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## Second Party Opinion

# Clearinghouse CDFI's Social Impact Framework

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**Location:** U.S.

**Sector:** Non-bank financial institution

## Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

✓ Social Bond Principles, ICMA, 2023

See [Alignment Assessment](#) for more detail.

## Strengths

**Clearinghouse CDFI's position as a community development financial institution and a B Corporation is a strength.**

Clearinghouse CDFI's mission includes supporting low-income and underserved communities. It is also a B Corp., signifying it has met standards of social and governmental performance, transparency, and accountability.

**Clearinghouse CDFI has a strong social license to operate in the communities it serves.**

Since its inception in 1996, Clearinghouse CDFI has financed over \$2.5 billion in cumulative lending to support low-income and underserved populations.

## Weaknesses

No weaknesses to report.

## Areas to watch

**In certain areas of the United States, some projects that Clearinghouse CDFI invests in are prone to extreme weather, the physical impacts of climate change (such as wildfires, droughts, extreme temperatures, and floods), and earthquake risks.** Clearinghouse CDFI mitigates physical climate risk by requiring various forms of insurance on the property that are susceptible to natural disasters, such as hazard insurance, earthquake insurance, and flood insurance.

## Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

## Company Description

Clearinghouse Community Development Financial Institution (CDFI) provides loan facilities to low-income communities. It offers loans, such as construction, acquisition, renovation, expansion, and refinance for community facilities, affordable housing, commercial real estate, and small businesses. The company also provides new markets tax credits. It serves customers in 50 States as well as Sovereign Nations in the Western United States. Clearinghouse CDFI was incorporated in 1996 and is based in Lake Forest, Calif. It has office locations in Las Vegas, Nevada; and Phoenix, Arizona.

## Material Sustainability Factors

### Access and affordability

Nonbanking financial institutions (NBFIs) enable access to financial services for individuals and businesses. While banks may offer financial services as a package deal, NBFIs usually unbundle these services, tailoring their offerings to particular groups with a specific purpose. CDFIs' impact on society and the economy stems from their role in providing essential services for the communities they serve, including but not limited to infrastructure, housing, education, transportation, public safety, and recreation. An important component of accessibility is ensuring services are affordable, particularly for more vulnerable populations. The specific services and their relative affordability can vary greatly within and between communities.

### Impact on communities

NBFIs can affect a wide range of community issues by providing access to essential services for economically vulnerable groups, as doing so not only has the potential to alleviate income inequality but also foster upward social mobility. Realizing this objective hinges on the responsible lending practices of NBFIs, which include transparent contractual terms, financial education programs, and support for borrowers encountering financial hardships. In contrast, when loan terms are obscured or predatory lending practices persist, these issues can exacerbate existing socioeconomic disparities in the customer base. By actively addressing these concerns, NBFIs can access new markets, achieve better financial performance, reduce their cost of capital, attract top talent, and mitigate their reputational and regulatory risk.

### Customer health and safety

NBFIs may invest in health care, which is considered an essential service and is closely linked to the health and safety of the populations served. Health care services can introduce risk for patients if improperly managed, as well as provide substantial benefits for communities that are underserved by traditional hospitals and clinics. Following health care regulation and best practices can mitigate this risk.

### Physical climate risk

The geographically fixed nature of real estate assets exposes them to physical climate risks. While varying by location, these can include acute risks (such as wildfires, floods, and storms), which are becoming more frequent and severe, as well as chronic risks (such as long-term changes in temperature and precipitation patterns and rising sea levels). Acute and chronic risks could damage properties or place the health and safety of tenants at risk. These challenges can also require investments to manage their potential effect and, in severe cases, to relocate the tenants. While the aggregate impact is moderate—the type, number, and magnitude of these risks varies by region—highly exposed regions may be subject to material physical climate risks. Most participants have some insurance coverage, though it could become more difficult to secure insurance for the most-exposed assets absent adaptation.

## Issuer And Context Analysis

**Through its lending in the affordable housing, business, health care, and education sectors, Clearinghouse CDFI directly affects access and affordability, communities, and health and safety, which we view as material sustainability factors for the issuer.** We believe Clearinghouse CDFI creates positive impacts in communities by financing projects in the affordable housing, business, health care, and education sectors, all of which are prerequisites for a just society. Clearinghouse CDFI's mission is to provide economic opportunities and improve the quality of life for lower-income individuals and communities through innovative and affordable financing. Clearinghouse CDFI intends to use its financing proceeds to fund key projects that drive socioeconomic growth within low-income and historically underserved communities. Projects include financing to affordable housing projects, businesses in low-income and historically underserved communities, minority and women-owned businesses, health care, education and vocational training, financial services-related programs, and other projects.

