CALIFORNIA COMMUNITY REINVESTMENT CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

KALLMAN + LOGAN
& COMPANY, LLP

**CALIFORNIA COMMUNITY
REINVESTMENT CORPORATION**

**CONSOLIDATED
FINANCIAL STATEMENTS**

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

Contents

Kallman + Logan & Company, LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Community Reinvestment Corporation
Glendale, California

MICHAEL CARTER
FRANCES KALLMAN
STEPHEN LOGAN
THOMAS P. MCMILLAN
ABRAHAM MIZRAHI
STANLEY F. SHIMOHARA
GREGG R. WIND
ADA M. WONG

We have audited the accompanying consolidated financial statements of California Community Reinvestment Corporation and subsidiaries (the "Company") which comprise the consolidated statement of financial position as of September 30, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

MEMBER AMERICAN
INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS
AND CALIFORNIA
SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

(Continued)

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of California Community Reinvestment Corporation and subsidiaries as of September 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Reporting on Summarized Comparative Information

We have previously audited the California Community Reinvestment Corporation's 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 22, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2020 on our consideration of California Community Reinvestment Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of California Community Reinvestment Corporation's internal control over financial reporting or on compliance.

Kallman+Logan & Company, LLP

KALLMAN+LOGAN & COMPANY, LLP

Los Angeles, CA
December 17, 2020

CALIFORNIA COMMUNITY
REINVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2020 AND 2019

	2020	2019
Assets		
Cash and cash equivalents	$ 6,450,561	$ 3,554,709
Investment securities	18,022,529	21,378,324
Real estate loans:		
Loans receivable	50,259,018	192,349,390
Loans held for sale	190,183,024	-
Allowance for loan losses	(2,213,071)	(3,605,430)
Deferred loan fees	(1,977,772)	(1,583,074)
Real estate loans, net	236,251,199	187,160,886
Interest receivable	1,353,967	1,099,535
Furniture and equipment, net	141,894	168,713
Other assets	629,091	592,899
Total assets	$ 262,849,241	$ 213,955,066
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 1,137,739	$ 903,330
Interest payable	909,128	759,162
Deferred revenue	3,746,922	3,210,862
Notes payable	225,121,271	180,568,776
Total liabilities	230,915,060	185,442,130
Commitments and contingencies		
Net assets:		
Without donor restrictions	31,417,107	25,894,110
With donor restrictions:		
Purpose restricted	517,074	2,618,826
Total net assets	31,934,181	28,512,936
Total liabilities and net assets	$ 262,849,241	$ 213,955,066

CALIFORNIA COMMUNITY
REINVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
Changes in net assets without donor restrictions:		
Revenues, gains and other support:		
Interest income, loans	$ 11,385,430	$ 9,538,253
Investment income, net	1,385,642	1,362,735
Loan, commitment, rate lock and prepayment fees	2,251,223	1,832,355
Credit enhancement fees and other income	522,973	542,577
Loan servicing income, net	1,619,275	1,540,660
Contributions	-	50,000
Total revenues and gains	17,164,543	14,866,580
Net assets released from restrictions:		
Satisfaction of program restrictions	2,148,252	667,168
Total revenues, gains and other support	19,312,795	15,533,748
Expenses:		
Program services:		
Affordable housing financing and servicing	13,087,350	18,658,624
Scholarship	41,374	56,000
Total program services	13,128,724	18,714,624
Supporting services	661,074	636,089
Total expenses	13,789,798	19,350,713
Increase (decrease) in net assets without donor restrictions	5,522,997	(3,816,965)
Changes in net assets with donor restrictions:		
Contributions and grant	46,500	3,204,600
Net assets released from restrictions	(2,148,252)	(667,168)
Increase (decrease) in net assets with donor restrictions	(2,101,752)	2,537,432
Increase (decrease) in net assets	3,421,245	(1,279,533)
Net assets, beginning of year	28,512,936	29,792,469
Net assets, end of year	$ 31,934,181	$ 28,512,936

CALIFORNIA COMMUNITY
REINVESTMENT CORPORATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2020
WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019

