

Using Social Impact Bonds for Affordable Housing



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Using Social Impact Bonds for Affordable Housing

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Why Issue a Social, Green, or Sustainability Bond?

Issuing a Social, Green or Sustainability Bond can create several benefits for the issuer. Key internal and external benefits are highlighted below, as well as some considerations.



Benefits



Internal Awareness – Promote Sustainable Operations



Compress New Issue Concessions



Aligns Funding with Overall Sustainability Strategy and Goals



No / Limited Additional Bond Documentation



External Awareness – Public Relations



Promoting ESG Policy Making



Investor Expansion, Diversification and Alignment with Growing Mainstream Investor Focus on ESG



Considerations



“Green Washing”

- Green washing is making a misleading claim that an offering is “green”, “social” or “sustainable”
- A well-structured transaction and framework compliant with the highest social and environmental standards are the best defenses against allegations of green washing



Additional cost and effort for second-party opinion, assurance or verification (if utilized)



Commitments to allocation and impact reporting can be complex and involve multi-party coordination

A Potential Municipal Bond Pricing Impact?

While consistent evidence of a pricing benefit for municipal ESG bonds in the primary or secondary markets is yet to be found, we expect a number of factors to continue to influence a potential pricing impact.

Primary Market

- ESG designated bonds can help to attract more investor interest, through incremental orders in the current market
- Although there is no theoretical pricing benefit in the primary market for municipal ESG bonds, there has been anecdotal evidence in municipal transactions in which ESG-motivated buyers can provide more flexible orders to avoid re-pricing to higher yields in otherwise under-subscribed maturities

Secondary Market

- While there is not evidence of a secondary market trading benefit for ESG bonds in the municipal market, in the corporate bond market (especially Euro-denominated corporate bonds), ESG bonds can outperform compared to similar maturity non-ESG bonds and sometimes trade with lower volatility

Future Pricing Impact

- Citi expects that ESG risk will be increasingly integrated into investors' models for credit analysis
- In the longer-term, may result in lower overall funding costs for municipal issuers with more sustainable capital programs



Creating a Social, Green or Sustainability Bond Framework

A Green, Social or Sustainability Bond Framework can be used to outline how the issuer intends to align itself with ICMA Green Bond Principles, Social Bond Principles, and/or Sustainability Bond Guidelines.

1 Introduction to the HFA, its Mission, and Lending Programs

- Describe the issuer, its mission, and affordable housing programs
- Outline ESG framework, including references to alignment with relevant standards (i.e. International Capital Market Association Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines)
- May incorporate mapping to United Nations Sustainable Development Goals (“UN SDGs”)

2 Use of Proceeds

- Outline which projects, project categories, or mortgage loans will be financed
- This section can also detail specific eligibility criteria and exclusionary criteria for projects

3 Process for Project Evaluation and Selection

- Describe the issuer’s internal processes by which projects or mortgage loans will be assessed and selected to be financed against the eligibility criteria provided under Use of Proceeds

4 Management of Proceeds

- Details of how the bond proceeds will be managed and tracked internally by the issuer until disbursed to finance eligible projects or purchase eligible loans

5 Reporting

- Describes how the issuer intends to report on allocation of bond proceeds to eligible projects or loans
- Can include the environmental and/or social impact of these financed projects or loans



Self-Designation

or

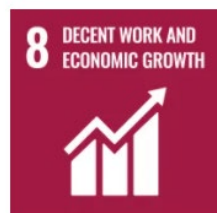
External Reviews

(e.g. Second Party Opinion, CBI Certification)

