California Community Reinvestment Corporation

CCRC 2023 Tax Exempt Loan Portfolio Analysis

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Introduction

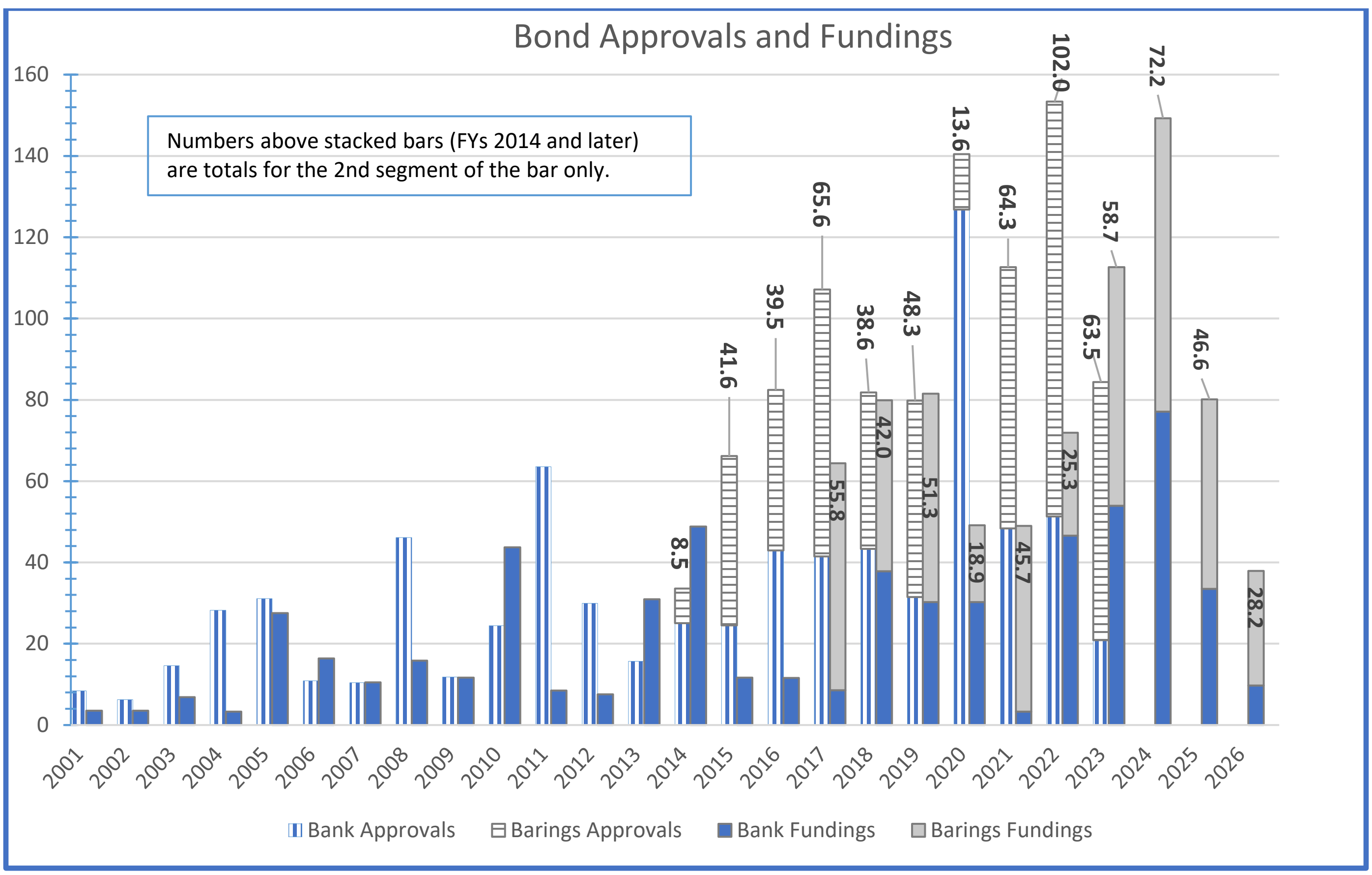
The CCRC 2023 Tax Exempt Loan Portfolio Analysis describes CCRC's portfolio of tax-exempt loans (TELs), including forward commitments, which CCRC manages for a subset of its member banks (CCRC's "TEL Program"). The primary audience for this report is the banks participating in the TEL Program. We used to call this program the CCRC "Bond Program", but we have changed the name for reasons explained below.

