California Community Reinvestment Corporation

CCRC 2024 Tax Exempt Loan Portfolio Analysis

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Introduction

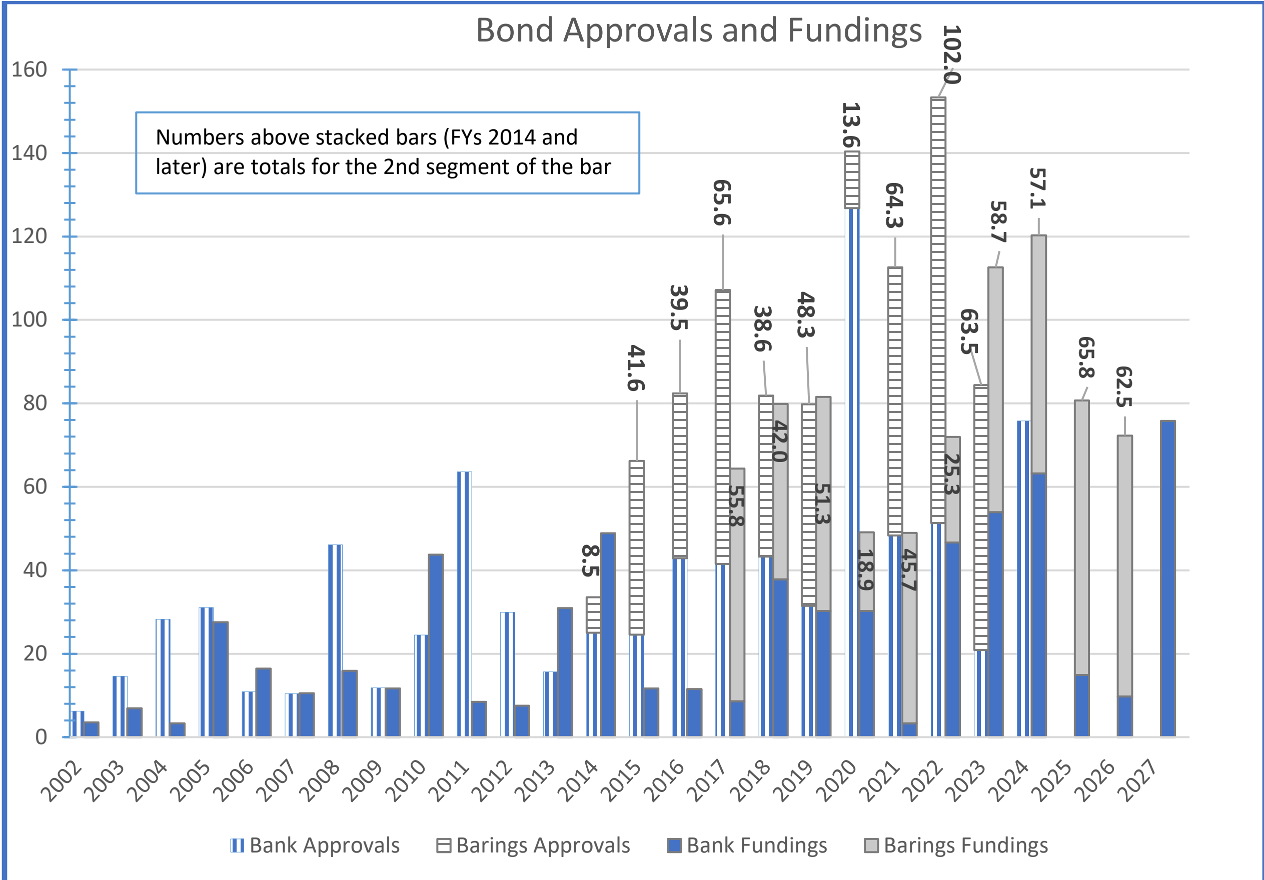
The CCRC 2024 Tax Exempt Loan Portfolio Analysis provides an in-depth review of CCRC's portfolio of tax-exempt loans (TELs), including forward commitments, managed for a subset of its member banks under the "TEL Program." This report is primarily intended for the banks participating in the TEL Program. Formerly referred to as the "Bond Program," the TEL Program has been renamed to reflect updated financing structures, which are explained in subsequent sections.

