Lender Exchange Call: Reaching New Investors Through Sustainability Bonds

iff capital for healthy families & communities

ENERGY EFFICIENCY FOR ALL

cpc Community Preservation Corporation

CEI Coastal Enterprises

LISC LOCAL INITIATIVES SUPPORT CORPORATION

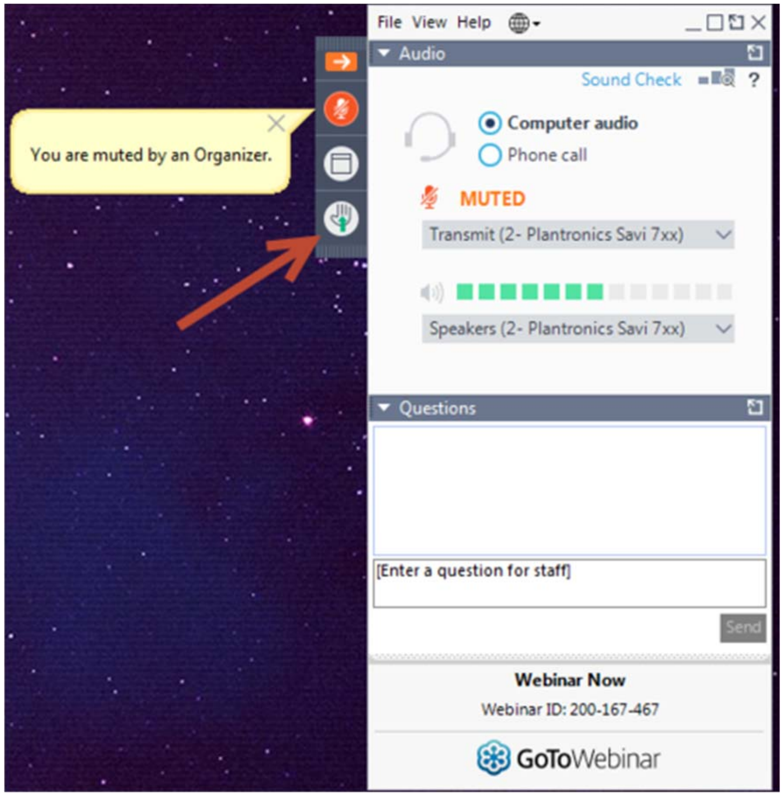
Questions and Comments?

Insert questions/comments in the questions box

Or

"Raise your hand" to be unmuted

Yes- this call is being recorded!

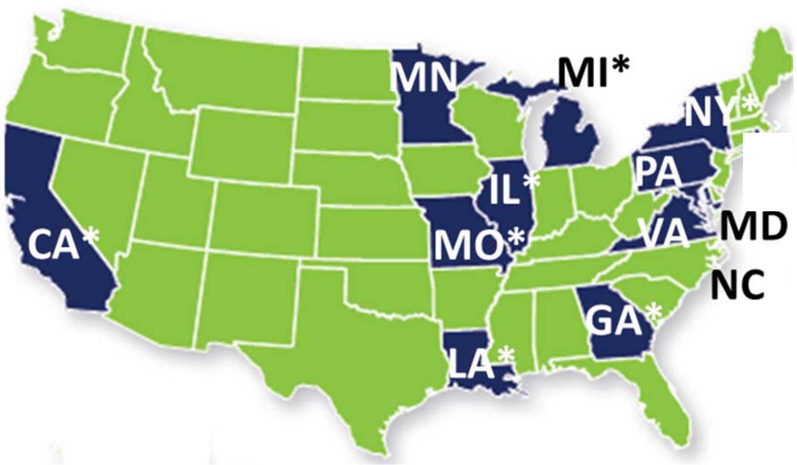


Presenters

- Atalia Howe, Manager of Sustainability Programs, CPC
- Christina Travers, Vice President of Finance & Capital Strategies, LIIF
- Anna Smukowski, Senior Manager of Investor Relations & Lending Operations, LISC
- Melanie Crocco, Vice President of Business Analytics, CPC
- Moderated by Liz Rogers, CEI and Bettina Bergoo, Sustainability in Affordable Housing Lender Learning Network

