Newbridge Advisors

The use of Sustainability-Linked Loans in the social housing sector

July 2025

Executive Summary

Recent years have seen the meteoric rise of, and subsequent challenges around, the environmental, social and governance (ESG) agenda across the financial and corporate landscape. A raft of sustainability-orientated financial products has emerged amid this.

UK social housing has been a keen recipient of these products. One particular product that has grown in popularity over this time has been the Sustainability-Linked Loan (SLL), where a discount is agreed on interest payable on the loan in return for meeting sustainability related Key Performance Indicators (KPIs).

It is in this context that Newbridge Advisors LLP (Newbridge), a leading corporate finance advisory business in UK housing and infrastructure, embarked on a research project to better understand the benefits and challenges of SLLs in the social housing sector. This has informed a set of recommendations to enhance the market and the product for all parties, and explore what could be next as this type of finance continues to evolve.

This is the first time that analysis of SLLs, which have been subject to ongoing debate in the sector for a number of years, has been formed on the basis of evidence from both sides of the lending arrangement.

Sustainability is, and will remain, a strong focus of housing association financing regardless of whether SLLs are in place or not. However, while broader corporate sentiment has recently focussed on the perceived shortfalls of SLLs, lender and housing association responses and the continued deal flow in the UK suggest significant appetite remains.

This report sets out the key findings of the research, which included 28 responses to our housing association survey and six responses to the lender survey, along with interviews with a number of survey respondents.

Key findings include:

- The ESG and social housing agendas are intrinsically linked. This has been particularly evident in lender feedback on the sector, where it has become clear that social housing is seen as an attractive investment proposition. Some lenders even view lending to the sector as automatically and inherently “sustainable” and all lenders who participated in the research commented on the clear social purpose of the sector and its willingness to move early and in earnest on the subject of sustainability.
- While some in housing associations have reiterated the need for lenders to stand firmly behind their sustainability expectations and products, it is clear that the sustainability agenda of housing associations is wider than what is being driven by lenders.
- Housing associations are under extreme pressure, especially on value for money considerations, and the cost-benefit analysis on taking out SLLs is not always stacking up for many of them. Tellingly, in response to questions on costs and impacts, all housing association respondents were on one end of the spectrum, while lenders were all on the other.
- Housing associations unanimously do not consider the margin ratchet reduction to be material and proportionate to the effort required to establish, monitor and report against SLL targets. In response, lenders have explained why there is little space for movement here including accounting rules preventing further discounts, already low interest rates associated with lending to the sector, and the need to treat other borrowers (outside of the sector) in a consistent manner.
- The economic value of the product materially features on the internal appraisal of whether a housing association commits to borrow in SLL format. Unless lenders can re-balance the economic value of the SLL offering to their borrowers by providing genuine impetus for future

use - for example, by contributing to the costs of monitoring and reporting against the SLL, discounting Revolving Credit Facility (RCF) fees, or by offering a more significant margin savings - the SLL product is likely to be less viable in the near term, and at risk of being discontinued.

- Those with existing SLLs understood the benefits of them better than those without. These were articulated mainly as an increase in organisational focus and subsequent internal structures.
- It is clear that there is a patchwork of overlapping and different KPIs in the existing SLLs currently in use within the sector. This is an area which would benefit from joint work to embed structure enabling greater ambition (e.g. on nature) and simplification. This links back to housing association sustainability strategies and internal structures which in many cases have not been developed to a standard where engaging in SLLs or other forms of sustainable finance is a straightforward exercise. Internal collaboration and governance is key here, both to set targets which are achievable and material and monitor them adequately.

Based on the views of participants, we have summarised the required changes needed in the following areas:

a) Improved strategy and target setting in housing associations.
b) Adequate internal set-up within housing associations to support the work and outcomes e.g. governance forums and monitoring mechanisms.
c) Communication of the impacts and clarity on lender opinion.
d) Improved value for money for housing association efforts. Lenders to look at movement on pricing including reduction in costs associated with banking, assurance and legal.

No product or agenda remains blanketly fit for purpose as times move on. It is clear now that the product and market have matured, and that the use of SLLs in social housing needs to adjust to remain effective. It is not the only green finance product and any changes to it should be viewed in conjunction with the wider market including sustainable bonds and new emerging green loans. However, despite the emergence of new forms of green financing, SLLs remain a dominant tool because it is well-established and does offer some savings if deployed correctly.

Regardless of whether or not SLLs continue in their current form, the findings from this report should be reflected when considering any product in the green financing market. The sector continues to require financing, in particular towards its efforts on combatting the climate crisis. ESG and sustainability are a key part of all housing association financing and banks will continue to be regulated on this. Despite the strength or demise of any single product, overall efforts in this space will require adequate strategic target-setting, strong internal governance measures, clarity and simplification on the lender side and an eye towards value for money considerations.

