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Fitch: Strong Financial Profiles and Loan Oversight Support CDFI Credit

Fitch Ratings-New York/San Francisco-17 May 2023: Strong loan portfolio management and financial profiles support community development financial institutions' (CDFIs) credit ratings amid growing economic headwinds, Fitch Ratings says. CDFIs play an important role in providing affordable financing in the current environment of high interest rates and reduced credit supply, supporting low-income and low-wealth communities by providing capital to individuals, businesses, and organizations that historically have not had access to mainstream sources of credit.

Like other social lending institutions, CDFIs generally exhibit solid demand, low loan delinquencies and losses, conservative risk management, and strong financial profiles. This is reflected in the high investment grade ratings currently assigned to CDFIs. CDFIs keep loans on balance sheet and typically provide active oversight of their loan portfolios, with early and frequent follow-ups for delinquent loans and other loss mitigation strategies to minimize loan defaults and losses.

While CDFIs' modest delinquency rates are slightly higher than those of banks, charge-off levels are comparable, despite the portfolios' perceived higher risk and lower credit quality. The median 90+ day delinquency rate among CDFIs was 1.30% between 2017 and 2021, compared to 1.06% for banks. Furthermore, the median net-charge off rate among CDFIs was 0.48% between 2017 and 2021, similar to 0.50% for banks during the same time period, according to the FDIC and Opportunity Finance Network, the industry trade group for CDFIs. Fitch forecasts a mild recession beginning in the second half of the year, and while loan performance may deteriorate, loan losses are expected to remain well within Fitch's stressed rating assumptions.

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