**Private Finance Initiative Loans Due Diligence Questionnaire** [November 2019 Version]

**–** *Name of**Participant MM/DD/YY*

This Due Diligence Questionnaire (DDQ) forms part of the eligibility process for Participants wishing to positon PFI loan pools as collateral with the Bank of England. Answers will be used to inform the Bank’s discussions with Participants on site visits or annual review conference calls.

Due Diligence Questionnaire Guidance

* **Answers to questions should cover all asset types** being discussed as part of the review (e.g. PFI or renewable energy loans). If necessary, split your responses to each question into sections to ensure each asset type is adequately covered.
* **Participants should answer all applicable questions with a written response for each**. Whilst Participants may mention a supporting document there should always be an explicit answer to each question provided. This enables the Bank to track changes between reviews.
* **For subsequent reviews, the DDQ should be** **black lined versus the last submission.** This will ensure visits/conference calls focus on changes and minimise any repetition of previously discussed topics. Please note that this is not required for your first submission in this format.

Supporting Documents

The following documents should be uploaded to the Portal alongside the DDQ:

* **Lending policy** (including a log of recent changes).
* **A copy of, or specific details of, any internal credit rating, expected loss, or affordability models** you may use as part of your credit sanctioning process.
* **Arrears and forbearance policies**.
* **Two recent MI/Board/Risk committee packs covering the asset types being reviewed** (these should provide management information on the risk characteristics of the loan book, origination controls, risk register/limits etc). Please also submit the minutes for each of these meetings.
* **List of all internal audit reports relevant to the business issued since the last visit (or in the case of new participants in the last five years (or 2 internal audit cycles)).** This should include the titles and ratings for each one (focus should be on audits covering systems, processes and controls within credit sanctioning, loan origination, securitisation (if relevant), portfolio monitoring and risk management). Once reviewed the Bank will then specify which reports it would like to be submitted.
* **Performance data:** i.e. monthly vintage curves or granular data on originations and defaults. The data should span at least one business cycle covering at least one downturn.
* **BoE data tape glossary –** This document should highlight any instances of non-compliance with mandatory fields or particular definitions versus the Bank’s published data tape requirements.
* Any other additional documentation requested by the Bank on a per Participant basis.

Declaration

By submitting this questionnaire, [Name of the participant] confirms that the questionnaire has been completed to the best of its knowledge and the responses have been reviewed prior to submission. [Name of participant] acknowledges that any information found to be incorrect or misleading may result in re-assessment of eligibility resulting in the proposed portfolio being rendered inadmissible as collateral.

**Name:**

**Date:**

1. BoE Collateral Plans
   1. Details of individuals at the Participant responsible for managing PFI collateral positioned with the Bank. These should cover individuals responsible for the funding strategy, data reporting and the payment of legal bills.

|  |  |  |  |
| --- | --- | --- | --- |
| **Name**  *(plus job description)* | **Email Address** | **Phone number** | **Address** |
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* 1. Details of the Participants expected use of BoE schemes over the next twelve months (drawing/repayment plans).
  2. What PFI collateral changes are expected to facilitate this (i.e. top ups, new pools)? Include information on expected values and timings. How does this interact with projected amortisation of existing pools?
  3. What funding plans does the Participant have to repay drawings made in the Term Funding Scheme/Funding for Lending Scheme?

1. Strategy, Outlook and Competition

**Strategy**

* 1. Details of the Participant’s PFI business (including origins), overall business strategy and any recent or planned changes.
  2. What are the general characteristics of the PFI business, please include a section on each of:
     1. Highlights of the Participants financial performance within the PFI business over the last year including UK market share, profitability, gross and net lending growth rates;
     2. Details of the organisational and management structure of the PFI lending business, including any anticipated changes and the tenure/experience of key management personnel;
     3. Please provide a description or organogram showing where the PFI business sits within the wider organisation.
     4. Strategic goals for the PFI business including the Participant’s origination strategy (e.g. what is the target sector? What is the Participant’s unique selling point? Are originations price driven, service driven etc?);
     5. Key risks around the PFI strategy with reference to the UK economy. Specifically, how these views are incorporated in the origination, credit sanctioning and risk management of PFI loans;
     6. The Participant’s view of the current state and future outlook of the PFI sector in terms of general project pipeline, re-financings, legal, political, regulatory and other risks, and how these may affect their business.
     7. Details of any projects currently planned for cost-cutting or headcount reductions which may affect the business.

