

The Housing Finance
Corporation Limited

Social Bond Framework

March 2021





New Gorbals' award-winning regeneration projects in Glasgow's city centre received funding through the UK Government's first Affordable Homes Guarantee Programme, which was managed by THFC through its subsidiary Affordable Housing Finance Plc.

Cover: Jigsaw's Ellesmere Port development received funding through the UK Government's first Affordable Homes Guarantee Programme, which was managed by THFC through its subsidiary Affordable Housing Finance Plc.

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Foreword

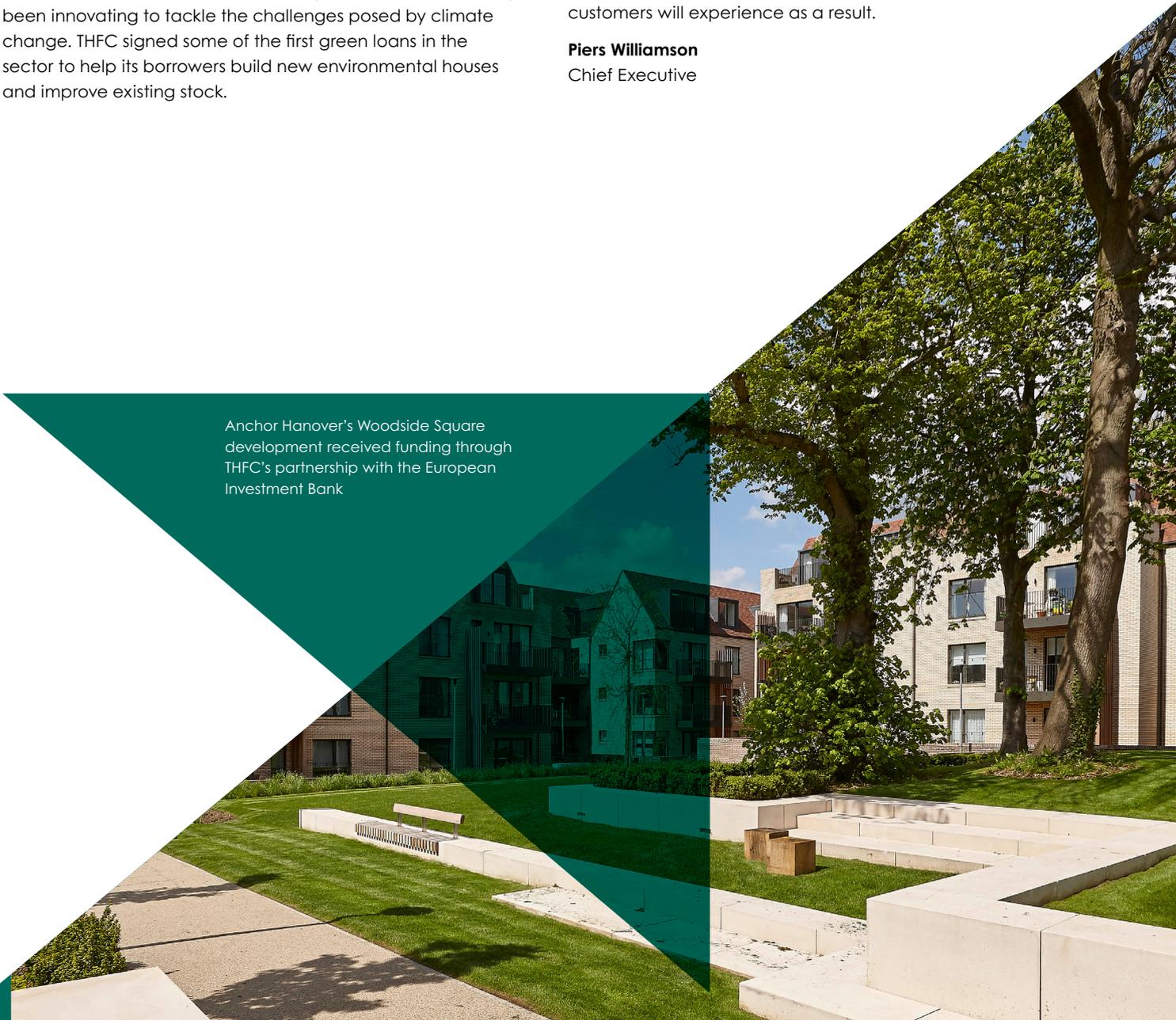
As a not-for-profit lender to Registered Providers of social housing, the very core of THFC's business and mission is about social impact. The loans THFC has written over its thirty-three year history have contributed to the robust financial health of the social housing sector and the building of thousands of quality, affordable homes.

