

National Finance Authority

Social Bond Framework for the Purchase and Financing of Citibank, N.A. Affordable Housing Loans

Issuer Introduction

The National Finance Authority (the “Issuer” or “NFA”) is the New Hampshire Business Finance Authority (“BFA”), which operates under the name the National Finance Authority pursuant to NH RSA 162-S introduced in SB 537. The legislation provides that, “It is declared that the policy of the state of New Hampshire to promote itself as an effective location for private enterprise, and therefore the policy of the state of New Hampshire is to provide for the establishment, support, preservation and redevelopment of business and industry, whether or not operated for profit, located outside the state of New Hampshire. It is further declared that the performance of the powers conferred on the business finance authority as set forth in this chapter shall be regarded as performing an essential governmental function in carrying out the policy set forth in this section and by the carrying out of the powers set forth in the following provisions of this chapter. The purpose of this section is to expand and not to limit the existing powers of the business finance authority in order to carry out this policy.”

The NFA has the ability finance: Affordable Multi-Family and Senior Housing, Airport Facilities, Government Sponsored Projects, Infrastructure Projects, Manufacturing Facilities & Equipment, Nonprofit Projects (Including: Health Care, Education, Cultural Facilities), Pollution Control (Including: Solid Waste, Water, Wastewater Treatment Projects), among others.

The Issuer intends to use municipal certificates to finance the acquisition of affordable housing loans and bonds (including obligations representing loans and bonds enhanced or guaranteed by a GSE) originated by Citibank, N.A. (herein referred to as the “Loans”). The affordable housing loans financed the acquisition, construction, and/or rehabilitation of multifamily affordable housing projects located throughout the United States and Citibank has indicated these loans are eligible for inclusion in Citi’s bond portfolio established under Citi’s Social Bond Framework for Affordable Housing.

Program Background

Introduction

While the U.S. economy continues to improve and incomes rise, many people still face significant challenges in finding safe, high-quality housing they can afford while still being able to meet other basic needs. According to the U.S. Department of Housing and Urban Development (HUD), six of ten extremely low-income renters and four of ten very low-income renters do not have access to affordable housing, even with rental assistance. In their 2017 report to Congress, HUD noted that “the nation’s ongoing economic recovery is continuing to have some beneficial effects on the incomes of very low income renters, but growing competition for a limited supply of affordable units, a rising population of renter households and a declining population of homeowners, a widening rental assistance gap, and rising rents continue to drive severe housing problems among this vulnerable population.”¹

The gap between household wages and the cost of housing across major U.S. cities is well documented and presents numerous challenges for local government, for-profit, and non-profit leaders. Families who

¹ U.S. Department of Housing and Urban Development, *Worst Case Housing Needs 2017 Report To Congress*, www.huduser.gov/portal/sites/default/files/pdf/Worst-Case-Housing-Needs.pdf

pay more than 30% of their income for housing are considered “cost burdened” and as a result may not have the necessary amount of income remaining to afford necessities such as food, transportation, and medical care; according to HUD, “an estimated 12 million renter and homeowner households pay more than 50% of their annual incomes for housing. A family with one full-time worker earning the minimum wage cannot afford the local fair-market rent for a two-bedroom apartment anywhere in the United States.”²

The Definition of Affordable Housing

Affordable housing is most broadly defined as housing for which the occupant(s) pay no more than 30% of their income for gross housing costs, including utilities. Citi’s affordable housing efforts are focused where the gap in availability and demand is greatest, on housing designated for individuals with annual incomes below 80% of the area’s median family income, as defined by the Federal Financial Institutions Examination Council.³

Affordable housing can be designated based on a number of conditions, including but not limited to:

- A prospectus, loan proposal, or community action plan, that has an express bona fide intent to develop affordable housing;
- The terms of the financing require that the majority of affordable housing residences or housing units be reserved for individuals with incomes below 80% of the area’s median family income;
- The organization(s) undertaking a project have a mission or have past performance that qualifies their commitment to developing affordable housing; or
- Reviewed factors (such as demographic, economic, and market data) that may for example consider the region’s, the community’s, and/or the project’s median rents and median home values.

