California Community
Reinvestment Corporation

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CCRC 2021 Tax Exempt Loan Portfolio Analysis

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Introduction

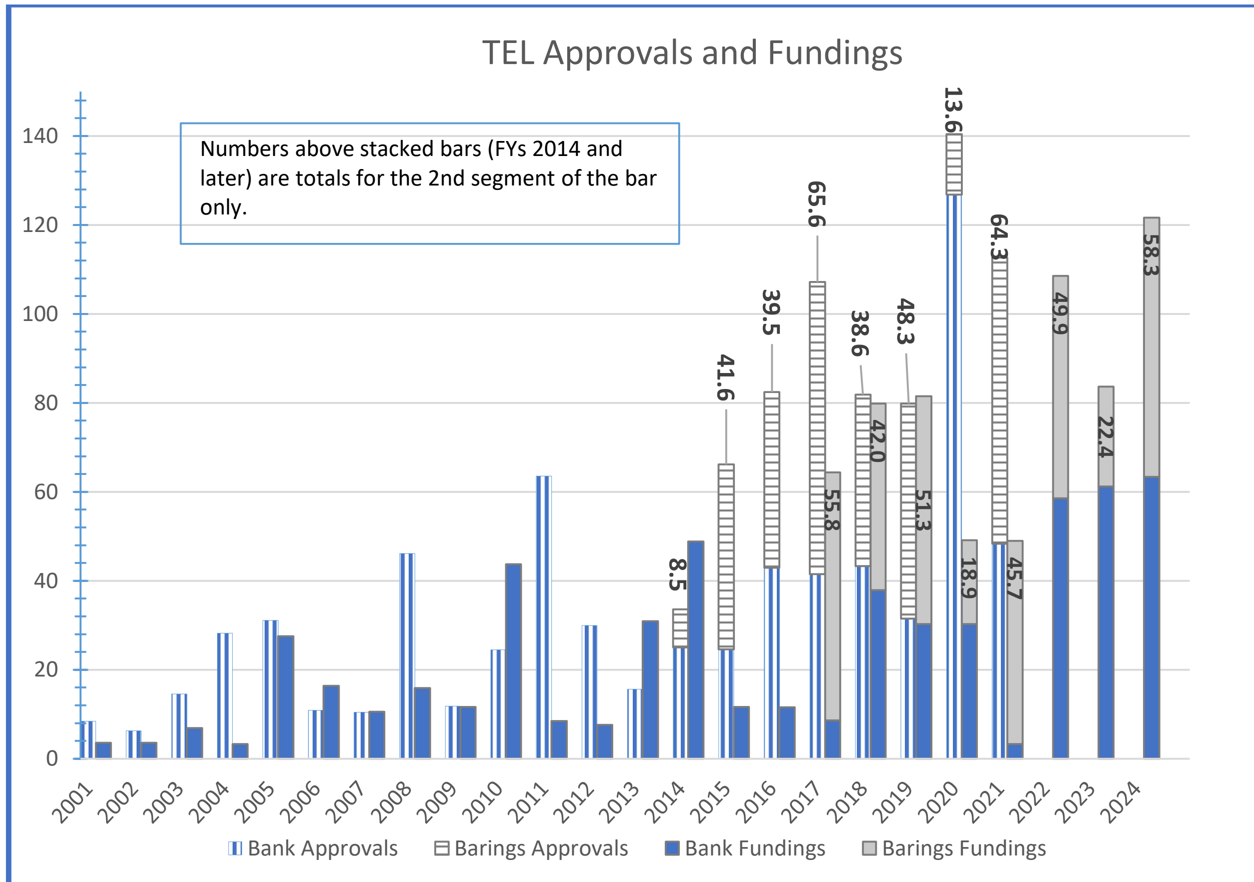
The CCRC 2021 Tax Exempt Loan Portfolio Analysis describes CCRC's portfolio of tax-exempt loans (TELs), including forward commitments, which CCRC manages for a subset of its member banks (CCRC's "TEL Program"). The primary audience for this report is the banks participating in the TEL Program. Historically, we have referred to this program, both in this report and programmatically in general, as the CCRC "Bond Program". In the proceeding section, we discuss the reasons for this change.

The TEL Portfolio Analysis does not cover (other than in Figure 1 below) TELs funded by Barings (formally known as the Cornerstone Fund). CCRC originates, closes and services these TELs but otherwise has no credit risk with them as they are 100% owned by a non-affiliated third party. This report also excludes TELs that CCRC services for investors. Unless otherwise noted, loan balances and commitment amounts are as of September 30, 2021.