The report focuses on the TELs funded by the banks participating in the TEL Program. It does not cover (other than in Figure 1 below) TELs funded by Barings (formally known as the Cornerstone Fund), which CCRC originates and services but for which it does not have credit risk exposure. It also does not include TELs that CCRC services for investors. Unless otherwise noted, loan balances and commitment amounts are as of September 30, 2023.

CCRC launched the TEL Program in 1999, after seeing an opportunity to offer tax-exempt private placement bond financing to its affordable housing developers. CCRC models the TEL Program on its successful mortgage program, which finances a large share of the 9% LIHTC projects in California. CCRC approved its first TEL project in 2001.

Figure 1 shows TEL financing approvals and fundings since 2001 and projected fundings of current forward commitments through 2026. In 2023, CCRC approved $84.4 million in new TEL commitments, of which $20.9 million were through the bank TEL Program and $63.5 million were through Barings.

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



Funding dates after 2023 are projections reflecting current commitments. 2024 and 2025 figures may be different than figures presented in the 2022 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 transactions over the last 20 years, has observed changes in the structures of tax-exempt financings. Most if not all the participating banks have developed policies and for their own tax-exempt financing products, requiring them to be accounted for and booked as tax exempt loans and not as an investment in a security. 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.

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 May 2023.

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, usually 24 to 36 months, during which the developer builds the property and rents it to full occupancy. When the project is finished and operationally stable, CCRC funds the TEL loan according to 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 2023, the TEL pool balance rose to $71.35 million from $18.45 million at the end of 2022. The low pool balance in 2022 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 still services the TELs sold to EWB.

Table 1: CCRC Portfolio of Funded TELs

Fiscal Year	Loans[1]	Balance	Average	DUs Financed[2]	$/DU	WAC[3]
2023	18	$71,350,609	$3,963,923	1,058	$67,439	3.77%
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%

[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 thirty 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
2023	12	$53,407,735	$4,450,645	582	$91,766	3.82%
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%

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

Table 2 reviews CCRC TEL funding activity for the last six fiscal years. As Table 2 shows, CCRC funded 12 TELs in FY 2023 totaling $53.41 million.

The decline in fundings in 2021 reflected broader construction and lease-up challenges related to COVID. In recent years, many projects have requested extensions of forward commitments due to delays in meeting CCRC funding conditions. However, the trend is improving. In FY 2023, we approved nineteen extensions for $111.9 million in forward commitments across all TEL and loan programs, compared to sixteen extensions for $76.4 million in 2022, 31 extensions in 2021 and 36 in FY 2020. The main reasons for these delays were COVID-related disruptions in construction (caused by supply chain issues and labor shortages) and lease-up (which was more affected by the pandemic before the vaccine was available). 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 especially true for properties that serve 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
2023	22	$141,112,076	$6,414,185	1,828	$77,195	4.90%
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%

Table 3 shows forward commitments CCRC has agreed to fund, subject to loan conversion requirements. Borrowers usually meet these requirements, so most of the forward commitments turn into funded loans. The number of forward commitments decreased from $188.83 million in 2022 to $141.11 million in 2023. The weighted average coupon (WAC) rose by eighty-nine basis points in 2023, reflecting the sharp rise in interest rates.

As detailed in Table 4, a surge of new approvals in FY 2020 drove the increase in forward commitments. In early 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 sum of funded TELs plus outstanding TEL commitments exceeded total TEL Program participation commitments. Under this policy, CCRC had to sell TELs (or cease TEL lending) if this sum exceeded member participation commitments, which totaled $181.3 million on September 30, 2023. 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 we do not intend to fund TELs with Loan Pool Program proceeds (or if we do, we would do so selectively by choosing TELs with higher interest rates), the new policy gives us more flexibility by allowing us to use excess capital availability in the Loan Program to offset TEL commitments. The policy also allows CCRC to aggregate larger pools for sale, which improves the feasibility of TEL sale transactions.

