California Community Reinvestment Corporation

December 2020

For All CCRC's Investors and Friends

Wow, what a year. We started our year on a high note, with record approvals, spurred by the 2019 Bond sale providing capacity for new tax-exempt transactions. The economy was humming, growth in rents and incomes throughout the state were fueling new funds into affordable housing giving us hope we could make some inroads into reducing the numbers of people experiencing homelessness.

Early in the year, COVID-19 became a driving force in all aspects of our work. CCRC shut down our Glendale office in March, furnished staff with remote access to all underwriting and servicing tools, and having already hosted our systems on the cloud, the transition to working remotely was seamless. We were concerned about the impact to our residents, where sheltering in place orders would hit harder in terms of ability to continue to work and meet their financial obligations. Or worse, where they felt they had to go to work to support their families, jeopardizing their health.

We met with our Board, and as you know, crafted a forbearance policy for our borrowers whose properties could be impacted with reduced rental income due to tenants' inability to pay and moratoriums on evictions. We asked the Member Banks to work with us as well, as we didn't have a way of knowing how this would impact our portfolio. Since May, we granted two forbearances in total, one in the bank funded mortgage pool and one on a sold bond serviced for an investor. Both have since exited forbearance.

Then we got to work. 2020 resulted in a 30 year record in new loan originations at $203 million and 2543 new homes. COVID definitely had some impact on new construction starts as we faced the shelter in place orders, but housing was considered essential and our developers did an amazing job. In addition, we funded 26 loans and bonds in our forward pipeline, for $108 million in newly funded transactions for 1656 new homes to shelter folks safely. We stress tested both new originations and fundings for flat income growth or delinquency assumptions in current tenancy, but they have demonstrated resiliency.

<u>Financial Results</u>

As we shared in 2019, after financially supporting a $72 million bond sale with one-time expenses of $6.3 million, CCRC incurred a loss in 2019 of $1.3 million. The sale resulted in recycled capacity for new lending opportunities as well as ongoing servicing income on the sold bonds and investment income on the retained B piece on the transaction. Our loan portfolio continued to grow and provide increasing fee and interest income, while new bond fundings provide increasing fee income and servicing income. Coupled with the investment income on the prior loan sale and securitization's Interest Only Strip investment, total revenues increased from $15 million to $19 million year over year. Included in that $3 million increase is the reversal of $1.9 million in loan loss provision on $190 million in loans held for sale as of 9/30/20. Accounting treatment on loans held for sale eliminates the provision which had previously been recorded at 1% of the outstanding balances while held to maturity on our balance sheet. We had identified the loans and were moving towards the close within 6 weeks of FYE. That is the only financial impact in the FYE 9/30/2020 audit of the loan sale which was concluded on November 24, 2020.

Expenses returned to a normal run rate in 2020, totaling $13.8 million compared to $19.3 million in 2019. This $5.5 million reduction is a result of the non-recurring $6.3 million one- time expense on the 2019 bond sale, offset by an increase of $1.4 million in interest expense to member banks, a result of the increase of $48 million in outstanding loans financed primarily utilizing bank credit lines and salary and employee benefit increases of $693K as we added to staff to support the growing business model with related benefits. And as mentioned above, loan loss provision recorded a $1.4 million credit in 2020 due to the reversal of the $1.9 million held on the loans held for sale, offset by provision taken on the newly funded loans at 1%.

The balance sheet as of 9/30/2020 shows growth in total assets to $262 million over $213 million in 2019, a $49 million increase driven by newly funded loans.   Subtracting total liabilities of $230 million, a $45 million growth over 2019 as credit lines were drawn to fund loans, CCRC's total net assets grew to $31.9 million, a $3.4 million over 2019 as a result of a net surplus from operations.

Portfolio Quality
The CCRC 2020 Portfolio Analysis details the characteristics of the funded loans and commitments as of 9/30/20. The portfolio grew to $305 million in outstanding loans, including all categories where CCRC has risk retention.   The overall risk factors noted in the report primarily reflect operating data from 2019 property audits, with rising rents and a robust economy contributing to portfolio quality. As we know, 2019 was a completely different year than we are now in, but the strong characteristics of the funded portfolio coming into 2020 is a likely contributor to the properties' ability to withstand the shock of the pandemic on residents and operations. Strong DCR's and excess cash flows provided a cushion to any reduction in income and higher COVID related expenses that are likely now being felt.

As you know, subsequent to FYE 2020, CCRC sold $190 million in bank funded and self-funded loans in November 2020.   The report provides a pre-sale and post-sale risk metrics Table 6. While the remaining $25.9 million in bank funded loans remaining in the pool reflect a DCR of .96%, the overall risk of the portfolio remains the same as CCRC's improved balance sheet from the sale still stands behind its credit lines, and these remaining 17 projects were always in the portfolio, just not strong or large enough to make the grade to sell. We also have a robust forward commitment pipeline of $124 million for the bank pool, so you will see your outstandings grow quickly with new loans.

Bond Portfolio Analysis
We have also included the Bond Portfolio Analysis here for all investors, to demonstrate the growth of this program and the strength of the underlying assets. The funded bond portfolio has grown to $69 million after the bond sale in 2019. CCRC's book of forward commitments is a record at $168 million, after approving $126 million in 2020. Our ability to extend forward commitments, when coupled with funded bonds, beyond finite bond pool commitments from banks is utilizing a new capital availability model. CCRC reserves capacity to originate forward bond transactions under the mortgage pool funding commitments, acknowledging the characteristics of the originated bonds meet the mortgage pool criteria, with the goal of aggregating funded bonds for a bond sale before necessitation bonds being funded under the mortgage line.

The risk metrics of the bond portfolio are strong with an overall DCR of 1.47 and an LTV of 63%. The age of the bonds in the portfolio is 20 months, reflecting the frequency of funded bonds are being sold to recycle capacity.

I want to extend my gratitude to all of our investors who have stood by us this year, as we pivoted to work remotely, support our clients and maintain credit quality. We retained all member banks this year in all programs, and for that I am grateful as there is much work to be done to continue house people safely and affordably. If you ever doubted that a roof over your head was a health outcome, no need to question anymore. Our residents have remain housed and healthy during the worst health crisis our country has seen. This is due to the strength and commitment of our borrowers and social service providers dedicated to their residents' safety.

I wish you a healthy and happy holiday season and a Brighter 2021! Thank you for all you do for our mission.

Mary Kaiser, President
CCRC