The report focuses on the TELs funded by the banks participating in the TEL Program. It excludes (other than in Figure 1 below) TELs funded by Barings (formally 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, 2024.

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. Since approving its first TEL project in 2001, the program has grown significantly.

Figure 1 shows TEL financing approvals and fundings since 2001 and projected fundings of current forward commitments through 2027. In 2024, CCRC approved $75.8 million in new TEL commitments.

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



Funding dates after 2024 are projections reflecting current commitments. 2025 and 2026 figures may be different than figures presented in the 2023 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.

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 2024.

1. Characteristics of CCRC's TEL Portfolio

CCRC typically approves a TEL before the construction phase of a project. In this report, such approvals are referred to as "commitments" or "forward commitments." These commitments generally have a term of 30 to 36 months, allowing the developer sufficient time to construct the property and lease it to full occupancy.

Once the project is completed and achieves operational stability, CCRC fulfills the forward commitment by funding the TEL loan in accordance with the terms of the agreement.

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 2024, the TEL pool balance rose to $132.94 million, up from $71.35 million at the end of 2023. This significant increase reflects a rebound following the low pool

balance of $18.45 million in 2022. The sharp drop in 2022 was due to a TEL sale to East West Bank (EWB) in August of that year, which consisted of 25 TELs totaling $95 million. CCRC continues to service the TELs sold to EWB.

Table 1: CCRC Portfolio of Funded TELs

Fiscal Year	Loans[1]	Balance	Average	DUs Financed[2]	$/DU	WAC[3]
2024	25	$132,939,144	$5,317,566	1,694	$78,476	4.14%
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%

[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.

In November 2023, CCRC closed on a $100 million credit facility made available through the CDFI Bond Guarantee Program (BGP), which offers a capital recycling alternative to outright sales to third-party investors. Nearly a year later, in October 2024, CCRC drew its first advance under the facility, totaling $22.5 million.

Of this advance, CCRC deployed $19.2 million to acquire three loans from the TEL pool. This allowed CCRC to pay off the members of the TEL pool and transfer the TELs onto its own balance sheet.

Table 2: TELs Funded During FY2024

Fiscal Year	Loans	Balance	Average	DUs Financed	$/DU	WAC
2024	7	$63,200,326	$9,028,618	636	$99,372	4.55%
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%

[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 7 TELs in FY 2024 totaling $63.2 million, a record funding volume for CCRC.

Extensions of Forward Commitments

Over the past four years, CCRC has experienced a significant increase in the number of projects seeking extensions of forward commitments due to delays in meeting funding conditions. These delays can be attributed to several factors, including:

- **COVID-Related Interruptions:**
  - **Construction Delays:** Supply chain disruptions and labor shortages were among the primary contributors to construction interruptions. Post-COVID, there continue to be delays caused by utility company delays in electrifying buildings and long waiting periods for switchgears.
  - **Lease-Up Delays:** These were particularly significant during the earlier, pre-vaccine phases of the pandemic.
- **Special Needs Properties:** Properties serving homeless or other special needs populations often face slower lease-up periods due to:
  - Targeted outreach and referral requirements.
  - Complex, multi-level tenant screening processes.
  - Dependence on tenant referrals from housing and public health organizations administering local coordinated entry system programs.
- **Subordinated Debt Programs:** The increasing volume of subordinated debt programs and providers has added additional review and approval procedures to the loan conversion process, further contributing to delays.

The number of approved forward commitment extensions over the past five years is as follows[1]:

- **FY 2024:** 12 extensions. involving **$74.4 million** in forward commitments.
- **FY 2023:** 19 extensions, involving **$111.9 million** in forward commitments.
- **FY 2022:** 16 extensions, involving **$76.4 million** in forward commitments.
- **FY 2021:** 31 extensions.
- **FY 2020:** 36 extensions.

