California Community Reinvestment Corporation

CCRC 2022 Loan Portfolio Analysis

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Introduction

The CCRC 2022 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 2022. 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, 2022. (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]

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.

[1]Reconciliation of Gross Loans Receivable (Audit) vs Total Loans (2022 Portfolio Analysis)	
Total Loans (Portfolio Analysis)	$ 206,454,106
CCRC bond Pool Participation	$ 369,808
Eden Central Office Loan	534,312
UMC Loan Total	(66,852,653)
CCRC's share of UMC loans	6,675,849
Gross Loans Receivable (Audit)	**$ 147,181,422**

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 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]
2022	95	$206,454,106	$2,173,201	5,698	$36,233	5.85%
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%

[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 102 funded loans on 95 projects. [2]Dwelling Unit. [3]Weighted Average Coupon.

In 2022, three loans paid off, with a combined liquidation balance of $2.52 million.

Table 1 shows that CCRC had an outstanding loan balance of over $206.45 million at FYE 2022, a 29% year-over-year increase in outstanding loans receivable. CCRC held loans on 95 projects, a 19% increase over the 2021 total of 80. The average loan size of $2.17 million and average loan amount per unit of $36,233 fall within the range of the preceding five years, while the WAC fell from 6.27% to 5.85%. The $189.5 million loan sale in November 2020 was the overwhelming factor contributing to the year-over-year changes between 2020 and 2021. The 2021 post-sale portfolio's higher WAC reflected the temporary dominance of older, higher interest rate loans over portfolio metrics. This is particularly true of the UMC/PSP sub-portfolio, which accounted for 43% of the overall portfolio in 2021 and 33% in 2022 (compared to 28.4% in 2020). In 2022, the influence of these older loans on overall portfolio metrics receded as CCRC funded 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). It reports a Bank Pool WAC of 5.11%, compared to 5.69% in 2021. For a discussion on the decline of the WAC, and on past and future trends in the Lender's Interest Rate (LIR), please refer to the discussion in Exhibit IV.

Table 2: New Loans Funded During Year

Fiscal Year	Count	Balance	Average	DUs Financed	$/DU	WAC
2022	19	$54,106,294	$2,847,700	1,059	$51,092	4.72%
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%

Table 2 reviews CCRC funding activity over the past five fiscal years (loan balances reflect fiscal year-end balances which, due to amortization, are slightly less than the sum of the original principal balances of loans funded over the course of the indicated year). The decline in average loan size and $/DU between 2021 and 2022 appears to contradict what we have observed in previous reports as a decisive movement upward in both metrics. However, a review of the book of forward commitments (discussed below), clearly shows that this trend continues and, in fact, may be strengthening. It appears, therefore, that 2022's departure from this trend was an aberration. In FY 2022, WAC of newly funded loans fell by 70 basis points, from 5.42% to 4.72%, reflecting the steep drop in treasury yields at the onset of the pandemic. The 2022 funding total of $54.1 million was similar to funding levels between 2019 and 2021, but still much higher than funding levels preceding 2019, which typically ranged between $30-$46 million.

Over the past three 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. Notably, however, the volume of delays appears to be declining. In FY 2022, 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 Forward Commitments

Fiscal Year	Count	Balance	Average	DUs Financed	$/DU	WAC
2022	50	$277,405,269	$5,548,105	3,498	$79,304	4.67%
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%

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 2022, CCRC's book of forward commitments increased by 47%. WAC increased by 35 basis points, following a 47-basis point drop in 2021 and a 63-basis point drop in 2020. CCRC benchmarks loan and bond pricing on the 10-year treasury.

Following modest declines in 2020, average loan size and average loan proceeds per unit increased steeply in both 2021 and 2022. Reasons we are seeing increases in average loan size remain consistent with the factors identified in previous 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. 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 allowable rent levels, allowing projects to support larger first mortgages. Finally, until recently, low-interest rates had been a factor that also allowed CCRC to provide larger loans. However, the abrupt rise in rates in 2022 could contribute to a reversal in this trend over the coming year. Additionally, higher operating expenses tied to both inflation and to property management challenges intrinsic to affordable housing could also contribute to a reversal. In particular, we have witnessed higher security, social service, unit turnover and maintenance expenses at properties that provide supportive housing to formerly homeless households. We have also seen substantial across-the-board increases in insurance expense and utilities.

CCRC's forward commitments will take out construction loans provided by the eight banks shown in Table 4, compared to seven banks in 2020 and 2021 and 11 banks in 2019. Wells Fargo remains the top construction lender, supplying 55% of all construction credit and increasing its percent share of total construction financing from 42% in 2021. Bank of America boosted construction lending activity from $59.6 million in 2021 to $60.5 million in 2022, but its relative share dropped from 32% to 22%.

Table 4: Construction Lenders

Construction Lender	Loans	CCRC Loan Commitment	% Share
Wells Fargo Bank	24	152,261,839	55%
Bank of America	14	60,504,145	22%
US Bank	4	27,562,956	10%
Capital One, N.A.	3	12,259,000	4%
Bank of the West	2	11,345,629	4%
JP Morgan Chase Bank	1	7,445,000	3%
MUFG Union Bank	1	3,948,000	1%
Silicon Valley Bank	1	2,078,700	1%
Grand Total	**50**	**277,405,269**	**100.00%**

Table 5 shows loans approved over the past five years. In 2022, we approved over $143.77 million in new mortgages, another record year of originations for CCRC, and nearly 38% higher than 2021. In both 2020 and 2021, we originated loans on 18 properties, and in 2022 we originated loans on 24 properties. Larger loans propelled most of the surge in new loan approvals in 2021 and 2022. The average loan amount was $5.99 million in 2022 and $5.80 million in 2021, both far above the previous record of $3.8 million in 2017. In 2022, we averaged 65 units per-project, compared to 76 units in 2021. Loan proceeds per-unit jumped to $92,816 per unit, breaking a record set in 2021 of $76,465. Both figures are 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 constrained the growth of CCRC's conventional loan program, causing year-to-year origination levels to fluctuate within a narrow range, and for the most part limiting growth opportunities to gains in market share. In last year's Portfolio Analysis, we noted that the state received a $1 billion allocation of Federal Disaster Relief LIHTCs, which resulted in a short-term spike in 9% LIHTCs, and, therefore, an increase in the number conventional loan lending opportunities for CCRC. This year taxable loan lending opportunities increased once again with the appearance of the California Housing Accelerator Program (CHAP). CHAP is a $1.6 billion program that is available to shovel-ready affordable housing projects that failed to receive 9% LIHTC or private activity bond allocations (accompanied by 4% LIHTCs). In 2022, CCRC approved two CHAP projects, totaling $10.3 million.

