

2022



# Social Bond Framework

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# Contents

1. Introduction and Background .....	2
1.1 About Bosam .....	2
1.2 The Swedish housing market and the issues around.....	2
1.3 The Bosam solution to address challenges in housing market.....	3
2. Social Bond Framework .....	4
2.1 Use of proceeds.....	4
2.1.1 Bosam contributes to the UN Sustainable Development Goals .....	5
2.2 Process for project evaluation and selection.....	6
2.2.1 Selection of project location .....	6
2.2.2 Terms of co-op loans.....	7
2.2.3 Requirements on co-operatives.....	7
2.2.4 Requirements on housing developers .....	9
2.2.5 Review and evaluation process.....	9
2.3 Management of Proceeds .....	10
2.4 Reporting.....	10
3. External review .....	11

*Bosam should contribute to improve the housing welfare of targeted vulnerable populations in Sweden, and to provide stable supply of affordable and sustainable housing finance in Sweden through Bosam's long-term, low-interest, fixed-rate co-op loans*

# 1. Introduction and Background

## 1.1 About Bosam

Bosam (established in 2020) has developed a new, disruptive financing model for housing co-operatives that transfers a large part of the individual debt to the co-op through loans with fixed loan rates (disconnected from volatile interest market) and high and increasing amortization – lowering the capital need for the consumers and price of apartments with 50–70% and enabling more people to enter the housing market with this affordable housing solution.

## 1.2 The Swedish housing market and the issues around

The national housing shortage in Sweden is evolving to be one of the most severe societal issues in modern time. The local authority housing waiting lists for rental apartments have never been longer (up to 30 years in Stockholm city<sup>1</sup>), the prices of co-operative apartments have reached new peaks and is continuing to go up<sup>2</sup>, and recent research shows 530,000 new housing units need to be produced before 2029. One of the groups that is most affected by this is the young adults.

According to recent studies done by Riksbyggen, Novus, and Evidensgruppen, ~95% of young adults (ages 20–35) dream of becoming homeowners. But as the market stands today, only 21% of that group have the pre-requisites needed to buy an apartment. 79% are today not eligible to buy an apartment, primarily due to strict, and increasingly stricter, requirements from banks and financial institutions – even though they have secure jobs and decent salaries. A large share of the group lacks the equity needed for down payment (15% cash contribution) and the rest is excluded due to the banks strict requirements on amortization (3% of loan), rate-stress tests (must be able to handle a 7% interest rate), and mortgage caps. Therefore, 79% are today prevented from entering the housing market and forced to stay at their parents' home, sign up for expensive secondary rental agreements, or find other solutions to their household issues.

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<sup>1</sup> <https://www.svd.se/nytt-rekord-636000-i-bostadsko-i-stockholm>

<sup>2</sup> [https://www.mynewsdesk.com/se/svensk\\_fastighetsformedling/pressreleases/dyraste-bostadspriserna-naagonsin-daa-tror-rekordmaanga-paa-ytterligare-oekning-3078674](https://www.mynewsdesk.com/se/svensk_fastighetsformedling/pressreleases/dyraste-bostadspriserna-naagonsin-daa-tror-rekordmaanga-paa-ytterligare-oekning-3078674)

Despite the fact that the issue is becoming increasingly actualized, very few are presenting viable, scalable solutions to the problem – and there are currently few political incentives to promote solutions.

### 1.3 The Bosam solution to address challenges in housing market

Bosam wants to give these vulnerable young adults a chance to enter the housing market. Therefore, Bosam has developed a new financing model which will enable a significantly lower price on apartments, making more people eligible to become homeowners. By transferring a large part of the individual debt to the co-op through loans with fixed loan rates, the price of apartments will go down with 50-70% compared to traditional co-op apartments – hence also the equity needed for the down payment (also lowered with 50-70%). By having a larger share of the loan in the co-op, the co-op must implicitly charge a higher monthly co-op fee to cover for the increased absolute interest and amortization. However, if looking at the total monthly housing spend, accounting for both the monthly co-op fee and the cost of the private loan (which is much lower in the Bosam case) – it is evidential that the monthly housing spend is virtually the same for an apartment in a Bosam financed co-op compared to a traditional co-op apartment. It is also important to notice that even though the monthly spend is virtually the same, the level of amortization/savings is ~2x more in a Bosam co-op compared to traditional co-ops (see Exhibit A)

