
Fitch: U.S. CDSL Sector Resilient Amid Federal Cuts, but Risks Building

Fitch Ratings-San Francisco/New York-18 June 2025: Fitch Ratings in a new report maintains a 'neutral' outlook for the U.S. Community Development and Social Lending (CDSL) sector, despite growing risks from proposed federal spending cuts, higher construction costs, and slowing rent growth. Federal policy changes could disrupt affordable housing programs; however, strong equity buffers and prudent management continue to support sector stability.

Proposed cuts to the Department of Housing and Urban Development (HUD) and the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund threaten key funding streams for affordable housing, public housing authorities (PHAs), and CDFIs. The president's FY26 budget request includes a 51% reduction in HUD's annual budget, consolidation of rental assistance, and elimination of major block grant programs. Staff reductions and processing delays at HUD could slow disbursements, affecting project timelines and creating operational pressures for issuers reliant on federal support.

Military housing projects are facing rising operating costs, though recent increases in Basic Allowance for Housing rates have provided temporary relief. State housing finance agencies remain resilient, supported by minimal reliance on direct federal funding, strong equity positions, and robust credit enhancements. Larger, established CDFIs are better positioned to manage funding volatility due to diversified funding sources and substantial equity bases.

Tariffs and immigration restrictions are increasing construction costs and exacerbating labor shortages, constraining affordable housing supply and delaying new developments. While proposed expansions to tax credits could help support new supply, ongoing expense growth and policy uncertainty will challenge sector participants.

Fitch believes CDSL issuers with strong reserves, diversified funding, and experienced management are best positioned to manage evolving risks. However, a significant deterioration in macroeconomic conditions, sharp rises in delinquencies, or severe federal spending cuts could weigh on sector credit quality and potentially lead to a revision of the outlook.

The new report can be viewed at www.fitchratings.com.

Contact:

Karen Fitzgerald, CFA
Senior Director
+1 (415) 796-9959
karen.fitzgerald@fitchratings.com
Fitch Ratings
One Post Street, Suite 900
San Francisco, CA 94104

Kasia Reed
Director
+1 646 582-4864
kasia.reed@fitchratings.com

Media Relations: Cristina Bermudez, New York, Tel: +1 212 612 7892, Email: cristina.bermudez@thefitchgroup.com