COVID-19 BANKING CONSIDERATIONS FOR HIGHER EDUCATION INSTITUTIONS

LLOYDS BANK

Thank you for attending the British University Finance Directors Group South West Meeting on Friday 9 July. To help you when making future funding requests, we have summarised some of the key things to consider given the impact of COVID-19, as well as detailing potential covenant amendments.

If you would like to discuss anything further, please get in touch with a member of the Lloyds Bank Higher Education Team.

1. Keep lines of communication open

- Develop a good working relationship with your bank(s) and provide regular updates, ideally quarterly.
- Keep your bank/s up to speed with your financial performance, both recent and forecast, as well as your plans and overall strategy. It's worth providing this information proactively rather than waiting for the bank to ask, especially if it's required as part of a lending commitment.
- To further reinforce strategy and understanding, consider having your VC and other key members of the Leadership Team engaging with your bank/s as well as the Finance Team.
- Within your banking group, reach out beyond your Relationship Director and engage with senior stakeholders and colleagues from the bank credit function. This will ensure you have a wider base of supporters who understand your institution and will help encourage more open and honest conversations.
- Be clear about what you need from your bank/banking group, including the rationale and timeline. Throughout October and November, the HE team at Lloyds Bank is likely to be busy re-setting FY21 covenants. Good ongoing communication with our clients leading up to this period means we will be better placed to respond to their needs quickly and efficiently.
- Share problems early. This not only allows more time to find solutions, it will boost your credibility and help you earn your funders' confidence.

2. Provide thorough financials

- Lloyds Bank requires your detailed 5-year forecasts, including I&E, balance sheet and cash flow, in the same format as provided to your regulator. These will need to be compared to your 2019 forecasts and should clearly articulate the impact COVID-19 has had on your finances, as well as detailing your recovery plan and how you intend to service and repay any borrowing.
- We will look to understand your assumptions (particularly around sensitivities applied for a downside case - e.g. home/EU recruitment, international recruitment, accommodation income and other revenue streams) and they will need to articulate the mitigating action available to you.
- Your cash flow forecast should demonstrate anticipated usage of any facility and any headroom available, including how this meets any regulatory or internal liquidity requirements. We'll also need to know how you anticipate repaying/refinancing the facility on maturity.

3. Establish clear KPIs

- During this significant period of uncertainty, Key Performance Indicators (KPIs) provide your bank with insight as to how you may be affected by COVID-19 in FY21 and beyond.
- Applications per place, application trends year-on-year, deposits paid, acceptances, percentage of places to be filled through clearing, bookings at halls of residence and the number of returning students all help to provide a very early stage view of FY21 intake and performance.

4. Consider the timing of your request

- Check with your auditors around timings for obtaining a new revolving credit facility, to avoid any potential issues around Going Concern audit qualification.
- Be prepared that your lender may want to wait until clarity on enrolments is available in October and the impact on FY21 performance is better understood to approve lending.
- Lloyds Bank are focusing on amending covenants ahead of July 2020 year-end, to address any potential covenant issues. We are also waiting until October/November to amend any FY21 covenants. This means there is a relatively short window in which to resolve any issues ahead of the accounts being signed off.

5. Agree consents in advance

- Any consents which may be required under your existing (bank and private placement) facility agreements should be agreed in advance. Look out for covenants that may be affected by further indebtedness (debt service, leverage, gearing) and any permitted financial indebtedness restrictions and engage with these funding providers early.
- Consider any effects on your pension trustee monitoring criteria and seek appropriate professional advice.

6. Check and share your calculations

- Check your facility agreements and ensure you have any side letters, or subsequent amendment letters, for latest definitions.
- Ensure your definitions are accurately reflected in your covenant calculations e.g. excluding any exceptionals.
- Share your full covenant calculations and headroom with your lenders.
- Consider cross default clauses.

7. Other things to consider

Due to the unique risk profile of the current environment, topics for discussion may include:

- Provision of security and how this affects the requirements of other funders and your pension trustees.
- Pricing, including fee/margin uplift and commitment periods.
- Enhanced controls i.e different or new covenants, restrictions on further permitted financial indebtedness and more frequent MI, among other factors.
- Use of professional advisors to validate scenario planning and review cost reduction plans.