



Citi Social Bond Framework for Affordable Housing

October 2020



Introduction

Citi, the leading global bank, has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions. Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services, and wealth management.

As the largest affordable housing lender in the United States for ten consecutive years^{1,2}, Citi is a leader in the effort to increase the availability of affordable housing for the nation's most vulnerable populations. In 2019 alone, Citi financed over \$6 billion in affordable and supportive housing in 29 states, territories (Guam) and the District of Columbia. Citi is also the industry's most active institutional-scale community lending and investing operation, supporting both public and private housing developments with an integrated platform of products that include project finance debt, tax credit equity, and municipal financings. Citi's impact is measureable and the social, economic, and financial results are proven.

While the U.S. economy continues to improve and incomes rise, many people still face significant challenges in finding safe, high-quality housing they can afford while still being able to meet other basic needs. According to the U.S. Department of Housing and Urban Development (HUD), six of ten extremely low-income renters and four of ten very low-income renters do not have access to affordable housing, even with rental assistance. In their 2017 report to Congress, HUD noted that "the nation's ongoing economic recovery is continuing to have some beneficial effects on the incomes of very low income renters, but growing competition for a limited supply of affordable units, a rising population of renter households and a declining population of homeowners, a widening rental assistance gap, and rising rents continue to drive severe housing problems among this vulnerable population."³

The gap between household wages and the cost of housing across major U.S. cities is well documented and presents numerous challenges for local government, for-profit, and non-profit leaders. Families who pay more than 30% of their income for housing are considered "cost burdened" and as a result may not have the necessary amount of income remaining to afford necessities such as food, transportation, and medical care; according to HUD, "an estimated 12 million renter and homeowner households pay more than 50% of their annual incomes for housing. A family with one full-time worker earning the minimum wage cannot afford the local fair-market rent for a two-bedroom apartment anywhere in the United States."⁴

The Definition of Affordable Housing

Affordable housing is most broadly defined as housing for which the occupant(s) pay no more than 30% of their income for gross housing costs, including utilities. Citi's affordable housing efforts are focused where the gap in availability and demand is greatest, on housing designated for individuals with annual incomes below 80% of the area's median family income, as defined by the Federal Financial Institutions Examination Council.⁵

¹ Christine Serlin, "Lenders Anticipate Growth in 2020", *Affordable Housing Finance*, March 2, 2020
<https://www.housingfinance.com/finance/lenders-anticipate-2020-growth>

² Citigroup Inc., "Citi Tops Affordable Housing Lender Survey for 10th Straight Year", Press Release, March 2, 2020,
<https://www.citigroup.com/citi/news/2020/200302a.htm>

³ U.S. Department of Housing and Urban Development, *Worst Case Housing Needs 2017 Report To Congress*,
www.huduser.gov/portal/sites/default/files/pdf/Worst-Case-Housing-Needs.pdf

⁴ U.S. Department of Housing and Urban Development, *Affordable Housing*,
www.hud.gov/program_offices/comm_planning/affordablehousing/

⁵ Federal Financial Institutions Examination Council (FFIEC), *FFIEC Median Family Income Report*, www.ffiec.gov/Medianincome.htm

Affordable housing can be designated based on a number of conditions, including but not limited to:

- A prospectus, loan proposal, or community action plan, that has an express bona fide intent to develop affordable housing;
- The terms of the financing require that the majority of affordable housing residences or housing units be reserved for individuals with incomes below 80% of the area's median family income;
- The organization(s) undertaking a project have a mission or have past performance that qualifies their commitment to developing affordable housing; or
- Reviewed factors (such as demographic, economic, and market data) that may for example consider the region's, the community's, and/or the project's median rents and median home values.

For details about how Citi defines and identifies affordable housing related loans and investments, refer to the **Use of Proceeds** and **Process for Asset Evaluation and Selection** sections.

Citi's Financing of Affordable Housing

Citi is a provider of large-scale community development financing, using a comprehensive model that includes Portfolio Management, Merchant and Commercial Banking, Investment Banking, and expertise in stand-alone Project Financing of affordable multi-family rental housing and other community development initiatives.

