California Community Reinvestment Corporation

CCRC 2021 Loan Portfolio Analysis

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Introduction

The CCRC 2021 Loan Portfolio Analysis describes CCRC's owned portfolio of mortgage loans and forward commitments, analyzes its credit quality and estimates an appropriate allowance for loan losses for FYE 2020. Loans and forward commitments addressed in this report are as follows:

1. Loans funded by CCRC;
2. Loans funded by CCRC's bank credit line;
3. Loans funded by CCRC's Bank of America ("B of A") credit line;
4. Loans funded with participations from the pension plan of the United Methodist Church ("UMC" or "PSP"); and
5. Forward loan commitments that CCRC intends to fund from any of the above four funding sources.

This report does not cover CCRC's serviced portfolio of tax exempt bonds that are owned by a consortium of banks (a separate report covers this portfolio), loans originated for the Cornerstone/Barings Fund (these commitments and bonds are wholly owned by an entity unaffiliated with CCRC), loans and bonds that CCRC only services for investors, and a single commercial mortgage held by CCRC to secure a loan on an office property.

Unless otherwise noted, loan balances and commitment amounts are as of September 30, 2020. (See the footnote below for a reconciliation between the total loan amounts reported in this report and the amount reported on CCRC's audit as "Gross loans receivable"). [1]

Loan Sale

In November 2020, CCRC completed a $189.5 million securitized loan sale with Freddie Mac, comprising 76 bank- and CCRC-funded loans on 66 properties. As with the 2017 loan sale, we sold the loans using Freddie Mac's Series-Q securitization program. But unlike the 2017 sale, the 2020 sale (Q-0014) employed an alternative structuring option. In the 2017 Q-series securitization, Freddie Mac guaranteed 85% of the loan pool, and we issued first-loss B-bonds on the remaining 15%, which we sold to a third-party investor. On the 2020 Series-Q transaction, Freddie Mac guaranteed the entire pool, and we entered into a Reimbursement Agreement with Freddie Mac that obligates CCRC to reimburse Freddie Mac for amounts it pays under its guarantee up to an amount equal to 10% of the principal balance of loans as of the settlement date. We secured our obligation by retaining 10% of the Q-014 A-certificates and posting them.

The loan sale was the largest in CCRC history, comprising 62% of CCRCs funded loan portfolio (including PSP loans). As such, it dominates year-over-year changes in many portfolio metrics reviewed in this Loan Portfolio Analysis and overshadows other variables that might typically reveal trends.

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[1]Reconciliation of Gross Loans Receivable (Audit) vs Total Loans (2021 Portfolio Analysis)	
Total Loans (Portfolio Analysis)	$ 159,572,076
Eden Central Office Loan	550,631
UMC Loan Total	(69,402,209)
CCRC's share of UMC loans	7,076,989
Gross Loans Receivable (Audit)	**$ 97,797,487**

Balances reported herein are as of 10/8/2021. As of 9/30/2021, total loans balance was $159,832,209, $260,133 higher than the 10/8/2021 balance of $159,572,076.

COVID-19 Impacts

The 2020 Portfolio Analysis 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 bond 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 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. Notably, the S&P review of asset quality encompassed the same portfolio of loans reviewed in this Portfolio Analysis, providing third-party validation of the strength of the CCRC loan portfolio. The rating is also an endorsement of CCRC as a borrower under its bank pool and Bank of America credit lines.

1. Characteristics of CCRC's Loan Portfolio

CCRC typically approves a 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, 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 loan per the terms of the forward commitment agreements.

1.1. Descriptive Statistics

Tables 1 through 5 summarize CCRC's loan portfolio, book of forward commitments and loan origination activity over last 5 fiscal years.

Table 1: CCRC Portfolio of Funded Loans

Fiscal Year	Loans[1]	Balance	Average	DUs[2] Financed	$/DU	WAC[3]
2021	80	$159,572,076	$1,994,651	4,904	$32,539	6.27%
2020	134	$305,425,609	$2,279,296	8,089	$37,758	5.88%
2019	122	$261,529,266	$2,143,683	7,337	$35,645	6.02%
2018	109	$213,221,525	$1,956,161	6,658	$32,025	6.25%
2017	176	$339,258,590	$1,927,606	10,598	$32,012	6.29%

[1]Projects with multiple loans are counted as having a single loan with a balance equal to the total balance of the combined tranches. There are 86 funded loans on 80 projects. [2]Dwelling Unit. [3]Weighted Average Coupon.

In 2021, two loans paid off, with a combined liquidation balance of $6.94 million.

Table 1 shows that CCRC had an outstanding loan balance of over $159.57 million at FYE 2021, a 48% year-over-year decrease in outstanding loans receivable. CCRC held loans on 80 projects, 40% less the 2020 total of 134. The average loan size of $1.99 million and average loan amount per unit of $32,539 are below levels reported over the prior two years, while the WAC increased from 5.88% to 6.27%. The November 2020 loan sale was the overwhelming factor contributing to the year-over-year changes reported in Table 1. The post-sale portfolio's higher WAC reflects the temporary dominance of older higher interest rate loans on portfolio metrics. This is particularly true of the UMC/PSP sub-portfolio, which accounts for 43% of the overall portfolio (compared to 28.4% in 2020), has a weighted average age of 124 months, and a weighted average coupon of 7.13%. Over time, the influence of these older loans on overall portfolio metrics will recede as CCRC funds new loans. Table 6 breaks out the balances of the different components of the funded loan portfolio (bank funded, UMC/PSP, Bank of America, and CCRC funded).

Table 2: Loans Funded During

Fiscal Year	Count	Balance	Average	DUs Financed	$/DU	WAC
2021	14	$54,886,294	$3,920,450	838	$65,497	5.42%
2020	18	$57,757,941	$3,208,775	999	$57,816	5.40%
2019	16	$61,071,879	$3,816,992	885	$69,008	5.33%
2018	11	$30,594,985	$2,781,362	696	$43,958	5.31%
2017	14	$39,326,778	$2,809,056	844	$46,596	5.29%

Table 2 reviews CCRC funding activity over the past five fiscal years (loan balances reflect fiscal year-end balances and, due to amortization, are slightly less than the sum of the original principal balances of loans funded over the course of the indicated year). Historically, these portfolio variables have tended to fluctuate within narrow ranges. But beginning in 2017 we began to see increases in loan amount per unit and average loan amount. These increases became even more pronounced in 2019, with the average loan amount climbing 37% and

loan amount per unit rising 57% over 2018 levels. In FY 2020, these values declined relative to 2019 but resumed their upward trend in 2021. In FY 2021, WAC increased by two basis points. The 2021 funding total of $54.87 million was a bit less than the 2019 and 2020 funding total (the second-highest in CCRC history), but well above historical averages.

Over the past two years, CCRC has seen a substantial increase in the number of projects seeking extensions of forward commitments due to delays in meeting CCRC funding conditions. In FY 2021, 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 may also experience lease-up delays 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 Forward Commitments

Fiscal Year	Count	Balance	Average	DUs Financed	$/DU	WAC
2021	45	$188,536,671	$4,189,704	3,008	$62,678	4.32%
2020	39	$124,603,109	$3,194,952	2,319	$53,731	4.79%
2019	42	$144,822,121	$3,448,146	2,517	$57,538	5.42%
2018	39	$139,645,380	$3,580,651	2,390	$58,429	5.41%
2017	36	$125,070,988	$3,474,194	2,273	$55,025	5.28%

Table 3 reviews CCRC's book of forward commitments. As noted, CCRC agrees to fund a forward commitment when the borrower satisfies loan conversion requirements. Accordingly, the vast majority of forward commitments become funded loans. In 2021, CCRC's book of forward commitments increased by 44%. WAC fell by 47 basis points, following a 63-basis point drop in 2020. CCRC benchmarks loan and bond 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.