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Recommendations

The following recommendations have been formed on the basis of the evidence gathered as part of the research.

For Housing Associations
1. **Reiterate purpose:** Invest in internal upskilling on why sustainability is important, better aligning finance with internal delivery partners such as risk, assets management and development.   2. **Establish a framework:** Invest in internal upskilling on the financial products associated with sustainability goals, their benefits and costs, and how to embed them into the organisation.   3. **Set material and achievable targets:** Interrogate internal strategies in line with sector standards, checking if targets which have been set are achievable and material year-on-year. This should be incorporated within internal reporting frameworks and not only assessed at year end.   4. **Embed collaborative machinery:** Set up internal forums and communication mechanisms on sustainable financing, ensuring there is intra-year collaboration, governance and monitoring.
For Lenders
5. **Accounting:** Alongside margin discounts, consider contributing to the cost of monitoring and reporting or discounting RCF fees to incentivise usage. Lenders and housing associations will need to work with technical accounting specialists to identify how greater economic value may be extended within the current accounting framework, or whether the existing standards need re-examination to accommodate the commercial reality of the SLL product as it continues to evolve with the aim of longer-term delivery.   6. **Clarity:** Provide clarity on the available products and lenders' stance on them. The lenders' approach to the product is not homogenous and the sector should have a better understanding on the individual preference of each lender.   7. **Communicate benefits:** For those who opt to promote SLL usage, better articulate the benefits of sustainability-linked financing and SLLs. Consider communication at both Board and executive team level.   8. **Concentrate on impact:** Support the sector in the development of simplified and ambitious KPIs, especially on emerging areas such as nature. Whilst KPIs should be challenging, achievement must be realistic.

Methodology

1. Newbridge carried out this research on an independent, pro-bono basis.

2. In order to ensure that the results were based on as wide a range of stakeholder views as possible, the research was structured in the following manner:

    a. Surveys designed to collate numerical data, aimed at assessing lending volumes and sense of impact. A survey was prepared for housing associations and another for lenders. The questions were designed across the sustainability and treasury teams in Newbridge and checked by a social researcher from Places for People (Joanne Farmer).
    b. Follow-up conversations were offered to those who completed the survey as a means of collating deeper qualitative information sitting behind their survey responses.

3. The surveys were disseminated via:

    a. The Housing Sustainability Strategy Group (previously known as the ESG working group) made up of sustainability and finance professionals across 20 large social housing providers.
    b. The Newbridge contact list.
    c. Sustainability for Housing, which oversee the Sustainability Reporting Standard for Social Housing (SRS), a sector standard set up to provide a consistent, credible and transparent way for housing providers to report on their ESG performance to funders and other stakeholders.
    d. Social media including Linkedin.

4. There were 28 responses to the housing association survey and six responses to the lender survey. Some lenders felt uncomfortable answering the survey directly but requested a follow-up conversation where similar questions were asked of them. We did not receive any responses from institutional investors, one of whom expressed to us that they did not feel it was research which institutional investors could easily take part in.

5. Follow up conversations were held with three housing associations and five banks.

6. Additional desktop research was carried out where necessary, e.g. to gather publicly available information on organisational sustainability strategies or loans, to check back to survey or interview responses.

7. All results have been aggregated and anonymised, unless we have gained express consent from the participant to disclose details relating to them.

8. The work started in April 2025 and came to a conclusion in June 2025.

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Introduction to Sustainable Financing Products for Social Housing

Sustainable finance is a broad term covering the integration of sustainability or ESG information into the decision-making processes of financial institutions and company financing. It is used as a critical tool in managing climate and other sustainability risks and opportunities and funding key climate transition initiatives.

Despite global headwinds, the UK Government has been clear that the UK will be the "sustainable financing capital of the world[1]". This includes plans to support banks and large companies in developing climate transition plans and is expected to stimulate billions of pounds a year of private investment to deliver this agenda.

Within social housing, sustainable financing accounts for a material proportion of the sector's £135.5 billion debt book[2].

Sustainability-Linked Loans (SLLs)

SLLs are a type of financing where the terms of the loan, most commonly the interest rate, are tied to the borrower's achievement of predetermined Sustainability Performance Targets (SPTs). These targets are measured by KPIs and are designed to incentivise the borrower to improve their ESG performance. Essentially, if the borrower meets or exceeds the agreed-upon sustainability goals, they benefit from more favourable loan terms, such as a reduced interest rate.