**Outlook and Competition**

* 1. What are the Participant’s growth targets for total PFI assets? What sectors specifically does the participant view as growth areas for the PFI business?
  2. What are the biggest current and future threats to growth for the Participant?
  3. Who are the Participant’s main competitors in the PFI market? How has the competitive landscape developed in the past 12 months?
  4. In the last 12 months has the Participant entered into any new sectors of PFI lending? Please give details regardless of whether or not the Participant intends to include them in pools positioned with the Bank of England.
  5. In the next 12 months, is the Participant planning to enter any new sectors of PFI lending? Please give details regardless of whether or not the Participant intends to include them in pools positioned with the Bank of England.
  6. Detail the Participants’ approach to pricing PFI loans. Including any methodology and the governance process for approval.
  7. How do you expect that climate change might affect your firm and the wider market?

1. Credit Sanctioning and Origination

**Distribution**

* 1. Details of the Participant’s marketing strategy and the distribution of its PFI business including;
     1. Details of how the Participant builds new PFI relationships with off-takers, and develops existing relationships (e.g. is this the responsibility of a separate sales team?)
     2. Detail in which circumstances and how often the Participant tends to be the Lead Arranger for syndicated deals? What was the split between bi-lateral and syndicated deals in the past 12 months? What are the projections for the next 12 months?
     3. Details of any plans to purchase portfolios of loans from third party lenders.

**Credit Sanctioning Approach**

* 1. Full details of credit sanctioning policies and procedures in place at the time of origination for the proposed loans to be submitted to the Bank, including;
     1. Details of credit sanctioning staffing, including; location, headcount, training policies, average experience/tenure.
     2. What are the mandate levels for Credit Sanctioners?
     3. How is the performance of Credit Sanctioners managed?
     4. What training is provided for new Credit Sanctioners and how is their performance tracked and monitored through time?
     5. What checks are carried out to ensure consistency of credit sanctioning across the business and with lending policy? Please detail any quality assurance checks completed by the first line including: sample sizes, frequency and the governance process for reporting on findings.
  2. Outline the credit sanctioning process from an application being received to a decline or offer being released. This should detail the different teams involved, systems or scorecards used and how data is captured during the different stages of the process.
     1. Please outline the credit sanctioning process from application to final approval.
     2. Are there any differences to the credit sanctioning process on account of whether the deal is syndicated or bi-lateral?
     3. What is the average time to offer from a completed application being submitted? Does the Participant have any targets which performance is monitored against?
     4. Please provide information on the accept/decline rates at the different stages of credit sanctioning (e.g. application stage, second line review, etc.).
     5. What models and scorecards are used in making credit decisions (including credit scoring models)? How often are these reviewed? Please detail changes made over the last year and the rationale for them. Outline the governance process followed to agree these. Please provide details of any discussions with or actions taken by regulators with regards to models and scorecards.
     6. Full details of the Participant’s record management approach for credit sanctioning documentation.

**Lending Policy**

* 1. What is the relevant lending policy for PFI loans?
  2. Outline the governance process followed to make changes to the relevant lending policy. Please outline any changes made over the last 12 months.
  3. Outline the Participant’s approach to exceptions to lending policies, including:
     1. Are exceptions to lending policy allowed?
     2. What is the sign off process for exceptions and how is the decision rationale recorded or flagged in systems?
     3. What proportion of the Participant’s book is an exception (percentage by number/loan balance)? What proportion of originations over the last 12 months were exceptions? Is there a limit to the value of exceptions permitted?
     4. What are exceptions permitted for?
  4. Please outline the customer due diligence process or checks undertaken on borrowers prior to a lending decision including anti-fraud, anti-money-laundering and know your customer.

**Debt Service**

* 1. Full details of the debt service assessment policies in place at the time of origination for proposed loan pools (incorporating changes over the period to date), including;
     1. How is borrower debt service capacity assessed? What are the pass/fail thresholds (e.g. DSCR, LLCR)?
     2. What variables are taken into account when assessing debt servicing capacity and how are these evidenced?
     3. What is the stressed interest rate used in the debt servicing assessment and how is this agreed/updated?
     4. What other stresses are applied on PFI loan applications? E.g. reductions in availability based payments, sub-contractor default etc.

**Security**

* 1. What security types are accepted for PFI lending?
  2. How are these securities valued?
  3. What are the Participant’s primary recovery strategies for PFI loans?
  4. Are climate related risks taken into consideration as part of your valuations? If yes, how?

**Transaction Counterparties**

* 1. How are sub-contractors assessed in the applications process? What checks does the Participant carry out on sub-contractors and technical advisors during the Credit Sanctioning process?
  2. What due-diligence does the Participant carry out on the borrower’s sponsors?
  3. What is the Participant’s policy with regards to borrower hedging? How often is the Participant also the hedge counterparty for a given facility? What is the policy with regards to set-off?