	2020						**2019**
	Program Services			Supporting Services			
	Affordable Housing Financing and Servicing	Scholarship	Total Program Services	General and Administrative	Total Supporting Services	Total	Total
Interest, member banks	$ 9,687,788	$ -	$ 9,687,788	$ -	$ -	$ 9,687,788	$ 8,204,859
Salaries and employee benefits	4,006,746	-	4,006,746	462,973	462,973	4,469,719	3,776,435
Bond sale cost	-	-	-	-	-	-	6,272,336
Occupancy	213,744	-	213,744	25,745	25,745	239,489	231,188
Professional services	145,548	-	145,548	87,855	87,855	233,403	259,932
Provision for loan losses	(1,392,359)	-	(1,392,359)	-	-	(1,392,359)	60,179
Marketing and business development	11,015	-	11,015	-	-	11,015	20,388
Utilities and maintenance	130,090	-	130,090	14,455	14,455	144,545	105,456
Professional conferences and meetings	15,441	-	15,441	15,441	15,441	30,882	52,942
Depreciation	68,463	-	68,463	8,246	8,246	76,709	71,269
Insurance	63,223	-	63,223	45,782	45,782	109,005	101,567
Miscellaneous	137,651	41,374	179,025	577	577	179,602	194,162
Total 2020 Functional Expenses	$ 13,087,350	$ 41,374	$ 13,128,724	$ 661,074	$ 661,074	$ 13,789,798	$ 19,350,713
Total 2019 Functional Expenses	$ 18,658,624	$ 56,000	$ 18,714,624	$ 636,089	$ 636,089	$ 19,350,713	

CALIFORNIA COMMUNITY
REINVESTMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Cash received from:		
Loan, commitment, rate lock, and prepayment fees	$ 3,874,759	$ 2,796,217
Service fees and other income	1,619,275	1,540,660
Interest income	11,269,270	9,359,231
Contributions and grant	46,500	3,254,600
Cash received from operations	16,809,804	16,950,708
Cash paid to:		
Employees	(4,405,241)	(3,869,517)
Member banks for interest on notes payable	(9,537,822)	(7,986,182)
Vendors for operations	(984,007)	(1,112,118)
Vendors for bond sale costs	-	(6,272,336)
Cash paid for operations	(14,927,070)	(19,240,153)
Net cash provided by (used in) operating activities	1,882,734	(2,289,445)
Cash flows from investing activities:		
Loans originated	(58,010,383)	(61,458,719)
Loan repayments	9,917,731	11,432,618
Distributions from investment securities	4,603,165	3,308,914
Purchase of investment securities	-	(7,228,069)
Purchases of furniture and equipment	(49,890)	(47,520)
Net cash used in investing activities	(43,539,377)	(53,992,776)
Cash flows from financing activities:		
Proceeds from notes payable - member banks	53,678,230	68,070,271
Payments on notes payable - member banks	(9,125,735)	(11,058,631)
Net cash provided by financing activities	44,552,495	57,011,640
Net increase in cash and cash equivalents	2,895,852	729,419
Cash and cash equivalents, beginning of year	3,554,709	2,825,290
Cash and cash equivalents, end of year	$ 6,450,561	$ 3,554,709

Continued

	2020	2019
Reconciliation of increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Increase (decrease) in net assets	$ 3,421,245	($ 1,279,533)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	76,709	71,269
Provision for loan losses	(1,392,359)	60,179
Investment income, net	(1,247,370)	(1,285,177)
Changes in operating assets and liabilities:		
Deferred loan fees	394,698	382,393
Interest receivable	(254,432)	(256,581)
Other assets	(36,192)	(104,439)
Accounts payable and accrued expenses	234,409	16,055
Interest payable, member banks	149,966	218,677
Deferred revenue	536,060	(112,288)
Net cash provided by (used in) operating activities	$ 1,882,734	($ 2,289,445)

	2020	2019
Noncash financing and investing activities:		
Transfer of loans held for investment to loans held for sale	$ 190,183,024	$ -

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and nature of business

California Community Reinvestment Corporation (“CCRC”) is a private, not-for-profit organization established for the purpose of providing financing and technical assistance to facilitate the development of affordable housing in the State of California. Loan funding is primarily provided by a consortium of member banks that contribute funding through a credit and security agreement or participation agreement (the "Agreement”). CCRC was approved as a HUD Title II FHA multifamily lender through September 30, 2020, at which time it withdrew from the program.

CCRC/PSP, LLC ("CCRC/PSP") was formed in February 2012 for the purpose of designing and implementing other financial or economic models, plans, programs or strategies which would facilitate the development of, and/or enhance the availability of affordable housing in the state of California. CCRC is the sole member of CCRC/PSP.