The ICMA Principles and Mapping to UN SDGs

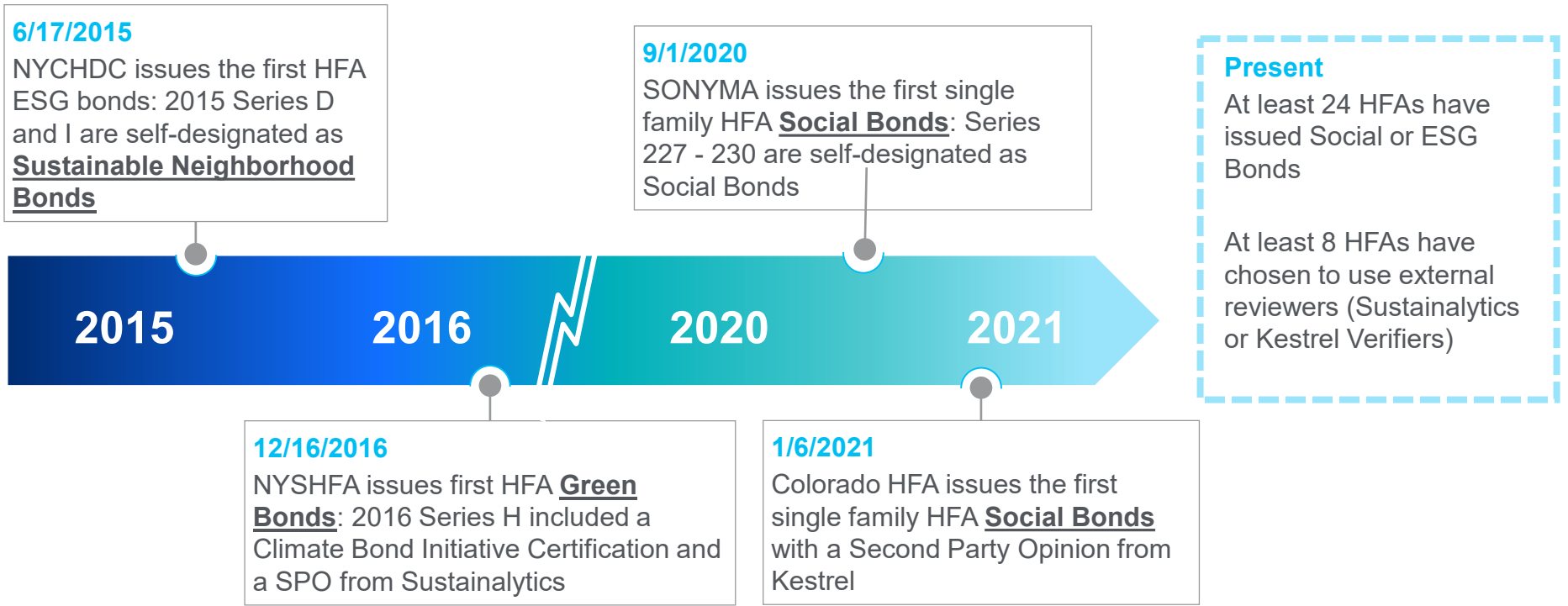
The ICMA Social and Green Bond Principles and the Sustainability Bond Guidelines, referred to as “the Principles”, have become the leading framework globally for issuance of Social, Green and Sustainability Bonds. Issuers can also map their ESG bonds to certain UN SDGs that align with the intended use of proceeds.

- The International Capital Market Association (“ICMA”) **Social Bond Principles** and **Green Bond Principles** (“SBP” and “GBP”, respectively) as well as the **Sustainability Bond Guidelines** (“SBG”) are voluntary process guidelines that call for transparency and disclosure and promote integrity by clarifying the approach for issuance of Social, Green and Sustainability Bonds
- The Principles define Social, Green and Sustainability Bonds as any type of bond instrument where the proceeds are to be exclusively applied to eligible environmental and/or social projects
- Four core components of SBPs and GBPs: (1) use of proceeds, (2) process for project evaluation/selection, (3) management of proceeds, (4) reporting
- In September 2015, the United Nations General Assembly adopted the 17 Sustainable Development Goals (“SDGs”) as part of its resolution called the 2030 Agenda for Sustainable Development
- By reference to the ICMA’s *Green and Social Bonds: A High-Level Mapping to the Sustainable Development Goals*, certain of the following SDGs have been used by HFAs to reflect the specific use of proceeds (and/or program strategy) for their Social or Sustainability Bonds



Evolution of HFA ESG Issuance

HFAs have been at the forefront of municipal ESG issuance since 2015. Most issuances have been self-designated, but a number of HFAs have also chosen to engage external reviewers.



| External Reviewers | |
|--|---|
| Benefits | Considerations |
| <ul style="list-style-type: none"> ▲ Provides market assurance and transparency to investors ▲ Verifies issuer is aligned with Social Bond Principles (SBP) ▲ Mitigate greenwashing | <ul style="list-style-type: none"> - Non-standardized criteria from various providers - Provider and issuer adviser should be independent - Additional cost associated - Not included in S&P Green Index - No formal existing taxonomy |

Source: Climate Bond Initiative; Sustainalytics; ISS Corporate Solutions

Select HFA ESG Transactions

Single Family Social Bonds Issuance

- Single Family has generally only seen Social Bonds
- SONYMA Series 227-230 was the first SF HFA Social Bond Issuance in September 2021
 - Did not require any changes to current lending practices
 - Updated Official Statement with Social Bonds section
 - Created a Form of Annual Reporting that can be easily updated with annual program data
 - Multiple ESG investors participated

Multifamily ESG Issuance

- In multifamily, although we did not see Green Bonds take off after NYSHFA, many HFAs still issue Sustainability bonds
- As for Social Bonds, we have seen applications in a variety of ways
 - Applications to LIHTC
 - California Health Facilities Financing Authority – No Place Like Home
 - Workforce Housing and Securitization