Citi Community Capital (CCC), a specialized unit within Citi's Institutional Clients Group, Markets & Securities Services, provides a suite of financial products to help affordable housing developers construct, rehabilitate, refinance, and acquire affordable multifamily housing across the country. Committed to the communities it serves, CCC finances both straightforward and highly structured transactions for non-profit and for-profit affordable housing developers, Community Development Financial Institutions, and state and local government agencies. CCC's financings may employ a combination of taxable and tax-exempt loans or bonds; Low Income, Historic or New Markets Tax Credits; and government and private subsidies. CCC may provide its capital directly, or as an intermediary.

CCC is a construction lender and a permanent lender, a Fannie Mae and Freddie Mac lender, and principal in unique private equity investments, all designed to improve neighborhoods, create jobs, or improve the health care services or educational opportunities available to the communities Citi serves.

Alignment with the UN Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs)⁶ were adopted in September 2015 and form an agenda for achieving sustainable development by the year 2030. Citi's affordable housing finance activities and the use of proceeds from Citi's Affordable Housing Bond are particularly relevant to the following Sustainable Development Goals:

- SDG 11 - Sustainable Cities and Communities: Make cities and human settlements inclusive, safe, resilient and sustainable.
 - SDG 11.1: By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.

Framework Overview

Citi's Social Bond Framework for Affordable Housing ("framework") has been developed in line with the International Capital Market Association (ICMA) Social Bond Principles 2020⁷ and includes four key components: use of proceeds; process for project evaluation and selection; management of proceeds; and reporting. Citigroup Inc. and/or its subsidiaries may issue Affordable Housing Bonds in accordance with this framework.

⁶ United Nations, *Sustainable Development Goals Knowledge Platform*, <https://sustainabledevelopment.un.org/>

⁷ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf>

Use of Proceeds

An amount equivalent to the net proceeds of Citi’s Affordable Housing Bond(s) are allocated to finance or refinance a portion of Citi’s portfolio of affordable housing assets (“Affordable Housing Bond Asset Portfolio”), which consists of selected eligible financing instruments as defined in the table below. These eligible financing instruments are primarily intended to finance the construction, rehabilitation, and/or the preservation of quality affordable housing for low- and moderate-income populations in the United States.

For the purposes of Citi’s Affordable Housing Bond(s), low- and moderate-income is defined as:⁸

- Low-income - a family income that is less than 50% of the area’s median family income.
- Moderate-income - a family income that is at least 50% and less than 80% of the area’s median family income.

Citi’s Affordable Housing Bond Asset Portfolio is focused on serving the affordable housing needs of individuals and families living on low- and moderate-incomes. In addition to the financing’s primary intent of supporting affordable housing, many municipalities, communities, and developers acknowledge the benefits of and encourage the development of neighborhoods that have a mix of residential and commercial space, as well as a diverse mix of families by income. Citi’s Affordable Housing Bond Asset Portfolio may include projects that, along with housing that has occupancy reserved for individuals and families that are low- and moderate-income, may include commercial space and/or housing that would be affordable to those with incomes above 80% of the area’s median family income. The consideration of incomes above 80% of the area’s median family income would be applicable only in certain limited scenarios, such as when a municipality or another public or quasi-public entity with governance authority for the respective region has provided a plan stipulating a broader definition of what constitutes affordable housing. Housing units for individuals and families with incomes above 80% of the area’s median family income would represent no greater than 20% of the total units in the Affordable Housing Bond Asset Portfolio.

Citi’s Affordable Housing Bond Asset Portfolio Eligibility Criteria

Project Category	Use of Proceeds	Primary Populations Served	Relevant SDG
Affordable Housing	Finance the construction, rehabilitation, and/or the preservation of quality affordable housing for low- and moderate income populations in the United States	Low- and moderate-income populations including persons with disabilities, senior citizens, those experiencing homelessness, and veterans	 <p>SDG 11 - Sustainable Cities and Communities: Make cities and human settlements inclusive, safe, resilient and sustainable</p>

⁸ Consumer Financial Protection Bureau, “Lending by neighborhood income level”, www.consumerfinance.gov/data-research/consumer-credit-trends/mortgages/lending-neighborhood-income-level/