Table 5: New Loan Approvals

Date	Loans	Balance	Average	DUs Financed	$/DU	WAC
2022	24	$143,772,649	$5,990,527	1,549	$92,816	5.11%
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%

Figures 1 and 2 show CCRC's loan portfolio (funded loans and forwards combined) by loan and project size.[2] Accompanying Figure 1 is new graph that presents the total dollar value of loans within each loan-size range, and which presents a clearer picture of the impact of larger loans on CCRC's portfolio. Here we see that the dollar value of loans with balances greater than $10 million was $0 in 2018 but surged to $94 million in 2022.

[2] Loans with balances of less the $250,000 are primarily older loans approaching maturity, and that have amortized below the $250,000 threshold.

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

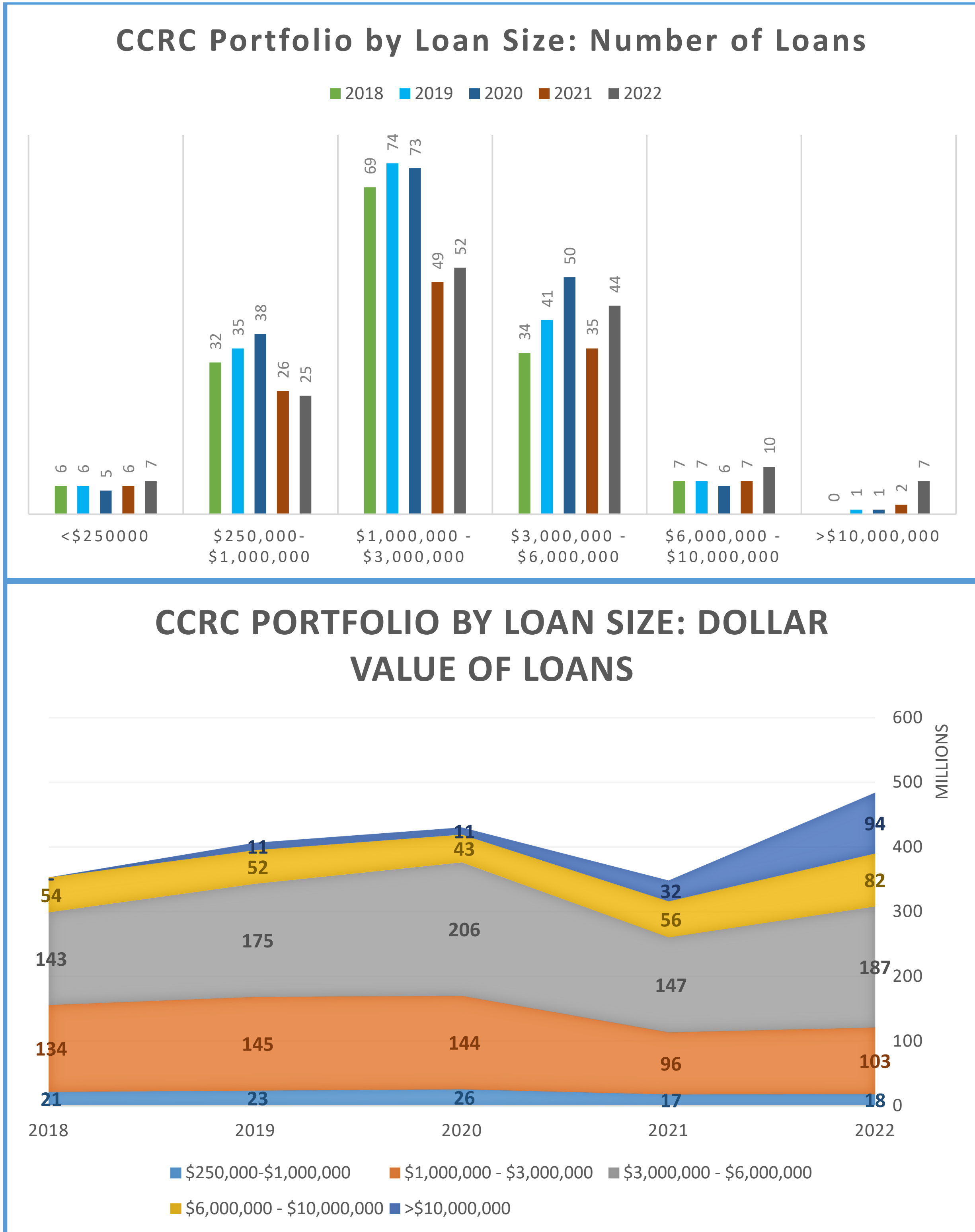
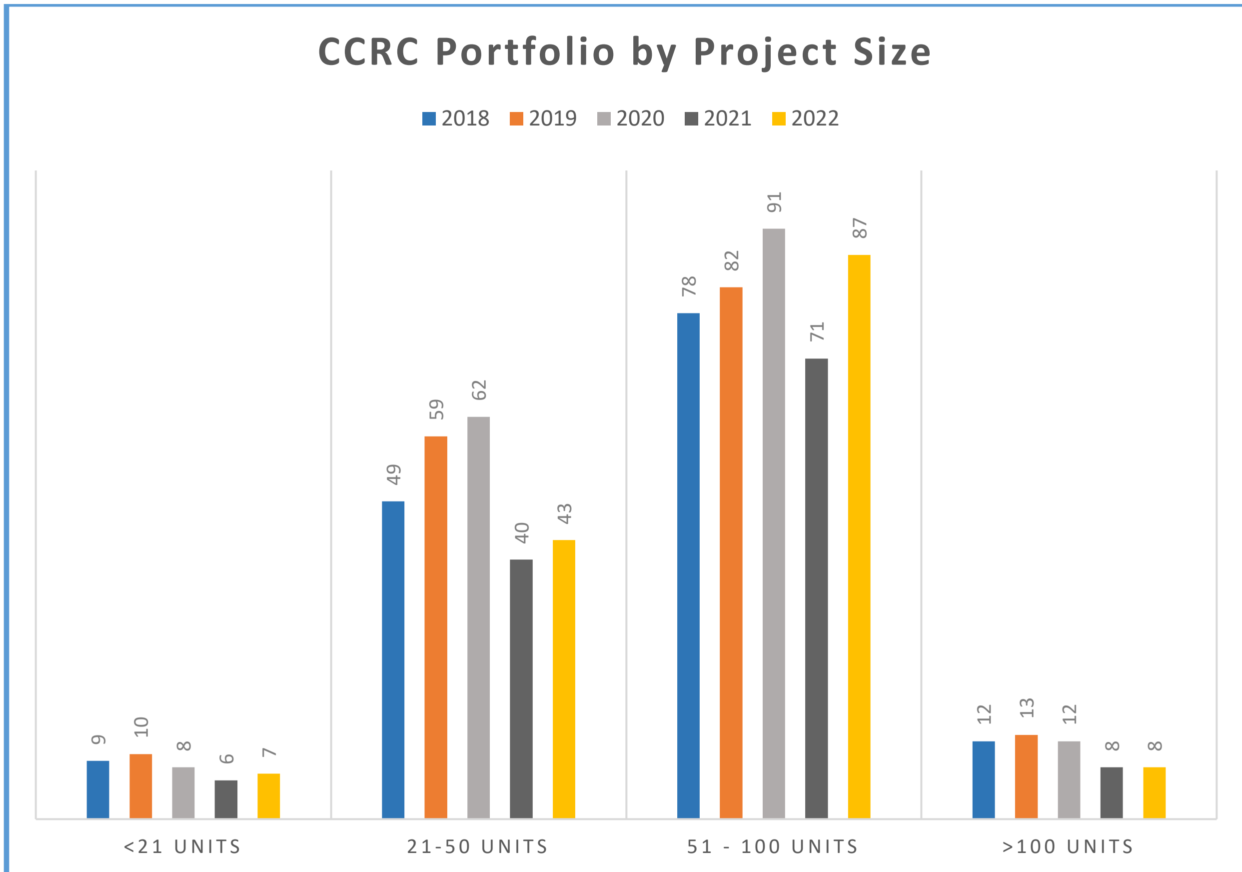


