MORhomes PLC

August 2019

Open for business

MORhomes is good for business

Created by HAs and accountable to HAs

It represents an entirely new borrowing experience

- Simple, cheap and speedy process
  - ✓ Using standard documents to reduce the time and cost of borrowing
- Borrowing unsecured for up to 12 months
  - ✓ Minimises cost and time ahead of issue
- Easy and transparent credit process
  - ✓ To provide predictable outcomes
- Rapid access to debt
  - ✓ Money available within 2 – 4 weeks

Designed to minimise the time and cost of raising debt

Created to suit HAs funding requirements:

Unlocking opportunity for the sector

Providing flexibility on security and treasury management

- Credit limits set for 12 months
  - ✓ Offers standby liquidity at little cost
- Flexibility on the type of assets charged
  - ✓ 50% can be shared ownership, care, commercial or modular
- No restrictive covenants
  - ✓ Including financial, on-lending or merger consent
- Clear strategy on credit remediation
  - ✓ Predicable outcomes to any decline in credit

Structured to support the needs of your business

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The inaugural issue

- In February 2019, MORhomes launched its first (EMTN) transaction
  - Carried out in a very difficult market
  - Raising £260m
  - Lent to 9 borrowers
  - In amounts of £10 - 50m
  - £250m public bond
  - Significantly over subscribed
  - 3.4% coupon
  - 19 year maturity

- The transaction shows the success of the structure and establishes MORhomes as an active issuer
  - Generating income for shareholders
  - Enlarging the equity base of the business
  - Creating the ability to borrow at short notice, and
  - Offering a unique set of benefits to borrowers

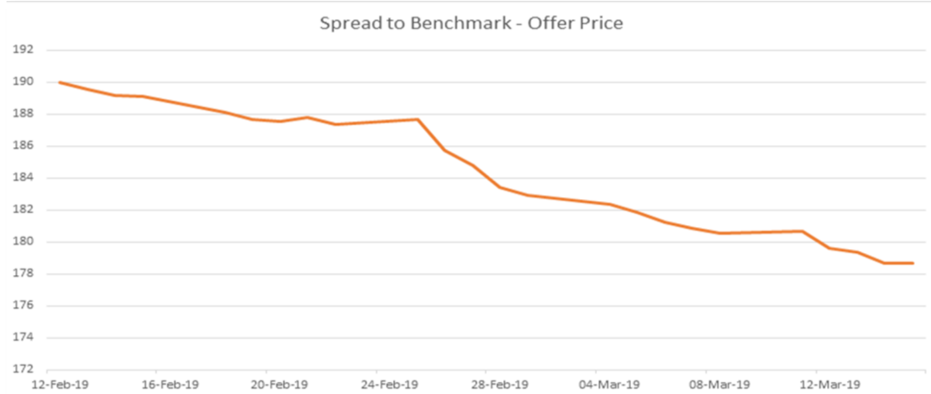
Shareholder's platform, offering flexible and cost efficient funding

Sixty-two Housing Associations combined to create the platform

Twenty+ have successfully cleared the credit application process

Nine came together to use it for the first time

- It is now available to borrowers
  - Funding individually, or
  - Borrowing in a group
  - Using the existing 19 year bond or
  - Creating a new maturity



The initial issue has an attractive coupon but a wide spread

- 30bpts premium as a start up + new issue premium

We have been slowly addressing this, and it is improving

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How Financial Advisors can help

- The more MORhomes issues, the more attractive it becomes
  - Improves certainty of access
  - Widens the base of investors
  - Enhances secondary liquidity

- So work with us to strengthen MORhomes
  - Be aware of the MORhomes offering
  - Encourage HAs to become Shareholders
  - Help get them through credit
    - Costs £2,500 (inc. VAT) to complete, and will give a credit line valid for one year
  - Take up MORhomes' 'Standby Liquidity' Offer

They gain as we gain in the development of the platform

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Loan documentation standard, complete and ready to go

- Pre-negotiated by borrowers group
- Borrower's formal legal advice on loan £600(1)
- Borrower's legal cost for transaction c £3,750(1)

Lender's documentation cost just £25k(1)

- Includes lender's legal costs £10k(1)
- All documentation held in escrow, ready to execute
- Gives access to the market at two weeks' notice
- Cost off-set against issue costs