**In our view, Clearinghouse CDFI's projects directly address the issue of affordability and accessibility of essential services.** Clearinghouse CDFI financing targets low-income and underserved communities who otherwise may not have access to essential services. It also provides financing to non-profit and other community-oriented projects and facilities such as recreational, arts, and faith-based programs, which helps strengthen social infrastructure.

**Clearinghouse CDFI seeks to improve health outcomes of low-income and underserved populations by investing in health care.** The company lends to a variety of health care facilities including assisted living for seniors, behavioral health, and community health care facilities in order to improve community well-being and promote better health outcomes.

**Some of Clearinghouse CDFI's borrowers' investments in affordable housing and real estate in states such as California are susceptible to acute and chronic climate risks, such as wildfires, storms, rising sea levels, and extreme temperatures.** These events could harm a building's structural integrity and functionality, potentially undermining the intended social outcomes and the safety of those in the community. Clearinghouse CDFI partly mitigates physical climate risk to its properties by requiring hazard, earthquake, or flood insurance as well as the procurement of third-party environmental risk reports.

# Alignment Assessment

This section provides an analysis of the framework's alignment to Social Bond principles.

## Alignment With Principles

Aligned = ✓    Conceptually aligned = ○    Not aligned = ✗

✓ Social Bond Principles, ICMA, 2023

### ✓ Use of proceeds

All the framework's social project categories are considered aligned, and the issuer commits to allocate the net proceeds issued under the framework exclusively to eligible social projects. Clearinghouse CDFI commits to allocate the net proceeds issued under the framework exclusively to eligible social projects, contributing to specific Sustainable Development Goal (SDG) targets and social goals. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the social benefits of the expected use of proceeds.

### ✓ Process for project evaluation and selection

Clearinghouse CDFI's Business Development, Underwriting, and Impact teams will be responsible for the project evaluation and selection process. These teams will meet at least annually to screen and approve the potential projects. The company has processes to identify and manage environmental and social risks related to eligible projects. In practice, it will identify and address potential risks, including physical climate risk to the underlying collateral.

### ✓ Management of proceeds

The proceeds are deposited into a general account until disbursed to finance or refinance the eligible social projects. The company commits to tracking and periodically adjusting the net proceeds from any instrument it issues under its framework. Any unallocated proceeds will be temporarily invested in cash or cash equivalents such as money market funds or U.S. Treasury securities.

### ✓ Reporting

Clearinghouse CDFI commits to report annually on the allocation of the net proceeds and on the financed projects' impact through an Impact and Benefit Report, until full allocation of the net proceeds. Reporting will be available on the company's website. Allocation reporting will include a brief description of the projects and the breakdown of allocation of net proceeds by eligible category, available on a project-by-project basis on its website's Impact Map. The company will also report on the actual impact of the financed projects through impact indicators such as the amount of finance to affordable housing projects, the amount loaned to small businesses in low-income and/or historically underserved communities, the number of permanent jobs created or retained, the amount loaned to essential services, including infrastructure, and other impact indicators. Although Clearinghouse CDFI is not pursuing third-party reporting verification, it has received B Corp. certification, demonstrating strong social and environmental performance in addition to transparency and accountability measures. Moreover, Clearinghouse draws from the U.S. Treasury CDFI Bond Guarantee Program, which obligates it to several stringent reporting requirements.

# Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Clearinghouse CDFI expects to allocate 39% of proceeds to affordable housing, 78% to socioeconomic advancement, and 87% of proceeds to essential services. The categories are not mutually exclusive.

The issuer expects approximately 50% of proceeds to be allocated to refinancing projects, while approximately 50% of proceeds will be directed to finance new projects.

## Social project categories

### Affordable housing

Financing provided for the development, rehabilitation, and preservation of designated affordable housing

#### Analytical considerations

- The development, rehabilitation, and preservation of designated affordable housing will improve living conditions for low-income and underserved communities by helping maintain and expand access to safe, affordable housing.
- Affordable housing projects will include projects that develop, rehabilitate, and preserve housing designated as affordable, including multifamily-related loans where  $\geq 50\%$  of owners/tenants have incomes that are  $\leq 80\%$  of the area median income or are in low-income and/or underserved communities.
- We believe Clearinghouse CDFI's use of area median income (AMI), a metric the U.S. Department of Housing and Urban Development (HUD) utilizes, is a best practice when defining low-income target populations. The target population is well defined, and the groups selected are restricted to families with the AMI requirements or who are in low-income and/or underserved communities.
- We believe Clearinghouse CDFI's established track record in providing affordable multifamily housing combined with its comprehensive policies, procedures, and programs ensures both perceived and realized social risks associated with the eligible projects are appropriately identified, managed, and mitigated. Since its inception in 1996, Clearinghouse CDFI has created, rehabilitated, or preserved more than 13,000 affordable housing units. It also has a process in place to identify and address potential social risks, which includes determining whether the borrower has appropriately evaluated the infrastructure of the site, including the accessibility of police services, fire services, retail stores, food stores, churches, parks, public transportation, medical facilities, and other factors.