Sustainable Bonds

Sustainable bonds are debt instruments that are listed on an exchange and have a linkage to sustainability. The sector has historically done this in two ways:

1. Where the proceeds are used to finance or refinance a combination of green and social projects. They combine the principles of green bonds (funding environmentally friendly projects) and social bonds (funding projects with positive social outcomes).
2. Where the borrower has a corporate KPI(s) attached to the debt instrument. Failure to meet the KPI will typically result in a coupon step-up i.e. an increase to interest rate payable.

[1] Energy Secretary speech, 25 June 2025 https://www.gov.uk/government/news/plans-for-uk-to-become-sustainable-finance-capital-of-the-world
[2] https://www.gov.uk/government/publications/quarterly-survey-for-q4-january-to-march-2025/quarterly-survey-for-q4-january-to-march-2025

Analysis

The results of both the housing association and lender surveys, as well as the follow-up conversations, have been summarised here. This has focussed on key themes and presents anonymised, aggregate feedback.

Survey Feedback

Housing Associations

Respondents

1. While the survey was intended to be disseminated widely within housing associations, all of the respondents **either worked in sustainability or finance**. The delivery of the KPIs under SLLs in housing associations is often performed by teams who were not represented in the survey respondents, primarily asset management and development teams. While we cannot tell why these teams did not engage in the research, it does point to a general trend which emerged from the research and Newbridge's own ESG workstreams that these teams are generally less engaged than their counterparts in the machinery of sustainable financing.

2. **Respondents came from both England and Wales**, and from a mix of mid-size to large housing associations. There was little coverage of housing associations from the North of England and no responses from Scotland and Northern Ireland.

3. **The majority of respondents had SLLs in place** (68%) with one respondent saying they did not know whether they did have one. Where participants had said they did not have an SLL, we asked if they had in the past. One respondent indicated they had done, suggesting they have since stepped away from this.

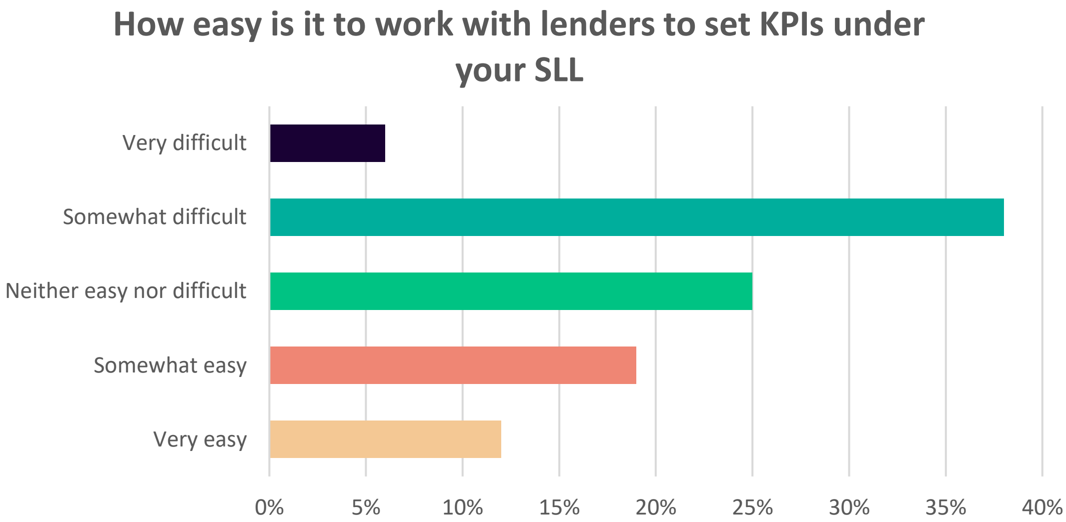
Feedback

4. The **vast majority of those responding said they did have a sustainability or ESG strategy** (85%) with one respondent indicating that they did not know. We followed up with desktop research to determine whether the organisations with sustainability or ESG strategies had shared these publicly and included annual metrics, of the kind which would be suited to SLLs. These were variable in nature, with some being more high-level statements of intent with promises to carry out further future work. On the other hand, some associations have extremely well-developed public-facing targets with substantive analysis set out.

5. Where SLLs were in place, the **vast majority were linked to a sustainability or corporate strategy**, which all the lenders had said was a requirement for SLLs. 13% of respondents indicated their SLLs were not linked to a sustainability or corporate strategy, but it is not clear why.

6. In response to the survey question on whether their SLL was aligned to criteria set out in the SRS, three respondents answered yes, two answered no, nine answered partially and two answered that they did not know. The remaining (majority) of respondents skipped the question.

