S&P Global
Ratings

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Research Update:

Capital Impact Partners, DC's $150 Million Series 2025-1 Taxable Bonds Assigned 'A+' Rating

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Overview

- S&P Global Ratings assigned its 'A+' long-term rating to Capital Impact Partners (CIP), D.C.'s $150 million series 2025-1 taxable bonds.
- At the same time, S&P Global Ratings affirmed its 'A+' issuer credit rating (ICR) on CIP and its 'A+' long-term rating on CIP's investment notes.
- The outlook is stable.

Rationale

Security

An ICR reflects the obligor's general creditworthiness and its capacity and willingness to meet financial commitments when they come due. It does not apply to any specific financial obligation and does not consider the obligation's nature and provisions, bankruptcy standing, liquidation, statutory preferences, or legality and enforceability.

CIP's investor notes program are unsecured, general obligations of CIP. Notes are payable from all available revenue and CIP's assets, and are not secured by a reserve fund, mortgage lien, or security interest on or in CIP funds or other revenue or assets. CIP’s investor notes program began in 2017 with a plan to issue multiple notes totaling $100 million. CIP issued notes from 2018 through 2024, and the cumulative par value of the notes increased to a maximum of $300 million in 2025.

The $150 million series 2025-1 taxable bonds are unsecured, general obligations, all of which are expected to repay debt outstanding. CIP expects to use a portion of bond proceeds to repay part of its revolving lines of credit, which carry variable interest rates. With maturities in 2030 and 2035, this issuance is intended to lengthen CIP's debt maturities and reduce exposure to changes in interest rates.

Credit highlights

CIP's financial strength experienced a modest decline in fiscal 2024 as it sought to expand mission-driven lending in underserved communities. CIP's debt outstanding outpaced its gross loan balance, putting pressure on capital adequacy ratios to levels comparable to the pre-pandemic average. In fiscal years 2022 to 2024, CIP's gross loan balance increased by 45% while its debt outstanding increased by 67%. This period of loan growth was deliberate, and comparable with that of peers, but we expect CIP to moderate its leverage in the near term and opt to strengthen balance sheet ratios amid an environment of uncertainty. At the same time, CIP's other key credit factors, including its strategic management team and diligent portfolio monitoring, remain credit strengths. The rating on the series 2025-1 bonds and investor notes outstanding is the same as the ICR, based on minimal exposure to secured debt outstanding.

The ratings reflect our opinion of CIP's:

- Net-equity-to-assets ratio, averaging 15.5% during the past five years, which we view as in line with community development financial institutions (CDFIs) rated in the 'A' category, with approximately a 10.7% ratio in fiscal 2024 following an increase in debt that outpaced growth in its asset base;
- Weaker profitability than that of peers as measured by return on average assets (ROA) with a five-year average of about 1%, a ratio that at least partly reflected the timing of grant revenue and expenses, though its net interest margin (NIM) and NIM for loans averaged 2.5% and 3.2%, respectively, which is more comparable to the median for other rated CDFIs;
- Nonperforming assets (NPAs) averaging 0.7% over the past five years and 1.1% in fiscal 2024, which we view as low, with loan-loss reserves averaging 3.4% of total loans;
- Sufficient liquidity, measured by total loans representing an average of 68% of total assets over the past five years and short-term assets making up 17% over that same period, reflecting a diverse asset mix and ratios comparable to the averages for other rated CDFIs, in addition to the approximately $60 million in undrawn external liquidity that was available for general use by the end of fiscal 2024;
- Investment strategy that may lead CIP to invest in what we consider more risky investments; and
- Very strong management and strategic planning capabilities based on the experience, expertise, and proficiency of the organization's senior management team as well as on proactive oversight of its loan portfolio with comprehensive underwriting guidelines.

Effective July 15, 2021, CIP and CDC Small Business Finance (CDC), a California nonprofit corporation and certified development company as certified by the U.S. Small Business Administration, aligned operations under the same CEO and joint board of directors. In July 2022, the alliance was rebranded as Momentus Capital, although CIP and CDC continue operating as separate legal entities with separate audited financials. CIP and CDC cross-guarantee most of each other's debt and are co-borrowers on other obligations, to enable each organization to benefit from their combined financial strength.

