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Second Party Opinion

Connecticut Housing Finance Agency's Sustainability Framework

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Location: U.S.	**Sector:** Real estate

Alignment Summary

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Social Bond Principles, ICMA, 2023

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

✓ Sustainability Bond Guidelines ICMA, 2021

See Alignment Assessment for more detail.

Strengths

Connecticut Housing Finance Agency (CHFA) has a strong social license to operate in the communities it serves. The agency plays a central role in the preservation and creation of affordable housing in Connecticut. CHFA lends more than $500 million each year for affordable housing, including through single-family loans, down payment assistance, and loans for the construction and rehabilitation of affordable and mixed-income multifamily rental units. The agency also provides education and counseling services to promote financial literacy and upward mobility among the populations it serves.

A stringent regulatory framework underscores the agency's compliance with social objectives. CHFA's single-family mortgage loans and multifamily rental projects are governed by various federal and state laws with specific requirements to lend to, and set aside housing for, low- to moderate-income residents and maintain affordable rent levels.

Weaknesses

CHFA's construction guidelines do not explicitly require new builds to outperform the energy efficiency of the regional building stock. The guidelines strongly recommend rehabilitation and new construction meet the ENERGY STAR Multifamily New Construction (MNC) program's guidelines, but there are no explicit requirements. However, according to CHFA, its financed buildings overall exceed Connecticut's energy code, which is backed by its strong track record. In our view, this offsets the comparatively weaker language.

CHFA finances fossil-fuel-based heating systems, which increases emissions lock-in risk. Some refurbishments entail upgrading boiler and furnace efficiency. There is a risk it will finance new buildings with fossil-fuel heating. New multifamily homes should be built to the highest energy efficiency standards to offset emissions associated with their construction. That said, new construction projects represent a minority of CHFA's portfolio, and its recent new construction projects demonstrate a high degree of projected energy performance.

Areas to watch

CHFA's disclosures for assessing and managing physical climate risks are limited. While it completes environmental impact assessments before developing multifamily projects, the issuer's transparency in quantifying its climate risks—which we believe can be material for affordable housing projects in Connecticut—is nascent.

CHFA provides estimates for projected energy savings and efficiency gains, but actual performance reporting is limited. The issuer commits to report on the environmental attributes of its financed multifamily properties, which may include the expected impact metrics at the time of financing. While CHFA receives post-construction reports from energy consultants, it may not include those results in its bond reporting.

It is unclear how CHFA's construction guidelines for energy conservation and sustainability will evolve. All the projects the agency finances must abide by these guidelines. CHFA refreshes its construction guidelines annually, though we are unsure how the stringency of its guidelines will vary.

Shades of Green Projects Assessment Summary

Over the three years following issuance of the financing, CHFA expects to allocate 100% of proceeds to energy efficiency.

The issuer is not able to share the proportion of projects that will be financed versus refinanced.

Based on the project category's Shades of Green detailed below, the expected allocation of proceeds, and consideration of environmental ambitions reflected in CHFA Sustainability Framework, we assess the framework as Light green.

Energy efficiency	**Light green**
Financing of multifamily rental housing developments that provide affordable housing with significant energy savings	

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

The state of Connecticut created CHFA, a quasi-public organization, in 1969 to alleviate the shortage of housing for low- to moderate-income families and individuals in the state. Through the General Statutes of Connecticut, CHFA is authorized to make or purchase construction and mortgage loans to finance the development, rehabilitation, purchase, or leasing of single-family and multifamily housing. The agency uses its U.S. federal tax-exempt bonding authority to access the lowest-cost capital for these purposes. To date, CHFA's investments have led to the construction 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.

Material Sustainability Factors

Access and affordability

Low housing stock and lack of affordable options can severely influence people's livelihoods, especially vulnerable, low-income populations who face the threat of homelessness. Access and affordability is especially important for residential tenants in areas where rents can account for a large percentage their incomes. The lack of accessibility and affordability of commercial properties can also hinder the sustainable growth of local communities.

Impact on communities

Properties, and by extension their owners, are inherently part of the communities in which they operate because they provide an essential service and can shape the area both economically and socially. The residential sector is particularly meaningful for communities because a lack of affordable housing and gentrification pressures can alter their social fabric and be challenging to remediate.

Not-for-profit housing operators, as providers of safety-net accommodation, are not significantly exposed to consumer preferences. Rather, we see more localized risks related to residents opposing the development of public housing or negative externalities (concerns about high crime, for example). Similarly, if a public housing association fails to keep its residents safe with proper housing standards, it could damage its reputation and relations with various stakeholders, which would increase the risks related to social cohesion and community unrest.

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 impact 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.

