



## Understanding the Repayment of Long Term Loans in ProVal LS

Each unit has an allocated loan derived from its capital costs and subsidy. This loan includes capitalised development interest up to the date of its handover.

There are 3 methods of repaying a loan:

1. Overdraft
2. Hybrid
3. Annuity

All units of the same product type (e.g. Affordable Rent, Social Rent) have the same loan terms, i.e. a loan repayment method as above together with associated interest rate(s). Note that two product types can have the same loan repayment method, but with different interest rates.

When one unit's loan is repaid, its income is used to help repay other loans. All units contribute to paying off all loans. This is referred to as 'cross subsidy'.

This is the sequence of loan repayments:

1. The minimum loan payment is made on each unit. This will vary depending on the loan repayment method, as follows:
  - For loans using the Overdraft and Hybrid repayment method, the minimum is the interest cost.
  - For loans using the Annuity repayment method, the minimum is the necessary annuity, i.e. interest and principal.
2. After the minimum loan repayments have been made on all units, any surplus is used to make further repayments on the most expensive loan. The most expensive loan is defined as the loan which had the highest interest cost in the previous year.

The loan repayment year is reported in 3 different ways:

1. For each unit, in Section A.
2. For each product type in the Product Type Summary window.
3. For the Appraisal as a whole, in Section H and in the Appraisal Summary window.

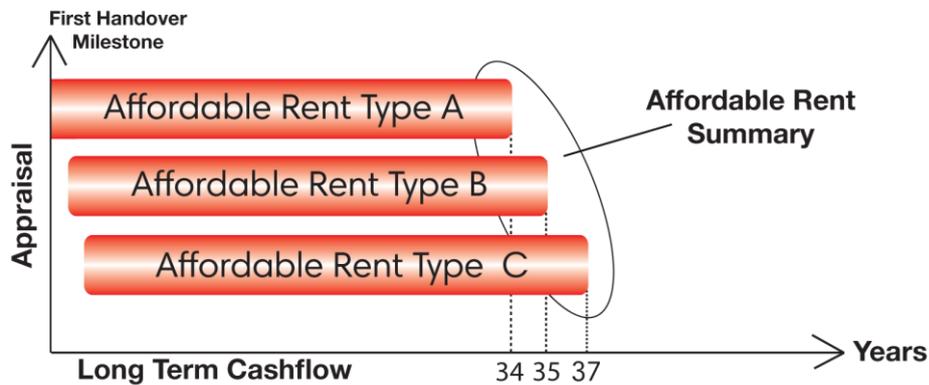
All loan repayment years are reported from the start of the long term cashflow, this being the First Handover milestone.

Each unit has its own handover date, defined by an offset period from the First Handover (FH) milestone. An offset period of zero means the unit handover date is the same as the FH milestone. An offset period of 2 means the unit handover date is two months after the FH milestone. If all units are given handover offsets greater than zero, there will be an empty period at the beginning of the long term cashflow. This is not technically wrong, but for good practice, we recommend that at least one unit hands over at the FH milestone; otherwise the milestone definition itself becomes confusing.

## Examples

### Example A

In this example there are 3 unit types, all being the same product type. Each unit has a different handover date.



#### Unit Results – See Appraisal Section A, Outputs

Type A repays by Year 34

Type B repays by Year 35

Type C repays by Year 37

	A	B	C
Dwelling Description	2B 4P Flat	2B 4P Flat	2B 4P Flat
Units	10	10	10
Floor Area (m <sup>2</sup> )	68.00	68.00	68.00
Product Type	Affordable Rent	Affordable Rent	Affordable Rent
<b>Loan Repaid - Year</b>			
Loan Repayment Year	34	35	37
Peak Loan Amount	£128,022	£131,492	£135,220
Loan Occurs - Year			

The loan repayment date is the year when the loan on that unit, on its own, will be repaid as measured from the FH milestone. No cross subsidy from other units, as described above, is used. Note that if each unit had been appraised separately, the results would be the same.

#### Product Summary

The Product Summary reports the 'Last Repaid Year' is Year 37. This is the worst position for any one unit of this product type.

Appraisal Summary	
Total Units	30
Persons	120
NPV at First Hand...	-£306,541
IRR	5.28 %
TSC / MSV	86.54 %
Loan Repaid Year	35
Products Summary	
Affordable Rent	
Total Units	30
Total Persons	120
NPV at First Hand...	-£306,541
Avg. IRR	5.28 %
TSC / MSV	86.54 %
Last Repaid Year	37