Our analysis reflects the past five years (2020-2024) of CIP’s audited financial statements for its parent only, which represent most of the corporation and its subsidiaries' total assets and liabilities. Beginning in fiscal 2021, we base our analysis on a combined financial statement of CIP and its affiliate CDC. CDC is not an obligor under the existing investor notes or the series 2025-1 taxable bonds. Although CIP has other affiliated entities, we have not analyzed their creditworthiness and ongoing financial trends. Therefore, our financial ratios and analysis exclude the effects of subsidiaries (e.g., Detroit Neighborhoods Fund LLC and FPIF LLC).

As of Dec. 31, 2024, investor notes carried interest rates that ranged from 1% to 6%, and maturities through July 2037. Proceeds may be used to pay down maturing debt and other debt facilities, finance loans to organizations and businesses in pursuit of CIP's mission to expand economic opportunity in low-wealth communities, and for CIP's general operating purposes. Management expects lending activity originated from the note issuance to expand CIP's loan portfolio and increase unrestricted equity available for general use. Lending activities originated from the note are expected to resemble CIP's existing portfolio.

Environmental, social, and governance

We have analyzed environmental, social, and governance factors relative to CIP's financial strength, management and legislative mandate, and local economy, and we view them as neutral to our credit analysis. We think CIP's loan portfolio may have exposure to certain environmental factors, such as climate transition and physical risks, particularly for projects in California. Partly mitigating these risks are CIP's loan portfolio, diversity of lending area outside of California, and utilization of strong underwriting practices.

Outlook

The stable outlook reflects our view that CIP's financial and operational performance will remain consistent with the rating during the two-year outlook period. CIP's equity declined relative to total assets in fiscal 2024 to a level below its pre-pandemic average. However, through conversations with management and consideration of expected trends through fiscal 2026, we believe CIP will pivot from its recent growth strategy to a short-term period of balance sheet management whereby capital adequacy ratios could strengthen modestly but remain in line with the rating. We expect its net equity, profitability, asset quality, and liquidity ratios will remain in line with the rating and comparable to those of similarly rated CDFIs. Furthermore, we believe CIP's management will maintain its diverse asset mix and sufficient access to capital, while mitigating risk to its balance sheet.

Downside scenario

We could consider taking a negative rating action should CIP's capital adequacy substantially weaken to levels no longer commensurate with the rating as a result of material, unexpected decreases in equity or increases in risk within its loan portfolios. Subsequent declines in the equity-to-assets ratio may occur in the near term should Momentus Capital scale its lending, particularly if that growth is focused on small business loans. Lower profitability ratios, a reduction in liquidity available to cover short-term needs, or an aggressive debt strategy that results in a mismatch of terms between its assets and liabilities could also indicate credit pressure, which may lead us to consider lowering the rating or revising the outlook to negative. In addition, we could lower the rating on the series 2025 bonds and investor notes outstanding if secured debt were to increase to levels we no longer viewed as minimal.

Upside scenario

We could consider taking a positive rating action should CIP's net equity-to-assets ratio consistently average well above 15% such that capital adequacy ratios align more with those of higher-rated peers. Improvements in CIP's operating efficiency and potential financial performance, with consistent ROA and lower-risk investment profile, could also lead us to raise the rating or revise the outlook to positive.

Credit Opinion

Financial Strength

Capital adequacy

We consider CIP's capital adequacy below average compared with that of similarly rated peers based on a five-year average net-equity-to-assets ratio of 15.5%. It is stronger than our benchmark for the 'A' rating category but below the ratio of most higher-rated peers. Net equity increased in fiscal years 2019 to 2021 before declining in the subsequent three years, as CIP's growth strategy involved debt-financing loan growth.