Additionally, Citi’s Affordable Housing Bond Asset Portfolio may include housing tailored to the needs of protected or vulnerable populations such as:

- **Those Experiencing Homelessness:** The term “homeless” refers to an individual who lacks housing (without regard to whether the individual is a member of a family), including an individual whose primary residence during the night is a supervised public or private facility that provides temporary living accommodations and an individual who is a resident in transitional housing.⁹
- **Senior Citizens:** A single person who is older than 55 years of age or families of two or more persons where the head of which (or his or her spouse) is older than 55 years of age.
- **Veterans:** A person who served in the active military, naval, or air service and who was discharged or released under conditions other than dishonorable.
- **Persons with Disabilities:** A person who has a physical or mental impairment that substantially limits one or more major life activities, a person who has a history or record of such an impairment, or a person who is perceived by others as having such an impairment.

Eligible Financing Mechanisms

Type	Instrument	Instrument Description
Debt Financing	Construction Loans	Typically a tax-exempt or taxable short-term loan, which may be in the form of a bond, that provides funds to cover the cost of building or rehabilitating a building
	Permanent Loans	A tax-exempt or taxable long-term loan, which may be in the form of a bond, obtained after completion of construction or rehabilitation
Equity Financing	Partnership and/or Ownership Interest	The <u>Low-Income Housing Tax Credit (LIHTC)</u> is the U.S. Federal government’s primary program for encouraging the investment of private equity in the development of affordable rental housing for low-income households. LIHTC provides investors, who become limited partners in a affordable housing project’s ownership structure, to receive the all of the tax benefits associated with real estate ownership, including Federal tax credits

Citi may also participate in local and national investment funds that support the development of affordable multifamily rental housing.

⁹ Code of Federal Regulations, *Title 42 - The Public Health And Welfare* § 254b (h)(5)A, www.govinfo.gov/content/pkg/USCODE-2010-title42/pdf/USCODE-2010-title42-chap6A-subchapII-partD-subparti-sec254b.pdf

Examples of Eligible Loans and Investments made by Citi

Type	Description
<p>Debt Financing <i>Construction / Permanent Loan</i></p>	<p>Citi provided a \$116.2 million construction and a \$12.6 million permanent loan for the new construction of Saint Teresa of Calcutta Villa in San Diego, California, a 406-unit LEED Gold apartment building with rent restricted to residents with incomes 30% - 60% of the Area Median Income. 310 apartments of the units are reserved as permanent supportive housing for homeless individuals and families, including those with special needs.</p>
<p>Debt Financing <i>Construction Loan</i></p>	<p>Citi provided a \$17 million construction loan to finance the Hotel Grim Apartments, an adaptive reuse of a vacant former hotel into affordable apartments. Located in Texarkana, Texas, the hotel was built in the 1920's has been vacant since 1990. When complete the 93 apartments will be reserved for families with incomes of 50-60% of Area Median Income.</p>
<p>Debt Financing <i>Construction / Permanent Loan</i></p>	<p>Citi is providing a \$13.6 million financing to renovate four affordable housing complexes with a total of 153-apartments, known as Sencit Liberty Apartments in Atlantic City, New Jersey. The buildings include a former Boys Vocational School dating from the early 1900s; Disston Apartments, a YMCA widely used by the black community in the early 20th century; and Liberty Apartments, in the former Liberty Hotel that catered to the African American community in the early 20th Century</p>
<p>Equity Financing <i>Low-Income Housing Tax Credit</i></p>	<p>833 Bryant is a 145-unit affordable project in San Francisco, California that will provide permanent supportive housing for people who are currently homeless. Citi has made a \$21.6 million direct investment in the Low Income Housing Tax Credit equity that is part of the capital structure. Among the attributes of this unique project is that it is also using modular factory built construction to reduce costs and speed the time it takes to complete the building.</p>

Exclusionary Criteria

Citi has developed exclusionary criteria for the proceeds of the Affordable Housing Bond Asset Portfolio. Citi commits to not intentionally including any of the following projects or activities in the Affordable Housing Bond Asset Portfolio:

- 1) Loans or investments for projects outside of the United States and its territories
- 2) Loans or investments that do not have a primary purpose of providing affordable housing for low- and moderate-income individuals or families
- 3) Mortgage-backed securities and other derivatives
- 4) Investments where the financial strength and potential for economic loss to Citi on the investment has been assessed and classified as “Substandard”, “Doubtful”, or “Loss”
- 5) Any activities which are incompatible with the social mission of Citi Community Capital or which are directly or indirectly generating significant adverse social impacts
- 6) Loans or investments that have matured

If Citi’s investment in any asset in the Affordable Housing Bond Asset Portfolio is terminated or if an asset no longer meets the eligibility criteria, the asset will be removed from Citi’s Affordable Housing Bond Asset Portfolio in the same calendar year in which the asset became ineligible.

Process for Asset Selection and Evaluation

Citi will identify a unique Affordable Housing Bond Asset Portfolio for the Affordable Housing Bond(s) issued during a given reporting period. More specifically, Citi's specialist teams, including Citi Community Capital will review assets that meet the Affordable Housing Eligible Criteria (and do not meet the Exclusionary Criteria) in the **Use of Proceeds** section above, and designate any or all of those assets to comprise the Affordable Housing Bond Asset Portfolio for the Affordable Housing Bond(s) issued during the reporting period. Overtime, Citi's specialist teams will also periodically remove assets from the Affordable Housing Bond Asset Portfolio that no longer qualify, and may include additional eligible assets in the Affordable Housing Bond Asset Portfolio.

In addition to the above, Citi's Affordable Housing Bond Asset Portfolio is also subject to the following internal and external evaluation processes.

Internal Evaluations

Each of Citi's lending and investing projects in affordable housing developments is reviewed through Citi's approval processes.

Extension of Credit Rules

At Citi, real estate exposures have unique credit and regulatory considerations that result in incremental approval and valuation requirements. Exposure to real estate has special characteristics around approvals, ratings, and valuations and includes additional approval and rating rules, over and above those specified in other sections of Citi's Risk Management Manual.

In accordance with Citi policy, Citi Community Capital's loans and investments must be approved by Citi's Risk Management group. The requirements for approval of an extension of credit include adherence with Citi's appraisal and valuation policy that follows Federal Interagency Appraisal and Evaluation Guidelines as well as ensuring that Citi is properly insured against the risk of loss and liability claims. To insure that such protections are afforded, customers must provide insurance coverage of sufficient breadth and amounts to reduce such inherent risks.

Internal Audit and Other Internal Compliance Reviews

Citi's internal audit process aims to assess the design and operational effectiveness of internal controls. Utilizing a sampling and testing process, Citi's affordable housing related operational processes are assessed annually, providing reasonable assurance in the effectiveness of the processes.

The assets contained within Citi's Affordable Housing Bond Asset Portfolio are subject to potential compliance reviews which are designed to facilitate Citi's compliance with applicable U.S. legal requirements and expectations.

External Evaluations of Citi Community Capital for Affordable Housing

Federal Supervision of Banking Activities

Citi's banking operations in the United States are supervised primarily by the Office of the Comptroller of the Currency (OCC), an independent bureau of the U.S. Department of the Treasury, under one uniform set of laws and regulations. The OCC's mission is to ensure that national banks such as Citi operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations. As such, loans and investments made by Citi Community Capital for affordable housing are subject to annual reviews by the OCC.

Self-Regulation of Participating Parties

In the U.S., the construction, rehabilitation, and/or the preservation of quality affordable housing for low- and moderate-income populations involves a myriad of for-profit and not-for-profit developers, local, state, and Federal government-affiliated agencies, each working together to ensure affordability. As an industry practice, most of the participating parties will have defined missions or mandates limiting their offering of services, loans and/or investments to only benefit low- or moderate-income individuals and other vulnerable populations. Each of the participating parties, while self-regulating, also perform independent due diligence and are subject to oversight from their own Boards of Directors, government agencies, and the community at-large. This additional self-regulation and oversight provides further assurance that Citi's loans and investments impact those individuals and communities as intended.

Management of Proceeds

Citi will track the Affordable Housing Bond Asset Portfolio(s) using an internal asset management system, which is connected to several other Citi systems.