CCRC Affordable Housing Partners, LLC ("Housing Partners") was formed in March 2000 to provide financing and technical assistance, at any stage of affordable housing in the State of California, to facilitate the development of affordable housing in the State of California, to acquire, rehabilitate and dispose of financially troubled and/or dilapidated housing in order to enhance the availability of affordable housing in the State of California, and to engage in such other lawful business as may be determined by CCRC, the sole member of Housing Partners.

CCRC Depositor, LLC (“Depositor”) was formed in September 2017 to serve as the depositor in connection with the sale and securitization of mortgage loans with Federal Home Loan Mortgage Corporation (“Freddie Mac”). CCRC is the sole member of Depositor.

CCRC TEBS Depositor I LLC ("TEBS Depositor") was formed in January 2019 to serve as the depositor in connection with the sale and securitization of tax-exempt bonds with Freddie Mac. The sale and securitization transactions were completed by CCRC as fiscal agent and bondholders' agent under the tax-exempt bond program. CCRC is the sole member of TEBS Depositor.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization and nature of business (continued)

CCRC also acts in the capacity of a fiscal agent and bondholders' agent for the tax-exempt bond program, the objective of which is to provide financing to developers for the development and/or rehabilitation of multifamily housing to low-income households. The program provides access to 4% tax credit equity and permanent financing at competitive tax-exempt rates. This program results in additional Community Reinvestment Act investment/lending opportunities for the member banks. Under this program, the member banks purchase revenue bonds from a bond issuer. Using the proceeds from the issuance of the bonds, the bond issuer then provides permanent financing to the borrower. The fiscal agent originates the loan to the borrower on behalf of the bond issuer and services the loan on behalf of the bond issuer and the bondholders. CCRC, as the bondholders' agent, also performs bond registrar and paying agent functions.

Bond program loans and related borrowings have not been reflected in the accompanying consolidated financial statements as CCRC is acting in the capacity of agent for the member banks and provides only paying agent functions. CCRC retains a servicing fee for its services, which is recorded in the consolidated statements of activities. At September 30, 2020 and 2019, CCRC was servicing loans totaling $344,359,594 and $301,211,194, respectively, under this program.

Summary of significant accounting policies

Principles of consolidation
The consolidated financial statements include the accounts of CCRC and its wholly owned subsidiaries (the "Company"). All significant inter-company transactions and accounts have been eliminated.

Financial statement presentation
The financial statements of the Foundation have been prepared on the accrual basis of accounting to conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") as applicable to non-profit organizations.

Net assets and the changes therein have been classified and reported as follows:

Without donor restrictions – These consist of amounts that have no donor-imposed stipulations and can be spent or utilized at the discretion of the Company.

With donor restrictions – These include contributions that are restricted by the donor for a specific purpose or time period. These restrictions may expire with time or may be satisfied and removed by actions of the Company according to the intentions of the donor.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies (continued)

Cash and cash equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Reserve accounts

The Company holds certain borrower reserve balances to be remitted to third parties on behalf of the borrowers or returned to the borrowers. The balances in the accounts at September 30, 2020 and 2019 were $63,989,749 and $57,259,190, respectively; such amounts are not reflected in the Company's consolidated statements of financial position at September 30, 2020 and 2019.

Mortgage Servicing Rights

Upon the sale or securitization of mortgage loans, the Company may retain the servicing rights which are initially measured at fair value. The Company determines fair value at quoted market prices, if available. However, quotes are generally not available for servicing rights retained, so management estimates fair value using the present value of future expected cash flows based on management’s best estimates of the key assumptions including credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved.

Real estate loans

Real estate loans are reported at the principal amount outstanding, net of an allowance for loan losses and deferred loan fees. Interest income is recognized on the accrual basis according to the contractual terms of the loans. Interest income is not recognized on loans past due 90 days or if collection of interest is deemed by management to be unlikely.

Loans for which the accrual of interest has been discontinued are designated nonaccrual loans. All interest previously accrued but uncollected is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and when the ultimate collection of the carrying amount of the loan is probable. If and when borrowers demonstrate the ability to repay a loan in accordance with the terms of a loan classified as nonaccrual, the loan may be returned to accrual status.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies (continued)

Real estate loans (continued)

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the amortization plan established in the contractual terms of the loan. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Impairment is measured by reference to the present value of expected future cash flows, discounted at the loan's original interest rate or to the estimated fair value of the collateral. If the valuation of the impaired loan is less than the recorded investment in the loan, the Company recognizes the impairment by creating a specific allowance for loan losses with a corresponding charge to the provision for loan losses or by adjusting an existing allowance for the impaired loan with a corresponding charge or credit to the provision.

