S&P Global
Ratings

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Capital Impact Partners; General Obligation

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Capital Impact Partners; General Obligation

Credit Profile		
Capital Impact Partners ICR ser 2016 due 01/01/2060		
Long Term Rating	AA/Stable	Rating Assigned

Rationale

S&P Global Ratings assigned its 'AA' issuer credit rating (ICR) to Capital Impact Partners (CIP). The outlook is stable.

The rating reflects our view of CIP's:

- Generally strong history of loan performance and underwriting guidelines;
- Minimal loss exposure, which can be absorbed through CIP's reserves and unrestricted equity;
- Extremely low-risk debt profile with low loss exposure, which can be covered by CIP's reserves by more than 5x with less than 1% average net charge-offs to average loans;
- Extremely strong history of loan performance with a low and decreasing ratio of non-performing assets (NPAs) to total loans and real estate owned;
- Consistent growth in loans and assets;
- Experienced and prudent management; and
- Diversified assets via the social lending platform.

Offsetting the above-mentioned strengths, in our view, are these weaknesses:

- Relatively low profitability further pressured by recent years of decline/decrease (negative change) of net assets,
- Low return on assets and low return on average equity compared with similar rated peers,
- Potential volatility of loan volume, which is a key driver in fees and affects the equity/asset ratio, and
- Susceptibility of year-over-year grants/contributions that may not reoccur from one year to the next.

Outlook

The stable outlook reflects our view of CIP's growing asset base and low loan loss exposure as well as its high-performing loans, which offset its relatively lower profitability compared with that of its peers. In addition, the corporation has more than sufficient loss reserves to cover potential losses and has an adequate equity to assets ratio when compared with similarly rated peers. CIP has maintained steady net income from loans amid low returns and has generally maintained gains and healthy interest income from low-risk investments as well. The stable outlook also reflects the fact that it would take several years of high loan losses to erode CIP's equity base. CIP management of its overall equity and loan portfolio is critical to the stability of the rating. For instance, if the institution does not manage an increased debt profile with high-performing assets to support the debt, declining equity-to-assets ratio could be cause for a negative rating action.

Issuer Credit Rating Overview

We believe CIP's level of financial support is sufficient to warrant a 'AA' rating, based on our view of the corporation's overall asset quality, minimal risk profile, liquidity, and management. Its low level of NPAs falls within our acceptable risk parameters and is more than covered by its loan loss reserves, and we found lending operations to be generally self-sustaining. CIP participates in residential and commercial real estate lending (focusing on affordable housing, senior housing, retailers, and supermarkets), community facilities, co-ops, charter schools, and community health centers/mixed-use facilities. While we believe such lending diversity limits the likelihood of CIP being tied to one particular sector or industry, the risk associated with lending remains, given the institution's vulnerability to real estate performance and the collection of net cash flows to meet debt service.