Huge saving in management resources

Minimal cost(2) of getting security ready ahead of drawdown

- Funds available immediately

A cheap way to secure an additional source of funding

(1) All costs include VAT
(2) One property to be secured

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The detailed benefits of the platform

– A comparison with capital market alternatives

How does MORhomes match up to other capital market debt?

a. Source of cheap, standby liquidity

MORhomes provides its borrowers with a unique source of cheap standby liquidity not available from other capital markets facilities

- Easy to establish
  - Standardised documentation, saving time and resource on negotiations
    - Pre-negotiated legal fees
      - No corporate covenants
        - Wide range of eligible security pledged and valued, post issue

- Supports liquidity of the business
  - Annual pre-cleared credit limit
    - No commitment fees
      - Small, regular amounts available up to annual credit limit
        - Funds available before security pledged

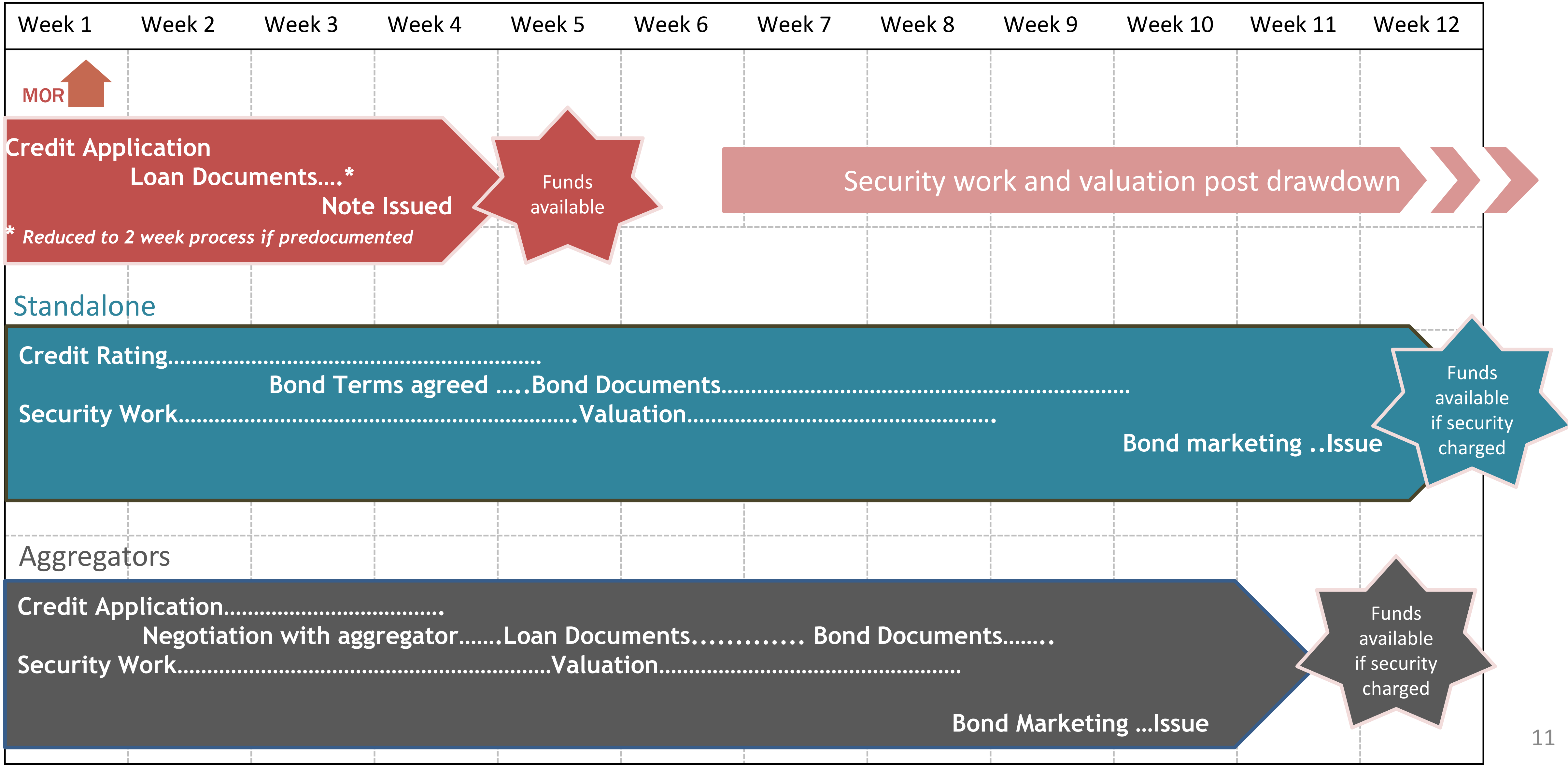
How does MORhomes match up to other capital market debt?