Table 4: New TEL Loan Approvals

Date	Loans	Balance	Average	DUs Financed	$/DU	WAC
2023	4	$20,914,536	$5,228,634	361	$57,935	5.81%
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%

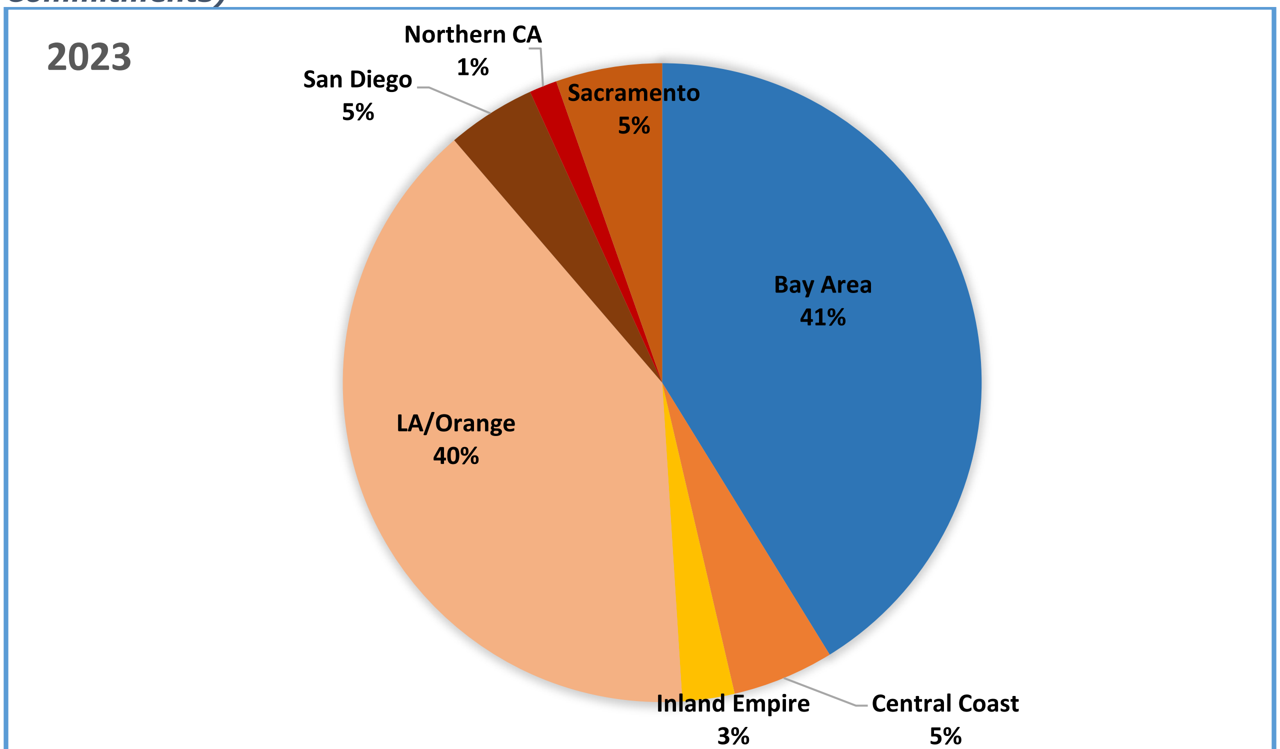
As Table 4 shows, CCRC approved four TEL loans totaling $20.9 million in FY 2023, a dramatic reversal in originations relative to the preceding three fiscal years. Although well below 2020 total originations of $126.8 million, 2023 was a solid year by historic standards if we also consider originations under the Barings program. In 2023, combined originations under the TEL Pool and Barings were $84.4 million, which aligns with combined TEL origination levels seen between 2015 and 2019, but falls below 2020-2022 levels of $140.4 million, $121.6 million, and $153.4 million.

The WAC of the new TEL loans in FY 2023 was 5.81%, which was 137 basis points higher than 2022. This reflected the rising trend of rates during the year.

1.2. Geographic Distribution

Figure 2 compares the 2022 and 2023 geographic distributions of CCRC loans. Distributions, which include funded TELs and forward commitments, remain similar to 2022.