1. Risk Management, Monitoring and Controls
   1. Full details on the structure of the risk management division within the organisation, including number of people, previous PFI experience and tenure.
   2. Outline the Participant’s risk management framework and how this applies to the PFI lending business.
   3. Describe the risk function’s activities:
      1. Does the Participant have risk resources devoted to PFI credit risk? Or is this shared with other areas (such as general corporate)?
      2. How is the quality of PFI originations monitored within the risk function?
      3. Define the Participant’s credit risk appetite. Outline how this was determined, approved and embedded within the organisation. How does the Participant ensure it is adhered to?
      4. What kind of stress testing does the Participant carry out on its PFI lending book? What levels of loss provisioning does it have and how does it come up with these?
      5. Does the risk function have oversight/ownership of the firm’s lending criteria and policies?
      6. Does the risk function have full control over the specification, development and maintenance of the credit models/scorecards/affordability models?
      7. What is the role of the risk function in live credit sanctioning decision-making?
      8. How is the performance of sub-contractors monitored during the life of the contract? How can the Participant require the replacement of a sub-contractor?
      9. Describe the process by which observed problems with credit sanctioning or servicing observed by Risk Management are fed back to the relevant front or back office in terms of changing criteria, procedures. Give examples of where this has occurred in recent years.
   4. What are the main committees responsible for risk management of the PFI business and how do they interact? For each group, please provide detail on;
      1. Membership of the group
      2. Terms of reference of the group, including areas of responsibility (e.g. setting lending policy, monitoring MI).
   5. Provide a summary of the MI and risk limits used to monitor the PFI book. How are book triggers/limits agreed? Outline any changes to limits made over the last year.
   6. How does the Participant consider concentration risk within the PFI book? Including large exposures, geographic and sector concentration.
   7. Detail any developments to the risk function over the last year. What is planned for the next twelve months?
   8. Details of any discussions or actions taken by regulators against the relevant risk management or credit rating systems in the past five years.
   9. Details of any lapses in controls and management procedures within the past two years (and to what extent these have been subsequently rectified).
   10. How is your firm incorporating the risks from climate change within your risk management framework?
2. Servicing, Arrears and Foreclosures
   1. Details of servicing staff, including location, headcount numbers, training policies and average tenure/experience levels;
   2. Details of servicing operations and policies, including;
      1. How are the majority of PFI accounts paid?
      2. What proactive credit management is done of borrowers before accounts are in arrears?
   3. Details of the collections process, including;
      1. Outline the level of automation within the servicing process. How are arrears cases tracked? How does this link to the core lending system?
   4. Details of forbearance policies in place and forbearance options that are available to borrowers;
      1. Please provide details of your Watchlist and monitoring processes for PFI loans.
      2. What is the process for loans that breach covenants (e.g. DSCR, LLCR etc.)?
      3. Provide management information showing the current and historic levels of forbearance arrangements in place and the effectiveness of forbearance arrangements;
      4. Outline the governance process used to agree forbearance.
   5. Please detail how the performance of the overall book provided is expected to compare to the performance of the pools being positioned.
   6. Please provide details of all PFI defaults that you have experienced as a lender.
   7. For the above defaults, please provide details of any losses incurred, and the nature of the recovery strategy.
   8. Description of any anticipated events which may impact the ability to administer the portfolio of PFI loans on behalf of the Bank, including any changes in the costs of servicing or compliance with laws and/or regulations;
   9. Details of any outsourcing arrangements that may impact the PFI business. This should include information on the day to day management of the outsourced relationship, summary of any service level agreements which have been agreed, details on any mandates for decision making held by the outsource entity, linkages with the Participants core systems and information on contract termination;

**NHS LIFT and Interest-Only Loans**

* 1. Outline the Participant’s interest-only servicing strategy.
     1. How frequently does the participant contact borrowers in the lead up to maturity of the interest-only loan?
     2. What are the most common repayment plans that borrowers have in place?
     3. How is the performance of the interest-only loans that are past maturity monitored and how long does the Participant allow before initiating repossession?
     4. What processes does the Participant have in place to minimise losses on NHS LIFT loans (e.g. cash sweeping, updated valuations etc.).
     5. On average, what proportion of interest-only loans fail to repay the bullet payment by the scheduled maturity date? On average how long do these borrowers take to make the make such a payment?