b. Speed of access

- MORhomes offers unparalleled speed of access to the market
  - Two weeks to get through credit
    - Two weeks from credit to issuance
      - Credit limits good for 12 months
        - Funds available on drawdown (i.e. before the security is in place)
          - 12 months to pledge security

- This offers a unique set of advantages
  - Taking advantage of market pricing opportunities
    - Exploiting short term opportunities for acquisitions
      - Improving the liquidity of the business
        - Creating opportunities for seamless refinancing
          - Reducing the management time involved on funding

Rapid access to markets, immediate funding



How does MORhomes match up to other capital markets debt?

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c. Lower expenses on borrowing

- MORhomes has been designed to minimise the expenses involved in arranging debt.
  - Standard documentation
    - Centrally negotiated legal fees
      - Repeat issuer documentation — **Reduces the legal fees for both parties to £28.6k**
  - Simple credit process
    - One days work
      - Two week outcome — **Limits management time / reduces cost to £2.5k**
  - Security valuation and charging
    - Only after issue
      - Central charging rates agreed — **Only pay after borrowing/limits cost to £6K per 200**

- Critically, expenses fall into three phases of a transaction:
  - Costs incurred ahead of borrowing – effectively sunk costs
  - Total costs involved in putting the facility in place
  - On going costs of servicing the loan

The table overleaf shows the savings generated by MORhomes are material

MORhomes has cut the costs for regular access of the capital markets

MOR

Costs ahead of Issue – Figures assume £25m for aggregators and £150m for public bond

	Credit Application or rating	Documentation Lender/bond & Borrower	Security Charging Lender & Borrower costs	Valuation	**Total**
MORhomes	£2.5k	£28.6k	-	-	**£31.1k**
Other Aggregators	-	£60k	£30k	£30k	**£120k**
Own Name	£36k (rating)	£180k	£98k	£90k	**£404k (equiv. £67k per £25m)**

All cost include VAT where applicable

Costs at Issue - Figures assume £25m for aggregators and £150m for public bond

	Note Issuance	Security Charging	Valuation	Arrangement fees	**Total**
MORhomes	-	-	-	0.70%(1)	**£175k**
Other Aggregators	-	-	-	1%	**£250k**
Own Name	£54k (rating)	-	-	0.3%	**£495k (£82.5k per £25m)**

Costs post issue + year 1 fees – Figures assume £25m for aggregators and £150m for public bond

	Ongoing vehicle fees	Security charging Lender & Borrower costs	Valuation	**Total**
MORhomes	0.1% pa	£26k (2)	£30k	**£79k**
Other Aggregators	0.1%+RPI = 0.13%	-	-	**£32.5k**
Own Name	Yr 1 rating fee paid	-	-	-

Grand Total	
MORhomes	**£285.1k**
Other Aggregators	**£402.5k**
Own Name	**£899.0k (£149.8 per £25m)**

(1) Includes MORhomes' new issue documentation costs and unsecured fee of 5bpts

(2) MORhomes has negotiated a legal review of title fee of £6k + VAT per 200 titles. 250-300 units assumed for £25m. Borrower costs based on recent quotes

How does MORhomes match up to other aggregators?

MOR

d. Flexibility on Security

- MORhomes is much more flexible and cost effective than other secured facilities
  - Funds can be drawn for up to 12 month on an unsecured basis
    - Asset cover on standard bond market terms with no rental cover requirements
      - Much wider criteria for properties – bigger basket for SO, Care, PRS, Head office etc
        - Simplified process for substitution and withdrawal
- These features
  - Increase borrowing capacity
    - Reduce operational resources involved
      - Minimise security and valuation costs on issue and on an ongoing basis