Citi Senior Managed HFA Social Bond Transactions¹



State of New York Mortgage Agency
Series 227-230 (Social Bonds)
\$177.2 million
September 1, 2020



Illinois Housing Development Authority
2021 Series A (Social Bonds)
\$95.0 million
February 2, 2021



California Health Facilities Financing Authority
No Place Like Home Program
Series 2020 (Social Bonds)
\$450.0 million
September 1, 2020



CSCDA Community Improvement Authority
Series 2021A (Social Bonds)
\$113.0 million
March 31, 2021



Florida Housing Finance Corporation
2021 Series 1 (Social Bonds)
\$135.0 million
February 17, 2021



Ohio Housing Finance Agency
2021 Series A (Social Bonds)
\$140.0 million
March 24, 2021



Washington State Housing Finance Commission
Series 2021-1 (Social Certificates)
\$572.0 million
May 6, 2021



California Housing Finance Agency
Series 2021-1 (Social Certificates)
\$497.5 million
September 27, 2021

1. Blue Outline denotes self-designated. Orange outline denotes second party opinion obtained.

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Using Social Impact Bonds for Affordable Housing

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September 28, 2021



ESG Bonds Overview

- ▶ ESG bonds are issued to finance projects with anticipated demonstrable environmental and/or social benefits.
- ▶ Initially, a taxable market product, issuance in the tax-exempt market is growing and gaining considerable attention.
 - Municipal U.S. green bond issuance increased from:
 - \$4.4 billion in 2018 to
 - \$10.5 billion in 2019 to
 - \$14.5 billion in 2020*
 - These metrics only include pre-certified green bonds; they do not include investor-certified bonds, (e.g., Social Bonds), which is a significant portion of the market.
- ▶ As the regulatory and political landscape expands to be more inclusive of municipals in regards to ESG, the increase in investor demand and lack of supply may result in a price advantage.
- ▶ Public mandates that support sustainability and socioeconomic principles can be expressed through green bond and social bond issuance.

- Green Bond Projects** ▶
- Renewable Energy
 - Pollution Prevention and Control
 - Green Building
 - Clean Transportation
 - Climate Change Adaptation
 - Sustainable Water/Wastewater Management

- Social Bond Projects** ▶
- **Affordable Housing**
 - Affordable Infrastructure (water, sewer, sanitation, energy, etc.)
 - Access to Essential Services (such as healthcare, education, etc.)

*Source: Bloomberg

Why Investors Choose Social Bonds

- ▶ Risk Mitigation – identifying investments ahead of the curve on social values and formal regulation
- ▶ Positive Impacts – combining performance with a measurable positive impact on the community
- ▶ Aligning Investments with Values – choosing investments that match the investor’s values
- ▶ Long-Term Performance – potential for price appreciation
 - *Sustainable funds outperformed conventional peer funds in 2019**
 - 35% finished in the top quartile of their category
 - 66% finished in the top half of their category
 - The trend continued in 2020 with**:
 - 43% finishing in the top quartile of their category
 - 75% finishing in the top half of their category

*Source: 2019 Morningstar Sustainable Funds US Landscape Report

**Source: US Sustainable Funds Continued to Break Records in 2020, Morningstar, February 25, 2021

Marketing ESG Bonds

- ▶ Investor Education / Helping Investors Identify Social Bonds
- ▶ Investor Presentations / Roadshows
- ▶ Target investors with known preference for Social Bonds
- ▶ Better pricing for ESG Bonds?

SAMPLE INVESTOR PRESENTATION

- The Bonds are the HFA's inaugural issuance of **Social Bonds**.
- The HFA is designating the Bonds as Social Bonds based on, among other things, the intended use of proceeds to finance affordable home loans to primarily low and moderate income first-time homebuyers throughout the State.
- The Social Bonds designation reflects the intended use of the proceeds of the 2021A Bonds in a manner consistent with the four core components (the "Social Bond Principles") described by the International Capital Market Association ("ICMA") in its June 2020 publication, *Social Bond Principles: Voluntary Process Guidelines for Issuing Social Bonds*: 1. Use of Proceeds; 2. Process for Project Evaluation and Selection; 3. Management of Proceeds; and 4. Reporting.