Table 3: Book of TEL Forward Commitments

Date	Count	Balance	Average	DUs Financed	$/DU	WAC
2024	23	$139,215,081	$6,052,830	1,945	$71,576	5.87%
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%

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 $141.11 million in 2023 to $139.21 million in 2024. The weighted average coupon (WAC) rose by 97 basis points in 2024, reflecting the sharp rise in interest rates.

[1] Extension totals include Loan Pool and Barings programs in addition to the TEL Pool.

Table 4: New TEL Loan Approvals

Date	Loans	Balance	Average	DUs Financed	$/DU	WAC
2024	10	$75,763,055	$7,576,306	979	$77,388	6.51%
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%

As Table 4 shows, CCRC approved ten TEL loans totaling $75.76 million in FY 2024—the second-highest level in the program's history and nearly double the annual average.

The WAC of the new TEL loans in FY 2024 was 6.51%, which was 70 basis points higher than 2023.

1.2. Geographic Distribution

Figure 2 compares the 2023 and 2024 geographic distributions of CCRC loans. Distributions, which include funded TELs and forward commitments, remain similar to 2023.

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

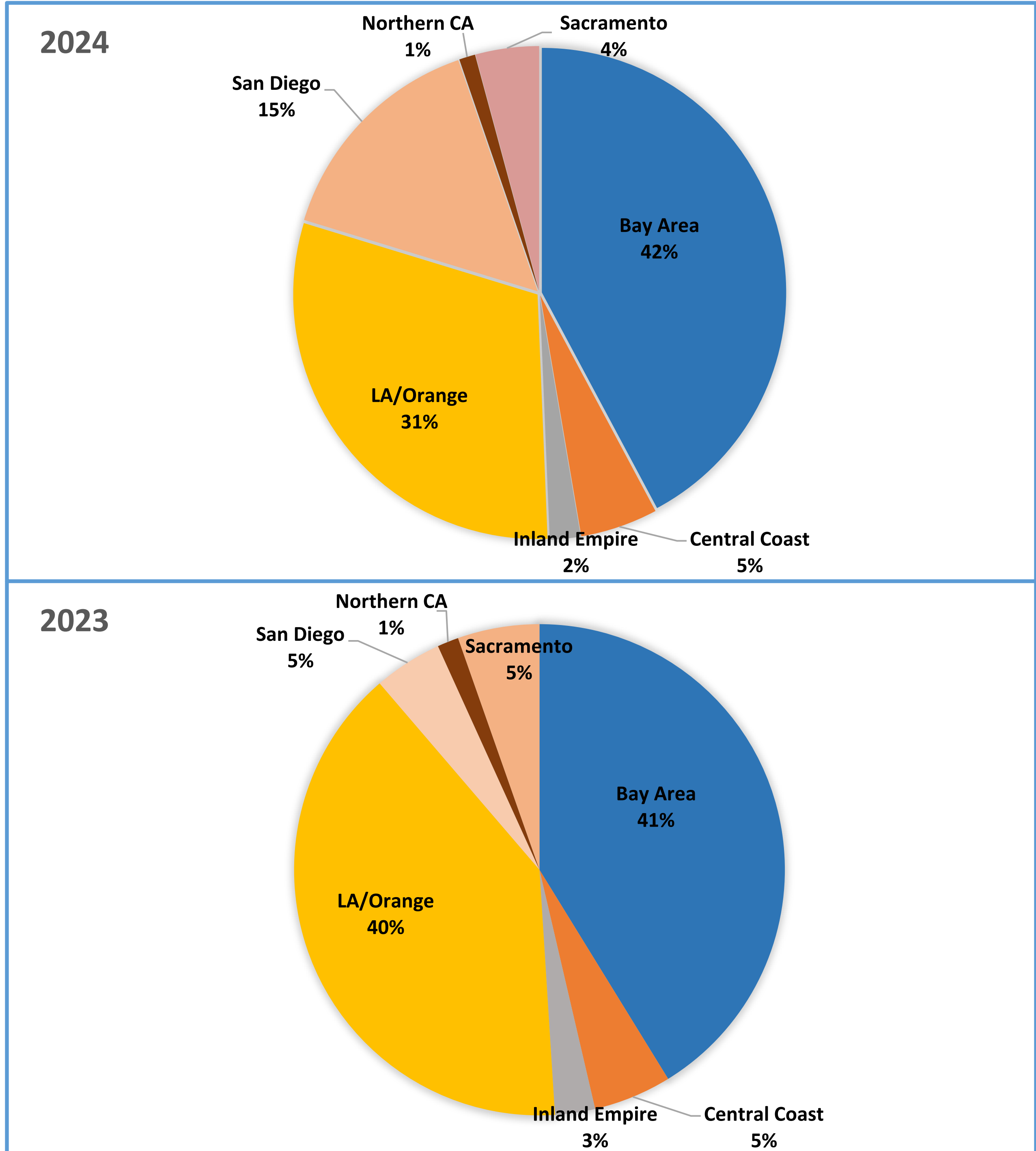


Exhibit I (at the end of this report) shows CCRC TEL exposure by California County.

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 2024 (except for occasional borrower oversights). Therefore, we do not discuss delinquencies in our analysis.

2.1. Risk Metrics

Table 5 presents common risk metrics for funded TELs and forward commitments, with further stratification of funded TELs by geography. CCRC TEL proceeds typically cover a small fraction of a project's 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. These investors 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 fourteen months, most of the funded TELs in the portfolio are very new. Among the 25 TELs in the pool, CCRC funded 7 in 2024 and a total of 23 between 2022 and 2024 and one in 2020. There is only one "old" TEL, which we funded in 2003, with a remaining balance of $374,000 at the close of FY2024. For four newer TELs, performance data reflects stabilized underwriting projections rather than actual results.

Funded TELs and TEL forward commitments are nearly equal, with balances of $133 million and $139 million, respectively. However, the weighted average coupon of the forward commitments is notably higher, at 5.87% compared to 4.14% for the funded TELs—a difference of 172 basis points. This disparity reflects the sharp rise in interest rates as the pandemic receded and inflation took hold.

The weighted average DSCR fell from 1.21 in 2023 to 1.13 in 2024, continuing a downward trend that began in 2022. As illustrated in the chart below, this decline warrants attention, as it may reflect broader challenges impacting property cash flows. We provide a more detailed discussion of this trend below.

