S&P Global
Ratings

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California Community Reinvestment Corp.; General Obligation

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Credit Highlights

- S&P Global Ratings' issuer credit rating (ICR) on California Community Reinvestment Corp. (CCRC, or the corporation) is 'A+'.
- The outlook is stable.

Security

An ICR reflects the obligor's general creditworthiness and its capacity and willingness to meet financial commitments when they come due. It does not apply to any specific financial obligation and does not consider the obligation's nature and provisions, bankruptcy standing, liquidation, statutory preferences, or legality and enforceability.

Credit overview

CCRC is a 501(c)(3) corporation located in Glendale, Calif., that was certified as a Community Development Financial Institution (CDFI) by the U.S. Department of the Treasury in 1996. CCRC was founded in 1989 with support from the Federal Reserve Bank of San Francisco and major banks throughout California for the purpose of providing financing and technical assistance to facilitate the development of affordable housing in the State of California. The corporation's primary function and mission is to be a lender of permanent mortgages to developers of to-be-constructed or rehabbed low-income housing tax credit (LIHTC) properties throughout California. CCRC's mission and its vision to become the premier provider of capital serving the needs of low-income residents and communities are achieved through adhering to a proven business model, detailed multiyear strategic plan, and meeting key goals established by an experienced senior management team and an involved board of directors.

CCRC's business model is to build up a portfolio of high-quality, permanent multifamily loans and then securitize a large portion of those loans, generating substantial one-time revenues and cash from the sale, and then using that capital to rebuild the loan portfolio again. This has proven to be an effective way to grow the business--essentially tripling in size over the past five years--while supporting its social purpose. According to discussions with management, the corporation will continue following this model while also building its on-balance-sheet loan business to also generate annuity revenues from the high-quality, high performing loan portfolio. Following this cyclical model of building up and then selling off-balance-sheet assets resulted in the appearance of extremely volatile performance, but, in our view, intentional and monitored volatility resulting from a thought-out and proven strategy in a very different light than unintentional performance-related volatility. We recognize there are certain risks associated with this model when trying to forecast and analyze ongoing performance. We believe this risk to be largely mitigated by management's expertise, proven track record, and extremely close monitoring of funding and lending of the business.

As part of the lending model, CCRC enters forward commitments where the terms of the permanent loan are locked in during the construction and conversion phase. Once all requirements are met, CCRC will fund the permanent loan according to the forward commitment terms. This model could expose CCRC to interest-rate risk, especially in a rising-interest-rate environment, like the one we are currently experiencing. However, in our view, management's extensive understanding and diligent monitoring of economic and market conditions as well as its prudent oversight of the on-balance-sheet loan portfolio in the context of forward commitments that are expected to be converted to on-balance-sheet permanent loans greatly mitigate the presence of this risk. Management has several thought-out strategies and tools, including the business model itself as it pertains to timing of funding and rate setting, to help protect the corporation's financial position against sharp rises in interest rates.

The ICR reflects our view of CCRC's:

- Financial strength measured by five-year average S&P Global Ratings-calculated net equity (which is net assets adjusted to remove fair value reporting and after stressed losses)-to-total assets ratio of 22%, which we consider very strong compared with that of similarly rated peers and to criteria benchmarks for the rating category.
- Proven business model and strategy based on the cyclical building up and subsequent sale of on-balance-sheet loans, which materially increases net income and profitability metrics in years of loan securitization and bolsters equity positions over time while meeting the corporation's mission to improve outcomes for low-income families, seniors, residents with special needs, veterans and formerly homeless individuals by following a housing-first model and facilitating the flow of private capital to communities.
- Very strong and above-benchmark profitability metrics as measured by five-year average net interest margin (NIM) of 1.4%, partially offset by a more volatile return on average assets (ROA) due to the cyclicality of the business model.
- Very strong asset quality characterized by zero nonperforming assets (NPAs) or delinquencies of any kind over at least the past seven fiscal periods (2016 through 2022) and a loan portfolio underwritten according to a thorough and stringent credit policy.
- Extremely strong management and governance assessment based on the experience, expertise, sector knowledge, and proficiency of the corporation's senior management team as well as based on a detailed multiyear strategic plan and substantive operational and financial policies and procedures that, among other things, guide operations, set performance standards, and monitor loan portfolio underwriting and reviews.
- Relatively high year-over-year (y/y) volatility in key financial metrics compared with that of peers and industry standards.
- Interest rate exposure related to forward commitments that are instrumental to the corporation's business model.