CCRC started the TEL Program 20 years ago after identifying an opportunity to offer tax-exempt private placement TEL financing to its affordable housing developers. CCRC models the TEL Program on its successful mortgage program, which provides permanent mortgages for a large portion of the 9% LIHTC projects in California. CCRC approved its first TEL project in 2001.

Figure 1 shows TEL financing approvals and fundings since TEL Program inception through fiscal year end ("FYE") 2021, and projected fundings of current forward commitments through 2024. In 2021, CCRC approved $112.6 million in new TEL commitments. Of this total, we approved $48.3 million through the bank TEL Program and $64.3 million through Barings.

Figure 1: TEL Approvals and Fundings by Fiscal Year Since Program Inception (TEL Program & Barings)



Funding dates after 2021 are projections reflecting current commitments. 2022 and 2023 figures may be different than figures presented in the 2020 TEL Portfolio Analysis due to revised projected funding dates.

Program Changes

CCRC's TEL program employs a participation structure that allows participants in the TEL pool to recognize the interest in each TEL pass through as tax exempt in proportion to their interest in the pool. In 1999, when the participation structure was first developed, the traditional structure for a tax exempt financing used instruments denominated as "bonds".

Over the course of the last two years, CCRC, in discussions with its participating banks and based on its experience in underwriting tax exempt financings over the last 20 years, has observed a transition in how the underlying tax exempt financings are being structured. Most if not all of the participating banks have developed policies and for their own tax exempt financing programs that require tax exempt financings to be accounted for and booked as tax exempt loans and not as an investment in a security. In order for CCRC's participants to have similar treatment in the CCRC Tax Exempt Loan Pool, CCRC decided to update and modify its Participation Agreement structure and to implement new loan documentation policies using updated tax exempt loan structures. This updated loan structure, developed and used now broadly by most banks as well as by Freddie Mac and Fannie Mae, is what is known as the back-to-back loan structure. Under this structure a lender enters into a governmental loan agreement with the government issuer under which the issuer issues a governmental note to the lender. The proceeds from the governmental note from the lender are then loaned by the issuer pursuant to a Borrower Loan Agreement and Borrower Note to the project borrower to finance the development and loan for the project. The Issuer's rights under the Borrower Note and Loan are assigned to the Lender and are secured by a first deed of trust on the project.

Consistent with the evolution to the back-to-back note structure and with the construction loan structures utilized by construction lenders with which CCRC partners, fourteen of the thirty-three tax exempt financings in CCRC book of forward commitments are back-to-back notes. Further in consultation and with approval of member participating banks, CCRC has now implemented its Tax Exempt Loan Pool Participation Agreement (Amended and Restated) dated as of March 26, 2021. CCRC is now requiring that its tax exempt permanent loans be structured using the back-to-back structure.

COVID-19 Impacts

In 2020, we reported that it was difficult to discern the impacts of Covid-19 on overall portfolio performance, particularly regarding the metrics that we review in this report. This observation aligns with our experience in 2021, and the underlying factors that we believe sustained the portfolio in 2020 remain true today.

In 2020 we approved two forbearance requests, one was a bank-funded loan, and the other was a TEL that we had previously sold and now service on behalf of an investor. The respective forbearance and the post-forbearance repayment periods have ended for both transactions, and the borrowers have resumed regular monthly payments. In 2021, we did not receive additional requests for forbearance.

Based on our reviews of property delinquency reports and anecdotal evidence provided by borrowers, we know that many properties have experienced higher delinquencies during the span of the pandemic. However, borrowers have not written off delinquent rents in most instances, which means that delinquencies typically do not register as bad debt and lower gross effective income on borrowers' financial statements. Some borrowers may take write-offs in their 2021 audited financial statements, resulting in lower 2021 DSCRs.

Another observation worth noting, though hard to explain, is the high variability in tenant delinquencies among projects. This variability is apparent even when we exclude properties with project-based HAP contracts. We can only speculate about the factors contributing to this variability. Possibilities include local job markets, property management, transit, and perhaps other regional variables.

S&P Rating

In summer 2021, CCRC engaged Standard & Poor's to provide a general obligation issuer credit rating (ICR). S&P's analysis reviewed CCRC's financial strength, business model, portfolio asset quality, and overall management and governance. S&P completed its review in September 2021, assigning an ICR of A+ stable.