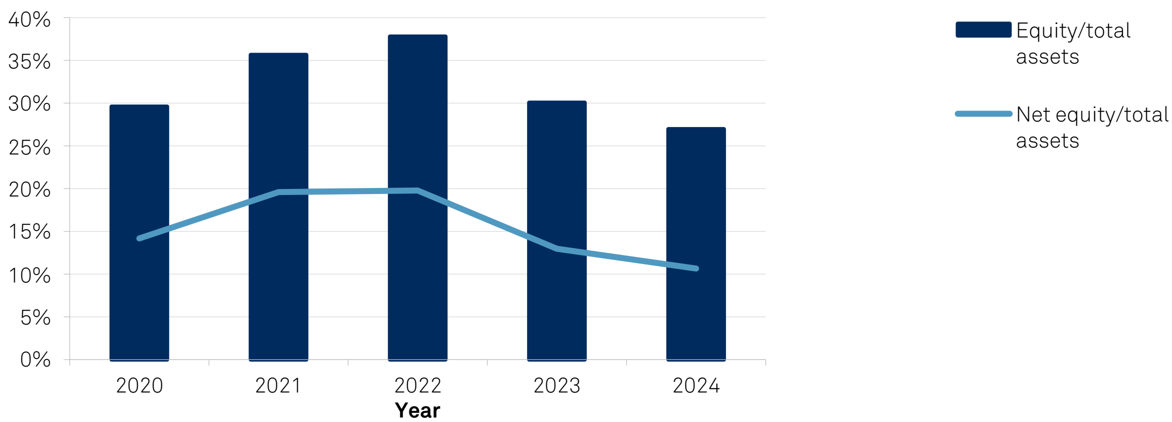
The decrease in equity relative to assets was the biggest factor in the weaker net equity ratio during fiscal 2024, as our assumed loan losses remained relatively flat from our prior-year review based on the strength of the properties and the presence of mitigants to repayment risk. Much of CIP's loan portfolio growth occurred in its affordable housing sector, which remains the largest exposure. Loan performance in the sector also weakened in 2024, possibly as a result of higher operating costs in insurance and other areas prone to inflation, as well as because of delayed stabilization and takeout financing. In response, CIP became more selective in its underwriting for prospective transactions. Our assumed loan loss for CIP's loan portfolio, excluding the CDC small business portfolio, as of Dec. 31, 2024 was about 20.8%. Our assumed loss for the CDC small business loans also remained relatively in line with that assumed in our prior review based on loan characteristics and their industries.

In determining net equity ratios, we applied certain adjustments to the audited balances (e.g., loan loss assumptions and fair value adjustments for investment securities). We deducted a portion of donor-restricted net assets when grant and contribution sources were not available for loan losses. Most contributions and grants receivables are multiyear, so our adjustment on net assets with donor restrictions may vary year to year.

CIP's loan growth strategy pushed debt outstanding to a high of about $631 million at the end of fiscal 2024, a 23% increase from fiscal 2023, compared with the 10% increase in the gross loan balance over the same period. Many other rated CDFIs also went through periods of growth during fiscal 2024, taking on more debt to expand their needs-based lending. About 87% of CIP's debt outstanding is fixed, with its revolving lines of credit the only variable-rate debt. Part of CIP's strategy of strengthening equity involves off-balance-sheet lending through partnerships and structuring transactions with subordinate debt to offset some risk.

Community Investment Impact Fund LLC (CIIF) and CIIF II are two entities that merged in January 2020; CIP is a managing member and holds 87% ownership. We deducted noncontrolling interest related to CIIF and CIIF II from net equity, as the equity gained from the funds is not available for CIP's general loan loss. However, CIP does not retain recourse on the loans sold to the funds. As a result, we excluded projected losses associated with loans in CIIF I and II in our total loss assumptions for CIP. We posit that CIP, reflecting our capital adequacy analysis, will continue to demonstrate sufficient equity to cover potential losses at the 'A+' stress scenario over the next two years.

Equity/total assets vs. net equity/total assets



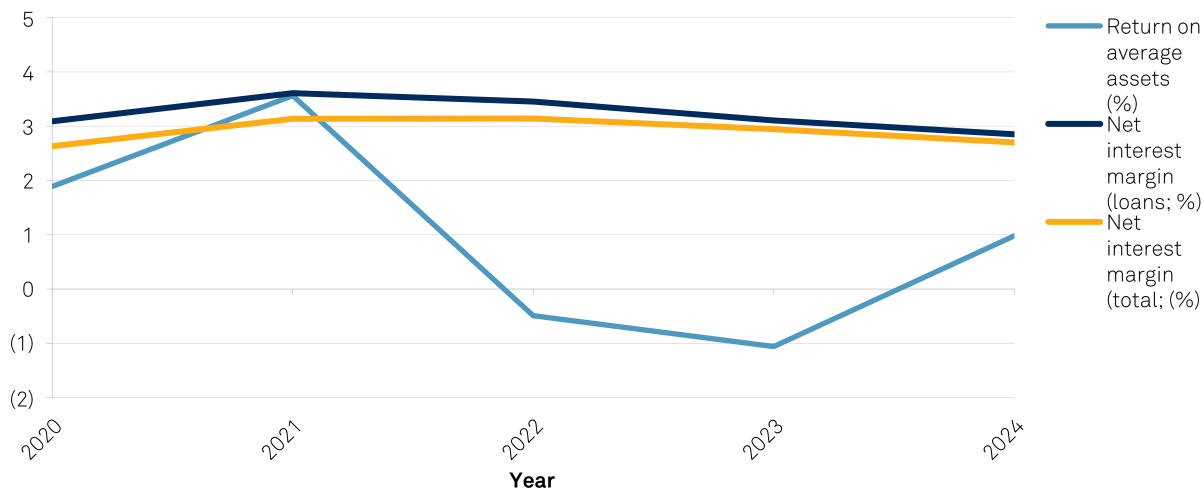
Source: CIP audited financial statements and S&P Global Ratings analysis

