to pursue the LSVT option.

This uncertainty is compounded by the Scottish Executive's (SE) refusal to accept the values agreed by the parties to the Shetland and Borders transfers. The debate about alternatives to LSVT in Scotland has also gathered momentum, with active discussion of prudential borrowing by local authorities, ALMOs and other options that might be considered by the majority of local authorities who have not yet decided on LSVT as their preferred option (CIH 2002). It is significant, however, that the UK Treasury has effectively given the Scottish Parliament a blank cheque to underwrite the costs of stock transfers, in that any residual debts following transfers will be met by the UK Treasury.

Following a lengthy period of policy review the Welsh Assembly has also now adopted a policy of positively promoting stock transfer and Bridgend has now completed its transfer. The UK Treasury has also agreed to underwrite the costs of residual debts following stock transfers in Wales. From the perspective of the Assembly the choice is between promoting stock transfer, where most costs fall onto the Treasury, and supporting stock retention where most costs fall onto the budget of the Assembly. The data on public sector stock condition shows a very significant backlog of repairs requiring something in the region of £1.5 billion of expenditure. This adds to the pressure to move forward on stock transfer to lever in private finance.

PROSPECTS FOR PRIVATE FINANCE IN SOCIAL HOUSING

The private finance requirements for 2003/04 and on are somewhat difficult to estimate because of market uncertainties. In England the increase in the ADP plus the possible decline in LSVT may result in a progressive rebalancing of the funding requirement between the two programmes. The mainstream housing association market is likely to require funding of the order of £1 billion while the stock transfer market may require funds in the order of £2.5 billion. Northern Ireland's requirement is likely to be around £30 million. Scotland is likely to be between £125 and £150 million plus of course any stock transfers (eg, Glasgow £725 million). Given the stability of the housing association spending line in the Welsh budget the requirement is likely to be around £40 million plus of course the funding requirement for Bridgend estimated at around £80 million. Taken together and stressing the crudity of the estimates the overall funding requirement for 2003/04 across the UK is in the order of £3.6 billion.

Set against this possible requirement, the concluding section to the annual HC and NHF Global Accounts reports on English associations provides cautionary thinking. In 2001 the report concluded that generally although there was no problem with debt servicing, some associations were finding it difficult and others might do so in the future. In 2002, the conclusion was that it was difficult to estimate the future market given uncertainties regarding policy directions. All of this points to the problems of working in policy dominated markets. They are bound to be vulnerable to change and although that is also true of more 'pure' markets, lenders are perhaps more comfortable dealing with the latter than the former.

Having said this there do remain clear attractions to funding housing associations. The sector is highly regulated, the debt is secured and there have been no significant losses. Typical transactions are reasonably straight forward and well understood. Although the market has grown it is very dependent upon cycles of government funding and these tend to rise and then fall over time. Currently the trend is upward. All of this provides a counterbalance to the evidence of increasing risk related to income and viability.

One view is that reflecting the general outlook the funding market will begin to differentiate more clearly in terms of credit quality. At present the variation in pricing of loans is quite narrow. However with increasing evidence of the differential financial position and performance of housing associations and a more demanding external environment in terms of greater regional and local variation in the demand for social housing (see Murie, 2002) pricing may begin to widen as a reflection of this greater differentiation. That will add to the pressure on the weaker associations and this in turn may impact upon the rate of change in the sector.

Certainly there will be a growing premium on information about the performance of the sector. This will be a challenge for both lenders and regulators. Equally as policy generated pressures increase we need to recognise associations will be in very different circumstances in terms of their capacity to respond and cope with change. With core income constrained we can expect to see both increased diversification (probably with increased risk in some cases) and a renewed focus on efficiency and effectiveness as a way of driving down costs. As a generality there has been little evidence of this to date despite better use of technology, the creation of group structures formed on the basis of scale economies and better management. Moreover, as the recent report of finance for stock transfer suggests there is a strong case for existing housing associations being able to bid for stock being transferred. The opening up of a competitive 'disposal' process might be difficult to handle politically but there is no doubt it has its attractions. If this did arise then we might see further integration between the already overlapping LSVT and traditional housing association lending markets.