Alignment with the UN Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs)⁴ were adopted in September 2015 and form an agenda for achieving sustainable development by the year 2030. The loans being purchased by the Issuer and the proceeds from the Municipal Certificates are particularly relevant to the following Sustainable Development Goals:

- SDG 11 - Sustainable Cities and Communities: Make cities and human settlements inclusive, safe, resilient and sustainable.
 - SDG 11.1: By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.

Application of the Social Bond Guidelines

Use of Proceeds

The Issuer will acquire fully funded affordable loans originated by Citibank, N.A. Citi has informed the Issuer that these loans are eligible for inclusion in Citi’s Affordable Housing Bond Portfolio based on Citi’s Affordable Housing Framework. The Issuer will generate the proceeds needed to acquire the affordable housing loan portfolio through the sale of municipal certificates which will be backed by the same pool of affordable housing loans being acquired. The specific pools of affordable housing loans will be identified, the majority of which will have been funded within 42 months of the sale date, and the net sale proceeds

² U.S. Department of Housing and Urban Development, *Affordable Housing*, www.hud.gov/program_offices/comm_planning/affordablehousing/

³ Federal Financial Institutions Examination Council (FFIEC), *FFIEC Median Family Income Report*, www.ffiec.gov/Medianincome.htm

⁴ United Nations, *Sustainable Development Goals Knowledge Platform*, <https://sustainabledevelopment.un.org/>

will be used to pay the purchase price of the loans. The portfolio of affordable housing loans will be pledged to a trustee and will serve as the sole security for the municipal certificates, with no ability to change assets. All payments on the affordable housing loans, after costs, will go to the benefit of the certificateholders. All principal received on the loans will be directly passed through to the certificateholders.

***For the purposes of Citi's Affordable Housing loans, low- and moderate-income is defined as:*⁵**

- Low-income - a family income that is less than 50% of the area's median family income.
- Moderate-income - a family income that is at least 50% and less than 80% of the area's median family income.

As noted above, affordable housing is broadly defined as housing where the rent payment (including utilities) is no more than 30% of the occupants' gross income. The US Department of Housing and Urban Development (HUD) sets guidelines on what the maximum allowable rent would be for each Metropolitan Statistical Area (MSA) in the country, for the various income levels (i.e. Low-income or Moderate-Income).⁶

The loans originated by Citibank, N.A. under the Citi Affordable Housing Framework and purchased by the Issuer will be to properties that have agreed to limit unit rentals to residents at specified Low and Moderate-income levels and to maintain rents at the property at or below the maximum allowable rent as determined by HUD for such households. This agreement is documented in regulatory agreements between the state or local governmental issuer of the private activity tax exempt loans and bonds, which may include the Issuer, on behalf of the state allocator of private activity bond volume cap for each respective state where a loan is made, and may also be included in additional covenant agreements with other governmental entity, community groups or financing partners.

The respective state or local governmental issuers have programs to monitor compliance with their respective regulatory agreements as well as the covenant agreements of other governmental entities, that require annual reporting by property managers. While the specific requirements may differ for the various state and local governmental issuers, common requirements include, review by a governmental issuer's staff, notification of material events, and regular on-site visits to each property. Failure by the property to comply with the income and rent limits carries penalties that include loss of the tax-exempt status of the bonds and recapture of low-income housing tax credits.

Citi's Affordable Housing Bond Asset Portfolio is focused on serving the affordable housing needs of individuals and families living on low- and moderate-incomes. In addition to the financing's primary intent of supporting affordable housing, many municipalities, communities, and developers acknowledge the benefits of and encourage the development of neighborhoods that have a mix of residential and commercial space, as well as a diverse mix of families by income. Citi's Affordable Housing Bond Asset Portfolio may include projects that, along with housing that has occupancy reserved for individuals and families that are low- and moderate-income, may include commercial space and/or housing with rent payments that would only be considered affordable to those occupants with incomes above 80% of the area's median family income. The consideration of rents that are affordable for occupants with incomes above 80% of the area's median family income would be applicable only in certain limited scenarios, such as when a municipality or another public or quasi-public entity with governance authority for the respective region has provided a plan stipulating a broader definition of what constitutes affordable housing. Housing units with rents that are only affordable for individuals and families with incomes above 80% of the area's

⁵ Consumer Financial Protection Bureau, "Lending by neighborhood income level", www.consumerfinance.gov/data-research/consumer-credit-trends/mortgages/lending-neighborhood-income-level/

⁶ https://www.huduser.gov/portal/datasets/mtsp.html#2021_data

median family income would represent no greater than 20% of the total units in the Affordable Housing Bond Asset Portfolio.