### Socioeconomic advancement and empowerment

- Financing provided to for-profit businesses in low-income and/or historically underserved communities
- Financing provided to minority- and/or women-owned or controlled businesses

#### Analytical considerations

- Projects will include financing provided to for-profit businesses in low-income and/or historically underserved communities. These businesses will be in areas where the poverty rate is  $\geq 20\%$ , area median income is  $\leq 80\%$ , or unemployment is  $\geq 1.5x$  the national average, or in designated Community Reinvestment Act (CRA) areas or Opportunity Zones.
- Projects will also include financing provided to minority- and/or women-owned or controlled businesses. These businesses will be at least 50% minority-owned or controlled or 50% women-owned or controlled, where minority is defined as African American/Black, Hispanic/Latino, or Native American or Native Alaskan.

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- Investing in and supporting these businesses increases benefits for the broader community's economy. The greater access to capital supports scaling up businesses, which in turn promotes job creation, rising wages, and greater economic activity in these communities.
- We believe Clearinghouse CDFI's established track record in promoting socioeconomic advancement and empowerment ensures both the perceived and realized social risks associated with its eligible projects are appropriately identified, managed, and mitigated.

### Access to essential services

- Organizations that provide health care, education and vocational training, and financial services-related programs and/or facilities in low-income and/or underserved communities
- Organizations that serve beneficiaries who are low-income and/or identify with racially/ethnically underserved communities
- Native American Tribes, Tribal-owned businesses, and projects that benefit Native American communities
- Non-profit and/or other community-oriented programs and facilities (recreational, arts, faith-based facilities etc.)
- Projects that mitigate climate risk with environmentally friendly efforts, including LEED certification, solar, wastewater treatment, energy efficient lighting/fixtures, water efficient landscaping
- Projects that provide a product or service that brings forth a community benefit


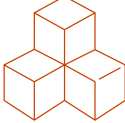
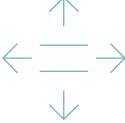


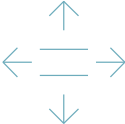








### Analytical considerations

- Access to essential services projects will include financing provided to health care programs and facilities in low-income and underserved communities. Health care facilities, assisted living for seniors, and behavioral health facilities provide essential health care to people who face barriers that prevent or limit their access to needed health care. These barriers can include lack of transportation, insurance, or income. People with lower incomes are often uninsured or underinsured, making access to affordable health care even more essential. Such access can also lead to improved economic stability, community well-being, quality of life, and other benefits.
- Projects will also include financing to education and vocational training and financial services-related programs and facilities in low-income and underserved communities. Financing such projects can lead to increased student enrollment rates and expanded access to education for underserved students.
- Financing will also foster access to capital to organizations that serve beneficiaries who are low-income and/or identify with racially/ethnically underserved communities; Native American Tribes, Tribal-owned businesses, and projects that benefit Native American communities; and projects that provide a product or service that brings forth a community benefit.
- Projects will also include financing provided to non-profit and other community-oriented projects and facilities (recreational, arts, faith-based, etc.). Lending to these non-profit and community-oriented projects and facilities promotes social infrastructure and long-term sustainability in communities.
- Some projects may have environmental benefits. Some of the social projects Clearinghouse CDFI funds may have features that mitigate climate risk, including LEED certification, solar, wastewater treatment, energy efficient lighting/fixtures, and water efficient landscaping. We view these projects as co-benefits to the social mission, rather than standalone green projects.
- We believe Clearinghouse CDFI's established track record in providing access to essential services ensures that both the perceived and realized social risks associated with its eligible projects are appropriately identified, managed, and mitigated.

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

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs				
Affordable Housing	 <b>1. No poverty*</b>	 <b>9. Industry, innovation and infrastructure</b>	 <b>10. Reduced inequalities</b>		
Socioeconomic Advancement and Empowerment	 <b>8. Decent work and economic growth*</b>	 <b>9. Industry, innovation and infrastructure</b>	 <b>10. Reduced inequalities*</b>	 <b>11. Sustainable cities and communities*</b>	
Access to Essential Services	 <b>2. Zero hunger*</b>	 <b>3. Good health and well-being*</b>	 <b>4. Quality education*</b>	 <b>6. Clean water and sanitation</b>	 <b>7. Affordable and clean energy</b>
	 <b>9. Industry, innovation and infrastructure*</b>	 <b>11. Sustainable cities and communities</b>			

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



## Related Research

- [Analytical Approach: Second Party Opinions: Use of Proceeds](#), Jul. 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach For Use-Of-Proceeds Second Party Opinions](#), Jul. 27, 2023

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