The table overleaf sets out some of these benefits

Security arrangement reflection the reality of HA business

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	MORhomes	THFC no 3	GB Social Housing	Own name Issue
Security pledging	Security post issue	Security largely before issue	Security largely before issue	Security largely before issue
Unsecured period	Upto 12 months	none	none	none
Drawdown	At issue	Only once secured	Only once secured	Only once secured
Security requirements				
Asset cover	1.05 EUV/1.15MVT	1.5 EUV/MVT	Variable depending on level of security. Can incorporate Gearing+int cover (see below)	1.05 EUV/1.15MVT
Net rental cover	Not required	1x interest		Generally NA but sometimes corp interest cover
General needs security	50% of security	At discretion, 85% norm		10-20% SO allowed
Other security	All recognised asset classes	Generally S/O only		Generally S/O only
Asset withdrawal	1.10 EUV/1.20MVT , self cert	2.0x EUV/MVT. Valu'n	Subject to meeting covs.	Subject to meeting covs.
Substitution/valuations				
Substitution process	Self-certify for equal value	Valuation	Valuation	Valuation
Security valuations	5 years/annual d'top or 20%pa	5 years + annual request at issuers' cost	5 years/annual d'top	5 years/annual d'top or 20%

Highly flexible facility with no corporate covenants

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e. Covenants

- MORhomes has no corporate covenants
  - No interest or income cover tests
  - Not gearing tests
  - No on lending limits
  - No merger consents
  - No limits on creating subsidiaries
  - No consent fees

	MORhomes	THFC no3	GB Social Housing	Own name issue
Standard loan docs for all	Yes	No	No	NA
Financial covenants	none	none	Depends on asset cover	none
On-lending	none	Restrictive limits	Yes over limit	none
Merger consent	Consent not required	required	required	Consent not required
Creating/becoming sub	Consent not required	Consent required	Consent required	Consent not required
Information required	¼ management accounts, annual a/c's & FFR	Unlimited right for info	¼ management accounts, ann a/cs & other corp data	Compliance certs, Accounts, annual meeting on request
Remediation	Risk mitigation in loan doc	Not disclosed	Not disclosed	Not specified

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Comparing the cost of borrowing with other aggregators

How does MORhomes match up to other capital market debt?

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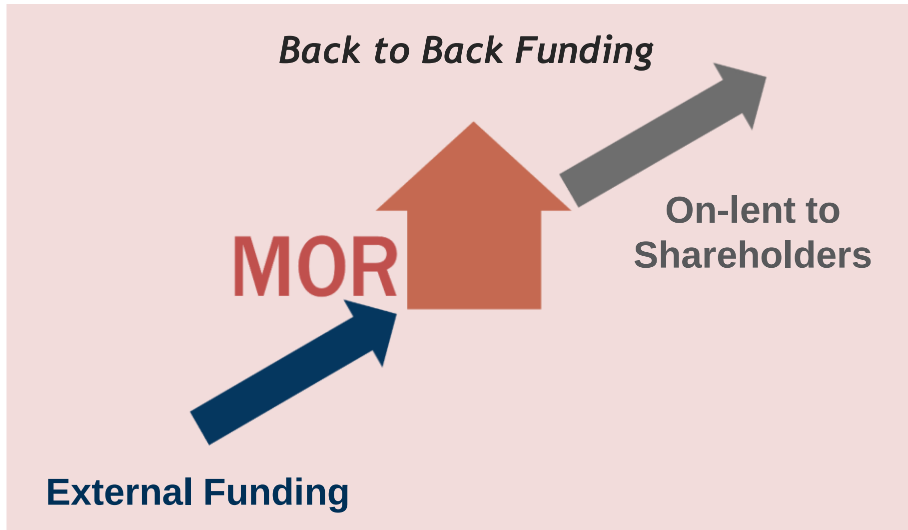
i. Cost of credit enhancement

- All aggregators enhance their credit through three mechanisms;
  - Risk Equity
  - Retained earnings
  - Prepayment liquidity
- This involves borrowers in substantial hidden costs
- MORhomes is the only platform to provide borrowers with benefits from equity investment
  - New issue fees cover costs; equity is subscribed and any surplus from management charges is returned to borrowers through dividends
  - Other aggregators charge high new issue fees to build capital for their own benefit but offer no benefits to borrowers from management surpluses.
- MORhomes also handles the need for liquidity more efficiently
  - No requirement for interest payments 13 months in advance
  - Replaced by liquidity facilities
- MORhomes then uses 2nd secured debt to offer more flexible terms – less collateral, no cash reserving, no corporate covenant