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



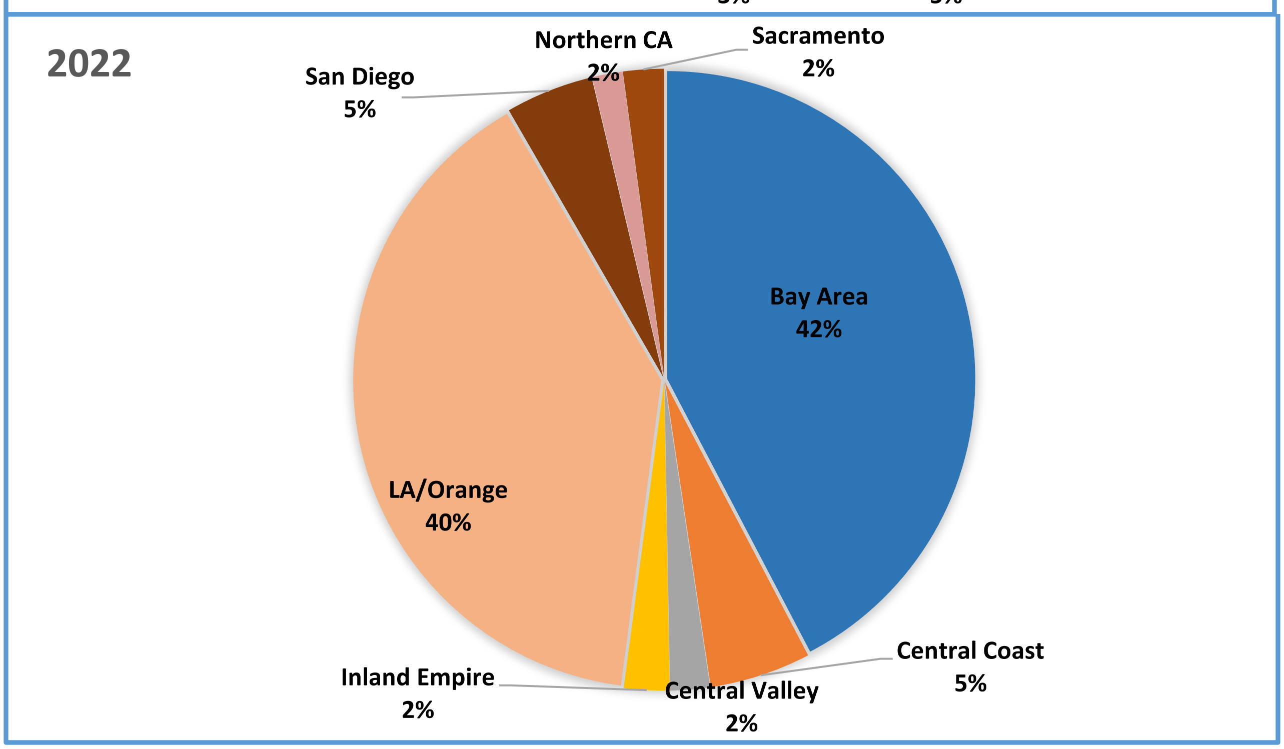


Exhibit I (at the end of this report) shows CCRC TEL exposure by California County.

2. Portfolio Risk Factors

This section of the TEL Portfolio Analysis evaluates TEL portfolio risk factors. As in previous years, there were no loan delinquencies in FY 2023 (except for occasional borrower oversights). Therefore, we do not discuss delinquencies in our analysis.

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 a 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 impressive performance of CCRC loans. LIHTC investors also play a key role in making CCRC loans safe investments. They have the money and motivation to support struggling projects and have reliably stood behind properties on those rare occasions when general partners fail to provide needed support.

With a weighted average age of just eleven months, most of the funded TELs in the portfolio are very new. Among the 18 TELs in the pool, CCRC funded 16 in 2022 and 2023 and one in 2020. There is only one "old" TEL, which we funded in 2003, and which has balance of $453,000. The performance data for new TELs reflect stabilized underwriting projections rather than being clean representations of actual performance. This means that some numbers, like DSCR and occupancy, may look lower than they really are. This is why the weighted average DSCR of 1.21 may seem low relative to historic norms. The same effect also led to lower reported DSCRs in FY 2022 TEL pool, which had a DSCR of 1.16 and was similarly dominated by new TELs. In 2020 and 2021, when seasoned loans figured more prominently, DSCRs were 1.47 and 1.55, respectively.