Loans for which the borrower is experiencing financial difficulty and the Company has granted an economic concession to the borrower are referred to as troubled debt restructurings. Prior to modifying a borrower's loan terms, the Company performs an evaluation of the borrower's financial condition and ability to service the modified loan terms. The types of concessions granted may include interest rate reductions and/or term extensions.

Nonrefundable fees and direct costs associated with the origination of loans are deferred and netted against the outstanding loan balances. Net deferred loan origination fees are recognized in income over the remaining loan terms using the level yield method. Commitment fees are deferred and recognized as revenue over the life of the loans, if the commitments are exercised, or upon the expiration of the commitments.

The Company also received fees from potential borrowers to lock in the interest rates on the loans. These fees were deferred and amortized over the rate lock periods. Fees received from the prepayment of loans are recorded as revenue when received.

Loans held for sale

Loans are initially classified as held for sale when they are identified as being available for immediate sale and a formal plan exists to sell them.

Gains or losses resulting from loan sales are recognized at the time of sale based on the difference between net sale proceeds and the book value of loans sold. Loans held for sale are valued at the lower of cost or fair market value determined on an aggregate basis for all loans in inventory. Market value is based on commitments from purchasers.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies (continued)

Allowance for loan losses
The determination of the balance in the allowance for loan losses is based on an analysis of the loan portfolio and reflects an amount that, in management's judgment, is adequate to provide for probable incurred losses that are inherent in the portfolio after giving consideration to the character of the loan portfolio, current economic conditions, past credit loss experience, and such other factors that deserve current recognition in estimating credit losses. Unanticipated changes in the economy of the Company's primary lending area may affect the balance of the allowance. Because the allowance is based on estimates, ultimate losses may vary from management's estimates. The allowance is increased by provisions charged to expense and reduced by net recoveries.

Furniture and equipment
Furniture and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the respective assets, which range from three to five years.

Net assets with donor restrictions
The Company reports contributions and grants as restricted support if it is received with donor stipulations that limit its use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. At September 30, 2020 and 2019, net assets with donor restrictions consisted of amounts restricted for scholarships of $85,120 and $79,994 and amounts restricted for affordable housing financing of $431,954 and $2,538,832, respectively.

Credit enhancement fee
The Company reports credit enhancement fee income in developer, broker fees, and other income. Credit enhancement fee income on participation interests sold consists of the Company's subordinated participation interest which is provided to reduce the risk to the buyer of a borrower's default. For the fiscal years ended September 30, 2020 and 2019, the credit enhancement fee income totaled $522,973 and $542,577, respectively.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies (continued)

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefitted. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and employee benefits, occupancy, professional services, utilities and maintenance, professional conferences and meetings, depreciation, insurance and miscellaneous expenses. These expenses are allocated on the basis of estimates of time and effort by employees. Expenses directly identifiable to specific programs and supporting activities are presented accordingly.

Use of estimates in the preparation of the consolidated financial statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates reflected in the consolidated financial statements relate to the allowance for loan losses and the estimated fair value of investment securities. Actual results could differ from those estimates.

Risks and uncertainties

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus (“COVID-19”) as a global pandemic, which continues to spread throughout the United States and around the world. States and cities have taken measures to help mitigate the spread of COVID-19, including mandating the closure of certain public spaces, businesses, and schools. COVID-19 and actions taken to mitigate the spread of it have adversely affected and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the Unites States. Due to the COVID-19 pandemic, market interest rates have declined significantly, with the 10-year Treasury bond falling below 1% on March 3, 2020. Reductions in interest rates and its effect on business and consumer confidence as well as other effects of the COVID-19 pandemic may adversely affect the Company’s financial condition and results of operations in future periods. It is unknown how long the adverse conditions associated with the COVID-19 pandemic will last and what the complete financial effect will be to the Company. It is reasonably possible that estimates made in the financial statements could be materially and adversely impacted in the near term as a result of these conditions, including expected credit losses on loans.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of significant accounting policies (continued)

Prior Year Summarized Comparative Information and Reclassification

The consolidated financial statements include certain prior year summarized comparative information in total but not by net asset or functional expense classifications. Such information does not include sufficient detail to constitute a presentation in accordance with U.S. GAAP. Accordingly, such information should be read in conjunction with the Company's consolidated financial statements as of and for the year ended September 30, 2019, from which the summarized information was derived.