The UK's housing associations go above and beyond the provision of affordable housing, with many providing advice and support to their tenants and communities in relation to employment and training, homelessness, welfare services and financial inclusion. In addition, housing associations have long been innovating to tackle the challenges posed by climate change. THFC signed some of the first green loans in the sector to help its borrowers build new environmental houses and improve existing stock.

The social housing sector is characterised by a high-level of regulatory oversight through the respective Regulators in England, Northern Ireland, Scotland and Wales, which oversee compliance with high standards of governance. As part of this regulatory framework all housing associations measure and assess the value-for-money of their business operations, to ensure every penny spent has a positive social and environmental impact.

This Social Bond Framework is driven by our purpose to enable regulated housing associations to achieve their social objectives as well as meet housing needs in their local communities. It demonstrates the link between the funding THFC can make in this area, and the social benefits our customers will experience as a result.

Piers Williamson
Chief Executive



Anchor Hanover's Woodside Square development received funding through THFC's partnership with the European Investment Bank

Section 1: Introduction



The Housing Finance Corporation (THFC) has been funding the provision of affordable housing in the UK since it was established in 1987. Founded as a not-for-profit organisation with the purpose of lending to Registered Providers of social housing (RPs) through issuing bonds in the Sterling capital markets, THFC has a unique and longstanding relationship with the sector it serves. THFC and its subsidiaries have a loan portfolio exceeding £7billion, with over 160 housing association borrowers.

By giving access to low-cost and long-term finance THFC helps housing associations further the provision of quality, affordable homes as well as deliver targeted services to alleviate social exclusion. With thirty years of experience and a dedicated and professional staff, THFC can offer borrowers a comprehensive in-house service as well as a deep knowledge of affordable housing finance.

THFC's core commitments:

THFC's purpose is to build relationships with housing associations to enable them to achieve their social objectives and meet housing needs in their local communities.

Social Impact	Competitive Pricing	Responsibility	Financial Sustainability
THFC lends exclusively to Registered Providers of social housing for the purposes of maintaining and building affordable housing, as well as providing other services designed to address social problems and tenant needs.	By fostering relationships with investors and maintaining high standards and good practices, THFC works to obtain the best possible rates of funding for its borrowers. Funds raised through bond issuance are on-lent on materially matched terms, so savings are passed on to the borrower.	All THFC Group loans are fully secured and covenanted, and rigorous analysis of prospective and existing borrowers is done on an ongoing basis. THFC makes its own independent credit assessment of borrowers using its bespoke credit rating system, as well as maintaining its own strong credit ratings to mitigate credit risk.	THFC monitors and forecasts the health of its borrowers and its systems ensure regular measurement of key financial metrics throughout the life of the loan to maximise its social impact through the continued financial health of the Group and its borrowers.

Section 1: Introduction

1.1 Corporate Governance

THFC is registered at the Financial Conduct Authority which acts (amongst other more substantive functions) as the registrar for community benefit societies. Consequently, although registered with the FCA, THFC is a non-profit distributing unregulated finance company abiding by conservatively set covenants to mitigate against financial risk.

Managerial and administrative functions of the group are carried out by THFC (Services), a wholly owned subsidiary of THFC with identical board membership.

The group's Board sets the group's strategic objectives and monitors compliance with them and other policies as well as overall performance. The Board governs through clearly mandated Board committees, and includes representatives from the Regulator of Social Housing and the National Housing Federation. The Board committees are:

- Credit Committee
- Audit Committee
- Remuneration Committee
- Nominations Committee

THFC Group complies with the UK Corporate Governance Code (2018) as issued by the FRC, as well as its best practice guidelines where relevant to the Group structure.

