

SUPPLEMENTARY WRITTEN EVIDENCE

BRITISH HOLIDAY AND HOME PARK ASSOCIATION

(Members asked BH&HPA for more information on site financing during its evidence session on 19 February 2014. The following information is an extract from an email from RoyScot Larch Ltd to BH&HPA)

Time-Limited Caravan Site Licenses

You asked me to confirm our thinking on the potential impact of time-limited caravan site licenses on our appetite to lend in the caravan sector.

Our lending, to both residential caravan owners on licensed residential sites and to leisure users on licensed holiday caravan parks, is by way of a Conditional Sale agreement. Under the terms of this type of finance instrument the asset is purchased from the vendor by us and sold to the customer by instalments, with ownership & title passing to the customer once all the repayments have been made.

Security for our lending is thus the ownership of the asset financed for the duration of the life of the finance agreement and until the customer's obligations under that finance agreement have been fully discharged.

The corollary of this is that should we need to realise our security, as a result of customer non-payment or some other set of circumstances that causes the agreement to be bought to an end, it is through the ownership of the asset and their disposal that we will seek to recover monies outstanding to us and mitigate our losses, and any resultant liability that our customer may face.

In the case of both residential park homes and caravan holiday homes the asset financed is financed at the sited price, which is significantly higher than the 'ex-works' factory gate cost of the caravan. As an extension to our security in the ownership of the caravan under the terms of the finance agreement we seek, in the case of both residential parks and holiday parks, the site owners written agreement that, in the event that we have to enforce our finance agreement and take possession of the caravan, we are afforded the right to sell that caravan 'on-site' together with the rights and obligations under the occupation agreement

This ability to sell 'on-site' ensures that we can sell at open market (i.e. sited) value mirroring the fact that we have financed and acquired the asset at open market or sited value. As a business model it would be completely unsustainable to finance a caravan at say 80% of its sited price but seek to recover outstanding amounts owed in the event of repossession or similar by selling the caravan 'off-site'. Potential losses incurred in this way would be unsustainable and it could also give rise to customers caught in these circumstances facing significant, and in our eyes unacceptable, post asset sale liabilities.

As such the ability to sell a caravan 'on-site' is core to our continued lending in this sector.

Given the foregoing I cannot conceive how we, as a lender, could enter into a financing arrangement for an asset that is sited on licensed property for a period that exceeds the term of that licensed. Indeed it is likely that we would limit our lending term to a period somewhat shorter than the licensed period to ensure that, should the circumstances arise where we need to sell a caravan 'on-site', there is a sufficient amount of the license period remaining to enable a sale at a realistic market price. We already apply this principle in the case of caravan holiday homes whereby we limit our lending term to a period of 5 years less than the occupation agreement, subject to an overall maximum lending period. Whilst the occupation agreement referred to here and the site license are different things the principle is the same.

The introduction of time-limited residential park site licenses in Wales later this year, has led us to review our Credit Policy for lending on residential park homes in Wales for the reasons outlined above.

The proposal to limit Site Licences to 3 years for residential parks in Scotland would clearly impact on providing finance on residential park homes in Scotland, as it has in Wales.

RoyScot Larch Ltd
20 February 2014