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Second Party Opinion

Connecticut Housing Finance Authority's Sustainability Framework

Jan. 13, 2023

Connecticut Housing Finance Authority (CHFA) is a quasi-public organization created by the state of Connecticut in 1969. Its mission is to alleviate the shortage of housing for low- to moderate-income families and individuals in Connecticut. Through the General Statutes of Connecticut (the Act), CHFA is authorized to make or purchase construction and mortgage loans to finance the development, rehabilitation, purchase, or leasing of single- and multi-family housing. CHFA uses its U.S. federal tax-exempt bonding authority to access the lowest cost of capital for these purposes. To date, CHFA's investments have funded the building or renovation of more than 58,000 affordable multifamily units. In addition, nearly 147,000 Connecticut residents have purchased their first homes with a CHFA below-market interest rate mortgage.

In our view, CHFA's Sustainability Framework, published on Jan. 3, 2023, is aligned with the:

- ✓ Social Bond Principles (SBP), ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Bond Principles (GBP), ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Sustainability Bond Guidelines, ICMA, 2021

Issuer's Sustainability Objectives

CHFA's sustainability objectives are guided by its 2020 Strategic Plan, which identifies its key policy priorities, including the expansion of safe and energy-efficient housing choices for low- to moderate-income households across the state of Connecticut and the empowerment of these households to build wealth and security through first-time homeownership.

Through its Housing Mortgage Finance Program (the Resolution), CHFA raises proceeds to fund multifamily projects and purchase or originate mortgage loans for first-time homebuyers in Connecticut. With these activities, CHFA aims to revitalize neighborhoods and reduce racial and economic segregation. CHFA's priorities also support the state's overarching housing goals, including the prevention of homelessness and the expansion of housing choice and opportunity.

CHFA has designed a sustainable bond framework (CHFA Sustainability Framework 2023) for the Resolution. It intends to use this framework to guide its issuance of sustainable multifamily and social homeownership bonds.

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Second Party Opinion Summary

Use of proceeds

Alignment  CHFA's Sustainability Framework is aligned with this component of the Principles.

Score Not aligned Aligned **Strong** Advanced

CHFA's framework clearly details that the proceeds of the bonds issued under the framework will go toward loans from participating lenders to developers who support the state's goal of providing affordable rental units and first-time homeownership to low- to moderate-income residents. Any multifamily units will also include energy-efficient and other sustainable design features.

Process for project evaluation and selection

Alignment  CHFA's Sustainability Framework is aligned with this component of the Principles.

Score Not aligned Aligned **Strong** Advanced

CHFA evaluates its multi- and single-family projects based on eligibility criteria that aligns with the federal tax-exempt bond authority requirements (the Code) and other state- and authority-mandated standards. The framework details its project evaluation processes and how CHFA identifies and manages perceived social and environmental risks associated with the eligible projects.

Management of proceeds

Alignment  CHFA's Sustainability Framework is aligned with this component of the Principles.

CHFA's framework describes the process by which it will manage and track the bonds it issues. It will deposit any bond proceeds in separate accounts held by the Resolution's trustee, where they will be temporarily invested in accordance with CHFA's permitted investments policy. The issuer will coordinate with its bond trustee to ensure the proceeds are managed and allocated accordingly.

Reporting

Alignment  CHFA's Sustainability Framework is aligned with this component of the Principles.

Score Not aligned **Aligned** Strong Advanced

CHFA commits to provide annual updates on the allocation of the bond proceeds on the Electronic Municipal Market Access' (EMMA) website. It also commits to report on the qualitative environmental and social outcomes and--where applicable and feasible--quantitative performance indicators of its projects on its website.

Framework Assessment

Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 CHFA's Sustainability Framework is aligned with this component of the Principles.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider CHFA's overall use of proceeds commitments to be strong.

CHFA's Sustainability Framework outlines that it will use the proceeds from the bonds issued under the framework to fund multifamily housing projects and mortgage loans to first-time homebuyers in Connecticut. CHFA aims to provide safe and affordable housing to residents throughout the state and to empower residents with the stability and wealth building opportunity of first-time homeownership. In our view, the projects span the ICMA Principles' eligible sustainability themes of affordable housing, socioeconomic advancement and empowerment, energy efficiency, green buildings, and sustainable water and wastewater management. CHFA has identified how its affordable projects are consistent with its mission, three-year strategy, and state- and federal-level mandates, which we view as a strength of the framework.

In the framework, CHFA describes that it will use the bond proceeds for its multifamily projects to fund the construction, acquisition, and rehabilitation--or preservation and redevelopment--of housing for low- to moderate-income families and residents of the state. Multifamily projects must also incorporate sustainable design features, such as products or systems that minimize water or nonrenewable energy consumption. CHFA will use the proceeds from the bonds for homeownership lending to finance 30-year below-market fixed interest mortgages for first-time homeowners in targeted populations.

CHFA may also use the bond proceeds to refund prior multifamily and homeownership bonds and commits to disclose the proportion of the bond proceeds it uses for this purpose. The bonds are not eligible for refunding for at least 10 years due to the investor call protections in place for tax-exempt debt, which is consistent with other municipal bond issuers that issue tax-exempt bonds. Additionally, the U.S. Code stipulates that a minimum of 95% of tax-exempt bond proceeds must go toward specific goals (in CHFA's case, multifamily and homeownership projects), with 5% of the proceeds set aside for the costs of issuance and non-program related activities. Because CHFA is a mission-based organization exclusively dedicated to the affordable housing needs of the state of Connecticut, we believe it will use all of the proceeds from the bonds issued under the framework to support sustainable and/or social projects.

Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 CHFA's Sustainability Framework is aligned with this component of the Principles.

Commitments score

Not aligned

Aligned

Strong

Advanced

We consider CHFA's overall process for project evaluation and selection commitments to be strong.

The framework clearly communicates the process through which CHFA determines how the bond-funded multifamily and homeownership projects it selects fit in the eligible project

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categories. CHFA's process for project evaluation and selection is based on its adherence to the tightly restrictive eligibility criteria mandated by the Code and the Resolution.

For multifamily projects, the bond proceeds will be used to fund the construction, rehabilitation, or preservation of energy efficient housing projects when at least 20% of the units in an eligible project are occupied by tenants whose incomes are 50% or less of the state's area median income (AMI) or 40% or more of the units are or will be occupied by tenants whose incomes are 60% or less of the state's AMI, as adjusted for family size. Multifamily projects must also meet the state's Qualified Action Plan (QAP) standards that outline the criteria for the Low-Income Housing Tax Credit (LIHTC), as well as CHFA's Multifamily Design, Construction, and Sustainability Standards and Guidelines, which promote energy-efficient and cost-effective housing.

For homeownership projects, the framework specifies that the mortgage loans must comply with the income eligibility requirements dictated by the Code and are therefore limited to applicants meeting maximum income limits of 100% of the state's AMI for families with two or fewer people and 115% of the AMI for families of three or more. Additional interest rate discounts are offered for home purchases in targeted areas of the state (areas of chronic distress as defined by the Internal Revenue Service) or for certain targeted populations, including disabled residents, teachers, military service members, veterans, and other underserved groups. In connection with any eligible mortgage loan, CHFA may also use the bond proceeds to support savings-constrained first-time homebuyers with Downpayment Assistance Program (DAP) loans. For both savings- and income-constrained homebuyers, a "Time to Own" DAP loan eligible for debt forgiveness after 10 years further empowers CHFA to support homeownership for eligible families across the state.

The framework references CHFA's procedures regarding its staff's review of proposals for each project category to ensure they meet the appropriate standards. The framework provides information on the processes by which CHFA identifies and manages social and environmental risks, which include project site and environmental evaluations, meetings with participating lenders, and mandatory homebuyer education classes. Additionally, for multifamily projects, all proposals for mortgage financing approved by CHFA staff must be approved by the board of director's Mortgage Committee before receiving final approval by the board. For homeownership loans, participating lenders must submit all mortgage loan applications to CHFA for review and final approval. However, we note that while CHFA's staff is knowledgeable in regard to affordable housing projects, the framework does not identify the relevant ESG subject-matter expertise in its decision-making bodies, which we recognize as an industry best practice.

Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 CHFA's Sustainability Framework is aligned with this component of the Principles.

CHFA's framework references how the allocation and management of proceeds will be tracked. The bond proceeds will be deposited in segregated accounts held by the Resolution's trustee. The framework also specifies that any unallocated bond proceeds will be temporarily invested in permitted investments, which include direct obligations of, or obligations guaranteed by, the U.S., as well as cash and cash equivalents.

For multifamily projects, CHFA will observe the construction progress on a continuing basis and make loan advances based on the percentage of work completed. For homeownership loans, CHFA will purchase loans from participating lenders only after reviewing and ensuring the loan applications are compliant with its loan guidelines and the Code.

Reporting

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The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.



CHFA's Sustainability Framework is aligned with this component of the Principles.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider CHFA's overall reporting practices to be aligned.


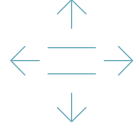

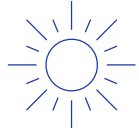

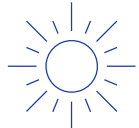


CHFA commits to provide annual updates on the allocation of the bond proceeds on the EMMA's website until full allocation. This information will adhere to CHFA's Form of Sustainability Bonds Annual Reporting found in its framework.

CHFA also commits to report annually on the qualitative environmental and social attributes of its bond-funded projects on the EMMA's website and, whenever possible and available, quantitative performance indicators. For multifamily projects, its reporting will include LIHTC allocation amounts, tenant AMI, the environmental attributes of the projects, population profiles, and the total amount of bond proceeds disbursed. For homeownership projects, the annual reports will include the number and amount of loans in the various targeted AMI bands and the total amount of bond proceeds disbursed. While not stipulated in the framework, CHFA is also legally mandated to conduct annual financial audits, which include reviewing the allocation of the proceeds for each series of its bonds. However, CHFA does not commit to disclose the key underlying methodologies and assumptions used to calculate its quantitative performance measures, nor does it commit to disclose the expected and actual impacts of the financed projects, both of which we recognize as industry best practices.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

CHFA's Sustainability Framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
Affordable Housing	 1. No poverty*
Socioeconomic Advancement and Empowerment	 10. Reduced inequalities*  1. No poverty*
Energy Efficiency	 7. Affordable and clean energy*  11. Sustainable cities and communities*
Green Buildings	 7. Affordable and clean energy*  11. Sustainable cities and communities*
Sustainable Water and Wastewater Management	

**11. Sustainable
cities and
communities***

*The eligible project categories link to these SDGs in the ICMA mapping.

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