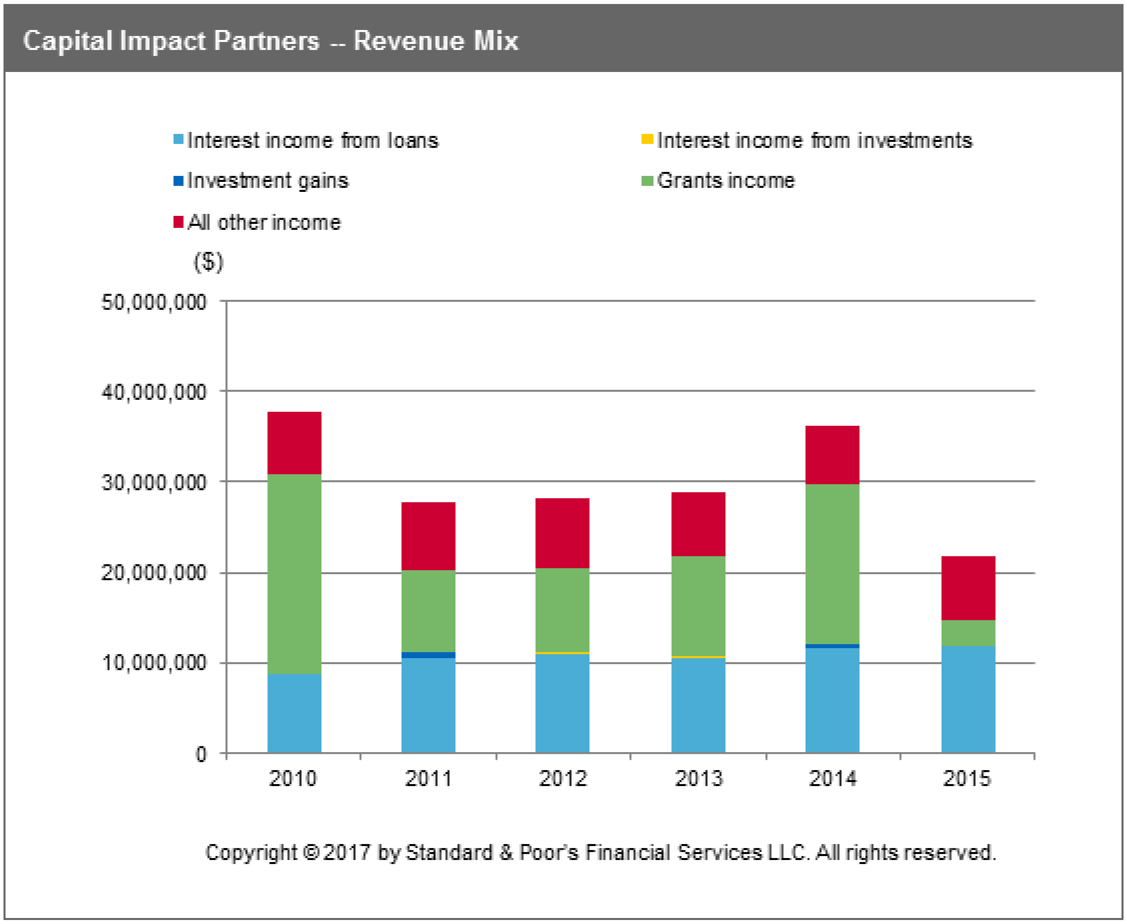
In its analysis, S&P Global Ratings has reviewed the last five years of CIP's audited financial statements for the parent institution only. We understand that CIP has affiliates; however, we have not analyzed the affiliates' creditworthiness and ongoing financial trends. Therefore, in our analysis, we have excluded the impact of investment in affiliates from our financial ratios. In addition, we used our public finance state housing finance agency ICR and structured finance commercial mortgage-backed securities criteria to determine an appropriate credit opinion for CIP, factoring in its core mission, portfolio, credit risk, and management. We use "Criteria: Principles of Credit Ratings" (published Feb. 16, 2011, on Ratings Direct), allowing us to apply U.S. Public Finance ICR criteria for this analysis. As a result, we view CIP as similar to a housing finance agency (HFA), albeit with a broader range of lending activity for community development, rather than mortgage loan programs, posing the greatest risk. Lastly, we conducted the analysis of CIP assets for both its loan and investment portfolios. Using our Commercial Mortgage Backed Securities Model, we were able to assess the risk associated with CIP's loan portfolio based on the characteristics of the loans. In addition, we assessed the risk of CIP's investment portfolio using its investment policy and the potential risk in where it holds its restricted and unrestricted cash.

We believe CIP's financial position has been relatively consistent. Its asset base has experienced year-over-year growth, rising from $228 million in 2011 to a high of $284 million in 2015. The institution's income has been consistently driven by both interest income from loans/investments and grants/contribution and other income. Contributions are classified as unrestricted (expended as best determined by CIP), temporarily restricted, or permanently restricted depending on the existence of any donor restrictions. When the donor restrictions expire (either through time stipulation or when the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported as revenue in the form of net assets released from restrictions. However, the overall impact of net assets being released from restriction is neutral because we analyze the institution on the basis of its net assets, not only its unrestricted assets.

CIP's revenue has been somewhat volatile over the past five years because its revenue mix features a large amount of contributions income, which can pose a credit weakness especially considering the big drop in 2015 (chart 1). Although CIP's loan performance has improved since 2011, its equity/total assets has decreased due to increased expenses and additional debt. Total fund equity balance remained relatively stable from 2011 to 2015.

Factoring the aforementioned criteria, asset base, and equity growth, we view CIP's overall financial position as very strong.

