S&P Global Ratings

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California Community Reinvestment Corp; General Obligation

Primary Credit Analyst:
Daniel P Pulter, Englewood + 1 (303) 721 4646; Daniel.Pulter@spglobal.com

Secondary Contact:
Hannah Blitzer, New York 2124380311; hannah.blitzer@spglobal.com

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Long Term Rating	A+/Stable	Current

Credit Highlights

- S&P Global Ratings' issuer credit rating (ICR) on California Community Reinvestment Corp. (CCRC) is 'A+'.
- The outlook is stable.

Security

An ICR reflects the obligor's general creditworthiness and its capacity and willingness to meet financial commitments when they come due. It does not apply to any specific financial obligation and does not consider the obligation's nature and provisions, bankruptcy standing, liquidation, statutory preferences, or legality and enforceability.

Credit overview

CCRC is a 501(c)(3) corporation in Glendale that was certified as a community development financial institution (CDFI) by the U.S. Department of the Treasury in 1996. It was founded in 1989 with support from the Federal Reserve Bank of San Francisco and major banks throughout California for the purpose of providing financing and technical assistance to facilitate the development of affordable housing in the State of California. The corporation's primary function and mission is to be a lender of permanent mortgages to developers of to-be-constructed or rehabbed low-income housing tax credit (LIHTC) properties throughout the state.

CCRC's business model has historically been to build up a portfolio of high-quality, permanent multifamily loans and then securitize a large portion of those loans, generating substantial one-time revenue and cash from the sale, and then using that capital to rebuild the loan portfolio again. Management's strategic plan includes continuing to follow this model when market conditions are favorable to do so, while simultaneously building its on-balance-sheet loan business to generate annuity revenue from the high-quality, high-performing loan portfolio. Following this cyclical model of accumulating and then selling off balance-sheet assets results in the appearance of extremely volatile performance, but, in our view, intentional and monitored volatility resulting from a thought-out and proven strategy in a very different light than unintentional performance-related volatility. We recognize there are certain risks associated with this model related to forecasting and analyzing ongoing performance and have considered these risks in our assumptions and credit analysis. We believe this risk to be largely mitigated by management's expertise, proven track record, and extremely close monitoring of funding and lending of the business.

As part of the lending model, CCRC enters forward commitments where the terms of the permanent loan are locked in during the construction and conversion phase. Once all requirements are met, CCRC will fund the permanent loan according to the forward commitment terms. This model could expose CCRC to interest-rate risk, especially in a rising-interest-rate environment, like the one seen in recent years. However, in our view, management's extensive understanding and diligent monitoring of economic and market conditions as well as its prudent oversight of the on-balance-sheet loan portfolio, in the context of forward commitments that are expected to be converted to on-balance-sheet permanent loans, greatly mitigate the presence of this risk. Management has several strategies and tools, including the business model itself as it pertains to timing of funding and rate-setting, to help protect the corporation's financial position against sharp rises in interest rates.

The ICR reflects our view of CCRC's:

- Financial strength measured by five-year average S&P Global Ratings-calculated net equity-to-total assets ratio of 26.6% for fiscal years 2020 through 2024, which, despite prior-year volatility, we consider strong compared with that of similarly rated peers and criteria benchmarks for the rating category.
- Very strong and above-benchmark profitability metrics as measured by five-year (fiscal years 2020-2024) average net interest margin (NIM) of 1.9%, partially offset by a more volatile, albeit very strong average return on average assets (ROA) due to the cyclicality of the business model;
- Very strong asset quality characterized by zero nonperforming assets (NPAs) or delinquencies of any kind over at least the past nine fiscal periods (2016 through 2024) and a loan portfolio underwritten according to a thorough and stringent credit policy;
- Extremely strong management and governance assessment based on the experience, expertise, sector knowledge, and proficiency of the corporation's senior management team as well as based on a detailed multiyear strategic plan and substantive operational and financial policies and procedures that, among other things, guide operations, set performance standards, and monitor loan portfolio underwriting and reviews;
- Relatively high year-over-year volatility in key financial metrics compared with that of peers and industry standards; and
- Interest rate exposure related to forward commitments that are instrumental to the corporation's business model.