Average loan size and average loan proceeds per unit increased sharply in 2021 following modest declines in 2020. Reasons we are seeing increases in average loan size remain consistent with the factors identified in the 2016-2019 Portfolio Analyses, which noted a movement among borrowers to request loans with 35-year amortization periods in lieu of the more traditional 30-year amortizing loan. Since affordable housing loans are rarely LTV-constrained, CCRC and other affordable housing lenders have been able to use the 35-year amortization option to offer larger loans without a reduction in debt coverage. While this trend persists, an interesting counter-trend emerged in 2019: fully amortizing loans with terms of less than 30 years. This trend continued among newly approved loans in both 2020 and 2021. However, unlike 2019 and 2020, in 2021 we approved relatively fewer loans with amortization periods of less than 30 years (4 loans, $18.9 million) compared to the number of loans with amortization periods of more than 30 years (11 loans, $69.9 million). In the Portfolio Risk Factors section of this report, we discuss the likely origins of this trend. Another factor contributing to larger loan amounts may be the increasing prevalence of developments with

project-based HAP contracts. If a project does not have a project-based rent subsidy, CCRC underwrites to restricted rents, which equal about 30% of the household AMI levels that the project owner commits to serve. With a long-term HAP contract in place, an owner can meet its AMI commitments while charging higher rents. Our credit policy guidelines let us underwrite to these higher HAP contract rents, allowing projects with HAP contracts to support larger first mortgages. Sharp increases in AMI over the past five years in urban coastal areas have increased affordable rent levels, allowing projects to support larger first mortgages. Finally, since LTV is typically not a factor in constraining loan size, low-interest rates have also allowed CCRC to provide larger loans.

CCRC's forward commitments will take out construction loans provided by the 7 banks shown in Table 4, compared to seven banks in 2020 and 11 banks in 2019. While Wells Fargo remains the top construction lender, supplying 42% of all construction credit, its percent share of total construction financing fell seven percentage points. For the second consecutive year, Bank of America increased construction lending activity both in absolute and percentage terms, up from $15.9 million (11% share) in 2019 to $28.4 (23% share) in 2020, and increasing again in 2021 to $59.66 million (32% share).

Table 4: Construction Lenders

Construction Lender	Loans	CCRC Loan Commitment	% Share
Wells Fargo Bank	20	78,736,122	42%
Bank of America	14	59,661,053	32%
Capital One	3	17,161,611	9%
US Bank	5	17,142,256	9%
JP Morgan Chase Bank	1	6,344,000	3%
Bank of the West	1	5,543,629	3%
MUFG Union Bank	1	3,948,000	2%
Grand Total	**45**	**188,536,671**	**100.00%**

Table 5 shows loans approved over the past five years. In 2021, we approved over $104.45 million in new mortgages, a record year of originations for CCRC, and nearly twice 2020 new approvals. In both 2020 and 2021, we originated loans on 18 properties; thus, larger loans impelled the surge in 2021. The average loan amount was $5.8 million, far above the previous record of $3.8 million in 2017. In 2021, we averaged 76 units per-project, which matched the record level we achieved in 2013, while loan proceeds per-unit jumped to $76,465, much higher than the previous record of $60,509 attained in 2017. In past reports, we have noted that the federal 9% LIHTC allocation caps placed a ceiling on the growth of CCRC's conventional loan program, causing year-to-year origination levels to fluctuate within a limited range, and for the most part limiting growth opportunities to gains in market share. In June 2020, however, CTCAC approved a plan to award $1 billion in Federal Disaster-Relief LIHTCs to counties impacted by wildfires in 2017 and 2018. CTCAC awarded these Credits during July 2020, March 2021, and July 2021 application rounds, substantially increasing the 9% LIHTC pie in 2021 and 2022. In FY 2021, CCRC made on commitment on one project receiving disaster credits, a $19.2 million development in Santa Rosa.

Table 5: New Loan Approvals

Date	Loans	Balance	Average	DUs Financed	$/DU	WAC
2021	**18**	**$104,450,774**	**$5,802,821**	**1,366**	**$76,465**	**4.14%**
2020	18	$59,176,144	$3,287,564	1,090	$54,290	4.12%
2019	19	$60,428,896	$3,180,468	1,012	$59,712	5.32%
2018	14	$43,178,392	$3,084,171	813	$53,110	5.61%
2017	21	$79,993,288	$3,809,204	1,322	$60,509	5.37%

Figures 1 and 2 show CCRC's loan portfolio (funded loans and forwards combined) by loan and project size. Between 2017 and 2018, the increase from 2 to 6 in the number of loans with balances of less than $250,000 resulted from 4 older loans amortizing below this threshold in 2018.

Figure 1: CCRC Portfolio by Loan Size (funded and forward commitments combined)

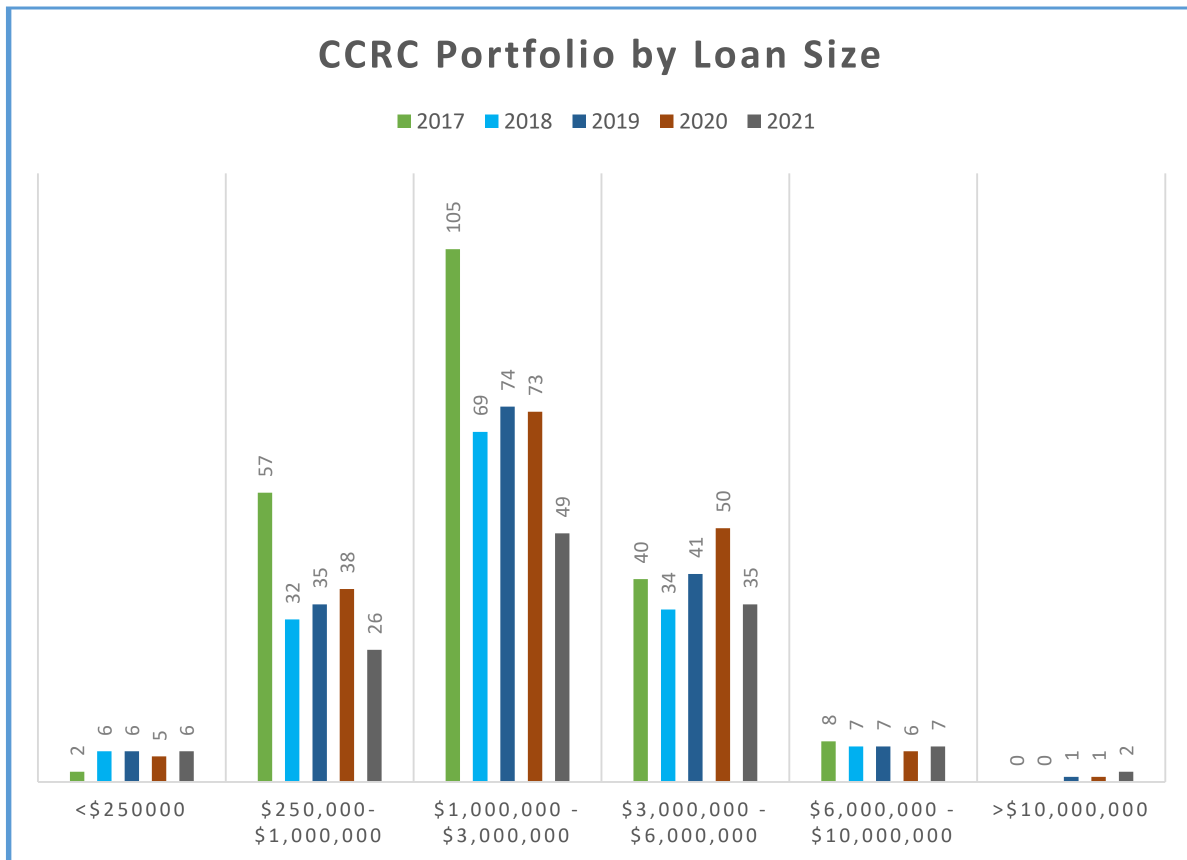
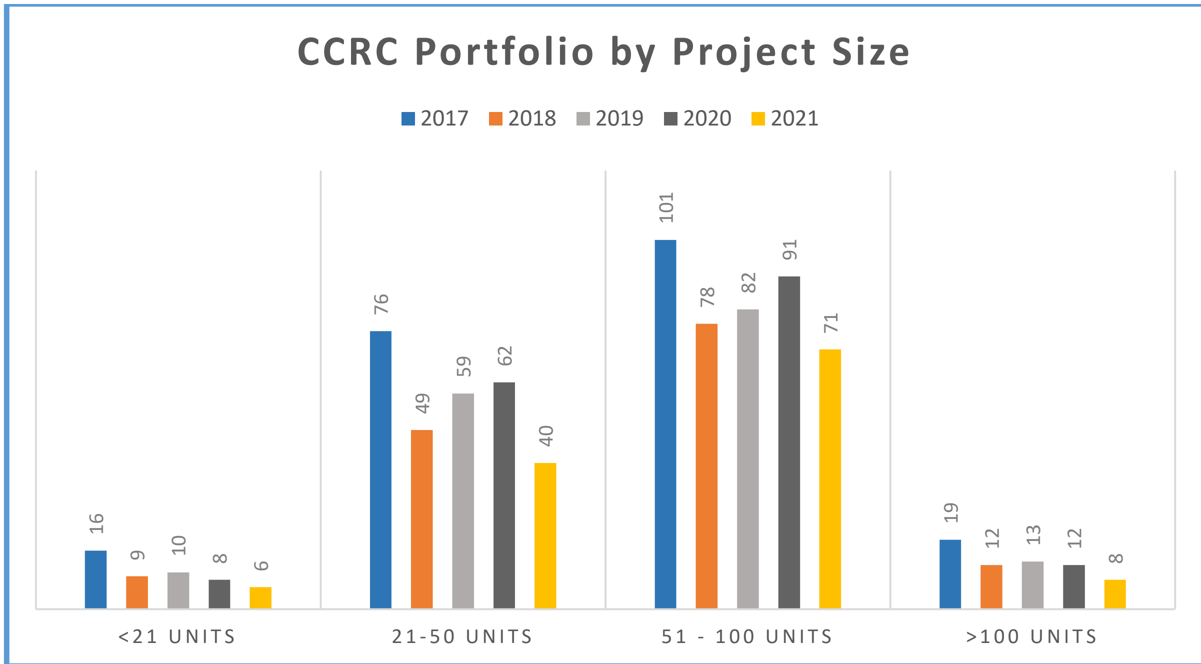