Environmental, social, and governance

We analyzed CCRC's environmental, social and governance (ESG) risks relative to its financial strength, management and legislative mandate, and the local economy. We view these risks to be neutral to the credit analysis.

Outlook

The stable outlook reflects our view that CCRC's financial and operational performance will remain consistent with the

current rating during at least the two-year outlook period. In our view, at the current rating the corporation can absorb material changes in its balance sheet size and volatility in key metrics that are expected during the building up of its loan portfolio and subsequent sale of certain loans. Should CCRC increase its on-balance-sheet, annuity loan portfolio, we expect metrics and ratios will become less volatile and will normalize within the 'A' category ranges further supporting the stable outlook.

Downside scenario

Should CCRC's financial strength, as evidenced by average capital adequacy and profitability ratios and loan performance, deteriorate to levels that are no longer commensurate with the current rating and compared with those of peers, we could take a negative rating action on the ICR. Furthermore, should exposure to interest-rate risk associated with forward-commitment contracts have a negative impact on the corporation's financial position and our view of CCRC's overall credit quality, we could take a negative rating action.

Upside scenario

Conversely, should CCRC's financial strength, as reflected by equity balances, capital adequacy ratios, and profitability metrics improve to and sustain, on average, through business cycles at levels commensurate with a higher rating according to our criteria and compared with that of peers while maintaining very high asset quality and extremely strong management and governance we could take a positive rating action.

Credit Opinion

Financial Strength

Capital adequacy

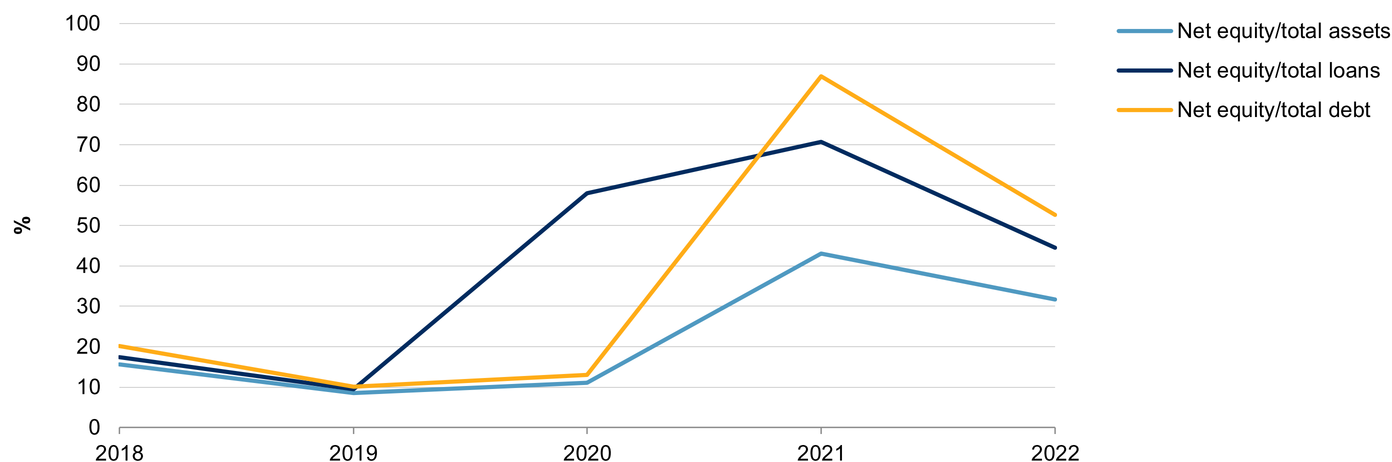
We view CCRC's capital adequacy to be very strong according to five-year average metrics for fiscal years 2018 through 2022, specifically net equity-to-total assets ratio of 22%. Following the November 2020 securitization--the largest and most lucrative in the corporation's history--CCRC's capital adequacy ratios shot up to levels well above those of similarly rated peers and compared with criteria benchmarks. While this improvement was anticipated and factored into our analysis, it is a notable and material increase from the 9.9% five-year average for fiscal years 2016 through 2020.

Over the past six years, CCRC's net equity improved in a rolling-upward manner due to the corporation's business model of building up its on-balance-sheet loan portfolio and then securitizing and selling the loans every two-to-three years. This approach creates the appearance of financial performance volatility when ratios are viewed in a silo, without consideration of the business plan. After the loan selloff, key capital adequacy ratios spiked to new highs, as seen in fiscal 2018 and, exponentially so, in fiscal 2021 (see chart 1), and then dropped again, as seen in fiscal years 2019, 2020, and 2022, but generally not below the new floor created as a result of the boost to equity from the profits and balance sheet recalibration following the planned loan sales and related debt paydown.

