S&P Global
Ratings

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Second Party Opinion

NHP Foundation Taxable Bonds Series 2023 (Social Bonds)

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The NHP Foundation (NHPF) is a nonprofit affordable housing developer, owner, and operator that has preserved more than 18,600 affordable housing units for low-income Americans since its inception in 1989. NHPF seeks to provide stable housing and ancillary services to assist residents. Its properties serve more than 27,000 residents across 16 states, and its portfolio spans a wide array of household types including family properties, senior communities, and permanent supporting housing units. NHPF's portfolio consists of 92% below-market-rate units and 8% market-rate units.

The $75 million social bond issuance will be used to fund affordable housing projects that fulfill the company's social goals of providing access to basic infrastructure and resident services and reducing the carbon footprint of residential buildings.

In our view, the NHP Foundation Taxable Bonds Series 2023 (Social Bonds) published on July 27, 2023, are aligned with:

✔ Social Bond Principles, ICMA, 2023 (with June 2022 Appendix 1)

Issuer's Sustainability Objectives

NHPF's mission is to preserve and create sustainable, service-enriched multifamily housing that is affordable to low- and moderate-income families and seniors, as well as beneficial to their communities. It partners with various private and public stakeholders to acquire, build, and operate affordable housing projects offering deeply discounted rents that it preserves long term. NHPF's initiatives are also geared toward eliminating poverty and homelessness, with a renewed commitment to inclusivity, diversity, and racial equity. Most of NHPF's properties receive federal low-income housing tax credits (LIHTC) and other state and local agency subsidies. Further, NHPF incorporates environmental sustainability into its property design and renovation projects. This includes reducing energy and water usage to reduce residents' utility bills and deploying renewable energy where possible to mitigate the disproportionate harm that climate change has on low-income individuals and their communities.

Second Party Opinion Summary

Use of proceeds

Alignment ✔ The NHP Foundation's Series 2023 Social Bonds are aligned with this component of the principles.

Score: Not aligned | Aligned | **Strong** | Advanced

NHPF will use the net proceeds to finance the acquisition and construction of new affordable housing projects. NHPF will also use a portion of net proceeds to refinance debt, which it used to finance various affordable housing projects, and to finance immediate repairs for properties in its portfolio. Proceeds may also be used to finance additional mission-aligned projects that promote affordable housing.

Process for project evaluation and selection

Alignment ✔ The NHP Foundation's Series 2023 Social Bonds are aligned with this component of the principles.

Score: Not aligned | Aligned | Strong | **Advanced**

NHPF has a robust process for project evaluation and selection, which incorporates clear eligibility criteria for affordability and practices to identify and manage environmental and social risk. NHPF clearly communicates the sustainability objectives of the eligible projects and their alignment with the organization's mission. Additionally, NHPF identifies the internal bodies responsible for its project selection process.

Management of proceeds

Alignment ✔ The NHP Foundation's Series 2023 Social Bonds are aligned with this component of the principles.

NHPF will place funds in a separate account to avoid commingling of funds. It is to hold undisbursed funds temporarily in an interest-bearing account, and all funds will be tracked annually.

Reporting

Alignment ✔ The NHP Foundation's Series 2023 Social Bonds are aligned with this component of the principles.

Score: Not aligned | Aligned | **Strong** | Advanced

NHPF has committed to reporting on the allocation of the net proceeds from the transaction until full disbursement. NHPF also commits to disclosing actual and expected environmental and social metrics, both qualitative and quantitative, annually until the funds are fully allocated.

This product is not a credit rating.

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.

✔ The NHP Foundation's Series 2023 Social Bonds are aligned with this component of the principles.

Commitments score	Not aligned	Aligned	**Strong**	Advanced

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

The bonds' proceeds will be allocated exclusively toward the preservation of existing and production of new affordable housing stock in the U.S. Specifically, the organization will use the net proceeds to finance property acquisitions ($40.4 million), refinance two loans pertaining to affordable housing projects ($6.3 million), finance predevelopment/construction loans ($19.6 million), fund immediate property repairs in its housing portfolio ($7.2 million), and fund other mission-aligned projects to promote affordable housing ($1.6 million). The preliminary offering memorandum (POM) clearly communicates the proportion of net proceeds it will allocate to refinance debt (8.3%), which we view as a strong practice.