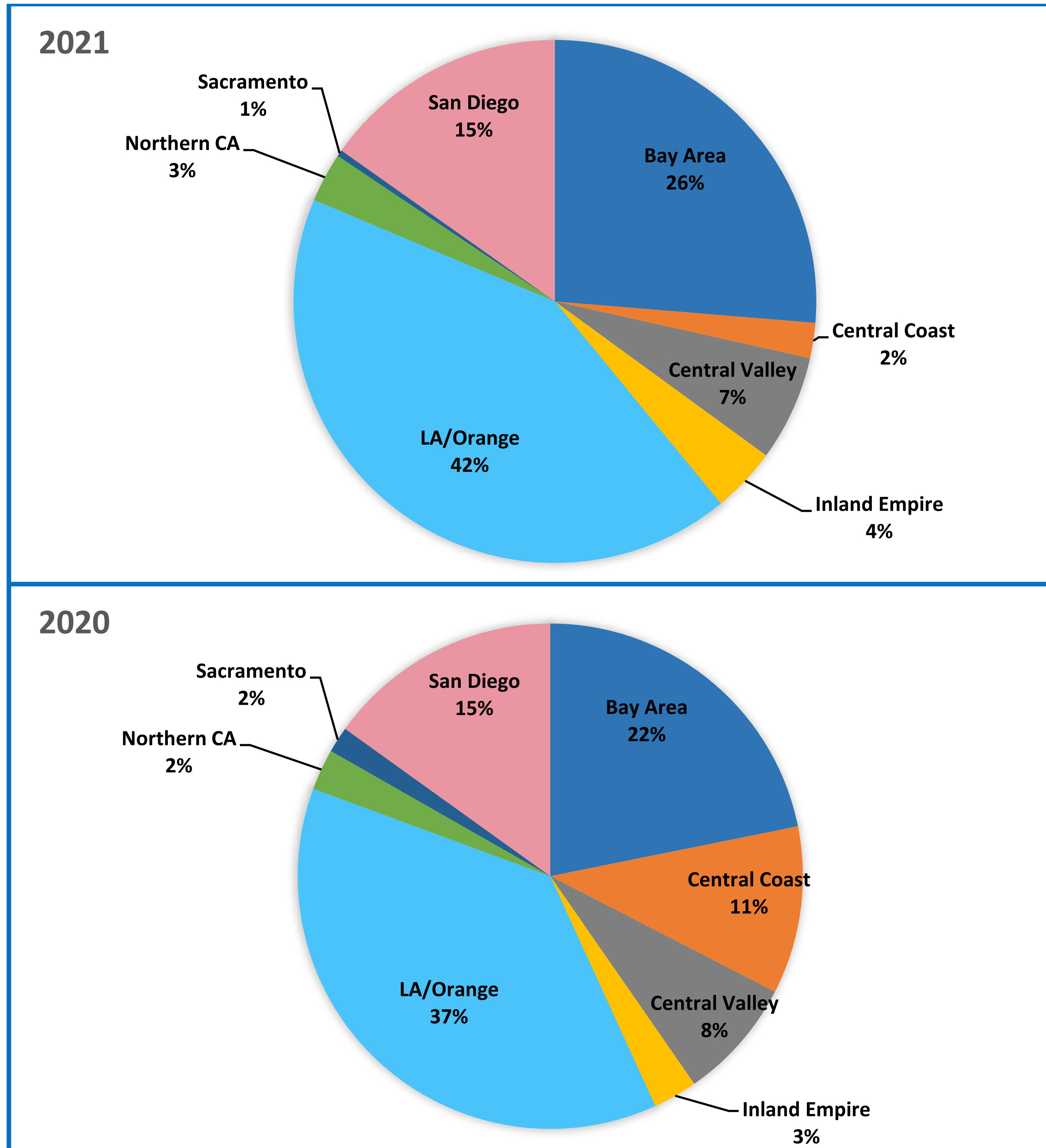
Figure 2: CCRC Portfolio by Project Size (funded and forward commitments combined)



1.2. Geographic Distribution

Figure 3 compares the 2020 and 2021 geographic distributions of CCRC's funded loans and forward commitments. Despite the November 2020 loan sale, the 2021 (post-sale) geographic distribution is nearly identical to the 2020 (pre-sale) distribution.

Figure 3: Geographic Exposure by Region (funded and forward commitments combined)

