# Devonshires Quarterly Banking Update

May 2023

## Sector Update: Practical observations on sustainability linked loans

As sustainable finance continues to evolve, we are eager to assist our clients in aligning financing with their sustainability objectives. A sustainability linked loan (**SLL**) is a loan facility that contractually incorporates incentives to reward a borrower's sustainable performance and progress. Most banks are keen to support corporate sustainability agendas and will readily agree to include a small economic incentive by way of margin ratchet for meeting specified objectives.

The credibility of an SLL depends on the materiality of the sustainability objectives (key performance indicators or **KPIs**) and the ambition of related targets. Any allegation of greenwashing causes unwelcome reputational damage to the lender. Lenders will therefore require that the terms of the SLL align with the Sustainability Linked Loan Principles (**SLLP**) published by the Loan Market Association (**LMA**), the Asia Pacific Loan Market Association and the Loans Syndication and Trading Association. The SLLP and associated guidance have recently been updated and reissued and, to further complement the accessibility of the SLLP, the LMA has recently released a rider to standardise the necessary legal provisions.

The SLLP require KPIs to be ambitious, material, quantifiable and predetermined. They must be relevant, core and of high strategic significance to the organisation's operations. Where an association already has a corporate sustainability framework in place, it is appropriate to draw KPIs from there. Otherwise, significant cross-departmental resource will be required to identify and define suitable KPIs. Peer examples may prove useful, alongside the Regulator's new Tenant Satisfaction Measures and the Sustainability Reporting Standard for Social Housing.

Any KPI that has been identified as being material for the sector should be used in the SLL, unless there is strong justification to deviate. Not surprisingly given current regulatory expectations, we often see core KPI(s) that are related to improving the energy efficiency of the borrower's housing portfolio. Targets relating to reduction in greenhouse gas emissions or CO2 emissions are also common in the wider loan market and identified as "core" KPIs in wider real estate finance. As it becomes obligatory for corporates and financial institutions to report on emissions, we expect such KPIs to appear more frequently in social housing SLLs too. We also anticipate that embodied carbon KPIs may begin to feature, as methods for capturing and measuring the relevant metrics are developed and popularised.

The social housing sector should be in a strong position to produce social and governance KPIs. However, crafting these to meet the SLLP criteria can be challenging, because KPIs must be articulated in quantifiable terms and targets must reflect a trajectory that is "beyond business as usual". We regularly see margin ratchets that are linked to reduction of unemployment among residents, apprenticeships created and/or training accessed by residents and, on occasion, improvements in diversity and racial or gender mix at board or managerial level. With lender due diligence requirements expanding to include housing quality and tenant satisfaction measures, these metrics could inform, or evolve into, SLL KPIs in the foreseeable future.

For more information, please contact Alice Overton.

## Here are some recent deals our Banking team have been working on.

gentoo

**Gentoo Group Limited:** We advised on the refinance of £360 million of Gentoo's legacy funding by way of a 40 year £110m private placement and £350 million bank facilities provided by NatWest, ABN AMRO and HSBC.

Riverside

**The Riverside Group Limited:** We advised The Riverside Group Limited on its merger with One Housing Group Limited which saw One Housing Group become a subsidiary of Riverside in December 2021 and subsequently transfer its engagements to Riverside on 31 March 2023.

a2dominion

**A2Dominion Housing Group:** We advised A2Dominion on the refinance and restructure of its circa £120 million facilities with Santander, converting term loans to RCFs and simplifying the documentation by reducing four facility agreements into two.

LiveWest
A home for everyone

**LiveWest:** We advised LiveWest on the restatement and refinancing of its £315 million facilities with Lloyds and NatWest, including the restructuring of existing facilities and new RCF facilities.

STONEWATER

**Stonewater Group:** We advised Stonewater on the simplification of its Group structure, removing Stonewater (2) Limited from the Group. This involved negotiating funder consents and securing an additional £100 million of bank RCF funding and £70 million from the Affordable Homes Guarantee Scheme.

VIVID

**VIVID Housing:** We advised VIVID on its £100m flexible loan facility from bLEND, enabling VIVID to draw down in smaller amounts over a three year period and choosing when to lock in long-term rates.

Devonshires

## Person Profile:
## Ben Hahn, Paralegal

I'm Ben Hahn, a Paralegal in the Banking Team.

I joined Devonshires in August last year having previously worked for an in-house legal team. I am currently completing my LPC LLM studies and, following the conclusion of my exams, will hopefully graduate at the end of this year. I also hope to secure a training contract in the near future in order to begin my path to qualification.

Since commencing at Devonshires I have worked alongside the team on a wide range of matters including the Optivo – Southern Housing Group merger, group on-lending exercises, restatements and refinancings and various other administrative tasks.

Away from work and legal studies I live and breathe all things sport, whether that's watching Manchester United play, aiding my elite athlete sister with her business and commercial interests, or even just going for a run! I recently completed the London Marathon in aid of one of Devonshires' partnered charities, Demelza Children's Hospice. I hope to participate in more marathons in the future.