Profitability

Net income turned positive in fiscal 2024, largely as a result of $45.7 million in contributions leading to a 28% increase in revenue and a more modest 15% increase in operating expenses, the latter being the lowest year-over-year increase since 2019. In recent years, net income has been negative as CIP has deliberately scaled up its organization to meet strategic goals and because of the treatment of grant revenue and expenses year to year. Fees collected from loan servicing became a factor for other income starting in fiscal 2021, partly offsetting decreases in revenue recognized from grants. This resulted in an ROA of about 1% in fiscal 2024 and on a five-year average, exceeding the benchmark for the 'A' rating category but well below that of other rated CDFIs. Conversely, the five-year average NIM of 2.5% has only slightly lagged that of peers. The NIM for loans is more consistent with peers', indicating CIP's ability to issue debt at sufficiently low enough interest rates to support loans at a higher rate or earnings spread.

We expect that ROA may continue to demonstrate variability as grant revenue and expenses fluctuate. However, based on our review of CIP's unfunded loan commitments and conversations with management about the strategy, we expect net income to improve in the near term. Management reports a forward-looking strategy that prioritizes growth in cash-flow-generating loans and maintenance of revenue diversification with nonlending activities.

Profitability



Source: CIP audited financial statements

Asset quality

CIP's total assets reached a high of $921.5 million in fiscal 2024, up 15% from fiscal 2023. The growth in total assets was largely due to a 61% increase in the short-term investments given the receipt of significant contributions.

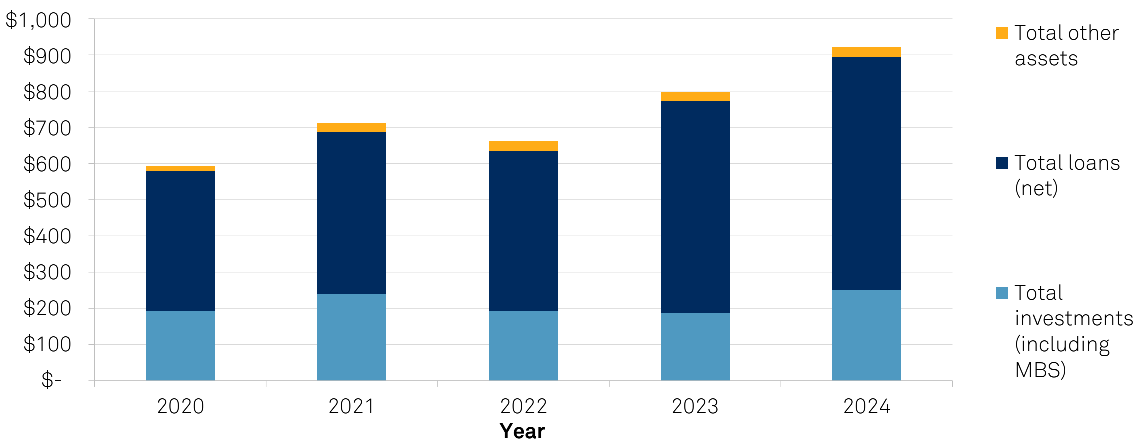
CIP has a diverse asset base consisting of multiple lending products, which we view as a strength. We believe that this diversified lending model allows CIP to provide capital financing to all aspects of community development, limit its industry concentration, and sustain its effects within communities while hedging its revenue streams across sectors and maintaining profitability.

