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## Second Party Opinion

# Trinidad and Tobago Mortgage Bank Ltd.'s Social Bond Framework

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**Location:** Trinidad and Tobago

**Sector:** Nonbank financial institution

## Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

✓ Social Bond Principles, ICMA, 2023

See [Alignment Assessment](#) for more detail.

## Strengths

**Trinidad and Tobago Mortgage Bank Ltd.'s (TTMB's) programs promote first-time home ownership for low- and middle-income borrowers.** The subsidized lending programs temporarily provide lower interest rates for eligible borrowers who may otherwise face challenges accessing conventional mortgage options.

**Processes for project selection and reporting under the framework is comprehensive and transparent.** The framework outlines the processes and internal bodies responsible for evaluating and selecting eligible mortgages, including exclusionary criteria. The processes ensure all projects comply with local laws and regulations and financial due diligence to avoid the risk of overindebtedness. TTMB commits to annually report until full repayment, the allocation of proceeds and various KPIs indicating the impact of social bond proceeds, including third-party audit and assurance reports.

## Weaknesses

No weaknesses to report.

## Areas to watch

**TTMB is in early stages of developing mortgage products oriented specifically toward women.** The framework specifies that at least 50% of the proceeds will be directed toward originating mortgages owned or led by women, but this criteria only applies to the first issuance under the framework and may not apply to subsequent issuances by TTMB.

**Some projects TTMB invests in are prone to the physical impacts of climate change, such as sea level rise, increased frequency and intensity of storms, changes in precipitation patterns, and extreme temperatures.** TTMB partly mitigates physical climate risk by requiring the procurement of third-party valuation reports and property insurance on all residential properties it finances.

## 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

Headquartered in Port of Spain, Trinidad and Tobago (T&T), TTMB is a specialized nonbank financial institution that provides residential mortgage financing and acts as the administrator for the Government of the Republic of Trinidad and Tobago's subsidized mortgage programs aimed at low- and middle-income households. Originally established as Trinidad & Tobago Mortgage Finance Co. Ltd. in 1965, it rebranded to TTMB after acquiring a 100% shareholding in Home Mortgage Bank (HMB), following the repurchase of the National Insurance Board of Trinidad and Tobago (NIBTT) shares in HMB. Currently, TTMB is co-owned by the Government of the Republic of Trinidad and Tobago (GORTT) and the NIBTT.

TTMB was established to fulfill the GORTT's goal of providing affordable residential mortgage financing to low- and middle-income families in Trinidad and Tobago. It acts as the main channel for mortgage financing under the GORTT's Expanded Affordable Housing Program (AHP). Furthermore, TTMB plays a crucial role in the country's housing strategy, where the Trinidad and Tobago Housing Development Corporation (HDC) is tasked with building housing units, while TTMB facilitates the essential mortgage financing.

### Material Sustainability Factors

#### Access & affordability

Nonbank financial institutions (NBFIs) enable access to financial services for individuals and businesses. While banks may offer financial services as a package deal, NBFIs usually unbundle these services, tailoring their offerings to particular groups with a specific purpose. Low housing availability and lack of affordable housing 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 sizable percentage of residents' incomes. Lack of accessibility and affordability of commercial properties can also hinder the sustainable growth of local communities.

#### Impact on communities

NBFIs can affect a wide range of community issues by providing access to essential services for economically vulnerable groups, as doing so not only has the potential to alleviate income inequality but also foster upward social mobility. Realizing this objective hinges on the responsible lending practices of NBFIs, which include transparent contractual terms, financial education programs, and support for borrowers encountering financial hardships. In contrast, when loan terms are obscured or predatory lending practices persist, these issues can exacerbate existing socioeconomic disparities in the customer base. By actively addressing these concerns, NBFIs can access new markets, achieve better financial performance, reduce their cost of capital, attract top talent, and mitigate their reputational and regulatory risk.

#### Physical climate risk

The geographically fixed nature of real estate assets exposes them to physical climate risks. While varying by location, these can 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 the health and safety of tenants at risk. These challenges can also require investments to manage their potential effect and, in severe cases, to relocate the tenants. While the 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 risks. Most

participants have some insurance coverage, though it could become more difficult to secure insurance for the most-exposed assets absent adaptation.

## Issuer And Context Analysis

### **Social project categories included in the framework aim to address access and affordability and impact on communities, which we consider the most material sustainability factors for TTMB.**

The eligible projects provide affordable housing and promote home ownership for low- and middle-income households. The framework only focuses on social categories and does not directly address physical climate risk, though we believe TTMB manages climate risks in line with regulation.

