

Korea Housing Finance Corporation (KHFC)



Sustainable Financing Framework



KOREA HOUSING FINANCE CORPORATION

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Contribute to enhancing the welfare of people and national economic development through long-term and stable supply of housing finance

1. Introduction

1.1 Company Overview¹

KHFC was established in March 2004 as a government entity pursuant to the Korea Housing Finance Corporation Act No. 7030, 31 December 2003, as amended (the “KHFC Act”) with a mandate to support the Korean government’s housing welfare policy. KHFC provides long-term fixed rate amortized mortgage loans, housing finance credit guarantees and reverse mortgage guarantees to deliver on its mission to enhance the welfare of people and national economic development through long-term and stable supply of housing finance. Since 2004 up to 2021-end, KHFC has assisted more than 3.3 million households to purchase their residential property by extending over KRW366 trillion of mortgage loans through its diverse mortgage products.

For 18 years since its establishment, Korea Housing Finance Corporation has achieved remarkable growth both in terms of quality and quantity as the best housing finance institution that grows along with happiness of people. In particular, despite most formidable challenges presented by the unprecedented Covid-19 crisis in 2020, KHFC focused on what it had to do and what it could do best and delivered meaningful changes and feats.

1.2 KHFC’s ESG Strategy

Integrity and ethical management is a key part of its commitment towards sustainability. KHFC achieved the highest ranking among 573 institutions in the integrity evaluation of public institutions by the Anti-Corruption & Civil Rights Commission in 2017, receiving the designation as a Grade 1 agency, marking 8 consecutive years since 2010.

In December 2018, KHFC proclaimed Declaration of Human Rights, complying with the principles of the UN Global Compact and revealing KHFC’s strong willingness towards sustainability. In KHFC’s Declaration of Human Rights, KHFC indicated its aim to respect/protect human dignity and value and consistently realise/enhance social values and sustainable development via KHFC’s business activities. Through human rights management, KHFC will endeavor to promote a cultural environment that respects human rights not only within KHFC, but also to its counterparties as well.

¹ KHFC’s Final Offering Circular and 2021 Annual Report

ESG Vision	Build Hopeful Future with Korea Housing Finance Corporation		
ESG Objective	Establish Green & Social Governance Structure, Earn Clients' Trust and Supply Sustainable Housing		
ESG Strategy	Eco-Friendly Infrastructure	Socially- Responsible Governance	Transparent Governance Structure
ESG Strategic Goals	<p>Expand Green Financing</p> <p>Establish the foundation for Green Financing</p> <p>Join 2050 Carbon Neutrality Initiatives</p>	<p>Comprehensive Housing Finance</p> <p>Safety-Focused Management</p> <p>Sustainable Job Creation</p> <p>Win-win Partnership & Cooperation</p>	<p>Enhance Compliance and Ethics Management</p> <p>Integrity & Internal Control</p> <p>Support Autonomy for Subsidiaries</p>

1.3 KHFC's efforts in Addressing Challenges in the Korean Housing Finance Market

As the government agency dedicated to the implementation of Korea's housing welfare policy, KHFC has been actively addressing these challenges through developing and purchasing KHFC mortgage loans, securitizing KHFC mortgage loans, and managing the Housing Finance Credit Guarantee Fund (HFCGF). The HFCGF is the source of (a) credit guarantees to financial institutions engaged in providing housing loans to moderate and low income home owners or tenants and construction loans to small-sized home builders and (b) credit guarantees to financial institutions engaged in lending reverse mortgage loans to senior citizens.

KHFC's mortgage loans are long-term (up to 50 years) fixed rate amortizing products, designed to reduce the repayment burden for low to moderate income households for their home purchase especially during the rising interest rate environment and stabilize and improve the structure of the mortgage loan market. Low income borrowers that satisfy certain criteria may be eligible for discounts from the standard interest rates with such discount subsidized by the government. Borrowers can also enjoy less onerous regulatory requirements, such as a higher loan to value (LTV) ratio and debt to income (DTI) ratio. In 2020, KHFC disbursed KRW35.4 trillion of mortgage loans, assisting 293,000 households to become homeowners.

Through its active securitization activities, KHFC aims to stabilize the Korean mortgage market and lessen the payment burden for low to moderate income households by purchasing mortgage loans from other Korean financial institutions. Securitisation provides KHFC with the primary funding source for the ongoing purchase of KHFC mortgage loans and provides Korean financial institution originating other mortgage loans with a means to improve their liquidity position. KHFC also provides number of housing finance credit guarantee programmes and reserve mortgage programmes, specifically designed for target population of the government's housing welfare policy.

