The Housing Finance Corporation Limited

Sustainable Bond Framework

September 2021

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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-four 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 Sustainable 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

Section 1: Introduction

The Housing Finance Corporation (THFC) is the largest mutual lender to the social housing sector. Founded in 1987 as a non-profit-distributing organisation dedicated to lending to Registered Providers of social housing (RPs or 'housing associations') through the issuance of bonds in the Sterling capital markets, THFC has a unique and longstanding relationship with the sector it serves.

At present THFC's group loan portfolio exceeds £7.8bn, with over 160 housing association borrowers. THFC signed some of the sector's first ever green loans in 2012 in partnership with the European Investment Bank, supporting a group of housing associations in building innovative, environmental homes and retrofitting existing ones to improve energy performance. Between 2013 and 2016 THFC ran, through its subsidiary Affordable Housing Finance Plc, the UK Government's Affordable Homes Guarantee Programme, issuing over £3bn at some of the lowest costs of funds the sector had ever seen. More recently, in 2018, a lending vehicle was established to provide housing associations with more streamlined access to the capital markets: bLEND Funding Plc. In just three years bLEND has issued over £1bn, all of which was converted to Social bonds in May 2021.

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

THFC's core commitments:

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.

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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:

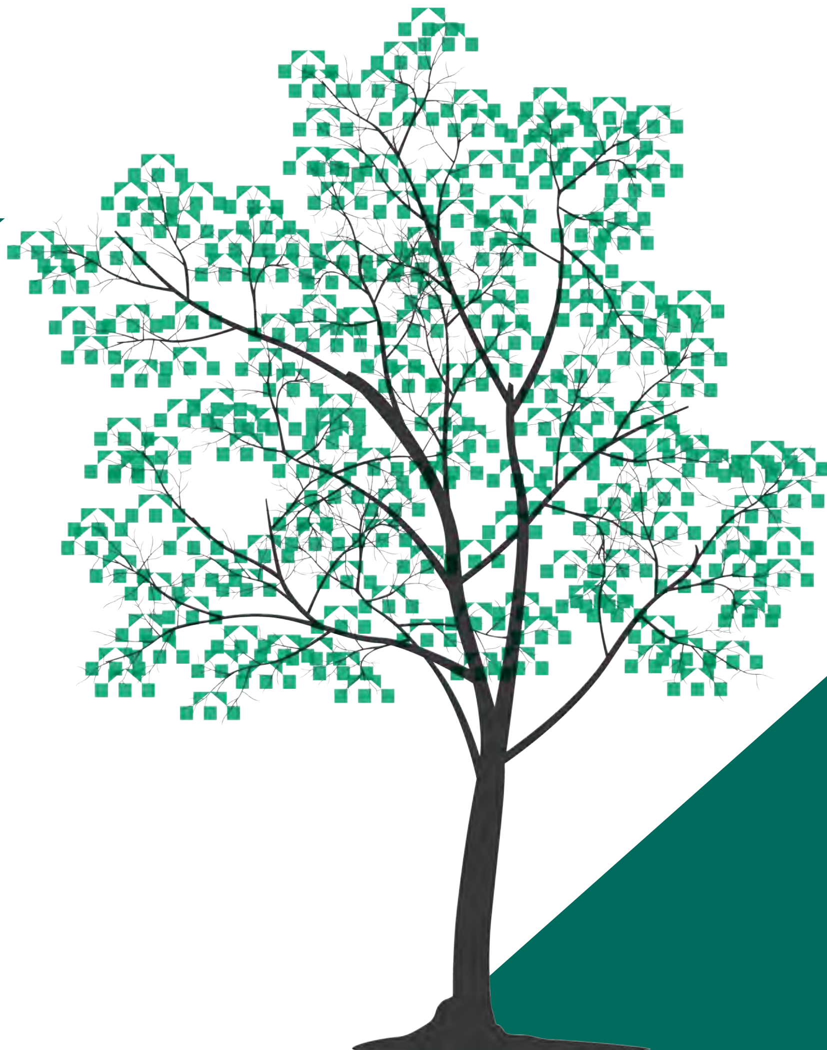
- Credit Committee
- Audit Committee
- Remuneration Committee
- Nominations Committee

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.

1.2 Identification of Target Population

Local planning authorities use methodologies set out in the National Planning Policy Framework[1] 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.