7. There was a variable response on how **easy it is to work with lenders to set KPIs** under SLL as set out here:



8. All housing association respondents indicated there was **limited to no impact of their SLLs** regarding improvement of ESG outcomes for residents with no respondent answering that there was significant impact. However, in follow up questions, respondents did note the following benefits:

    a. Greater awareness of work and metrics internally.
    b. Potential discount.
    c. Stepping stone to other green finance options which will move the dial.
    d. Impetus and emphasis for ESG goals within organisation.
    e. Customer communications – though it was not expanded what element of SLLs led to this.

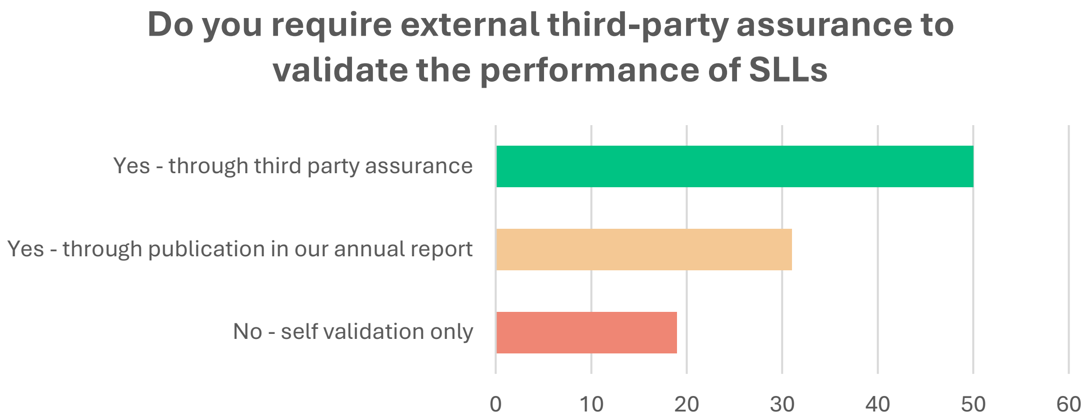
Case study: Stonewater SLL setting

At Stonewater, SLLs have helped to demonstrate ESG commitments both internally and externally, ensuring the benefits are known more widely.
The use of sustainable finance has also brought the housing provider's ESG agenda into focus – and helped bring their colleagues along with them on their sustainability journey.
For customers, the provider said it has highlighted the group's commitment to minimising its impact on the environment and providing safe, warm and affordable homes.
Stonewater has worked to ensure its SLL KPIs are ambitious but are achievable by collaborating with banks to specifically word them. This is particularly true of its KPI on building new homes, which includes a commitment to exclude Section 106 homes, where they feel they would have less control over the type and quality of home being built. The Stonewater team said that, overall, SLLs have ensured they are achieving the goals they set out to achieve, with an additional benefit to deliver cost savings.

9. There were more responses to **perceived barriers to putting SLLs in place**, with some key themes emerging in multiple responses:

a. Lenders being clear up front about what is needed – there is currently inconsistency in how they deal with clients and different terms in lending agreements.
b. Delays to documentation.
c. Lenders asking for stretching KPIs above targets set out in sustainability strategy.
d. Getting realistic targets from operational leads – one finance lead expressed that the targets have often "*appeared quite achievable initially*" but then they've subsequently not been able to meet them. On a similar theme, a sustainability lead had set out that "*knowledgeable drafting to create meaningful and stretching targets*" was an issue. In their case, there was no consultation with the assets team ahead of the housing association agreeing an EPC based KPI.
e. Climate of cost pressures.
f. Additional legal and audit costs.
g. Management time in monitoring and reporting against metrics.
h. Third party validation – especially when targets have been missed but housing associations have still been required to undertake an assurance exercise to prove that.

10. There was a mixed response on whether **external third-party assurance** is required, suggesting some clarity and transparency is required there:



11. 10% of respondents felt that the **costs of establishing and monitoring SLLs** were proportionate to the outcome. 67% said no and 23% did not know.

12. There were multiple responses to the question on **what would encourage greater take up**, which we have amalgamated and summarised here:

a. Less onerous or expensive reporting and audit requirements. This was supported across the board.
b. More substantial interest saving which was echoed widely in responses. Two respondents had flagged that getting rid of penalties for missing targets would be helpful.
c. More consistency from lenders in agreeing loan terms.
d. Clearer understanding of additionality of taking out a SLL. One respondent asked for lenders to recognise where a housing association had been doing more than others or the sector.
e. Formalising a "*structure*" of KPIs which ramp up to provide truly challenging targets with appropriate benefit for organisation and/or closer alignment with strategy. One respondent asked for a more direct link with SRS to avoid "*reinventing the wheel*" or creating new metrics.
f. More flexible use of capital.
g. More visible push from lenders with examples of where they have pushed meaningful change.

h. Internal upskilling.