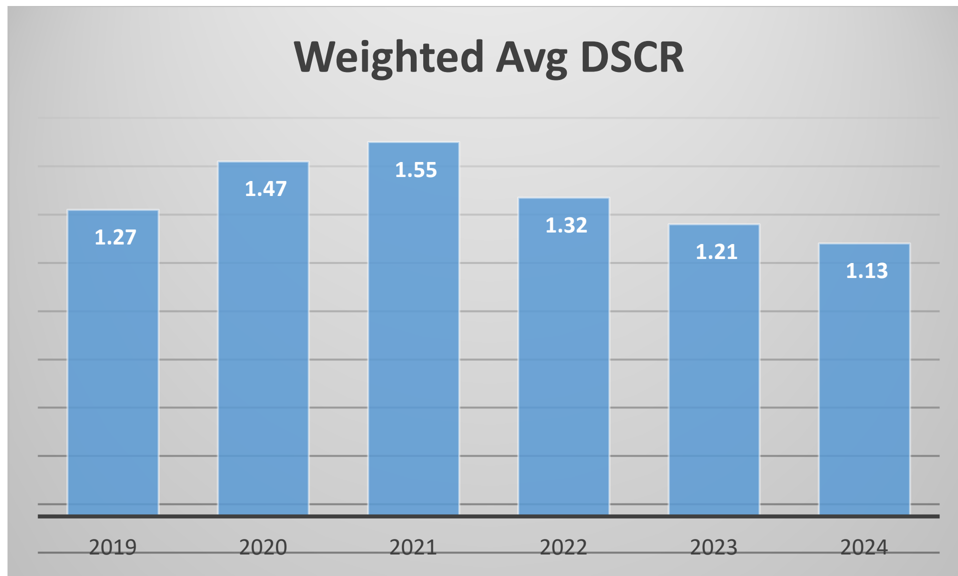


Table 5: Risk Metrics by Costal/Inland

Risk Parameter	Coastal	Inland	Total	Forward Commitments
1. Count	19	6	25	23
2. Balance	$117,382,978	$15,556,166	$132,939,144	$139,215,081
3. $/DU	$85,184	$49,228	$78,476	$71,576
4. WAC	4.11%	4.40%	4.14%	5.87%
5. DSCR	1.14	1.08	1.13	1.20
6. LTV	58%	42%	56%	46.9%
7. Occupancy	95%	95%	95%	N/A
8. Maturity	209	257	215	N/A
9. Age	14	20	14	N/A
10. Risk Rating	6.05	6.12	6.06	N/A
11. Loans >30 Yr Amort	9	2	11	12
$ >30 Yr Amort	80,429,135	7,013,639	87,442,773	93,088,948
% $ >30 Yr Amort	69%	45%	66%	67%
12. Loans <30 Yr Amort	9	3	12	9
$ <30 Yr Amort	32,071,844	14180034	46,251,877	27,525,133
% $ <30 Yr Amort	27%	91%	35%	20%
13. Loans =30 Yr Amort	1	1	2	2
$ =30 Yr Amort	-	1,376,132	1,376,132	18,601,000
% $ =30 Yr Amort	0%	9%	1%	13%

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 2024, based on 2023 audits, seven properties—representing $27.2 million in combined loan balances—had DSCRs below 1.00. This accounted for 20.45% of the portfolio, a significant increase from 2023, when only three properties with $2.9 million in loan balances (4.08% of the portfolio) had DSCRs below 1.00.

Importantly, all TELs with DSCRs below 1.00 had LTVs of less than 70%, and 59% had LTVs of less than 60%. These low LTVs serve as a key risk mitigant. However, it is worth noting that these LTVs are based on original appraisals, which may not fully reflect current market values.

The graph below illustrates changes in the percentage of the portfolio with DSCRs below 1.0x since 2018. In contrast to the Loan Portfolio Analysis—which showed a more gradual increase in sub-1.0x DSCRs, peaking at just over 19% in the past two years—the TEL portfolio experienced a dramatic surge between 2023 and 2024.

This volatility is most likely attributable to the relative newness of the TEL pool and its higher rate of churn. It is also a smaller portfolio, which means that changes in the performance of one or two loans can have a material impact in overall portfolio metrics. These characteristics

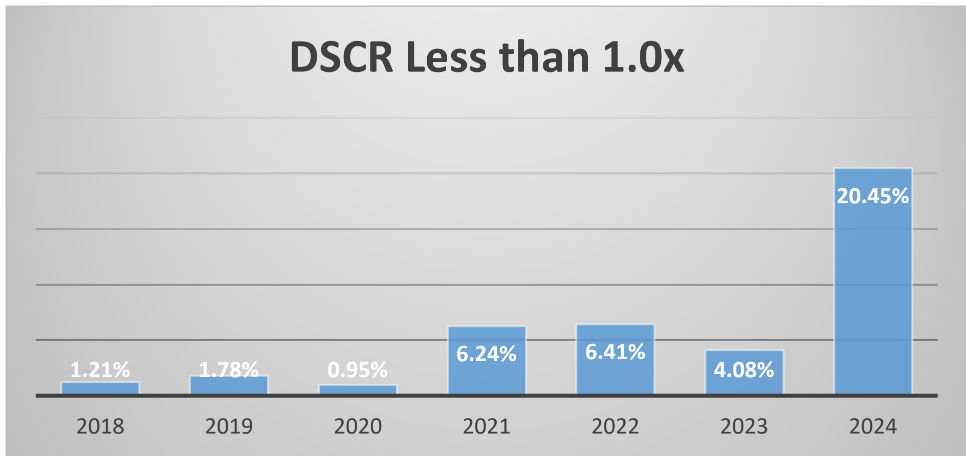
make the TEL portfolio's performance metrics more susceptible to variability, or "lumpiness," compared to the larger more established and stable loan portfolio.