Capital and funding

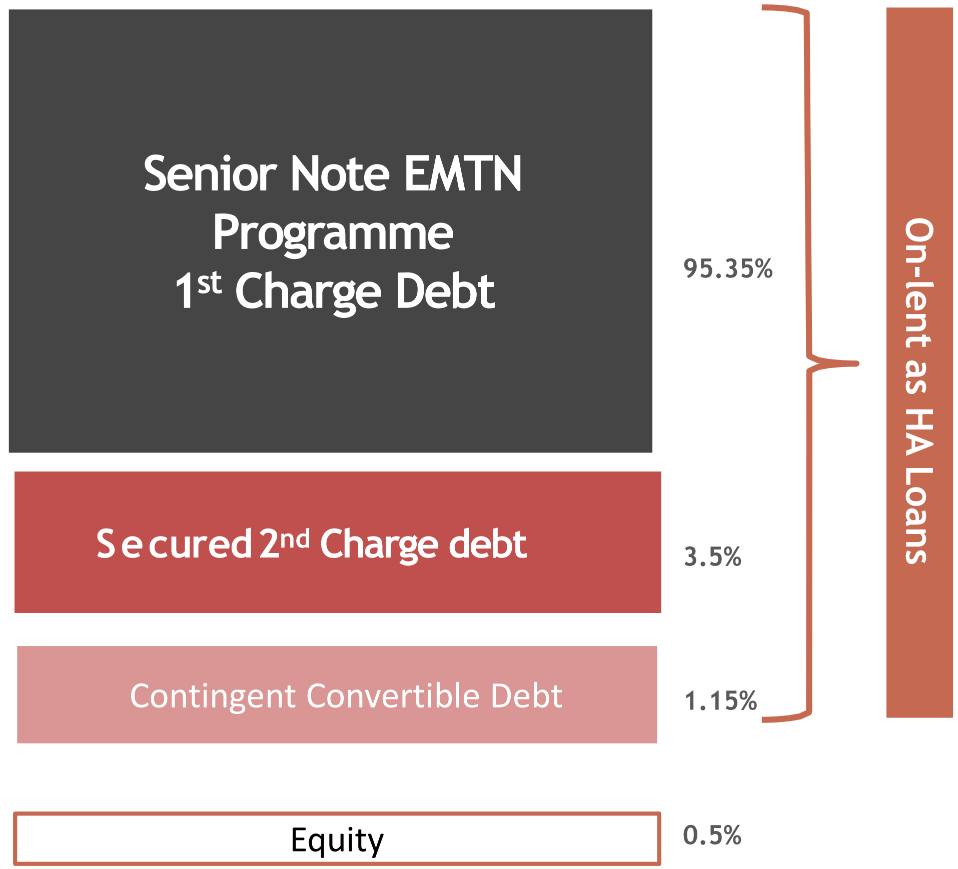
- **MORhomes is a financial intermediary and is rated by S&P as a Public Sector Funding Agency**
- **MORhomes has a simple corporate structure with no subsidiaries at present**
  - It is a for-profit company controlled by its not-for-profit shareholders via their equity shareholding
  - All borrower groups have to subscribe for additional equity and subordinated debt pro-rata to their loan
- **It is unique among UK housing aggregators as it is being created from the outset with**
  - Loss absorbing capital
  - External liquidity facilities, and
  - Retained cash
- **It has 5 sources of capital and funding**
  - Equity (and retained earnings in due course)
  - Contingent convertible debt
  - 2nd secured debt
  - Senior Notes
  - Standby liquidity facilities

On lent to Borrowers



Back-to-back funding

- **MORhomes on lends on a matched basis minimising funding and rate risk**
  - Charging a margin over the cost of debt
  - Loan interest due 10 BDs before coupon dates
- **Senior Notes have a first floating charge over all the assets of MORhomes**
- **MORhomes on-lends to eligible borrowers, taking security in due course**
  - Loans funded by EMTNs, second secured debt and CoCos.
  - 0.5% of the loan proceeds to each borrower is subscribed in new shares and the cash is retained by MORhomes
  - Properties to be charged within 12 months with options over security options.



