California Community Reinvestment Corporation

CCRC 2022 Tax Exempt Loan Portfolio Analysis

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Introduction

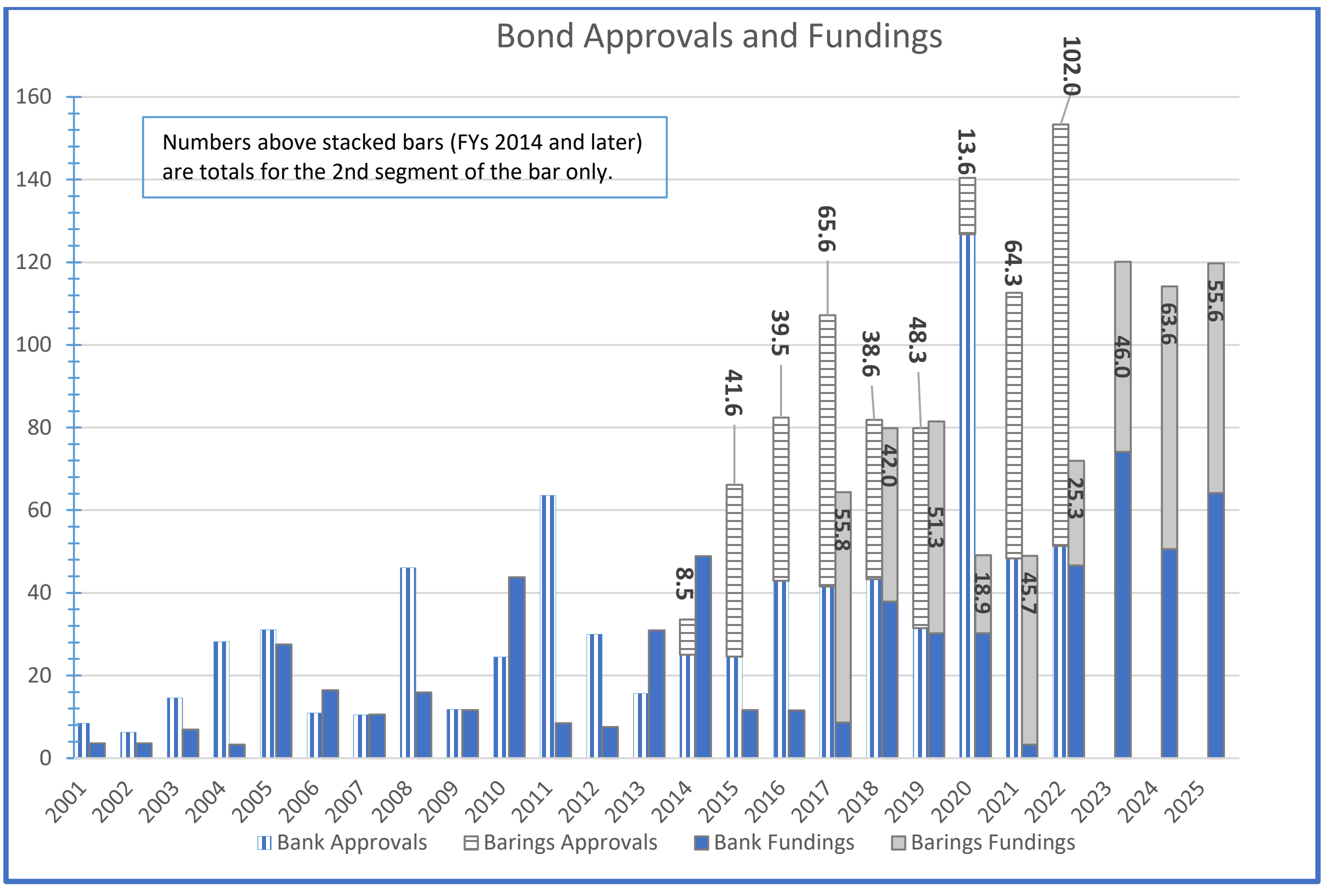
The CCRC 2022 Tax Exempt Loan Portfolio Analysis describes CCRC's portfolio of tax-exempt loans (TELs), including forward commitments, which CCRC manages for a subset of its member banks (CCRC's "TEL Program"). The primary audience for this report is the banks participating in the TEL Program. Historically, 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, 2022.