13. There was a mixed picture on **whether respondents would enter into new SLLs** – 38% said yes, 19% said no and 43% said maybe:

    a. For those who had already set up SLLs, having the infrastructure already in place was seen as a positive and indicative of continuing to pursue them.
    b. There were mixed views relating to the discount in response to this question as some people stated any discount was better than none, while for others the costs outweighed the benefits. It is possible that the mixed picture on assurance (i.e. some people not having to externally assure their data) was leading to the variation in responses here.
    c. One respondent stated that "*value for money is the chief determinant*" in financing decisions and that "*this is not yet established in ESG-linked borrowing*".
    d. Lender behaviour was also driving responses here with some respondents perceiving that SLLs were being stretched too far. Though it was also said that if this is a priority for lenders, housing associations will follow.

14. Responses were split fairly evenly regarding **other green products**. Where housing associations had engaged with other green financing, this was mostly in the capital markets, through listed bonds and private placements.

Lenders

Respondents

15. The survey was answered by a split of staff at banks covering: **relationship management, product specialists and sustainability** teams.

16. Some lenders were not comfortable answering the survey but gave verbal answers in interviews. Others did not share some of the required information at all e.g. how much of their lending to social housing reflected sustainable financing, though were content to comment on the high-level themes.

17. Although the survey was sent to institutional investors, none took part. We had one response from one investor who did not think the survey was well-suited to them, but commented on the positive nature of social housing and its sustainability credentials more broadly.

Feedback

18. While lenders were asked for **numbers relating to their lending to the sector** in the last three years, including how many SLLs were in place with their social housing borrowers, the responses varied too greatly to be able to draw concrete conclusions from them. Some lenders gave us their verbal assurance that the amount of lending, and sustainable lending within that, were strong. One lender was able to tell us the value of its SLLs without the wider context of lending to the sector overall. One lender told us SLLs reflected around 70% of its total loan book to the sector.

19. There was a clear message however that **they would all consider issuing new lending to housing associations without any sustainability link** (83% yes and 17% maybe). Some European banks will no longer lend without a transition plan in place, and although things may change in the future in the UK, no bank commented on the nature of that change at this point. They acknowledged climate related financing was still a huge commercial opportunity, with one bank calling it the new "*industrial revolution*". Banks are also still taking climate risks into account in lending assessments.

20. The **ease of work** on SLLs was expressed as being **dependent on borrower readiness**, with the maturity of sustainability strategies and structures within the housing association seeming to form the key factor. The existence of a sustainability strategy is the minimum required by the Loan Market Association (LMA). One lender also requires three years of historic data. Where there are gaps in this, lenders expressed that it can be more difficult and some expressed that they would pause any consideration of an SLL until the strategy and data is more developed.

21. One lender commented on the SRS having prepared the ground in social housing with the development of detailed ESG reports.

22. Lenders were clear that borrowers were determining their **ESG KPIs,** though this sense of autonomy did not seem to be echoed by the borrowers themselves. All the lenders accepted that there was a collaborative role for lenders within this. Although no lender thought they were the key driver, their role in assessing the proposed KPIs against LMA guidance could lead in some cases to the "*stretching*" perception that some housing associations have formed.

23. One lender said they did not require **external third-party assurance**, but all the lenders believed there is sufficient service provision here. One is content to rely on annual report auditing and take a proportionate view elsewhere. Most lenders agreed there should be standardisation of costs in this area.

24. Lenders were at the opposite end to housing associations in believing that SLLs were beneficial to housing associations albeit some hadn't formed an opinion, or said it is dependent on each individual loan. Similarly, lenders believe that SLLs have **driven impact** though answers varied on the extent of that impact (split evenly across limited, moderate and strong). Some of these benefits were articulated as having been in the upskilling and internal focus spheres. All lenders commented that the **LMA did not design the SLL principles solely for economic reward, and that there was a broader role in driving behaviours which they had seen come to fruition**.

25. In response to being asked **what would drive take up**, the responses included:

    a. Better communication of benefits.
    b. Clarity on verification costs.
    c. A greater ability for the ratchet swing if the broader economics of the deal allow.
    d. Continued evolution of the product – one lender commented on the use of ESG ratings are a suitable KPI.
    e. One bank pointed to the National Wealth Fund (NWF) as the model that should be pursued.

Follow up interviews

In order to build a richer intelligence base, we asked respondents to the survey to self-nominate for follow-up interviews. The results of those conversations supported the early emerging themes from the survey responses, building on the why and how.