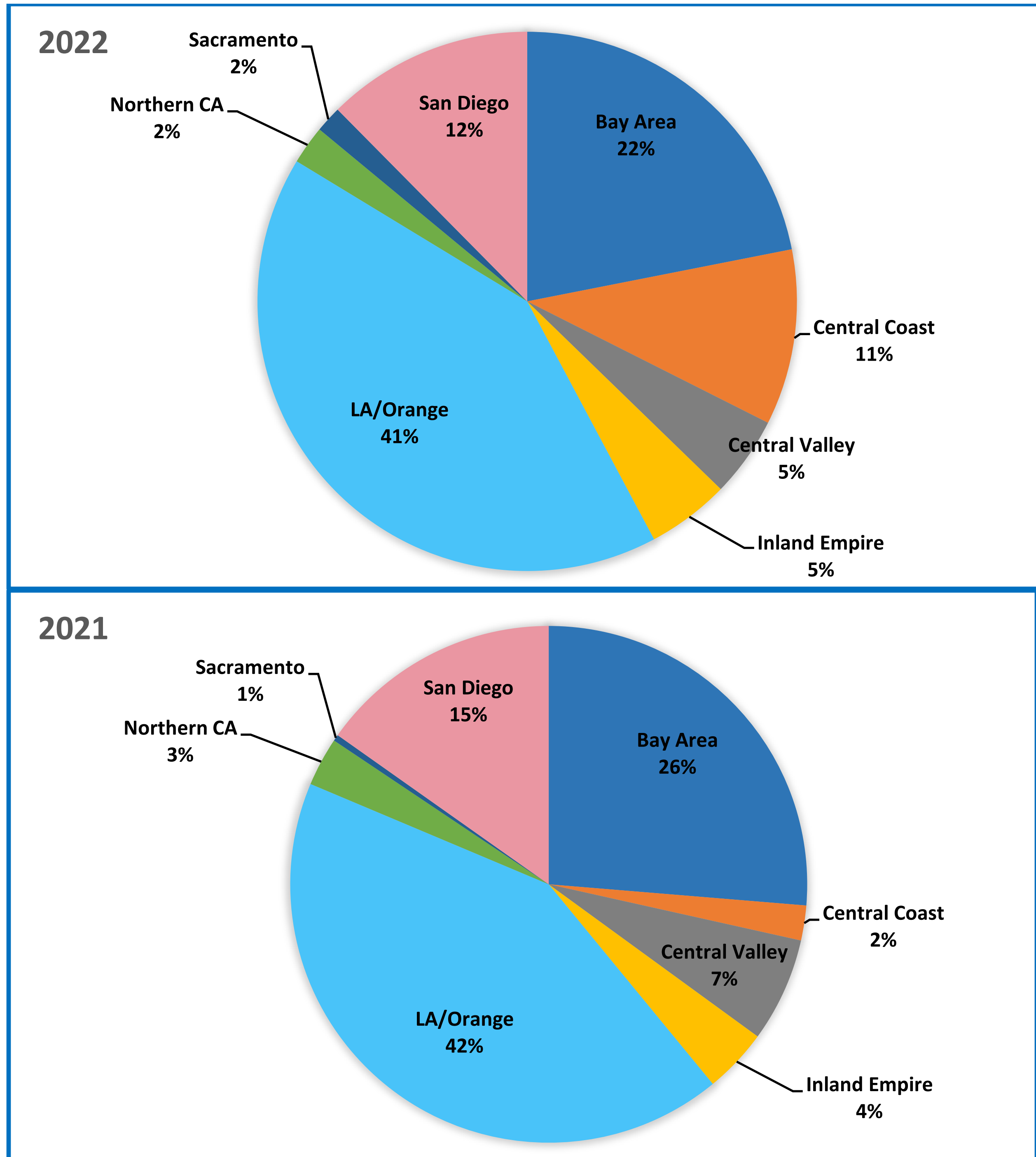
Figure 2: CCRC Portfolio by Project Size (funded and forward commitments combined)



1.2. Geographic Distribution

Figure 3 compares the 2021 and 2022 geographic distributions of CCRC's funded loans and forward commitments. Aside from a notable increase in Central Coast representation, 2021 and 2022 geographic distributions are nearly identical.