ENERGY EFFICIENCY FOR ALL

EEFA is building collective power to ensure that all renters live in homes that are affordable and healthy



ENERGY FOUNDATION

NATIONAL HOUSING TRUST

NRDC

ELEVATE ENERGY

Sustainability in Affordable Housing Lender Learning Network:
www.energyefficiencyforall.org/sahlln

CDFI Climate Crisis Working Group

Working Group Chair

Operations Chair

Operations Committee

(i.e. CDFI Connect, resource library, membership directory, logistics, sponsorships/ partnerships)

Regional Groups Chair

Regional Groups

(Plug into local resiliency plans, gov incentives, partnerships with local orgs)

- Northeast
- Midwest
- Northern California

Stakeholder Groups Chair

Stakeholders

(Keeps pulse on their industry's climate progress + partnership opportunities)

- Banks
- Government
- CBOs
- Investors
- Green Banks
- Foundations
- Developers/ Property Owners

Products & Services Chairs

Products & Services Committee

(i.e. energy efficiency, renewables, disaster-relief, mitigation, TA, underwriting)

Policy, Mapping & Communications Chairs

Sub-Committees:

- Policy/Research/ Ecosystem Mapping
- Communications/ Awareness

UNCOMMON EXPERTISE.

UNMATCHED IMPACT.

Reaching New Investors Through Sustainability Bonds

March 5, 2020

Setting the Stage - Definitions

- The **Green Bond Principles** (GBP) and **Social Bond Principles** (SBP), as well as the **Sustainability Bond Guidelines 2018** (SBG), have become the global leading framework for issuance of Green, Social and Sustainability Bonds.
- The four core components of both the GBP and the SBP include: (1) **use of proceeds**, (2) **process for projection evaluation and selection**, (3) **management of proceeds**, and (4) **reporting**.
- **Green Bonds**: **Any type of bond instrument where the proceeds will be applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects**.
  - Renewable energy
  - Energy efficiency
  - Clean transportation
  - Climate change adaptation
  - Green buildings meeting regional, national or internationally recognized standards/certifications
- **Social Bonds: Any type of bond instrument where the proceeds will be applied to finance or re-finance in part or in full new and/or existing eligible Social Projects.**
  - Affordable basic infrastructure (e.g. clean drinking water, sanitation, transport, energy)
  - Access to essential services (e.g. health, education, healthcare, and financial services)
  - Affordable housing
  - Employment generation (e.g. SME financing and microfinance)
  - Socioeconomic advancement and empowerment
- **Sustainability Bonds: Bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both Green and Social Projects.**

Setting the Stage – Green Bond Principals

Green Bond Principals	
Use of Proceeds	■ The cornerstone of a Green Bond is the use of the proceeds for Green Projects, which should be appropriately described in the legal documentation for the security. ■ All designated Green Projects should provide clear environmental benefits.
Project Evaluation & Selection	■ Issuers should clearly communicate to investors how the projects fit within the eligible Green Projects categories. ■ Issuers are encouraged to position this information within the context of their strategy, policy and/or processes relating to environmental sustainability. Issuers are also encouraged to disclose any green standards or certifications used in project selection. ■ The GBP encourage a high level of transparency and recommend that an issuer's process for project evaluation and selection be supplemented by an external review.
Management of Proceeds	■ The net proceeds of the Green Bond, or an amount equal to these net proceeds, should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner.
Reporting	■ Issuers should keep readily available, up to date information on the use of proceeds until full allocation . ■ Transparency is of particular value in communicating the expected impact of projects. The GBP recommend the use of qualitative performance indicators and, where feasible, quantitative performance measures (e.g. energy capacity, electricity generation, greenhouse gas emissions reduced/avoided).