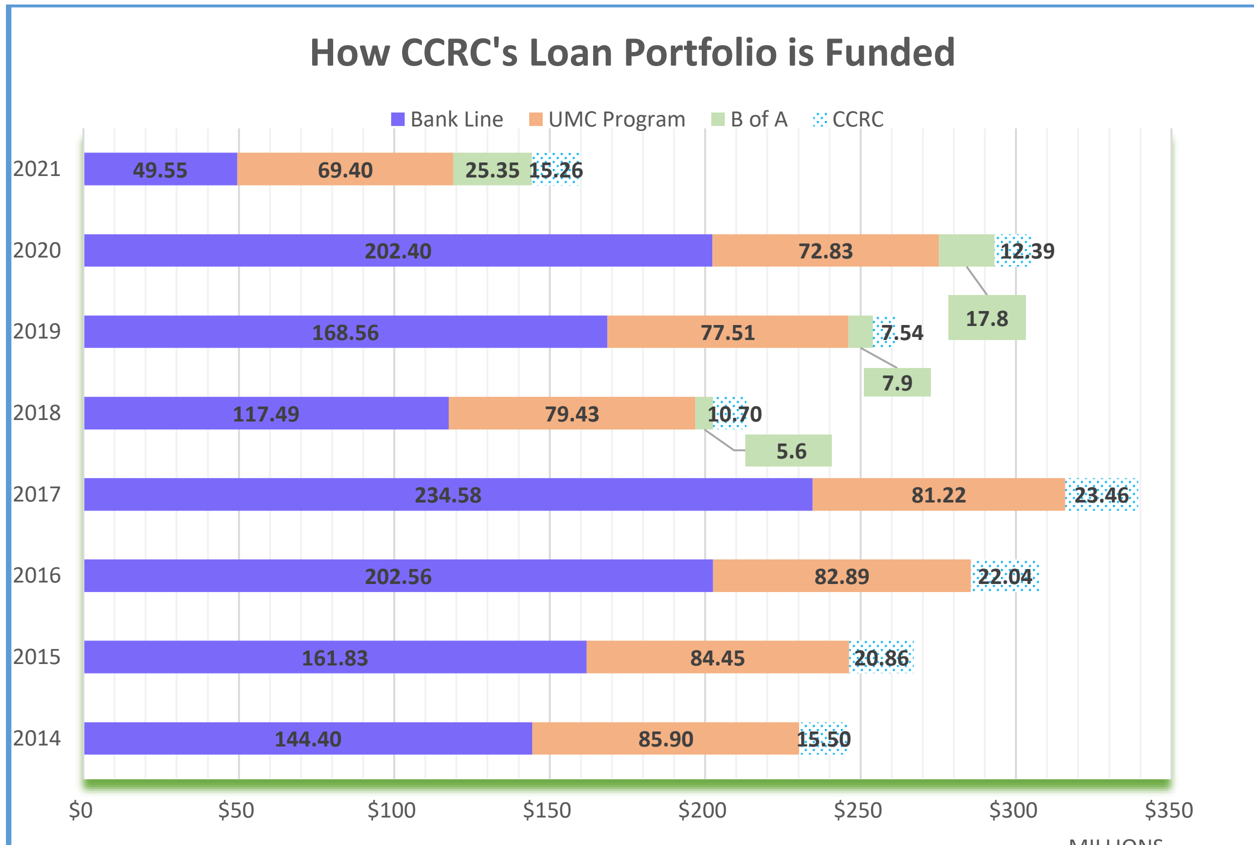


1.3. Portfolio Funding

As shown in Figure 4, CCRC taps four financing sources to fund its loan portfolio: the bank line of credit, UMC, B of A, and CCRC capital. In 2018 we made our first loan out of the B of A credit facility, a single loan totaling $5.6 million. We funded a second B of A loan in 2019 and two loans in both 2020 and 2021.

Due to the November 2020 loan sale, loans funded from CCRC's bank line fell from a pre-sale high $205 million to a post-sale low of $26 million, increasing to $49.55 million by FYE 2021, while CCRC self-funded loans fell from $12.4 to $1.4 million, rising to $15.26 million by year-end. In 2019, CCRC moved several CCRC self-funded loans to the bank line to have cash available to purchase a B-certificate, issued as part of CCRC's tax-exempt bond sale that closed in April 2019. Despite low interest rates, only two loans totaling $6.94 million paid off in 2021, a $5.58 million bank-line loan and a $1.36 million PSP loan.

Figure 4: CCRC Portfolio Funding Sources



2. Portfolio Risk Factors

This section of the Portfolio Analysis provides an assessment of 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 6 stratifies standard risk metrics by loan funding source. With few exceptions, CCRC loan proceeds per unit ($/DU) cover a small fraction of a project's per-unit total development cost. In our experience, LIHTC equity investors and subordinate lenders typically supply 80%-90% of the funding required to develop a project. This is a crucial reason for the strong performance of CCRC loans. LIHTC investors also serve an essential role in making CCRC loans safe investments. LIHTC investors have the financial resources and economic incentives necessary to support struggling projects and have reliably stood behind properties on those rare occasions when sponsors fail to provide needed support.

Properties that consistently struggle with low DSCRs and also have high LTV ratios pose the greatest risk of loss to CCRC. They present increased default risk and greater potential of loss to CCRC in a foreclosure.

Table 6 presents a different picture than previous years because it registers the impact of the loan sale. The $189.5 million sale, the largest in CCRC history, included every Bank-Funded and CCRC-funded loan that we had deemed to align with Freddie Mac underwriting parameters. What remained in the sale's aftermath were a higher proportion of 7-, 8- and watch-list-rated loans and loans maturing over the next few years (as well as UMC/PSP and Bank of America-funded loans, none of which we included in the sale). Of course, as they do now, these loans also resided on CCRC's balance sheet before the sale. And today, they do not present a greater risk to CCRC than they did a year ago when they were part of a more extensive diversified portfolio. Indeed, the bank-funded portfolio is funded by a line of credit to CCRC that is ultimately secured by CCRC's balance sheet. The loan sale allowed CCRC to recognize the full value of its portfolio and substantially improve its balance sheet. In this regard, CCRC represents a lower credit risk vis-à-vis its member banks, a conclusion validated by the A+ credit rating issued by Standard & Poor's to CCRC in September 2021.

In aggregate, the portfolio has a healthy weighted average DSCR of 1.30, less than the 1.36 achieved in 2020, but slightly higher than the 2019 DSCR of 1.29. The weighted average LTV ratio of 50% falls below 2019 and 2020 levels of 52% and 58%. At the fund level, the DSCR on bank-funded loans fell from 1.31 to 1.12, while LTV rose from 54% to 59%. For CCRC loans, DSCR fell from 1.47 to 1.20, and LTV increased from 41% to 44%. Occupancy on the portfolio as a whole fell slightly from 98% to 97%. Note that loans funded in FY 2021 dominate the CCRC-Funded portfolio. For newly-funded loans, we base DSCRs on conversion underwriting projections rather than actual performance.[2]

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[2] Conversion underwriting reflects a combination of actual income and expenses and for certain line-items, such as maintenance and repairs, projections.

Table 6: Risk Metrics

Risk Factor	Bank Funded	UMC	B of A	CCRC Funded	Total Funded	Forwards
1. Projects	21	43	6	10	80	45
2. Balance	$49,552,128	$69,402,209	$25,354,288	$15,263,451	$159,572,076	$ 188,536,671
3. $/DU	$42,607	$24,541	$63,545	$29,695	$32,539	$ 62,678
4. Coupon	5.69%	7.13%	5.45%	5.56%	6.27%	4.32%
5. DSCR	1.12	1.48	1.21	1.20	1.30	1.22
6. LTV	59%	49%	40%	44%	50%	61%
7. Occupancy	98%	98%	95%	96%	97%	N/A
8. Maturity	143	124	200	198	149	N/A
9. Age	62	124	19	15	78	N/A
10. Risk Rating	6.35	6.04	6.00	6.05	6.13	N/A
11. Loans >30 Yr Ar	4	1	3	4	12	21
$ >30 Yr Amort	$26,464,184	$ 2,380,667	$ 9,391,703	$ 8,846,373	$ 47,082,928	$ 113,334,444
% $ >30 Yr Amort	53%	0%	37%	58%	30%	60%
Loans <30 Yr Amor	3	7	4	3	17	18
$ <30 Yr Amort	7,112,978	4,558,607	8,087,485	5,244,912	25,003,982	54,285,764
% $ <30 Yr Amort	14%	7%	32%	34%	16%	29%
Loans =30 Yr Amor	14	37	3	3	57	8
$ =30 Yr Amort	15,974,966	62,462,935	7,875,100	1,172,166	87,485,166	20,916,463
% $ =30 Yr Amort	32%	90%	31%	8%	55%	11%

As averages, the indicators presented in Table 6 can conceal variances within the portfolio, masking risks that a more granular view of the portfolio might expose. Figure 5 (an LTV-DSCR scatterplot diagram) and Table 7 (an LTV-DSCR matrix) provide additional insights into our loans' LTV and DSCR characteristics. Each point on the scatterplot diagram represents a project. Each point on the scatterplot diagram represents a project. In 2021, as in the four prior years, only one project resides in the upper-left quadrant (as marked by the intersecting perpendicular lines)--the quadrant occupied by projects with DCRs below 1.00 and LTVs above 100%. Both the scatterplot and the matrix show that the most significant vulnerabilities in the CCRC portfolio involve low DSCRs. In FY 2021 (based on 2020 audits), 15 properties with combined loan balances of $18.67 million, or 11.7% of the portfolio, had DSCRs of less than 1.00, compared 2020, when 16 properties with combined loan balances of $25.1 million (8.22% of the portfolio) had DSCRs of less than 1.00. As with other portfolio metrics reviewed in this report, the loan sale was an overriding variable, obscuring other factors that might have contributed to changes in portfolio metrics over the past year.

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. Since LIHTC lending is DSCR constrained, the typical LIHTC project lifecycle is often characterized by occasional dips into or below breakeven.

In Table 6, metric number 10 is the weighted average loan risk rating. Loan risk ratings, which CCRC assigns as prescribed in its Credit Policies and Procedures Manual, range from "6" (Pass) to "9" (Doubtful), with watch-rated loans assigned a 6.5. The FY 2021 aggregate risk rating was 6.13, compared to 2018, 2019 and 2020 ratings of 6.16, 6.10 and 6.07.

