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Second Party Opinion

California Housing Finance Agency's Social Bonds Framework

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Primary contact

Henrik Cotran
San Francisco
+ 1-415-371-5018
henrik.cotran
@spglobal.com

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

Alignment Summary

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Social Bond Principles, ICMA, 2023

See Alignment Assessment for more detail.

Strengths

California Housing Finance Agency (CalHFA) has a strong social license to operate in the communities it serves. Since its inception, CalHFA has helped more than 226,000 low- to medium-income Californians purchase their first home via its affordable single-family loans and down payment assistance program, and helped preserve or build more than 78,000 affordable homes. Underpinning CalHFA's efforts are ambitious education and counseling services, which aim to promote financial literacy and upward mobility to the populations it serves, including historically underserved groups.

A stringent regulatory framework underscores compliance with social objectives. Various federal and state laws, which set specific requirements to lend to and set aside housing for low- to moderate-income residents and maintain affordable rent levels for all residents, govern CalHFA's single-family mortgage loans.

Weaknesses

No weakness to report.

Areas to watch

The properties that CalHFA finances are subject to physical climate risks. The properties are in California, which is prone to extreme weather events and the physical impacts of climate change (such as wildfires, droughts, heat waves, and floods) and earthquake risks. CalHFA requires insurance for certain hazards, including fire and flood, where relevant, and Title 24 of the California Building Code stipulates additional protective building features for houses situated in wildfire-prone areas. While we believe these measures help address some environmental risks, they do not mitigate the potential physical risks of CalHFA's properties and its residents.

It is important that mortgages financed under the framework are not previously labelled as social bonds by loan originators or other parties to avoid double-counting of social benefits. If the MBS purchased by CalHFA already carry a social label, the social benefits of financings could be counted twice.

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

CalHFA is a state agency established in 1975 that provides financing and programs that help low- and moderate-income individuals and families throughout the state access affordable housing, both as homebuyers and renters. Its mission is to invest in diverse communities with financing programs to advance its single- and multifamily programs. To date, CalHFA has helped more than 226,000 Californians purchase their first home with a mortgage they can afford and helped build or preserve more than 78,000 units in affordable housing developments for veterans, seniors, those with special needs and families in danger of experiencing homelessness. Through its social bond framework, CalHFA will finance single family underlying mortgage loans indirectly through the acquisition of pass-through mortgage-backed securities (MBS), typically issued by Ginnie Mae, Fannie Mae, or Freddie Mac and through down payment assistance loans.

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 can face the threat of homelessness. Access and affordability are especially important for residential tenants in areas where rents can account for a large percentage of residents' incomes. Lack of accessibility and affordability of commercial properties can also hinder the sustainable growth of local communities.

Impact on communities

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

Not-for-profit housing operators are not significantly exposed to consumer preferences as providers of safety-net accommodation. Rather, we see more localized risks related to residents being opposed to 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, its reputation and relations with various stakeholders can be damaged, increasing risks around 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 could 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 tenant health and safety at risk.

These challenges can also require investments to manage the potential impact on, in severe cases, relocation of tenants. While 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 risk exposure. Most participants have some insurance coverage, but it could become more difficult to secure insurance for the most exposed assets in the future, absent adaptation.

Issuer And Context Analysis

The framework's single-family housing investments aim to address access and affordability and impact on communities, which we view as the most material sustainability factors in the sector. In our view, physical climate risk is also a relevant consideration for the issuer's housing portfolio due to the increasing frequency of extreme weather events, such as wildfires, in the state of California.

By financing the preservation and creation of affordable housing in California, CalHFA directly addresses the issues of access and affordability. It invests in diverse communities by providing financing programs that help more Californians have affordable homes. They offer single-family mortgage loans and down payment assistance (DPA) for low- and moderate-income individuals, including first-time homebuyers. The issuer maintains programs specifically targeted to boost home ownership, including the California Dream for All DPA program for first-time homebuyers and MyHome loans and bond-funded MyAccess loans that offer deferred-payment junior loans to assist with down payment and/or closing costs.