Setting the Stage – Social Bond Principals

Social Bond Principals	
Use of Proceeds	■ The cornerstone of a Social Bond is the use of the proceeds for Social Projects, which should be appropriately described in the legal documentation for the security. ■ All designated Social Projects should provide clear social benefits.
Project Evaluation & Selection	■ The issuer of a Social Bond should clearly communicate to investors the social objectives and how the projects fit within the eligible Social Projects categories. ■ Issuers are encouraged to position this information within the context of their strategy, policy and/or processes relating to social sustainability. Issuers are also encouraged to disclose any social standards or certifications used in project selection. ■ The SBP encourage a high level of transparency and recommend that an issuer's process for project evaluation and selection be supplemented by an external review.
Management of Proceeds	■ The net proceeds of the Social Bond, or an amount equal to these net proceeds, should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner.
Reporting	■ Issuers should keep readily available, up to date information on the use of proceeds until full allocation. ■ Transparency is of particular value in communicating the expected impact of projects. The SBP recommend the use of qualitative performance indicators and, where feasible, quantitative performance measures (e.g. number of beneficiaries, especially from target populations).

Setting the Stage – Sustainability Bond Guidelines

The common four core components of the GBP and SBP also apply to Sustainability Bonds if projects have characteristics of both Green and Social Bond Principles.

The Green Bond Principles | ICMA

Green Bond Principles

Voluntary Process Guidelines for Issuing Green Bonds

June 2018

+

The Social Bond Principles | ICMA

Social Bond Principles

Voluntary Process Guidelines for Issuing Social Bonds

June 2018

=

The Sustainability Bond Guidelines | ICMA

Sustainability Bond Guidelines

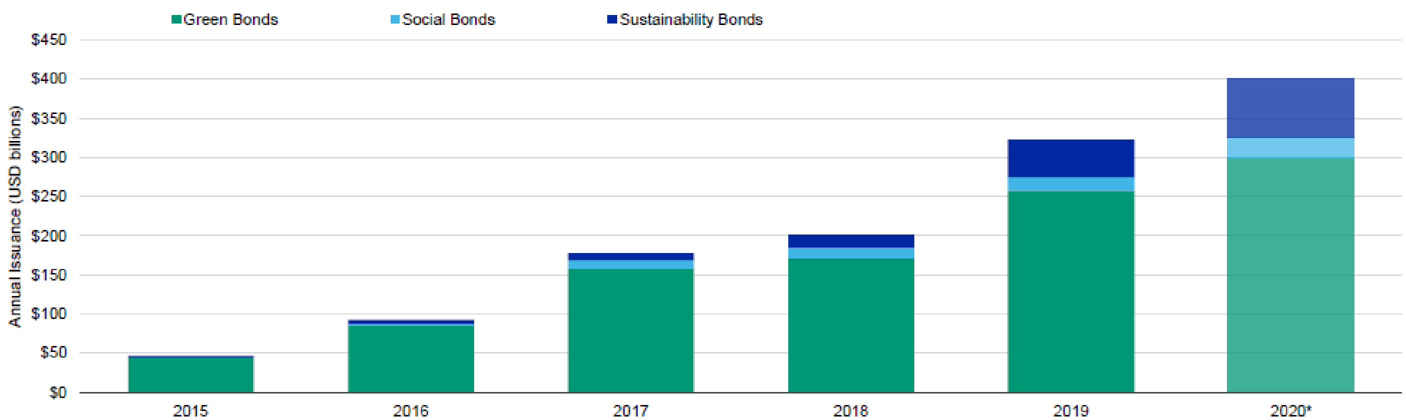
June 2018

Setting the Stage – Market for Green, Social and Sustainability Bonds

- The first Green Bond issuance was in 2007.
- Since then, demand for **Green**, **Social,** and **Sustainability Bonds** has grown significantly.
- The market is expected to reach **$400B* in 2020**, a 24% increase from 2019 ($323B).
- The **fastest growth** is occurring among **Sustainability Bonds**, reflecting issuers' desire to highlight their wide-ranging sustainability initiatives.
- Despite the impressive growth, impact-labeled bonds only represent a combined 5% of global bond issuances in 2019.

