

# Housing Self-Financing: Services from the PWLB and DMO

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ARCH 20 April 2011



# Public Works Loan Board

- ◆ PWLB a separate entity within the UK Debt Management Office (which is HMT's debt and cash manager)
- ◆ Sole function is to lend to local authorities for capital purposes
- ◆ Headed by Commissioners



# PWLB Interest Rates

- ◆ Determined by DMO on behalf of HM Treasury...
- ◆ ... with reference to yield on gilts in the secondary market...  
(Yield is the annualised return on a bond if held to maturity)
- ◆ ... plus a margin to 'better reflect the availability of capital funds and to encourage optimal borrowing and investment decisions'
- ◆ Rates are 1% above reference rate
- ◆ Rates reset intradaily: for start of business at 09:30 and again at 12:30
- ◆ Symmetrical set of rates for calculating early repayment
- ◆ Big spread makes early repayment unattractive



# Lending arrangements 1

- ◆ Simple due-diligence procedure (because of statutory security of a borrower's revenues)
- ◆ Flexible range of 'plain vanilla' products
- ◆ No forward rates or structured finance
- ◆ Most popular is the fixed-rate maturity or 'bullet' loan
- ◆ Also offer variable rate loans



# Lending arrangements 2

- ◆ Borrower may choose precise period (between twelve months and fifty years)
- ◆ PWLB will lend on the assurance that borrower is acting lawfully (plus supporting data about capacity for new borrowing within legal borrowing limit)
- ◆ PWLB will advise on its own procedures
- ◆ Borrowers take their own financial advice as necessary



# Debt Management Account Deposit Facility (DMADF)

- ◆ Part of DMO's cash management operations
- ◆ Eligible local authority funds can access a risk-free deposit facility to add to other financial options.
- ◆ Rates determined by the DMO's net cash position and the rates on other sources of short-term borrowing e.g. Tbills and gilt repo



# DMADF: use by local authorities

- ◆ AAA sovereign credit rating
- ◆ Facility local authorities may wish to use depending on their requirements in respect of counterparty credit ratings



# Further information

 [www.dmo.gov.uk](http://www.dmo.gov.uk)