The boost to overall financial position and specifically to capital adequacy ratios following the November 2020 loan securitization (reported in fiscal 2021) provided a lasting uplift to the corporation's five-year average metrics starting in

2021. In our opinion, this trend is a credit strength and represents a proven and well-executed business model that positions CCRC to capitalize on increased resources following loan securitizations.

Chart 1



Source: S&P Global Ratings.

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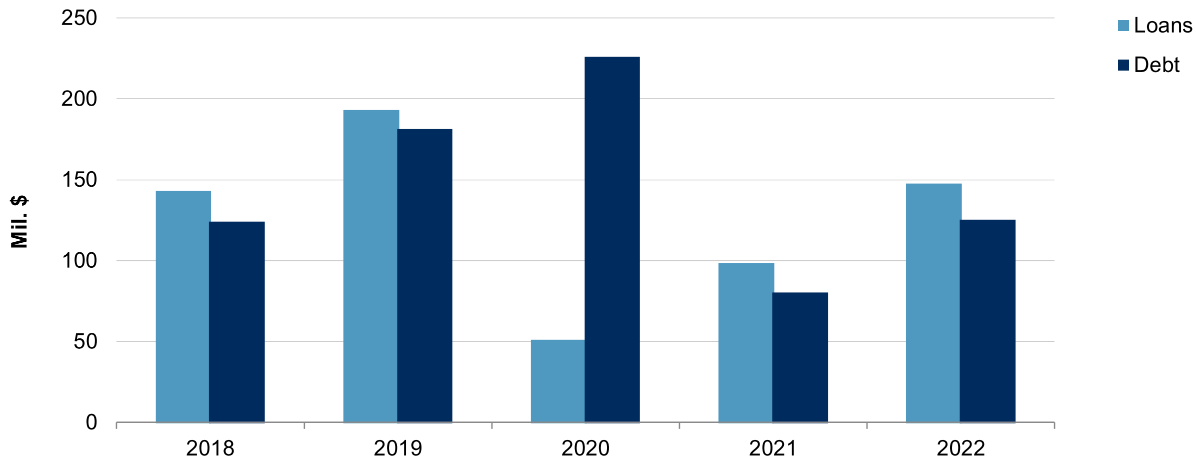
Also reflecting the corporation's business model, debt levels will fluctuate following balance sheet build-up and sell-off cycles. To that end, following the November 2020 loan securitization CCRC paid down a significant portion of the debt that was related to the loans sold and reports debt outstanding of $79.5 million as of Sept. 30, 2021, a 65% reduction from fiscal 2020. As CCRC began to build back its balance sheet in fiscal 2022 loans and debt both began to increase, reaching $147.2 million and $124.6 million, respectively (chart 2). CCRC's on-balance-sheet debt balances follow the same two-to-three-year cyclical pattern of building up and then being materially reduced when the corporation's loan portfolio grows and is then securitized. In the audited financial statements, once there is a concrete plan to conduct a sale with an identified pool of loans those loans are classified as loans-held-for sale, a line item under real estate loans. For our analysis, however, we included loans-held-for-sale as short-term assets rather than as real estate loans, as they are reported in the audit, because they will generate immediate revenues and liquidity in the short term as opposed to generating annuity revenues associated with on-balance-sheet loan portfolios This classification results in a reduction of on-balance-sheet loans in our analysis before the commensurate reduction of related debt. This mismatch between loans and debt materializes immediately preceding loan securitizations (see fiscal 2020 loan-to-debt in chart 2). Proceeds from the loan sales are used to pay down related borrowing and then to supplement new borrowings to fund new loans from the corporation's forward commitment pipeline and begin the cycle again.