We believe NHPF's projects span the social themes of affordable housing and socioeconomic advancement and empowerment, categories identified by the Social Bond Principles. This is demonstrated by the deeply discounted rents NHPF maintains, an average of 50% of average area median income, for residents across all of its properties, as well as the socioeconomic benefits that its residents have access to through Operation Pathways, a subsidiary that provides ancillary services such as financial literacy training, childhood education, and health and nutrition coaching. Lastly, the financed projects have environmentally friendly attributes such as energy efficient appliances and photovoltaic panels, which reduce energy and water costs to residents.

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.

✔ The NHP Foundation's Series 2023 Social Bonds are aligned with this component of the principles.

Commitments score	Not aligned	Aligned	Strong	**Advanced**

We consider NHPF's overall process for project selection and evaluation commitments to be advanced.

The POM clearly outlines the project evaluation process and screening criteria NHPF uses to select eligible social projects. Under these criteria, most housing units acquired, created, and/or repaired with transaction proceeds are exclusively set aside for low- to moderate-income families whose household income falls between 30% and 80% of the area median. The use of these income limits constitutes market-based standards, in our opinion.

Additionally, the POM details processes and procedures to identify, manage, and mitigate perceived environmental and social risk. NHPF recognizes the disproportionate impact the effects of climate change have on low-income and/or marginalized communities and incorporates sustainability into its building design. On the social front, Operation Pathways collaborates with residents, community-based organizations, and local government agencies to provide ancillary services and connect residents to government support programs for which they may qualify.

This product is not a credit rating.

Finally, the issuer identifies internal committees that serve as final decision-makers and publishes the backgrounds of its board of trustees and senior officers on its website. Environmental, social, and governance expertise, spanning themes of community development, government, nonprofit, and more is widely represented across the organization and internal committees.

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.

✔ The NHP Foundation's Series 2023 Social Bonds are aligned with this component of the principles.

The POM states that NHPF will maintain a separate account to avoid commingling of the social bonds' funds with the regular investment portfolio. The documentation also specifies that the funds will be held in an interest-bearing account, separately, until they are disbursed toward eligible purposes. Additionally, NHPF will 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.

✔ The NHP Foundation's Series 2023 Social Bonds are aligned with this component of the principles.

Disclosure score	Not aligned	Aligned	**Strong**	Advanced

We consider the NHP Foundation's overall reporting practices to be strong.

The POM specifies NHPF's commitment to reporting on the allocation of the net proceeds until full disbursement. Although the company reserves the flexibility to deploy proceeds from the transaction toward other, similar mission-aligned purposes, the company commits to reporting on the final usage of proceeds. As a nonprofit organization subject to federal regulations, NHPF is legally mandated to conduct annual financial audits, which include delineating the allocation of the proceeds from each series of bonds. The company also commits to disclosing actual and expected environmental and social metrics annually until it fully allocates funds.

The company intends to report impacts, including qualitative and quantitative metrics, for each project. This reporting will focus on the social outcomes on the target populations served as well as environmental impacts such as green building designations. The disclosure on impact metrics will continue per NHPF's ongoing reporting requirements. 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 by mission-aligned third parties as part of the associated LIHTC and/or soft debt associated with a given development.

Issuer information referenced

- July 6, 2023, NHP Foundation Taxable Bonds, Series 2023 (Social Bonds) Framework
- July 6, 2023, NHP Foundation Taxable Bonds, Series 2023 (Social Bonds) Preliminary Operating Memorandum
- July 6, 2023, NHP Foundation Taxable Bonds, Series 2023 (Social Bonds) Appendix A
- Additional information provided in an email with the issuer in July 2023

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.

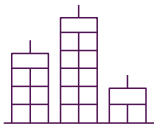
We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

The NHP Foundation's Taxable Bonds, Series 2023 (Social Bonds) are intended to contribute to the following SDGs:

Use of proceeds	SDGs	
Affordable Housing	**1. No poverty***	**11. Sustainable cities and communities***
Energy Efficiency	**7. Affordable and clean energy***	
Affordable Basic Infrastructure	**7. Affordable and clean energy***	
Access to Essential Services	**1. No poverty***	**10. Reduced inequalities***

This product is not a credit rating.

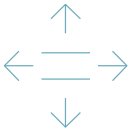
Green Buildings



11. Sustainable cities and communities*

Socioeconomic Advancement and Empowerment

1. No poverty*



10. Reduced inequalities*

11. Sustainable cities and communities*

Climate Change Adaptation

1. No poverty*

Renewable Energy

7. Affordable and clean energy*

11. Sustainable cities and communities*

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

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