Certain prior year financial statement amounts have been reclassified to conform to current year presentation.

Adoption of new accounting standard

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2018-08, *Not for Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"). This ASU provides additional Guidance to be used to determine whether a contribution is conditional and when a transaction should be accounted for as a contribution versus an exchange. The Company adopted ASU 2018-08 as of October 1, 2019 and has applied the amendments of this standard on a modified prospective basis and elected to apply the standard only to agreements that were entered into after the effective date. This standard did not result in a material change to the consolidated financial statements or timing of revenue recognition for the Company's contributions.

2. REAL ESTATE LOANS

The Company primarily originates real estate loans for affordable housing in California. Loans originated by the Company are primarily funded by advances from member banks and are secured by a first deed of trust on the subject property of each respective loan.

The Company's loan portfolio at September 30, 2020 and 2019 consists of:

	2020	2019
Affordable Housing Multifamily	$ 50,259,018	$ 192,349,390
Loans held for sale	$ 190,183,024	$ -

During the year ended September 30, 2020, the Company transferred $190,183,024 of loans held for investment to loans held for sale.

2. REAL ESTATE LOANS (CONTINUED)

The Company, to the extent that it is financially able, will maintain loan loss reserves and has the responsibility for any loan losses suffered. Only after the Company is not able to absorb potential losses will the losses become the financial responsibility of the member banks. In addition, the Company will continue to make monthly payments to its member banks even if it has not received payments from its borrowers.

The Company evaluates the credit quality of its loan portfolio based on internal credit risk ratings using numerous factors, including debt coverage and loan to value ratios, collateral, collection experience, and other internal factors. Internal credit risk ratings include pass, special mention, substandard, and specific reserve.

Loans held for investment by credit quality category are as follows:

	2020	2019
Pass	$ 37,907,522	$ 177,796,289
Special mention	6,742,513	10,531,262
Substandard	5,608,983	4,021,839
Specific reserve	-	-
Total	$ 50,259,018	$ 192,349,390

The allowance for loan losses is composed of specific allowances for certain loans and general allowances grouped into loan pools based upon similar credit quality characteristics.

2. REAL ESTATE LOANS (CONTINUED)

Activity in the allowance for loan losses for the years ended September 30, 2020 and 2019 is shown below:

	2020	2019
Allowance for loan losses:		
Balance, beginning of year	$ 3,605,430	$ 3,545,251
Activities during the year:		
Charge-offs	-	-
Recoveries	-	-
Provision	(1,392,359)	60,179
Balance, end of year	$ 2,213,071	$ 3,605,430
Ending balance:		
Individually evaluated for impairment	$ -	$ -
Collectively evaluated for impairment	$ 2,213,071	$ 3,605,430
Loans receivable:		
Ending balance:		
Individually evaluated for impairment	$ -	$ -
Collectively evaluated for impairment	$ 50,259,018	$ 192,349,390

A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the related agreement. No loans were considered to be impaired at September 30, 2020 or 2019.

2. REAL ESTATE LOANS (CONTINUED)

An age analysis of loans receivable as of September 30, 2020 and 2019 is as follows:

	2020	2019
Past due:		
30-59 days	$ -	$ -
60-89 days	-	-
Greater than 90 days	-	-
Total past due	-	-
Current	50,259,018	192,349,390
Total loans receivable	$ 50,259,018	$ 192,349,390
Total loans past due greater than 90 days, accruing	$ -	$ -

3. FURNITURE AND EQUIPMENT

Furniture and equipment at September 30, 2020 and 2019 consist of:

	2020	2019
Furniture and equipment	$ 540,232	$ 525,720
Accumulated depreciation	(398,338)	(357,007)
Furniture and equipment, net	$ 141,894	$ 168,713

4. NOTES PAYABLE

Funding for loans originated by the Company is primarily provided by borrowings from member banks under the Agreement. As stated in the Agreement, the terms of the Company's borrowings from member banks are substantially the same as the terms of the loans the Company originates. The member banks receive an assignment of the collateral for the loans originated equal to their respective equity percentage interest in the loans. A nominal interest rate spread is retained by the Company.

Based on the terms of the Agreement, such participations by member banks are accounted for as secured borrowings with a pledge of collateral, and accordingly, the real estate loans and notes payable are included in the Company's consolidated statements of financial position. As of September 30, 2020 and 2019, notes payable under the Agreement with member banks amounted to $202,857,644 and $169,026,788, respectively.