CCRC started the TEL Program 21 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") 2022, and projected fundings of current forward commitments through 2025. In 2022, CCRC approved $153.3 million in new TEL commitments. Of this total, we approved $51.3 million through the bank TEL Program and $102 million through Barings.

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



Funding dates after 2022 are projections reflecting current commitments. 2023 and 2024 figures may be different than figures presented in the 2021 TEL Portfolio Analysis due to revised projected funding dates.

Program Changes

(The proceeding discussion about program changes is from the 2021 TEL Portfolio Analysis)

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, twenty-two of the forty 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

The 2020 and 2021 Portfolio Analyses provided detailed summaries of COVID-19 impacts and related issues. In our view, most of the critical concerns associated with COVID have receded in impact. However, echoes of the most acute phases of the pandemic continue to reverberate in the form of delinquent rents and bad debt expenditures incurred when a borrower elects to write off rent's receivable.

In FY 2022, we did not receive a single forbearance request (although our forbearance initiative technically expired prior to the end of 2021). During the course of the pandemic, we approved two forbearance requests, both in 2020. One was a bank-funded loan, and the other was a bond that we had previously sold and now service on behalf of an investor.

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. S&P reaffirmed CCRC's A+ stable rating in September 2022.

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.

Table 1 shows that in 2022, the TEL pool balance fell to $18.45 million from $68.75 million at the end of 2021. The decline stemmed from a TEL sale to East West Bank (EWB) in August 2022, consisting of 25 TELs totaling $95 million. Immediately ahead of the sale, the TEL pool balance peaked at $98.6 million. CCRC continues to service all TELs included in the EWB sale.

Table 1: CCRC Portfolio of Funded TELs

Fiscal Year	Loans[1]	Balance	Average	DUs Financed[2]	$/DU	WAC[3]
2022	6	$18,450,882	$3,075,147	377	$48,941	3.63%
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%

[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.

As part of our ongoing efforts to recycle TEL pool capital, CCRC conducts a TEL sale about every two to three years. 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.

Table 2: TELs Funded During FY

Fiscal Year	Loans	Balance	Average	DUs Financed	$/DU	WAC
2022[1]	10	$46,555,043	$4,655,504	664	$70,113	3.87%
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%

[1] Of the 10 TELs funded in 2022, CCRC sold 6 in the same fiscal year. These TELs, which were included in the EWB, had a combined principal balance $29.5 million at the time of sale, and a combined unit count of 437.

Table 2 reviews CCRC TEL funding activity over the past six fiscal years. As Table 2 shows, CCRC funded 10 TELs in FY 2022 totaling $46.55 million, a sizable increase over 2021 during which we funded only one TEL.

The decline in fundings in 2021 reflected broader construction and lease-up challenges related to COVID. Over the past several years, we have seen a substantial increase in the number of projects seeking extensions of forward commitments due to delays in meeting CCRC funding conditions. However, the trend appears to be improving. In FY 2022, across all TEL and loan programs, we approved 14 extensions involving $57 million in forward commitments, compared to 31 extensions in 2021 and 36 in FY 2020. COVID-related interruptions in construction and lease-up were among the chief causes of these delays. COVID-related delays are manifested in construction interruptions (attributable to supply chain issues and labor shortages), and to some extent lease-up delays, which were no doubt a bigger factor in the earlier, pre-vaccine, phases of the pandemic. Properties that serve special needs populations may also lease-up sluggishly due to targeted outreach and referral requirements and multiple levels of tenant screening. This is most notably true of properties serving homeless and other special needs populations, and that 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.

Table 3: Book of TEL Forward Commitments

Date	Count	Balance	Average	DUs Financed	$/DU	WAC
2022	34	$188,832,523	$5,553,898	2,427	$77,805	4.01%
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%

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 $183.2 million in 2021 to $188.8 in 2022. As discussed above, conversion delays were principal factors driving the increase 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 falling sharply in 2020 and 2021, WAC increased 23 basis in 2022.