Exhibit 1

Combined global issuance of green, social and sustainability bonds will reach $400 billion in 2020



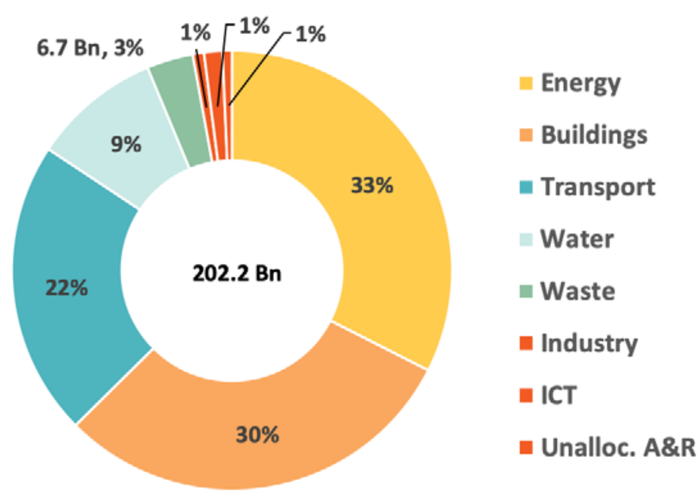
*2020 figures reflect Moody's projections

Sources: Moody's Investors Service, Climate Bonds Initiative, Dealogic

Setting the Stage - Market for Green, Social and Sustainability Bonds

- **Issuances**
  - In 2019, European issuers accounted for nearly half of global **Green Bond issuances**, followed by North America (23%) and Asia-Pacific (23%).
  - Europe also led in **Social and Sustainability Bonds**, accounting for 57% and 37% of issuances, respectively.
  - In 2019, financial institutions issued the majority of **Social and Sustainability Bonds**.
  - Fannie Mae has been the world's largest issuer of **Green Bonds**, issuing over $50B in Green bonds between 2012 and 2018.

- **Use of Proceeds**
  - **Green Bonds**: Energy and buildings led Green Bond use of proceeds worldwide in 2019.
    - Fannie Mae's green bond issuances support the retrofitting of US rental housing to become more energy and water efficient.
  - **Social Bonds:**
    - The city of Los Angeles was the largest municipal issuer of a social bond in 2018, committing to invest $276 million in housing for the homeless including facilities for mental health services, drug and alcohol treatment, education and job training.



Climate Bonds Initiative, 2019.

Setting the Stage – Alignment with the U.N. Sustainable Development Goals

- The UN Sustainable Development Goals (SDGs) are increasingly accepted and applied within the impact investment community and many countries are actively working on implementing the SDGs.
- Achieving the SDGs, including deep decarbonization, will require an economy-wide transition that extends beyond business models traditionally viewed as “green.”
- This will contribute to the diversification of project types acceptable in the labeled bond market.
- The SDGs most commonly reported are:
    - SDG 7 - Affordable and Clean Energy
    - SDG 11 - Sustainable Cities and Communities
    - SDG 13 - Climate Action

Setting the Stage – External Review

- **The GBP and the SBP recommend that issuers obtain an external review to confirm the alignment of their bond framework with the four core components of the Principals.**

Pre-issuance review	Scope	Providers
Assurance	Positive or negative assurance on compliance with the Green Bond Principles (GBP) or the Green Loan Principles (GLP)	EY, Deloitte, KPMG, etc
Second Party	Confirm compliance with GBP / GLP. Provide assessment of issuer's green bond framework, analysing the "greenness" of eligible assets	CICERO, Sustainalytics, Vigeo-Eiris, DNV GL, SynTao Green Finance, CECEP Consulting, etc
Green bond rating	Rating agencies assess the bond's alignment with the Green Bond Principles and the integrity of its green credentials	Moody's, S&P, CCX (China), ChinaBond Rating, R&I and JCR (Japan), RAM (Malaysia)
Pre-issuance verification	Third party verification confirms that the use of proceeds adheres to the Climate Bonds Standard and sector specific criteria	Approved verifiers under the Climate Bonds Standard scheme

https://www.climatebonds.net/files/reports/cbi_gbm_final_032019_web.pdf

Setting the Stage – Opportunity for Mission-Driven Financial Institutions?

- Our **collective responsibility** grows more urgent as mounting evidence demonstrates the global risk that climate change poses to health, livelihoods, food security, water supply, human security, and economic growth (IPCC – Special report on the impact of global warming of 1.5°C , 2018).

