

Loan Associations Publish Social Loan Principles

Last week the Loan Syndications and Trading Association (LSTA), the Loan Market Association (LMA), and the Asia Pacific Loan Market Association (APLMA) jointly published their first ever Social Loan Principles (SLP). The goal of the SLP is to provide a high-level framework of market guidelines and standards to promote the development of and consistency across the social loan market. The SLP, which are voluntary, are designed to be applied by market participants on a deal-by-deal basis depending on the underlying characteristics of each individual transaction.

The SLP define social loans as “any type of loan instrument made available to exclusively finance or re-finance, in whole or in part, new and/or existing eligible Social Projects.” Social Projects for this purpose are those programs that aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes often for a target population. Examples of Social Projects include projects related to affordable basic infrastructure such as clean drinking water, sanitation and transport; access to essential services such as education, vocational training, healthcare, and affordable housing; sustainable food systems; and unemployment programs. See <https://www.lsta.org/content/social-loan-principles-slp/>.

The SLP framework, which enables all market participants to understand clearly the characteristics of a social loan, is based around the following four core components:

1. Use of Proceeds. Loan proceeds are used for Social Projects that are appropriately described in finance documents. A social loan may take the form of one or more tranches of a loan facility and may be made via a term loan or a revolving credit facility.
2. Process for Project Evaluation and Selection. The borrower of a social loan should communicate the following to its lenders: (i) the objectives of the Social Project; (ii) the process by which the borrower determines how the Social Project fits within the listed categories; and (iii) related eligibility criteria, including the process to identify and manage social and environmental risks associated with the project. Borrowers are encouraged to disclose any social standards or certifications.
3. Management of Proceeds. Proceeds of a social loan should be credited to a dedicated account or otherwise appropriately tracked by the borrower. The borrower should attest to the management of proceeds in a formal internal process to maintain transparency and promote integrity of the product. Borrowers are encouraged to establish an internal governance process through which they can track the allocation of funds applied toward Social Projects.
4. Reporting. Borrowers should keep up-to-date records on the use of proceeds for Social Projects. This information should be renewed annually until the social loan is fully drawn and thereafter in the event of material developments. Records should include a list of Social Projects to which the social loan proceeds have been allocated, a description of such projects, the amounts allocated, and the expected impact of the investment. Both qualitative indicators and quantitative measures, where feasible, are recommended.

Finally, an external review is recommended such that borrowers can obtain outside input regarding how a particular Social Project applies the core components of the SLP. There are several options for external reviews, including second party opinions, verification by auditors or independent ESG rating providers, certification providers, and ratings agencies. An external review may be full or partial and should be made available to all institutions participating in the social loan. Alternatively, a borrower who has developed the appropriate internal expertise may self-certify to confirm alignment of the social loan with the SLP. In addition to providing them to lenders, the SLP encourage borrowers to make summaries of both external and internal reviews publicly available.

For More Information

Please contact Kristin Parker, the Chapman attorney with whom you regularly work, or visit our [Social Finance and Impacting Investing](#) resources at chapman.com.

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