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Fitch: U.S. CDFIs Set for Headwinds as Pandemic Aid Fades Away

Fitch Ratings-Chicago/San Francisco/New York-16 October 2024: Balance sheets for U.S. community development financial institutions (CDFIs) will continue to grow while leverage is kept largely in check as sources of funding change and pandemic stimulus runs out, according to Fitch Ratings in its latest annual report for the sector.

CDFI balance sheets have demonstrated substantial growth in equity over the past five years, with an average annual increase of 8.8% in loans outstanding outpacing the smaller increase in outstanding debt. Pandemic-related aid has helped keep growth strong, though Senior Director Karen Fitzgerald expects the trajectory to slow. “The end of federal stimulus programs, higher interest rates, and reduced private funding will cause growth to slow, though the solid financial profiles of CDFIs equip them to handle current economic pressures,” said Fitzgerald.

Similar to last year’s update, Fitch anticipates that CDFIs will increasingly turn to bond markets to raise capital as philanthropic funds are less readily available and interest rates remain high for private sources of funding. What is likely to change is sources of funding, which have shifted following the end of pandemic aid. Additionally, federal regulators issued a final ruling to modernize Community Reinvestment Act (CRA) regulations, which, once it goes into effect, could result in more favorable treatment of loans to and investments in CDFI loan funds by banks.

CDFIs’ balance sheets will change as the sector works through the impacts of diminishing stimulus funding and higher interest rates. “While loan performance may deteriorate from current levels, loan losses will remain manageable as CDFIs maintain strong asset quality,” said Fitzgerald.

Fitch’s latest ‘CDFI Sector Monitor’ is available at www.fitchratings.com.

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