California Community Reinvestment Corporation

December 2022

To CCRC's Investors and Financial Partners

This has been an eventful year in so many ways. Another record production year in new originations at $256 million in mortgages and tax-exempt loans representing 2,793 new homes for those we serve. CCRC maintained its S&P A+ rating in this first review, having initially been awarded an A+ rating in September 2021. CCRC also welcomed its new President and CEO, Tia Boatman Patterson, joining the team on December 1st, bringing a lifelong commitment to affordable housing policy and production to our organization.

In FYE 9/30/22, we originated 39 new projects for $256 million, representing 2793 new homes for families, seniors, residents with special needs, veterans and formerly homeless Californians. We funded 31 forward commitments in FYE 2022, representing 2032 new homes and $127 million in lending opportunities for our investors. As always, we thank all our borrowers, investors, board, committees and staff for your ongoing support of our mission.

The sale of $95 million in funded tax-exempt loans to East West Bank this past August provided important capacity in our tax-exempt lending program.

The lingering impacts of COVID and well as the challenges with tenanting properties with targeted populations, on top of the normal delays associated with multiple layers of financing and bureaucracy, continues to challenge our capital availability with so many forward commitments delayed in conversion and funding. All this with a backdrop of an unprecedented 200 basis point rise in the 10-year treasury this past year, the steepest increase we have seen in recent time. Our developer clients continue to show resiliency, reworking new proformas and lining up funding sources to continue to provide this much needed housing. CCRC continues to work towards converting loans in the pipeline, providing new homes for low-income California residents while making funded loans available for investors to free up room for new originations. Although many in the forward pipeline are priced below current interest rates, CCRC stands by its commitment to fund loans within their original commitment periods, as well as being willing to extend beyond, subject to repricing to reflect more current rate environment, to assure this needed housing opens its doors to residents. Aside from the perfect storm of pandemics and geopolitical turmoil, followed by inflation and threats of recession, business as usual for CCRC!

Financial Results 2022 Compared to 2021

There are large fluctuations in the YOY comparisons, driven by the major impact of the loan sale in 2021, not repeated in 2022, and precipitous increase in interest rates impact the fair market valuations of investments held in 2022, explained below:

Balance Sheet

Total assets increased $42 million to $202 million, or 26%, 2022 over 2021:
-$4 million decrease in cash, a result of an increase of $3 million allocated to self- funded loans and $1.2 million payoff to member banks on matured loan in work-out
-$6.6 million decrease in investment securities, result of amortizations, payments to CCRC and mark to market fair value adjustments (unrealized loss) due exclusively to rising interest rates
-$49 million increase in loans receivable
-$470K increase in loan loss provision on additional funded loans
-$374K increase in deferred loan fees on increase in funded loans
-$250K increase in interest receivable
-$3.5 million increase in posted collateral for market fluctuation in pledged collateral

Total liabilities increased by $46 million to $132 million, or 54%, in 2022 over 2021:
-$45 million increased borrowings related to $49 million in new loan fundings
-$1.2 million increase in deferred revenue on increased forward commitments

<u>Statement of Activities</u>

Total revenues and gains decreased by $45 million in 2022 over 2021:
-$1.4 million increase in interest income on growing loan portfolio
-$3.5 million decrease in net investment income in mark to market, amortizations and payments
-$1.4 million decrease in loan fee income amortization from prior $1.6 million acceleration on 2021 loan sale
-$41 million decrease in loan sale premium
-$477K decrease in amortizing credit enhancement fees

Total expenses increased by $1.8 million in 2022 over 2021:
-$1 million increase in interest expenses from higher bank lines to fund loans
-$210K increase in salaries and benefits
-$372K increase in professional services for search fees and IT contracting
-$113K increase in loan loss provision on growing funded loan portfolio

This results in a decrease of net assets of $4.6 million over the prior year, compared to a $42 million increase in 2021. The 2021 loan sale, from which CCRC recognized a premium of $41 million and $1.6 million in acceleration of loan fees on sold loans, were the primary drivers behind the 2021 increase in net assets. Conversely, the decline in net assets in 2022 stemmed almost entirely from unrecognized, mark-to-market losses in CCRC investment portfolio, which totaled $4.1 million.

CCRC's cash flow from operating, investment and financing activities remains steady and strong. While the net change in cash and equivalents is recorded at a negative $239K, CCRC choose to invest cash flow from operating activities in the amounts of $3 million into self-funded loans and $1.2 million to pay off the member banks on a matured loan which is in work-out. These amounts added back to the statement of cash flows results in positive cash flow from overall operations of $3.9 million.

S& P Rating

After CCRC's initial S&P A+ rating was obtained in September 2021, we were reviewed again in September 2022 and once again held our A+ rating. This will serve is well in 2023 as we look at alternative capital sources for our programs.

Loan Portfolio Analysis

The CCRC 2022 Portfolio Analysis details the characteristics of the funded loans and commitments as of 9/30/22. CCRC's portfolio of funded loans grew to $206 million in 2022, a 29% increase year-over-year, rebuilding after the large loan sale in 2021. The weighted average coupon is 5.85%, down from 6.27% at FYE 2021 as remaining loans after the sale were older, smaller but higher rate loans. Newly funded loans this past year reflect forward commitments made during historically low interest rate periods bring down the weighted average yield.

CCRC funded 19 loans during the year, $54 million and 1,059 homes. The remaining book of forward commitments is $277 million, a 47% increase over 2021, representing another 3,498 housing units with an increasing weighted average coupon to 4.67% over 2021. CCRC approved an additional 24 transactions or 1,549 homes for $143 million in 2022.

The risk metrics continue to be strong, partnering with top tier developers, construction lenders and equity partners in strong markets. The average risk rating remains a pass in all funding sources, with the total funded DCR at 1.32 and LTV at 51%. CCRC's formula loan loss calculation falls within the acceptable range between the floor and ceiling calculation, $493,227 higher than the 2021 allowance. The formula results in 1.49% of the funded portfolio principal balance.

This year's report also provided a Chart of the History of Lender's Interest Rate vs. 10-Year T-Bill, highlighting that member banks have received 3.68% over the 12 year period since September 2010, 2.81% since September 1995!

Tax Exempt Loan Portfolio Analysis

The funded portfolio as of FYE 2022 is $18 million, down from $68 million in 2021, a result of a $95 million sale to East West bank in August 2022 of 25 tax-exempt loans. This provided much needed capacity in the TEL program. CCRC funded an additional 10 transactions during the same period, $46 million and 664 homes.

CCRC's book of forward commitments has grown to $188 million, a result of 11 new transactions approved in 2022 totaling $51 million. Geographic distribution continues to reflect the more populated areas of the State.

The risk metrics of the bond portfolio reflect an overall DCR of 1.16, primarily as a result of the balance of newly funded deals meeting a 1.15 conversion DCR requirement. There is currently only one 7-rated loan and no substandard loans in the portfolio.

I want to extend my gratitude to all of our investors and partners who continue to support our mission and whom I have had the pleasure of working with for the past 27 years. I have been proud of our work together and know you will support Tia as she joins the team and continues our legacy. Because of your support, vulnerable populations remain housed and healthy, many receiving the important services and support they need to live productive lives.

A huge recognition and shout out to the CCRC Team, the best in the business, our Board of Directors and Loan Committee. They work hard every day to make the magic happen. Best to all of you.

Mary Kaiser

Tia Boatman Patterson