

## **National Finance Authority**

### **Social Bond Framework for the Purchase and Financing of Citibank, N.A. Affordable Housing Loans (Updated: January 2024)**

#### **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 to 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**

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 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.

While some housing markets have cooled with the recent rise in interest rates, home prices and rents remain elevated from pre-pandemic levels and are still increasing, albeit at a slower rate. Millions of households are now priced out of homeownership and are grappling with increased housing cost burdens, and there is a growing urgency for public and private investment in housing.

*Rising housing costs, coupled with pandemic-era income losses, produced the most significant drop in housing affordability in years, as seen in the most recent Census data. Between 2019 and 2021, the number of cost-burdened renters—defined as those spending more than 30 percent of their income on housing—increased by 1.2 million to a record 21.6 million households. Among these, 11.6 million were severely cost burdened, spending more than 50 percent of their income on housing.*

*Although the share of renter households with cost burdens had been steadily declining in the past decade, the trend reversed during the pandemic. Between 2019 and 2021, the share of cost-burdened renters grew by 2.6 percentage points to 49 percent of renter households, approaching the 51 percent peak posted in 2011 in the wake of the Great Recession...*

*Predictably, cost burdens affect the vast majority of households with lower incomes, including 86 percent of those with incomes below \$15,000 and 68 percent with incomes between \$15,000 and \$29,999. But, cost-burden rates are rising quickly among those higher up the income scale, particularly among renters. Between 2019 and 2021, the share of cost-burdened renters with incomes between \$30,000 and \$44,999 increased 3 percentage points to 63 percent. Meanwhile, the share of cost-burdened renters earning between \$45,000 and \$74,999 increased by 4 percentage points to 34 percent—the largest increase of any income group.*

*With such high housing costs, many households with lower incomes may struggle to pay for other necessities like food, clothes, and healthcare, which have become more expensive as inflation has risen. In 2021, the median renter and homeowner households with incomes under \$30,000 had just \$380 and \$680 per month, respectively, after paying for housing to cover other necessities—the lowest residual incomes in two decades.<sup>1</sup>*

## **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.<sup>2</sup>

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)<sup>3</sup> 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.

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<sup>1</sup> The State of the Nation's Housing 2023, report by the Joint Center for Housing Studies of Harvard University, [https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard\\_JCHS\\_The\\_State\\_of\\_the\\_Nations\\_Housing\\_2023.pdf](https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2023.pdf)

<sup>2</sup> Federal Financial Institutions Examination Council (FFIEC), *FFIEC Median Family Income Report*, [www.ffiec.gov/MedianIncome.htm](http://www.ffiec.gov/MedianIncome.htm)

<sup>3</sup> United Nations, *Sustainable Development Goals Knowledge Platform*, <https://sustainabledevelopment.un.org/>

- 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 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:***<sup>4</sup>

- 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).<sup>5</sup>

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, or as otherwise legally required, for such households. This agreement is typically documented in a regulatory agreement with a governmental entity and may also be included in additional covenant agreements with another governmental entity, community groups or financing partners.

The respective governmental entities have programs to monitor compliance with its regulatory agreements as well as the covenant agreements of other governmental entities, that requires annual reporting by property managers and regular on-site visits to each property by the servicer of the loans. Failure 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

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<sup>4</sup> Consumer Financial Protection Bureau, "Lending by neighborhood income level", [www.consumerfinance.gov/data-research/consumer-credit-trends/mortgages/lending-neighborhood-income-level/](http://www.consumerfinance.gov/data-research/consumer-credit-trends/mortgages/lending-neighborhood-income-level/). Note that the HUD definitions of "Low Income" and "Moderate Income" differ from the Consumer Financial Protection Bureau definitions and the HUD definitions are used in the Regulatory Agreements applicable to the properties in the portfolio.

<sup>5</sup> [https://www.huduser.gov/portal/datasets/mtsp.html#2021\\_data](https://www.huduser.gov/portal/datasets/mtsp.html#2021_data).

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

As noted above, all of the loans the Issuer will acquire from Citibank will qualify for Citi Affordable Housing Framework. Given that all of the loans acquired by the Issuer will be to social projects, the certificates issued under this framework should be considered Social Collateral Bonds,

### **Process for Asset Selection and Evaluation**

The Issuer's objective under this framework is to promote affordable housing across the country 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.

The Issuer's 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 by the Issuer or another governmental lender 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 Issuer or another governmental lender or be otherwise eligible for tax-exempt financing as a governmental issuer in United States.

Each governmental lender that approves the application for private activity bond volume authority has additional requirements which may include affordability, environmental regulations, compliance with local laws and initiatives and community support. The Issuer will ensure that all loans selected for inclusion are in compliance with the applicable regulatory agreements required by the respective governmental lenders. This review ensures that the projects have addressed the specific social and environmental concerns of the local jurisdiction where the project is located.

### **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), or other legal requirements, specifying income levels and requiring affordable rent levels
- Description of Regulatory Agreement(s) or other legal requirements
- If there are any restrictions on rents, tenant income, or tenant age

Income restrictions based on the regulatory agreements, or other legal requirements, 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:

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

## 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 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.