

Searching high and low

The Hull-based Avocet Trust was founded 18 years ago by Dr Patricia Frankish, a psychologist who saw the need for support for vulnerable people – such as those with autism or learning disabilities – when they came out of what were then, generally, institutions.

Today the charity supports around 80 clients living in 40 homes, with bespoke packages worked out in conjunction with the clients' care plans and the commissioner of the support, and charging a fair rent.

Originally the charity's properties were all rented from private landlords, but some owners then wanted clients to move out so

At first glance it may appear that affordable mortgages are few and far between for charities which provide housing to the vulnerable. This isn't necessarily the case, however, and as Gail Moss discovers, with a bit of legwork reasonable mortgages are out there to be found

occupiers, because we rent out the properties. So we were competing in the same market as people buying property to let to the public at high rents."

Howell says Avocet were charging a fair rent, but would have had to pay a premium rate of interest on the mortgage. "We were being quoted interest rates up to 1.5 per cent more than the public were

plan as well as proof that over a period of time the income stream would service the mortgage. And they had to show they could find people to live in the houses.

"Banks normally only lend for 15 or 20 years, but Mr Ward got us a 25-year mortgage which has enabled us to charge less rent," says Howell. "And the interest rate is at least 0.5 per cent less than

For charities in a similar position, Howell advises: "When you've decided what you want, don't take no for an answer. Follow it through and someone out there will make it happen."

Chris Owens, senior manager, business development at Co-op Bank, says the bank's normal lending policy for charity mortgages is to lend at a minimum 70 to 80 per cent loan-to-value over a 20-year maximum. "The rate of interest depends on the strength of the overall account," he says. "If the balance sheet is strong and there is a good income to service the debt, then we can lend at two per cent over base."

There is normally a one per cent arrangement fee and the bank prefers the charity to open an account, if it is not already a customer.

The application process normally starts with a face-to-face interview between the charity and the Co-op. While the bank knows its existing customers fairly well, other charities will be asked to supply their balance sheet and cash flow projections over three years to ensure the charity can make repayments without straining themselves. The lending decision takes a maximum of two weeks, but could take as little as three days.

What's available?

The Co-op is not the only lender in this field, and there are high street banks and niche players who advance money for charities, like Avocet, purchasing property.

"We do a lot of lending to organisations providing housing for vulnerable people," says Louise Davey, account manager at

Gareth Rees, relationship director of the Barclays charity team, says: "We will look at anything on a case-by-case basis. The key for us is serviceability, as well as the strength of the charity's balance sheet and the level of unrestricted reserves, which ideally should be two or three times the total of the loan. We need to look at them as a commercial lending proposition."

However, Rees says: "We always look for opportunities to lend money without taking a legal charge on property. Banks don't want to foreclose if there is a default, because of the PR implications. As for interest rates, at the bottom end of the scale, it's difficult. We might have to charge more because of the perceived greater risk and might have to consider a buy-to-let mortgage. But for larger charities, it is easier." Barclays also allocates one per cent of its pre-tax profits to charitable activity.

Earlier this year, David Brinsford, manager, charities and not-for-profit sector at Royal Bank of Scotland Group (RBS), agreed a £230,000 loan for a charity to purchase a bungalow to be converted for use by people with learning difficulties. The loan-to-value was between 60 and 70 per cent.

"We took a bit of a risk because there wasn't a cast-iron guarantee that the primary healthcare trust (PHT) would place people in the house, providing an income stream," says Brinsford. "But we took the view that it was a really well-established charity with expertise in the field and a good relationship with the PHT. They thought the interest rate was competitive."

For RBS, the charity's track record is important, as well as the

they could make money from rising house prices. Two years ago, therefore, Avocet decided to start buying its own property. The first two houses the Trust wanted to buy cost £144,000 in total, so they approached several banks about a mortgage.

"No-one would lend it to us at rates we could afford to repay sensibly," says Leslie Howell, Avocet's chief executive.

"Furthermore, we were seen as a buy-to-let proposition, rather than owner-

paying, and the rent we were receiving probably wouldn't have covered the repayments," he says.

It was then that Avocet was introduced to David Ward, corporate manager at the Co-operative Bank's South Yorkshire Corporate Banking Centre, who had a personal interest in the charity's area of activities. Howell, and finance director Michael Worthington, had a face-to-face meeting, and provided a lengthy business

anyone else could offer us. He had the confidence in us to take the risk."

About nine months after starting their search for a loan, Avocet were handed the funds. Since then they have borrowed more from the Co-op, and now own 11 houses for a total £500,000-worth of loans. They have also been given an additional drawdown facility, which gives them some bargaining power when it comes to property prices.

Triodos Bank. "We are committed to a human approach, and the key for us is understanding the needs of the charity's clients. We take time to understand what they're doing, rather than using a tick-box approach. So when we're looking at income streams, we do have an understanding of the big picture."

Triodos says its loans can be made for up to 25 years, and the bank also structures the loan to suit the needs of the organisation; for example including an interest-only period. "Our interest rates are competitive, but are not necessarily lower than market rates – they are determined by the level of risk perceived in the project," says Davey.

Triodos has other means of raising money as well, such as the £1.7m bond issue it organised for Golden Lane Housing, a charity established by Mencap to allow people with learning disabilities to live within the community.

Davey suggests that charities which are having a problem getting a mortgage may not have studied all the alternatives. "Sometimes they haven't thought about going outside the High Street – they tend to go to their existing bank," she says.

calibre of trustees and management. "We look at whether the charity can afford the level of debt they are asking for," he says. "One yardstick is the rent they pay on similar properties – if this amount is 80 per cent of the mortgage repayment, it goes a long way to showing they can pay."

And, like some other lenders, RBS can offer a repayment holiday until the income stream begins. Brinsford says: "We have been involved in situations where we've been offered security by charities but not taken it, while lending them the money. It is sometimes not worth the hassle of trying to repossess the property."

The Co-op, on the other hand, usually does take a charge over the property involved. "It gives us a bit of control, to be lenient in working with the charity," says Owens. "But then if you think the charity is going to struggle to repay, you're not doing them a favour by lending to them in the first place."

• Avocet Trust is willing to offer advice to charities in a similar position. Phone Michael Worthington on 01482 329 226.