In March 2015, the Company entered into a loan and security agreement with a member bank which provides for a revolving credit facility of up to a maximum amount of $50,000,000. The credit facility expires on March 31, 2021. Borrowings under the facility are to be used for the funding of real estate loans and bear interest at a fixed interest rate, determined by the lender at the time of borrowing plus 1.00%. Borrowings are collateralized by the related real estate loan including the real estate loan collateral. At September 30, 2020 and 2019, there were borrowings outstanding of $17,813,627 and $7,541,988, respectively on this credit facility.

The Company entered into an Equity Equivalent Investment Agreement (“EQ2)” with a member bank in March 2019. The EQ2 provided a single non-revolving advance of $4,000,000 for the extension of affordable housing loans and the purchase and sale of assets or participations and/or the general recycling of assets in order to make additional capital available. Interest on the unpaid principal amount shall bear interest at 3%, payable quarterly, in arrears. The outstanding principal balance of the EQ2 and accrued but unpaid interest are due and payable at maturity in March 2024. Based on satisfaction of certain terms and conditions, the maturity date may be automatically extended for one additional five-year period unless the Company provides a written request not to extend the term. The outstanding balance of the EQ2 was $4,000,000 as of September 30, 2020 and 2019.

4. NOTES PAYABLE (CONTINUED)

On May 5, 2020, the Company received loan proceeds of $450,000 pursuant to the Paycheck Protection Program (“PPP”). The PPP was established under the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) and is administered by the U.S. Small Business Administration. Under the terms of the CARES Act, PPP loan recipients can apply for loan forgiveness. The potential for loan forgiveness for all or a portion of the PPP loan is determined, subject to limitations, based on the use of the loan proceeds for payment of payroll costs and any payments of rent, utilities, and other qualifying expenses over the 24 weeks after the loan proceeds were disbursed. The amount of loan forgiveness will be reduced if PPP loan recipients terminate employees or reduce salaries during the covered period. The unforgiven portion of the PPP loan, if any, matures on May 1, 2022 and bears interest at 1% per annum, with a deferral of payments until the loan is forgiven or ten months after the end of the loan forgiveness covered period. While the Company believes that its use of the loan proceeds will meet the conditions for forgiveness of the PPP loan, there can be no assurance that forgiveness for any portion of the PPP loan will be obtained. The Company intends to apply for forgiveness of the PPP loan. As of September 30, 2020, the outstanding balance of the PPP loan was $450,000.

The aggregate scheduled principal payments based on each loan's respective amortization schedule at September 30, 2020 are as follows:

Years ending September 30,	
2021	$ 5,249,142
2022	12,424,058
2023	5,924,216
2024	12,356,685
2025	7,254,928
Thereafter	181,912,242
	$ 225,121,271

5. COMMITMENTS AND CONTINGENCY

Loan commitments

The Company is a party to loan commitments with off-balance-sheet risk in the normal course of business to meet the financing needs of its borrowers. Commitments to extend credit are agreements to lend as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Company evaluates each borrower's creditworthiness on a case-by-case basis. The value of collateral obtained upon extension of credit is based upon management's real estate evaluation and only includes income-producing property.

5. COMMITMENTS AND CONTINGENCY (CONTINUED)

Loan commitments (continued)
As of and for the years ended September 30, 2020 and 2019, commitments and deferred fees were as follows:

	2020	2019
Loan commitments unfunded	$ 119,014,937	$ 130,940,549
Deferred revenue on loan commitments unfunded:		
Nonrefundable loan application commitment fees	$ 3,746,922	$ 3,210,862

For the years ended September 30, 2020 and 2019, loan, commitment, and rate lock fees were as follows:

	2020	2019
Prepayment fees	$ 1,092,137	$ 627,415
Amortization of deferred fees	146,595	156,280
Fees earned, bond deals	522,527	1,005,667
Other	489,964	42,993
Total	$ 2,251,223	$ 1,832,355

Lease commitment
The Company has a seven-year and eight-month operating lease agreement which commenced in April 2017. Under the terms of this lease, the Company pays monthly rental commencing August 2017 through October 2024. A summary of the future minimum lease payments follows:

Years ending September 30,	
2021	$ 243,944
2022	251,262
2023	258,800
2024	266,564
2025	22,237
	$ 1,042,807

5. COMMITMENTS AND CONTINGENCY (CONTINUED)

Contingency

During the years ended September 30, 2019 and 2018, the Company sold loans in its capacity as owner or fiscal agent and bondholder, in the form of securitizations guaranteed, in part, by Freddie Mac. In connection with the sale, the Company provided various representations and warranties related to the loans sold. Those representations and warranties generally relate to, among other things, the ownership of the loans, the validity of the lien securing the loan, the loans' compliance with criteria for inclusion in the transaction, ability to deliver required documentation and compliance with applicable laws. Generally, these representations and warranties may be enforced at any time over the life of the loan.

