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S&P Issuer Credit Ratings for Community Development Finance Institutions (CDFIs).

Standard & Poor's Ratings Services' U.S. Public Finance Housing Enterprise Group assigned and released its 'AA' issuer credit rating (ICR) on Clearinghouse CDFI, Calif. on April 2, 2015. Subsequently, on April 28, 2014, Standard & Poor's assigned and released its 'AA-' ICR on Housing Trust Silicon Valley (HTSV), Calif. For both ratings, despite comprising a very minimal sample, Standard & Poor's found some common trends within the community development finance institution (CDFI) industry involving strategy and management (impact) and financial performance. In particular, we found CDFIs have minimal loss exposure that can typically be absorbed through reserves and unrestricted equity. Moreover, the debt profiles of those assessed, and the first two CDFI entities we rated publicly, have low-risk debt, with little long-term liabilities. In addition, we found the history of loan performance for publicly rated CDFIs has historically been positive, with very few delinquencies. We believe the ratings for Clearinghouse and HTSV are solid and present a level of stability in line with the 'AA' rating category.

Standard & Poor's began analyzing the industry using its housing finance agency (HFA) criteria to assess various CDFIs nationwide, where public financial statements were made available via their respective public websites. We concluded with a small sample of five distinct CDFIs using three to five years of financial statements to assess common trends. We subsequently found each CDFI to be a unique entity, despite having similar core social missions. Each has their own distinct lending activity, ranging from housing finance (first-time homebuyers and affordable multifamily housing) and commercial/small business lending to charter school lending. We determined that our state "Housing Finance Agencies" criteria (published June 14, 2007) was most applicable to form an appropriate credit opinion for each CDFI, factoring core missions, portfolio, credit risk, and management. We also used "Criteria: Principles of Credit Ratings" (published Feb. 16, 2011) to apply U.S. Public Finance ICR criteria for this analysis. As a result, we view CDFIs as similar to HFAs, albeit with a broader range of lending activity for community development, rather than mortgage loan programs, posing the greatest risk.

In our initial financial analysis using the above-mentioned criteria, we found from our publicly rated CDFIs and the small sample assessed that the CDFIs' liquidity ratios tend to be similar to those of state HFAs — and, in some scenarios, with equity ratios in line with or above our rating categories for social lending issuers. In our view, funding sources and equity levels go hand-in-hand. For example, CDFIs with more reliance on federal grants may have more annual revenue volatility. In some instances, however, prudent risk management allows for a gradual increase in equity, leading to very stable financial performance. While some CDFIs' equity may be lower than those of publicly rated social lending institutions, their total equity-to-total debt tends to be either extremely high (representing little debt, with adequate equity), or very steady, coupled with stable financial performance. Despite the size of the CDFIs' balance sheets and overall loan portfolios, their assets and liabilities tend to be adequate or have appropriate ratios.

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