| | |
|----------------------------------|--|
| Use of Proceeds | <ul style="list-style-type: none"> ▪ The HFA's programs provide affordable housing in the State, one of the project categories under the ICMA Social Bond Principles. ▪ The HFA's Social Bond designation also reflects the process by which the HFA has determined that its activities further advance affordable housing in the State, including the way the HFA tracks the use of the Bond proceeds to fund its affordable housing programs and reports on such activities. |
| Program Evaluation and Selection | <ul style="list-style-type: none"> ▪ Program Loans funded by the Bond proceeds will be originated by Participating Lenders and are expected to be consistent with the Program. |
| Management of Proceeds | <ul style="list-style-type: none"> ▪ Net of certain transaction costs, proceeds of the Bonds will be invested in permitted securities until dispersed to finance Mortgage Loans. ▪ The disbursements will be tracked by the HFA. ▪ The Mortgage Loans are tracked for compliance with Program requirements. |
| Reporting | <ul style="list-style-type: none"> ▪ The HFA will provide annual updates regarding the disbursement of the lendable proceeds of the Bonds. The HFA expects that such report generally will consist of the information outlined in the Form of Social Bonds Reporting found in the POS. Once all the lendable proceeds of the Bonds have been fully expended, no further updates will be provided. |

Potential ESG Bond Buyers

- ▶ Growth in ESG Investors (SMAs and Funds) and ESG investment pools has been explosive and is expected to continue to grow.
 - Many large asset managers have set up Green and Social Impact Bond Funds: Alliance Bernstein, TIAA-CREF, Blackrock, Calvert, Nuveen, PIMCO, Van Eck, Standish, Franklin, Western Asset Management, Eton Vance, Breckenridge and Fidelity.
 - Many SMA sponsors have indicated a growing interest from their investors in “socially responsible investing” and “sustainable” investments.
- ▶ Customers with ESG investment strategies will look at any bond offering where the POS identifies ICMA Social Bond Principles are being followed; however, this is not a requirement as investors will do their own analysis to determine if a bond qualifies as ESG.
- ▶ In general, muni investors don’t buy ESG bonds to meet mandates but rather for preference or to diversify product offerings.
- ▶ Given that ESG investing has gained a lot of traction in other asset classes and is far more mature than in the muni space, ESG municipals may bring in cross-over buyers (especially on taxable bonds) that have ESG mandates but haven’t yet looked at municipal bonds to fill those mandates.

Social Bonds Case Study

Background

On November 2019, Raymond James served as book-running joint senior manager for the \$500 million inaugural sale of taxable revenue bonds issued by the California Health Facilities Financing Authority (CHFFA). This was the first installment of California's \$2 billion No Place Like Home (NPLH) program, which will fund permanent supportive housing for persons experiencing mental illness who are homeless or at risk of homelessness. The bonds were self-designated by the State as social bonds to reflect the use of proceeds.

Raymond James' Role

Raymond James played a lead role in developing the legal structure and credit and collaborated with bond counsel, the State Treasurer's Office, CHFFA, the Department of Housing and Community Development (who administers the NPLH program), and the State Attorney General's Office to create a new Indenture. Our team built a resilient bond structure that reflects the underlying mechanics of the Mental Health Services Act and the NPLH legislation. We were responsible for the incredibly complex and extensive financial modeling and ultimately selected to run the books given our intimate knowledge of the credit and the underlying cashflows.

Simultaneous with posting the POS, the State also posted a recorded Net Roadshow that received 230 "hits" from potential investors. Raymond James tracked hits on a daily basis and used that information to enhance our premarketing. We cross referenced hits against known holders of other leading income tax bonds nationwide to help expand the universe of potential investors.



\$500,000,000

**California Health
Facilities Financing
Authority**

No Place Like Home
Program Senior Revenue
Bonds

(Federally Taxable –
Social Bonds)

Series 2019

Social Bonds Case Study (Con't)

A Successful Outcome

- ▶ The CHFFA bonds were structured as fixed rate, taxable bonds, maturing annually from June 1, 2021 to 2034 with a Make Whole Call until a par call kicks in on June 1, 2029.
- ▶ The bonds were rated Aa3/AA-/AA-; the financing achieved an all-in true interest rate of 2.77%.
- ▶ The syndicate generated in excess of \$2.3 billion of total orders from over 100 unique investors, of which \$2.1 billion came in through Raymond James.
- ▶ **The social bond designation generated \$596 million in orders from 13 investors with Environmental, Social and Governance (ESG) or Socially Responsible Investing (SRI) objectives.**
- ▶ The transaction also received \$200 million in orders from 18 local government investment funds, including 14 from California.
- ▶ The transaction received the Bond Buyer's 19th Annual Deal of the Year award in 2020.



\$500,000,000

California Health
Facilities Financing
Authority

No Place Like Home
Program Senior Revenue
Bonds

(Federally Taxable –
Social Bonds)

Series 2019

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*Source: Bloomberg

USING SOCIAL IMPACT AGENCY MBS FOR AFFORDABLE HOUSING

NCSHA 2021 ANNUAL CONFERENCE & SHOWCASE

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A product's environmental (which includes climate change), social and governance ("ESG") investment strategy limits the types and number of investment opportunities available to an investment and, as a result, the investment may underperform to those investments that do not have an ESG focus. An ESG investment strategy may result in investing in securities or industry sectors that underperform the market as a whole or underperform investments screened for ESG standards.

