

Second Party Opinion

National Community Renaissance Of California's \$100 Million Taxable Bonds Series 2022

Jan. 27, 2022

National Community Renaissance of California (NCRC) is a nonprofit public benefit corporation founded in 1992 that provides affordable housing across income ranges. Its services include construction, planning, development, and property management in California. It seeks to alleviate poverty through its work to transform communities. It has approximately \$1.1 billion in assets and 7,000 units under management as of year-end 2021.

The \$100 million social bond Issuance due 2032 will be used to fund affordable housing projects that fulfill the company's social goals of providing access to basic infrastructure, alleviating poverty and homelessness, and reducing the carbon footprint of residential buildings.

In our view, NCRC's \$100 million taxable bonds series 2022, published on Jan. 24, 2022, are aligned with:

 Social Bond Principles, ICMA, 2021

Issuer's Sustainability Objectives

NCRC is largely focused on providing affordable housing to help families attain financial self-sufficiency and homeownership. Its initiatives are also geared toward eliminating poverty and homelessness. The company also focuses on improving access to public transit infrastructure, and operates across a diversity of income levels. Specifically, the company recognizes that people with disabilities are at much higher risk of homelessness. Most of NCRC's properties are financed through the low-income housing tax credits (LIHTC) program.

Additionally, NCRC intends to reduce the environmental footprint of communities through its lending. The company shows a strong preference for financing assets near public transit to help reduce emissions and improve public health. The company also considers the energy efficiency and carbon footprint of the buildings, and it seeks to invest in Leadership in Energy and Environmental Design (LEED)-certified and net-zero energy buildings.

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Second Party Opinion Summary

Use of proceeds

Alignment  NCRC's \$100 million taxable bonds series 2022 are aligned with this component of the Social Bond Principles.

Score Not aligned Satisfactory **Strong** Advanced

The transaction documents specify that the funds must be used for affordable housing projects, as well as refinancing of existing affordable housing units; it outlines several key sustainability initiatives that accompany this, such as access to transportation and improved environmental characteristics.

Process for project evaluation and selection

Alignment  NCRC's \$100 million taxable bonds series 2022 are aligned with this component of the Social Bond Principles.

Score Not aligned Aligned **Strong** Advanced

The transaction documentation outlines a rigorous process for selecting eligible projects by both the management team and the board. This involves vetting projects for energy efficiency, proximity to mass transit, and income levels of the target population.

Management of proceeds

Alignment  NCRC's \$100 million taxable bonds series 2022 are aligned with this component of the Social Bond Principles.

The company's documentation requires it to place funds in a separate account to avoid commingling of funds. Undisbursed funds are to be temporarily held in an interest-bearing escrow account, and funds will be tracked annually.

Reporting

Alignment  NCRC's \$100 million taxable bonds series 2022 are aligned with this component of the Social Bond Principles.

Score Not aligned Aligned **Strong** Advanced

The company has committed to both allocation and impact reporting until full disbursement of the bond funds. The reporting will focus on the economic impact on underserved communities, as well as environmental contributions.

Transaction 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.

 NCRC's \$100 million taxable bonds series 2022 are aligned with this component of the Social Bond Principles.

Commitments score

Not aligned

Satisfactory

Strong

Advanced

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

NCRC makes explicit in its transaction documents the criteria it will use to select eligible projects, which are restricted to affordable housing units. The company outlines the sustainability objectives of its investments, which are all designed to improve access to housing and reduce homelessness and poverty, with a secondary goal of remediating the environmental footprint of communities, specifically carbon emissions.

These rules apply to all net proceeds. Additionally, the company specifies what proportion of the funds will be allocated to new financings versus refinancings and investor buyouts, which the company executes as part of its mission to preserve affordable housing assets; for this transaction, the documents also specify the properties to be refinanced. We believe that each project permissible under the transaction documents has environmental and social objectives and that each are accompanied by related benefits. For instance, affordable housing development can help improve financial wellbeing, and housing near public transit can aid in public health.

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.

 NCRC's \$100 million taxable bonds series 2022 are aligned with this component of the Social Bond Principles.

Commitments score

Not aligned

Aligned

Strong

Advanced

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

The transaction documents for NCRC's issuance identify how it decides which projects fit within the scope of its Social Bond Framework. The documents also outline a process NCRC uses to identify and address environmental and social merits; the Project Review Committee is responsible for putting forth recommendations based on several criteria. These include the property's environmental footprint as well as the economic impact on the target population.

Additionally, the company's executive committee, which comprises members of the board of directors, has a significant background in sustainability based on the company's history, and it exercises final oversight over the selection of projects. Moreover, the decision-makers consider market standards and taxonomies, such as qualifications for LIHTC eligibility and LEED certification, when selecting projects.

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.

 NCRC's \$100 million taxable bonds series 2022 are aligned with this component of the Social Bond Principles.

The issuance's transaction documentation shows that a separate subaccount is required to avoid commingling of the social bonds' funds with general corporate funds. The documentation also specifies that the funds must be held in an interest-bearing account, separately, until they are disbursed toward eligible purposes. Additionally, the company must track the allocation of net proceeds to the projects that are selected.

Reporting

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.

 NCRC's \$100 million taxable bonds series 2022 are aligned with this component of the Social Bond Principles.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider NCRC's overall reporting practices to be strong.

NCRC's transaction documentation requires reporting on the allocation of the net proceeds of the transaction until full disbursement. A third-party auditor will verify the allocation reporting post-issuance. The company also commits to disclosing some actual and expected environmental and social metrics annually, until the funds are fully allocated.

The company intends to report impacts, including qualitative and quantitative metrics, for each project, rather than strictly at an aggregate level. This will focus on the economic impacts on the target populations served. The disclosure on impact metrics will continue per the entity's ongoing reporting requirements, and while the documents do not stipulate a third party verifier of impact metrics, we note that these metrics are otherwise subject to audit by federal, state, and local governments as well as mission aligned third parties as part of the associated Low Income Housing Tax Credits and/or soft debt associated with a given development

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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.

NCRC's \$100 million Taxable Bonds Series 2022 intend to contribute to the following SDGs:

Use of proceeds/KPI	SDGs
Affordable housing	  11. Sustainable cities and communities 1. No poverty
Affordable basic infrastructure	  7. Affordable and clean energy 11. Sustainable cities and communities
Access to essential services	  10. Reduced inequalities 1. No poverty
Green buildings/energy efficiency	  11. Sustainable cities and communities 7. Affordable and clean energy

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

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