- "By strategically addressing and potentially mitigating these risks through the issuance of green bonds or through other initiatives, **issuers may ultimately be rewarded with a lower cost of capital while investors potentially benefit from sustainable long-term returns, versus investment in issuers with higher levels of climate risk.**" (*What Drives Green Bond Returns?* September 10, 2019).

- There is significant demand for labeled bonds and new issuances tend to be heavily oversubscribed, creating the perception that a 'green bond premium' has developed which allows issuers to pay lower yields on bonds carrying a green label versus conventional bonds.

- This lowers the cost of capital which can be used to support our mission-driven work, **to provide flexible capital solutions to underserved communities, integral to the creation and preservation of affordable housing and the revitalization of communities.**

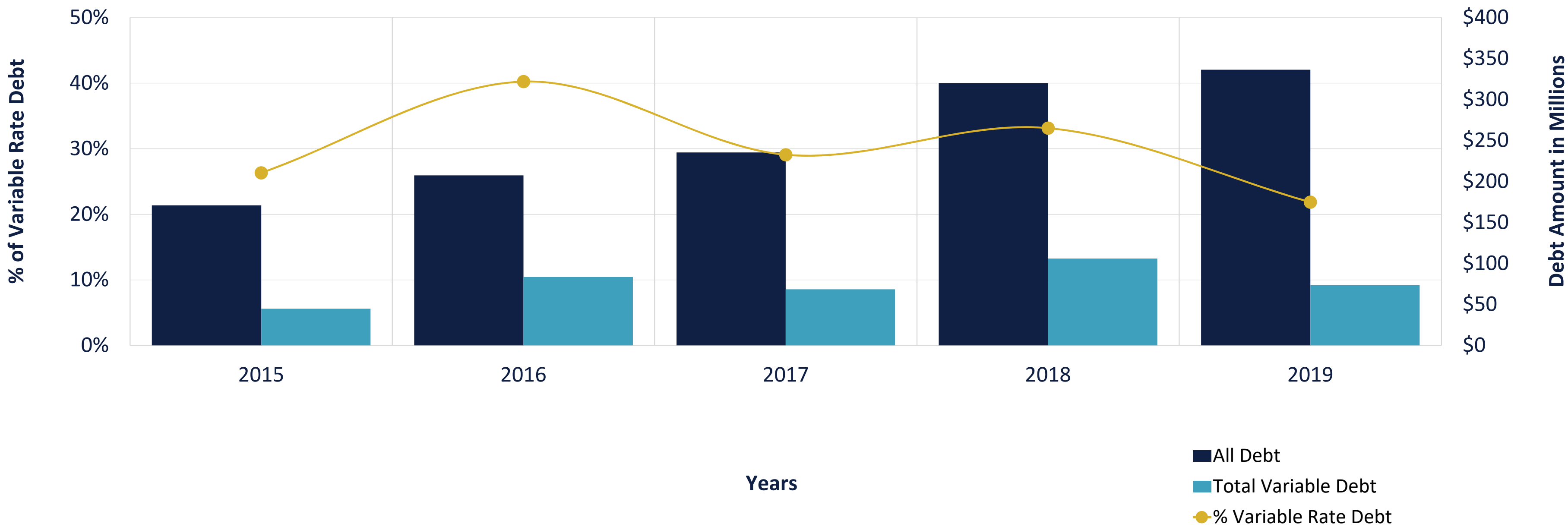
LIIF's $100 Million GO Bond Issuance

Presented by Christina Travers

capital for healthy families & communities

SPREAD COMPRESSION HAS RESULTED IN DECLINING INTEREST MARGINS

SPREAD COMPRESSION ATTRIBUTABLE TO HIGH VARIABLE RATE DEBT EXPOSURE



TO MANAGE THESE CHALLENGES, LIIF DECIDED TO BROADEN ITS CAPITAL STRATEGY

Secured a Rating from Standard & Poors

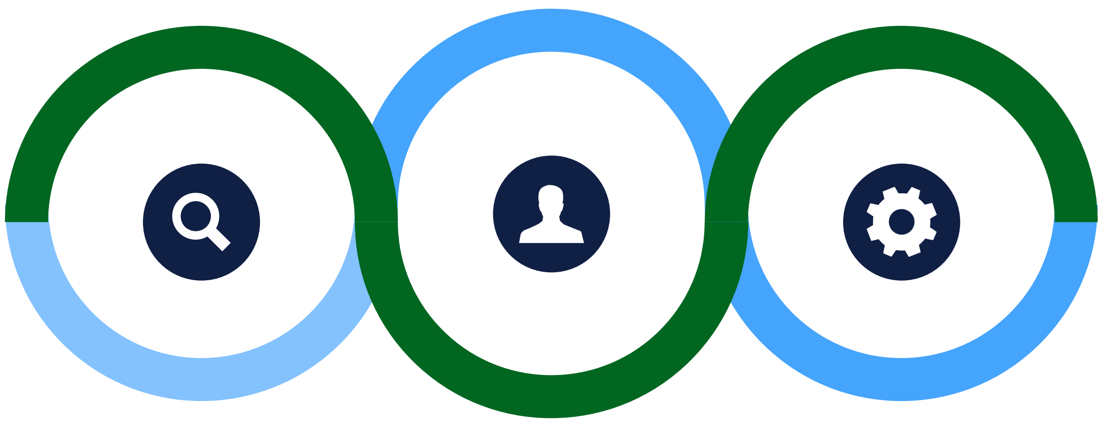
A-

S&P Rating

Announced April 2019

LIIF DECIDED TO LEVERAGE RATING & PURSUE A CAPITAL MARKETS TRANSACTION

Pulled Together Bond Issuance Team



Structuring considerations:

- Sustainability/ Green Bond
- UN SDG goals
- Third party validation from Sustainalytics
- Bond structure and tenor
- Ongoing disclosures

Selected Morgan Stanley as Lead Underwriter and JPMC as Co-Manager

Assembled Preliminary Offering Memorandum and Investor Roadshow

TIMELINE TO BOND CLOSING

CLOSING SUMMARY

- Final issuance was $25 million of 7 year notes maturing 2026 and $75 million of 10 year notes maturing 2027 through 2029. Weighted average maturity of 8.4 years. Final maturity July 1, 2029

- There are no financial covenants

- The Offering was oversubscribed by 10x and, as a result, pricing was reduced from indicative levels by 15 bps across both tranches

