

Business Focus: Respite for hard-pressed London borrowers as Barclays retreats on Lobo loans

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Billions of pounds of controversial Lobo loans, sold to councils after the financial crisis and highlighted in an Evening Standard investigation, have been overhauled, marking a major boost for scores of cash-strapped London boroughs.

Barclays, one of the main Lobo lenders, has become the first bank to formally scrap Lobo loans after it effectively cancelled about £8 billion worth by turning them into fixed-rate loans at a cost of £182 million.

In a series of articles earlier this year, the Evening Standard and our sister paper The Independent investigated the web of activity surrounding the sale of Lobos. The campaign prompted calls from Treasury Select Committee chairman Andrew Tyrie for further scrutiny of the loans.

Lobos, an acronym for lender option borrower option, are long-term bank loans for public-sector borrowers that give the banks the option to refix the interest rate at any point. The borrower can accept the new rate or pay a big fee to exit the loan, giving the bank the upper hand and sometimes locking borrowers into worse rates than alternative loans from government.

Barclays' decision to end Lobos has been welcomed as giving more certainty to public-sector finances. However, campaigners say the loans could still weigh heavily on hard-pressed council finances. Paul Rickard, group finance director of London housing association One Housing, said switching £110 million of Lobos to a fixed-rate loan had given it a £30 million boost, which will go towards building more homes for Londoners.

"It came as a pleasant surprise to us. It removes that uncertainty," he says. "Some associations had already negotiated out of Lobos before but it makes sense. Barclays was giving up some value for absolutely no price."

Newham Council, one of the biggest Lobo borrowers with 27 loans worth more than £560 million, said Barclays' decision "will provide more certainty on our interest arrangements".

Brent Council, which borrowed much less at £15 million, also welcomed the move. "It has no short-term significance but in the long term it gives us more certainty with our treasury management," Brent chief financial officer Conrad Hall said. "They always had the option to exercise against us and that's never the best contractual position to be in, so the change works in our favour."

About £15 billion worth of Lobos were sold to public-sector borrowers by the likes of Barclays and RBS in the wake of the financial crisis. Barclays chairman John McFarlane said in May he would “do the right thing” for Lobo borrowers and the bank today said the move would give hundreds of councils “greater certainty”.

Turning them into normal, fixed-rate loans means they are easier for Barclays to hold on its balance sheet because they are less volatile. RBS, the other big Lobo lender, has not yet followed suit. It declined to comment.

Advisers who work in the public debt arena say there are no strings attached to the offer. Adrian Bell at JC Rathbone Associates, who advises housing associations, said: “They’ve not been charging anybody for this. It’s a free benefit for the client.”

But despite the extra certainty, campaigners say converting Lobos into fixed-rate loans could still punish councils by shifting them towards riskier, long-term debt.

Joel Benjamin, who has headed a campaign to persuade councils to challenge the loans in court, said that Barclays’ move “should not be viewed as a victory for local government”. He added: “Councils and the taxpayers who fund them are now locked into high-cost credit for generations. Council balance sheets will only now begin to reveal the folly of financing via Lobos.”