1. Characteristics of CCRC's TEL Portfolio

CCRC typically approves a TEL loan before a project starts construction. (In this report, we refer to this approval as a "commitment" or "forward commitment".) CCRC maintains a forward commitment for a stated period of time, normally 24 to 30 months, during which time the developer constructs the property and rents it to full occupancy. When a completed project becomes operationally stable, CCRC funds the TEL loan in accordance with the terms of the forward commitment agreements.

1.1. Descriptive Statistics

Tables 1 through 4 summarize CCRC's TEL portfolio, book of forward commitments and TEL origination activity over last six fiscal years. After reaching a peak of $86.47 million in 2014, the TEL portfolio balance fell in 2015 and 2016 because of TEL loan sales to a unit of Citibank in FY 2015 and 2016. On March 31, 2019, prior to the 2019 TEL sale, the TEL portfolio balance reached $83 million. Immediately after the sale, the TEL Program portfolio consisted of just 5 funded TELs totaling $11 million. By FYE 2021, the portfolio grew to 20 funded TELs totaling $68.7 million.

Table 1: CCRC Portfolio of Funded TELs

Fiscal Year	Loans[1]	Balance	Average	DUs Financed[2]	$/DU	WAC[3]
2021	20	$68,754,678	$3,437,734	1,471	$46,740	4.39%
2020	20	$69,703,529	$3,485,176	1,478	$47,161	4.44%
2019	13	$40,529,382	$3,117,645	1,026	$39,502	4.26%
2018	28	$64,145,079	$2,290,896	1,891	$33,921	4.65%
2017	15	$26,980,619	$1,798,708	903	$29,879	5.27%
2016	10	$18,908,085	$1,890,809	671	$28,179	5.59%
2015	13	$33,908,087	$2,608,314	935	$36,265	5.38%

[1]Projects with multiple loans are counted as having a single loan with a balance equal to the total balance of the combined tranches. [2]Dwelling Unit. [3]Weighted Average Coupon.

In FY 2015 CCRC sold 21 TELs to Citibank totaling $73 million, and in FY 2016 we sold 8 TELs totaling $25.9 million. In 2019, CCRC completed a $72.3 million TEL sale, selling 31 TELs (on 30 properties) from CCRC's TEL pool into securitization pool guaranteed by Freddie Mac. Each of the three sales involved more than half of the FYE TEL portfolio balance of the preceding year and making them responsible for most of the changes in exposure concentrations and other metrics between FY 2014 and FY 2019.

Table 2: TELs Funded During FYs 2016-2021

Fiscal Year	Loans	Balance	Average	DUs Financed	$/DU	WAC
2021	1	$3,316,451	$3,316,451	70	$47,378	4.49%
2020	7	$30,257,645	$4,322,521	452	$66,942	4.67%
2019	15	$49,574,446	$3,304,963	1,133	$43,755	4.27%
2018	13	$37,868,539	$2,912,965	988	$38,328	4.27%
2017	5	$8,605,097	$1,721,019	289	$29,775	4.58%
2016[1]	5	$11,552,257	$2,310,451	378	$30,562	4.93%

[1] Of the 15 TELs funded in 2019, CCRC sold 4 in the same fiscal year. These TELs, which were included in the Freddie Mac securitization, had a combined principal balance $12,454,063 at the time of sale, and a combined unit count of 240. Of the 5 TELs funded in 2016, CCRC sold 2 within the same fiscal year. These TELs, which were included in the FY 2016 sale to Citibank, had a combined outstanding principal balance of $4,876,643 at the time of the sale, and a combined unit count of 160 units. Except for the 2016 WAC calculation, the 2019 and 2016 figures include the sold TELs.

Table 2 reviews CCRC TEL funding activity over the past six fiscal years (loan balances reflect fiscal year-end balances and, due to amortization, are slightly less than the combined original principal balances of the loans funded over the course of the indicated year). As Table 2 shows, CCRC funded only one TEL in FY2021.[1] The drop in fundings comes as CCRC continues to see a substantial increase in the number of projects seeking extensions of forward commitments due to delays in meeting CCRC funding conditions. In FY 2021, across all TEL and loan programs, we approved 31 extensions, compared to 36 in FY 2020. Covid-related interruptions in construction and lease-up were among the chief causes of these delays. Properties that serve special populations also experienced lease-up delays due to targeted outreach and referral requirements and multiple levels of tenant screening. This was most notably true of properties serving homeless and other special needs populations which depend on tenant referrals from housing and public health organizations administering local coordinated entry system programs. We have also seen delays arise as the increasing volume of subordinated debt programs and providers impose additional review and approval procedures on the conversion process.