1.4 KHFC's leadership in Supporting Sustainability

As a government entity with a strong environmental and social mandate, KHFC recognizes the importance of sustainable management through its business activities, and has established "securing sustainable future growth momentum" as the new strategic goal. KHFC has established the framework for sustainable growth, and has signed on to the UN Global Compact in 2008, and has signed Fair Player Club, promoting transparency and anti-corruption.

With the Social Covered Bond Framework established in 2018², and Social Financing Framework in February 2019³, KHFC has issued a series of Social Covered Bonds including Asia's first Euro Social Covered Bond in 2018 and COVID-19 Linked Social Covered Bonds, the first of its kind outside Europe in 2020. The proceeds have been used to finance public mortgages on the very day of the issuance to support homeownership of low-to-moderate income households for their residential stability⁴.

Previous Social Bond Issuances

- October 2018: EUR 500mm Social Bonds (First Euro Social Covered Bond out of Asia)
- June 2019: EUR 500mm Social Bonds
- January 2020: EUR1,000mm Social Bonds
- June 2020: EUR 500mm Social Bonds (First COVID-19 Linked Social Covered Bond outside Europe)
- June 2021: EUR 1,000mm Social Bonds
- October 2021: EUR550mm Social Bonds
- March 2022: EUR600mm Social Bonds
- July 2022: EUR500mm Social Bonds

On top of the existing social angle, KHFC would like to also add the concept of green affordable housing within its scope of action. To that end, KHFC has updated its latest Social Financing Framework and added green use of proceeds to turn it into a Sustainable Financing Framework. This is further described in the following section.

² <https://kmbs.hf.go.kr:7443/bbs/kmbs/50/28/download.do>

³ <https://kmbs.hf.go.kr:7443/bbs/kmbs/50/28/download.do>

⁴ KHFC Social Covered bond 2022 Post Issuance Reporting: <https://kmbs.hf.go.kr:7443/bbs/kmbs/52/2197/download.do>

2. KHFC's Sustainable Financing Framework Overview

KHFC's Sustainable Financing Framework ("The Framework") was developed with the objective of reinforcing KHFC's capabilities in financing green and social projects, which contribute to the UN SDGs as well as the Paris Agreement. Through this Framework, KHFC aims to mobilise investors to contribute capital towards the realisation of the UN SDGs.

Green, Social, Sustainability Bonds ("GSS Bonds") issued under this Framework may be in the form of Covered Bonds, Mortgage-Backed Securities("MBS") and Senior Unsecured Bonds. They will be aligned with the ICMA principles released in June 2022⁵: 2021 Green Bond Principles ("GBP"), 2021 Social Bond Principles ("SBP") and 2021 Sustainability Bond Guidelines ("SBG") or as they may subsequently be updated. Covered Bonds and MBS are types of Secured Green Bond / Secured Social Bond / Secured Sustainability Bond which follow the Sustainable Securitisation requirement as specified in the Guidance Handbook⁶.

The Framework does not place restriction on the tenor and currency; and can include other terms and conditions including covenants, to reflect the financing strategy and plans of KHFC as well as the outcome of the commercial discussions between the Issuer/Borrower and Manager/ Arranger/Lender.

GSS Bond issuances may be executed in any jurisdiction and market reflecting KHFC's current and future business needs.

For each GSS Bond issuance, KHFC management asserts that it will adopt the following core components of the GBP, SBP and SBG:

1. Use of proceeds;
2. Process for project evaluation and selection;
3. Management of proceeds; and
4. Reporting

The Framework will be in force as long as there is outstanding GSS Bonds. KHFC may update this Framework and commits that any new version will keep or improve the current level of transparency and reporting. KHFC commits to communicate any changes made to the framework with investors on its official website.

⁵ <https://www.icmagroup.org/green-social-and-sustainability-bonds/>

⁶ <https://www.icmagroup.org/assets/GreenSocialSustainabilityDb/The-GBP-Guidance-Handbook-January-2022.pdf>




2.1 Use of Proceeds

The net proceeds of the GSS Bonds will be used to finance or refinance, in whole or in part, new or existing Eligible Social Project Categories and Eligible Green Project Categories (“Eligible Project Categories”) meeting the Eligibility Criteria (“Eligibility Criteria”)

- The proceeds of a Green Bond issued under this Framework will be applied to projects that fall under the Eligible Green Project Categories set out in Section 2.1.1 below.
- The proceeds of a Social Bond issued under this Framework will be applied to projects that fall under the Eligible Social Project Categories set out in Section 2.1.2 below.
- The proceeds of a Sustainability Bond issued under this Framework will be applied to projects that fall under the Eligible Green Project Categories set out in Section 2.1.1 and Eligible Social Project Categories set out in Section 2.1.2 below.