Housing Associations

26. We spoke to one housing association that had chosen not to put a SLL in place and two who had done so, including a large G15 landlord and a smaller regional provider.

27. The housing association that had not put an SLL in place had chosen not to do so as they had not set corporate targets on sustainability which they could easily incorporate. While there were longer-term ambitions, this hadn't been broken down into interim targets of the annual nature found in SLL KPIs.

28. However, **ESG & sustainability was deemed to still be a strong feature of their financing** with "*most*" of their loan agreements reflecting the language of SLLs. Their EMTN programme (documentation platform in the capital markets) has improved ESG outcomes for residents as it is underpinned by the sustainable finance framework. This housing association told us that investors are still interested in ESG as a significant proportion of the roadshow questions on a recent bond issuances were in that space.

29. All the housing associations commented on the **high costs** of establishing and monitoring a SLL. This related to the following:

    a. Monitoring and audit costs.
    b. Management time.
    c. Resourcing to align delivery internally.
    d. Similar to the survey, the discount on SLLs was not thought to be significant enough to offset these costs.

Impact

30. Views differed on the impact of a SLL with those who had put them in place realising **outcomes beyond financial impact**. Those who had not put SLLs in place, concentrated on the lack of financial incentives to do so.

31. Many SLL targets relate to EPC property ratings for example, which are a regulatory target housing associations must meet, and are supported by financing routes such as grant funding. One housing association commented that it would be helpful if lenders were **driving KPIs in areas where action may not progress without that** impetus, e.g. because it is not currently regulated or funded by Government.

Case study: Orbit's metrics on nature

Orbit has committed to manage a minimum of 30% of outdoor green spaces for nature's recovery by 2030 in alignment with the UN Convention on Biological Diversity. Alongside KPIs on EPC improvements in existing homes, this ambition to safeguard and promote nature has also been embedded into some of their SLLs. The methodology for this has been developed with the Wildlife Trusts and can be found online here.

32. However, a few housing associations relayed that "*what gets measured gets done*" and the more immediate annual pressure of the KPIs has helped to garner focus, strengthen governance, track progress and escalate issues.

33. Even where KPIs had been missed, this was not thought to lead to a negative reaction internally and has instead led to a better understanding of the risks of linking sustainability targets to lending margins.

Other products

34. **Views on the NWF** also differed. One housing association thought the margin reduction offered through NWF loans were material, with a discount in the region of 70-80% as these loans are Government backed. The same housing association expressed that as little as 30 basis points would be attractive. Others had not yet considered NWF loans and could not comment, or thought their restrictive nature was not aligned with what they were looking for.

35. All interviewees agreed that lenders do have the space to be creative here as they have been with the NWF, but that engagement with the sector on what would work would be welcome.

36. In regard to interaction with **the SRS**, interviewee responses were:

    a. The SRS is retrospective regarding reporting and therefore not as relevant to forward-looking targets.
    b. It is broad and necessarily high level e.g. asks about carbon emissions, but doesn't specify housing associations should target a certain percentage for reduction.
    c. There is no formal link between SLLs and the SRS – it is not a precondition of lending in this space like sustainability strategies or ESG frameworks are. There is an overlap between the kind of metrics included in both, though there was divergence on what had driven what – a respondent said "*it just happens to overlap*". One respondent said that they thought they could take a completely unrelated metric (from the SRS) to a lender, and they would agree it.

Lender behaviour

37. All the housing associations were unanimous in the view that the **banks could and should speak about SLLs** more to show both a continuing focus on the product and the benefits of it. The initial focus on SLLs from banks was seen as having reduced now. One housing association said "*it does not affect our lender relationships at all*."

38. This was an area where treasury and sustainability views diverged the most. Those in sustainability teams were more of the view that any reduced focus from lenders in this space would directly correlate to a loss of focus, funding and delivery within housing associations. Lenders were viewed as key allies in their own internal programmes of work. Treasury feedback conversely seemed to suggest that a loss of lender appetite here would not necessarily have an adverse impact on sustainability efforts in housing associations. Their view was that the key driver for sustainability comes from the fact housing associations are long term custodians of properties, and therefore need to ensure that the stock continues to be of a good standard.

39. All housing association staff who engaged with the research agreed that it would be good for **banks to clarify their position** regardless of whether it is positive or negative.

40. The approach used by some lenders where lending to the social housing sector in itself count as "sustainable lending" even where there is no sustainability link was put to some of the housing associations. Sustainability teams in particular pushed against this notion. One housing association said "*while the social impact of housing associations is clear, there is more to do on the environmen*t".