Contents

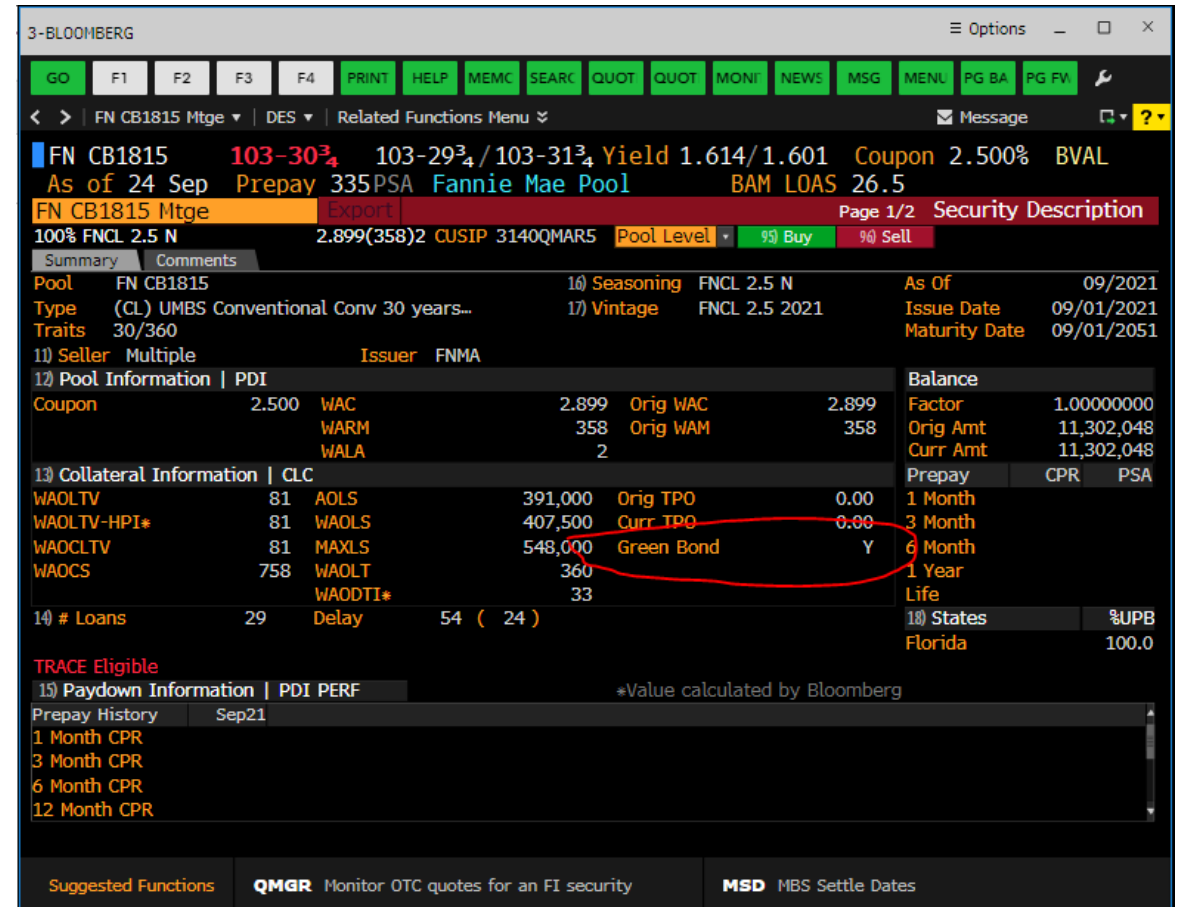
- Examples of ESG within the Single-Family Taxable Agency MBS space
- Overlap of HFA origination with Social component of ESG
- Current challenges
- What can be done to overcome



EXAMPLES OF ESG WITHIN
SINGLE-FAMILY TAXABLE AGENCY
MBS SPACE

ESG (Environmental)

- Fannie Single-Family Green MBS
 - Collateralized by mortgages that finance certain Energy Star certified homes
 - Fannie started issuance in April 2020, total issuance 390mm thus far
 - Premium over corresponding non-Green specified pool has ranged from 4 – 16/32
 - Once a Green specified pool, always a Green specified pool!