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

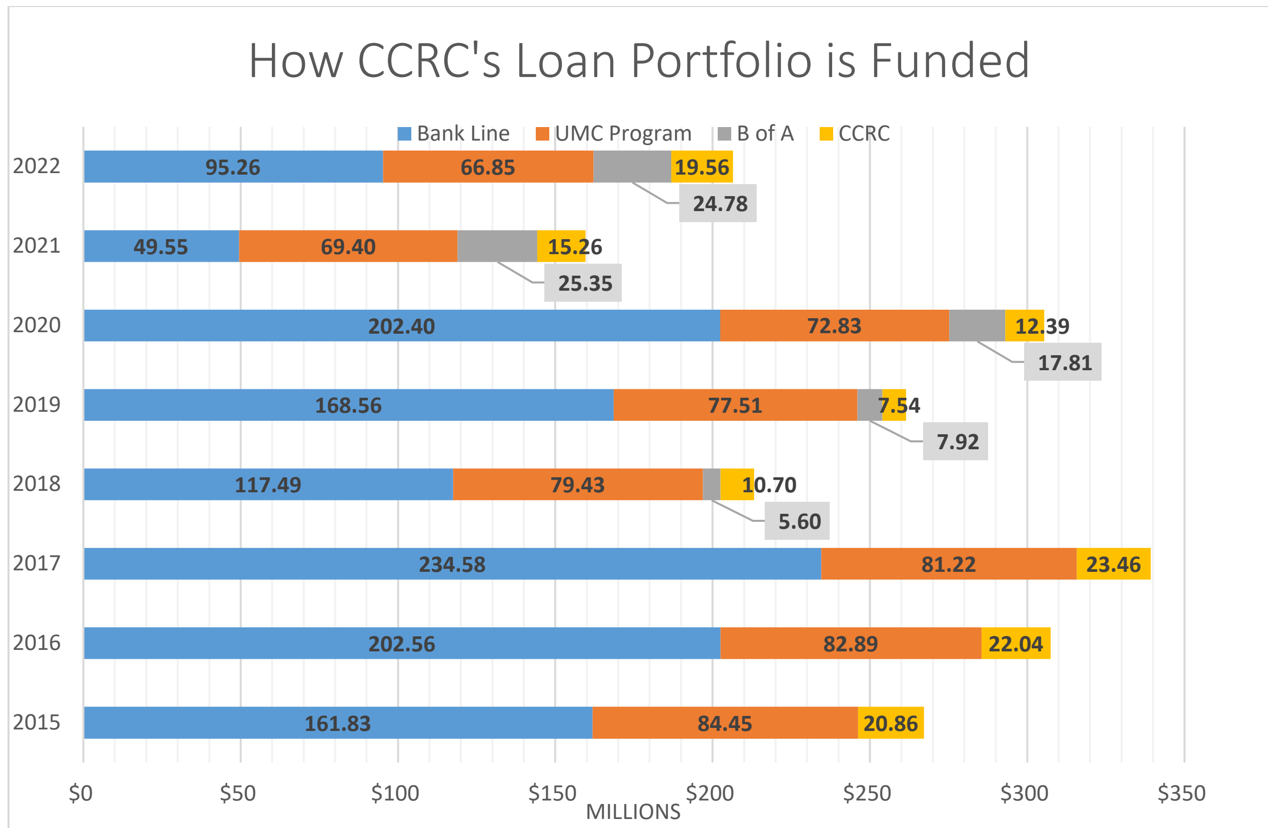


1.3. Portfolio Funding

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.

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, and to $95.26 in 2022. Meanwhile, CCRC's self-funded loans fell to $1.4 million immediately after the 2020 loan sale, rising to $15.26 million by year-end 2021 and to $19.56 million at the end of the 2022 fiscal year. Three loans totaling $2.5 million paid off in 2022, all were older loans nearing maturity.

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 delinquent P&I payments in 2022; however, one loan defaulted when the borrower failed to make its balloon payment that was due in July 2022. The loan had a balance at a maturity of $1.28 million and is currently in non-judicial foreclosure. The borrower's failure to repay the loan stems from a dispute between its general partner and investor limited partner (ILP). The GP had secured a refinancing loan sufficient to repay CCRC, with additional proceeds to fund the purchase of the ILP partnership interest. However, the proposed payment fell below the expectations of the ILP, who believes the

project can support a higher refinance loan and, therefore, a higher payment for the ILP interest. CCRC believes that it is in the interests of both parties to resolve their dispute and that that the partners have the means, resources, and incentives to avoid foreclosure. However, should this matter resolve in foreclosure, we believe the property's value is sufficient to ensure that CCRC will emerge from foreclosure repaid in full.

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 that 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.

In the 2021 Portfolio Analysis, Table 6 presented a different picture than previous years because it registered the impact of the 2020 loan sale, the largest loan sale in CCRC history. This $189.5 million sale skewed 2021 risk metrics because we sold 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). Consequently, changes in risk metrics over the past year do not signal evidence of a trend, but rather indicate a return a more balanced portfolio.

In aggregate, the portfolio has a healthy weighted average DSCR of 1.32, higher than last year's figure 1.30, but less than the 1.36 achieved in 2020. The weighted average LTV ratio of 51% is also higher than 2021 ratio of 50%, but less than the 2019 and 2020 levels of 52% and 58%. At the fund level, the DSCR on bank-funded loans increased from 1.12 in 2021 to 1.19 in 2022 but falls below the 2020 level of 1.31. LTV fell 59% to 56%. For CCRC loans, DSCR rose from 1.20 to 1.47, while LTV was unchanged at 44%. Occupancy of the portfolio as a whole also remained steady 97%.

Note that loans funded in FY 2022 comprise 26% of the combined portfolio. For newly funded loans, we base DSCRs on conversion underwriting projections rather than actual performance.[3]

[3] 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	32	42	6	15	95	50
2. Balance	$95,260,458	$66,852,653	$24,781,378	$19,559,618	$206,454,106	$ 277,405,269
3. $/DU	$53,577	$24,345	$62,109	$25,238	$36,233	$ 79,304
4. Coupon	5.11%	7.12%	5.45%	5.62%	5.85%	4.67%
5. DSCR	1.19	1.53	1.14	1.47	1.32	1.15
6. LTV	56%	48%	40%	44%	51%	62%
7. Occupancy	96%	98%	95%	96%	97%	N/A
8. Maturity	174	113	188	174	156	N/A
9. Age	31	135	31	36	65	N/A
10. Risk Rating	6.13	6.04	6.15	6.15	6.11	N/A
11. Loans >30 Yr Ar	10	1	3	4	18	35
$ >30 Yr Amort	$56,185,573	$ 2,341,912	$ 9,292,050	$ 8,762,731	$ 76,582,266	$ 214,181,482
% $ >30 Yr Amort	59%	0%	37%	45%	37%	77%
Loans <30 Yr Amor	11	7	4	6	28	9
$ <30 Yr Amort	24,628,828	3,909,938	7,729,868	7,584,539	43,853,174	38,804,956
% $ <30 Yr Amort	26%	6%	31%	39%	21%	14%
Loans =30 Yr Amor	12	36	3	5	56	9
$ =30 Yr Amort	14,446,057	60,600,803	7,759,459	3,212,348	86,018,666	24,418,831
% $ =30 Yr Amort	15%	91%	31%	16%	42%	9%

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. In 2022, as in 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 2022 (based on 2021 audits), 18 properties with combined loan balances of $32.62 million, or 15.8% of the portfolio, had DSCRs of less than 1.00, compared to 2021 when 15 properties totaling $18.67 million (11.7% of the portfolio), and 2020 when 16 properties with combined loan balances of $25.1 million (8.22% of the portfolio) had DSCRs of less than 1.00.

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.

Notwithstanding expected DSCR fluctuations, we view the increase in sub 1.00 DSCRs as a material change in performance, in part temporary and tied to disruptions connected to COVID, but also potentially longer term and related to challenges managing PSH Properties,

which tend to experience higher expense volatility relative to non-PSH properties, particularly in the areas of security, maintenance and unit turnover.[4]

In Table 6, metric number 10 is the weighted average loan risk rating. Loan risk ratings, which CCRC assign 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 2022 aggregate risk rating was 6.11, compared to 2019, 2020 and 2021 ratings of 6.10, 6.07 and 6.13.