We currently project fundings in FY 2022 to exceed $50 million, and we expect to reach a funded TEL portfolio balance of about $100 million in the spring of 2022. Based on this projected activity, it seems likely that CCRC will need to conduct a TEL sale by mid-2022.

Table 3: Book of TEL Forward Commitments

Date	Count	Balance	Average	DUs Financed	$/DU	WAC
2021	33	$183,157,569	$5,550,229	2,403	$76,220	3.78%
2020	31	$168,277,187	$5,428,296	2,154	$78,123	3.85%
2019	19	$72,925,552	$3,838,187	1,333	$54,708	4.83%
2018	28	$88,815,377	$3,171,978	2,060	$43,114	4.44%
2017	29	$83,724,475	$2,887,051	2,177	$38,459	4.21%
2016	19	$51,672,022	$2,719,580	1,401	$36,882	4.15%

[1] Not included in the 2021 funding total is a $12.9 TEL funded from the loan pool.

Table 3 presents CCRC's book of forward commitments. As noted, CCRC agrees to fund forward commitments if and when the borrower satisfies loan conversion requirements. Accordingly, the vast majority of forward commitments become funded loans. Forward commitments increased from $168.3 million in 2020 to $183.2 million in 2021. As discussed above, conversion delays were principal factors driving the increase in in the book of forward commitments. And, as discussed below, record origination activity over the past two years has been an even more important factor.

After a nearly 100 basis points drop in 2020 WAC fell 7 basis points in 2021. CCRC benchmarks TEL and loan pricing on the 10-year treasury. Following the sharp drop in treasury rates in March 2020, CCRC set a floor on pricing based on a 10-year treasury rate of 1.3% plus our typical spreads. As of this writing, the floor continues to be in place.

As detailed in Table 4, a surge of new approvals in FY 2020 drove the increase in forward commitments. Early in 2020, CCRC's Board approved a staff proposal to expand CCRC's TEL forward commitment authority; a move that, along with the 2019 TEL sale, has enabled us to meet the rising demand for TEL credit. Prior to the policy change, CCRC could not extend new commitments if the making of a new commitment would have caused the sum of funded TELs plus outstanding TEL commitments to exceed total TEL Program participation commitments. Under this policy, CCRC had to sell TELs (or cease TEL lending) if this sum exceeded $170 million. And, depending on the ratio of forwards to funded TELs, the policy typically obligated CCRC to sell TELs before outstanding TEL balances exceeded $80 million. Although it is generally not our intent to fund TELs with Loan Program proceeds (or if we do, we would do so selectively by choosing TELs with higher interest rates), the new policy provides CCRC with more flexibility by allowing us to offset TEL commitments against excess capital availability in the Loan Program. The policy will also allow CCRC to aggregate larger pools for sale, which will improve TEL sale transactional feasibility.

Table 4: New TEL Loan Approvals

Date	Loans	Balance	Average	DUs Financed	$/DU	WAC
2021	7	$48,336,982	$6,905,283	604	$80,028	3.98%
2020	20	$126,801,587	$6,340,079	1,353	$93,719	3.48%
2019	6	$31,491,800	$5,248,633	406	$77,566	5.04%
2018	12	$43,299,162	$3,608,264	951	$45,530	4.57%
2017	15	$41,515,123	$2,767,675	1,008	$41,186	4.38%
2016	14	$42,919,422	$3,065,673	1,058	$40,567	3.97%

As Table 4 shows, in FY 2021 CCRC approved seven TEL loans totaling $48.3 million. Although well below 2020 total originations of $126.8 million, 2021 was a strong year by historic standards. In fact, in 2021 CCRC offset much of the decline in TEL Program originations with a substantial increase in TEL originations through the CCRC-Baring's partnership, which increased from one $13.6 million transaction in 2020 to eight transactions in 2021 totaling $64.3 million.

In FY 2021, the average TEL amount increased from $6.3 million in 2020 to $6.9 million, a 9.5% year-over-year increase, and 149% higher than the 2017 average. As noted in past reports, statewide AMI growth and an increase in the number of projects with project-based rent subsidies have spurred increases in per-unit rental income and a corresponding increase in per-unit loan proceeds and project loan amounts. Lower interest rates and the growth in

the number of loans with 35-year amortizations have also been factor in these increases. Another important reason for the growth in average loan size over the past year was the increase in the average number of units per project, which jumped from 68 units in 2020 to 86 units in 2021, a 25% increase.

