

## MEMORANDUM

*Our Ref:* PP/bt

*Date:* 31 May 2001

*Direct Line:* 020 8307 3358

*Email:* [Paulp@servitehouses.org.uk](mailto:Paulp@servitehouses.org.uk)

Basel Committee Secretariat  
Basel Committee on Banking Supervision  
Bank for International Settlements  
CH4002 Basel  
Switzerland

**AND BY FAX 0041 612 809100**

**AND BY E-MAIL - BCBS.Capital@bis.org**

Dear Sirs

### **Servite Houses Pension Scheme (1987)**

I am writing to you on behalf of my organisation, Servite Houses, because there has been speculation in the press in the UK that the proposed changes arising from the proposed new Basel Capital Accord will make lending by banks to Registered Social Landlords less attractive.

The Registered Social Landlord sector in the UK has secured approximately £11,500 million of private finance to acquire and construct housing for people on low incomes in the UK. The UK Government is relying on the sector to fund substantial improvements in social housing in the UK. Whilst I do not have details for other countries, I know that the Social Landlord sector is replicated in other countries in the EU and other parts of the world and that they will share characteristics with the sector in the UK. It seems to me likely that other countries with a large municipal housing stock will want to consider attracting private finance into its improvement by using vehicles similar to Registered Social Landlords in the UK.

At the moment, secured lending to Registered Social Landlords carries a 50% weighting under the guidelines operated by the Financial Services Authority. This means that funds from banks are available to us on very fine terms.

These fine terms are justified by the facts.

- Since 1988 when Registered Social Landlords began to access funds from private lenders on a large scale, no lender has lost money as a consequence of default by an RSL.
- The RSL sector is heavily regulated by the Government through the Housing Corporation, a public sector corporation.
- In order to obtain the lower capital adequacy rating, it is necessary for the lending to be secured upon residential property which, in virtually all cases, it is.

I understand that the new Basel Capital Accord proposals have three possible ways forward in relation to considering credit risk. These are :

- The standardised approach;
- The foundation internal rating based approach; and
- The advanced internal rating based approach.

As far as I can establish, the standardised approach for credit risk is unlikely to have any effect on us as Registered Social Landlords as it is proposed that the existing arrangements continue. Nevertheless, it seems likely that this approach will only be used by a relatively small number of lenders.

I understand that the proposals in relation to the foundation internal rating based approach could mean that Registered Social Landlords would be treated as corporate organisations and that the capital adequacy to be applied to such organisations would be 100%. It seems to me that this middle approach is the most disadvantageous from the point of view of RSLs. It is, however, likely to be used by many of the lenders to the sector who, whilst large in UK terms, often have most of their loan book in the UK and are thus not immediately likely not to move to the more advanced system.

For very large lenders that do choose to use the advanced internal rating based approach, it seems to me likely that they will reach the conclusion that RSLs are secure and, as a consequence, the capital adequacy to be applied would not be very different to what it is now, and indeed, in some cases, might be less.

I should be most grateful if the Basel Committee could take into account the need to continue to provide fine terms for lending to this sector which operates in many countries in the world and which is fundamentally very sound, given the strength of the cashflows and the underlying assets. It seems to me that this could be done most effectively by providing specific arrangements, particularly in the “foundation internal rating based approach”, for UK based registered social landlords and for similar organisations in other countries.

Thank you.

Yours sincerely

Paul Phillips  
**Finance Director**

cc	Clare Miller	Director (Regulation Policy) - The Housing Corporation
	Peter Williams	Deputy Director General - Council of Mortgage Lenders
	Richard Boulton	Financial Services Authority
	Ms K Seal	National Expert - European Commission