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 also allows 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
2022	11	$51,346,003	$4,667,818	688	$74,631	4.44%
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%

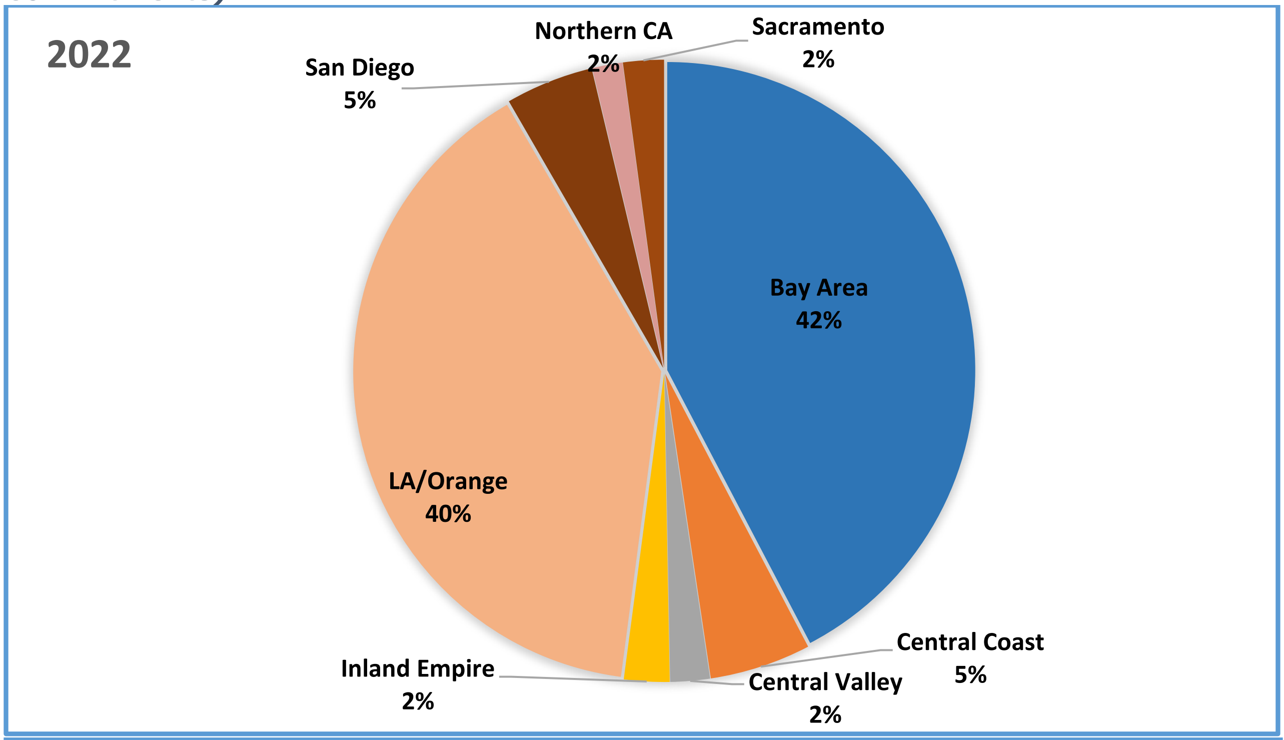
As Table 4 shows, in FY 2022 CCRC approved eleven TEL loans totaling $51.3 million. Although well below 2020 total originations of $126.8 million, 2022 (like 2021) was a strong year by historic standards. In fact, if we include originations under the Barings program, combined TEL originations totaled $153.4 million, breaking the previous record of $140.4 million se in 2020.

In FY 2022, the WAC increased 46 basis points, to 4.44%, reflecting the steep and steady rise in rates over the course of the year.

1.2. Geographic Distribution

Figure 2 compares the 2021 and 2022 geographic distributions of CCRC loans. Distributions, which include funded TELs and forward commitments, remain similar to 2021, with the exception of LA/Orange, which increased its relative exposure from 25% to 45%.