Metric number 11 in Table 6 is the number of loans with original amortization periods of more than 30 years and the percentage of total loan balance represented by these loans. Total loans bank-funded loans with amortization periods exceeding 30 years rose from 10 in 2018 to 19 in 2019, 32 in 2020 but fell to 12 in 2021 following the loan sale. A clear signal that loans with 35-year amortization are sellable. Their share of total principal balance increased from 31% to 47% between 2018 and 2019, while dropping to 38% in 2020 and 30% in 2021. As measured by commitment amount, the proportion of these loans in the forward book fell from 53% to 40% between 2018 and 2019, but increased to 47% in 2020 and 60% in 2021. CCRC has had a long-standing policy for approving mortgages with 35-year amortizations on an exception basis. The policy states that a 35-year amortization should only be offered to a strong sponsor with an accomplished property manager, a property location in urban/suburban markets with at least a 15% market rent advantage, a cash flow analysis that projects rising DCR and, if warranted, a satisfactory refinance analysis. In the past, CCRC approved loans under this policy as exceptions to standard credit policy. In September 2016, in response to the increasing demand for 35-year amortizations, CCRC approved an amendment to its Credit Policies and Procedures Manual that incorporates this policy. Accordingly, CCRC will no longer designate 35-year amortizing loans as policy exceptions if they meet the criteria described above.

As noted in Section 1.1, a counter-trend has recently emerged: an increase in the number of loans with amortization periods of *less than 30 years*. Among forward commitments, 18 loans (15 in 2020), with a dollar value equal to 29% (39% in 2020) of all outstanding commitments, had amortization periods of less than 30 years. Only 11% (14% in 2020) of our forward commits have 30-year amortization terms. There appear to be two chief causes underlying this trend: (1) 15 or 20-year HAP contracts without adequate renewal provisions, and (2) permanent supportive housing projects with sub-30-year HAP contracts or supportive services agreements.

Finally, as noted in past reports, CCRC seeks to spread risk among funding sources. For several reasons, the data presented in Table 6 do not self-evidently support this claim. One reason is that the UMC portfolio, typically the second-largest funding source after the bank-funded portfolio but in 2021 temporarily becoming the largest, is a static portfolio comprised of loans that, as shown in metric number 9, are twice as old as the Bank-funded portfolio and eight times older than the CCRC funded portfolio. Another reason is that the CCRC and Bank of America portfolios are comparatively small and supply no basis for making statistically meaningful conclusions.

Figure 5: DSCR-LTV Scatterplot (9/30/2020)

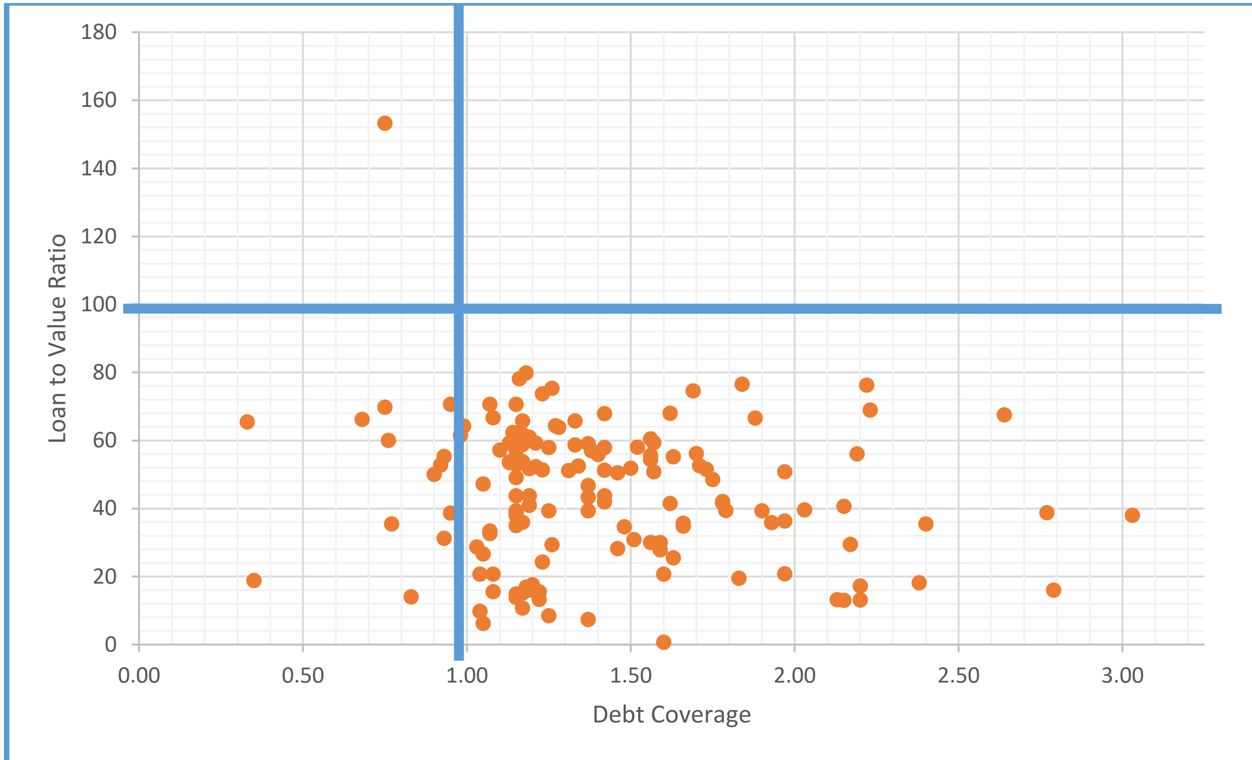


Table 7: DSCR-LTV Matrix (9/30/2021)

	Debt Service Coverage Ratio						
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%	1,909,950	2,978,757	27,827,720	10,641,852	8,083,547	12,236,525	**63,678,352**
50%-59.x%	1,928,336	13,661,414	18,460,791	4,646,632	12,398,608	-	**51,095,782**
60%-69.x	12,797,648	4,425,563	15,034,680	7,706,264	-	654,410	**40,618,564**
70%-79.x%	-	-	-	-	-	-	**-**
80%-89.x%	-	-	-	2,146,762	-	-	**2,146,762**
90%-99.x%	-	-	-	-	-	-	**-**
100%-200%	2,032,617	-	-	-	-	-	**2,032,617**
Total	**18,668,551**	**21,065,734**	**61,323,191**	**25,141,510**	**20,482,155**	**12,890,935**	**159,572,076**

2.2. Geographic Stratification

Table 8 summarizes portfolio metrics by region. In some areas, sample sizes are too small to draw definitive conclusions about the characteristics of regional markets. This is particularly true of Sacramento (3 projects) and Northern California (2 projects). Still, a few apparent patterns emerge from the data. For example, in the Bay Area, two properties have risk ratings of 7, and one has an 8. All three are in Oakland, where higher-than-projected operating expenses have caused projects to struggle. Based on recent CCRC loan reviews, sharply higher trash removal costs have significantly contributed to the increase in operating expenses. Security and maintenance and repair have also contributed to unexpected

expense increases. Based on risk rating, the Central Valley and Inland Empire continue to show signs of relative weakness. Yet, the Central Valley also saw notable DSCR improvement, increasing to 1.63 from 1.29 in 2020, a sign that while the weaker projects continue to struggle, the performances of the stronger projects have improved.

Table 8: Geographic Analysis

	Bay Area	Central Coast	Central Valley	Inland Empire	LA/Orange	Northern CA	Sacra-mento	San Diego
Count	14	5	12	7	29	2	3	8
Balance	39,910,950	5,624,239	12,816,331	8,489,693	67,801,107	1,610,021	1,388,379	21,931,357
% Total Balance	25%	4%	8%	5%	42%	1%	1%	14%
Units	867	156	869	562	1,595	101	170	584
$/DU	46,033	36,053	14,748	15,106	42,509	15,941	8,167	37,554
DSCR	1.32	1.36	1.63	1.19	1.19	1.34	1.12	1.44
LTV	45%	48%	50%	69%	50%	39%	17%	56%
Occupancy	98%	100%	96%	97%	97%	96%	98%	99%
Age	64	35	157	128	63	174	98	84
% Risk Rated 7 or Worse	10.05%	0.00%	26.62%	23.94%	2.57%	0.00%	0.00%	0.00%

2.3. Loan Concentrations

CCRC monitors its exposure to sponsors and LIHTC investors. These concentration levels are less critical for CCRC than they are analyzing 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 CCRC funds its permanent loan, and loans are non-recourse beyond the real estate security.