Internal structures

41. Through a series of conversations, it has been clear that adequate **internal consultation and monitoring mechanisms** have not been set up in a number of housing associations who have existing SLLs. This has led to a series of knock-on consequences where sometimes the target has not been able to be met or evidenced, or it was not fit for purpose to start with. One housing association referred to the drafting of its own SLL KPIs where the finance team had engaged with other finance teams in the sector, but not their own assets team who would have to deliver the target. While we have been provided with examples where finance teams have collaborated across their housing associations on this front, greater collaboration between sustainability, asset management and finance teams in all housing associations with sustainable financing instruments, or planning to enter the market for them, would make a material difference.

42. One housing association we spoke to had an **advanced structure around KPI setting** and monitoring, which appeared to be best practice in the sector. An ESG financing panel sets both the thematic direction for where KPIs should focus based on the wider sustainability strategy, and looks at performance against KPIs routinely (at least on a six monthly basis). This group was made up of senior members of finance, property services, strategy & planning and development teams. KPIs were based on modelling. While we would recommend something similar is instituted in the sector more broadly, it is clear that setting up forums alone isn't sufficient to move the dial. Housing associations should think carefully and creatively about how to engender true collaboration including information and data flows, and joint decision-making and accountability structures.

43. To do this requires a **programme of internal upskilling**, taking into account the learning requirements of both management and operations. This includes a genuine understanding of the importance of sustainability to housing associations, the creation of achievable and material metrics and access to the full range of sustainable finance products.

Lenders

The strength of SLLs and social housing

44. Although data was not consistently shared, lender feedback on their loan books does not support an overall decrease in SLLs. **Most lenders were seeing consistent growth as well as refinancing and amendments.** They also told us that the client base was becoming more

diverse regionally and in unit size, with new housing associations still keen to put SLLs on their books for the first time.

45. However **market conditions** have led to a general decrease in social housing providers committing to the product, which was reflected in the quantum borrowed, where that was shared with us. One bank said it was seeing a decline from "*peak activity*" but continued to see good refinancing. There was more interest in using the use of proceeds label.

46. The reasons for this were varied but mostly covered:

    a. Objectives changing the sector in the face of pressures e.g. higher spend on repairs.
    b. One lender raised the nature of the sector with a high regulatory burden, keen attention to price points and already having big RCFs which remain undrawn.
    c. General trends outside social housing also factored as verification costs have gone up for all. Real cost-consciousness was still "*skewed*" in social housing on this front i.e. some borrowers outside of the sector were less worried about the costs.
    d. Bigger companies who have wanted to transact on an SLL basis have already done so.

47. Even on this front, lenders were keen to stress that this was not as sharp a fall-off as it is perceived generally in the public. Lenders pointed to the UK's continuing focus on sustainability and sustainable finance, evidenced in the Chancellor's Mansion House speech[3] where the sustainable financing sector was described as "*world-leading*" and the Government's support for investment in the transition was highlighted.

48. Lenders had an **overarching positive impression of social housing** in comparison to other sectors – one commented that the sector was "*completely aligned*" with what they wanted to see on ESG due to its predominant not-for-profit nature and core mission. They also seemed to understand the pressures, with one drawing attention to the fact that "*everyone was dealing with the climate emergency*", but that social housing providers are in the unique position of dealing with both that and a housing crisis. One lender commented that the sector is already doing "*great stuff without monitoring through a loan document*" and stated their belief that it is leading the UK corporate sector.

Increasing uptake

49. Responses varied significantly when asked what would help to **increase the uptake** of SLLs in the sector – some banks did not see that as a valid intervention whereas some did. A couple of those spoken to went as far as to say that they do not fundamentally believe that the social housing sector requires SLLs, though there was variance within banks on this front, as another team from the same bank said it is still beneficial as an instrument as it commits management to deliver even if they change personnel. Views varied on whether lending to the sector without a SLL still counts as sustainable lending. Where it was automatically viewed as sustainable regardless of the nature of the financing, there might be less incentive to invest in the presentation of the product to the sector, as it would not affect overall sustainable lending targets.

50. However, there were many ideas about how uptake could be increased. Common to all the lenders was **communicating the benefits of the product** which the lenders were unanimous in articulating as primarily being the KPIs, as opposed to financial gain. Most lenders said they were communicating these benefits on an individual client basis, but there was space for

[3] https://www.gov.uk/government/speeches/rachel-reeves-mansion-house-2025-speech

upskilling both internally within housing associations, and in the wraparound service industry advising housing associations on their financing.