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



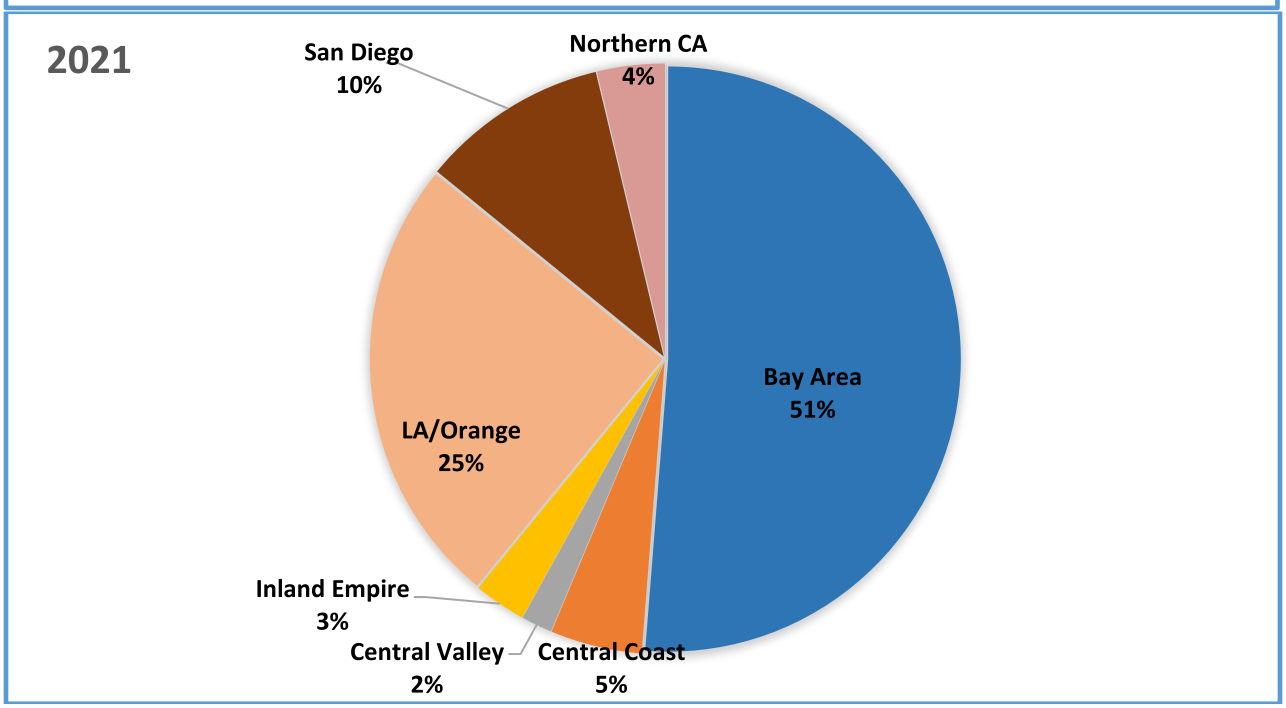


Exhibit I (at the end of this report) shows CCRC TEL exposure by California County.

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 2022 (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.

When reviewing Table 5, it becomes quickly apparent that the August 2022, $95 million TEL sale left CCRC's TEL program with just a handful of loans and little to discuss in this report with respect to risk metrics, particularly with respect to year-over-year trends. At the end of FY 2022, there were six loans in the TEL portfolio with an outstanding balance of $18.45 million, and with all properties located in coastal areas. Among the remaining TELs are four loans that we converted in the second half of 2022, past the deadline for inclusion in the EWB sale. We excluded another loan from the sale due to it having a small principal balance and a near-term maturity. Finally, during the pre-sale underwriting period, we removed a 7-rated loan from consideration due to property performance concerns stemming principally from delinquent rent write-offs and occupancy issues related to COVID.

With a principal balance of $16.7 million and representing 91% of the portfolio, the four newly funded loans (all of which were funded by CCRC between late June and late September 2022) dominate the risk metric figures. Operating performance data for new loans reflect underwriting projections rather than being a pure representation of actual performance, a fact that will typically make figures such as DSCR and occupancy look worse than they actually are. This is the main reason for the decline in DSCR, which fell to 1.16, from 1.55 in 2021 and 1.47 in 2020. It also explains the lower occupancy rate of 95%, compared to 96% in 2021 and 99% in 2022. The dominance of new loans in the portfolio is also reflected in the low, 10-month weighted average age of the portfolio.