- Credit Spread was +140 bps on 7 year and +160 bps on 10 year

- Coupon was 3.386% on 7 year and 3.711% on 10 year. All-in TIC (including underwriters' discount and issuance costs) was 3.81%

FINAL SALE IMPLICATIONS

SOURCES AND USES OF FUNDING AT CLOSING		
	Total Bond Proceeds	$100,000,000
	Underwriters' Discount	$883,522
	Costs of Issuance	$279,750
	Bond Proceeds Available for Refinance	$98,836,728
	Debt to be Refinanced	$98,836,728

REFINANCE IMPACT ON DEBT PORTFOLIO		
$100 Million Pre-Refinance		
	Cost of Funds	4.12%
	Tenor	4.25 Years
$100 Million Post-Refinance		
	Cost of Funds	3.81%
	Tenor	8.43 Years

WHAT DOES IT ALL MEAN?

Fixes the interest rate on over $80 million of variable rate debt, eliminating interest rate risk

Extended term of debt enables LIIF to better asset/liability match its debt portfolio to loans receivable

Flexible capital with no geographic or programmatic restrictions (and no covenants!)

Diversification of LIIF’s sources of capital, moving beyond CRA motivated investors

LISC's Inaugural Sustainability Bond

Bond Overview

Securities Offered	$100,000,000 Taxable Bonds, Series 2017A
Date of Issuance	April 28, 2017
Rating	S&P "AA"
Designation	Sustainability Bond
Bond Yields	• 5 Yr: 3.005% • 10 Yr: 3.782% • 20 Yr: 4.649%
US Treasuries	• 5 Yr: 1.755% • 10 Yr: 2.232% • 20 Yr: 2.899%
Credit Spreads	• 5 Yr: 1.25% • 10 Yr: 1.550% • 20 Yr: 1.750%

Sustainability Bond Framework

Use of Proceeds	Refinance existing indebtedness and pay for cost of issuance. Proceeds used to refinance 105 community development loans across six asset classes
Process for Evaluation & Selection	Double bottom line view of its work, promoting social impact while also requiring strong financial performance of its investments . LISC's model places capital with the goal of achieving impact in the communities it serves as well as exercising fiscally responsible underwriting and investment practices. Appendix A identified loans to be refinanced along with project description
Mgmt of Proceeds	Deposited into segregated fund
Reporting	As part of our annual report and general reporting
Second Party Opinion	• NA

LISC

How to choose your bond designation?