1.2. Geographic Distribution

Figure 2 compares the 2020 and 2021 geographic distributions of CCRC loans. Distributions, which include funded TELs and forward commitments, remain similar to 2020, with the Bay Area continuing to account for over 50% of program activity.

Figure 2: Geographic Exposure by Region (funded TELs and forward Commitments)

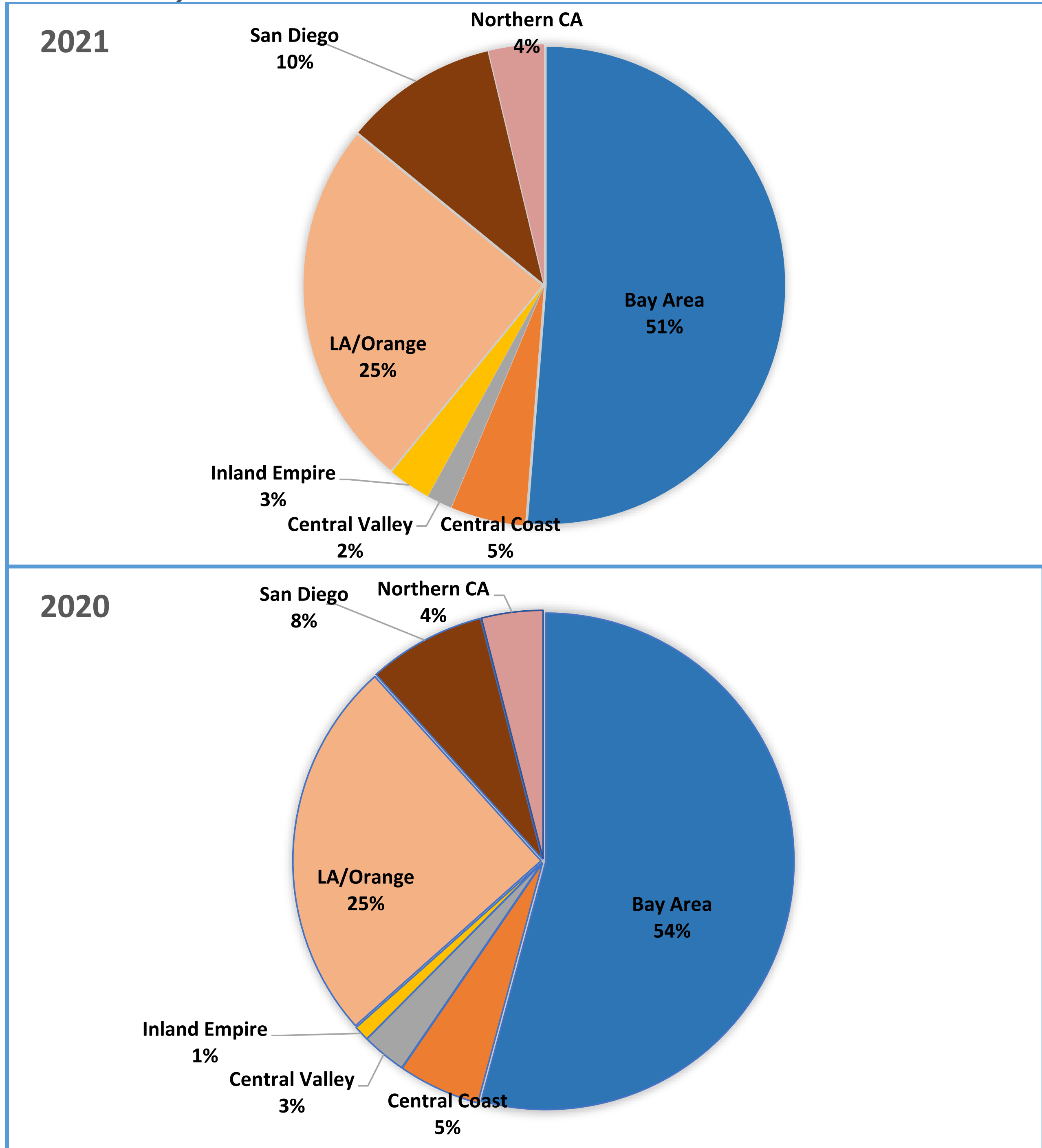


Exhibit I (at the end of this report) shows CCRC TEL exposure by California County.