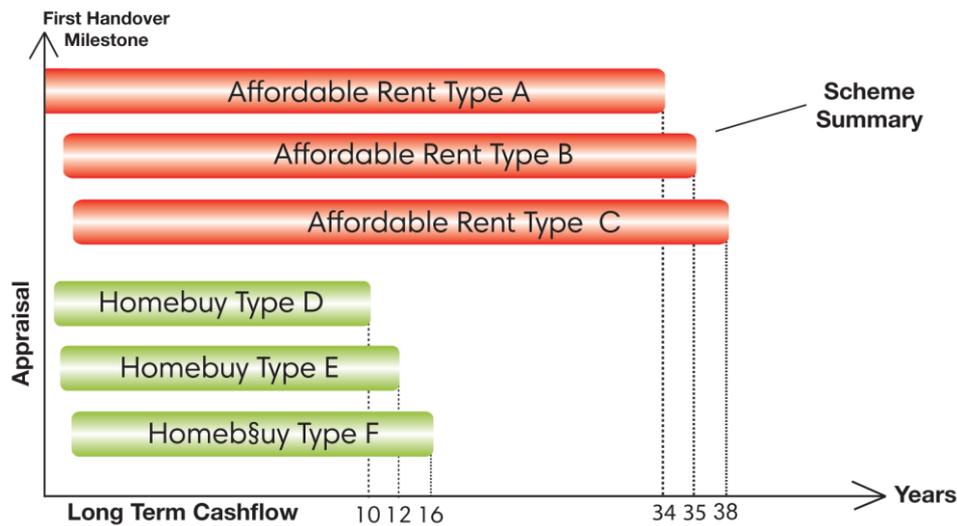
However, in Section F – Private Finance, the repayment date for this loan will be say Year 35. This is because all units of this type help the overall position.

#### Appraisal Summary

The Scheme Summary will similarly show a repayment at Year 35, for the reason given in the Products Summary above.

## Example B

In this example there are 6 unit types and 2 product types. Each unit has a different handover date.



In this example, there are six unit types and two product types. Each unit has a different handover date.

Unit Results – See Appraisal Section A - Outputs

Unit Attributes						
Add a new unit						
	A	B	C	D	E	F
Dwelling Description	2B 4P Flat a	2B 4P Flat b	2B 4P Flat c	2B 4P Flat d	2B 4P Flat e	2B 4P Flat f
Units	10	10	10	10	10	10
Floor Area (m <sup>2</sup> )	68.00	68.00	68.00	68.00	68.00	68.00
Product Type	Affordable Rent	Affordable Rent	Affordable Rent	New Build Homebuy	New Build Homebuy	New Build Homebuy
<b>NPV</b>	-£5,446	-£9,010	-£13,353	£27,519	£23,941	£19,609
<b>IRR</b>	5.6 %	5.4 %	5.1 %	16.2 %	13.7 %	11.4 %
<b>Loan</b>						
Allocated Opening Loan	£118,131	£121,720	£126,044	£18,131	£21,720	£26,044
<b>Value:Loan Ratios</b>	169.3%	164.3%	158.7%	1103.1%	920.8%	767.9%
<b>Loan Repaid - Year</b>						
Loan Repayment Year	33	35	38	10	12	16

Type A repays by Year 33

Type B repays by Year 35

Type C repays by Year 38

And so on.....

The loan repayment date is the year when the loan on that unit, on its own, will be repaid as measured from the FH milestone. No cross subsidy from other units, as described above, is used. Note that if each unit had been appraised separately, the results would be the same.

## Product & Appraisal Summary

The Product Summary report shows the 'Last Repaid Year' is Year 38 for Affordable Rent and Year 16 for Homebuy. This is the worst position for any one unit of this product type, as can be seen above.

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Summary Section Map

### Appraisal Summary

Total Units	60
Persons	240
NPV at First Hand...	£424,476
IRR	6.82 %
TSC / MSV	85.98 %
Loan Repaid Year	28

### Products Summary

**Affordable Rent**

Total Units	30
Total Persons	120
NPV at First Hand...	-£267,339
Avg. IRR	5.36 %
TSC / MSV	85.98 %
Last Repaid Year	38

**New Build Homebuy**

Total Units	30
Total Persons	120
NPV at First Hand...	£691,815
Avg. IRR	13.76 %
TSC / MSV	85.98 %
Last Repaid Year	16

### Appraisal Summary

The Appraisal Summary shows a repayment at Year 28 as further explained below.

In Section F – Private Finance, the repayment date for the Affordable Rent loan type is Year 28 and the Homebuy loan type is Year 16. This is because all units of both types help the overall position. Therefore in the Appraisal Summary, the repayment date is also Year 28, this being the last of both loan types to repay.

Summary Section Map

### Appraisal Summary

Total Units	60
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### Products Summary

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Last Repaid Year	16

Sections: Start A B C

**F - Private Finance**

**Requirement**

**Loan Report**

Loans reflect cross subsidy

Name	Affordable Rent	New Build Homebuy
Loan repaid by year	28	16
Peak loan amount	£3,875,237	£1,668,936
... occurs in year	11	2
Peak loan as % of maximum facility	110.7 %	0.0 %
Maximum loan to value ratio	60.1 %	54.3 %
...occurs in year	2	2
...excess over lender's maximum	10.1 %	
Maximum loan to cost (A&W only)	90.0 %	38.8 %
...occurs in year	11	2
...excess over lender's maximum	40.0 %	
GrantTotal	150,000	150,000