Eligible Project Categories may include the projects KHFC funded during the 24 months prior to the issuance or signing date of the respective bonds and during the life of the bonds.

2.1.1 Eligible Green Project Categories

Project Category	Eligible Green Projects and Eligibility Criteria for KHFC	United Nations Sustainable Development Goals (“UN SDGs”) ⁷
<p>Green Buildings</p>   	<ul style="list-style-type: none"> • Mortgage loans or projects related to the acquisition, new construction, renovation, maintenance and operation of new or existing buildings that have or will receive, any one of the following certification systems: <ul style="list-style-type: none"> - U.S. Leadership in Energy and Environmental Design (LEED)⁸ – minimum certification of Gold; or - BREEAM⁹ – minimum certification level of Excellent; or - G-SEED¹⁰ – minimum certification level of 2 • Guarantee Service provided to Green Remodeling Businesses that have been certified by Korea Land and Housing Corporation 	<p>SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities</p> <p>SDG 11.6: By 2030, reduce the adverse per capita, environmental impact of cities, including by paying special attention to air quality and municipal and other waste management</p>



⁷ <https://unstats.un.org/sdgs/indicators/indicators-list/>

⁸ <http://leed.usgbc.org/leed.html>

⁹ <https://www.breeam.com/discover/how-breeam-certification-works/>

¹⁰ <http://gseed.or.kr/siteMain.do>

2.1.2 Eligible Social Project Categories

Project Category	Eligible Social Projects and Eligibility Criteria for KHFC	UN SDGs
Affordable Housing  	<ul style="list-style-type: none"> Enabling people to own their residential house with an affordable mortgage loan through stable debt payment (Bogeumjari Loan) Supporting low income families with their home purchase (Didimdol Loan) Promoting long-term fixed rate amortized mortgage loans and helping households manage their mortgage payment burden (Conforming Loan) 	SDG 11.1: By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

The aforementioned project categories/criteria may provide direct or indirect benefit(s) to one or more of the following target population:

- Low-income¹¹ and moderate-income population
- Newlyweds¹²
- Multi-child families¹³
- Single-parent households¹⁴
- Households with the disabled¹⁴

¹¹ Low income populations are determined by the Korean Ministry of Health and Welfare (MOHW) and Ministry of Education (MOE)'s classification, which is based on household income

¹² Newlyweds without homeownership whose combined annual income below KRW 85million and purchase unit is smaller than 85m², which is the nation's standard housing size

¹³ Multi-child households (more than 2) without homeownership whose annual income falls below KRW100million

¹⁴ Additional preferential interest rate offered to single-parent households and households with the disabled whose property value does not exceed KRW 600million, annual income falls below KRW60million, and purchase unit is smaller than 85m², which is the nation's standard housing size

Additional Detail on Eligible Projects:

	Bogeumjari Loan		Conforming Loan
	Bogeumjari Loan	Didimdol Loan	
Description and background	Introduced in 2004, as the first and only long-term fixed rate instalment mortgage loans, while the market was dominated by short-term floating rate interest only mortgage products	Introduced in January 2014, as an integration of KHFC's Prime Rate Bogeumjari Loan, National Housing Fund's Working Class Housing Loan and the First Home Buyer Loan	Introduced in March 2012 by KHFC in partnership with Participating Lenders for the purpose of further promoting the origination of long-term amortizing fixed rate mortgage products in Korea
Designed for	Moderate to low income households ¹⁵	Moderate to low income households who do not own a property ¹⁶	New borrowers or borrowers with short term, floating rate loans subject to lump-sum payments at maturity with commercial banks ¹⁷
Social objectives	Enabling people to own their own home with an affordable mortgage loan through stable debt payment	Supporting low income families with their home purchase	Promoting long-term fixed rate amortized mortgage loans and helping households manage their mortgage payment burden
Maturity	10, 15, 20, 30,40, and 50 years	10, 15, 20 and 30 years	10, 15, 20, 30, 40 and 50 years

2.1.3 Exclusions

The following industries are excluded from consideration for eligibility ("Exclusions"):