Climate transition risk

Energy use in buildings has been a major contributor to climate change, representing about a third of global greenhouse gas (GHG) emissions on a final-energy-use basis according to the International Energy Agency (IEA). Embedded emissions from building materials and new construction may also adversely affect the state's progress toward its future low-carbon climate resiliency goals. This leaves the sector highly susceptible to the growing public, political, legal, and regulatory pressure to accelerate the achievement of climate goals.

Building occupiers and operators may face higher energy bills as power prices rise and greater capital expenditure needs as they undertake upgrades necessary to accommodate the energy transition and meet more-stringent efficiency standards. Incremental climate-related investments can entail significant capital outlays but will potentially reduce the risk of obsolescence due to changes in regulation or climate goals. In addition, low-carbon properties may achieve higher cost efficiencies or attract premium rents over the longer term, thereby enhancing their value.

Issuer And Context Analysis

CHFA addresses access and affordability and impact on communities through its social project categories and climate transition risk through its green project category. Due to financed projects' geographic location, they have some exposure to physical climate risk.

By financing the preservation and creation of affordable housing in Connecticut, CHFA directly addresses the issues of access and affordability. The agency is a nonprofit, pure-play entity created to help low- to moderate-income residents secure safe, quality housing. The CHFA provides single-family mortgage loans for first-time homebuyers (Homeownership Financing) and financing the construction and rehabilitation of multifamily rental homes (Multifamily Financing). Due to the declining stock of affordable housing in the U.S., the importance of housing finance agencies is rising.

Preserving and creating affordable housing units is integral to maintaining the social fabric of communities in Connecticut. From 2022-2023, CHFA provided 80% of its homeownership mortgage loans to families with income below 80% of the area median income (AMI). The agency's multifamily properties are also AMI-restricted because they receive Low-Income Housing Tax Credits (LIHTC). Therefore, projects select, or set aside, either 40% of units at 60% AMI or 20% of units at 50% AMI. In our view, these lending practices simultaneously mitigate gentrification and income segregation risk. Additionally, from 2022-2023, 22% of the agency's total first loans went to Federally Targeted Areas, which are census tracts defined by the Internal Revenue Service (IRS) as an area of chronic distress that could benefit from increased homeownership. In addition, 48% of CHFA's total first loans went to households with a female head and 39% went to minority homebuyers. By targeting its investments to in-need populations, CHFA aims to spur economic growth among historically underinvested communities and borrowers.

CHFA addresses climate transition risk through its multifamily program, which has a track record of funding new construction and rehabilitation that possess significant energy efficiency features. The agency's construction guidelines strongly incentivize energy conservation and sustainability, and its development teams are required to submit an Energy Conservation Plan as part of the application. The construction guidelines state rehabilitations should aim for projected energy use reductions between 10% and 20%, depending on the nature of the improvements. Additionally, the projects are expected to meet or exceed the prescriptive requirements for ENERGY STAR's Multifamily New Construction (MFNC) program. Rehabilitations accounted for most of the projects CHFA financed in 2020-2023. For new construction, the agency's guidelines recommend its developments meet or exceed ENERGY STAR's MFNC or Single-Family New Homes (SFNH) program certification requirements. Although not required by its guidelines, all the new construction projects CHFA financed from 2020-2023 were projected to achieve energy savings that exceeded the state code and the targets set forth in the ENERGY STAR programs. We note the agency's 2020-2023 projects lack green building certifications, which we view as a best practice.

CHFA expects its new projects will be similar to its current portfolio. Connecticut is among the most ambitious states in the U.S. building sector in terms of energy code. However, the overall sector requires even more ambition to fulfill the country's net zero and Paris-aligned goals. Additionally, CHFA does not integrate its efforts to improve its environmental performance in its single-family programs the same way it does in its multifamily programs.

We believe physical climate risk is a key sustainability issue because the Northeast is facing intensifying flooding and storm events. However, the framework does not directly address these risks. When physical risks such as flooding or serious storms materialize, the low- and moderate-income populations housed in the assets financed by CHFA may have less financial capacity to rebuild their homes and communities. The agency's construction guidelines state that it may consider funding the development of properties where a portion lies in a flood zone if there is a state-deemed adequate flood management plan. For adaptive re-use/gut rehab developments, CHFA will not fund the development of critical activities (elderly housing and other residential units) at or below the 500-year flood elevation.

Alignment Assessment

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

Alignment Summary

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Social Bond Principles, ICMA, 2023

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

✓ Sustainability Bond Guidelines ICMA, 2021

✓ Use of proceeds

We assess all the framework's green project categories as having a green shade and consider all social project categories to be aligned. The issuer commits to allocate the net proceeds issued under the framework exclusively to eligible green and social projects. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the environmental and social benefits of the expected use of proceeds.