Table 9 reviews CCRC's exposure to the top 10 sponsors this year and last, as measured by loan balances and commitments. As with other metrics examined in this report, the loan sale shook up the rankings, and hence many of the year-over-year changes carry little meaning beyond that. Between FYs 2020 and 2021, CCRC's total exposure to the top-10 sponsors increased from 43% to 53%.

CCRC lending policies cap sponsor exposure at $20 million. With Board approval, CCRC permits higher caps for select sponsors. When recommending Board approval for a higher cap, CCRC evaluates sponsor capacity by analyzing sponsor and related party financial statements, REO schedules, and internal CCRC loan reviews. The $20 million cap has been in place since 1989 when the CCRC loan fund totaled $100 million. Today, CCRC can extend more than $400 million in credit (bank line, UMC and B of A combined); a fourfold increase that, in combination with increased lending volume and larger loan amounts, will likely increase the number of occasions we seek to raise the $20 million cap for individual sponsors. CCRC uses loan sales to mitigate sponsor exposure risk. On occasion, this might include limited one-off sales (or assignments of forward commitments to other lenders) for the specific purpose of lowering exposer to a single sponsor. In addition, even when exposure to an individual sponsor is high, we typically distribute this exposure over a large number of small loans. In Table 9, the Number of Projects column illustrates this point, showing, for example, that the $55.74 million in exposure to our top-ranked sponsor consists of loans on 14 projects.

CCRC includes forward commitments in its sponsor exposure calculations. Because of both the loan sale and the record year of originations, 71% of our year-end exposure resides in forward commitments.

Table 9: CCRC Exposure to Sponsors

2021 Rank	Sponsor	2021 Exposure	Number of Projects	% of Total Exposure	2020 Exposure	2020 Rank
1	XXXXXX	55,745,727	14	16%	50,777,739	1
2	XXXXXX	23,123,463	5	7%	15,443,851	3
3	XXXXXX	18,033,220	6	5%	8,823,529	9
4	XXXXXX	17,998,296	2	5%	10,251,752	15
5	XXXXXX	13,983,232	5	4%	5,795,566	24
6	XXXXXX	13,025,000	2	4%	4,096,000	36
7	XXXXXX	12,901,823	1	4%	0	NA
8	XXXXXX	11,519,536	3	3%	13,093,845	6
9	XXXXXX	10,568,251	5	3%	10,805,071	13
10	XXXXXX	8,679,000	2	2%	490,000	72
	Top 10 Total	**185,577,549**		**53%**	**184,628,051**	**43%**

*2020 total exposure and percentage of total exposure based on 2020 top 10 sponsors.

Table 10 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 71% of CCRC's total LIHTC investor exposure, compared to 69% in 2020. Wells Fargo accounted for 30% of CCRC's LIHTC investor exposure, compared to 40% in 2020.

Table 10: CCRC Exposure to LIHTC Investors

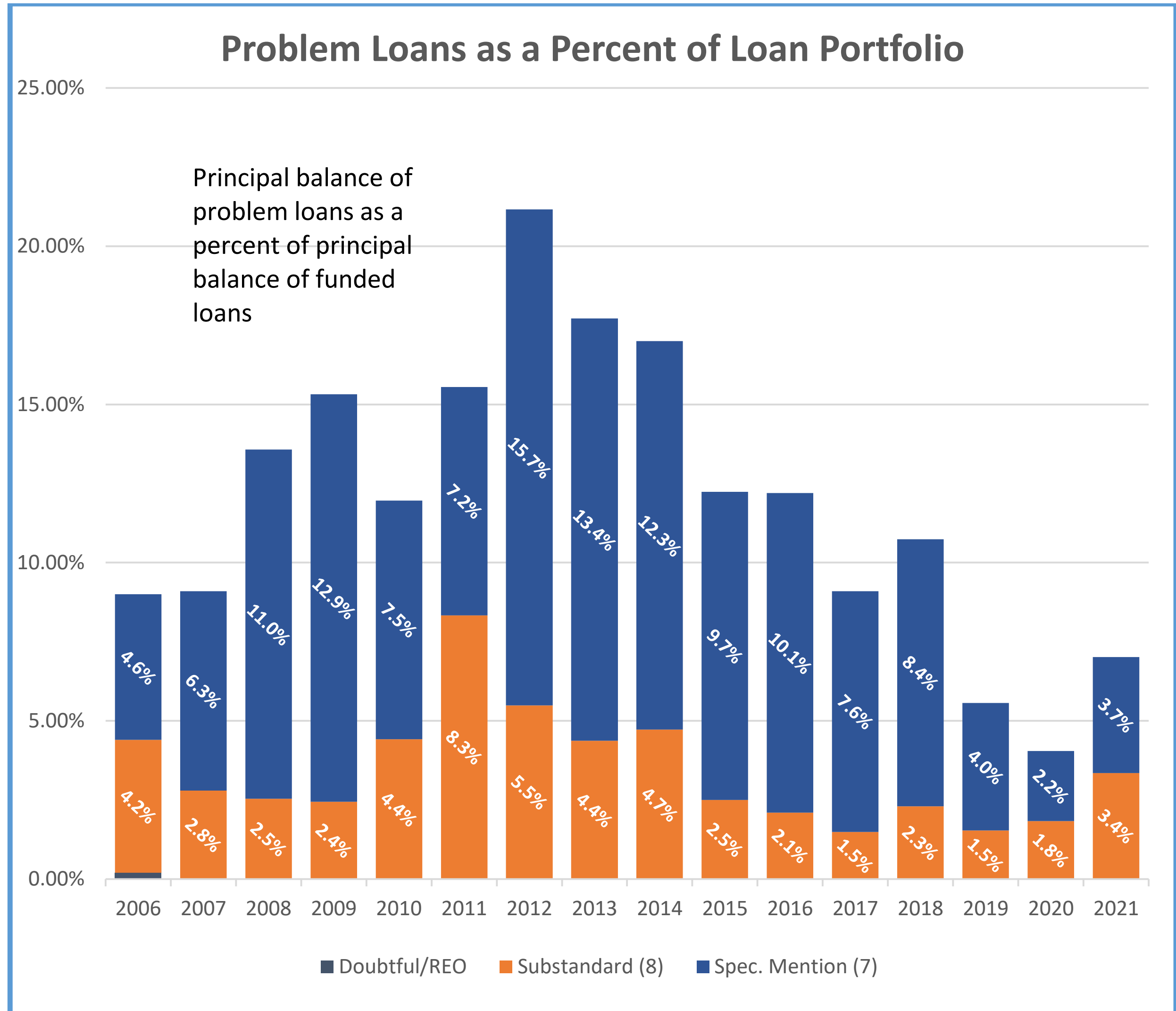
2021Rank	Tax Credit Investor	2021 Loan Exposure	% of Total Exposure	2020 Loan Exposure	2020 Rank
1	Wells Fargo	103,860,173	30%	174,018,296	1
2	Bank of America	55,395,769	16%	43,408,348	2
3	National Equity Fund	48,013,300	14%	38,763,045	3
4	US Bank	21,284,196	6%	22,213,130	4
5	Hudson Housing Capital	16,976,156	5%	18,964,217	4
	Top 5 Total	**245,529,594**	**71%**	**275,144,199**	**60%***

*2020 total exposure and percentage of total exposure based on 2020 top 5 investors.

2.4. Risk Ratings

Figure 6 reviews changes in the ratio of problem loans (rated 7 and over) to total funded loans. At the end of FY 2021, there were 9 problem loans, compared to 15 in 2018, 11 in 2019 and 10 in 2020. CCRC rated five loans as 8s and four as 7s. We removed one 7-rated from the list, but otherwise, the 2021 list is identical to last year's. The combined principal balance of problem loans was 7.02% of the principal balance of CCRC's funded portfolio, up from last year's ratio of 3.0%.