The performance data detailed in this table reflect a broader national trend. According to the Cohn Reznick 2023 Affordable Housing Credit Study, operating expenses for LIHTC properties increased by 12.1% between 2021 and 2022, and 23.2% of the national LIHTC portfolio operated below breakeven in 2022.

Although higher rents driven by rising AMIs have offset some of the inflation-driven expense increases, soaring insurance costs have overwhelmed property owners' ability to manage these challenges by boosting rents.

Over the coming months, CCRC plans to conduct a comprehensive analysis of the factors driving current operating challenges at our properties. This analysis, which will review CCRC's entire $1.3 billion servicing portfolio, will include a detailed review of income and operating expenses, as well as other key variables such as tenant demographics and property locations.

It is clear that these challenges are not unique to CCRC's portfolio but reflect broader statewide and nationwide trends. Through this effort, we aim to gain a deeper understanding of these issues and provide valuable insights to policymakers that can inform potential solutions.



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 (or 6W). The FY 2024 aggregate risk rating was 6.06, nearly identical to last year's rating of 6.07. Three loans received a rating of "7" and three had ratings of "6W". There were no 8-rated loans.

Metric 11 in Table 5 reveals that 23 TELs—comprising 11 funded loans and 12 forward commitments—had amortization periods exceeding 30 years. This trend reflects the competitive landscape among affordable housing lenders, who are increasingly offering longer amortization periods to meet market demands.

At the same time, 21 TELs—including 12 funded loans and 9 forward commitments—had amortization periods of less than 30 years. Unlike the broader loan portfolio analysis, which experienced a sharp rise in loans with amortization periods exceeding 30 years, the proportion of TELs in this category has remained stable, fluctuating between 59% and 69% since 2019.