✓ Process for project evaluation and selection

The framework clearly communicates the process by which CHFA determines how bond-funded multifamily and homeownership projects fit within its eligible project categories. The agency's process for project evaluation and selection is based on the adherence to tightly restrictive eligibility criteria mandated by state code and the bond resolution. The framework references CHFA's procedures regarding its staff's review of proposals for each category of project to ensure they meet the appropriate standards. The framework also provides information on the processes by which the agency 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 Mortgage Committee of its board of directors before receiving final approval. For homeownership loans, participating lenders must submit all mortgage loan applications to CHFA for review and final approval.

✓ Management of proceeds

CHFA's framework stipulates that the bond proceeds will be deposited in segregated accounts and held by the resolution's trustee. The framework also specifies that unallocated bond proceeds will be temporarily invested in permitted investments, which include the direct obligations of, or obligations guaranteed by, the U.S. and cash and cash equivalents. For multifamily projects, CHFA will observe 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 applications are compliant with its loan guidelines and state code.

✓ Reporting

CHFA commits to provide annual updates on the Electronic Municipal Market Access (EMMA) website regarding the allocation of proceeds until full allocation. This information will follow the Sustainability Bonds Annual Reporting form listed in the agency's framework. CHFA also commits to report annually, on the EMMA's website, the environmental and social qualitative attributes of its bond-funded projects 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, its annual reports will include the number and amount of loans to various targeted AMI bands and the total amount of bond proceeds disbursed. CHFA is also legally mandated to conduct annual financial audits, which include a review of the allocation of the proceeds for each of its series of bonds.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the "Analytical Approach: Shades Of Green Assessments," as well as our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Social and Green project categories

Energy efficiency

Assessment	Description
Light green	Multifamily Rental Housing Program: fund and refund (refinance) the construction, acquisition, and rehabilitation or preservation and redevelopment of multifamily projects that provide affordable housing and include several energy efficiency features.

Social analytical considerations

- The construction and preservation of affordable mixed-income housing will improve living conditions for low- and moderate-income residents in Connecticut by maintaining and expanding access to safe, affordable housing.
- The target population is well defined and the groups selected represent the underserved residents who earn up to 80% or less of the state's AMI. For multifamily homes, under the provisions outlined in the Qualified Allocation Plan (QAP) that governs the LIHTC program in Connecticut, CHFA requires projects to allocate at least 40% of the units at 60% AMI or 20% of the units at 50% AMI. In some instances, CHFA's affordable housing projects may exceed the underwritten AMI levels, if necessary. We believe the broad range of AMI brackets adequately minimizes the risk of income segregation, which is a common social risk associated with affordable housing.
- CHFA's multifamily rental units also include energy efficient features, which provide residual savings to the residents in the form of reduced monthly energy bills.
- We believe CHFA's established track record in providing affordable multifamily rental housing--combined with its comprehensive policies, procedures, and programs--ensure that it appropriately identifies, manages, and mitigates both the perceived and realized social risks associated with the eligible projects.

Green analytical considerations

- For multifamily projects, the bond proceeds will go toward the construction, rehabilitation, or preservation of energy efficient housing projects that meet the income restrictions specified in the Social Analytical Considerations section. Multifamily projects must meet CHFA’s multifamily design, construction, and sustainability standards and guidelines. Under these guidelines, rehabilitations should lead to quantified improvements and new constructions are expected to exceed the state's energy code. Improving energy efficiency and increasing energy conservation are crucial demand-side solutions to mitigating greenhouse gas emissions from the real estate sector.
- The issuer states in its framework that its multifamily design, construction, and sustainability standards and guidelines exceed state code regulations. We believe this demonstrates the issuer's commitment to ensure its financed projects provide a marginal energy efficiency benefit relative to the state's overall housing stock.
- CHFA's 2024 construction guidelines on energy conservation and sustainability do not explicitly require, but strongly recommends applicants achieve the energy performance thresholds and green building certification standards set forth in the guidelines. We consider this to be a weakness, especially regarding new construction projects, due to their high embodied greenhouse gas emissions. Despite this, the projects CHFA financed between 2020 and 2024 have largely met the recommended energy conservation thresholds and criteria in its construction guidelines. We shade the eligible project category as Light green under the assumption that its future projects will perform similarly. If the agency's future projects do not follow the construction guidelines' recommended energy conservation thresholds, then we would not consider them green.