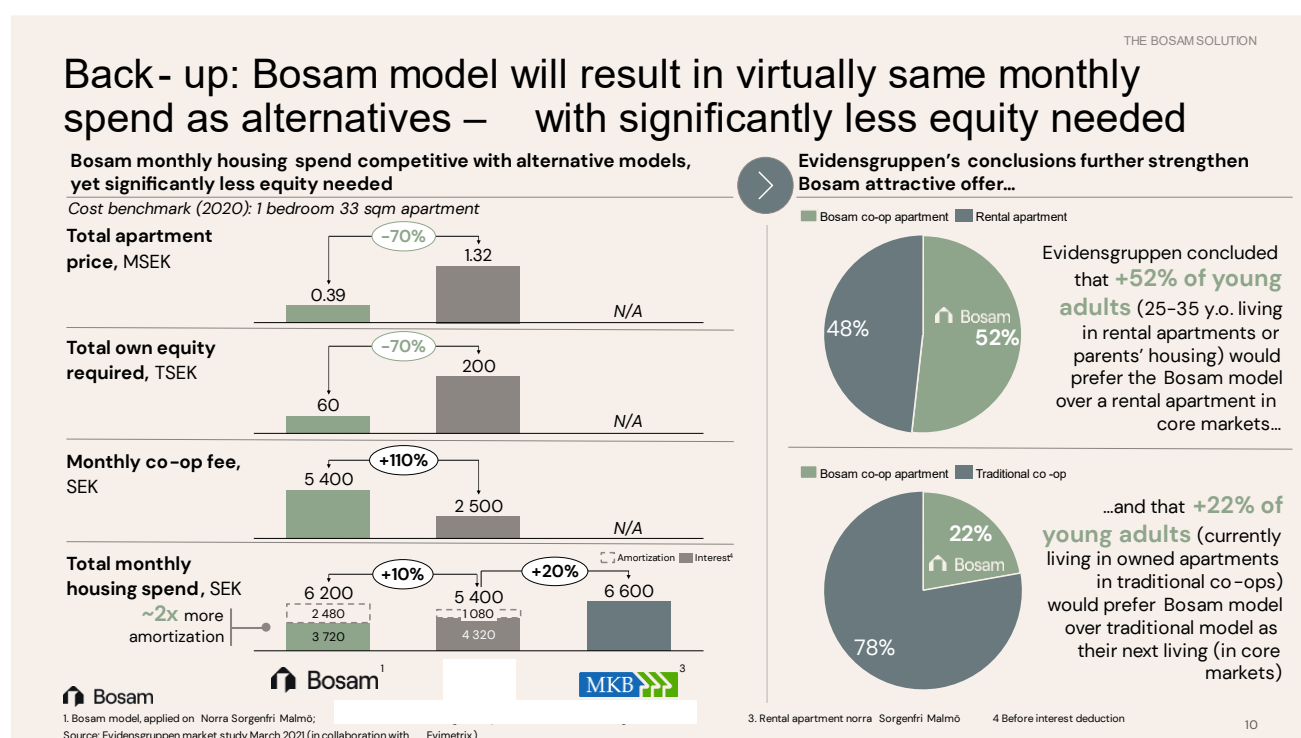


Exhibit A: Overview of Bosam model compared to traditional co-op models

Evidensgruppen (a reputable 3<sup>rd</sup> party research real estate institute) has assessed the Bosam model and concluded in their report from 2021 that the model will lower the barriers for young people to enter the housing market. Based on their research, Bosam (in the municipalities assessed) will create +200% new potential buyers in ages 25–35 – equivalent to additional 85,000 households in these markets. Instead of 2 of 10 young adults being able to buy an apartment with current models – 6 of 10 young adults will be eligible to buy an apartment<sup>3</sup>