Terms of the loan agreements are set out on p.22

Back-to-back funding

- **MORhomes on lends on a matched basis minimising funding and rate risk**
  - Charging a margin over the cost of debt
  - Loan interest due before coupon dates
  - 2 year tail expected to final legal maturity

- **Senior Notes have a first floating charge over all the assets of MORhomes**

- **MORhomes on-lends to eligible borrowers, taking security in due course**
  - Loans funded by EMTNs, second secured debt and CoCos.
  - 0.5% of the loan proceeds to each borrower is subscribed in new shares and the cash is retained by MORhomes
  - Properties to be charged within 12 months with fees paid during period pre-charging at rate increasing over time. EOD for failure to charge in 12 months

Predictable credit process: transparent for borrowers & investors

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- **The credit model incorporates**
  - A credit scoring system based on credit ratios,
  - A credit report with due diligence discussions,
  - Individual review by the Credit Committee, and
  - Single and multiple name exposure limits
- **Credit criteria and single name exposure limits set by Board on recommendation of Credit Committee and reviewed at least annually**
- **A single name exposure limit equates to a credit limit ("Lending Level") for each HA on application.**
- **Historical information, business plan, credit score and profile of borrower is reviewed by Credit Committee which makes final determination of Lending Level**
- **Currently mapping broadly to rating agency categories as shown to the right of this page**
- **The Lending Level sets the maximum credit limit (the maximum borrowing) for each HA**
- **Assigned Lending Level reviewed each year or on occurrence of a corporate event**

Lending Levels

Level 1 – AA-/A+

Level 2 – A+

Level 3 – A+/A

Level 4 – A / A-

Fail

The credit model is based on rating agencies' methodologies

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- **Ratios reflect Moody's and S&P methodologies, with additional tests on security and liquidity**
- **Borrowers provide information on a consolidated basis**
  - Historical information – 5 years
  - Business Plan (FFR) – next 5 years
  - Year 10 snapshot
- **Credit Scores:**
  - Each ratio is weighted by age of data:
    - starting at 1x for the current year to 0.2x in year 5
  - Average score on each ratio is allocated an outcome
    - corresponding to Lending Levels 1 to 4 or "fail"
  - Outcomes are adjusted to account for their weighting in the credit model
  - The weighted outcomes are added together to calculate the overall credit score

Type	Definition	Weight	Notes
Profitability	Adjusted EBITDA / Revenues	12.5%	
Interest Cover	SH EBITDA / Interest	15.0%	All social housing activity
Interest Cover	Adjusted EBITDA (all) / Interest	17.5%	All operating activities
Debt Service	Debt / EBITDA	15.0%	
Debt Repayment	Net Debt / (Annual voids x OMV values)	2.5%	
Net DpU	Net debt by total whole units	15.0%	While gearing was preferred,too many variations in sector for consistency
Liquidity	Cash & undrawn facilities as % of commitments	15.0%	Committed spend
Capacity	Uncharged assets as a % of total assets	7.5%	

Clear Credit Limits & Diversification Requirements

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- **The financial terms of loans are the same for all qualifying borrowers**
- **With the credit levels setting limits according to credit quality**
  - Allows stronger credits to borrow more than weaker ones
  - Thus **balancing** the loan book towards stronger Borrowers
- **Until MORhomes has issued £500m, single name exposures are based on a notional £500m issue. Thereafter they are set as a percentage of the total portfolio**
  - There is also an **aggregate limit** for each Level
  - The board may use discretion to merge Levels within certain limitations

Single name exposure

Category	Exposure
Level 1	12% of MORhomes total borrowings
Level 2	10% of MORhomes total borrowings
Level 3	8% of MORhomes total borrowings
Level 4	6% of MORhomes total borrowings
Fail	does not meet the credit requirements

Collective Exposure

Category	Exposure
Level 1	No limit
Level 2	60% of MORhomes total borrowing
Level 3	30% of MORhomes total borrowing
Level 4	20% of MORhomes total borrowing

Terms of the secured on-lending agreement

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MORhomes lends to all eligible borrowers on the same terms up to their credit limit:

Borrower	Non-profit distributing, regulated housing association, or its guaranteed treasury vehicle
Minimum	£10m or such lower amount as the Issuer may agree
Interest	Fixed rate payable in two equal semi annual instalments, 10 business days in advance of the coupon on associated Note
Repayment	10 business days in advance of associated note; bullet
Early repayment	The Borrower may pay the loan early subject to indemnifying MORhomes for all early repayment costs
Security	The Borrower will charge assets, or must contractually represent that on closing it owns and will keep available sufficient assets eligible for charging, to the Loan. One asset has to be charged as a CP to borrowing Eligible security will include any core asset of the housing association eligible for charging subject to a requirement for a minimum of 50% being general needs or affordable rented housing.
Asset cover	General Needs or affordable rented housing: *EUV-SH 105% and MVT 115%* Shared ownership housing: *EUV-SH 105%* Other core assets valued on an appropriate basis for collateral purposes

Security Options – June 2019 update

New borrowers will be able to choose from the options below.

Option 1

Remain with the original policy as follows:

Min. 1 property charged at drawdown

Security to be fully in place by the end of Year 1

In the interim the borrower pays a non-securitisation fee of 5bps on drawdown (reduced to 2.5bps if at least 50% of the security is charged).

The fee after six months is 10 bps (reduced to 5bps if at least 50% of the security is charged)

Full security due diligence and charging must be completed within 12 months

Option 2

Provide ‘mechanical’ security charge upon drawdown sufficient to meet the asset cover.

This means all properties can be charged once title and right to charge have been confirmed (but full due diligence checks not complete)

The basis of valuation can be either the last annual valuation obtained by the borrower or the value as applied to any previous security action (both need supporting evidence)

Any stock without a valuation can only be charged at EUV-SH until the full due diligence security process is completed and a valuation obtained.

No fees will be charged provided the asset cover test is met

Any excess security can be released upon written request, but preferably quarterly, with a form of calculation showing the estimated excess and that the asset cover is still met after release.

The value of release being subject to agreement by MORhomes

Full security due diligence and charging must be completed within 12 months

Option 3

As in Option 2 but with a non-securitisation fee charged on any shortfall in security value (compared to the required asset cover) until valuations are finalised

Non-securitisation fees under this option are only charged on the valuation shortfall and will be 10bps at drawdown and 50bps after six months

Full security due diligence and charging must be completed within 12 months

How does MORhomes match up to other capital market debt?

MOR

ii. The impact of credit, liquidity enhancement and costs on the receipt of funds

- The hidden charges for equity and liquidity involve major deductions from proceeds
  - Particularly when added to the higher new issue expenses.
- This is demonstrated below:

	MORhomes	THFC No 3	GB Social Housing	Standalone Issue
Gross proceeds	**£25,000,000**	**£25,000,000**	**£25,000,000**	**£150,000,000**
Less deductions				
– Payment for equity	£125,000	NA	NA	NA
– Prepayment of interest	£8,827	£974,449	£648,750 (?)	NA
– New issue fees	£170,000	£250,000	£250,000 (?)	£495,000
– Expenses and deductions	£110,100	£152,500	£145,000 (?)	£404,000
Total	£413,927	£1,376,949	£1,043,750 (?)	£899,000
Net Proceeds	**£24,586,073**	**£23,623,051**	**£23,956,250 (?)**	**£149,101,000**

- The lower net proceeds have a material impact on the cost of debt

How does MORhomes match up to other aggregators?

MOR

iii. The total cost of borrowing

- MORhomes has the lowest coupon while THFC has the lowest spread and gross redemption yield
- However, the lower net receipts on THFC substantially increase the cost of debt
- While the higher high coupon increases its cash running cost (Coupon paid over amount borrowed)

Price as at 29/7/19	**MORhomes**	**THFC No 3**	**GB Social Housing**	**Own name** Assumed A+ rating (20 yr)
Coupon	3.40%	5.20%	5.193%	2.53%
Spread over Gilts	1.70%	1.40%	1.89%	1.35%
Gilt yield	1.18%	1.28%	1.18%	1.18%
Bond Price	107.4	144.7	129.87	100
Gross Redemption Yield	**2.95%(1)**	**2.68%**	**3.07%**	**2.53%**
- after all deductions	**3.09%**	**2.93% (3)**	**3.29% (3)**	**2.57%**
Running cost of debt	**3.04% (2)**	**3.59%**	**4.00%**	**2.53%**

(1) Includes 0.07% pa for cost of second secured debt

(2) Cash interest paid per year/net proceeds of the bonds after all deductions

(3) Interest deposit used to pay last coupon payment