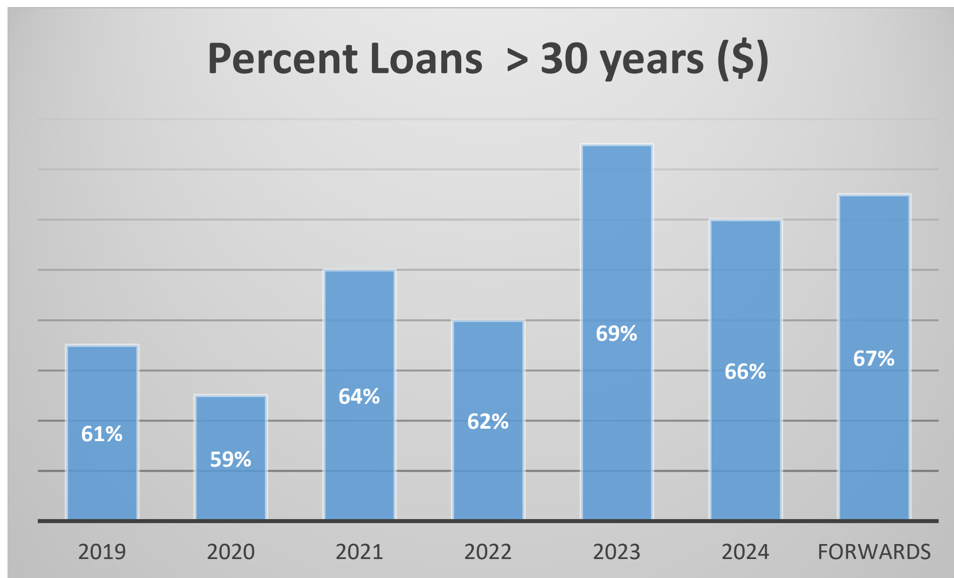


Table 6: DSCR-LTV Matrix

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%	16,088,787	-	16,544,528	7,393,357	8,066,531	-	**48,093,203**
50%-59.x%	5,249,911	2,818,118	27,190,178	1,534,648	5,786,940	-	**42,579,795**
60%-69.x	5,850,260	-	18,827,155	-	-	-	**24,677,415**
70%-79.x%	-	-	17,588,731	-	-	-	**17,588,731**
Total	**27,188,958**	**2,818,118**	**80,150,592**	**8,928,005**	**13,853,471**	**-**	**132,939,144**
	20.45%	2.12%	60.29%	6.72%	10.42%	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 forward commitments. With one exception [redacted], this year's top-five list features the same sponsors as the 2023 list. CCRC's total exposure to the top five sponsors was 45%, identical to the 2023 level.

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

2024 Rank	Sponsor	2024 Exposure	% of Total Exposure	Number of Projects	2023 Exposure	2023 Rank
1		32,893,731	12%	2	17,861,920	4
2		26,920,072	10%	4	24,365,031	1
3		21,927,180	8%	1	21,927,180	2
4		20,586,007	8%	3	7,328,361	8
5		17,964,874	7%	3	17,985,673	3
		120,291,864	45%			45%

[1]2023 percentage of total exposure is based on 2023'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 2024, the top five investors accounted for 86% of CCRC's total LIHTC investor exposure, up from 78% in 2023 and 77% in 2022.

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

2024 Rank	Tax Credit Investor	2024 Exposure	% of Total Exposure	2023 Exposure	2023 Rank
1	Wells Fargo	134,037,839	49%	98,365,795	1
2	US Bank	38,436,863	14%	23,631,566	2
3	Bank of America	23,969,410	10%	18,785,231	3
4	National Equity Fund	28,221,899	9%	12,763,431	5
5	Enterprise	8,235,900	3%	11,281,000	4
		232,901,911	**86%**		**78%**

[1] 2023 percentage of total exposure is based on 2023'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. In 2023 there was one TEL with a rating of "7", no "8"-rated TELs and four loans on the watchlist. In 2024, the number of 7-rated loans increased to three. There were no 8-rated loans and three loans were on the watchlist. Although the problem loan ratio of 2.22% 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.

The prevalence of new loans also explains why some loans are rated as 6W, or "watchlist," rather than 7. According to our credit policies, the watchlist classification is typically applied

for no more than 12 months. After this period, a property is either downgraded to a 7 rating if conditions have not improved or upgraded to a 6-pass rating if performance has stabilized.

For newly funded loans in their first or second year of stabilized operations, a subpar loan will often start with a 6W rating. If performance issues persist beyond the watchlist period, the loan will typically be downgraded to a 7 rating in the subsequent year.

Figure 3: Problem TEL Loans (FYs 2006-2024)

