Devonshires

Devonshires Quarterly Banking Update

August 2021

Sector Update: The ESG Agenda

The environmental, social and governance (**ESG**) agenda is hotting up in the social housing finance market. We are seeing an increasing number of borrowers eager to convert their ESG achievements into a quantifiable return via margin ratchets, and we are encountering equally eager funders ready to incentivise ESG progress in the form of sustainability linked loans (**SLL**) and bonds (**SLB**).

The emergence of a category of funding that can be classified as "clean", without limiting the use of proceeds to ESG-related projects, is a game changer for ESG finance within the social housing sector. The borrower does not need to be "nailing it" before they can access a SLB or SLL; the key is that a SLL or SLB incentivises improvements in ESG, so the borrower must be able to articulate aspirational and significant ESG targets that are measurable and externally verifiable, whether to secure increase affordable housing units, water saving measures, increased use of sustainable raw materials, improvements in community relationships or any number of other ESG-related ambitions that no doubt all social housing providers already have tucked into their business plans.

Most funders choose to follow the voluntary SLL Principles developed collaboratively by the LMA, LSTA and APLMA or the SLB Principles published by ICMA. The two sets of principles set out parallel requirements, both aimed at preserving the credibility and integrity of the sustainability linked classification.

The main requirements are that sustainability targets must be:

- relevant for the life of the loan or bond;
- clearly defined;
- relevant, core and material to your overall business;
- of high strategic significance to your current and/or future operations;
- measurable or quantifiable on a consistent methodological basis;
- able to be benchmarked using an external reference or definitions to facilitate assessment of the level of ambition;
- externally verified.

Sustainable performance targets must also represent a material improvement and be consistent with a borrower's overall sustainability or ESG strategy. Getting the right level of ongoing reporting is important, recognition that transparency is integral to the credibility of the classification. Independent external audit, including second party opinions from expert counsel, is encouraged at the outset and at least annually thereafter as part of the verification process. With all that said, there is plenty of help available and if you would like guidance on any of these matters please contact **Julian Barker** or **Gary Grigor**.

Recent Deal: Metropolitan Thames Valley Housing's £2bn EMTN Programme and its first sustainable bond issue of £250m

Devonshires has advised MTVH on its successful establishment of a £2bn Euro Medium Term Note Programme and first sustainable bond issue of £250m at a coupon rate of 1.875%, only the fourth housing association transaction this year to obtain a yield of under 2%! Our team comprised **Julian Barker**, **Alice Overton** and **Adam Hardy**.

At the heart of MTVH's fundraising is a commitment to sustainability in support of their efforts to work towards achieving net-zero carbon by 2050.

The Devonshires banking and capital markets team has advised on a number of "sustainability" bonds and note programmes as the social housing sector continues to embrace ESG commitments. These include Beyond Housing with its debut own-name £250m bond issue and PA Housing with a £400m issue, both in May 2021 and the establishment of Platform Housing Group's ESG-enabled EMTN Programme in February 2021.

Person Profile: Charlotte Ingram, Trainee Solicitor

My name is Charlotte Ingram and I am a Trainee Solicitor at Devonshires.

I am delighted to feature in the first edition of our new Quarterly Banking Update, providing you with a brief snapshot of what we have been up to, as well as an overview of any big sector updates that have taken place.

I will be qualifying into the Banking team in October 2021, and will be working with the wider team on note purchase agreements, security trust deeds, facility agreements, due diligence exercises and transition work from LIBOR to SONIA.

I joined Devonshires back in 2017 as a Paralegal in our Leeds Securitisation team.

I then had the opportunity to become the first Leeds Trainee Solicitor and carry out my Training Contract here, undertaking trainee seats in the Banking, Construction Litigation and Real Estate & Projects teams.

In my spare time I like to stay active by running and going to the gym. I also teach linedance classes and compete regularly, both individually and as part of a team.