Most (70%) of CIP's assets consist of a diverse lending portfolio (including small business loans) net of an allowance for loan losses, investments, and cash (together 23%), mortgage-backed securities (4%), and other assets (3%). About 51% of CIP's loan balance was for affordable housing projects as of Dec. 31, 2024, a shift from the 36% in fiscal 2020, when education and health care related loans represented more of the portfolio. The balance of unfunded loan commitments at the end of fiscal 2024 reflects an expected larger near-term increase in affordable housing lending over education and other sectors. The six focus regions for CIP's place-based development are the District of Columbia and surrounding states, Detroit, Atlanta, Los Angeles, the San Francisco Bay Area, and Dallas-Fort Worth. About 75% of the loan portfolio as of fiscal 2024 involved permanent financing, while most of the remaining loans were for construction purposes and a small portion were predevelopment loans. Small business loans from CDC constitute about 14% of the total loan portfolio in the financial results we reviewed, with those from CIP's portfolio constituting 86%.

We believe CIP's asset quality is very strong, with NPAs remaining near 1% (1.1% in fiscal 2024) of total loans and real estate owned, and with a five-year average of 0.7% that is slightly lower than that of most other rated CDFIs. CIP prefers to work out loans without resorting to foreclosure, thus limiting real estate owned on its balance sheet. Loans on nonaccrual status remained relatively low after the peak of the pandemic, hitting a high of near 2% in fiscal 2021 before declining to less than 1% in the following years. Loans more than 90 days delinquent and still accruing increased in fiscal 2024 and mostly consist of housing and community development loans, with new nonaccruals among health care loans in fiscal 2024. The delinquent housing loans carry either a maturity default or other form of covenant violation. Loan loss reserves average 3.4% of total loans over the past five years, in line with those of peers.

In our opinion, CIP's allowance for loan loss practice and underwriting shows prudent risk management and is one factor helping keep NPAs low. CIP has a risk rating system for its portfolio that takes into consideration various borrower-specific risk factors. The system has seven numerical grades that group loans with similar credit and risk factors. CIP uses this analysis to determine the loan loss reserves for each loan in the portfolio by borrower and loan type. In addition, it revisits its loan loss and risk rating migration annually to account for the perceived and present risk on a year-to-year basis.

Capital Impact Partners and CDC Small Business Finance--Asset base



Source: CIP audited financial statements

With regard to recent investments, we believe CIP's investment strategy is aggressive, though its exposure to such investments has decreased in recent years. In fiscal 2024, equity securities, real estate investment trust (REIT), and equity method investments accounted for 7% of total investment holdings. We believe this strategy does not compare with the investment guidelines typically provided. Given the wide variety of permitted asset classes, we will continue monitoring the risk associated with CIP's investments portfolio. CIP also invests 4% of its total assets in mortgage-backed securities and about 7% in money market funds as of fiscal 2024, which we view as more conservative.

Liquidity

While loans represent a larger portion of total assets than for certain other rated CDFIs, we think CIP's liquidity strengths include in its availability of funds to meet short-term needs, such as a potential mismatch in debt service due and loans maturing.

Short-term assets decreased in fiscal years 2022 and 2023 as prepayments and grants received in prior years were drawn on for loan financings. In fiscal 2024, the receipt of more than $45 million in contributions fueled a sizable increase in short-term assets to about 18% of total assets, slightly above the 17% five-year average. CIP also holds about $60 million in undrawn lines of credit with two financial institutions. In the near term, we expect CIP to maintain sufficient liquidity to meet short-term needs and remain nimble during periods of uncertainty.

Management

We view the company's commitment to community development in relation to its core values, mission, and overall strategy as very strong.

We believe CIP's vision and that it will effectively implement its existing and upcoming strategic plans. With its national footprint, it can respond to the needs of low- to moderate-income communities by investing in comprehensive revitalization. In addition, CIP can further its effects on the communities it serves through various financing options, such as acquisition, construction, tenant improvement, and equipment loans as well as government programs to offer new market tax credits.

A 16-member board of directors oversees CIP. Two directors are elected from among the senior executive officers or directors of the National Cooperative Bank, and the remaining 16 directors are independent of the bank. The directors include senior executives from the nation's largest private and nonprofit community development lenders, policy makers, and practitioners. CDC has a separate 18-member board, but membership overlaps with CIP. The CIP and CDC boards are self-perpetuating and divided into three classes with staggered three-year terms. Nonemployee directors become ineligible for nomination after serving for nine years or more since July 15, 2021. The executive officers meet formally on a regular basis to review company strategy, prioritize company initiatives, monitor mission-critical projects, and address operational issues.