3-BLOOMBERG

GO F1 F2 F3 F4 PRINT HELP MEMC SEARC QUOT QUOT MONI NEWS MSG MENU PG BA PG FV

< > FN CB1815 Mtge | DES | Related Functions Menu | Message

FN CB1815 103-30³/₄ 103-29³/₄/103-31³/₄ Yield 1.614/1.601 Coupon 2.500% BVAL
 As of 24 Sep Prepay 335PSA Fannie Mae Pool BAM LOAS 26.5

FN CB1815 Mtge Export Page 1/2 Security Description

100% FNCL 2.5 N 2.899(358)2 CUSIP 3140QMARS Pool Level % Buy % Sell

Summary Comments

| | | | | | |
|--------|---|---------------|---------------|---------------|------------|
| Pool | FN CB1815 | 16) Seasoning | FNCL 2.5 N | As Of | 09/2021 |
| Type | (CL) UMBS Conventional Conv 30 years... | 17) Vintage | FNCL 2.5 2021 | Issue Date | 09/01/2021 |
| Traits | 30/360 | | | Maturity Date | 09/01/2051 |

1) Seller Multiple Issuer FNMA

12) Pool Information | PDI

| | | | | | | | |
|--------|-------|------|-------|----------|-------|----------|------------|
| Coupon | 2.500 | WAC | 2.899 | Orig WAC | 2.899 | Factor | 1.00000000 |
| | | WARM | 358 | Orig WAM | 358 | Orig Amt | 11,302,048 |
| | | WALA | 2 | | | Curr Amt | 11,302,048 |

13) Collateral Information | CLC

| | | | | | | | |
|-------------|-----|---------|---------|------------|------|---------|--|
| WAOLTV | 81 | AOLS | 391,000 | Orig TPO | 0.00 | 1 Month | |
| WAOLTV-HPI* | 81 | WAOLS | 407,500 | Curr TPO | 0.00 | 3 Month | |
| WAOLTV | 81 | MAXLS | 548,000 | Green Bond | Y | 6 Month | |
| WAOCS | 758 | WAOLT | 360 | | | 1 Year | |
| | | WAODTI* | 33 | | | Life | |

14) # Loans 29 Delay 54 (24)