Environmental, social, and governance

We have analyzed CCRC's environmental, social, and governance factors relative to its financial strength, management, federal designation, and local economy. In our opinion, the ICR exhibits opportunities related to social capital. The organization's mission to use transformative housing finance and public and private partnerships to create more equitable and affordable communities aims to address socioeconomic inequities affecting demographic and income trends considered in the rating. The rating also incorporates the elevated physical risks for California given its exposure to various climate-related events such as wildfires and drought, and natural disasters such as earthquakes, which can affect the state's economy and disrupt population migration. However, we believe CCRC's financial strength, strong underwriting guidelines, and insurance requirements mitigate these risks. We view governance factors as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our view that CCRC's financial and operational performance will remain consistent with the current rating during at least the two-year outlook period. Despite some contraction of capital adequacy ratios in the past few years as total asset growth has outpaced that of equity, we nevertheless believe that the corporation could absorb material changes in its balance-sheet size following the continued implementation of its cyclical strategy. We continue to believe that, despite the inherent volatility in key metrics that occurs following a material securitization, the corporation is well embedded among peers and compared to criteria benchmarks.

Downside scenario

Should CCRC's financial strength, as evidenced by average capital adequacy and profitability ratios and loan performance, deteriorate to levels that are no longer commensurate with the current rating and compared with those of peers, we could take a negative rating action on the ICR. Furthermore, we could also do so should exposure to interest-rate risk associated with forward-commitment contracts have a negative impact on the corporation's financial position and our view of CCRC's overall credit quality.

Upside scenario

All else equal, should CCRC's capital adequacy and profitability metrics sustain, on average--through business cycles and when incorporating management's forward-looking plans--at levels commensurate with those of higher rated peers, we could take a positive rating action.

Credit Opinion

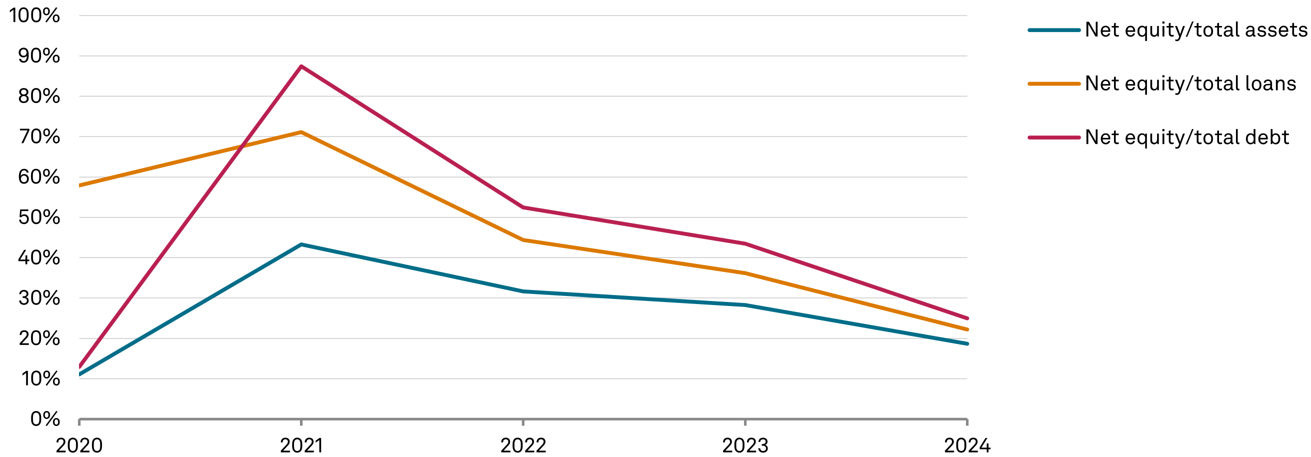
Financial Strength

Capital adequacy

We view CCRC's capital adequacy to be very strong according to five-year average metrics for fiscal years 2020 through 2024, specifically a net equity-to-total assets ratio of 26.6%. Following the November 2020 securitization--the largest and most lucrative in the corporation's history--CCRC's capital adequacy ratios shot up to levels well above those of similarly rated peers and compared with criteria benchmarks. While the resulting net equity-to-assets of 43.3% calculated for fiscal 2021 represented a high-water mark, this ratio has declined on an annual basis in the years since as debt-financed growth in the asset base has outpaced equity growth, which also risen on a nominal basis in the same period. Nevertheless, in conjunction with the corporation's plans to continue to strengthen its loan portfolio and balance sheet, we anticipate that both the annual and the trailing five-year average ratios will remain well above the 10% criteria benchmark for the 'A' category.