Social Bond Proposition

Bonds issued under this Social Bond Framework (the "framework") may be issued by any member of the THFC group and in all cases will have proceeds lent exclusively to regulated housing associations in the United Kingdom, for the purposes of maintaining, improving, purchasing or building social and affordable housing; supporting tenants through targeted service provision (including but not limited to programmes to alleviate fuel poverty or unemployment); or any other purposes which support these, consistent with the regulatory obligations and expectations housing associations are beholden to.

1.2 Identification of Target Population

Local planning authorities use methodologies set out in the National Planning Policy Framework¹ and planning guidance to identify the need for market or affordable housing within a specifically defined Housing Market Area. The methodology for determining housing need for a given target population is set out by the UK Government and uses the latest national statistics for projected household formation as a starting point. This is then adjusted to take into account a range of issues such as affordability, employment growth and the current status of relevant strategic policies for housing in that area.²

Homes developed by housing associations for either social or affordable rent aim to meet the identified local need. Newly developed rental units or existing homes that have become void are let to tenants in housing need via housing registers that are generally maintained by local authorities. The housing registers use a point or band-based system to identify specific housing need and prioritise applicants. Typically, the demand far outstrips supply.

Catalyst received funding for the Wornington Green development from the first Affordable Homes Guarantee Programme, which was managed by THFC through its subsidiary Affordable Housing Finance Plc.

1 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/401921/NPPF_Feb_2019.pdf

2 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/401921/minimum_annual_local_housing_need_figure_standard_method.pdf

Section 1: Introduction

1.3 Regulatory Framework

THFC lends to housing associations (HA) in all four parts of the United Kingdom, each of which has its own regulatory regime for HAs. Many of the principles of economic regulation are common, but there are distinct nuances between all four regimes. Housing associations' core business objective is the provision of social housing. In all four parts of the UK they operate under a regulatory framework consisting of:³

- Regulatory framework requirements
- Codes of practice
- Regulatory guidance

These are maintained by the regulator in the respective regional jurisdiction. The framework requirements are comprised of standards falling into two groups:⁴

Economic Standards

- Governance and Financial Viability Standard, which considers how well an organisation is run and if it is financially viable.⁵
- Value for Money Standard, which considers whether a provider is making the best use of the resources that it has to meet its objectives.⁶
- Rent Standard, which considers whether social housing rents are set in accordance with Government policy.⁷

Consumer standards:

- Home Standard, which sets expectations for registered providers of social housing to provide tenants with quality accommodation and a cost-effective repairs and maintenance service.⁸
- Tenancy Standard, which sets expectations for registered providers of social housing to let their homes to tenants in a fair, transparent and efficient way.⁹
- Neighbourhood and Community Standard, which sets expectations for registered providers of social housing to keep the neighbourhood and communal areas associated with the homes they own clean and safe, co-operate with relevant partners to promote the wellbeing of the local area and help prevent and tackle anti-social behaviour.¹⁰
- Tenant Involvement and Empowerment Standard, which sets expectations for registered providers of social housing to provide choices, information and communication that is appropriate to the diverse needs of their tenants, a clear approach to complaints and a wide range of opportunities for them to have influence and be involved.

The presence of the regulator ensures housing associations fulfil their core business objective, and as such the social impact and benefit of housing associations is well monitored and reported on. Each of these standards includes specific reporting requirements, reflected in the statutory accounts or annual reporting of housing associations. The English regulator (RSH), for instance, is an assurance-based regulator, meaning that Housing Associations are required to meet these disclosure requirements in order to demonstrate compliance. The RSH publishes regulatory notices against providers that are found to be in breach.

³ See part 2 of the Guide to regulation of registered providers

⁴ See the guidance on regulatory standards at <https://www.gov.uk/guidance/regulatory-standards>, for Scotland see the Scottish Housing Regulator's guidance on its regulatory requirements and statutory guidance <https://www.housingregulator.gov.scot/regulatory-framework>, for Wales the Welsh Government's Regulatory Framework, and for Northern Ireland <https://www.communities-ni.gov.uk/articles/housing-regulation>

⁵ <https://www.gov.uk/government/publications/governance-and-financial-viability-standard>

⁶ <https://www.gov.uk/government/publications/value-for-money-standard>

⁷ <https://www.gov.uk/government/publications/rent-standard>

⁸ <https://www.gov.uk/government/publications/home-standard>

⁹ <https://www.gov.uk/government/publications/tenancy-standard>

¹⁰ <https://www.gov.uk/government/publications/neighbourhood-and-community-standard>

Section 1: Introduction

1.4 Rationale for Social Bond Issuance

The housing crisis in the UK is well documented and the HA sector makes a valuable contribution to providing much needed affordable housing and improving tenants' lives. THFC's purpose is to enable our housing association borrowers to achieve their social objectives and meet housing need in their local communities and we can achieve this by providing long term bond finance, attracting investment from investors interested in allocation of capital toward positive social outcomes.