Table 5: Risk Metrics by Costal/Inland

Risk Parameter	Coastal	Inland	Total	Forward Commitments
1. Count	6	0	6	34
2. Balance	$18,450,882	$0	$18,450,882	$188,832,523
3. $/DU	$48,941	NA	$48,941	$77,805
4. WAC	3.63%	NA	3.63%	4.01%
5. DSCR	1.16	NA	1.16	1.19
6. LTV	49%	NA	49%	60.4%
7. Occupancy	95%	NA	95%	N/A
8. Maturity	267	NA	267	N/A
9. Age (months)	10	NA	10	N/A
10. Risk Rating	6.06	NA	6.06	N/A
11. Loans >30 Yr Amort	1	0	1	16
$ >30 Yr Amort	11,357,161	-	11,357,161	121,215,390
% $ >30 Yr Amort	62%	NA	62%	64%
12. Loans <30 Yr Amort	4	0	4	15
$ <30 Yr Amort	7,093,721	0	7,093,721	56,153,133
% $ <30 Yr Amort	38%	NA	38%	30%
13. Loans =30 Yr Amort	0	0	0	3
$ =30 Yr Amort	-	-	-	11,464,000
% $ =30 Yr Amort	0%	NA	0%	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 TELs. The 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 2022, one property, with a principal balance of $1,182,234 (6.41% of the TEL portfolio), had a DSCR of less than 1.00 (based on 2021 audit). The LTV ratio for this property is 17%, the lowest LTV ratio in the TEL portfolio, while the highest LTV in the portfolio is only 58%. 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 2022 aggregate risk rating of 6.06 is identical to last year's rating. Aside from the single loan with a risk rating of 7, we have rated all other loans as 6s.

Metric number 11 of Table 5 shows that 17 TELs, 1 funded and 16 forward commitments, have amortization periods of over 30 years. CCRC's move toward offering TELs with longer amortization periods reflects competitive trends among affordable housing lenders. But a countertrend 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, 15 TELs, with a dollar value equal to 30% of all outstanding commitments, had amortization periods of less than 30 years.

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%	1,182,234	-	4,835,471	1,935,487	-	-	7,953,192
50%-59.x%		-	10,497,691	-	-		10,497,691
60%-69.x	-		-	-	-	-	-
70%-79.x%			-	-		-	-
80%-89.x%	-	-	-	-		-	-
Total	**1,182,234**	**-**	**15,333,161**	**1,935,487**	**-**	**-**	18,450,882
	6.41%	0.00%	83.10%	10.49%	0.00%	0.00%	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 2021 and FY 2022, CCRC's total exposure to the top 5 sponsors increased from 46% to 47%.

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

2022 Rank	Sponsor	2022 Exposure	% of Total Exposure	Number of Projects	2021 Exposure	2021 Rank
1	XXXXXX	24,431,408	12%	4	24,508,037	3
2	XXXXXX	21,927,180	11%	1	25,520,618	2
3	XXXXXX	19,970,000	10%	1	19,970,000	4
4	XXXXXX	17,999,000	9%	3	1,770,000	29
5	XXXXXX	14,003,000	7%	2	19,535,813	5
		98,330,588	47%			46%

[1]2021 percentage of total exposure is based on 2021'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 2022, the top 5 investors accounted for 77% of CCRC's total LIHTC investor exposure, up from 69% in FY 2021.

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

2022 Rank	Tax Credit Investor	2022 Exposure	% of Total Exposure	2021 Exposure	2021 Rank
1	Wells Fargo	88,864,871	42.87%	102,888,103	1
2	US Bank	28,746,487	13.87%	17,105,000	4
3	Bank of America	15,363,672	7.41%	14,731,423	6
4	Enterprise	14,588,000	7.04%	10,588,000	7
5	National Equity Fund	11,913,133	5.75%	18,158,329	3
		159,476,163	**77%**		**69%**

[1] 2021 percentage of total exposure is based on 2021'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 2022, there was one TEL with a rating of 7 and no 8-rated loans. In 2021, there were no loans rated 7 or higher, and in 2020, there was one 7-rated TEL and no 8s. Exhibit II provides additional detail on CCRC's problem loans.

Figure 3: Problem TEL Loans (FYs 2006-2022)