Figure 6: Problem Loans as a Percent of Funded Portfolio



3. Loan Loss Reserve Adequacy

Regulators require that banks' methodology for determining their allowance for loan and lease losses (ALLL) contain two major components – an estimate of losses contained in individually impaired loans consistent with Accounting Standards Codification (ASC) Topic 310, and an estimate of losses on groups of loans with similar risk characteristics consistent with ASC Topic 450.[3] Forward Commitments are not included within the ALLL.

At this time CCRC has no loans it considers "impaired" (i.e. loans for which it is probable that CCRC will not collect all amounts due according to the loan terms) so the first component does not apply to CCRC's current ALLL methodology.

The second component starts with an analysis of historical loan loss factors, adjusts them for changed environmental or qualitative factors, and then applies those factors to the current portfolio to produce an estimate of losses inherent in the portfolio.

3.1. Historical Performance

As indicated by Exhibit II, in the line titled "Charge-offs, Real Estate Write Downs, Losses on Loan Sales", there have been only 3 loss events in CCRC's mortgage history, 2 foreclosures and a loan sale at a credit discount. The most recent of these occurred over 17 years ago. Thus, we have limited data with which to analyze the factors that generate higher risks of loan default and lower rates of recovery.

CCRC's mortgage losses since inception total $976,794, which represents just 0.09% (in what follows "CCRC's historical loss rate") of total loan originations during its 32 years.

CCRC's performance history aligns with the LIHTC industry as a whole, whose performance has been documented by several studies. Reznick and Cohn's 2012 survey[4] of over 17,000 LIHTC properties found a cumulative foreclosure rate of just 0.57%, despite also finding relatively low median DSCRs and that on average about 25% of all LIHTC properties operated below breakeven.

CCRC's response to this lack of data has been to continue to use a formula reserve adopted by its founding banks as a first approximation to an estimate of its ALLL. This "formula" is 1% of all pass-rated funded loans, 5% of all special mention loans and 15% of all substandard loans. CCRC uses the first component of the ALLL methodology (mentioned above) to determine loss allowance for loans rated "Doubtful" and lower. With respect to the UMC-funded loans only, the ALLL related to those loans is not allowed to exceed CCRC's participation in the UMC pool, pursuant to the terms of the participation agreement which limits CCRC's losses.

We compare the formula-derived reserve calculation with a range of possible ALLLs whose floor is calculated by applying CCRC's historical loss rate to the entire loan portfolio and whose ceiling is calculated by adding the "worst case loss expectations" for CCRC's criticized and classified loans (loans rated 7 or higher) to the ALLL calculated by applying CCRC's historical loss rate to its portfolio of pass rated loans.

[3] FedLinks "Allowance for Loans and Lease Losses" January 2013
[4] "The Low-Income Housing Tax Credit Program at Year 25: An Expanded Look at its Performance", Cohn Reznick LLP, December 2012

The "worst case loss expectation" for a loan assumes that the loan collateral will be liquidated and the proceeds from the liquidation are the only source of repayment. We calculate liquidation value by dividing the average NOI for the past three years[5] by an 8% (coastal) or 9% (inland) capitalization rate, deducting any deferred maintenance indicated on the latest loan review, and multiplying by 90% to account for a quick sale. This "worst case value" is conservative in that it is based on high cap rates and it ignores any remaining tax credits, any sponsor support, and any value increase from converting the property to market. The results of this analysis are shown in Exhibit III.

We assume the formula ALLL to be reasonable if it falls somewhere in the middle of the floor-to-ceiling range. In the last step we adjust it for any environmental or qualitative factors that have changed and would cause inherent portfolio losses to be different from the historical experience. This year we again see no need to make such adjustments as apartment markets remain strong around the state, the economy continues to grow, and there have been no changes to CCRC or the industry that we see as credit negative.

3.2. Loan Loss Reserve Calculations

Table 13 compares the 2021 and 2020 floor and ceiling calculations with the formula reserve. The 2021 formula allowance is about $371,000 higher than the 2020 allowance, and the formula allowance for FY 2021 is 1.62% of the portfolio's principal balance.

Table 11: Allowance for Loan Losses Calculation

	$ at 9/30/21	Percent of Loan Portfolio	$ at 9/30/20	Percent of Loan Portfolio
FLOOR	142,205	0.09%	110,750	.06%
CEILING	1,904,124	1.19%	2,957,707	1.58%
FORMULA	2,584,238	1.62%	2,213,071	2.20%
RECOMMENDED	2,590,421	1.62%	2,213,071	2.20%

In all but one of the past year's reports we found that the formula reserve was a reasonable estimate for the allowance for loan and lease losses (ALLL). This year, the formula derived allowance is $680,114 higher the ceiling ("Worst Case Loss Expectation"). The Recommended allowance, which is based on 9/30/2021 loan balances, is higher than the formula, which is based on 10/8/2021 loan balances. See foot note on page 2 for additional details on this adjustment.

3.3. Allowance for Loan Losses Recommendation

The regulatory guidance states that the estimated allowance should "reflect a prudent, conservative, but not excessive" estimate "that falls within an acceptable range of credit losses". It recognizes that the estimate is inevitably imprecise and requires a high degree of judgment.

This year we again recommend that the Loan Committee adopt CCRC's formula reserve as CCRC's estimate for the ALLL. It amounts to 1.62% of the funded loan portfolio and 48% of all classified loans (rated 8 and above).

[5] CCRC staff determine NOI by reviewing the 3 most recent audits or, if there is not an audit, the most recent financial statements.

RECOMMENDATION

That the September 30, 2021 Allowance for Loans be set at $2,590,421 CCRC's formula provision.

CCRC LOAN COMMITTEE

By: ______________________________________

Exhibit I: CCRC Exposure by County (commitments and funded loans)

September 30, 2021

County	2021 CCRC Exposure	2021 % of CCRC Exposure	2020 CCRC Exposure	2020 % of CCRC Exposure
Alameda	33,770,699	9.70%	35,213,596	8.19%
Butte	1,019,800	0.29%	1,054,863	0.25%
Contra Costa	590,220	0.17%	610,191	0.14%
Fresno	8,328,051	2.39%	17,298,823	4.02%
Imperial	2,004,667	0.58%	3,902,514	0.91%
Kern	4,932,906	1.42%	4,076,410	0.95%
Kings	954,709	0.27%	974,539	0.23%
Los Angeles	117,571,709	33.77%	129,722,597	30.17%
Madera	470,655	0.14%	489,271	0.11%
Merced	0	0%	1,769,570	0.41%
Monterey	0	0%	16,541,583	3.85%
Orange	29,652,907	8.52%	31,318,445	7.28%
Placer	1,858,900	0.53%	2,475,242	0.58%
Riverside	8,887,736	2.55%	4,858,264	1.13%
Sacramento	542,149	0.16%	6,272,172	1.46%
San Bernardino	5,145,586	1.48%	7,304,884	1.70%
San Diego	50,927,690	14.63%	60,988,603	14.18%
San Francisco	21,739	0.01%	2,658,823	0.62%
San Joaquin	474,050	0.14%	1,056,912	0.25%
San Luis Obispo	2,088,245	0.60%	3,916,055	0.91%
San Mateo	7,055,040	2.03%	18,366,044	4.27%
Santa Barbara	4,218,281	1.21%	13,321,461	3.10%
Santa Clara	19,706,170	5.66%	27,555,846	6.41%
Sonoma	31,026,301	8.91%	10,095,464	2.35%
Stanislaus	5,461,220	1.57%	5,560,160	1.29%
Tulare	2,112,940	0.61%	2,236,042	0.52%
Ventura	1,297,713	0.37%	12,375,158	2.88%
Yolo	846,230	0.24%	872,754	0.20%
Nevada	6,344,000	1.82%	6,344,000	1.48%
Colusa	798,432	0.23%	798,432	0.19%
TOTAL	348,108,747	100.00%	430,028,718	100.00%