California is among the most unaffordable states in terms of housing in the country. Constructing more housing units, including affordable housing units, is a strategic priority for the state, which has a goal to build 2.5 million new homes by 2030. Given the decreasing availability of affordable housing in the state, CalHFA plays an increasingly crucial role in promoting and preserving access and affordability for vulnerable populations in California.

CalHFA's affordable housing preservation and creation programs can provide social benefits for communities. From 2023-2024, CalHFA utilized over $2.5 billion in lending activity and bond issuances to develop and preserve single-family homes along with more than 3,900 affordable rental units for Californian families with incomes below 80% of the area median income (AMI) for multifamily properties. By targeting investments toward economically disadvantaged populations, CalHFA plays a crucial role in maintaining the social fabric of local communities throughout California.

Physical climate risk is a key sustainability issue for affordable housing providers, especially in California, a region prone to extreme weather events and other physical impacts of climate change. When physical risks such as wildfire and flooding materialize, the low- and moderate-income populations housed in the assets financed by CalHFA may have less financial capacity to rebuild their homes and communities. The loans acquired by CalHFA meet insurance requirements established by the government-sponsored enterprises (GSE)s. The agency requires certain loans to be covered by flood insurance. The California Building Code requires buildings constructed in wildfire-prone areas to meet extra requirements to improve fire resistance, such as using fire-resistant exterior materials and maintaining a defensible perimeter around a home to prevent flammable vegetation from igniting. While we believe these measures address some environmental risks, they do not mitigate the potential physical risks of CalHFA's properties and its residents.

Alignment Assessment

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

Alignment Summary

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Social Bond Principles, ICMA, 2023

✓ Use of proceeds

We consider the social project categories within the framework aligned. CalHFA commits to allocate the net proceeds issued under the framework exclusively to eligible social projects and contributing to specific Sustainable Development Goals (SDGs). 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. The company will use all proceeds to purchase MBS issued by Ginnie Mae, Fannie Mae, or Freddie Mac to finance underlying mortgage loans and DPA loans associated with underlying mortgages to eligible borrowers.

✓ Process for project evaluation and selection

The framework includes eligibility criteria for single-family property loan mortgages that cover borrower income and property eligibility. Borrowers' income limit criteria vary by county, with a broad income limit of 198% of AMI or $300,000, whichever is lower. For the selection of MBS and DPA loans, the bond documentation has set forth requirements, which include issuance of such securities by Ginnie Mae, Fannie Mae, or Freddie Mac, and underlying mortgage loans should be insured by Federal Housing Administration (FHA) or U.S. Department of Veterans Affairs (VA), or guaranteed by U.S. Department of Agriculture, Rural Development (RD), or conventional loans. The home insurance requirements of the above agencies and California building codes help to manage perceived environmental risks associated with eligible projects. The issuer also offers education and counseling services, which aim to promote financial literacy and upward mobility to the populations it serves, helping address perceived social risks.

✓ Management of proceeds

CalHFA will create subaccounts to track the net proceeds after the issuance of a social bond. At the time of issuance, the bond trustee will establish a bond series account within the proceeds fund to deposit bond proceeds, and a series acquisition account within the acquisition fund to transfer proceeds for the acquisition of MBS. The issuer will track all disbursements. Pending allocation, money deposited with the trustee in any account or fund will be invested in accordance with the issuer's treasury policy and defined under the indenture as investment obligations.

✓ Reporting

CalHFA commits to report on the allocation of the net proceeds and on the financed projects' impact upon full allocation of the net proceeds in its Social Bonds Report, while the issuer reports the remaining balance of outstanding bond series in its annual financial statements. Where applicable and feasible, quantitative performance indicators such as the projects' total financing amounts, number and value of loans per AMI band, and the amount of proceeds spent for down payment and closing cost assisted loans are included. As a quasi-public state agency subject to federal regulations, CalHFA is also legally mandated to conduct annual financial audits, including reviewing the allocation of the proceeds from the bond series, which will be made available on Electronic Municipal Market Access System (EMMA). Additionally, CalHFA's annual financial reporting is subject to audit.

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.