Metric number 11 in Table 6 shows 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 bank-funded loans with amortization periods exceeding 30 years rose from 10 in 2018 to 19 in 2019 and 32 in 2020. The total fell to 12 in 2021 following the loan sale but increased to 28 in 2022. 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, then rising again to 37% in 2022. 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, 60% in 2021 and 77% in 2022. 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 no longer designates 35-year amortizing loans as policy exceptions if they meet the criteria described above.

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 is a static portfolio comprised of loans that, as shown in metric number 9, are four times as old as the three other portfolios. Another reason is that the CCRC and Bank of America portfolios are comparatively small and supply no basis for making statistically meaningful conclusions. In this regard, we view the 1.47 DSCR of the CCRC funded portfolio in a similar way, a statistical anomaly without an identifiably meaningful cause.

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[4] We are currently conducting a comparative analysis of PSH and non-PSH properties in our portfolio, reviewing operating expenses and other performance metrics. The analysis is part of an effort to gain insight into the operational challenges at PSH properties and to determine if the observations noted above (anecdotal at this point) have identifiable causes or are nothing more than statistical "noise". One approach that we will be taking with this analysis is to compare actual operating with underwriting projections to ascertain the types and frequency of expense surprises at both PSH and non-PSH properties.

Figure 5: DSCR-LTV Scatterplot (9/30/2022)

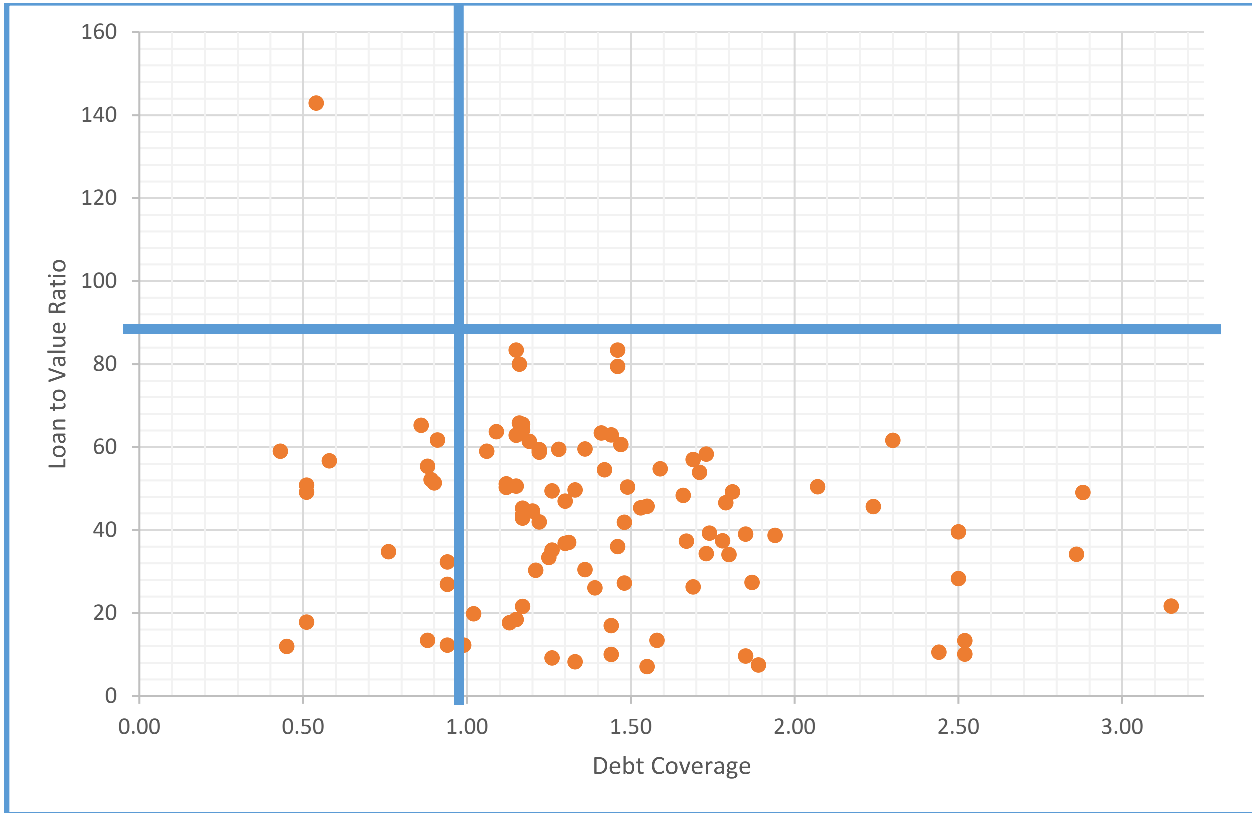


Table 7: DSCR-LTV Matrix (9/30/2022)

	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%	9,399,329	1,776,211	25,194,573	18,307,969	17,038,748	17,092,416	**88,809,246**
50%-59.x%	14,760,483	6,401,324	21,672,758	6,456,419	8,324,864	453,724	**58,069,572**
60%-69.x	6,495,427	1,910,836	24,323,121	11,003,168	-	641,228	**44,373,781**
70%-79.x%	-	-	2,503,438	1,629,063	-	-	**4,132,500**
80%-89.x%	-	-	6,979,334	2,125,024	-	-	**9,104,358**
90%-99.x%	-	-	-	-	-	-	**-**
100%-200%	1,964,649	-	-	-	-	-	**1,964,649**
Total	**32,619,888**	**10,088,372**	**80,673,224**	**39,521,643**	**25,363,612**	**18,187,368**	**206,454,106**

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 (2 projects) and Northern California (4 projects). Still, a few apparent patterns emerge from the data. For example, in the Bay Area, one property has risk ratings of 7, and one has an 8. Both 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 and insurance expenses have caused material increases 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 at 1.69, the Central Valley also reports the highest weighted average DSCR (compared to 1.63 in 2021), and, along with its DSCR improvement, a risk rating improvement, with the percent of the portfolio (as measured in principal balance) assigned a risk rating of 7 or worse, falling from 26.62% to 8.32%. In the Inland Empire, DSCR increased from 1.19 to 1.20, while the percent of the portfolio rated 7 or worse was unchanged.

Table 8: Geographic Analysis

	Bay Area	Central Coast	Central Valley	Inland Empire	LA/Orange	Northern CA	Sacra-mento	San Diego
Count	16	5	14	7	36	4	2	11
Balance	47,772,458	5,465,859	15,440,844	8,287,895	89,830,691	9,321,530	822,607	29,512,223
% Total Balance	23%	3%	7%	4%	44%	5%	0%	14%
Units	968	156	929	562	2,003	206	109	765
$/DU	49,352	35,038	16,621	14,747	44,848	45,250	7,547	38,578
DSCR	1.33	1.41	1.69	1.25	1.20	1.13	1.52	1.55
LTV	45%	47%	47%	67%	50%	74%	12%	53%
Occupancy	96%	96%	96%	97%	97%	98%	99%	98%
Age	60	46	107	140	56	35	40	71
% Risk Rated 7 or Worse	7.50%	0.00%	8.32%	23.71%	5.04%	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 commitment. Between FYs 2021 and 2022, CCRC's total exposure to the top-10 sponsors increased from 53% to 56%.