Chart 1

CCRC capital adequacy ratios



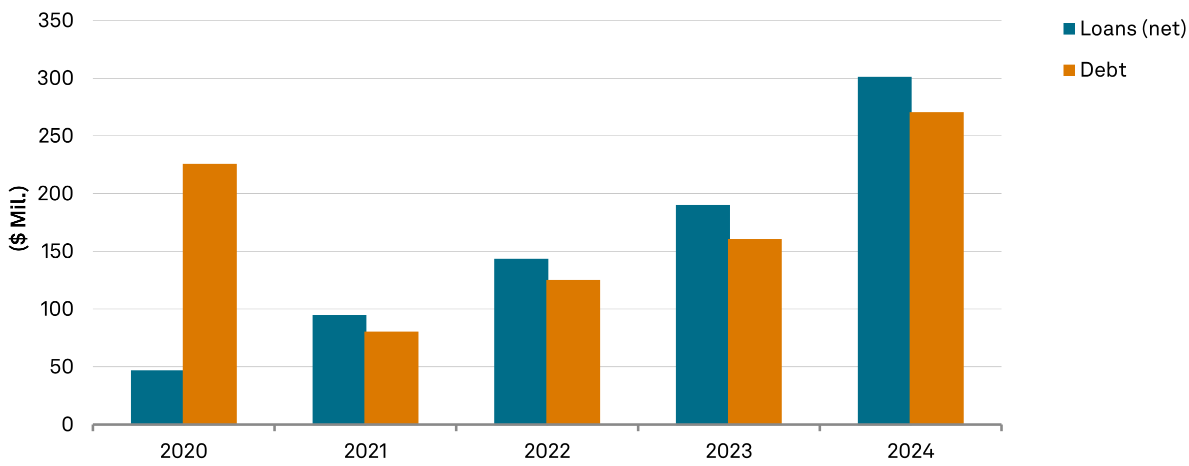
Source: S&P Global Ratings.

Also reflecting the corporation's business model, debt levels will fluctuate following balance-sheet build-up and sell-off cycles. Following the November 2020 loan securitization, CCRC paid down a significant portion of the debt that was related to the loans sold and reports debt outstanding of $79.5 million as of Sept. 30, 2021, a 65% reduction from fiscal 2020. As the organization has consistently focused strengthening its balance sheet in the years since, both loans and debt continued the multiyear growth trend in fiscal 2024 seen in the two prior fiscal years, reaching $303.5 million in gross loans and $269.8 million in debt--year-over-year increases of 58% and 69%, respectively, from fiscal 2023 (chart 2).

CCRC's on-balance-sheet debt balances have historically followed the same two- to three-year cyclical pattern of building up and then being materially reduced when the corporation's loan portfolio grows and is then securitized. In the audited financial statements, once there is a concrete plan to conduct a sale with an identified pool of loans, those loans are classified as loans-held-for sale, a line item under real estate loans. For our analysis, however, we have historically included loans held for sale as short-term assets rather than as real estate loans, as they are reported in the audit, because they will generate immediate revenue and liquidity in the short term as opposed to generating annuity revenue associated with on-balance-sheet loan portfolios. This classification has translated in a reduction of on-balance-sheet loans in our analysis before the commensurate reduction of related debt. This mismatch between loans and debt has materialized immediately preceding loan securitizations (see fiscal 2020 loan-to-debt in chart 2). Proceeds from the loan sales are used to pay down related borrowing and then to supplement new borrowings to fund new loans from the corporation's forward-commitment pipeline and begin the cycle again. However, no loans were held for sale as of fiscal year-end 2023 and 2024.

