California Community Reinvestment Corporation

December 2021

For All CCRC's Investors and Friends

I am quite sure when I wrote you all last December, I was thinking life would be a bit more back to "normal" in terms of returning to work and getting back out again amongst our industry partners during 2021. It started to look that way mid-year, and while we readied the CCRC offices for some form of return, after some starts and stops, we are still only coming into the office on a limited basis. My thanks to our team and all our partners for the willingness to accept reasonable accommodations for things that used to all be in person transactions.

Just when I reported the 2020 year as our highest origination record in history, we topped that this year with $217 million in taxable and tax-exempt new transactions representing 2,687 new homes for deserving Californians. Loan conversions, which typically occur within 24-30 months of commitment, have been delayed for a variety of reasons over the past 2 years. Clearly, COVID has accounted for some delays related to inspections and a variety of transaction partners working remotely, but we have also seen construction delays and longer lease-up periods for targeted populations. Additionally, with the complicated capital stack needed to make deals work, each layer of funding brings its own bureaucracy and delays, piling on to an already strained process. Our $189 million loan sale and securitization that closed in November 2020 was critical to our being in the market for our clients in the past year as we see these delays continue. CCRC was able to convert and fund 20 transactions this past year, bringing 1,385 homes on line for our residents. We do find with the delayed conversions a higher than normal amount of capital capacity committed to forward commitments as opposed to funded loans. We continue to be so grateful for our funding partners, who provide an invaluable tool through our Taxable and Tax-Exempt Loan Programs.

Financial Results

The close of the $189 million securitization with Freddie Mac in November 2020 provided a huge boost to CCRC's historically leveraged balance sheet. The sale was a product of our business model, allowing us to capture the value in the funded portfolio, free up capacity in our lending program and improve historically tight ratios in a sustained manner that business as usual doesn't allow. As with the 2017 sale, we sold the loans using Freddie Mac's series-Q securitization program. This positive outcome contributed to our thinking that the timing was right for us to pursue an S&P Credit Rating, which turned out to be the case as we received an S&P A+ rating in September 2021.

Balance Sheet

Total assets decreased $103 million in 2021 over 2020:
+$23 million in cash as a result of the $189 million loan sale
+$16 million in investment securities, result of additional $18 million purchase less unrealized loss
+$47 million in outstanding loans with related provision offset of…
 ($.400) million allowance on newly funded loans
 ($190) million elimination of loans held for sale
 ($.500) million in interest receivable
+$1 million reduction in accelerated fees on sold loans
+$1 million in posted collateral for market fluctuation in pledged collateral on sale

Total liabilities decreased by $145 million in 2021 over 2021, the result of the $146 million reduction in notes payable to member banks paid off on the participated loans sold in November 2020.

This activity results in Total Net Assets of $73.9 million, a $42 million increase over 2020.

Statement of Activities

Total revenues increased $33 million in 2021 over 2020:
+$41 million in net loan sale premium
+$.500 million PPP forgiveness
+$.429 million in loan servicing income now replacing net interest income on sold loans
($6 million) in interest income on sold loans
($.600) in amortization and fair market adjustment to investment securities
($1.5 million) satisfaction of CMF grant guidelines

Total expenses decreased by $3.6 million in 2021 over 2020. This was primarily a function of $6 million decrease in interest expense related to sold loans and reduction in notes payable. Offsetting these decreases was a $300K increase in salaries and benefits and a $1.8 negative swing in the provision expense, as we recorded a reversal of $1.4 million in 2020 related to loans held for sale.

After adjustments for assets deployed in grant-making activities, including Scholarship Program and Bridging the Digital Divide, CCRC recorded an increase in net assets of $42 million in 2021, compared to $3 million the prior year as a result of the successful loan sale. .

S& P Rating

Upon completion of the loan sale in November 2020, CCRC set out early in 2021 to obtain an S&P Credit rating for the organization to not only enhance current lending relationships but to attract new investors. This process resulted in CCRC obtaining an A+ rating from S&P, a testament to our team's unwavering hard work and dedication. The full report can be found on the CCRC website at www.e-ccrc.org. We look forward to the opportunities this attestation to our financial strength, business model and strategy, asset quality, management and governance affords us as we look forward to expanding our mission and impact.