The core business activities of housing associations in accordance with the regulatory framework also demonstrates fulfilment of a number of the United Nations' Sustainable Development Goals (UN SDGs):



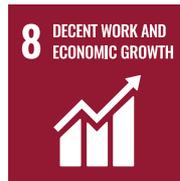
1. No Poverty

Through the provision of social and affordable rented homes, and the services targeted at tenants including the accessing of welfare support, housing associations contribute directly to the alleviation of poverty in the UK. Further to this, and in part related to a statutory target for energy efficient improvements to all homes by 2035, housing associations are realising savings for tenants' bills that help to tackle fuel poverty.



3. Good Health and Well-being

Housing associations adapt service provision to best meet needs of tenants and the wider community, with a view to promoting wellbeing. In addition, RPs' stock is required under the Decent Home Standard and PAS 2035 retrofit standards to take action against homes that cause poor health including the removal of damp, improvement to insulation and ventilation, the air quality, and the energy efficiency.



8. Decent Work and Economic Growth

Housing associations are non-profit organisations that reinvest surpluses into their businesses and core service provision. In England RPs are regulated by the Value for Money Standard and the Governance and Financial Viability Standard and must report on how they are adhering to financial best practices and mitigating risk to protect tenants, as well as how they are delivering value for money for their tenants. They are rated and monitored on their governance by the Regulator. As such, the sector has demonstrated a capacity for responsible and sustainable growth that maximises social impact.



11. Sustainable Cities and Communities

The presence of a regulatory framework ensures that housing associations operate responsibly, and the consideration for tenants that drives the provision of quality and environmentally friendly housing means that housing associations are sustainable organisations contributing to sustainable communities. In particular, the emphasis on mixed tenures and tenure blind process when developing means that housing association developments tend to produce diverse and thriving communities.

Social impact is therefore fundamental to the activities of housing associations, and this is both mandated by and measurable against the regulatory framework of the sector. By raising funds in the Sterling capital markets to on-lend to housing associations on materially matched terms, THFC contributes to the financial health of its borrowers and their provision of affordable housing. Crucially, access to low-cost and long-term funding via a Social Bond will allow housing associations to achieve ambitious but financially sustainable growth, tackling the challenges of the future to continue delivering on their social purpose.

Section 1: Introduction

1.5 Sustainability Reporting Standards

The Sustainability Reporting Standard for Social Housing has been developed by the ESG Social Housing Working Group. The Standard brings consensus on how to measure and report on ESG performance in the social housing sector and as such will help reduce the ESG reporting information burden on housing associations.

The reporting standard is based on 12 themes including “Affordability and security”, “Building safety and quality”, “Resident voice”, “Resident support” and “Climate change” – and 48 criteria for ESG reporting by housing associations. The criteria are aligned with international ESG frameworks and standards including the Sustainable Development Goals (SDGs), the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the International Capital Market Association (ICMA).

THFC has made a commitment to become an early adopter, which as a lender means we will integrate the Standard into our investment policies and processes and will encourage our borrowers to adopt the Standard to allow for meaningful and consistent ESG reporting across our loan portfolio.



A2 Dominion's award-winning Bicester Eco Town development received funding from THFC.

Section 2: Social Bond Framework

We have devised the framework to issue Social Bonds, for bLEND Funding Plc,¹¹ that are aligned with ICMA's Social Bond Principles 2020.¹² This Social Bond Framework has four core components:

- I. Use of Proceeds
- II. Process for Project Evaluation and Selection
- III. Management of Proceeds
- IV. Reporting

2.1 Use of Proceeds

Proceeds of any bond issued under this Social Bond Framework will be lent solely to non-profit regulated housing associations providing social housing in the United Kingdom, on materially matched terms – Eligible Housing Associations.