1. IT Systems and Reporting

**IT Systems and Processing**

* 1. Provide an overview diagram showing the IT systems (including interfaces) used to capture the end to end process for PFI loans. For each system summarise its function. Please flag any that are now legacy systems or in the process of being replaced.
  2. The diagram should include processing timelines, details of the software used, the flow of data between systems and key processing controls (e.g. verifications reconciliations, exception reports, checks around data amendments and overwrites).
  3. For business and IT staff, please summarise what controls are in place around system access / roles, user administration and to maintain segregation of duties across IT systems?
  4. How is data input into systems checked (e.g. at PFI origination)?

**BoE Data Reporting**

* 1. How will the portfolio of PFI loans to be used as collateral in the SMF be readily identifiable and separable from the rest of your PFI portfolio?
  2. How are the cash flows from positioned collateral identified and reconciled in your systems? Is there a specific collection account receiving cash flows from PFI loans used as collateral? Could they be easily segregated from other cash flows received?
  3. Please provide a diagram showing the process for compiling the Loan Data tapes including:
* Timeline of the process from start to finish – how long does it take in total?
* Indications of all IT systems involved.
* Description of the key controls in place stating whether they are manual or automated (e.g. data validation and plausibility).
* Outline the controls around data amendments / overwrites. What audit trail is in place to monitor this?

**Resources/Support**

* 1. Outline a brief description of the IT Department including staff numbers, location and skills profile?
  2. Explain the support arrangements for the IT systems used in the PFI business, including any outsourced / offshored IT.

**Standby / resilience**

* 1. Outline the provision of any disaster management system. What plans does the Participant have in place to deal with unexpected events? How often are they tested?

**Managing Change**

* 1. Please provide information about any planned major changes to the IT systems used for loans reporting and processing in the next 2 years.
  2. Please give an overview of the IT Change Management process including governance, planning, process implementation and deployment and the key staff involved.

1. Audit, Regulation and Ratings
   1. Provide a summary of the internal audit function (including experience and tenure). Is the function outsourced? Is co-sourcing utilised?
   2. How is the audit plan decided? How often is the PFI business reviewed on the basis of this plan?
   3. Details of any action taken by regulators against the PFI business or any of its employees in the past five years;
   4. Information about any disputes or issues raised by the *external auditors* that would affect the PFI lending business or any transaction under the SMF;
   5. Details of any contingent liabilities, including those which the *external auditors* agreed not to disclose in the latest financial statements, that could impact the PFI lending business;
   6. Description of any changes to accounting policies or other accounting changes proposed or contemplated which could impact the PFI lending business or any transaction under the SMF.
2. Legal
   1. Schedule 6 of the Bank of England’s Loans Assignment Annex and Schedule 4 of the Bank of England’s Loans Declaration of Trust Annex[[1]](#footnote-1) both include representations and warranties to be made in respect of each loan in the proposed portfolio.
      1. For new pools, please confirm that the Participant is able to satisfy these representations and warranties.
      2. For pools currently pre-positioned with the Bank but unencumbered (i.e. not securing any drawings), please confirm the Participant is currently able to satisfy these representations and warranties.
   2. Do you have standardised documentation for your PFI loans? If so, please provide details. To what extent is LMA Guidance used/referenced.
   3. Please confirm that you have a record of and have retained a copy of each set of standard loan documentation (including terms and conditions) and for each type of loan in the portfolio.
3. PFI Lending Policy Summary

Participants should provide concise information on each lending criterion listed below. Information should relate to the Participant’s current live lending policy. Examples have been included purely to provide guidance on formatting.

|  |  |  |
| --- | --- | --- |
| **Lending Criteria** | **Example** | **2018** |
| **Max Loan Size** | £30mn |  |
| **Max Term** | 40 years |  |
| **Min DSCR** | 105% |  |
| **Min Loan Life Coverage Ratio** | 105% |  |
| **Min SPV Debt: Equity Requirement** | 90:10 |  |
| **Authorised Jurisdictions of Borrowers** | UK |  |
| **Governing Law of Loans** | English law only |  |

1. NHS LIFT Lending Policy Summary *(if applicable)*

Participants should provide concise information on each lending criterion listed below. Information should relate to the Participant’s current live lending policy. Examples have been included purely to provide guidance on formatting.

|  |  |  |
| --- | --- | --- |
| **Lending Criteria** | **Example** | **2018** |
| **Max Loan Size** | £30m |  |
| **Max Term** | 40 years |  |
| **Min LTV on Property Loans** | 80% |  |
|  |  |  |

1. Both available on the Bank’s website under the ‘Apply to participate in the Sterling Monetary Framework’ heading - [hhttps://www.bankofengland.co.uk/markets/the-sterling-monetary-framework](https://www.bankofengland.co.uk/markets/the-sterling-monetary-framework) [↑](#footnote-ref-1)