Social project categories

Affordable housing

Financing single-family underlying mortgage loans that provide affordable housing indirectly through the acquisition of pass-through MBS issued by Ginnie Mae, Fannie Mae, or Freddie Mac, and down payment and closing costs assistance loans.

Analytical considerations

- The construction and preservation of single-family homes will improve living conditions for low- and moderate-income residents in California by helping maintain and expand access to safe, affordable housing.
- The Homeowner Mortgage Revenue Bond program provides low-interest rate home financing and down payment and closing costs assistance. The primary objectives of the program are to enable low- and moderate-income individuals and families to purchase homes on affordable terms, to make available home mortgage financing in mortgage-deficient areas, and to stimulate the housing construction industry by making attractive, permanent mortgage financing available through qualified lenders. Importantly, most borrowers receive such down payment and closing costs assistance, according to the issuer, greatly increasing the affordability of homes. This underscores the strong social benefit that market participants such as CalHFA provide.
- CalHFA offers several loan programs with competitive rates and long-term financing to advance the creation and preservation of affordable homes. Single-family lending programs are primarily targeted toward first-time homebuyers, though certain state and federal laws may allow single-family mortgage loans to non-first-time homebuyers. Single-family properties may be either newly-constructed or existing. CalHFA will invest bond proceeds in MBS and DPA loans associated with underlying mortgages issued by government-sponsored mortgage companies including Ginnie Mae, Fannie Mae, and Freddie Mac. These firms provide liquidity to the mortgage market by purchasing mortgage loans from lenders, thereby replenishing lender funds for additional loans.
- We believe CalHFA’s use of 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 income eligibility of borrowers under the single-family program is consistent with income limits established by the State of California. The income limit varies by county; for certain urban counties under this issuance, the highest tier is the lesser of $300,000 or 198% of AMI. We note this is income eligibility limit is relatively high for single-family affordable housing in the U.S. However, California has some of the highest housing and other living costs in the nation. The demand for housing in California, particularly in urban areas, has surged due to population and economic growth and a limited housing supply. This has resulted in significant increases in home prices, making it challenging for low- and moderate-income families to find affordable single-family options. According to the California Association of Realtors, the median home price in California was $861,000 in December 2024, while the median household income was approximately $96,000 in 2023, per the U.S. Census Bureau. Given this background, the issuer’s adjustment of higher income and broader AMI bracket eligibility criteria improves the ability of the target population to achieve home ownership.
- We also believe the broad AMI bracket adequately seeks to minimize income segregation, which is a common social risk associated with affordable housing. In prior decades, government-sponsored public housing projects, which exclusively housed those with low incomes, had the unintended consequence of creating areas of economic disinvestment and, as a secondary consequence, areas of higher crime and safety concerns. More than half of the loans made in 2024 were to borrowers with incomes at or below $100,000. Additionally, the issuer lends to a high proportion of minority borrowers, with approximately half of borrowers identifying as either Hispanic/Latino or Black in the issuer’s 2024 loans.
- We believe CalHFA's established record providing affordable single-family housing, combined with its comprehensive policies, procedures, and programs, such as compliance with various federal and state laws, ensures that both perceived and realized social risks associated with the eligible projects are appropriately identified, managed, and mitigated.

- The properties financed by CalHFA are exposed to physical climate impacts including floods, wildfires, rising sea levels, extreme weather events, and other risks including earthquakes. CalHFA requires insurance for certain hazards, including fire and flood, where relevant, and Title 24 of the California Building Code stipulates additional protective building features for houses situated in wildfire-prone areas. The issuer does not have separate policies for physical climate risk mitigation and adaptation.

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***	**8. Decent work and economic growth**	**10. Reduced inequalities**	**11. Sustainable cities and communities***

*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
- Analytical Approach: Shades of Green Assessments, July 27, 2023

Analytical Contacts

Primary contact

Henrik Cotran
San Francisco
+1-415-371-5018
henrik.cotran@spglobal.com

Secondary contacts

Alan Bonilla
San Francisco
+1-415-371-5021
alan.bonilla@spglobal.com

Research contributor

Tanmay Kumbharkar
Mumbai