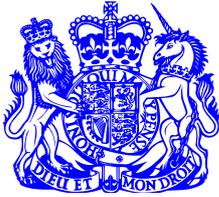


PUBLIC WORKS LOAN BOARD



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To the Chief Financial Officer
of local authorities in
England, Wales and Scotland

Circular No. 113

20 March 1997

OPTION TO REPLACE A VARIABLE RATE LOAN / PREMATURE REPAYMENT OF A VARIABLE RATE LOAN

In addition to the minor changes detailed at 8(i) and 8(ii) in the Board's Circular No. 112, dated 5 March 1997, the Public Works Loan Commissioners announced that, with effect from 1 April 1997, conversion of a loan from variable to fixed rate and premature repayment of a variable rate loan will be able to take place on any banking day.

Option to replace a variable rate loan

The new flexibility for conversion of a loan from variable to fixed rate will entail some administrative changes which will bring it into line with the fixed to variable conversion procedure and will be as follows.

The total amount payable in order to redeem a variable rate loan to be replaced will be calculated in accordance with the normal rules for the premature repayment of variable rate loans. Because the amount of the replacement fixed rate loan is unlikely therefore to be the same as the amount required to redeem the replaced variable rate loan it will be necessary for moneys to be transferred between the borrower and the Board - the repayment on the one hand and the replacement advance on the other.

The authority will be required to state the total amount of principal to be repaid and to provide the following information for each loan being replaced:

- (i) the interest payment dates,
- (ii) the loan number, and
- (iii) the amount to be repaid, if less than the balance outstanding.

To exercise the option to reborrow on fixed interest rate terms the borrower must telephone the Board's office on 0171-270 3873 in accordance with the following timetable to agree the terms for the replacement:

<u>Agreement of terms</u>	<u>Replacement day</u>
Friday pm/Monday am	Wednesday
Monday pm/Tuesday am	Thursday
Tuesday pm/Wednesday am	Friday
Wednesday pm/Thursday am	Monday
Thursday pm/Friday am	Tuesday

The terms of the replacement, including the formula and the margin to be used to determine the discount rate for the repayment and the fixed interest rate applicable to the replacement loan, will be agreed and, on acceptance, will be deemed a binding commitment to replace on those terms and on the day indicated.

As soon as practicable after 11.00am on the actual replacement day the Board will telephone the authority to notify the total amount required to redeem the loan to be replaced, including accrued interest from the last interest payment date and taking account of the discount or premium. The authority must then arrange with its bankers for this amount to be credited that same day by automated direct credit transfer (CHAPS) to the 'Public Works Loans Account' (Account No. 25360000) at the Bank of England (Sort Code 10-00-00).

Moneys in respect of the advance of the replacement fixed rate loan will be transferred directly to each borrower's bank account by automated direct credit transfer (CHAPS). The sum transmitted will represent the amount of the loan less the appropriate fee payable to the Board.

In view of the changes to the administrative arrangements for the exercise of an option to repay a variable rate loan and replace it with one on fixed rate terms, the Treasury has decided that the current fee of £25 for each such replacement loan should be increased to £70. Subject to Parliamentary approval of the necessary Regulations, it is intended that the new fee will apply to advances made on or after 16 April 1997.

Premature repayment of a variable rate loan

The arrangements in respect of the premature repayment of a variable rate loan on any banking day, though broadly similar to those described in section 22 of the Board's Circular No. 110, will in most cases result in the payment of a premium or discount. As a consequence it will not be possible to determine the amount required to make the premature repayment until after 11.00am on the repayment date. As soon as practicable thereafter the Board will telephone the authority to notify the total amount required, including accrued interest from the last interest payment date and taking account of the discount or premium. The authority must then arrange with its bankers for this amount to be credited on the same day by automated direct credit transfer (CHAPS) to the 'Public Works Loans Account' (Account No. 25360000) at the Bank of England (Sort Code 10-00-00).

Enquiries relating to this circular may be made on 0171-270 3876/3874.

I H Peattie
Secretary

This version has been superseded