Loans will be used by Eligible Housing Associations to finance social and affordable housing projects falling within the Eligible Social Project categories as detailed below. Eligible projects are also mapped to the relevant Sustainable Development Goals. Proceeds will be used by Eligible Housing Associations to maintain or build affordable housing, or to support services for tenants designed to maximise the social impact of the Association; use of funds for refinancing or to support wider business needs consistent with the core and regulated mission of RPs is deemed consistent with the principles of the Social Bond Framework.

Social Bond Principles – Eligible Social project categories	Use of Proceeds	Eligibility Criteria, Target population and benefits	Relevant SDGs
Affordable Housing	Financing construction, refurbishment and acquisition of social and affordable housing in the UK	<p>Eligibility Criteria:</p> <ul style="list-style-type: none"> • Projects must be located in the UK • Units must comply with Government definition of affordable housing <p>Target populations:</p> <ul style="list-style-type: none"> • People on low incomes • In receipt of Universal credit or other state benefits • Those eligible for shared ownership or other routes to affordable home ownership <p>Benefits:</p> <ul style="list-style-type: none"> • Increase in number of homes available for target populations 	1,8,11

¹¹ <https://blendfundingplc.com/>

¹² <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/>

Section 2: Social Bond Framework

Where a housing association engages in market-oriented practices, such as the inclusion of market-rate sale properties in a development to subsidise the building of affordable housing, this is not regarded as incompatible with the Social Bond Framework so long as it functions to further the overall health of the HA and its core social purpose, as covered by the regulatory framework and the reporting obligations which ensure information proving regulatory compliance is publicly available.

Financing for housing associations supports the following social objectives in line with the ICMA Social Bond Principles Project Categories:

SBP Project Categories	Use of proceeds
Access to essential services (e.g. health, education and vocational training, healthcare, financing and financial services)	In addition to the core mission of providing affordable housing, housing associations provide a number of other services to address social issues, including those relating to care, training and education, digital skills and financial literacy. In England, regulated housing associations: 'Regulated Providers ('RPs') are required by the Tenancy Standard ¹³ to provide services to support tenants, and through the Home Standard ¹⁴ are required to adapt existing services to meet tenants' needs.
Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance	Many housing associations also run programmes to help tenants into employment, as well as signposting welfare support that has a beneficial effect on the capacity to gain employment. Some provide forms of SME financing as part of community regeneration and empowerment.
Socioeconomic advancement and empowerment (e.g. equitable access to and control over assets, services, resources, and opportunities; equitable participation and integration into the market and society, including reduction of income inequality)	The Tenant Involvement and Empowerment Standard ¹⁵ obliges RPs to have mechanisms for tenants to feedback and engage with the organisation, as well as an accessible complaints procedure. There are a variety of models across the sector, but all associations have some form of tenant involvement whether it be through Board representatives, scrutiny panels or forums. Further to this, the provision of services and housing to vulnerable and marginalised groups functions to reduce inequality. The Value for Money Standard ¹⁶ requires RPs to demonstrate how their business activities are actually realising these objectives.

13 See the Tenancy Standard 2012 at https://assets.publishing.service.gov.uk/Tenancy_Standard.pdf

14 See the Home Standard 2012 at https://assets.publishing.service.gov.uk/Home_Standard.pdf

15 See the Tenant Involvement and Empowerment Standard https://assets.publishing.service.gov.uk/Tenant_Involvement_and_Empowerment_Standard.pdf

16 See the Value for Money Standard 2018 https://assets.publishing.service.gov.uk/VfM_Standard_April_2018.pdf

Section 2: Social Bond Framework

Exclusions:

Though generally speaking all RP activities are deemed to fulfil the Social Bond principles for reasons stated above, THFC reserves the right to exclude a borrower from eligibility for loans from a bond issued under this Social Bond Framework if it cannot be ascertained with confidence that the funds will go toward activities compliant with this framework. If an HA is no longer eligible this would mean it was no longer an RP, in which case it would be in breach of its loan agreement and the loan would have to be repaid.

If an HA ceases to be eligible and repays its loan, or prepays its loan for any other reason, funds may potentially be reallocated to another Eligible Housing Association. However, if funds cannot be reallocated within 6 months THFC commits to redeeming the bonds.