Chart 2

CCRC loan and debt balances



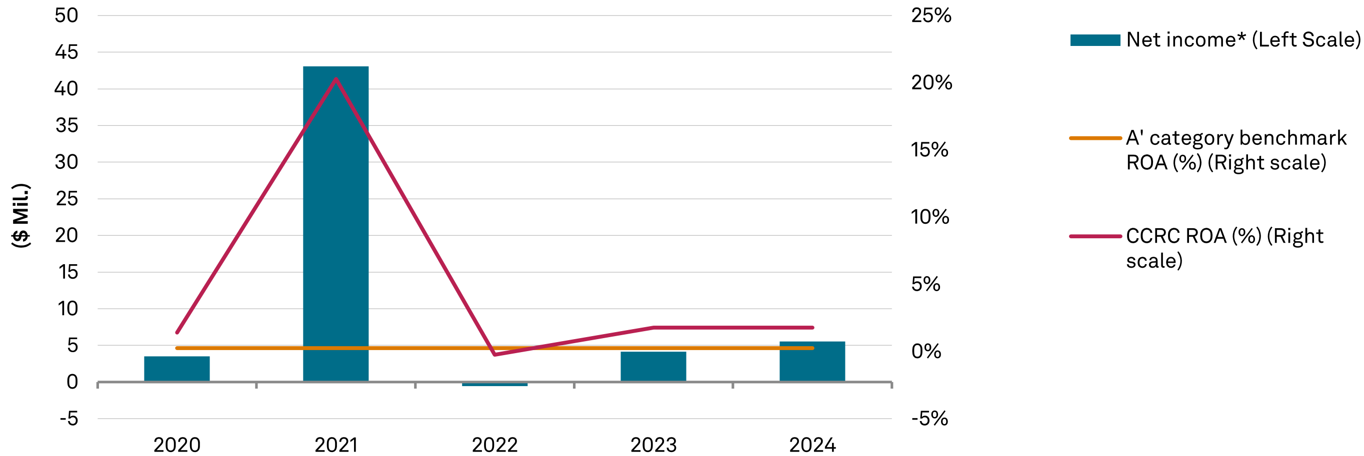
Source: S&P Global Ratings.

Profitability

We view CCRC's five-year average profitability metrics as very strong and above average compared with those of peers and criteria benchmarks for the rating category, somewhat offset by prior year-over-year volatility of the metrics. The corporation's five-year average ROA is 5% for fiscal years 2020 through 2024 (chart 3), with a high of 20.3% in fiscal 2021 and a low of negative 0.24% in fiscal 2022. As with many of the corporation's financial metrics, profitability saw a huge jump in fiscal 2021 due to one-time revenue realized from the loan securitization early in the period. Net income and related metrics have stabilized following the negative 2022 result, with ROA equal to approximately 1.8% in both 2023 and 2024. NIM reached a second consecutive all-time high of 2.7% in 2024, in conjunction with interest earnings on loans continuing to outpace growth in interest expense on debt, boosting improvement in the corporation's trailing five-year average NIM to 1.9%. Stable and increasing NIM indicates that even as net income fluctuates through business cycles the spread earned on the loan portfolio is reliably strong and positive.

Chart 3

CCRC profitability & net income



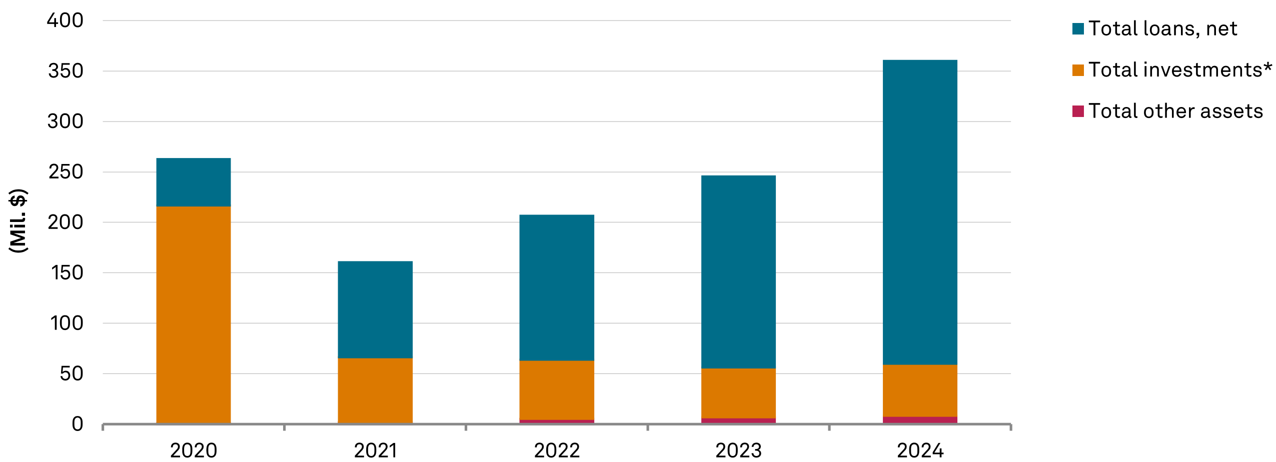
*Excluding fair value reporting. ROA--Return on assets. Source: S&P Global Ratings.