Chart 1



Company Overview

CIP is a nonprofit Community Development Financial Institution (CDFI) with a 30-year history delivering strategic financing, social innovation programs, and capacity building that creates social change and financial impact nationwide. It is a District of Columbia nonprofit corporation, formed in 1982 pursuant to Title 2 of the National Consumer Cooperative Bank Act of 1978, as amended, at the direction of the United States Congress. CIP is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, as amended ("the Code"), and a public charity, as described in Section 509(a)(1) and Section 170(b)(1)(A)(vi) of the Code. CIP's principal executive office is located in Arlington, Va.; it also has offices in Oakland, Calif. and Detroit. Its mission is to provide financial services and technical assistance to underserved communities throughout theU.S. The institution focuses on developing and preserving affordable housing, senior housing/care, education (charter schools), public health centers, marketplaces/food, and community/mixed-use centers.

Since 2006, CIP has targeted the Detroit urban area and partnered with the Living Cities integration initiative to bring back economic development to the city. The corporation won the Wells Fargo NEXT Award for its work in education, affordable housing, and mixed-use projects in Detroit. CIP has, since 2015, been a member of the Federal Home Loan Bank of Atlanta.

Table 1

Capital Impact Partners -- Subsidiaries

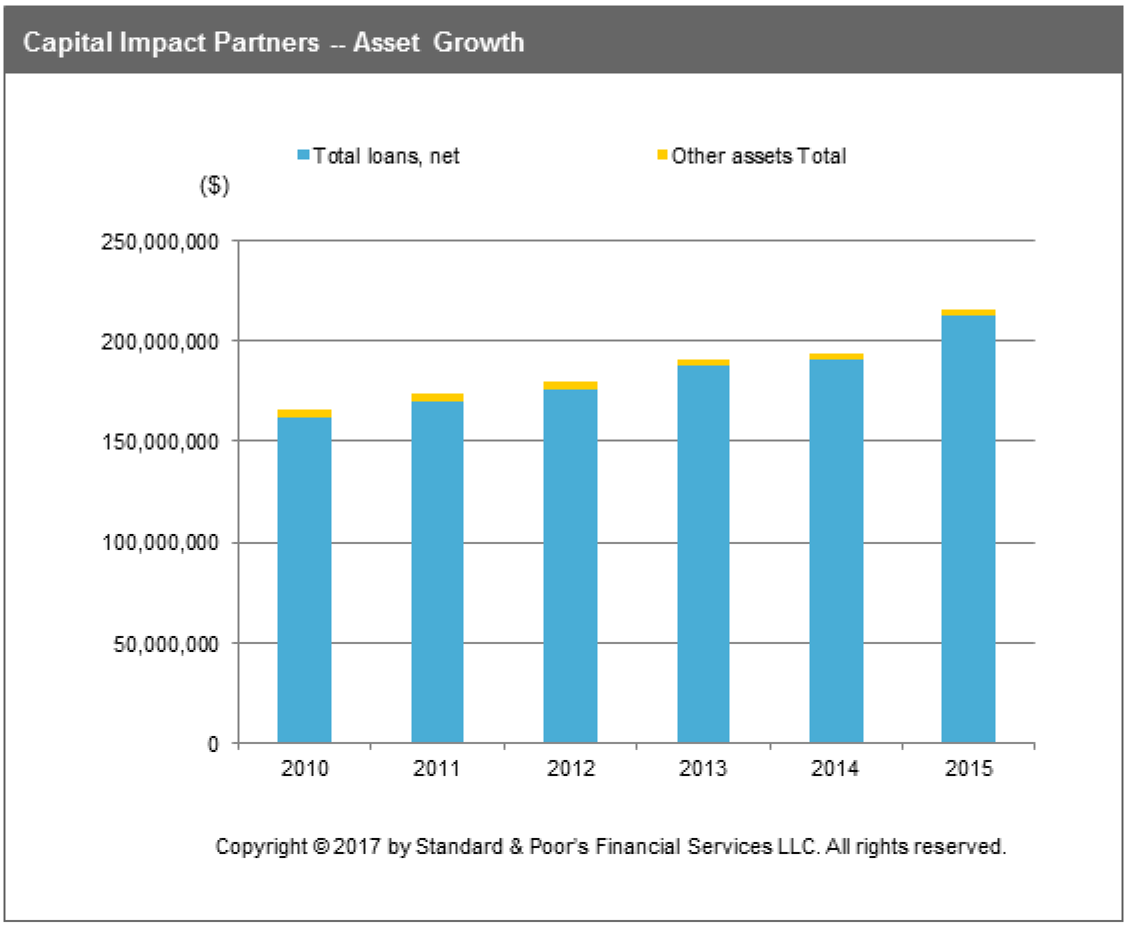
Subsidiary Name	Ownership %	Purpose of Subsidiary	Included in Consolidated Financials
Community Solutions Group, LLC	100	Formed to foster development and provide technical assistance to cooperative organizations and similar non-profit organizations and provide capital in support of development projects by making strategic grants and business planning advances. This subsidiary houses the organization’s three technical assistance groups: Green House Replication Initiative, Cornerstone Partnership, and Center for Long Term Support Innovations.	Yes