- Large-scale hydropower projects (>25 MW capacity)
- Electricity transmission infrastructure / systems where 25 per cent or more of electricity transmitted to the grid is generated using fossil fuels
- Extraction, refining or transportation of fossil fuels
- Nuclear energy
- Agricultural or afforestation operations on land designated as primary forest, high conservation value areas, or legally preserved areas
- Production and refining of palm oil
- Payday loans and predatory lending activities
- Adult entertainment
- Alcohol / alcoholic beverages
- Tobacco products
- Gambling
- Weapons and small arms

¹⁵ Bogeumjari loan is eligible only for borrower who owns not more than 1 property, with maximum household annual income of KRW70 million. The value of the property should not exceed KRW600,000,000, and more restrictive LTV and DTI rules apply for properties in Speculation Zone. In case of marriage or house change, borrower can own temporarily 2 houses. They should sell their existing home within three years of taking out the mortgage loan.

¹⁶ Didimdol loan is only available for families who do not own a property, with a maximum household annual income of KRW60 million. The value of the property should not exceed KRW500 million, and the house should not be larger than 85 m² (100 m² for homes located outside the capital region).

¹⁷ Conforming loan is available for a property whose value does not exceed KRW900 million. Detailed product features are decided by each partnering banks.

2.2 Process for Project Evaluation and Selection

In line with KHFC's mandate as stated above, all the KHFC mortgage loans are designed to address a specific environmental and social agenda from the Korean government, and they have clearly defined eligibility criteria in terms of borrower and the residential property.

1) Launching of Mortgage Products

Eligibility criteria of the mortgage products are suggested by KHFC reflecting the government's policy and market situation, and carefully reviewed and agreed by relevant government agencies, including the Financial Services Commission (FSC) and Ministry of Land, Infrastructure and Transportation (MOLIT).

When launching a new mortgage product, KHFC Public Mortgage Department creates detailed guidelines on eligibility, underwriting and required documentation. Based on the guideline set by KHFC Public Mortgage Department, KHFC Bond team in Securitization Department will evaluate and select the eligible projects for the GSS Bonds, and loans among KHFC's Cover Pool and MBS Pool for the GSS Covered Bonds and Mortgage-Backed Securities. After the selection, the assets will be reviewed and approved by the KHFC Risk Management Committee to assess the environmental and social risks associated with the mortgage products.

2) Loan Disbursement

Partner banks will receive the product guidelines, together with underwriting, so that each loan application can be strictly reviewed based on the guidelines. Borrowers are required to provide written proof for all the eligibility criteria as a part of the underwriting process, and KHFC will also pre-screen majority of the mortgage applications to confirm eligibility before the mortgage loan is disbursed to the borrower. All records will be kept in the systems of both originating partner bank and KHFC. During the life of the mortgage loan, if it is found that a borrower did not meet any eligibility requirements, the originating partner bank will be required to buy back the mortgage loan immediately.

Detailed guidelines are uploaded at the KHFC website, together with its other internal governance policies and guidelines. With an aim to increase transparency and improve efficiency, KHFC also created Self-counselling corner at its Relief Wallet app, so potential borrowers can directly check their eligibility.

3) Covered Bonds and Mortgage-Backed Securities Issuance

When issuing a GSS Covered Bond or Mortgage-Backed Security, the Securitization Department will only select KHFC mortgage loans to create a Cover Pool or MBS Pool. KHFC also conducts due diligence with a 3rd party auditor on all the mortgage loans to be purchased to test compliance by the partner banks with the required underwriting standards.

4) The KHFC GSS Bonds Work Group

Conducts quarterly meetings to review pre-issued GSS Bonds and discuss overall strategy and planning on future securitization. The Work Group consists of members from diverse teams, including Financial Management Department, Housing Finance Research Center, Public Mortgage Department and Securitization Department. This group will act as a GSS Bond Work Group, reviewing the issued GSS Bonds' allocation of proceeds, GSS Covered Bonds' Cover Pools, Mortgage-Back Securities' MBS Pool and KHFC's annual reports.

Eligible Projects may include new projects, projects under construction or in KHFC's portfolio, with a disbursement date no older than 24 months.

2.3 Management of Proceeds

The net proceeds of the GSS Bonds will be fully used to purchase pre-determined pools of KHFC mortgage loans from its partner banks on the closing date of each GSS Bonds, according to the Loan Purchase Agreements between KHFC and its partner banks.