Asset quality

We view CCRC's asset quality to be very strong compared with that of peers and according to our criteria. The corporation's total assets, excluding cumulative effects of fair value accounting, increased 46.6% in fiscal 2024 to $360.1 million, materially higher than the $160.7 million in fiscal 2021 after the corporation's last securitization (chart 4). Again, this prior balance-sheet contraction was related to CCRC's business model rather than performance or access to capital, nor was it a reflection of shifting demand for the affordable housing loans the corporation provides. Furthermore, the balance-sheet growth seen between fiscal years 2022 and 2024 reflects the corporation's initiative to rebuild its loan portfolio following the November 2020 securitization, and maintain a higher baseline for balance-sheet assets in the future. The corporation's portfolio of affordable multifamily housing loans totaled $303.5 million in fiscal 2024, an increase of 58% over 2023 levels and 6x higher than the $50.3 million loan balance following the 2021 selloff. Even after securitization cycles loans typically make up the majority of the corporation's assets, averaging between 70% and 90% of total assets, except in years where loans held for sale are reported as investments. The corporation plans on continuing to build its loan portfolio in the near term, focusing on diversification of loan products--particularly those focused on climate resilience and sustainability--and securing capital through new partnerships and funding sources to improve lending capacity.

Chart 4

CCRC total assets composition



*Includes loans-held-for-sale. Source: S&P Global Ratings.

Excluding loans held for sale, cash and investment securities make up the balance of total investments year to year. Investment securities consist of interest-only strips guaranteed by Freddie Mac and nonguaranteed subordinate Freddie Mac certificates. The balances of interest-only strips and certificates in 2024 were $5.3 million and $6.6 million, respectively. In addition, the corporation holds approximately $14.0 million in pledged Freddie Mac A certificates.

We view the quality of the corporation's on-balance-sheet loans as very high, underwritten in accordance with a stringent and thorough credit policy, and to be a loan portfolio that is generally lower risk compared with that of peers based on several characteristics including low loan-to-value, very high occupancy, generally strong coverage ratios, and additional oversight provided by LIHTC investors. In addition to stringent underwriting practices that result in only higher-quality loans ever making it to CCRC's balance sheet, management diligently oversees and monitors the underlying loans, including conducting at least one loan review report on every loan serviced annually--assigning and updating risk ratings on every loan, and authoring a detailed annual loan portfolio analysis. In addition, all CCRC's loans are permanent multifamily affordable housing loans, which contrasts with many peer CDFIs that often have material portions of construction, predevelopment, and nonhousing loans, which we view as higher-risk assets, in their loan portfolios. As a reflection of CCRC's high-quality and lower-risk loan portfolio, the corporation reported no NPAs or delinquencies in fiscal 2024 or the several preceding periods. It has only had three loss events in its mortgage history, the most recent occurring more than 19 years ago. As further evidence of asset quality, CCRC investors have never incurred a principal loss on any of its mortgage loans.

Liquidity

CCRC maintains strong liquidity, in our view, to cover short-term financial needs and investment guidelines that support maximizing returns while monitoring risk and maintaining careful stewardship of corporate assets. We consider asset-liability management a primary mitigant of liquidity risk, as the balance sheets of most CDFIs consist of long-term obligations with maturity dates that are structured to match the maturities of long-term assets. CCRC, however, has a proven business model where long-term assets can be monetized quickly should that become necessary. The corporation's easiest path to liquidity is to transfer self-funded loans to the bank pool, which frees up corporation cash. As of fiscal year-end Sept. 30, 2024, CCRC had approximately $47.5 million in cash, cash equivalents, and short-term investments (including the $14 million in pledged Freddie Mac A certificates), representing approximately 13.7% of total assets. Furthermore, its balance-sheet loans totaled approximately $303.5 million ($30 million of which are CCRC self-funded loans), or 83.4% of total assets and 108.7% of total liabilities, for the same period, which we view to be indicative of a very strong liquidity position. On an ongoing basis, the business model has historically followed a two- to three-year cycle, generating substantial liquidity when loans are securitized. However, should there be liquidity needs in between these cycles, CCRC can use the robust secondary market it established throughout the years to generate cash from the sale of long-dated assets. We also view CCRC's access to external liquidity sources and capital markets as strong.

In our opinion, the corporation's liquidity and equity positions in the near term could be affected by interest-rate exposure related to the forward-commitment pipeline. However, the business model--where the funding of loans in the forward-commitment pipeline and the setting of rates on those loans are matched to the current interest-rate environment--largely protects CCRC from material exposure and mitigates this risk during rising-interest-rate environments.