## 2. Social Bond Framework

Under its mission to enable vulnerable populations to enter the housing market through affordable housing and contribute to i) improve the housing welfare of targeted vulnerable populations in Sweden as well as ii) to provide stable supply of affordable and sustainable housing finance in Sweden through long-term, low-interest, fixed-rate co-op loans, Bosam plans to issue multiple Social Bonds under this Social Bond Framework (the “Framework”). Following market best practices, Bosam aspires to fully comply with the [ICMA Social Bond Principles 2020](#), with the following four core components:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

### 2.1 Use of proceeds

Bosam seek to commit 100% of net proceeds of any bonds issued under its framework exclusively to social projects supporting a) affordable housing, b) access to essential services (financing and financial services) and c) socioeconomic advancement and empowerment (equitable access to and control over assets) – all in line with the SBP’s 2020 objectives.

To achieve the social objectives, Bosam will seek to achieve its positive social outcomes for (though not exclusively) its target population; vulnerable populations in Sweden. Within this category, Bosam is primarily targeting **vulnerable young adults** (20–35 years old) in Sweden, currently outside of housing market (e.g., living with parents, listed on local authority housing waiting lists, stuck in expensive secondary rental agreements), with income levels in the lower range of the Swedish middle-income spectra (23,000€–33,000€ gross income per year). These young adults have stable incomes, but currently lack the pre-requisites needed to become homeowners and enter the housing market,

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<sup>3</sup> Evidensgruppen report on Bosam (March 2021)


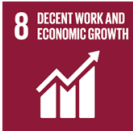
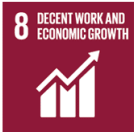
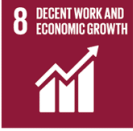
either due to lack of equity for down payment (15% of apartment price) or due to loan refusal because of stricter credit terms. Secondary, Bosam is targeting **vulnerable pensioners** (+65 years old) in Sweden, currently outside of housing market (e.g., living in group accommodation, listed on local authority housing waiting lists), with income/pension levels in the lower range of the Swedish middle-income/pension spectra. For both of these focus groups, Bosam aims to deliver new, affordable, quality housing in suburban locations outside of city core where land prices are lower – and pre-requisites for the Bosam model are better.

All net proceeds generated from any issuance under this framework will be used to finance housing co-operative loans, originated by Bosam Originator (a wholly owned subsidiary of Bosam Group), in order to facilitate the supply of housing finance on a long-term and sustainable basis. All Bosam co-op loans are carefully designed in terms of eligibility criteria, to ensure that each loan serves the intended social objectives and are in line with guidelines and policies from all necessary regulatory authorities (e.g., National Board of Housing, SFSA). Bosam co-op loans are intended to transfers a large part of the individual debt to the co-op through long-term loans with fixed interest rates (disconnected from volatile interest market) and high and increasing amortization – lowering the capital need for the consumers and price of apartments with 50-70% and enabling a lot more young adults to enter the housing market.

New products can be launched and features of existing products can change reflecting current regulatory policies and market situation. Detailed eligibility criteria for project selection can be found in next section (“2.2 Process for project evaluation and selection”)

### 2.1.1 Bosam contributes to the UN Sustainable Development Goals

The Sustainable Development Goals (SDGs) were set up by the United Nations in 2015 and form an agenda for achieving sustainable development by the year 2030. Bosam’s social framework intends to contribute to the following SDGs (see Exhibit B below):

Use of Proceeds	Contribution to UN development goals
<i>Affordable housing</i>	  
<i>Access to essential services (financing and financial services)</i>	
<i>Socioeconomic advancement and empowerment</i>	

## Exhibit B: Use of proceeds linked to UN SDGs

### 2.2 Process for project evaluation and selection

Bosam has created a robust process to approve and oversee eligible social projects. When selecting projects, Bosam has set up eligibility criteria linked to i) selection of project location ii) terms of co-op loan, iii) requirements on co-operatives, and iv) requirements on housing developers. The fifth element is about reviewing and evaluating the issued bonds and making sure that the process for project selection that has been set up in this framework is being strictly followed.

