Future funding sources for the not for profit care sector
Banking market
In the second in a series of short articles on funding for care home charities, Henrietta Podd, Director of Allia C&C, looks at the bank lending market.

While various government schemes have supplied working capital and emergency liquidity, it has been harder for care charities to raise flexible bank debt to maintain growth and acquisition programmes. The bank market has for some time been equivocal about lending to care-home operators – conscious of the demographic argument and positive ESG credentials; but worried by the operational and reputational risks.

Care charities that are also regulated housing associations can often borrow on the strength of their social housing portfolios; but face challenges when it comes to pledging care assets as security. Banks generally seem to prefer to keep the two businesses, social housing and care, separate and the terms are very different for each: housing associations can borrow in volume, for up to 10, even 25 years, against their housing assets fixing at all-in rates below 2.5%; while care-home operators may be offered funding for little more than 5 years with margins starting at 2.5% and rising to well over 3%.

The charity banks will lend longer but are often limited in volume, leaving commercial banks and specialised lenders as the principle source of funding. The risk of lending to care is different from social housing. This is signalled in the approach taken by lenders: Banks start by looking at CQC scores; if good, they still require higher margins – reflecting the levels they earn from private operators, which are often more leveraged than care-home charities. Lending is also more focussed on cashflow with asset security of less importance. Possibly because of the legacy of private equity operators, banks restrict borrowing to a multiple of EBITDA rather than to a loan-to-value ratio.

Pricing on bank debt, therefore, looks quite expensive – especially when compared to that offered to housing associations. It is also relatively short dated. That said, after standing back in 2020, banks are returning to the market so terms should become more competitive this year.

Daniel Carrico
Head of Origination

T/M 020 3039 3453
W www.alliacc.com

Allia C&C