1 https://assets.publishing.service.gov.uk/government/NPPF_Feb_2019.pdf

2 https://assets.publishing.service.gov.uk/government/minimum_annual_local_housing_need_figure_standard_method.pdf

Section 1: Introduction

1.3 Rationale for Framework

The National Housing Federation believes that nearly 8 million people in the UK are affected in some way by the housing crisis, whether this is from overcrowding, poor quality or unaffordable housing or indeed homelessness.[1] This crisis is multifaceted, and has left the social housing sector facing not only financial pressures related to the maintenance of the short supply of social housing lets, but also calls to build ever more affordable housing, as well to address social issues among tenants such as financial and digital exclusion or fuel poverty. THFC endorses the call by the Church of England's commission on housing for all homes to adhere to five values: safe, stable, social, satisfying an sustainable,[2] yet the current funding environment poses questions as to how the various expectations of housing associations can be met.

Sector debt stands at £115bn and is expected to grow by a further 50% over the next five years. Private funders view the sector as a defensive investment with high social impact, inherently aligned with ESG considerations due to its core business activity of providing affordable housing, and the presence of a strong regulatory framework. The sector makes a significant contribution to the provision of much needed affordable homes and to the improvement of tenants' lives. THFC's purpose is to enable its housing association borrowers to achieve their social objectives and meet housing need in their communities by issuing long-term bonds targeted at institutional investors interest in allocating capital to positive social impact, and on-lending to housing associations on materially matched terms.

In addition to the issues of supply and affordability, there is a pressing need for existing stock to be decarbonised in response to the climate emergency declared by the UK government in 2019. In order to meet the net zero carbon 2050 target the UK needs to cut carbon emissions by 78%, but the Government has gone further by setting its sights on a 68% reduction by 2030. Housing is responsible for 18% UK emissions, and social landlords own or manage 17% of housing stock, meaning housing associations have a crucial role to play in the greening of the UK's economy. In recent years there has been huge growth in the number of green financial products, notably sustainability-linked loans and to a lesser extent sustainability bonds.

The Government has tasked housing associations with bringing all stock to EPC rating C or higher by 2030. At present, housing association stock is the most efficient of tenures, with 60% of stock compliant with this target already. Yet the cost associated with retrofit has been estimated at anywhere from £30-60bn for retrofit to achieve EPC compliance by 2030 and up to £100bn for retrofit to achieve full carbon zero by 2050.

Without an increase in rents, retrofit represents for associations an investment without return, producing a strong incentive to sell off low EPC-rated stock in order to meet the 2030 target. This may be an inevitability if funding is not provided to support retrofit, but would be a moral failure given the implied loss of affordable units at a time when affordable housing is already in short supply.

The rationale for this framework is therefore to enable the issuance of bonds by THFC for its core business of lending to Registered Providers of social housing, under one of two labels:

Social: wherein proceeds are used for the purposes of maintaining, improving, purchasing or building social and affordable housing, or otherwise supporting tenants through target service provision, or any other purpose in support of the RPs business as consistent with regulatory obligations and expectations.

Sustainability: wherein proceeds will be used for purposes of building energy efficient homes or retrofitting existing stock to improve energy performance.

1Sustainability Reporting Standard

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Section 1: Introduction

1.4 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 it 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 provides 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

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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.

Section 2: Sustainable Bond Framework

We have devised the framework to issue Social or Sustainability Bonds, that are aligned with ICMA's Sustainability Bond Guidelines 2021, Social Bond Principles 2021, and Green Bond Principles 2021.[11] The framework covers the entire THFC group, but issuance is expected to be typically through bLEND Funding Plc.[12] This Sustainable 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 framework will be lent solely to non-profit Registered Providers of social housing in the United Kingdom—Eligible Housing Associations—on materially matched terms.

Loans will be classed as either social or sustainability depending on the intended use of proceeds by the Eligible Housing Association and mapped against relevant SDGs.

Eligible project categories	Use of Proceeds	Eligibility Criteria, Target population and benefits	Relevant SDGs
SOCIAL Affordable Housing	Financing construction, refurbishment and acquisition of social and affordable housing in the UK	Eligibility Criteria: • Projects must be located in the UK • Units must comply with Government definition of affordable housing Target populations: • 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 Benefits: • Increase in number of homes available for target populations	1, 11
SUSTAINABLE Green Buildings	Financing the construction of green buildings or retrofit works to green existing stock	Eligibility Criteria: • Projects must be located in the UK • Newly constructed units must have an EPC rating of B or above • Projects that improve unit EPC rating to B or above or by two notches • Projects that improve unit energy efficiency by 30% or more are eligible without EPC ratings Target populations: • 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 • HA tenants in low-EPC homes Benefits: • Contributes to greening of UK housing stock in line with legislated targets for carbon emissions • Saves tenants money on fuel bills and tackles fuel poverty • Improves health and wellbeing of tenants by improving safety and health of housing stock	11, 13