Novogradac 2021 AUP Audit

We conduct this audit every two years to affirm our adherence to approved policies and procedures as it relates to underwriting, funding and monitoring. This year's Novogradac Agreed Upon Procedures Audit resulted in a clean report, satisfactory in each category and no findings on any of the samples selected. I would be so pleased with this result in any given year, but especially in a year where everything was done remotely, from loan approvals, documentation, obtaining required signatures and completion of loan files. Very proud of everyone's efforts.

Loan Portfolio Analysis

The CCRC 2021 Portfolio Analysis details the characteristics of the funded loans and commitments as of 9/30/21. This sale results in an analyzed funded portfolio of $159 million compared to $305 million in 2020, the result of $55 million in newly funded loans, less the $189 million sold loans, $6.8 million in payoffs of two loans, and $4.5 million in principal pay downs over the year.

The book of forward comments grew to $188 million, $64 million increase over 2020, albeit with a reduced WAC of 4.32 compared to 4.79 from the prior year as rates continue to remain low and volatile at some points. CCRC approved $104 million in new loans over 2021, for an average of $5.8 million per transaction, 1,366 units financed, an increase to $76K debt per unit financed and a slightly higher WAC at .02% over 2020 new loans approved.

The risk metrics continue to be strong, with an average risk rating of 6.13 portfolio-wide against a 6-Pass scale. Geographic concentrations remain steady and represent population distribution, with exposure well managed across multiple projects, and with top developers and tax credit investors. CCRC's formula loan loss calculation actually exceeds the ceiling as calculated, happening only once in our prior history. We nonetheless have recommended the provision of $2.59 million, 1.62% of the funded loan portfolio and 48% of all classified loans.

Tax-Exempt Loan Portfolio Analysis

We have also included the TEL Portfolio Analysis here for all investors to demonstrate the growth of this program and the strength of the underlying assets. The funded portfolio has built back up to $69 million, having sold $99 million to Citibank in 2015/2016 and $72.3 million in a Freddie sale and securitization in 2019. Characteristics of the funded portfolio remain fairly constant over prior years.

CCRC's book of forward commitments is a new record at $183 million, after approving $126 million in 2020 and $48 million in 2021. Conversions in 2021, as mentioned above, were plagued with delays felt throughout the industry, resulting in only 1 TEL converting for $3 million. That clearly ties up more capital in forward commitments than is typical, as we would have expected many more conversions and aggregation of funded bonds to allow for additional sales and recycling of capital. When coupled with funded TELs, our ability to extend TEL forward commitments in excess of commitments to the TEL pool made by its member banks requires us to employ a new capital availability model that the Board approved in early 2021. Under this new model, CCRC reserves capacity to originate forward TEL transactions under the mortgage pool funding commitments, acknowledging the characteristics of the originated transactions meet the mortgage pool criteria, but with the goal of aggregating funded TELs for a sale before necessitating TELs to be funded under the mortgage line.

The risk metrics of the bond portfolio are strong, with an overall DCR of 1.55 and an LTV of 54%. The age of the TELs in the funded portfolio is 25 months, reflecting the frequency with which we sell funded bonds in order to recycle capacity.

I want to extend my gratitude to all of our investors who have stood by us again this year and welcome new investors to our programs. Your support insured folks were housed safely over the past two years of this pandemic, supported by important services which literally were life-saving. If you ever doubted that a roof over your head was a health outcome, no need to question anymore. Our residents have remained 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 would also like to let our stakeholders know that I have announced to the Board and Staff here at CCRC that 2022 will be my final year at the helm of CCRC. I will be retiring at the end of the year with deep gratitude and profound humility for all the work we have done together. Our Board is embarking on a Succession and Search Plan now that will provide sufficient time to ensure a smooth transition of leadership for our organization and all of you supporting our work. I look forward to being active in this process as well and promise you all CCRC will be in good hands when I leave.

Mary Kaiser, President
CCRC