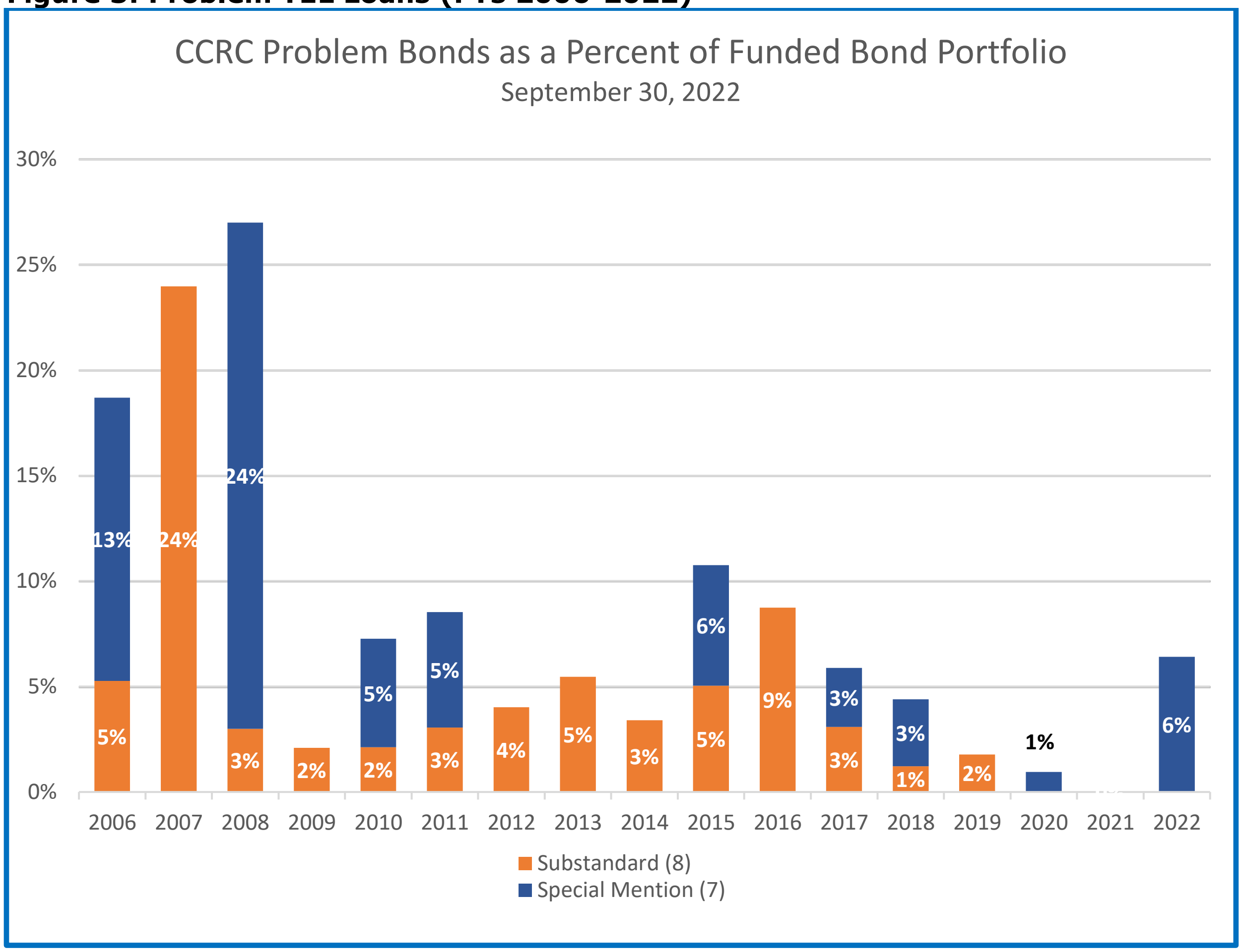


Exhibit I: 2022 CCRC TEL Exposure by County

(Funded Loans and Forward Commitments)

County	CCRC Exposure	% of CCRC Exposure
Los Angeles	76,241,028	36.78%
San Francisco	47,220,414	22.78%
Alameda	26,691,000	12.88%
San Diego	8,065,000	3.89%
Ventura	6,521,691	3.15%
Solano	5,897,000	2.84%
Orange	5,760,000	2.78%
Riverside	4,941,802	2.38%
Sonoma	4,835,471	2.33%
Santa Cruz	4,494,000	2.17%
Sacramento	4,429,000	2.14%
Fresno	4,300,000	2.07%
Napa	3,076,000	1.48%
Nevada	1,707,000	0.82%
Placer	1,600,000	0.77%
Imperial	1,504,000	0.73%
Grand Total	**207,283,405**	**100.00%**

Exhibit II: Criticized and Classified TEL Loans

Bond Loan Name	9/30/2022 Balance	Loan Class
XXXXXX	1,182,234	7
Total	**1,182,234**	