Table 5: Risk Metrics by Costal/Inland

Risk Parameter	Coastal	Inland	Total	Forward Commitments
1. Count	12	6	18	22
2. Balance	$57,885,798	$13,464,811	$71,350,609	$141,112,076
3. $/DU	$77,078	$43,859	$67,439	$77,195
4. WAC	3.70%	4.09%	3.77%	4.90%
5. DSCR	1.21	1.19	1.21	1.20
6. LTV	57%	47%	55%	55.9%
7. Occupancy	96%	97%	96%	N/A
8. Maturity	216	223	217	N/A
9. Age	10	14	11	N/A
10. Risk Rating	6.06	6.08	6.07	N/A
11. Loans >30 Yr. Amort	5	2	7	11
$ >30 Yr. Amort	41,988,829	7,099,402	49,088,231	90,748,943
% $ >30 Yr. Amort	73%	53%	69%	64%
12. Loans <30 Yr. Amort	6	3	9	8
$ <30 Yr. Amort	15,896,969	4,970,053	20,867,022	34,499,133
% $ <30 Yr. Amort	27%	37%	29%	24%
13. Loans =30 Yr. Amort	0	1	1	3
$ =30 Yr. Amort	-	1,395,356	1,395,356	15,864,000
% $ =30 Yr. Amort	0%	10%	2%	11%

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. However, none of the properties have both low DSCR and high LTV. In FY 2023, there were three properties with a DSCR below 1.00, based on their 2022 audits. These properties had a total principal balance of $2,911,161, which was 4.08% of the TEL portfolio. Their LTV ratios were between 16% and 30%. 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.

Looking again at 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 2023 aggregate risk rating was 6.07, nearly identical to last year's rating of 6.06. One loan received a rating of "7" and four had ratings of "6w".

Metric number 11 of Table 5 shows that 18 TELs, seven funded and eleven forward commitments, had 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, showing a total of 17 TELs with amortization periods of less than 30 years, nine funded and eight forward commitments.

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%	2,911,161	-	17,795,821	6,348,143	1,723,000	-	**28,778,125**
50%-59.x%	-	-	17,338,362	-	-	-	**17,338,362**
60%-69.x	-	-	-	5,878,161	-	-	**5,878,161**
70%-79.x%	-	-	19,355,961	-	-	-	**19,355,961**
Total	**2,911,161**	**-**	**54,490,144**	**12,226,304**	**1,723,000**	**-**	**71,350,609**
	4.08%	0.00%	76.37%	17.14%	2.41%	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 almost 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 real estate security.

Table 7 shows CCRC's exposure to the top five sponsors--this year and last--as measured by loan balances and commitments. Despite a slight shuffling in the ranks, this year's top-5 list features the same sponsors as the 2022 list. Between FY 2022 and FY 2023, CCRC's total exposure to the top five sponsors fell from 47% to 45%.

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

2023 Rank	Sponsor	2023 Exposure	% of Total Exposure	Number of Projects	2022 Exposure	2022 Rank
1	xxxxxx	24,365,031	11%	4	24,431,408	1
2	xxxxxx	21,927,180	10%	1	21,927,180	2
3	xxxxxx	17,985,673	8%	3	17,999,000	4
4	xxxxxx	17,861,920	8%	1	19,970,000	3
5	xxxxxx	14,003,000	7%	2	14,003,000	5
		96,142,804	45%			47%[1]

[1]2022 percentage of total exposure is based on 2022'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 2023, the top five investors accounted for 78% of CCRC's total LIHTC investor exposure, up from 77% in 2022 and 69% in 2021.

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

2023 Rank	Tax Credit Investor	2023 Exposure	% of Total Exposure	2022 Exposure	2022 Rank
1	Wells Fargo	98,365,795	46%	88,864,871	1
2	US Bank	23,631,566	11%	28,746,487	2
3	Bank of America	18,785,231	9%	15,363,672	3
4	National Equity Fund	12,763,431	6%	14,588,000	5
5	Enterprise	11,281,000	5%	11,913,133	4
		164,827,022	**78%**		**77%[1]**

[1] 2022 percentage of total exposure is based on 2022's top five tax credit investors.

2.3. Risk Ratings

Figure 3 shows changes in the ratio of problem TELs (rated "7" and over) to total funded TELs. As was the case in 2022, in 2023 there was one TEL with a rating of "7" and no "8"-rated TELs. The drop in the percentage of TELs with ratings of "7" or higher from 6% to 2% stems from the increase in fundings (the denominator). Although the problem loan ratio of 2% is strong relative to historic performance results, it is not particularly surprising given dominance of newly funded loans in the portfolio (See discussion in Section 2.1 Risk Metrics). Exhibit II provides additional detail on CCRC's problem loans.