According to Article 30 of the KHFC Act, KHFC is required to (a) physically separate the purchased mortgage loans from KHFC's other asset; and (b) separately manage the mortgage loans according to a securitization plan. Hence, KHFC will manage the purchased mortgage loans in each Cover Pool or MBS Pool separately from its other mortgage loans in a manner consistent with the requirements of the KHFC Act. The documentation relating to the purchased mortgage loans will be held separately from that of KHFC's other mortgage loans and the cash collections and any liquidation proceeds of such mortgage loans will be held in designated accounts. KHFC will not commingle any of its other funds with those held in the accounts relating to the purchased mortgage loans. Under each GSS Bond's Bond Administration Agreement, KHFC is required to clearly designate the assets constituting a Cover Pool or MBS Pool and to identify the records of the mortgage loans which are to be included in each Cover Pool or MBS Pool and to maintain a listing of such mortgage loan.

Under the terms and conditions of each GSS Covered Bond issuance, KHFC is required to maintain a minimum amount of committed over-collateralisation of mortgage loans over the life of the issuance. In order to ensure that the amount of mortgage loans of each Cover Pool is sufficient to protect the holders of the GSS Covered Bonds, an Asset Coverage Test is calculated by KHFC on a monthly basis. Each month, KHFC must determine that the adjusted aggregate balance of the Cover Pool must be at least equal to the KRW equivalent amount of the GSS Covered Bonds outstanding. KHFC may from time to time after each closing date of the GSS Covered Bonds arrange for additional KHFC mortgage loans to be added to the Cover Pool to ensure that the Asset Coverage Test is satisfied. A breach of the Asset Coverage Test for more than two months will result in an issuer event of default under the GSS Bonds Agreement.

KHFC's Securitisation Work Group will maintain a register to keep track of the use of proceeds for each bond. The register will contain the following information including:

2.3.1 Type of Funding Transaction

Key information includes issuer/borrower entity, transaction date, number of transactions, principal amount of proceeds, repayment or amortization profile, maturity date, interest or coupon, and the ISIN number in case of bond transaction.

2.3.2 Allocation of Use of Proceeds

- Name and description of Eligible Projects to which the proceeds of the bonds have been allocated in accordance with the Framework
- Allocation of the proceeds of bonds to Eligible Projects
- The balance of unallocated proceeds
- Information of temporary investment for unallocated proceeds

KHFC is committed to allocating all proceeds from the bonds issued to Eligible Project on a best effort basis within two years of the bond issuance in accordance with the evaluation and selection process set out above.

KHFC will monitor the allocation to Eligible Project and track the net proceeds through its internal accounting system. Pending allocation, the net proceeds from the bonds issued may be invested in cash or cash equivalents, or other liquid marketable instruments with KHFC's treasury and in accordance with its liquidity policies.

During the life of the bonds issued, if the designated Projects cease to fulfil the Eligibility Criteria, the net proceeds will be re-allocated to replacement Projects that comply with the Eligibility Criteria, as soon as reasonably practicable.

2.4 Reporting

KHFC will report on the allocation of net proceeds and associated impact metrics of its bonds annually until maturity, which will be available in the public domain, and as necessary in the event of material development. KHFC may consolidate information of all bonds into one single report.

The information will contain at least the following details:

2.4.1 Allocation Reporting

KHFC will provide the following information for the net proceeds of all the bonds during the reporting period:

- Confirmation that Eligible Assets included in the Portfolio comply with the Framework
- Total amount of Eligible Assets
- List of GSS Bonds issued with their outstanding amount
- Breakdown of Eligible Assets by Eligible Category
- Share of new financing and refinancing
- Balance of unallocated proceeds at the reporting end-period
- Where feasible, case studies of projects financed¹⁸

2.4.2 Impact Reporting

Where possible, KHFC will make best efforts to report on the environmental and social impacts associated with the Eligible Projects funded with the net proceeds of the GSS Bonds.

Subject to the nature of Eligible Projects and availability of information, KHFC aims to include, but not limited to, the following Impact Indicators:

¹⁸ Subject to confidentiality constraints

Eligible Project Category	Impact Indicators – Examples
Green Eligible Assets	
Green Buildings	<ul style="list-style-type: none"> • Level of certification by property • Energy efficiency gains in MWh or % vs. baseline • Annual GHG emissions reduced/avoided (tCO₂eq) • Annual energy savings (MWh pa) • Annual reduction in water consumption (litres)
Social Eligible Assets	
Affordable Housing	<ul style="list-style-type: none"> • Number of households benefitting from eligible mortgage loans • Average eligible loan balance per person • Average house value • Average household income of borrowers

3. External Review

Pre-issuance – Second Party Opinion

KHFC has engaged DNV to provide an external review on its Sustainable Financing Framework.

Opinion from the external reviewer will be available on KHFC's website.