

22 SEP 2022

Fitch Rates Capital Impact Partners, VA's Notes 'A+'; Outlook Stable

Fitch Ratings - Chicago - 22 Sep 2022: Fitch Ratings has assigned an 'A+' rating to Capital Impact Partners, VA's (CIP) issuance of up to \$275,000,000 of capital impact investment notes. Fitch also currently rates CIP's Issuer Default Rating (IDR) 'A+' with a Stable Rating Outlook.

CIP is a Community Development Financial Institution (CDFI) based in Virginia. The 'A+' IDR reflects its strong revenue defensibility and financial performance, which is bolstered by ongoing demand for affordable housing and community focused lending. CIP exhibits a stable operating profile derived from its lending products, grants and other sources of revenue.

Fitch believes the additional leverage associated with the notes does not have a material impact on CIP's IDR. CIP will primarily use the notes to fund initiatives that meet critical needs in low-income communities across the U.S. These initiatives will be focused in the healthcare, education, affordable housing and community development sectors.

Proceeds will also be used to provide technical assistance to borrowers and other market participants to increase the likelihood that the borrowers' projects will be successful and have a positive impact on the communities they serve. Proceeds may also be used for general corporate purposes and to purchase securities or other assets that will be leveraged to support CIP's lending and investment activities and general operations.

SECURITY

The notes are secured by CIP's full faith and credit pledge payable from all legally available revenues and assets.

KEY RATING DRIVERS

Revenue Defensibility: Stronger

CIP's strong demand and pricing characteristics are demonstrated by steady balance sheet growth while managing to price constraints. CIP's asset base has increased overall with total assets well above total liabilities. Demand is further exhibited by its total average loan increase. CIP's loan balance reported an average growth rate of 17% for years 2017 to 2021. Despite growth trends, affordable housing and community development lending products are in deficit and do not satisfy market demand. Demand increased during a downturn in the national economy.

CDFIs are price takers as the nature of their business is to provide affordable housing or community

development loans and manage to income constraints. A key offset to this is the ability of their assets to produce revenue while fulfilling their mission to provide financial and lending services to underserved communities and small business owners. The average net interest spread (NIS), a key profitability metric supporting their mission was 59% for years 2017-2021. This demonstrates a very strong nominal average difference between its borrowing and lending rates.

Operating Risk: Midrange

CIP's midrange operating risk profile is characterized by an overall positive shift in financial performance that resulted from its operational combination in 2021 with CDC Small Business Finance Corporation (CDC). The impact on the communities that it serves and the overall demand for CIP products that contributes to its growth and profitability are also important factors. CIP manages to a conservative cost burden, which creates flexibility in operations that results in a stable operating profile and strong loan profitability.

On average, income from loans comprises 55% of total revenues indicating stable operations. However, CIP is heavily reliant on grant income, which is material to its operating performance. Grants and contributions have experienced an uptrend, averaging \$13 million and comprising 26% of total income from 2017-2021. Additionally, CIP's loan performance measured by NIS and loan losses is very strong, which supports its overall healthy operations.

CIP demonstrates a sophisticated and conservative risk management approach to its overall lending activities while managing to low expense ratios. It has created a lending model to fulfill its mission, factoring in volatility and loss exposure, that does not impede its operating flexibility or financial position.

Financial Profile: Stronger

CIP's strong financial profile is supported by its capital base and leverage ratio. Adjusted debt-to-equity is very strong at 3x. The financial profile analysis considers debt-to-equity a key driver for evaluating leverage and comparing CIP to other CDFIs and affordable housing lenders. Total liabilities, including \$185 million in investor notes, are approximately \$457 million. Liquidity is neutral to the rating and is sufficient to offset shortfalls.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Strengthened financial performance reflected in positive trends in financial ratios, including net assets to total debt and debt-to-equity, over a sustained period of time;

--Demonstrated trends of high profitability, reserve levels and liquidity relative to CIP's loan program performance.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A deterioration in CIP's leverage position with a debt-to-equity ratio trend increasing above 3x;

--A material decline in interest earnings and fees that negatively impacts assets and overall financial flexibility;

--Although unlikely, high levels of delinquency coupled with higher losses, as well as declining interest income from investments and grants, that cause a spike in debt-to-equity ratios.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CREDIT PROFILE

CIP is a mission-driven CDFI that finances affordable housing, education, health care and community development sectors serving northern and southern California, Michigan and northwest Ohio, the New York Tri-State Area, Texas, and the Washington, D.C. Metro area.

CDC Small Business Finance Corp. (CDC) is a California nonprofit organization committed to serving the capital needs of small businesses in California, Nevada and Arizona. Its mission is to champion the growth of diverse small companies in its communities through lending and financial services, and business advising. CDC arranges commercial real estate, and commercial/business development loans for small business, primarily through loan programs of the U.S. Small Business administration.

Effective July 15, 2021, CIP and CDC aligned their operations under one chief executive officer and two substantially similar boards of directors. CIP and CDC cross guarantee debt (other than the notes) to enable each organization to benefit from their combined financial strength. Fitch's analysis is based on results of CIP and CDC representing the designated obligated group, although only CIP is an obligor under the notes.

As of Aug. 30, 2022, the aggregate principal amount of notes outstanding was \$200,000,000. Accordingly, an aggregate principal amount of \$75,000,000 of the \$275 million in notes remain unsold. The amount of notes available for purchase will vary from time to time depending on the amount of notes sold and the amount of notes that mature and are repaid during the offering period.

Date of Relevant Committee

09 August 2022

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

For additional information regarding Capital Impact Partner IDR rating release dated August 31, 2022 at www.fitchratings.com

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
Capital Impact Partners (VA)	• Capital LT	A+ ●	Affirmed	A+ ●

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Impact Partners (VA) /General Obligation/ 1 LT			

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	⊙	

Applicable Criteria

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub.01 Sep 2021\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Capital Impact Partners (VA) EU Endorsed, UK Endorsed

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