6. TRANSACTIONS WITH MEMBER BANKS

At September 30, 2020 and 2019, the Company had $6,450,561 and $3,554,709, respectively, on deposit with a member bank. In lieu of interest, CCRC received an earnings credit against fees which ranged from 0.16% to 0.50% during the years ended September 30, 2020 and 2019. Such deposits were in excess of the amount insured by the Federal Deposit Insurance Corporation.

As of September 30, 2020 and 2019, CCRC-funded loans totaled $19,661,822 and $15,665,531, respectively.

Interest expense related to the loans financed by member banks amounted to $9,687,788 and $8,204,859 for the years ended September 30, 2020 and 2019, respectively.

7. DEFERRED COMPENSATION PLAN

The Company has established a 403(b) deferred compensation plan (the "Plan") for its employees. The Plan is offered to all full-time employees who are 21 years or older and have been with the Company for more than one year. Effective January 1, 2000, the Plan was converted to a 401(k) deferred compensation plan ("401(k) Plan"), which allows for employer matching and discretionary profit-sharing contributions. Eligibility requirements and vesting did not change from the conversion. For the years ended September 30, 2020 and 2019, the Company's contributions into the 401(k) Plan totaled $193,246 and $165,383, respectively.

8. TAX STATUS

CCRC is a qualified charitable organization under Section 501(c)(3) of the Internal Revenue Code and under the State of California tax regulations and therefore, is not subject to federal or state income taxes in connection with its exempt activities.

8. TAX STATUS (CONTINUED)

U.S. GAAP requires management to evaluate tax positions taken by CCRC and to recognize a tax liability (or asset) if CCRC has taken an uncertain tax position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions, and has concluded that as of September 30, 2020, there are no uncertain tax positions taken or expected to be taken that would require the recognition of the liability (or asset) or disclosure in the consolidated financial statements. CCRC is subject to routine audits by taxing jurisdictions and could be subject to income tax if certain issues were found by the IRS that could result in the disqualification of CCRC's tax exempt status.

9. FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair value amounts as of September 30, 2020 and 2019 have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop estimates of fair value. Accordingly, the estimates described below are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

FASB Accounting Standards Codification ("ASC") 820 establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability as opposed to the price that would be paid to acquire the asset or received to assume the liability. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the value based on inputs the Company uses to derive fair value measurements. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs: Quoted market prices (unadjusted) for identical assets or liabilities traded in active markets

Level 2 inputs: Quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market

9. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Level 3 inputs: Significant unobservable inputs for the asset or liability that rely on management's own estimates for assumptions that market participants would use in pricing the asset or liability that include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability

Investment securities
Investment securities consist of interest-only strips which are guaranteed by Freddie Mac and non-guaranteed subordinate Freddie Mac certificates. The interest-only strips amounted to $12,077,210 and $14,664,254 at September 30, 2020 and 2019, respectively. The non-guaranteed subordinate Freddie Mac certificates amounted to $5,945,319 and $6,714,070 at September 30, 2020 and 2019, respectively.

Investment securities are valued at fair value based upon an income approach using a valuation model. The valuation model includes assumptions regarding projections of future cash flows, prepayment rates, default rates and interest only strip terms. These securities bear the risk of loan prepayment or default that may result in the Company not recovering all or a portion of its recorded investment. When appropriate, valuations are adjusted for various factors including default or prepayment status of the underlying mortgage loans. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed, and may change materially in the near term. Accordingly, all of the Company's investment securities are classified in Level 3 of the fair value hierarchy.

There were no transfers between Level 1 and Level 2 securities during the years ended September 30, 2020 and 2019.

Management additionally considers whether loans underlying the related securities are delinquent, in default or prepaying, and adjusts the fair value down as appropriate.