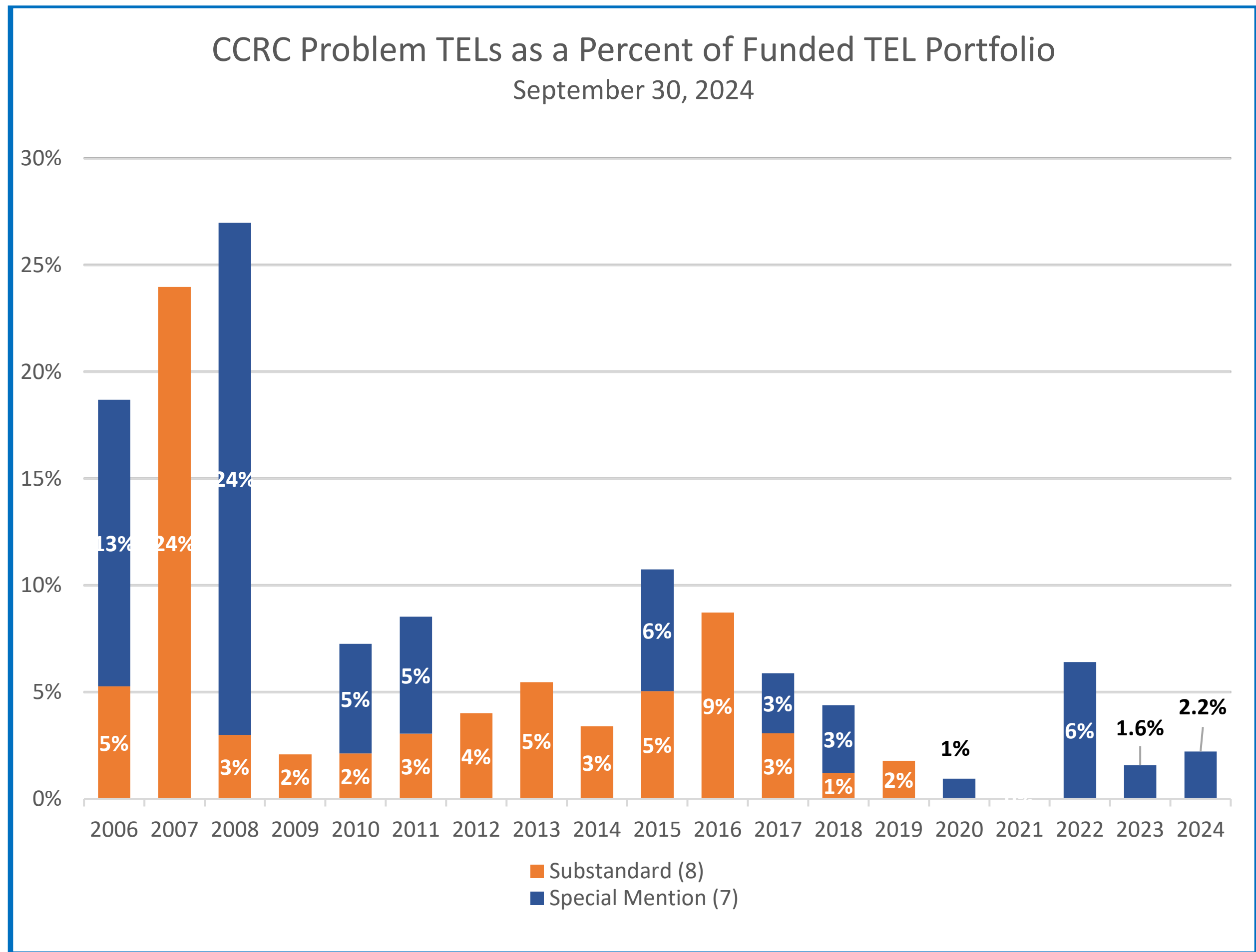


Exhibit I: 2024 CCRC TEL Exposure by County

(Funded Loans and Forward Commitments)

County	CCRC Exposure	% of CCRC Exposure
Los Angeles	77,407,210	28.44%
San Francisco	43,500,959	15.98%
San Diego	39,378,998	14.47%
Alameda	30,269,498	11.12%
San Mateo	15,305,000	5.62%
Santa Clara	12,601,000	4.63%
Sacramento	11,439,000	4.20%
Ventura	6,343,595	2.33%
Solano	5,636,998	2.07%
Riverside	5,540,121	2.04%
Orange	5,249,911	1.93%
Santa Cruz	4,882,000	1.79%
Sonoma	4,673,772	1.72%
Napa	2,818,118	1.04%
Santa Barbara	2,729,000	1.00%
Nevada	1,529,397	0.56%
Imperial	1,473,517	0.54%
Placer	1,376,132	0.51%
Grand Total	**272,154,225**	**100.00%**

Exhibit II: Criticized and Classified TEL Loans

Bond Loan Name	9/30/2024 Balance	Loan Class
	1,120,404	7
	374,000	7
	1,529,397	7
Total	2,953,159	