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 $55.29 million in exposure to our top-ranked sponsor consists of loans on 11 projects.

CCRC includes forward commitments in its sponsor exposure calculations. Because of the 2020 loan sale, record originations in both 2021 and 2022, and conversion delays, 57% of our year-end exposure resides in forward commitments.

Table 9: CCRC Exposure to Sponsors

2022 Rank	Sponsor	2022 Exposure	Number of Projects	% of Total Exposure	2021 Exposure	2021 Rank
1	XXXXXX	55,287,476	11	12%	55,745,727	1
2	XXXXXX	50,266,489	8	11%	8,257,079	11
3	XXXXXX	28,222,685	6	6%	17,998,296	4
4	XXXXXX	26,781,800	6	6%	23,123,463	2
5	XXXXXX	26,208,626	6	6%	6,645,784	16
6	XXXXXX	15,634,000	2	3%	8,679,000	10
7	XXXXXX	13,289,095	6	3%	13,983,232	5
8	XXXXXX	13,207,669	5	3%	18,033,220	3
9	XXXXXX	13,025,000	2	3%	13,025,000	6
10	XXXXXX	12,778,421	1	3%	12,901,823	7
		254,701,261		**56%**	**185,577,549**	**53%***

*2021 total exposure and percentage of total exposure based on 2021 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 2022, the top 5 investors accounted for 76% of CCRC's total LIHTC investor exposure, compared to 71% in 2021. Wells Fargo accounted for 40% of CCRC's LIHTC investor exposure, compared to 30% in 2021 and 40% in 2020.

Table 10: CCRC Exposure to LIHTC Investors

2022 Rank	Tax Credit Investor	2022 Loan Exposure	% of Total Exposure	2021 Loan Exposure	2021 Rank
1	Wells Fargo	193,233,394	40%	103,860,173	1
2	National Equity Fund	59,411,804	12%	43,408,348	3
3	Bank of America	57,975,051	12%	38,763,045	2
4	US Bank	37,012,272	8%	22,213,130	4
5	Red Stone Equity	17,809,832	4%	18,964,217	6
	Top 5 Total	**365,442,352**	**76%**	**245,529,594***	**71%***

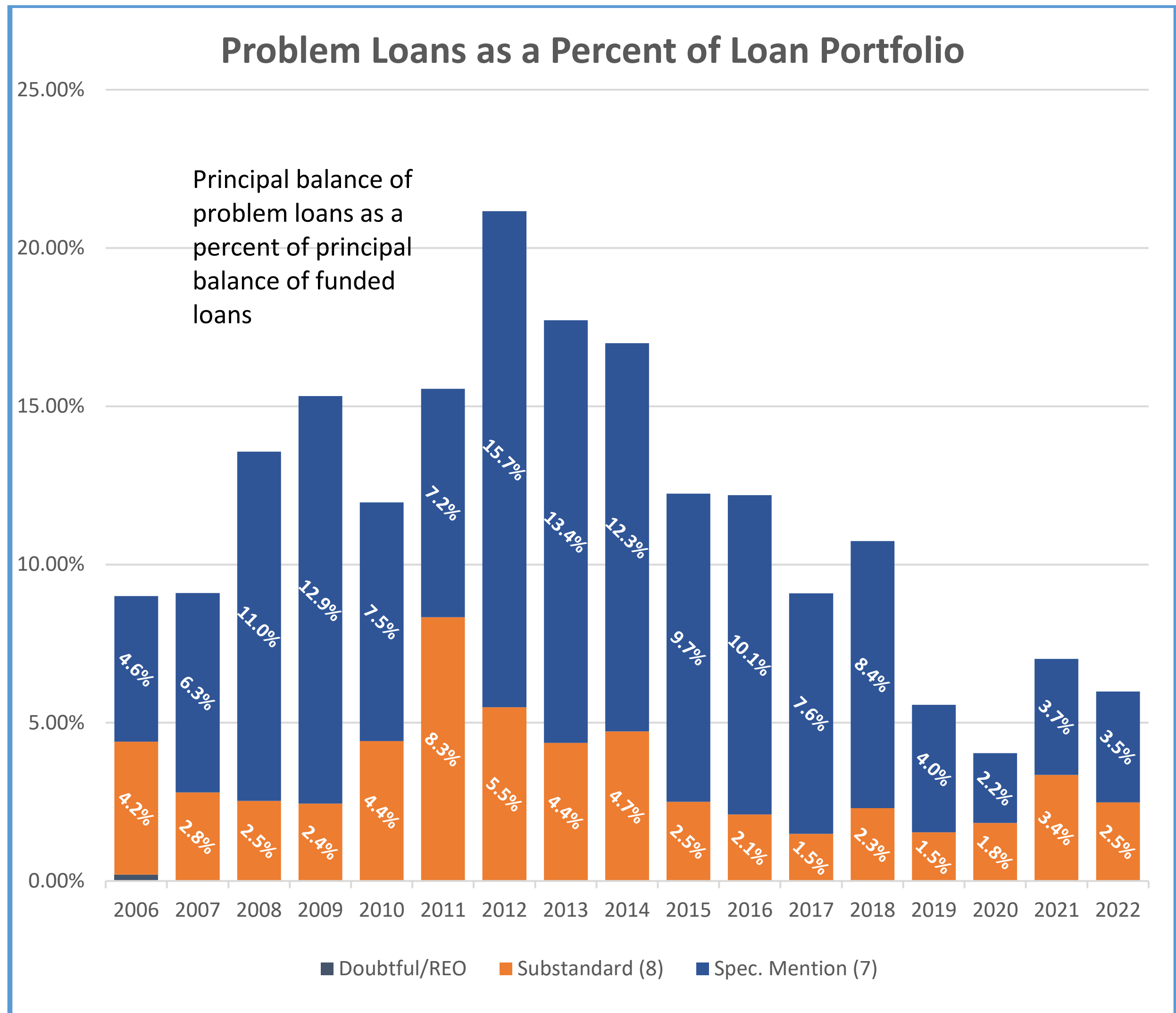
*2021 total exposure and percentage of total exposure based on 2021 top 5 investors.

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 2022, there were 7 problem loans, compared to 15 in 2018, 11 in 2019, 10 in 2020 and 9 in 2021. CCRC rated five loans as 8s and two as 7s. We removed

one 7-rated from the list due to improved performance, while another 7-rated loan came off because the loan was repaid. Aside from these changes, the 2022 list is identical to last year's. This includes the composition of the 8-rated loans, which are identical to the 2021 8-rated loans. The combined principal balance of problem loans was 5.98% of the principal balance of CCRC's funded portfolio, down from last year's ratio of 7.02%. This improvement reflects the prevalence of new loans in the portfolio, which are less likely to experience operational setbacks, and does not necessarily suggest an overall improvement in performance metrics.