### **In our view, TTMB's operations support home ownership and the eligible projects ensuring affordability for low- and middle-income earners and young professionals.**

For borrowers that do not qualify for the 2% and 5% subsidy programs, TTMB has general mortgage financing program in which interest rates match open market rates. According to the issuer, TTMB's financing activities are focused on middle- and low-income populations, as the group has few high-income customers. Through the subsidy programs, TTMB's mortgage financing supports underserved populations and communities who otherwise may not have access to essential services such as affordable housing loans. In T&T, there are various government initiatives aimed at improving access and affordability for low-income households. Despite these programs, housing affordability remains a critical issue. Research indicates more than 80% of low- to middle-income households in the country find housing unaffordable due to the disparity between rapidly increasing house prices and wages. The financing is expected to encourage homeownership among women, as recent statistics from TTMB indicate a sizable portion of outstanding mortgages originated by TTMB are owned or led by female borrowers.

### **TTMB's subsidized mortgage loan programs can provide social benefits for wider communities by promoting home ownership rates and economic revitalization.**

Increasing home ownership rates can have the knock-on benefit of stabilizing communities, as homeowners may be more likely to invest in their neighborhoods socially and economically. Homeowners typically also participate more active in their communities, which may foster stronger social networks. In 2023, TTMB's operating subsidiary HMB partnered with IDB Invest to promote access to affordable housing through a TT\$300 million (US\$44 million) social bond. The bond aims to finance mortgages specifically for low- to middle-income families, providing socioeconomic benefits for the community. It uses local suppliers and service providers, as far as possible, which ensures inclusivity of local communities and their socioeconomic development. TTMB also promotes community development with donations focused on schools and nonprofit organizations.

### **Some of TTMB's borrowers' investments in affordable housing and real estate are susceptible to acute and chronic physical climate risks, and TTMB relies on regulatory requirements to ensure the resilience of their financed properties.**

T&T, as a Small Island Developing State (SIDS), faces significant physical climate risks due to its geographical location and environmental conditions. These risks include rising temperatures, sea level rise, increased frequency and intensity of storms, and changes in precipitation patterns. These events could harm the structural integrity and functionality of homes, potentially undermining the intended social outcomes and the safety of those in the community. The impact of these events is more profound in absence of a formal national climate-resilient building code in T&T. The country's National Adaptation Plan (NAP) outlines strategies for managing climate risks, focusing on enhancing resilience in vulnerable sectors such as agriculture, water supply, and coastal management. When these physical risks materialize, the low- and middle-income populations housed in the homes financed by TTMB may have less financial capacity to rebuild their homes and communities. TTMB partly mitigates physical climate risk to its properties by requiring comprehensive home ownership insurance (fire, flood, earthquake, etc.) as well as the procurement of third-party valuation reports.

# Alignment Assessment

This section provides an analysis of the framework's alignment to social bond principles.

## Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

✓ Social Bond Principles, ICMA, 2023

### ✓ Use of proceeds

We consider all the framework's social project categories aligned. The issuer commits to allocating the net proceeds raised under the framework exclusively to eligible social projects, which support specific Sustainable Development Goals (SDGs) and enhance the affordable housing and socioeconomic landscape in T&T. The issuer will use net proceeds from the bonds issued under the framework to originate residential mortgages under GORTT's subsidy program, which is designed for households facing challenges in accessing traditional financing. For more details on our assessment of the social benefits associated with social projects, please refer to the Analysis of Eligible Projects section.

### ✓ Process for project evaluation and selection

The Board of Directors approves TTMB's strategic plan, which encompasses a funding strategy and targeted mortgage origination activities for each year. The mortgage banking department at TTMB is responsible for finalizing the timing and value of transactions, as well as identifying customers for origination. The mortgages are regulated by the established mortgage origination policy, which ensures customer compliance with relevant laws, includes an independent property valuation report, and verifies property taxes, building plans, and completion certificates. The mortgage origination policy also mandates environmental clearance from relevant building and development control authorities. The residential mortgage unit within the mortgage banking department will select applicants who meet the eligibility criteria. The project selection criteria are comprehensive and involve due diligence regarding exclusions, prevention of double-counting risks, an origination timeframe of five years, and compliance with location, environmental, and social requirements, as well as the compliance with the subsidy program and financial due diligence. The eligibility criteria for TTMB's Social Bond Framework target population are determined by the GORTT's extended AHP.

