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Fitch: CDFI Equity Strong, Losses Low Amid Funding Shifts

Fitch Ratings-Chicago/San Francisco/New York-09 October 2025: Fitch Ratings has published its third annual Community Development Financial Institution (CDFI) Peer Credit Analysis, covering five years of audited data for 40 CDFI loan funds over fiscal 2020-2024. The report finds resilient credit profiles, with low delinquencies and losses, stable profitability and rising equity supporting financial strength.

As interest rates remain elevated and potential cutbacks and lags impact federal funding, Fitch expects shifts in funding mix and higher cost of funds. Fitch believes sector fundamentals and prudent risk management will continue to anchor credit strength.

CDFI balance sheets expanded over the past five years, with loans and equity rising faster than debt, keeping leverage in check. Equity growth has outpaced debt for many peers, lowering debt-to-equity ratios and supporting capital flexibility. Demand for affordable housing and community development loans remains strong amid tighter bank lending standards and weak affordability. Equity cushions will help support new funding sources, which are likely to lift costs of funds.

CDFI asset quality compares favorably with banks. Non-performing loans remain modest and net charge-offs low, reflecting active servicing, early interventions and loss mitigation. A prolonged federal funding disruption could delay or constrain certain grant disbursements or program approvals, pressuring near-term liquidity and timing of originations for some CDFIs. However, Karen Fitzgerald, Fitch Senior Director, U.S. Public Finance, notes that, "Sector liquidity, equity-to-assets ratios well above banks and conservative balance sheet management provide cushions against temporary funding volatility."

Fitch's latest CDFI Peer Credit Analysis is available at www.fitchratings.com.