- The CHFA's construction guidelines stipulate all proposed energy performance-related improvements should aim to meet or exceed the prescriptive requirements of ENERGY STAR's MFNC certification program (latest version). Additionally, the projected reductions in annual energy use should aim to be 10% or greater for minor rehabilitations, 15% or greater for moderate rehabilitations, and 20% or more for substantial rehabilitations. CHFA provided the projected energy savings and energy efficiency gains for its current portfolio, which are generally in line with the recommendations in the construction guidelines, when it submitted the financing application. While we consider the rehabilitation measures themselves to be green, we note that the result of some of its rehabilitation projects will be to bring underperforming buildings into compliance with the state's energy code. However, CHFA generally strives for its projects to exceed the state's energy code.
- CHFA financed a handful of new construction projects in 2020-2023. The projected energy performances of these projects significantly exceed the state code. For most new construction projects, CHFA benchmarked their energy performance design against ENERGY STAR's Certified Homes requirements. ENERGY STAR Certified Homes utilize the Home Energy Rating System (HERS) scoring index, under which lower scores are considered more energy efficient. According to the information provided by the issuer, the new constructions financed by CHFA attained lower HERS scores than the ENERGY STAR Version 3.1 Target indexes.
- The issuer expects the projects it finances under the framework will be materially similar to the projects it financed between 2020 and 2023, based on the agency's track record. The rehabilitated properties it financed in the three-year period incorporated technologies and improvements known to result in significant energy savings (e.g. heat pumps, high efficiency boilers, high insulation materials).
- Fossil fuel heating systems are not prohibited under CHFA's construction guidelines and some rehabilitation projects involve upgrading fossil fuel-based heating systems (e.g. boilers). Therefore, there is risk of emissions lock-in, whereby an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes and their corresponding greenhouse gas emissions. However, energy efficiency gains will marginally reduce their emissions in the near term. Additionally, the construction of new multifamily homes contributes to greenhouse gas emissions as well, with most of a building's lifecycle emissions relating to the construction phase.
- The construction of new multifamily homes exposes them to physical climate risk in a region that is facing intensifying flooding and storm events, which disproportionately impact vulnerable populations. CHFA's construction guidelines state that it may consider funding the development of properties where a portion lies in a flood zone if there is a flood management plan deemed adequate by the Connecticut Department of Energy and Environmental Protection (DEEP). For adaptive re-use/gut rehab developments, CHFA will not fund the development of critical activities (elderly housing and other residential units) at or below the 500-year flood elevation.

S&P Global Ratings' Shades of Green

Assessments	Dark green	Medium green	Light green	Yellow	Orange	Red
Description	Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Social project categories

Affordable housing

- Homeownership Financing Program: Finance single-family loans for low- to moderate-income first-time homebuyers, including providing down payment assistance loans.

Analytical considerations

- We believe providing single-family mortgage loans for qualifying low- and moderate-income, first-time homebuyers will significantly improve access to affordable housing and encourage investment in sustainable communities. Single-family homes receive 30-year below-market fixed-rate mortgages. Additionally, CHFA requires homebuyers to attend homebuyer education classes prior to loan closing to promote financial literacy and preparedness, which we believe is important for borrower protection.
- We believe CHFA's use of AMI, a metric used by the U.S. Department of Housing and Urban Development (HUD), is a best practice when defining low-income target populations. For single-family homes, the agency's income limit is 100% of AMI for homes with fewer than three people and 115% of AMI for homes with three people or more. In identified targeted areas—census tracts defined by the IRS as an area of chronic distress that could benefit from increased homeownership—the income limit is 120% of AMI for homes with fewer than three people and 140% for homes with three people or more. The program incorporates purchase price restrictions on residential dwellings, with the maximum purchase price for CHFA loan-financed homes set at 90% of the average purchase price in non-target areas and 110% in target areas.
- In connection with any eligible mortgage loan, CHFA may also pair bond proceeds to support savings-constrained homebuyers with Downpayment Assistance Program (DAP) amortizing loans and savings- and income-constrained homebuyers with "Time to Own" forgivable loans. CHFA also offers additional interest-rate discounts for home purchases in target areas or for certain targeted populations, including disabled residents, teachers, military service members and veterans, and other underserved groups.
- We believe CHFA's established track record in providing affordable single-family housing—combined with its comprehensive policies, procedures, and programs—ensures that both the perceived and realized social risks associated with its eligible projects are appropriately identified, managed, and mitigated.
- The framework stipulates that at least 95% of the net proceeds issued under the homeownership program will go toward affordable housing, while 5% will be set aside for costs of issuance and non-program related activities. Because we consider CHFA to be a pure-play entity, we believe that its non-Homeownership Program-related expenses will still serve a social purpose due to the agency's mission.

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 affect our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs		
Affordable housing	**1. No poverty**	**10. Reduced inequalities**	**11. Sustainable cities and communities**
Energy efficiency	**7. Affordable and clean energy**	**8. Decent work and economic growth**	**9. Industry, innovation and infrastructure**

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

Related Research

- Analytical Approach: Second Party Opinions: Use of Proceeds, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions, July 27, 2023

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