

Report to: Management Committee 26th June 2019

Prepared by: Gary Watson, Finance Manager

Subject: Review of Nationwide and Triodos loan agreements

Purpose of Report

Given the high cash balances reported in the financial statements to 31/03/2019 members of the Governance and Finance sub- committee requested that a report was produced to review the current loan agreements. The committee requested that we contact both lenders Nationwide and Triodos to confirm the financial costs of early repayment of loan agreements and the various options available to the Association.

Both lenders responded promptly and the following information was provided. Loan details are shown in Table 1.

Nationwide

As at the 31/03/2019 the current balance outstanding on the loan is £278,793. The loan has been drawn down in full and a capital repayment arrangement is in place. Interest paid in the year to 31/03/2019 was £5,279. The loan agreement is a variable rate loan and balance is due to be paid in full by April 2031.

If we were to redeem in full there would be no additional fees incurred for repaying the loan.

Alternatively, if we pay off part of the loan, the loan agreement states that any prepayments need to be a minimum of £200,000, the repayments would then reduce to reflect this.

If we wish to exercise this option then Nationwide will issue a full redemption statement once we confirm a date for repayment. We would then need to contact our solicitor to provide us with the discharge documents, so that following redemption the security over the properties can be released.

Given the low interest rates on offer at present it would in the Association's interest to consider settling the loan as the interest receipts that would be received on the balance is significantly less than the interest payments. See Table 1.

Triodos

As at the 31/03/2019 the current balance outstanding on the loan is £1,028,942. The loan has been drawn down in full and a capital repayment arrangement is in place. Interest paid in the year to 31/03/2019 was £33,738. The loan agreement is a fixed rate loan and the balance is due to be paid in full by January 2036.

The loan agreement with Triodos is a fixed rate agreement to 29/01/2028, if we were to redeem in full or part then breakage costs would be applied.

Triodos have provided some illustrative costs based on the full amount of the loan being paid as at 31/05/2019. The breakage costs would be £20,500 based on full settlement. If the loan was part paid then the breakage costs would be proportional to the repayment.

If we wish to exercise this option then Triodos will issue a full redemption statement once we confirm a date for repayment.

Table 1: Summary of Nationwide and Triodos loan agreement

Lender	Loan Type	Total Loan	Loan Balance	Breakage Costs
Nationwide	Variable Rate	£450,000	£ 278,793 Interest paid 18/19= £5,279 Potential Interest on balance based on 1%= £2,787	£0.00
Triodos	Fixed Rate	£1,300,000	£1,028,942 Interest paid 18/19 -£33,738	£20,500

Possible Options:

1. The Nationwide variable rate loan of £277,793 is redeemed in full with no breakage costs incurred.
2. The Nationwide variable rate loan of £277,793 is redeemed in full with no breakage costs incurred and a part payment is made to Triodos with breakage costs incurred in proportion to repayment.
3. The Association continue as planned with the current repayment arrangement with Nationwide and Triodos unchanged.

Recommendation

Given the high cash balances forecasted the Association is in a strong position to settle the Nationwide loan agreement with immediate effect

Repayment of the Triodos bank loan is not recommended at this time given the higher outstanding balance, fixed rate breakage costs and settlement period in question.