Each board includes the following standing committees: an executive committee, finance and risk committee, an audit committee, a governance committee, and a mission and impact committee. CIP also has a CDFI and new market tax credit advisory board that reports to the board of directors. The board and each of its committees meet at least quarterly.

The boards are responsible for setting the mission, vision, and direction of the combined companies and for supervising management. Accordingly, they participate in the development and approval of the combined organizations' strategic plan as well as setting annual corporate goals, which are measured against the strategic plan; approving and monitoring progress against the annual budget; and ensuring that appropriate financial controls are in place.

The bylaws prescribe three operating officers: president, company secretary, and treasurer. The president, whom the board appoints, selects the rest of the operating officers as well as other executive officers. A single, cross-appointed executive management team manages CDC and CIP, currently composed of the president and CEO, chief financial officer, chief operating officer, chief technology officer, chief human resources officer and general counsel, chief compliance officer, chief strategy growth officer, and corporate secretary.

Economy

In our opinion, the diversity of CIP's loan activity mitigates risks associated with state and local economic trends. The largest geographic exposure, as of December 2024, was to loans in California (20% of loan balance outstanding), with Michigan, the District of Columbia, Texas, and New York rounding out the top five states with loan concentration. In recent years, the top five states have accounted for a higher percentage of the loan portfolio, 85%, compared with the

76% in fiscal 2024. Sector exposure is also relatively diverse, in our view, with the largest being housing. In addition, CIP has also financed commercial lending for educational or health care facilities and other community development projects. In our opinion, lending in larger areas with more diverse economies is less prone to economic trends than is lending in smaller geographic regions.

Financial ratio analysis

	2020 - CIP only	2021 - combined CIP & CDC	2022 - combined CIP & CDC	2023 - combined CIP & CDC	2024 - combined CIP & CDC	5-year average
Capital adequacy						
Equity/total assets	29.60%	35.65%	37.80%	30.06%	26.97%	32.02%
Net equity/total assets	14.18%	19.60%	19.86%	12.97%	10.65%	15.45%
Equity/total debt	44.74%	60.02%	66.18%	46.89%	39.37%	51.44%
Net equity/total debt	21.43%	32.99%	34.77%	20.23%	15.55%	24.99%
Available Liquid Assets/ total loans	44.62%	52.14%	44.80%	25.50%	32.58%	39.93%
Profitability						
Return on average assets	1.89%	3.56%	-0.49%	-1.06%	0.98%	0.98%
Net interest margin	2.84%	2.34%	1.61%	2.95%	2.70%	2.49%
Net interest margin (loans)	3.09%	3.61%	3.45%	3.11%	2.85%	3.22%
Asset quality						
NPAs/total loans + REO	0.09%	1.54%	0.20%	0.70%	1.11%	0.73%
Loan loss reserves/total loans	3.36%	3.70%	3.76%	2.72%	3.28%	3.36%
Liquidity						
Total loans/total assets	65.46%	62.92%	66.83%	73.35%	69.73%	67.66%
Total loan + MBS (loans)/total assets	76.65%	71.27%	71.25%	77.59%	73.43%	74.04%
Short-term investments/total assets	15.11%	20.49%	18.35%	13.91%	18.35%	17.24%
Total investments/total assets	21.22%	25.32%	24.82%	19.16%	23.53%	22.81%

Related Research

- The U.S. Public Finance Housing Sector Could Face Credit Pressure From Federal Policy Shifts, April 3, 2025
- U.S. CDFIs Take On More Debt To Grow Their Lending Capacity: Ratings Will Likely Remain Stable, Nov. 19, 2024

Ratings List
New Issue Ratings
US$75.0 mil taxable bnds ser 2025-1 due 07/28/2030

Ratings List	
Long Term Rating	A+/Stable
US$75.0 mil taxable bnds ser 2025-1 due 07/28/2035	
Long Term Rating	A+/Stable
Ratings Affirmed	
Housing	
Capital Impact Partners, DC General Obligation	A+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should thereforebe readin conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categoriesis containedin "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein canbe foundon S&P Global Ratings' public website at www.spglobal.com/ratings.