Chart 2



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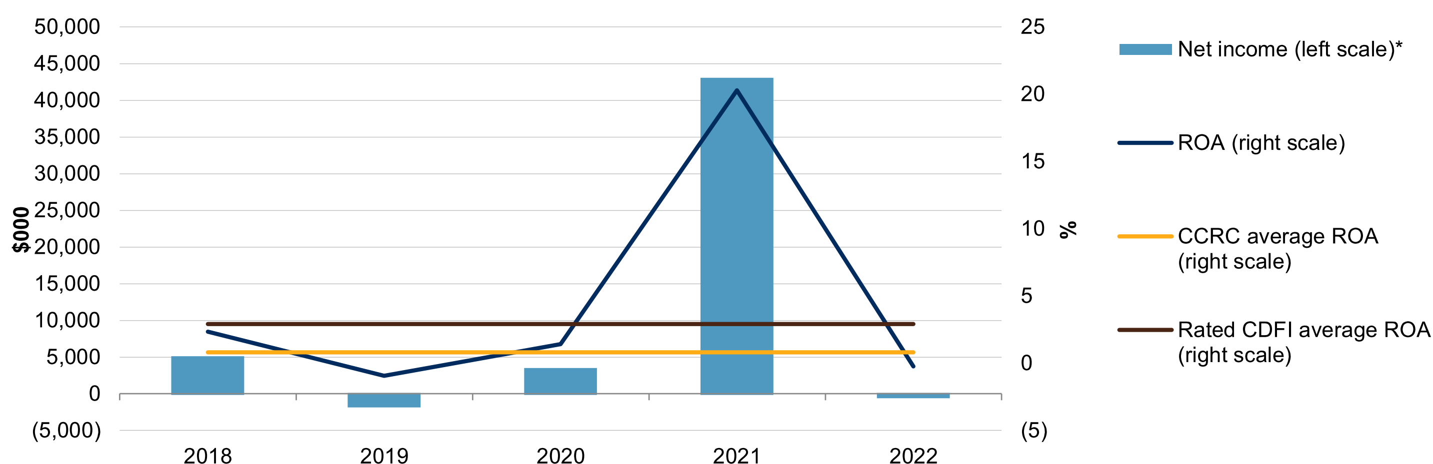
Profitability

We view CCRC's five-year average profitability metrics as very strong and above-average compared with those of peers and criteria benchmarks for the rating category, somewhat offset by the volatility of the metrics. The corporation's five-year average ROA is 4.6% for fiscal years 2018 through 2022 (chart 3), with a high of 20.30% in fiscal 2021 and a low of negative 0.95% in fiscal 2019. As with so many of the corporation's financial metrics, profitability saw a huge jump in fiscal 2021 due to one-time revenues from the loan securitization early in the period. As expected, net income and related metrics dropped precipitously in fiscal 2022, with both ROA and net income again being negative. The corporation's most stable profitability metric is NIM, averaging 1.3% during the five-year period, increasing steadily to 1.74% from 1.00%. Stable and increasing NIM indicates that even as net income fluctuates through business cycles the spread earned on the loan portfolio is reliably strong and positive.

Chart 3

Profitability And Net Income



*Excluding fair value reporting. ROA--Return on average assets. Source: S&P Global Ratings.

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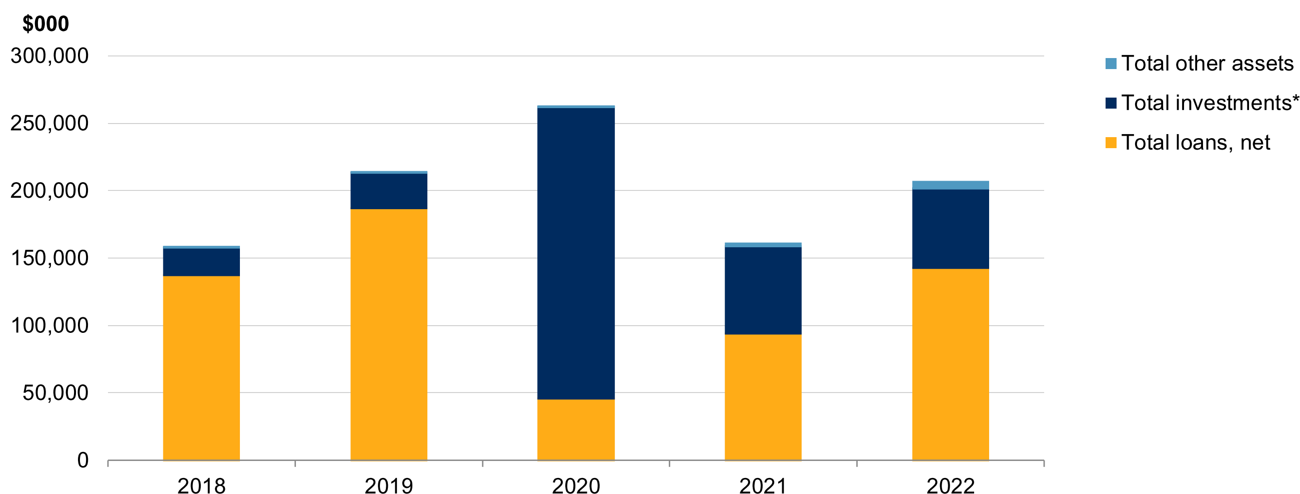
Asset quality