2. Portfolio Risk Factors

This section of the TEL Portfolio Analysis provides an assessment of TEL portfolio risk factors. As has been the case historically, there were no loan delinquencies in FY 2021 (except for occasional borrower oversights). Accordingly, our analysis does not include a discussion of delinquencies.

2.1. Risk Metrics

Table 5 below shows common risk metrics for funded TELs and forward commitments and further stratifies funded TELs by geography. With few exceptions, CCRC TEL proceeds per unit ($/DU) covers a small fraction of a project's per-unit total development cost. In our experience, LIHTC equity investors and subordinate lenders typically supply about 80%-90% of the funding required to develop a project. This is a key reason for the strong performance of CCRC loans. LIHTC investors also serve an important role in making CCRC loans safe investments. They have the financial resources and economic incentives necessary to support struggling projects and have reliably stood behind properties on those rare occasions when a general partners fail to provide needed support.

Properties that consistently struggle with low DSCRs and that also have high LTV ratios pose the greatest risk of loss to CCRC. They are more likely to default, and in the event of a foreclosure, CCRC will be less likely to recover total principal and accrued interest on its loan. Table 5 suggests that few, if any, properties in the CCRC portfolio are likely to exhibit both symptoms of distress. In aggregate, the portfolio has a healthy weighted average DSCR of 1.55 (compared to 1.47 in FY 2020) and a weighted average LTV ratio of 54% (compared to 56% in 2020), well below the maximum LTV under CCRC's policy, which caps loans at 75% to 85% of the applicable appraised value. With a weighted average age of 25 months, the portfolio is dominated by new loans.

Table 5: Risk Metrics by Costal/Inland

Risk Parameter	Coastal	Inland	Total	Forward Commitments
1. Count	19	1	20	33
2. Balance	$66,420,579	$2,334,099	$68,754,678	$183,157,569
3. $/DU	$47,073	$38,902	$46,740	$76,220
4. WAC	4.38%	4.63%	4.39%	3.78%
5. DSCR	1.56	1.28	1.55	1.19
6. LTV	53%	81%	54%	61.7%
7. Occupancy	96%	99%	96%	N/A
8. Maturity	237	193	236	N/A
9. Age	25	27	25	N/A
10. Risk Rating	6.06	6.00	6.06	N/A
11. Loans >30 Yr Amort	8	1	9	15
$ >30 Yr Amort	41,490,854	2,334,099	43,824,953	107,506,982
% $ >30 Yr Amort	62%	100%	64%	59%
12. Loans <30 Yr Amort	9	0	9	16
$ <30 Yr Amort	14,532,985	0	14,532,985	64,535,587
% $ <30 Yr Amort	22%	0%	21%	35%
13. Loans =30 Yr Amort	2	0	2	2
$ =30 Yr Amort	10,396,740	-	10,396,740	11,115,000
% $ =30 Yr Amort	16%	0%	15%	6%

As averages, the indicators presented in Table 5 can conceal variances within the portfolio, masking risks that a more granular view of the portfolio can expose. Table 6 (an LTV-DSCR matrix) provides additional insights into the LTV and DSCR characteristics of CCRC TEL loans. The LTV-DSCR matrix shows that the greatest vulnerabilities in the CCRC TEL portfolio involve low DSCRs, and that no property has both a low DCR and a high LTV. In FY 2021, one property, with a principal balance of $4,293,019 (6.24% of the TEL portfolio), had a DSCR of less than 1.00 (based on 2020 audit). The LTV ratio for this property is 70%, and the highest LTV ratio in the TEL portfolio is 81%. This analysis underscores a common feature of affordable housing underwriting: debt coverage is the primary constraint on lending, capping loan amounts far below LTV policy limits.

In Table 5, metric number 10 is the weighted average loan risk rating. Loan risk ratings, which CCRC assigns as prescribed in its Loan Policy and Procedures Manual, range from 6 (Pass) to 9 (Doubtful), with watch-rated loans assigned a 6.5. The FY 2021 aggregate risk rating of 6.06 is slightly higher than last year's rating of 6.01. Three TELs are on the watch list, but none have ratings of 7 or above.

Table 5 shows that most of CCRC's funded TEL exposure is in Coastal areas. Coastal debt service coverage, risk ratings and vacancy rates tend to be superior to those on Inland projects while $/DU tend to be higher. However, due to the 2019 TEL sale and the payoff of a TEL in Fresno County in 2021, there is currently only one TEL transaction located in an inland area, making it impracticable to identify variances in performance between inland and coastal areas.