### ✓ Management of proceeds

TTMB commits to tracking the funds allocated to eligible social projects on an annual basis until it fully utilizes all bond proceeds. The finance and treasury department will manage the proceeds. Each bond will be distinctly identified and labeled, with every transaction assigned a specific pool number on the company's balance sheet. The funds raised will be allocated within a maximum timeframe of five years from the date of issuance. The issuer commits to keep any unallocated bond proceeds solely in cash or other highly liquid, low-risk instruments, ensuring that they are not used to finance projects other than eligible social projects. Additionally, the group has established external verification for tracking, which will be conducted by an external auditor and reported in an assurance report until expiration. Furthermore, if a mortgage loan is canceled or no longer meets the eligibility criteria, TTMB will replace it with another suitable mortgage loan to ensure adequate support for the outstanding bond amount.

### ✓ Reporting

TTMB commits to reporting the allocation of funds across eligible projects until full repayment. This report will include allocation of the proceeds of the social bonds (mortgages originated) and percentage of the proceeds pending to be assigned into eligible assets and information on their temporary management until their assignment. In addition, TTMB commits to providing a third-party audit with an assurance report, both on an annual basis. The company will also review the current and expected results of the KPIs identified in the framework tied to the number and value of mortgages originated to women.

## 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.

TTMB expects to allocate all proceeds within five years of issuance to affordable housing and socioeconomic advancement and empowerment projects. The issuer is committed to allocating all the proceeds to finance new projects, for example the origination of residential mortgage loans originated under the GORTT's subsidy programs for first time homebuyers from low- to middle-income group having difficulty accessing traditional mortgage financing.

### Social project categories

#### Affordable housing and socioeconomic advancement and empowerment

Residential mortgages originated under the GORTT subsidy programs, specifically the 2% and 5% interest rate subsidy programs, which are designed for households who have difficulty accessing mortgages through traditional financial institutions.

#### Analytical considerations



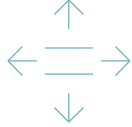
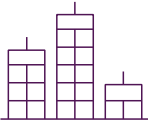
- TTMB will exclusively use proceeds to originate mortgages that support the 2% and 5% residential mortgage subsidy programs in T&T. The purpose of this program is to support first time home buyers in a developing country where the ability to secure a mortgage can be challenging for low- and middle-income individuals.
- The target population is defined by the GORTT as households that qualify for the two eligible subsidy programs, and the proceeds of the mortgage instruments must be used to finance a first-time homeowner's permanent residence. The 2% mortgage portfolio program is eligible for those with a household monthly income of TT\$14,000 (around US\$2,100) and under, and eligible properties with a maximum value of TT\$1,000,000 (around US\$147,500). Qualifying applicants can receive up to 100% of the value of the property through the 2% subsidy program.
- The 5% mortgage portfolio program is eligible for those with a household monthly income above the threshold for the 2% program and up to TT\$30,000 (around US\$4,400). Eligible properties can have a maximum value of TT\$1,500,000 (around US\$221,250), and qualifying applicants can receive up to 95% of the value of the financing through the 5% subsidy program.
- The subsidy programs have an annual interest rate step up: the 2% subsidy program will increase 50 basis points (bps) annually until it reaches the 5% subsidy rate. While under the 5% subsidy program, the interest rate will increase 50 bps annually until it reaches the open market rate, currently at 6%, therefore only providing a short-term benefit for the eligible population.
- Under the framework's first issuance, a minimum of 50% of the value of mortgages originated will be women-owned (whereby the sole mortgagor is a woman) and women-led (joint mortgages whereby the primary mortgagor is a woman earning the higher income) mortgages. T&T's national censuses suggest that at least 33% of households in the country are female-headed, and existing data suggests a greater likelihood these households will experience poverty compared with households headed by men. Mortgage origination through the identified use of proceeds of this issuance aims to address these gaps, but this criterion only applies to the first issuance under the framework, not future issuances by TTMB.
- The framework identifies the social objective of socioeconomic advancement of underserved populations through home ownership. However, we believe a program that provides temporary mortgage assistance for low-income and middle-income residents delivers less benefits compared with other housing projects. This includes, for example, programs exclusively targeting social housing for low-income segments, those that provide lower interest rates for the life of the mortgage, and those that provide shelters and housing for even further marginalized and underserved communities.

## Mapping To The U.N.'s Sustainable Development Goals

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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 impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs			
Socioeconomic Advancement and Empowerment				 Choose a building block.
	<b>1. No poverty*</b>	<b>5. Gender equality*</b>	<b>10. Reduced inequalities*</b>	<b>11. Sustainable cities and communities*</b>

\*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

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