18) States %UPB
 Florida 100.0

TRACE Eligible

15) Paydown Information | PDI PERF *Value calculated by Bloomberg

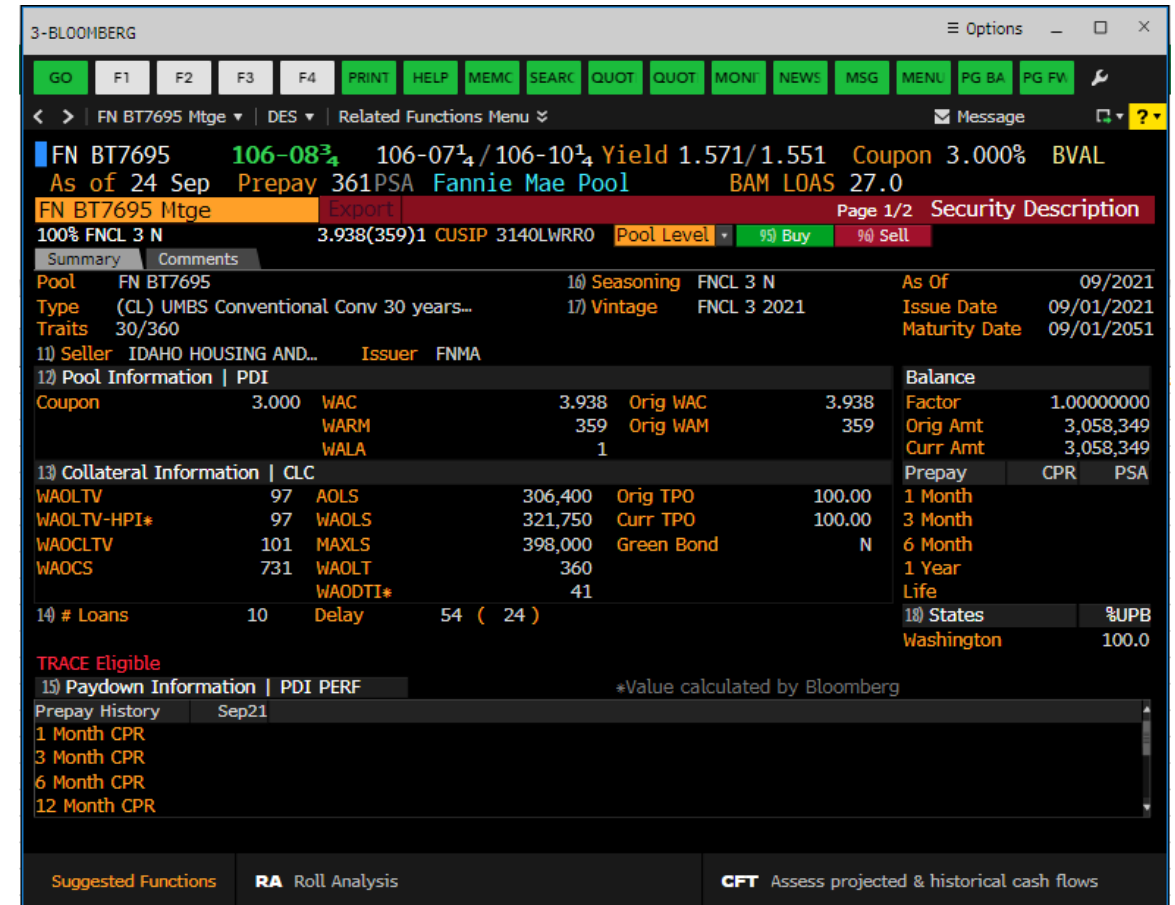
Prepay History Sep21

1 Month CPR
 3 Month CPR
 6 Month CPR
 12 Month CPR

Suggested Functions QMGR Monitor OTC quotes for an FI security MSD MBS Settle Dates

ESG (Social)

- Fannie/Freddie <80% AMI HFA MBS
 - Collateralized by mortgages that finance borrowers with household income <80% Area Median Income
 - Premium over corresponding non-Social specified pool has been 0/32
 - Its all about disclosures!



3-BLOOMBERG

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< > FN BT7695 Mtge DES Related Functions Menu Message

FN BT7695 106-08³/₄ 106-07¹/₄/106-10¹/₄ Yield 1.571/1.551 Coupon 3.000% BVAL
 As of 24 Sep Prepay 361PSA Fannie Mae Pool BAM LOAS 27.0

FN BT7695 Mtge Export Page 1/2 Security Description

100% FNCL 3 N 3.938(359)1 CUSIP 3140LWRR0 Pool Level 9% Buy 9% Sell

Summary Comments

Pool FN BT7695 16) Seasoning FNCL 3 N As Of 09/2021
 Type (CL) UMBS Conventional Conv 30 years... 17) Vintage FNCL 3 2021 Issue Date 09/01/2021
 Traits 30/360 Maturity Date 09/01/2051

11) Seller IDAHO HOUSING AND... Issuer FNMA

12) Pool Information | PDI

| | | | | Balance | |
|--------|-------|------|-------|------------|------------|
| Coupon | 3.000 | WAC | 3.938 | Orig WAC | 3.938 |
| | | WARM | 359 | Orig WAM | 359 |
| | | WALA | 1 | | |
| | | | | Factor | 1.00000000 |
| | | | | Orig Amt | 3,058,349 |
| | | | | Curr Amt | 3,058,349 |
| | | | | Prepay | CPR PSA |
| | | | | 1 Month | |
| | | | | 3 Month | |
| | | | | 6 Month | |
| | | | | 1 Year | |
| | | | | Life | |
| | | | | 18) States | %UPB |
| | | | | Washington | 100.0 |

13) Collateral Information | CLC

| WAOLTV | 97 | AOLS | 306,400 | Orig TPO | 100.00 |
|-------------|-----|---------|---------|------------|--------|
| WAOLTV-HPI* | 97 | WAOLS | 321,750 | Curr TPO | 100.00 |
| WAOLTV | 101 | MAXLS | 398,000 | Green Bond | N |
| WAOCS | 731 | WAOLT | 360 | | |
| | | WAODTI* | 41 | | |

14) # Loans 10 Delay 54 (24)

18) States %UPB
Washington 100.0

TRACE Eligible

15) Paydown Information | PDI PERF *Value calculated by Bloomberg

Prepay History Sep21

1 Month CPR
3 Month CPR
6 Month CPR
12 Month CPR

Suggested Functions RA Roll Analysis CFT Assess projected & historical cash flows



CURRENT CHALLENGES

Current challenges

- HFA origination fits squarely in the Social component of ESG
- Of HTS mortgages locked and securitized in 2020 calendar year:
 - 43% were <80% AMI
 - 34% were to minority head of household
- So, what's preventing ESG origination to explode in the HFA Single-Family Taxable Agency MBS Space?
 - Space not formed yet; end investors unsure what will qualify: AMI, Minority head of household, Female Head of household, Household size etc.
 - Lack of disclosures, which reduces secondary liquidity

How to overcome these challenges?

- Continue to work closely with end investors in fortifying definition of Social in ESG
- Continue to work with Fannie Mae/Freddie Mac/Ginnie Mae/Bloomberg in ensuring disclosures/flags that identify ESG pools get reported as such
- Any progress will improve specified pool payups on ESG HFA MBS which helps lower mortgage rates for eligible HFA borrowers



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ESG in HFA Ratings

Aulii T. Limtiaco
Director, Lead Analyst



S&P Global
Ratings



What is ESG?