NCBCI Education Conduit, LLC	100	Formed to facilitate, encourage and assist in financing charter schools. Formed to hold NCBCI’s interest in the Charter School Financing Partnership, LLC , which was formed to effect change in the charter school finance industry.	Yes
California FreshWorks Fund, LLC (CAFW)	100	Formed to provide financing for eligible fresh food retailers and distributors in an effort to overcome barriers and higher costs in underserved areas. Also supports renovation and expansion of existing stores and innovations in fresh food retailing and distributing.	Yes
Community Economic Development, LLC (CED)	99.99	Formed to be a single-purpose entity to make qualified investments in qualified active low-income community businesses (QALICB) under the New Market Tax Credit (NMTC) program.	Yes
Impact V CDE 7, LLC (Lakepoint/CHC, Inc.)	99.99	Formed to be a single-purpose entity to make qualified investments in QALICB under the NMTC program.	Yes
Impact NMTC Holdings LLC	99.99	Formed to act as a non-managing member for NMTC Community Development Entities (CDEs) with NCBCI acting as managing member. This subsidiary owns 0.01% of Impact V CDE 7 LLC.	Yes, through Impact V CDE 7’s ownership of this subsidiary.
Impact VII CDE 11, LLC	100	Formed to act as a taxable, non-managing member of CDEs upon the unwind of NMTC transactions.	Yes
Woodward Corridor Investment Fund, LLC (WWCF)	100	Formed during 2013 to support community development projects benefiting low and moderate income populations, in particular by providing financing to developers of multi-family rental housing and mixed use facilities in Detroit, establishing one or more credit facilities to finance such community development projects. This fund did not have any activity during 2015 or 2014.	Yes
Detroit Neighborhoods Fund, LLC (DNF)	100	The purpose of this fund is to provide financing for mixed-use and multi-family rental housing and healthy foods retail in underserved areas in Detroit, and to engage in all activities necessary, customary, convenient, or incident thereto.	Yes
FPIF, LLC	100	The purpose of this fund is to channel funds to a predominately low-income population aged 50+.	Yes