We view CCRC's asset quality to be very strong compared with that of peers and according to our criteria. The corporation's total assets, excluding cumulative effects of fair value accounting, increased 28.6% in fiscal 2022 reaching $206.7 million after dropping to $160.7 million in fiscal 2021 (chart 4). Again, this cyclicality is expected and in line with CCRC's business model and is not volatility related to performance or access to capital, or a reflection in fluctuating demand for the affordable housing loans the corporation provides. Therefore, we do not view this oscillation in total assets as a negative credit factor. The increase in 2022 reflects the corporation's initiative to rebuild its loan portfolio following the November 2020 selloff. Affordable multifamily housing loans totaled $147.2 million in fiscal 2022, up from $97.8 million in 2021. Even after securitization cycles loans typically comprise the majority of the corporation's assets averaging between 70%-90% of the total asset balance y/y, except in years where loans held for sale are reported as investments.

Chart 4



*Includes loans-held-for sale. Source: S&P Global Ratings.

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Excluding loans-held-for-sale, cash and investment securities make up the balance of total investments y/y. Investment securities consist of interest-only strips guaranteed by Freddie Mac and non-guaranteed subordinate Freddie Mac certificates. The balances of interest-only strips and certificates were $8.4 million and $4.65 million in fiscal 2022, down from $10.7 million and $5.3 million, respectively, in fiscal 2021. In addition, the corporation holds $14.2 million in pledged Freddie Mac A certificates, down from $17.9 million the previous year.

We view the quality of the corporation's on-balance-sheet loans as high, underwritten in accordance with a stringent and thorough credit policy, and to be a loan portfolio that is lower risk compared with that of peers due to several characteristics. In addition to stringent underwriting practices that result in only higher-quality loans ever making it to CCRC's balance sheet, management diligently oversees and monitors the underlying loans, including conducting at least one loan review report on every loan serviced annually--assigning and updating risk ratings on every loan, and authoring a detailed annual loan portfolio analysis. In addition, all CCRC's loans are permanent multifamily affordable housing loans, which contrasts with many peer CDFIs that often have material portions of construction, predevelopment, and non-housing loans, which we view as higher-risk assets, in their loan portfolios. As a reflection of CCRC's high-quality and lower-risk loan portfolio, the corporation reported no NPAs or delinquencies in fiscal 2022 or the several preceding periods. The corporation has only had three loss events in its mortgage history, the most recent occurring more than 18 years ago.

Liquidity

CCRC, in our view, has strong liquidity to cover short-term financial needs. We consider asset-liability management a primary mitigant of liquidity risk, as the balance sheets of most CDFIs consist of long-term obligations with maturity dates that are structured to match the maturities of long-term assets. CCRC, however, has a proven business model where long-term assets can be monetized quickly should that become necessary. The corporation's easiest path to

liquidity is to transfer self-funded loans to the bank pool, which frees up corporation cash. As of Sept. 30, 2021, CCRC had approximately $52.7 million in cash, cash equivalents, and short-term investments (including the $14.2 million in pledged Freddie Mac A certificates), representing approximately 25.5% of total assets. Furthermore, CCRC's balance-sheet loans totaled approximately $147.2 million ($18.3 million of which are CCRC self-funded loans), or 69% of total assets and 111% of total liabilities, for the same period. On an ongoing basis, the business model, as discussed, typically follows a two—to-three-year cycle that generates substantial liquidity when loans are securitized. Should there be liquidity needs in between these cycles CCRC can use the robust secondary market it established throughout the years to generate cash from the sale of long-dated assets. We also view CCRC's access to external liquidity sources and capital markets as strong.

In our opinion, the corporation's liquidity and equity positions in the near term could be affected by interest rate exposure related to the forward-commitment pipeline. However, the business model, where the funding of loans in the forward-commitment pipeline and the setting of rates on those loans are matched to the current interest rate environment, largely protects CCRC from material exposure and mitigates this risk during rising interest rate environments.