Management

We view CCRC's management as extremely strong due to its experienced, knowledgeable, and proactive senior leadership and board members. The corporation is governed by a 15-member board consisting of industry and community leaders throughout the State of California and CCRC's president. Senior management consists of a president/CEO, executive vice president, and risk officer with substantial industry experience and expertise. The autonomy and stability of the management team strongly supports and facilitates day-to-day and ongoing operations that serve the corporation's mission, address the needs of the citizens it serves, and creates financial stability and viability. In our opinion, the corporation's relationship with the state government and other jurisdictional bodies is strong given the state's historical support of affordable housing initiatives and CCRC's track record of successfully navigating the political landscape for several decades. We consider management's ability to resolve difficult situations during its operating history very strong.

We view the corporation's strategic plan, operational and financial policies and procedures, and general oversight, involvement with, and management of the organization to be very strong and above average compared with those of peers. In our view, the corporation's guiding documents, plans, policies, and reports are the foundation for and a key factor in its historical and ongoing success. Overall, we view CCRC as exhibiting extremely strong organizational, administrative, financial management, and strategic planning capabilities and as maintaining a strong governance structure.

Table 1

Financial ratio analysis

%	2020	2021	2022	2023	2024	Five-year average
Capital adequacy						
Equity/total assets	12.1%	46.5%	36.0%	31.1%	23.3%	29.8%
Net equity/total assets	11.1%	43.3%	31.6%	28.3%	18.7%	26.6%
Net equity/total loans	57.9%	71.1%	44.4%	36.2%	22.2%	46.4%
Net equity/total loans + MBS (loans)	57.9%	71.1%	44.4%	36.2%	22.2%	46.4%
Equity/total debt	14.1%	94.0%	59.7%	49.1%	31.0%	49.6%
Net equity/total debt	12.9%	87.4%	52.5%	43.5%	25.0%	44.3%
Available Liquid Assets/ total loans	62.0%	87.6%	50.9%	35.3%	21.4%	51.5%
GO Debt/ total debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Profitability						
Return on average assets	1.4%	20.3%	-0.2%	1.8%	1.8%	5.0%
Net interest margin	1.3%	1.5%	1.7%	2.4%	2.7%	1.9%
Net interest margin (MBS (loans) + loans)	1.5%	2.1%	1.5%	2.4%	2.7%	2.0%
Net interest margin (loans)	1.5%	2.1%	1.5%	2.4%	2.7%	2.0%
Asset Quality						
NPAs/total loans + REO	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loan loss reserves/total loans	4.4%	2.6%	2.1%	0.5%	0.2%	2.0%
Liquidity						
Total loans/total assets	17.5%	58.7%	69.1%	77.1%	83.4%	61.2%
Total loan + MBS (loans)/total assets	17.5%	58.7%	69.1%	77.1%	83.4%	61.2%
Short-term investments/total assets	82.2%	39.8%	26.0%	18.9%	13.7%	36.1%
Total investments/total assets	82.2%	40.3%	28.4%	20.1%	14.3%	37.0%

Table 2

Five-year trend analysis ($000s)

	2020	2021	2022	2023	2024
Total assets	262,747	160,671	206,720	245,680	360,144
% change		-38.8%	28.7%	18.9%	45.6%
Total debt	225,121	79,545	124,572	159,678	269,809
% change		-64.7%	56.6%	28.2%	69.0%
Total equity	31,832	74,770	74,325	78,335	83,741
% change		134.9%	-0.6%	1.5%	6.9%
Total net equity	29,112	69,551	65,348	69,446	67,336
% change		138.9%	-6.0%	1.8%	-3.0%
Revenues	19,250	53,589	11,545	16,447	22,044
% change		178.4%	-78.5%	42.5%	34.0%
Expenses	13,790	10,249	12,015	11,831	16,926
% change		-25.7%	17.2%	-1.5%	43.1%
Net income	3,359	42,938	(445)	4,011	5,406
% change		1178.4%	-101.0%	-1001.3%	34.8%

Table 2

Five-year trend analysis ($000s) (cont.)

	2020	2021	2022	2023	2024
Total loans, net	46,068	94,285	142,804	189,412	300,328
% change		104.7%	51.5%	32.6%	58.6%

This report does not constitute a rating action.