Citi established an Affordable Housing Bond Working Group (the Group) in 2019, which is co-chaired by Citi's Chief Investment Officer and Co-Head of Citi Community Capital. The Group's membership also includes colleagues from Banking, Capital Markets and Advisory (BCMA), Citi Community Capital and Community Investing and Development.

The Group is responsible for oversight of the Citi Affordable Housing Bond Asset Portfolio(s), and its responsibilities include monitoring the total aggregate amount of Citi Affordable Housing Bonds issued and tracking the associated Affordable Housing Bond Asset Portfolio(s) using an internal asset management system. The Group aims to ensure that the aggregate amount in each Affordable Housing Bond Asset Portfolio is equal to or greater than the aggregate amount raised by Citi Affordable Housing Bonds during the associated reporting period by reviewing the continuing eligibility and aggregate size of the Affordable Housing Bond Asset Portfolio each quarter.

If for any reason the aggregate amount in an Affordable Housing Bond Asset Portfolio is less than the total outstanding amount of Citi Affordable Housing Bonds issued during the associated reporting period, Citi will assign the unallocated balance to cash, cash equivalents and/or other liquid marketable instruments (including U.S. Treasury securities) until the amount can be allocated towards the Affordable Housing Bond Asset Portfolio.

Reporting

Citi will publish an Affordable Housing Bond report on its website. The first report will be published within one year of issuance of Citi’s inaugural Affordable Housing Bond. The report will cover all Citi Affordable Housing bonds issued during the reporting period specified therein, and provide updated information should a material change in the Affordable Housing Bond Asset Portfolio occur.

The report will provide information on the total outstanding par amount of the Citi Affordable Housing Bond(s) issued during the reporting period, the total outstanding amount of funded financial assets that comprise the Affordable Housing Bond Asset Portfolio allocated to the bond(s), and the total amount of unallocated bond proceeds (if any) assigned to cash, cash equivalent and/or other liquid marketable instruments.

In addition, the report will address the social impact of the bonds by providing information about the housing properties associated with the Affordable Housing Bond Asset Portfolio, along with the portion that could be assigned to the bonds that were issued during the reporting period (based on the total outstanding par amount of the bond(s) as a share of the total outstanding amount of the Affordable Housing Bond Asset Portfolio).

The information on social impact may include the following:

Social Impact Metrics		
Housing Properties	Associated with the Affordable Housing Bond Asset Portfolio	Assigned to the Affordable Housing Bonds
Number of Housing developments	#	#
Number of planned housing units	#	#
Number of planned affordable housing units	#	#
Number of planned affordable housing units that are reserved for protected and/or vulnerable populations	#	#

External Review

Second Party Opinion

Sustainalytics, an independent provider of sustainability research, analysis, and services to investors and other financial institutions globally, has provided a second party opinion on this framework, which can be found [here](#). Sustainalytics’ opinion intends to provide an assessment of Citi’s Affordable Housing Bond Framework’s alignment with the transparency and reporting requirements of the [Social Bond Principles](#), as well as assess Citi’s overall performance and its alignment with the framework.

External assurance on allocation reporting

Citi will engage external independent accountants to review that the assets included in the Citi Affordable Housing Bond Asset Portfolio meet the Eligibility Criteria in this framework and are not invested in assets as defined by the Exclusionary Criteria. Further, the independent accountants will be engaged to review that the

aggregate amount in the Affordable Housing Bond Asset Portfolio is equal to or greater than the aggregate amount raised by Citi Affordable Housing Bonds and to the extent the total amount of the outstanding bonds is less than the aggregate amount in Citi's Affordable Housing Bond Portfolio, the difference will be held in cash, cash equivalents and/or other liquid marketable instruments (including U.S Treasury securities) in Citi's liquidity portfolio.

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Any such forward-looking statements in this Social Bond Framework for Affordable Housing speak only as at the date of this document and Citigroup Inc. does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made.

Providing this Social Bond Framework for Affordable Housing does not mean that Citigroup Inc. certifies the materiality, the excellence or the irreversibility of the projects financed by Citigroup Inc.’s Affordable Housing(s) Bond. Citigroup Inc. is fully responsible for certifying and ensuring the implementation and monitoring of and compliance with the Social Bond Framework for Affordable Housing