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.[5] 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 18 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 0.08% (in what follows "CCRC's historical loss rate") of total loan originations during its 33 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 2019 survey[6] of over 21,000 LIHTC properties found a cumulative foreclosure rate of just 0.65%, despite also finding that on average about 16% of all LIHTC properties operated below breakeven at any given time.

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.

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[5] FedLinks "Allowance for Loans and Lease Losses" January 2013

[6] "Housing Tax Credit Investments: Performance Trends and Case Studies", Cohn Reznick LLP, December 2019

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[7] 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 2022 and 2021 floor and ceiling calculations with the formula reserve. The 2022 formula allowance is about $793,000 higher than the 2021 allowance, and the formula allowance for FY 2022 is 1.49% of the portfolio's principal balance.

Table 11: Allowance for Loan Losses Calculation

	$ at 9/30/22	Percent of Loan Portfolio	$ at 9/30/21	Percent of Loan Portfolio
FLOOR	175,330	0.08%	142,205	0.09%
CEILING	4,658,143	2.26%	1,904,124	1.19%
FORMULA	3,077,465	1.49%	2,584,238	1.62%
RECOMMENDED	3,077,465	1.49%	2,590,421	1.62%

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).

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 1.49% of the funded loan portfolio and 60% of all classified loans (rated 8 and above).

[7] 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, 2022, Allowance for Loans be set at $3,077,465, CCRC's formula provision.

CCRC LOAN COMMITTEE

By: ______________________________________

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

September 30, 2022

County	2022 CCRC Exposure	2022 % of CCRC Exposure	2021 CCRC Exposure	2021 % of CCRC Exposure
Alameda	$34,526,851	7.14%	33,770,699	9.70%
Butte	$982,147	0.20%	1,019,800	0.29%
Calusa	$787,939	0.16%	798,432	0.23%
Contra Costa	$572,111	0.12%	590,220	0.17%
Fresno	$8,711,227	1.80%	8,328,051	2.39%
Imperial	$1,984,543	0.41%	2,004,667	0.58%
Kern	$4,893,455	1.01%	4,932,906	1.42%
Kings	$933,323	0.19%	954,709	0.27%
Los Angeles	$150,117,160	31.02%	117,571,709	33.77%
Madera	$453,724	0.09%	470,655	0.14%
Nevada	$6,979,334	1.44%	0	0.00%
Orange	$50,640,635	10.47%	29,652,907	8.52%
Placer	$1,858,900	0.38%	1,858,900	0.53%
Riverside	$17,145,278	3.54%	8,887,736	2.55%
Sacramento	$3,180,900	0.66%	542,149	0.16%
San Bernardino	$6,773,682	1.40%	5,145,586	1.48%
San Diego	$58,048,680	12.00%	50,927,690	14.63%
San Francisco	$8,360	0.002%	21,739	0.01%
San Joaquin	0	0.00%	474,050	0.14%
San Luis Obispo	$2,074,009	0.43%	2,088,245	0.60%
San Mateo	$6,793,098	1.40%	7,055,040	2.03%
Santa Barbara	$9,116,385	1.88%	4,218,281	1.21%
Santa Clara	$19,255,401	3.98%	19,706,170	5.66%
Santa Cruz	$38,539,000	7.96%	0	0.00%
Solano	$5,834,700	1.21%	0	0.00%
Sonoma	$39,566,448	8.18%	31,026,301	8.91%
Stanislaus	$4,299,300	0.89%	5,461,220	1.57%
Tulare	$4,060,816	0.84%	2,112,940	0.61%
Ventura	$1,230,465	0.25%	1,297,713	0.37%
Yolo	$4,491,507	0.93%	846,230	0.24%
Nevada	0	0.00%	6,344,000	1.82%
TOTAL	**$483,859,378**	**100%**	**348,108,747**	**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

Years Ending September 30	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	193,960,971
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	32,212,379
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	614,217
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	106,941
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	12,917,882
Gross Yield	7.42%	7.67%	7.47%	7.06%	7.90%	7.03%	6.93%	6.49%	8.02%	6.82%	7.04%	6.45%
0												
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	5,074,654
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	15,706
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%	2.62%
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%	0.05%
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	1,001,820
* "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

