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Fitch: More Bond Issuance Likely for U.S. Community Development Financial Institutions

Fitch Ratings-Chicago/New York/San Francisco-10 April 2024: U.S. community development financial institutions (CDFIs) will increasingly turn to bond markets to raise capital as investor interest in the sector continues to grow, according to Fitch Ratings in a new report.

Increased appetite also means more questions from investors as to the economic sustainability of CDFIs in a broader market still replete with elevated interest rates and high inflation. Another variable is whether CDFIs can count on philanthropy and other traditional sources of funding (among them loan and investment income and bank loans) for ongoing support. The economic landscape presents both challenges and opportunities for CDFIs, according to Senior Director Karen Fitzgerald.

“Despite current economic headwinds, Fitch expects CDFIs to sustain their affordable lending missions while maintaining strong financial profiles,” said Fitzgerald. “Successful CDFIs will adapt to the changing financial landscape by leveraging their strong equity positions to diversify their funding sources, and by increasingly turning to bond markets and impact investors to raise capital.”

Broader market volatility has not impeded CDFIs’ strong underwriting, minimal loan defaults and low charge-off rates thus far. “Though similar in structure and function to banks and other financial institutions, CDFIs are public benefit entities with little incentive to take risk or maximize profit and are rather incentivized to preserve their equity and to operate in a sustainable manner,” said Fitzgerald.

The rapid growth in the number of CDFIs also raises investor question as to the potential impact of potential new entrants to the market. ‘The need for the services provided by CDFIs continues to exceed available resources, such that new entrants do not typically pressure demand,’ said Fitzgerald.

‘What Investors Want to Know: CDFI Loan Funds’ is available at www.fitchratings.com.

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