What is Sustainability Bond?

Sustainability Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance in part or in full new and / or existing where the bond proceeds will be exclusively applied to finance or refinance a combination of eligible environmental and social projects and are in alignment with the International Capital Market Association's Green and Social Bond Principles. The four components are:

1) Use of Proceeds
2) Process for Project Evaluation and Selection
3) Management of Proceeds
4) Reporting

The Guidelines and Principles are designed to improve and standardize disclosure surrounding impact and create greater transparency for investors.

ICMA recommends that in connection to a Social Bond, an issuer appoints an independent, external reviewer to assess alignment of the issuance with the Social Bond Principles through a Second Party Opinion (SPO), including an assessment of the issuer's objectives, strategy, policy and / or processes relating to social sustainability, and an evaluation of the social features of the projects intended for the use of proceeds.

What are Eligible Project Categories

Green Projects contribute to environmental objectives, such as climate change mitigation and natural resource conservation.

Categories include:
1) renewable energy; 2) energy efficiency; 3) pollution prevention and control; 4) environmentally sustainable management of living and natural resources; 5) terrestrial and aquatic biodiversity conservation; 6) clean transportation; 7) sustainable water and wastewater management; 8) climate change adaptation; 9) eco-efficient and/or circular economy adapted products, production technologies and processes; and 10) green buildings.

Social Projects aim to address specific social issues and target, not exclusively, specific populations.

Categories include:
1) affordable basic infrastructure; 2) access to essential services; 3) affordable housing; 4) employment generation; 5) food security; and 6) socioeconomic advancement and empowerment.

Targeted Populations include those that are: 1) living below the poverty line; 2) excluded or marginalized; 3) vulnerable; 4) people with disabilities; 5) migrants or displaced; 6) undereducated; 7) underserved; and 8) unemployed.

LISC

Source: https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/
https://www.un.org/sustainabledevelopment/sustainable-development-goals/

The Green Bond Principles

The Social Bond Principles

UNCOMMON EXPERTISE.

UNMATCHED IMPACT.

CPC's Sustainability Bond

March 5, 2020

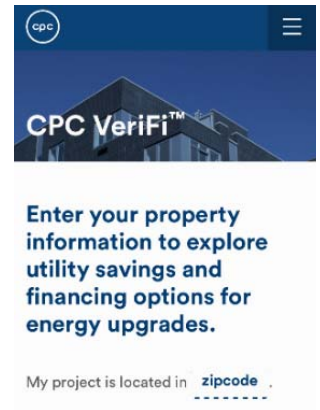
In February, 2020, CPC raised a $150 million 10-year Sustainability Bond.

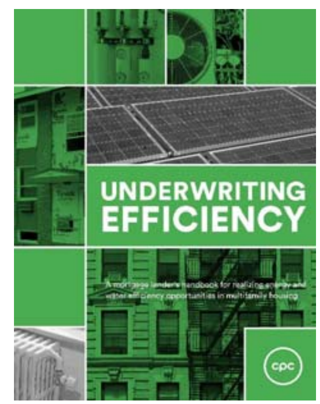
- The Community Preservation Corporation (CPC) is one of the largest Community Development Financial Institutions **(CDFI)** in the country solely dedicated to investing in multifamily, affordable, and sustainable housing.
- CPC believes housing is central to transforming underserved neighborhoods into thriving, vibrant communities.
- Established in 1974, CPC is a self-sustaining, mission-driven not-for-profit (and tax-exempt 501(c)(3)) multifamily housing and community revitalization finance company.
- CPC provides capital solutions that are integral to the creation and preservation of affordable housing in New York City and New York State.
- Over the last 45 years, CPC has helped finance over **196,000 units** of affordable and work-force housing and **7,000 units** of energy efficient housing.
- Over **75%** of CPC's construction portfolio has sustainability and affordability characteristics that meet the Sustainability Bond Guidelines.