Exhibit II: CCRC Loan Portfolio History

	CCRC LOAN PORTFOLIO SELECTED STATISTICS										
Years Ending September 30	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Gross Loans Receivable	7,491,392	23,957,301	37,439,866	52,353,133	65,675,483	96,170,974	109,498,875	128,153,437	145,247,818	153,117,276	121,131,143
Loans Originated	7,501,250	16,535,047	13,667,629	36,626,344	21,034,796	34,580,350	14,634,369	20,835,393	18,984,435	9,611,339	10,223,837
Cash from Loan Fees	411,737	671,004	379,599	593,710	664,749	803,468	613,511	508,795	303,268	460,212	1,400,594
Increase in Deferred Revenue	130,329	251,060	72,522	(100,193)	251,857	(828)	48,296	(174,667)	(374,399)	142,939	1,264,701
Loan Interest Income	152,766	1,265,908	2,928,047	4,508,267	4,785,820	6,201,690	8,621,892	9,657,944	11,426,930	12,322,426	12,086,650
Gross Yield		8.05%	9.54%	10.04%	8.11%	7.66%	8.38%	8.13%	8.36%	8.26%	8.81%
Allowance for Loan Loss		239,573	374,399	523,531	1,193,065	1,369,517	1,942,268	2,522,827	2,544,754	2,913,060	2,525,225
Provision Expense		239,573	134,826	149,132	669,534	664,288	572,751	624,559	21,927	368,306	(387,835)
Charge Offs, RE Writedowns, Losses on Loan Sales, RE Operations				69,823		511,902	435,274	(135,794)	(259,358)	-	-
Allowance as a % of Loans		1.00%	1.00%	1.00%	1.82%	1.42%	1.77%	1.97%	1.75%	1.90%	2.08%
Provision Exp as a % of Loans Originated		1.45%	0.99%	0.41%	3.18%	1.92%	3.91%	3.00%	0.12%	3.83%	-3.79%
Hypothetical Losses at 50 bps	18,728	78,622	153,493	224,482	295,072	404,616	514,175	594,131	683,503	745,913	685,621
* "Loan Losses" defined as Charge Offs, Real Estate Writedowns, Losses on Loan Sales, and Real Estate (REO) Operations expense											

Exhibit II
CCRC Loan Portfolio History

	CCRC LOAN PORTFOLIO SELECTED STATISTICS										
Years Ending September 30	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Gross Loans Receivable	117,037,502	122,380,677	123,618,574	96,341,236	87,477,174	102,079,598	150,740,036	165,920,508	156,055,161	188,525,489	206,767,098
Loans Originated	19,474,122	46,556,605	17,088,336	29,062,973	45,313,728	29,644,854	50,404,151	53,975,233	66,956,019	35,131,239	48,998,597
Cash from Loan Fees	1,230,692	912,645	1,627,832	2,358,489	1,276,129	241,134	846,412	1,137,839	795,743	1,273,771	1,943,082
Increase in Deferred Revenue	436,468	(431,383)	554,541	1,543,448	59,683	(85,820)	344,278	117,993	(130,566)	634,754	394,752
Loan Interest Income	8,837,656	9,180,613	9,193,155	7,759,131	7,256,808	6,667,105	8,764,705	10,275,234	12,904,008	11,754,672	13,923,571
Gross Yield	7.42%	7.67%	7.47%	7.06%	7.90%	7.03%	6.93%	6.49%	8.02%	6.82%	7.04%
Allowance for Loan Loss	2,836,485	2,980,991	3,019,913	2,331,030	1,639,133	1,943,084	2,482,024	2,978,184	3,462,271	3,614,312	5,058,947
Provision Expense	311,260	144,506	38,922	(709,379)	(691,898)	303,951	538,939	496,160	484,087	152,041	1,444,635
Charge Offs, RE Writedowns, Losses on Loan Sales, RE Operations	-	-	-	354,947	-	-	-	-	-	-	-
Allowance as a % of Loans	2.42%	2.44%	2.44%	2.42%	1.87%	1.90%	1.65%	1.79%	2.22%	1.92%	2.45%
Provision Exp as a % of Loans Originated	1.60%	0.31%	0.23%	-2.44%	-1.53%	1.03%	1.07%	0.92%	0.72%	0.43%	2.95%
Hypothetical Losses at 50 bps	595,422	598,545	614,998	549,900	459,546	473,892	632,049	791,651	804,939	861,452	988,231
* "Loan Losses" defined as Charge Offs, Real Estate Writedowns, Losses on Loan Sales, and Real Estate (REO) Operations expense											

Exhibit II
CCRC Loan Portfolio History

	CCRC LOAN PORTFOLIO SELECTED STATISTICS											
Years Ending September 30	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**TOTAL**	**AVERAGE**
Gross Loans Receivable	193,960,971	218,841,367	169,138,795	191,770,405	233,505,402	266,767,721	142,323,288	192,349,390	240,442,042	97,797,487		137,627,394
Loans Originated	32,212,379	46,617,639	36,001,272	43,721,671	$46,896,937	$39,483,911	$30,594,985	61,071,879	57,757,941	$54,886,294	1,096,085,554	
Cash from Loan Fees	614,217	1,359,431	1,085,063	1,504,961	1,492,076	1,928,835	1,383,460	2,253,640	4,544,893	2,297,584		
Increase in Deferred Revenue	106,941	(73,762)	(293,466)	307,015	563,167	812,618	115,316	(112,288)	536,060	996,683		
Loan Interest Income	12,917,882	13,348,527	13,869,800	10,992,080	13,430,636	14,940,186	8,832,555	9,538,253	11,385,642	5,437,703		
Gross Yield	6.45%	6.47%	7.15%	6.09%	6.32%	5.97%	4.32%	5.70%	5.26%	3.22%		
Allowance for Loan Loss	5,074,654	5,129,536	5,289,968	4,653,072	5,228,325	5,137,234	3,545,251	3,605,430	2,213,071	2,584,238		
Provision Expense	15,706	54,882	160,433	(643,367)	575,253	(91,091)	(1,591,983)	60,180	(1,392,359)		2,717,938	
Charge Offs, RE Writedowns, Losses on Loan Sales, RE Operations	-	-	-	-							976,794	
Allowance as a % of Loans	2.62%	2.34%	3.13%	2.43%	2.24%	1.93%	2.49%	1.87%	2.26%			
Provision Exp as a % of Loans Originated	0.05%	0.12%	0.45%	-1.47%	1.23%	-0.23%	-5.20%	0.10%	-2.54%			
	Total Provision Expense as a % of Total Originations ===================>										0.25%	
	Total Historical Loan Losses* As a Percentage of Total Originations =====>										0.09%	
	Total Historical Loan Losses* As a Percentage of Average Loans Receivable Originations====>											0.71%
Hypothetical Losses at 50 bps	1,001,820	1,032,006	969,950	902,273	1,063,190	1,250,683	1,022,728	836,682	600,301.94		20,448,614	
* "Loan Losses" defined as Charge Offs, Real Estate Writedowns, Losses on Loan Sales, and Real Estate (REO) Operations expense												

Exhibit III: Worst Case Loss Expectations for Criticized and Classified Loans

Loan No	Loan Name	Fund Dt	Principal Balance	Rate	Rating	3-Year Average NOI	Cap Rate	Capitalized Value	Deferred Maintenance	Estimated Value	LTV	Liquidation Value: Quick Sale Adjustment 10% Discount	Worst Case Loss
XXXXXX	XXXXXX	5/31/1994	265,853	4.82	7	109,402	8%	1,367,521		1,367,521	19%	1,230,769	-
XXXXXX	XXXXXX	9/25/1995	242,400	5.01	8	33,657	8%	420,708		420,708	58%	378,638	-
XXXXXX	XXXXXX	3/25/2004	305,684	7.4	7	260,106	9%	2,890,068		2,890,068	11%	2,601,061	-
XXXXXX	XXXXXX	6/1/2004	1,329,865	6.62	8	123,712	9%	1,374,582	125	1,374,457	97%	1,237,011	92,854
XXXXXX	XXXXXX	12/22/2004	217,909	6.87	8	6,056	8%	75,704	24,500	51,204	426%	46,084	171,825
XXXXXX	XXXXXX	11/23/2005	1,776,210	7	7	163,533	9%	1,817,037	9,025	1,808,012	98%	1,627,211	148,999
XXXXXX	XXXXXX	6/7/2007	2,032,617	6.85	8	140,748	9%	1,563,867	5000	1,558,867	130%	1,402,980	629,637
XXXXXX	XXXXXX	8/11/2009	1,526,819	6.75	8	111,659	8%	1,395,738	1,000	1,394,738	109%	1,255,264	271,555
XXXXXX	XXXXXX	12/21/2009	3,503,884	5	7	270,831	8%	3,385,392		3,385,392	104%	3,046,853	457,031
			11,201,240										1,771,901