11 https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/
12 https://blendfundingplc.com/

Eligible project categories	Use of Proceeds	Eligibility Criteria, Target population and benefits	Relevant SDGs
SUSTAINABLE			
Renewable Energy	Financing the generation of renewable energy, including, but not limited to, solar panel installation	Eligibility Criteria: • Projects must be located in the UK • Projects must achieve emissions below 100g CO2/kWh Benefits: • Contributes to production of renewable energy and helping the UK achieve legislated targets for carbon emissions	7
Energy Efficiency	Financing expenditures that reduce energy consumption or greenhouse gas emission intensity and/or manage and store energy e.g. energy storage, district heating, smart grids and other singular works to buildings that do not alone constitute a 'retrofit'	Eligibility Criteria: • Projects must be located in the UK • Projects that improve energy efficiency by 30% or more (on the element being improved) • Projects must exclude fossil fuels Benefits: • Contributes to the improvement in energy efficiency and reduction of GHG emissions	7

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 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.

Exclusions:

Though generally speaking all RP activities are deemed to fulfill 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. In relation to this framework an Executive Committee comprised of the Chief Executive, Group Treasurer, and the Credit and Risk Director will assess the eligibility of a housing association as a recipient of proceeds of a bond issued under this framework in relation to both the Social and Sustainability labels:

Social: Eligible Housing Associations will be required by 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.

Sustainability: Eligible Housing Associations will be required by 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.

In addition, the proceeds of the loan allocated to Green projects should be used exclusively to fund either the construction of new homes at EPC B or higher, or the retrofit of existing homes to improve the EPC rating as highlighted in the Use of Proceed section. In addition, other works intended to improve the energy efficiency of homes are eligible e.g. solar panel installation, battery storage solutions etc. These other works may not be constitutive of a full 'retrofit' but will demonstrate an improvement in energy efficiency.

The Housing Associations will be responsible for implementation of the social/affordable housing projects and qualifying 'projects' will not be individually assessed by THFC, although the individual Housing Association must satisfy THFC criteria for participation as a beneficiary of the Social or Sustainability Bond. For Green projects THFC will request costings and timings to satisfy itself that the allocation of funds to projects meets the terms of the framework.

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 Sustainable Bond Framework
- Review the content of THFC's Sustainable 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 and Sustainability bonds issued under this framework are wholly allocated at issue to Eligible Housing Associations. In the majority of cases proceeds are immediately on-lent at drawdown of funds to Eligible Housing Associations for the purposes stated in the Use of Proceeds section above, although in some cases this may be several months after the issuance of the bonds ('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 from an issuance under this framework 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 Sustainable Bond report specifically for loans financed by bonds issued under this Social Bond Framework. The report will include:

- A list of Eligible Housing Associations and amounts allocated and amounts on-lent
- Amounts/share lent to green projects per borrower
- A statement of amounts allocated but not yet drawn down and of any funds held by THFC pending drawdown
- Example case studies including qualitative reports on the ESG impact of the borrowers whose loans were financed by bonds issued under this framework

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
Green Buildings	Construction/retrofit of existing homes that improves EPC ratings	EPC ratings of constructed/ retrofitted units Capex	Theme 6: Climate Change Criteria: Core – C14/C15 – Distribution of EPC ratings for existing/new homes (% of homes rated A, B, C, D or worse)
Renewable Energy/ Energy Efficiency	Projects aimed at integrating renewables into the energy system for buildings or improving the energy efficiency of the building	CO2 emissions saved in tCO2e Capex	Theme 6: Climate Change Criteria: Enhanced – C16 - Scope 1, Scope 2 and Scope 3 greenhouse gas emissions Criteria: Enhanced – C17 - What energy efficiency actions has the Housing Provider undertaken in the last 12 months

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 Sustainability Bond Guidelines 2021, Social Bond Principles 2021 and Green Bond Principles 2021. The SPO will be available at our website: www.thfcorp.com/bond-frameworks.

The Housing Finance Corporation Limited
A Registered society under the Co-operative and
Community Benefit Societies Act 2014
Registered No: IP25862R

3rd Floor, 17 St Swithin's Lane, London EC4N 8AL
T: 020 7337 9920 F: 020 7337 9935 E: offices@thfcorp.com
www.thfcorp.com