#### 2.2.1 Selection of project location

Together with Croisette Real Estate Partners, Bosam has developed a tool to evaluate and assess potential locations for the Bosam financing model – in order to determine if the pre-requisites are in place to fulfill our social objectives. So far, 21 selected municipalities have been evaluated to determine in what locations the model could work. The model takes into account several different factors such as;

- Price of land in different locations (A, B, C, and D Locations)
- Average sqm price for apartments in different locations
- Housing price development
- Population
- Projected population development

- Unemployment ratios
- Education levels
- Working life development
- Income levels
- Target group population (young adults)
- Projected target group population development (young adults)

Based on this assessment, Bosam has created an overview of which locations in the municipalities that will be eligible for projects and have also rated the municipalities based on these criteria (see Exhibit C below). Initially, Bosam will focus on selecting projects in these locations, but as market evolves, more municipalities will be evaluated, and adjustments can be made to the model.

### 2.2.2 Terms of co-op loans

Eligibility criteria of the co-op loan product are suggested by Bosam, reflecting the local regulations and market situation, and carefully reviewed and agreed by relevant regulatory authorities, including the Swedish Financial Supervisory Authority (SFSA) and National Board of Housing (“Boverket”), amongst others.

The terms contain the following minimum requirements;

- **Loan Amount:** 10–250 MSEK
- **Loan Type:** Annuity loan
- **Term:** 20 years
- **Interest rate:** Fixed (currently 5%)
- **Collateral:** 100% ABS in Swedish Real Estate
- **Loan-to-Value (LTV):** Maximum 70% of property market value year 1
- **Amortization:** 0.75–2.5% of financing amount with a yearly enumeration of the amortization amount using the same rate as the interest rate (currently 5%)
- **Currency:** Swedish Krona (SEK)
- **Interest on arrears:** According to interest law (1975:635)

### 2.2.3 Requirements on co-operatives

Bosam has developed a catalogue of minimum requirements that all co-operatives supported by the Bosam model need to fulfill in order to be granted a co-op loan and thereby contribute to Bosam’s social objective related to providing affordable and sustainable housing in Sweden.

The co-op need to achieve the following criteria;



- **Purpose:** Co-op created with purpose of acquiring co-op property
- **Tax law classification:** Genuine co-operative (“Äkta Bostadsrättsförening”)
- **Register:** Registered at SCRO (Swedish Company Registration Office)
- **Member approval:** All members to be approved by Bosam Credit Scoring Model (see minimum requirements below) and approved by the co-op Board.
- **Financial plan:** Approved financial plan by SCRO and NBoH
- **Cost calculations:** Approved and registered at NBoH
- **Financial and Technical Management:** Performed by external 3<sup>rd</sup> party professionals (approved by Bosam)
- **Board members:** Approved by Bosam based on Merits (CV) and background check (e.g., no payment defaults, criminal verdicts etc)
- **Statuses:** Approved by Bosam

In order to ensure financially stable co-operatives, Bosam has also developed a robust credit scoring model which all potential buyers need to go through and be approved in before becoming a co-operative member. The credit scoring model has been developed together with Kreditz and Tink and process includes both i) traditional credit risk information from UC, ii) real-time, automated transaction data analysis, iii) left to live on calculation (LTLO).

The credit scoring model has the following eligibility criteria for approval:

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Each credit decision will be controlled and approved by a Swedsec-licensed loan agent. Credit scoring model has also been approved by all regulatory authorities, incl SFSA.