The scale and importance of the private finance market is such that governments across the UK must remain sensitive to the factors that might damage it. The recent Office of the Deputy Prime Minister's (ODPM) report on sources of finance for housing stock transfers confirmed that the current funding arrangements provided value for money but noted that the market was vulnerable to the departure of a major lender (ODPM, 2002). One obvious conclusion to this article is that the market reacts most negatively to surprises and to decisions taken without prior discussion even though they impact upon private finance. This should not be confused with a reluctance to change. Government, lenders and associations have much to gain from sharing views as to how the market might develop and indeed how, in an ideal world it should develop. Having just received this report on the funding market there has been some disappointment that the Government has now set up a further working group on additional finance models for housing transfer (including looking at capital aggregation vehicles, structured finance and joint ventures). Rightly there is a continuing search within government for new ways forward but there is a danger that it diminishes the important contribution made by lenders to date.

Bringing private finance to housing association funding has resulted in greater commercial awareness in those bodies and has helped make social housing more business like. The challenge now is to continue to evolve this market. Moving forward there are major questions about the efficiency and effectiveness of the housing association sector and how under a grant funded regime (albeit only in part) the natural processes of rationalisation under market competition common to the private sector might come about. In essence there are probably too many developing associations to secure the most efficient use of resources. In England the Housing Corporation is ceasing to distribute grant to all associations and will become far more selective. This may produce some sector rationalisation. However, unless an association is obviously failing or it opts to transfer or merge there are no other mechanisms in place that can require change in the structure of the sector.

Alongside the question of rationalisation comes the question of funding structures. As discussed earlier the market is currently dominated by debt finance albeit that capital market structures are gaining market share. Syndicates, joint ventures and funding clubs have all been mooted as ways forward for reducing costs albeit some exist already and there has been nothing to prevent them coming into being. More radically there is the question of equity investment and how one can move social businesses more fully into the private sector (not least as they become bigger and more financially secure). Equity investment would challenge the concept of non profit making and much else so this is not an easy area. However equity is a clear alternative or addition to grant and loan structures.

The funding market and the housing association sector in the UK have made great progress over the last 15 years and there is every reason to assume this will also be true in the next fifteen. As this review has indicated there are many issues to resolve, not least around the treatment of housing associations under the new capital adequacy regime being introduced via Basel 2, but there is no reason to believe that both social policy and commercial interests cannot continue to be met.

TRANSFERABLE?

Finally, can this model be transferred to other countries and are there lessons to be learned? There are features of the UK market that are not repeated elsewhere such as a government regulator and housing benefit to meet rent payments. However, it is possible to move away from 100% grant dependency and all the costs and benefits it imposes. The Netherlands, for example, has now privatised its housing association sector and it now raises its funds privately albeit there is a central fund to deal with associations that get into difficulty. Canada and Australia have looked into the UK model as an alternative to the low income housing tax credits used in the USA. Tax credits are expensive albeit that they have produced a flow of funds to social housing in the USA that would not have been possible via programme grant funding.

All systems have their advantages and disadvantages. In the UK the existence of private finance does limit the freedom of action of both associations and government. The existence of private finance has constrained government and there have been a number of legislative proposals that have had to be amended to take account of private lending. At the same time, over time, the government has eroded the 'terms of trade' for lenders. Margins have fallen partly as a consequence but mainly due to competition. On balance it has worked well for both lenders and associations albeit there is room for improvement.

There are details of the UK system that are not replicated elsewhere. However, it is clear that within certain assumptions it is possible to create a privately financed social housing regime. Lenders have found it possible to accommodate this obviously more politically sensitive market into their lending portfolios and for it to become an acceptable part of their business plans. The current trade off between government regulation and low returns has been accepted to date but with growing pressure on returns this may become more difficult in the future. Given the government continues to question whether there has been adequate risk transfer to the private sector, one option in the future might be the move to less regulation but higher charges.

Social housing systems in most countries require some form of government subsidy. The challenge is to link that subsidy to the private finance market to secure preferential lending terms and to bring loan and other costs in line with rental incomes. This then holds out the promise of a largely self financing system and all the benefits that brings. Social housing suffers from an image and a reality of grant dependency and all the vulnerabilities that entails. The UK experience shows that vulnerability can be reduced albeit not eliminated.

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