Figure 3: Problem TEL Loans (FYs 2006-2023)

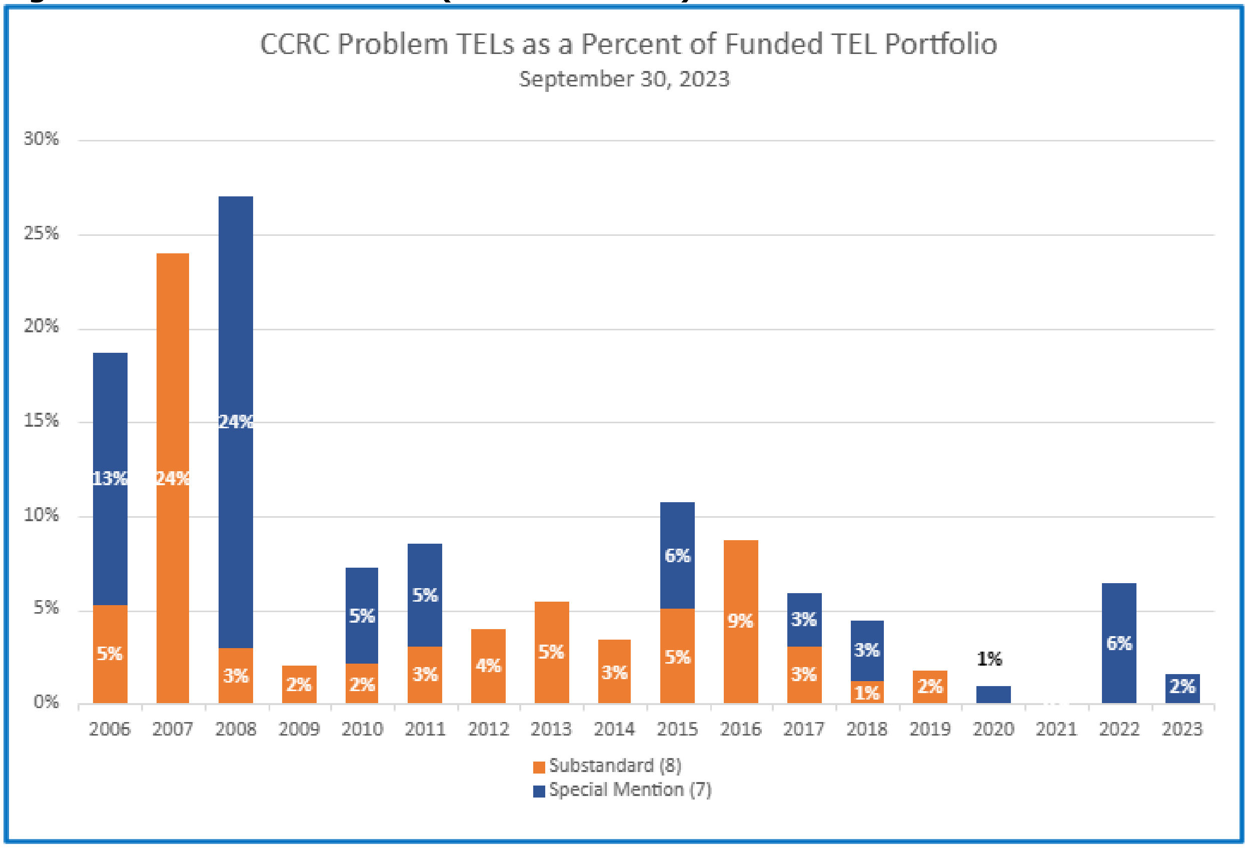


Exhibit I: 2023 CCRC TEL Exposure by County

(Funded Loans and Forward Commitments)

County	CCRC Exposure	% of CCRC Exposure
Los Angeles	79,081,244	37.22%
San Francisco	49,916,584	23.49%
Alameda	24,139,971	11.36%
Sacramento	11,439,000	5.38%
San Diego	8,065,000	3.80%
Ventura	6,430,434	3.03%
Solano	5,823,000	2.74%
Riverside	5,605,361	2.64%
Orange	5,305,808	2.50%
Sonoma	4,755,832	2.24%
Santa Cruz	4,494,000	2.12%
Napa	2,928,987	1.38%
Nevada	1,588,066	0.75%
Imperial	1,494,041	0.70%
Placer	1,395,356	0.66%
Grand Total	**212,462,685**	**100.00%**

Exhibit II: Criticized and Classified TEL Loans

Bond Loan Name	9/30/2023 Balance	Loan Class
XXXXXXXX	1,120,404	7
Total	**1,120,204**	