#### 2.2.4 Requirements on housing developers

Finally, Bosam has developed a list of eligibility criteria and guidelines that all housing developer partners (e.g., the party responsible for construction development of the co-op properties) and their partners (e.g., contractors and sub-contractors) need to fulfill. These are primarily linked to financial-, and environmental sustainability and critical in order to achieve Bosam's social objectives;

- All housing developers for Bosam projects must have a **proven track record and economic substance** in order to ensure highest quality and guarantees
- All housing developers and their partners must achieve criteria required to be certified in accordance with the [Nordic Swan Ecolabel](#), in order to ensure a far more **sustainable construction process**, meaning;
  - Fulfill all of the 41 general requirements
  - Achieve at least score 17 of 44 on the point score requirements
- **Environmental impact from operations must have limited impact** on the climate (e.g., usage of renewable energy sources, local energy production, digital energy management)
- **Apartments must be sold at a price of minimum 50%** of comparable co-op apartment price in the relevant market

In addition, there is also a due diligence process in place for vetting partners and ensuring the legitimacy of the developers' businesses (i.e., processes for identifying and preventing all forms of corruption, process for identifying, preventing, and mitigating any negative impact on human rights). All partners need to be compliant with these guidelines – otherwise they will be excluded.

#### 2.2.5 Review and evaluation process

In order to make sure that this process for project selection is being followed, Bosam intend to create a **Social Bond Work Team** consisting of members from Bosam Management, Bosam Board, jagvillhabostad.nu (external, independent social organization), and Sweden Green Building Council (external, independent environmental organization). This group will act as a Social Bond Work Team;

reviewing the issued Social Bonds and Bosam's allocation and impact reports (see section "2.4 Reporting").

## 2.3 Management of Proceeds

All proceeds from any bonds issued under this framework will be allocated to eligible social projects (in accordance with the process for project selection and evaluation).

As long as the Social Bonds are outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible Social Projects made during this period. Bosam will ensure that all net proceeds of the social bonds are used to finance housing co-operative loans, originated by Bosam Originator, meaning that there is no disclosure on the types of temporary placements Bosam will use, as they are not relevant for Bosam (will be no types of temporary placements – hence not applicable).

External 3rd party (Intertrust Fund Services) will administrate the fund and will be sharing all required and appropriate reports (incl. NAV-calculations). Intertrust will also verify the internal tracking methods and the allocation of funds from the Social Bond proceeds.

## 2.4 Reporting

Bosam is passionately committed to transparent reporting for its Social Bonds. Following the first anniversary of the issuance of the Social Bonds and on an annual basis until the maturity of the Social Bonds, Bosam will communicate to its investors on how the proceeds of Social Bonds are used as well as the expected social impact of the projects financed by Bosam Fund. The report will be reviewed and approved by the Bosam Social Bond Work Team, external 3<sup>rd</sup> party fund administrator Intertrust, as well as an independent social expert (also responsible for continuous review/approval of selected projects). All reports will be readily available on Bosam's website.

[www.bosam.se](http://www.bosam.se)

### 2.4.1 Allocation Report

The Allocation Report aims to provide updated information on the projects and co-ops to which Social Bond proceeds have been allocated. The Allocation Report may provide the following information:

- Total fund assets under management
- List of all projects financed incl.
  - Short description of each project
  - Amount allocated to each project
  - Expected impact of each project
  - Buyer demographics per project (e.g., share of apartments purchased by each age-group)
- Geographical overview of projects financed
- Balance (if any) of unallocated proceeds
- Share of financing to refinancing

#### 2.4.2 Impact Report

The Impact Report aims to provide updated information about achieved impact to date for the projects and co-ops to which Social Bond proceeds have been allocated. The Impact Report may provide the following information:

- Number of new households created (single and co-habiting households)
- Number of residents benefitting from co-op finance
- Share of residents enabled to enter the housing market due to the Bosam model (i.e., share that could not afford to purchase a traditional co-op apartment but purchased a Bosam co-op apartment)
- Average price per households
- Annual valuation development of each project to which Social Bond proceeds have been allocated

### 3. External review

Bosam will engage Sustainalytics to provide a Second-Party Opinion on its Social Bond Framework, and it will be shared at the company's website.

[www.bosam.se](http://www.bosam.se)