CPC SUSTAINABILITY PLATFORM

CPC's Sustainability Platform is integrated within each of its lines of businesses and aligns with the Sustainability Bond Guidelines.

- CPC has committed to achieving **carbon neutral operations** that aligns with the City and State carbon reduction goals, as well as international frameworks.
- Developed **CPC VeriFi**, an online software application that calculates potential utility savings and helps owners explore financing options for multifamily building upgrades.
- Developed the **Underwriting Efficiency** guide to provide lenders, public partners and owners with a resource to finance energy and water efficiency measures as part of a first mortgage.
    - CPC is currently developing a supplement to the original guide with a focus on **high-performance** energy efficiency practices for new construction (ex. Passive House, NZE)
- CPC is a **RetrofitNY** financing partner. RetrofitNY, a NYSERDA initiative, is working aggressively to bring a large number of affordable housing units to or near net-zero energy use by 2025.
- Member of **NYSERDA's Carbon Neutral Buildings Roadmap Technical Advisory Group** (TAG).
- CPC continues to explore new financing incentives and original loan offerings that add value to the market and support the adoption of increased environmental and economic sustainability.





Why did CPC pursue a Sustainability Bond?

CPC raised $150 million, making it the single largest bond sale completed by a CDFI.

- CPC is continually looking for ways to raise capital to further its mission of investing in affordable, sustainable, and workforce multifamily housing in New York.
- The bond raise was a critical part of CPC's long-term capital strategy.
- Reducing CPC's long-term cost of capital allows CPC to bring additional capital to the communities it serves and continue to work with partners to address the most pressing housing and community development challenges.

Over 75% of CPC's construction portfolio has sustainability and affordability characteristics that meet the Sustainability Bond Guidelines 2018.

- These characteristics in the portfolio include the following:
  - **Green Projects:** Energy efficient housing projects that meet CPC's five sustainability requirements, all of which are targeted to achieve a minimum of 15% in energy savings.
  - **Social Projects:** Affordable housing projects with more than 50% of units under 80% AMI.
- Proceeds from the bonds were used to refinance projects within CPC's construction portfolio.

CASE STUDY - HIGH-EFFICIENT HVAC SYSTEM

BUILDING PROFILE

- Located in Rochester, NY
- Built in 1952
- 31 Buildings, 188 Apartments, 810 Rooms
- HVAC: Individual Gas Furnaces

PROJECT PROFILE

This complex was overdue for upgrades – individual gas furnaces, hot water heaters, and lighting fixtures were original to the buildings' 1950s construction, and a lack of gutters was causing moisture problems. CPC financed a comprehensive energy retrofit that improved resident health and comfort while drastically lowering their utility bills.

- **Loan Type**: Construction and Permanent Loan
- **Loan Offering**: $1.1 million

As a result of the extensive renovations, the property reduced its gas bills by $450 per dwelling unit and saved 24% on the total annual utility cost.

UTILITY	ANNUAL EXPENSE BEFORE ($/APARTMENT)	ANNUAL EXPENSE AFTER ($/APARTMENT)	EXPENSE DIFFERENCE
Heating (Gas)	$560	$360	–36%
Hot Water (Gas)	$430	$180	–58%
Electricity	$520	$530	+2%
Water & Sewer	$440	$410	–7%
Total	**$1,950**	**$1,480**	**–24%**

TIPS AND LESSONS LEARNED

The below highlights key aspects of the Sustainability Bond issuance process.

- Project Team
- Corporate Rating
- Second Party Opinion (SPO)
- Documentation
- Market & Execution

Thank You

Contact Us

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Learn More

www.communityp.com

Questions and Comments?

Insert questions/comments in the questions box

Or

"Raise your hand" to be unmuted

Yes- this call is being recorded!

A recording and slides will be posted to www.energyefficiencyforall.org/sahlln