2.2 Process for Project Evaluation and Selection

All borrowers undergo a thorough credit review prior to being approved for a loan. This involves analysis of accounts, business plans and projections, scrutiny of regulatory and audit reports, comparison of performance indicators, review of risk registers and an assessment of management capabilities, or for prospective borrowers from Blend Funding Plc, an external credit review by Moody's. Part of the internal analysis will involve an assessment of eligibility of a housing association as a recipient of proceeds of a Social Bond issuance with an Executive Committee comprising the Chief Executive, Group Treasurer, and the Credit and Risk Director approving the utilisation of Social Bond proceeds in accordance with this Framework.

Eligible Housing Associations will be required to be registered and regulated non-profit providers of social housing registered with the relevant regulator. Their core business must be the provision and management of social and affordable housing and a significant proportion of their turnover should relate to that provision. Their development of new homes should include a significant proportion of social and affordable homes.

As this is corporate lending and not project finance, it is important that, in assessing eligibility, THFC considers all activities of the Housing Association in relation to its corporate purpose and mission and its provision of social and affordable housing. Subject to the exclusion noted above, all activities of an Eligible Housing Association are deemed acceptable.

Eligible Housing Associations will be responsible for implementation of the Affordable Housing projects and the underlying "projects" will not be individually assessed by THFC.

As part of its role in overseeing the framework, the Executive Committee will:

- Oversee the eligible project portfolio, confirming its continued compliance with THFC's Social Bond Framework
- Review the content of THFC's Social Bond Framework and update it to reflect changes in market standards (such as relevant ICMA principles) and the organisation's strategy on a best-efforts basis
- Facilitate the reporting provision under the framework

2.3 Management of Proceeds

Social Bonds issued are wholly allocated at issue to Eligible Housing Associations. In the majority of cases, at the time of drawdown of funds from a Social Bond issuance, proceeds are immediately on-lent to Eligible Housing Associations for the purposes stated in the Use of Proceeds section above, although this may be several months after the issuance of the bonds (so called deferred drawdown). In this case there is no requirement for arrangements to temporarily hold, disburse or otherwise manage proceeds.

In certain very limited circumstances, proceeds of a drawdown under a Social Bond issuance may be retained by THFC pending on-lending to the Eligible Housing Associations to which the funds have been allocated. In this case, proceeds will be invested in products which minimise risk and include UK bank deposits and Government securities for a maximum period of 24 months.

Section 2: Social Bond Framework

2.4 Reporting

In addition to existing annual reporting on its loan portfolio, THFC will publish annually a Social Bond report specifically for loans financed by Social Bonds issued under this Social Bond Framework, to ensure full transparency, for the lifetime of each Social Bond. The report will include:

- A list of Eligible Housing Associations and amounts allocated and amounts on-lent
- A statement of amounts allocated but not yet drawn down and of any funds held by THFC pending drawdown
- Outcomes in terms of number of units constructed by tenure

- Example case studies including qualitative reports on the social impact of the borrowers whose loans were issued under this Social Bond Framework, demonstrating how their overall business is making its social impact

Impact reporting for any debt issuance under this framework will leverage metrics from the Sustainability Reporting Standard for Social Housing, as well as include additional metrics to monitor our performance.

The reporting will be independently reviewed internally. The report will be made publicly available on THFC’s website.

ICMA Category	Use of Proceeds	Indicative Impact Metrics	Alignment with the Sustainability Reporting Standard (SRS) for Social Housing
Affordable Housing	Construction of new Social and Affordable Housing in the United Kingdom	Number of units constructed by tenure	Theme 1: Affordability and Security Criteria: Core – C3 - Share and number, of new Homes, allocated to: General needs (social rent), Intermediate rent, Affordable rent, Supported Housing, Housing for older people, Low-cost home ownership, Care homes, Private Rented Sector



Section 3: External Opinion

THFC has engaged Vigeo Eiris to provide a Second Party Opinion (SPO) on this Framework, who confirm that the Framework is aligned with ICMA's Social Bond Principles 2020. The SPO will be available at our website www.thfcorp.com/bond-frameworks.

Islington & Shoreditch Housing Association's development on Kingsland Road received funding through THFC's partnership with the European Investment Bank.



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A Registered society under the Co-operative and
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