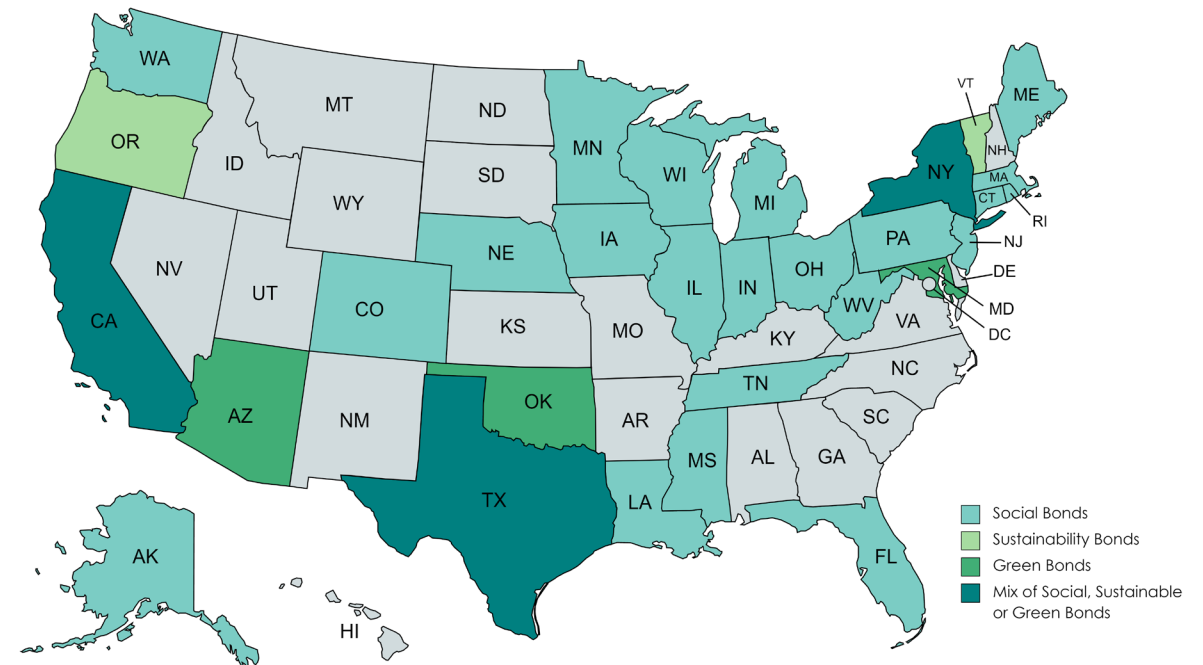
- ▶ ESG = Environmental, Social & Governance standards or factors
- ▶ Investors are increasingly embracing ESG strategies, recognizing the relationship between ESG impact and financial performance (“double bottom line”)
- ▶ The 2020 RBC Global Asset Management Responsible Investment Survey, which includes responses from more than 800 institutional investors, found that 75% of respondents are integrating ESG into their investment approach
- ▶ According to a report recently published by PRI, investors have been slower to formally incorporate ESG factors into muni bond analysis, but momentum is building



ESG in HFA Bond Issuance

- ▶ HFAs have recently embraced issuance of social/sustainable/green designations on their bonds
- ▶ Most HFAs have self-designated “social bonds,” citing alignment with the United Nations Sustainable Development Goals
- ▶ Some HFAs have received second party opinions on the framework of sustainability or social bonds, or certification of green bonds

HFA Bond Issuance



Created with mapchart.net

Source: HFA Official Statements/Websites

ESG in HFA Ratings



Environmental

- Short & long-term environmental risks in the state
- Geographic concentration to areas with higher environmental vulnerabilities that could affect portfolio performance



Social

- Economic trends & concentration
- Unemployment levels
- Real estate market volatility
- Housing affordability
- Loan portfolio exposure to changing social behavior
- Alignment of the social purpose with its mission and strategic initiatives



Governance

- Key oversight measures (or lack thereof)
- Qualifications & management experience matched to risk profile
- Evidence of strategic execution of an HFA's legislative mandate and mission
- Level of support of the state & federal gov't
- Ability to build or maintain equity or profitability through various economic cycles

What We're Watching



Eviction moratorium ends

Limited impact evidenced in HFA portfolios



Loan forbearance starts rolling off

Servicers have options but how many homeowners can resume their payments?



Federal funding

Emergency rental assistance and housing assistance funds are slow to make it to those in need



Recovering labor market

Job postings up, initial and continuing unemployment claims down as economy opens



COVID-19 case counts

Delta variant presents speed bump to economic recovery



Demographics and low rates drive demand

Millennials reach peak homebuying years at a time of low interest rates



Housing affordability

Soaring home prices test first-time buyers' entry into the market



Accelerating environmental risks

Hurricanes, wildfires, and other climate change emergencies drive insurance premiums higher and increase event-driven effects

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