Management

We view CCRC's management as extremely strong due to its experienced, knowledgeable, and proactive senior leadership and board members. The corporation is governed by a 15-member board consisting of industry and community leaders throughout the State of California and CCRC's president. Senior management consists of a president/CEO, executive vice president, and risk officer with substantial industry experience and expertise. The autonomy and stability of the management team strongly supports and facilitates day-to-day and ongoing operations that serve the corporation's mission, address the needs of the citizens it serves, and creates financial stability and viability. In our opinion, the corporation's relationship with the state government and other jurisdictional bodies is strong given the state's historical support of affordable housing initiatives and CCRC's track record of successfully navigating the political landscape for several decades. We consider management's ability to resolve difficult situations during its operating history as very strong. CCRC's performance through economic downturns has been exceptional, as seen in its performance through the Great Recession and most recently through the COVID-19 pandemic and the economic volatility of the past two years. As further evidence, CCRC investors have never incurred a principal loss on any of its mortgage loans.

We view the corporation's strategic plan, operational and financial policies and procedures, and general oversight, involvement with, and management of the organization to be very strong and above-average compared with those of peers. We discussed and reviewed several of the corporation's guiding documents, plans, policies, and reports and believe them to be exceptional and a driving factor in the historical and ongoing success of the corporation. Overall, we view CCRC as exhibiting extremely strong organizational, administrative, financial management, and strategic planning capabilities and as maintaining a strong governance structure.

Table 1

Financial Ratio Analysis

%	2018	2019	2020	2021	2022	Five-year average
Capital adequacy						
Equity/total assets	19.07	13.31	12.11	46.54	35.95	25.40
Net equity/total assets	15.64	8.51	11.08	43.04	31.71	21.99
Net equity/total loans	17.42	9.46	57.92	70.71	44.54	40.01
Net equity/total loans + MBS (loans)	17.42	9.46	57.92	70.71	44.54	40.01
Equity/total debt	24.47	15.77	14.14	94.00	59.66	41.61
Net equity/total debt	20.07	10.08	12.93	86.93	52.62	36.53
Available liquid assets/total loans	33.13	20.07	62.04	87.64	59.62	52.50
GO debt/total debt	0.00	0.00	0.00	0.00	0.00	0.00
Profitability						
Return on average assets	2.34	(0.95)	1.41	20.28	(0.24)	4.57
Net interest margin	0.96	1.19	1.27	1.48	1.74	1.33
Net interest margin (MBS [loans] + loans)	1.21	0.82	1.46	2.11	1.50	1.42
Net interest margin (loans)	1.21	0.82	1.46	2.11	1.50	1.42
Asset quality						
NPAs/total loans + REO	0.00	0.00	0.00	0.00	0.00	0.00
Loan loss reserves/total loans	2.49	1.87	4.40	2.65	2.09	2.70
Liquidity						
Total loans/total assets	86.78	87.49	17.53	58.68	69.08	63.91
Total loan + MBS (loans)/total assets	86.78	87.49	17.53	58.68	69.08	63.91
Short-term investments/total assets	12.52	12.17	82.21	39.77	26.02	34.54
Total investments/total assets	12.79	12.15	82.17	40.26	28.41	35.16

MBS--Mortgage-backed securities. NPA--Nonperforming asset. REO--Real estate owned.

Table 2

Five-Year Trend Analysis ($000s)

	2018	2019	2020	2021	2022
Total assets	158,543	213,915	262,747	160,671	206,720
% change	(40.24)	34.93	22.83	(38.85)	28.66
Total debt	123,557	180,569	225,121	79,545	124,572
% change	(47.41)	46.14	24.67	(64.67)	56.61
Total equity	30,235	28,473	31,832	74,770	74,325
% change	19.67	(5.83)	11.80	134.89	(0.60)
Total net equity	24,795	18,194	29,112	69,148	65,556
% change	8.71	(26.62)	60.02	137.52	(5.20)
Revenues	16,917	15,051	19,250	53,589	11,545
% change	(1.12)	(11.03)	27.90	178.38	(78.46)
Expenses	11,953	19,351	13,790	10,249	12,015
% change	(18.36)	61.89	(28.74)	(25.68)	17.23
Net income	7,335	8,205	9,688	3,774	4,841

Table 2

Five-Year Trend Analysis ($000s) (cont.)					
	2018	**2019**	**2020**	**2021**	**2022**
% change	(40.12)	11.86	18.07	(61.05)	28.28
Total loans	137,577	187,161	46,068	94,285	142,804
% change	25.23	36.04	(75.39)	104.66	51.46

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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