Metric number 11 of Table 5 shows that 24 TELs, 9 funded and 15 forward commitments, have amortization periods of over 30 years. CCRC's forward commitment pipeline contains a higher proportion of projects with 35-year amortization periods. CCRC's move toward offering TELs with longer amortization periods reflects competitive trends among affordable housing lenders. But, as noted in Loan Portfolio Analysis, a counter-trend has emerged over the past few years: an upturn in the number of TELs with amortization periods of *less than 30 years*. Table 5 presents data detailing this trend. Among forward commitments, 16 TELs, with a dollar value equal to 35% of all outstanding commitments, had amortization periods of less than 30 years. There appear to be two chief causes underlying this trend: (1) 15 or 20-year HAP contracts without satisfactory renewal provisions, and (2) permanent supportive housing projects with sub-30-year HAP contracts and/or supportive services agreements.

Table 6: DSCR-LTV Matrix

LTV	Less than 1.0x	1.00-1.14	1.15--1.29	1.30-1.49	1.50 to 1.79	Greater than 1.79	Total
0%--49.x%	-	1,300,356	5,996,323	-	7,751,496	6,761,275	21,809,450
50%-59.x%		9,789,621		-	5,890,021		15,679,642
60%-69.x	-		12,959,782	-	2,552,434	5,532,813	21,045,030
70%-79.x%	4,293,019		-	-		3,593,438	7,886,457
80%-89.x%	-	-	2,334,099	-		-	2,334,099
Total	**4,293,019**	**11,089,977**	**21,290,204**	**-**	**16,193,951**	**15,887,526**	68,754,678
	6.24%	16.13%	30.97%	0.00%	23.55%	23.11%	100.00%

2.2. Loan Concentrations

CCRC monitors its exposure to "sponsors" and LIHTC investors. These concentration levels are less critical for CCRC than they are for the assessment of traditional lending portfolios because nearly all CCRC borrowers are stand-alone, single-asset entities that cannot provide cross-support to other properties. In addition, usually 90% of a LIHTC investor's equity has been funded before a CCRC loan closes, and loans are non-recourse beyond the real estate security.

Table 7 shows CCRC's exposure to the top 5 sponsors--this year and last--as measured by loan balances and commitments. This year's top-5 list features 1 new member, XXXXXX, while XXXXXX dropped off the list. Between FY 2020 and FY 2021, CCRC's total exposure to the top 5 sponsors increased from 41% to 46%.

Table 7: CCRC Exposure to Sponsors (funded TELs and forward commitments)

2021 Rank	Sponsor	2021 Exposure	% of Total Exposure	Number of Projects	2020 Exposure	2020 Rank
1	XXXXXX	26,447,149	10%	7	26,714,400	1
2	XXXXXX	25,520,618	10%	2	3,653,035	22
3	XXXXXX	24,508,037	10%	3	16,587,046	4
4	XXXXXX	19,970,000	8%	1	19,970,000	2
5	XXXXXX	19,535,813	8%	3	16,569,242	5
		115,981,617	46%			41%

[1]2020 percentage of total exposure is based on 2020's top five sponsors.

Table 8 summarizes CCRC's exposure to LIHTC investors, affiliates of which serve as investor limited partners of CCRC borrowers. In FY 2021, the top 5 investors accounted for 69% of CCRC's total LIHTC investor exposure, down from 78% in FY 2020.

Table 8: CCRC Exposure to LIHTC Investors (funded TELs and forward commitments)

2021 Rank	Tax Credit Investor	2021 Exposure	% of Total Exposure	2020 Exposure	2020 Rank
1	Wells Fargo	102,888,103	40.84%	151,429,965	1
2	Boston Capital	20,743,037	8.23%	20,887,046	4
3	National Equity Fund	18,158,329	7.21%	31,181,619	3
4	US Bank	17,105,000	6.79%	12,272,800	4
5	Raymond James	15,506,641	6.16%	15,573,000	6
		174,401,111	**69%**		**78%**

[1] 2020 percentage of total exposure is based on 2020's top 5 tax credit investors.

2.3. Risk Ratings

Figure 3 shows changes in the ratio of problems loans (rated 7 and over) to total funded loans. At FYE 2021, there were no TELs with ratings of 7 or higher. In 2020, there was one

7-rated TEL and no 8s, and the ratio of problem TELs to total TELs was .95%, compared to 2% at FYE 2019 and 4% in 2018. Exhibit II provides additional detail on CCRC's problem loans.