Process for Asset Selection and Evaluation

The Issuer's objective under this framework is to promote affordable housing by providing market access through the purchase of affordable housing loans and securitization with municipal securitization of the purchased assets. Loans purchased under this program must be: (1) located in the United States; (2) be fully funded loans; and (3) meet the definition of affordable housing under the Citi Affordable Housing Framework.

Members of the Issuers Staff, including the Program Administrator(s) will review loans selected for inclusion to confirm they meet the criteria above. Program Administrators are responsible for evaluating applications for financing and ensuring that they meet with the mission, standards, and regulatory requirements of the Issuer. Once reviewed by the Program Administrator(s), the projects in the portfolio of loans are presented to the Executive Board for final approval.

The loans that meet the Citi Affordable Housing Framework are a subset of the affordable housing loans made in the United States. To be eligible for financing, project developers must submit an application for private activity bond volume authority ("bond cap") to the respective state or local governmental authority. The demand for bond cap in many states has resulted in competitive allocations, enabling deeper and longer-term affordability at the selected projects, as well as other community benefits, such as green building, project amenities and set-asides for special needs populations. Projects are scored and ranked based on their ability to provide the most public benefit, as defined by each respective state. An allocation of bond cap to a project makes it eligible to receive LIHTC, upon compliance with federal statutory requirements, which are confirmed and monitored by the respective state or local authority. The Issuer expects there will be multiple regulators given the geographic diversity of the anticipated projects. The Issuer will work with Citi to ensure that each project has a regulatory agreement and a regulatory agency responsible for enforcing that agreement, which will ensure that the project meets the applicable federal, state, and local regulations to mitigate environmental and social risks.

Management of Proceeds

The Issuer intends to finance the acquisition of fully funded affordable housing loans through the issuance of municipal certificates which are backed by the specific affordable housing loans being acquired. In advance of the sale of the municipal certificates the specific pool of assets being purchased / financed will be identified. On the closing date, the Issuer will spend all net proceeds to acquire the portfolio. After closing, the Issuer will retain no flexibility regarding the use of proceeds, including any loan payments. All net loan payments will go to certificateholders, including loan principal payments which will be used to pay certificate principal.

The Issuer's Program Administrators, with assistance from the Issuer's contracted bond trustee, is responsible for monitoring the use of Proceeds of the municipal certificates as outlined herein.

Reporting

As stated above, the use of all net proceeds will be identified upfront at the time of the portfolio acquisition with no ongoing management flexibility. It is the Issuer's intent to provide an upfront report as part of Official Statement for the offering of municipal certificates. The report will cover the specific assets being purchased and financed, and for each property that the assets financed the report will include the following information:

- Total number of units
- Total number of units with rents at limits that are affordable to Low and Moderate-Income households ("Low Income Units")
- Type of Regulatory Agreement(s), specifying income levels and requiring affordable rent levels
- Description of Regulatory Agreement(s)
- If there are any restrictions on rents, tenant income, or tenant age

Income restrictions based on the regulatory agreements on the underlying projects will be disclosed within the Official Statement.

In addition, the Official Statement will address the social impact of the bonds by providing aggregate information about the housing properties associated with the affordable housing loans being purchased. The information on social impact may include the following:

Social Impact Metrics for [ISSUE]	
Housing Properties	Number
Number of Projects	#
Number of housing units	#
Number of low income units	#
Number of very low income units	#

External Review - Sustainalytics

Second Party Opinion

Sustainalytics, an independent provider of sustainability research, analysis, and services to investors and other financial institutions globally, has provided a second party opinion on this framework. Sustainalytics' opinion intends to provide an assessment of the National Finance Authority Social Bond Framework for the Purchase and Financing of Citibank, N.A. Affordable Housing Loans alignment with the transparency and reporting requirements of the [Social Bond Principles](#), as well as assess the overall performance and its alignment with the framework.