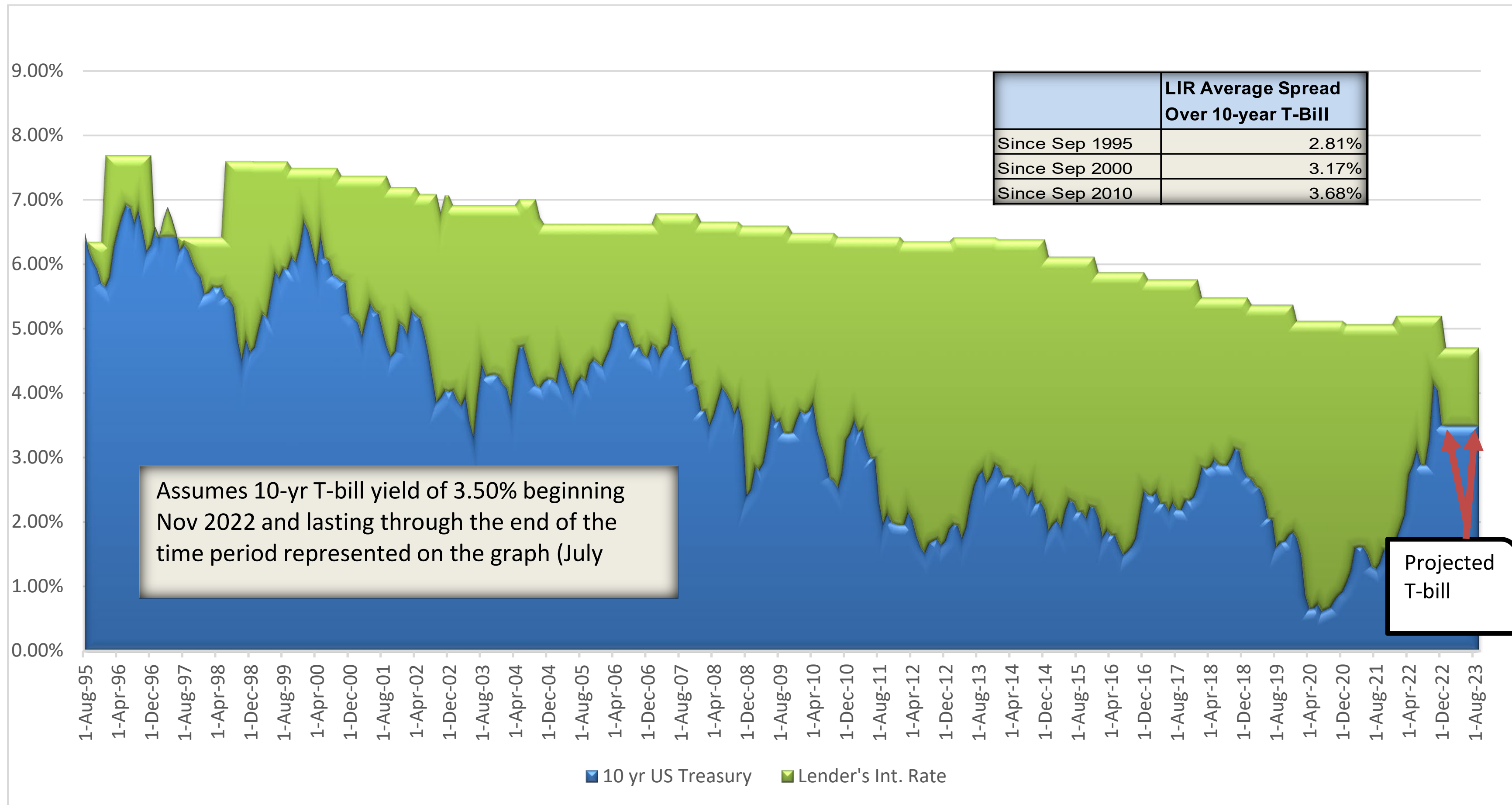
Years Ending September 30	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	TOTAL	AVERAGE
Gross Loans Receivable	218,841,367	169,138,795	191,770,405	233,505,402	266,767,721	142,323,288	192,349,390	240,442,042	97,797,487	147,181,422		133,456,867
Loans Originated	46,617,639	36,001,272	43,721,671	$46,896,937	$39,483,911	$30,594,985	61,071,879	57,757,941	$54,886,294	$54,106,294	1,150,191,849	
Cash from Loan Fees	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	2,803,285		
Increase in Deferred Revenue	(73,762)	(293,466)	307,015	563,167	812,618	115,316	(112,288)	536,060	996,683	1,236,913		
Loan Interest Income	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	6,619,535		
Gross Yield	6.47%	7.15%	6.09%	6.32%	5.97%	4.32%	5.70%	5.26%	3.22%	5.40%		
0										-		
Allowance for Loan Loss	5,129,536	5,289,968	4,653,072	5,228,325	5,137,234	3,545,251	3,605,430	2,213,071	2,590,421	3,077,465		
Provision Expense	54,882	160,433	(643,367)	575,253	(91,091)	(1,591,983)	60,180	(1,392,359)	377,350	487,044	3,582,331	
Charge Offs, RE Writedowns, Losses on Loan Sales, RE Operations	-	-	-							-	976,794	
										-		
Allowance as a % of Loans	2.34%	3.13%	2.43%	2.24%	1.93%	2.49%	1.87%	0.92%	2.65%	2.09%		
Provision Exp as a % of Loans Originated	0.12%	0.45%	-1.47%	1.23%	-0.23%	-5.20%	0.10%	-2.41%	0.69%	0.90%		
	Total Provision Expense as a % of Total Originations ===================>									-	0.31%	
										(1,284,106)		
	Total Historical Loan Losses* As a Percentage of Total Originations =====>									-	0.08%	
	Total Historical Loan Losses* As a Percentage of Average Loans Receivable Originations====>									-		0.73%
										-		
Hypothetical Losses at 50 bps	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	tRevEndI	Audited Fins	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	9/25/1995	191,052	5.01	8	09/21	12/31/2020	33,657	8%	420,708		420,708	45%	378,638	-
XXXXXX	XXXXXX	6/1/2004	1,284,106	6.62	8	12/21	12/31/2020	131,806	9%	1,464,512	4000	1,460,512	88%	1,314,460	-
XXXXXX	XXXXXX	12/22/2004	208,358	6.87	8	08/21	12/31/2021	15,438	8%	192,971	111,000	81,971	254%	73,774	134,584
XXXXXX	XXXXXX	6/7/2007	1,964,649	6.85	8	11/21	12/31/2021	29,572	9%	328,574		328,574	598%	295,717	1,668,932
XXXXXX	XXXXXX	8/11/2009	1,485,292	6.75	8	04/22	12/31/2021	98,119	8%	1,226,483	1,000	1,225,483	121%	1,102,935	382,357
XXXXXX	XXXXXX	12/21/2009	3,393,519	5.00	7	08/21	12/31/2020	289,716	8%	3,621,446		3,621,446	94%	3,259,301	134,218
XXXXXX	XXXXXX	08/18/2021	3,828,896	4.990	7	05/22		146,322	8%	1,829,025		1,829,025		1,646,123	2,182,773
			12,355,872												4,502,864

Exhibit IV: History of Lender's Interest Rate (LIR) vs 10-Year T-Bill



We previously reported that the Bank Pool had a WAC of 5.11% at FYE 2022 (Table 6), compared to 5.69% in 2021. We can trace the origin of the decline in WAC to originations made during the most acute phases of the pandemic, which began in spring 2020, and during which time Treasury yields fell to historic lows, falling below .65% in July 2020. Treasury yields remained at historic lows through 2021, before taking a sharp turn upward in January 2022 in response to rising concerns about inflation. By mid-October 2022, the rapid move higher in government bond yields had amounted to the steepest such rise in nearly forty years.

Exhibit IV presents 10-year Treasury rates since 1995 (blue), overlayed against the annual Lender's Interest Rate (LIR) (green), the interest rate received by Members of the Bank Pool, over that same time period. The graph also projects forward about a year, assuming a 10-year treasury rate of 3.5% from December 2022 through September 2023. And it shows the LIR over the same period. The area in light green represents Loan Pool member's risk adjusted return--the spread over the 10-year T-bill. The graph includes an imbedded table that shows average spreads over selected periods of time. For example, since 2010 the average spread was 3.68 percentage points.

In January 2022, we reset the LIR from 5.08% to 5.21%, resulting in an LIR spread over treasuries at that time of 3.45%. However, since January 2022, the surge in Treasury yields has caused the LIR spread to steadily narrow, falling to about 1.06% in October 2022, which is when 10-year treasuries reached their highest levels. In January 2023, the LIR will drop to 4.72%, which, assuming a 3.50% Treasury, would result in an LIR spread of 1.22%.

Although we are not attempting use this analysis to determine an appropriate risk-adjusted return, it seems fair to conclude that historically, Bank Pool Members have received a return that was on average higher than they would have earned by making loans to borrowers with risk profiles similar to CCRC. Similarly, one could reasonably conclude that CCRC's LIR is now, or could soon become, low relative to similar credit risk profiles, and that it will continue to be so until Treasury yields fall, loans originated in the current higher interest rate environment fund, or we experience some combination of both. We can extend this point a step further by observing that for almost every year of the past twenty, Members' yields have been above market, and that the current situation is an anomaly. As a visual representation of risk adjusted return over a 27-year timespan, the graph implies that a return to stability in the Treasury markets will lead to a return to historic credit spreads.