The following table illustrates the changes in the fair value of all financial assets measured on a recurring basis using significant unobservable inputs (Level 3) for the years ended September 30, 2020 and 2019:

	2020	2019
Balance, beginning of year	$ 21,378,324	$ 16,173,992
Activities during the year:		
Purchases	-	7,228,069
Amortization of discount	1,184,929	802,177
Payments received	(4,603,165)	(3,308,914)
Adjustment to fair value	62,441	483,000
Balance, end of year	$ 18,022,529	$ 21,378,324

9. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

During the years ended September 30, 2020 and 2019, income from investments consisted of:

	2020	2019
Amortization of discount	$ 1,184,929	$ 802,177
Adjustment to fair value	62,441	483,000
Interest income	138,272	77,558
Investment income, net	$ 1,385,642	$ 1,362,735

The changes in unrealized gains or losses related to Level 3 investments still held at September 30, 2020 and 2019 amounted to $62,441 and $483,000 respectively, and are included in investment income, net in the accompanying consolidated statements of activities.

Other financial instruments not required to be reported at fair value

The methods and assumptions used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value are:

Cash and cash equivalents - The carrying amounts approximate fair values due to the short-term nature of these instruments.

Real estate loans - Based on sales to third parties, current interest rates offered by the Company, and the interest rates related to the loan portfolio, the carrying amounts of loans receivable are estimated to approximate fair value. It is the Company's opinion that the allowance for estimated loan losses results in a fair valuation of such loans receivable.

Notes payable - Based on the current interest rates on notes payable to member banks and the interest rates related to the existing borrowings, the carrying amounts of such borrowings are estimated to approximate fair values.

Interest receivable and Interest payable - The carrying amounts of these items are a reasonable estimate of their fair values due to their short-term nature.

10. GOVERNMENT GRANT

In March 2019, the Company entered into a 2018 Capital Magnet Fund Assistance Agreement with the Community Development Financial Institutions Fund (the "CDFI Agreement"). The CDFI Agreement provided a total grant to the Company of $3,150,000 of which $150,000 was designated for direct administrative costs. The $3,150,000 was received in full during the year ended September 30, 2019.

The CDFI Agreement provides that amounts should be considered expended once the Company commits for use the grant, or a portion thereof, as evidenced by an executed, written, legally binding commitment agreement with a qualified family, developer, or project sponsor, as defined in the CDFI Agreement.

During the years ended September 30, 2020 and 2019, the Company expended $2,106,878 and $611,168, respectively, as defined in the Agreement. The unexpended balance of $431,954 and $2,538,832 is included in net assets with donor restrictions in the accompanying consolidated statements of financial position at September 30, 2020 and 2019, respectively.

11. LIQUIDITY

As of September 30, 2020, the following financial assets and liquidity sources are available for general operating expenditures in the year ending September 30, 2021:

Cash and cash equivalents	$ 6,450,561
Investment securities	18,022,529
Loans held for sale	190,183,024
Interest receivable	1,353,967
Less:	
Loans held for sale funded by member banks	(179,213,613)
Restricted government grant	(431,954)
Contributions received with donor restrictions	(85,120)
Cash balance reserved by the board	(1,000,000)
	$ 35,279,394

As part of the Company's liquidity management, it has a policy to structure its financial resources to be available as its general expenditures, including debt service requirements, liabilities, and other obligations come due. In addition, the Company invests excess cash in self-funded loans which can be participated to the member banks, if needed. Loans receivable in the consolidated statement of financial position includes $1,417,340 of CCRC self-funded loans which are available for participation at September 30, 2020. This amount is not included in the schedule above.

12. SUBSEQUENT EVENTS

The date to which events occurring after September 30, 2020, the date of the most recent consolidated statement of financial position, have been evaluated for possible adjustment or disclosure to the consolidated financial statements is December 17, 2021, which is the date on which the consolidated financial statements were available to be issued.

Subsequent to year-end, on November 24, 2020, the Company completed a securitized sale of mortgage loans totaling $189.5 million ($190.1 million at September 30, 2020). Under the securitization structure, Freddie Mac guaranteed 100% of principal and related interest, and the Company agreed to reimburse Freddie Mac for any amounts paid by Freddie Mac under the Freddie Mac guarantee up to $19.0 million. The Company purchased $19.2 million of guaranteed certificates issued under this loan securitization sale, which were then pledged to Freddie Mac as collateral for the Company's reimbursement obligation. In connection with the transaction, the Company retained certain loan servicing rights, as sub-servicer, which will be included in the proceeds of the sale. Management of the Company believes that the transaction will qualify for sale accounting in accordance with ASC 860, *Transfers and Servicing*, and is in the process of determining the fair value of the retained loan servicing rights as well as the purchased guaranteed certificates.