Figure 3: Problem TEL Loans (FYs 2006-2021)

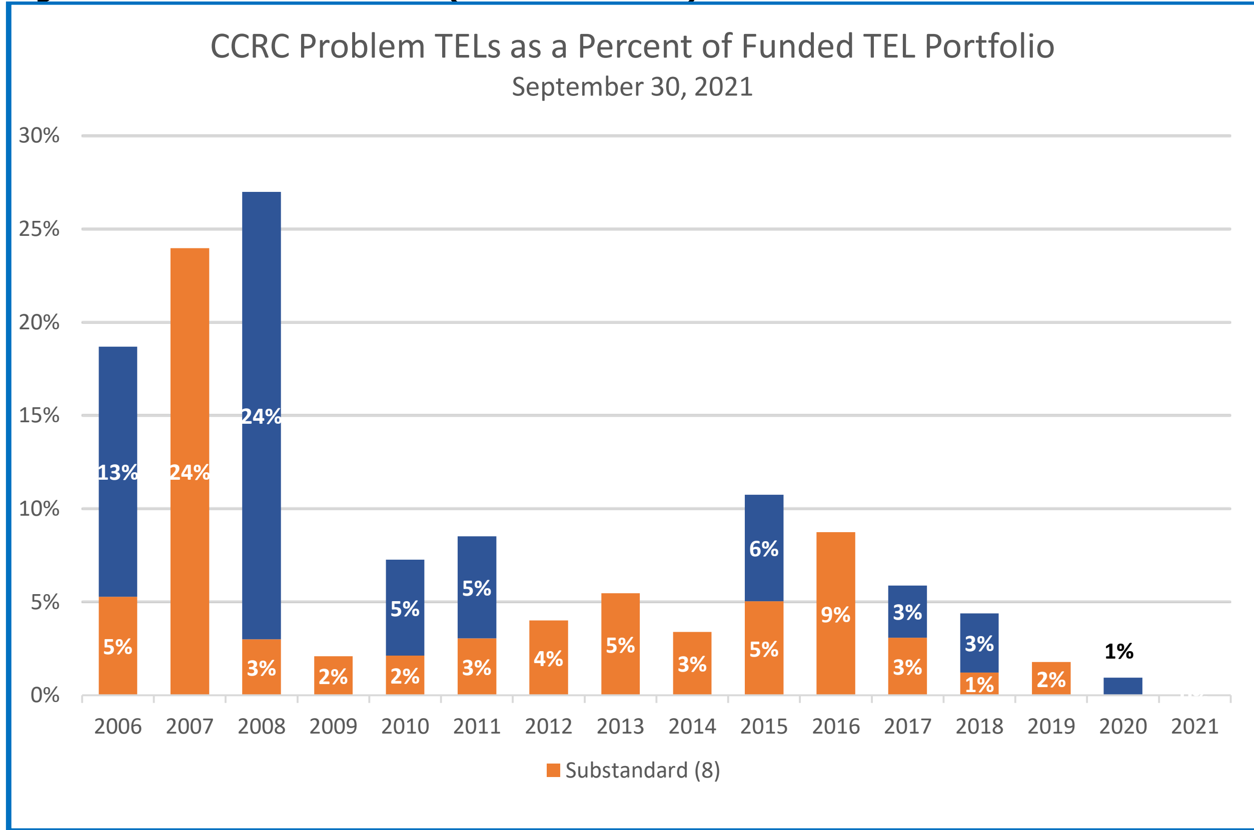


Exhibit I: 2021 CCRC TEL Exposure by County

(Funded Loans and Forward Commitments)

County	CCRC Exposure	% of CCRC Exposure
Los Angeles	57,171,832	22.70%
San Francisco	55,288,225	21.95%
Alameda	41,500,130	16.47%
San Diego	24,618,221	9.77%
Santa Clara	14,188,149	5.63%
Napa	7,369,019	2.93%
Ventura	7,352,049	2.92%
Contra Costa	6,103,721	2.42%
Solano	5,932,000	2.35%
Orange	5,760,000	2.29%
Santa Barbara	5,400,000	2.14%
Riverside	4,941,802	1.96%
Sonoma	4,842,000	1.92%
Fresno	4,300,000	1.71%
San Bernardino	2,334,099	0.93%
Nevada	1,707,000	0.68%
Placer	1,600,000	0.64%
Imperial	1,504,000	0.60%
Grand Total	251,912,247	100.00%

Exhibit II: Criticized and Classified TEL Loans

None