51. All lenders agreed with **looking at the costs of assurance**, although there appeared to be disagreement on whether the requirement could be dropped entirely because of requirements from the LMA. Some banks clearly don't view this in the same light as there are examples where no third-party assurance is required. Clarity on this point would be most welcome for the sector. All lenders did say they looked carefully at where third parties were involved already, and one was looking at standardised approaches and costs.

52. All banks said that social housing loans were already working from a very low base **margin**, not leaving much space to go further, despite this being the key and biggest ask from the social housing sector. Accounting rules (IFRS) were also mentioned as a barrier, as was the need to treat all borrowers the same if there was a change in discounts. Some commented that investors were already questioning the credibility of structure as they deem the amount of coupon adjustment being integrated into structure as not rewarding enough, and therefore not providing enough incentive to lend to the sector in this manner. Instead, the banks called for two-way ratchets to be more consistent with other sectors.

53. There was widespread support for **simplification**, including looking at fewer KPIs. One lender had developed a menu for borrowers to choose from, though another commented that KPIs couldn't be uniform but there was interest in narrowing down scope to reflect two key or material areas in an organisation's sustainability strategy. There was nascent interest in developing a menu of core KPIs across all lenders for the sector. One bank advised the sector to be more strategic with structuring RCFs – if there is a pool of funds, the association should align KPIs across the structures.

54. All the lenders mentioned **other products**, including in some cases ones which were being newly developed, creating a greater variety of choice for borrowers to pick from. One commented that SLLs were a tool to embed sustainability as a priority within the organisation's plans, but that had "*now finished*".

Impacts

55. On impacts, lenders acknowledged that this could be driven more through **target setting**. One lender commented that some investors had raised concerns with the ambitiousness of the targets, and not being as ambitious as their sustainable finance framework second party opinion had suggested. One bank commented that where regulation is mandating work anyway, targets should go beyond them, and if not, at the very least bolster the efforts. Another said KPIs within SLLs need to be *"stretching, but not too stretching that housing associations do not meet them*". Similar to survey responses, lenders reiterated their views that the impact of SLLs should go beyond financial impacts to what SLLs were intended to do. One bank commented this was multi-faceted across corporate strategy, capex planning and changing behaviour. A lender made a comment that impacts will depend on internal communication in the housing association, especially between treasury and the operational teams doing the work to meet those targets.

56. In response to questions on the use of **the SRS**, lenders said:

    a. The SRS is a useful base for looking at what clients measuring and delivering already across all three domains (E, S and G). Particular reference was made to the housing association depository. It can provide a historic view of performance, as well as peer comparison.

b. The SRS is a tool for retrospective reporting rather target setting so this creates some issues in relying on the SRS alone for SLLs. It also cannot act in place of third-party assurance as it is self-certified information.
c. Most of the lenders engaged are funder-adopters with strong communications with Sustainability for Housing and some were part of a roundtable discussions.
d. SRS is not relevant for SLL documentation but there is overlap with client assessment and KPI setting.

Conclusions

Across both the survey responses and follow up interviews, the following themes became apparent:

1. SLLs remain **well utilised** as a product in the social housing sector.

2. There is however **variable levels of understanding, engagement and consultation** between the constituent stakeholders within housing associations. Without adequate structures and frameworks here, sustainable financing efforts will not be successful.

3. The LMA requires sustainability or **ESG strategies to be in place as a minimum** before sustainable financing is put in place. However the content and quality of those that exist in the sector vastly vary, consequently impacting ease of accessing sustainable finance in the market, as well as meeting KPIs and monitoring costs.

4. The **SRS has played a key role in providing a common platform for ESG reporting and instituting data collecting**. It does not however help with forward-looking target setting and is not a formal request as part of SLLs.

5. The impact of sustainable finance was seen to be **greatest where it provided impetus and structure** around work on the chosen KPIs within housing associations.

6. Housing associations and lenders recognised **a number of barriers** to putting them in place including an inconsistent or unclear landscape, setting realistic but ambitious targets, the current climate of cost pressures in social housing and the costs of legal, audit and management time.

7. Housing associations uniformly believe the **margin discount offered on SLLs is not sufficient** and would like to see this increase – lenders uniformly have set out a case for why this is not possible, citing accounting rules and the already low-cost of borrowing.

8. Once there is a SLL in place, housing associations can find it **easier to continue accessing** green financing.

9. **Targets need to emerge in areas where there is no other impetus** (e.g. regulator) or where understanding of impact is evolving (e.g. nature).

10. Whether SLLs are saved or revived is not the question we should all be concentrating on – the sector continues to require financing, in particular towards its efforts on combatting the climate crisis. **ESG and sustainability are a key part of all housing association financing**. Banks will continue to be regulated on this. The findings from this report will apply regardless of what product in the green financing market we are considering.