Asset Quality

S&P Global Ratings believes CIP's asset quality is very strong. As of Dec. 31, 2015, CIP's asset base stood at $283.8 million, up 2.2% year-over-year. Its asset portfolio consists largely of loans (75%), investments both short and long term and cash (24%), and other assets (1%) (chart 2). Compared with the universe of CDFIs that we rate, CIP's five-year average nonperforming assets to total loans ratio of 1.14% compares favorably with its peers' and puts it ahead of 'AA' rated peers. Additionally, this ratio has been trending down aggressively from 2.27% in 2011 to 0.29% in

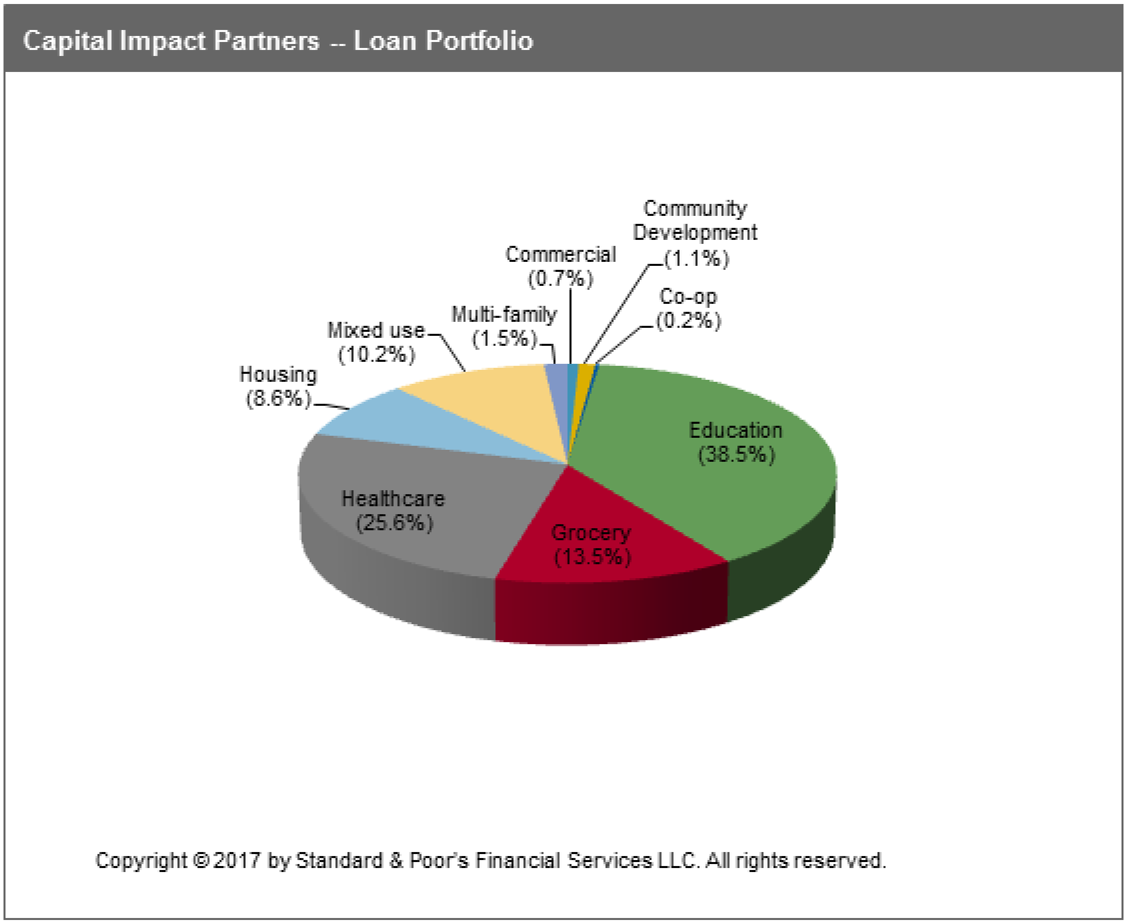
2015 due to a series of nonrecurring occurrences such as a large non-accrual loan [right?] in 2011 and a drop in REO in 2012. The institution does not typically have REO, as it prefers to work out loans without coming down to foreclosure. CIP's total assets have increased year-over-year, with an approximate 24.7% increase from 2011 to year-end 2015. This growth pattern differs substantially from that of other lending agencies that we rate, including HFAs and student loan authorities, which generally saw their loan portfolios and asset bases decline during the same period. However it mirrors the growth in rated peer and fellow CDFI Local Initiatives Support Corporation (LISC), which saw a 23% increase in its asset base during the same time frame. CIP has a highly conservative investment policy that provides guidance on how funds should be invested when not tied into an asset. S&P Global Ratings believes these guidelines and polices are evidence of the institution's prudent management of risk.

Chart 2



CIP has a diverse asset base that is not contingent on one lending product. As of Dec. 31, 2015, education loans comprised the largest share, or 38.5%, of CIP's total loan portfolio. That was followed by healthcare, grocery, and mixed-use, with 25.6%, 13.5%, and 10.2%, respectively (see chart 3). Other loans types, which each represented less than 10% of the total loan portfolio, were as follows: housing (8.6%), multifamily (1.5%), community development (1.1%), commercial (0.7%), and co-op (0.2%). We believe that this diversified community lending model allows CIP to provide capital financing to all aspects of community development while limiting its industry concentration. This also serves to allow the corporation to sustain its impact within the community while hedging its revenue streams across sectors and maintaining profitability. The institution's principal revenue sources and support are interest income and loan fees earned from investing and lending activities, program and service fees, and grants and contribution. We believe CIP has a well-diversified business model with an appropriate risk management level.

Chart 3



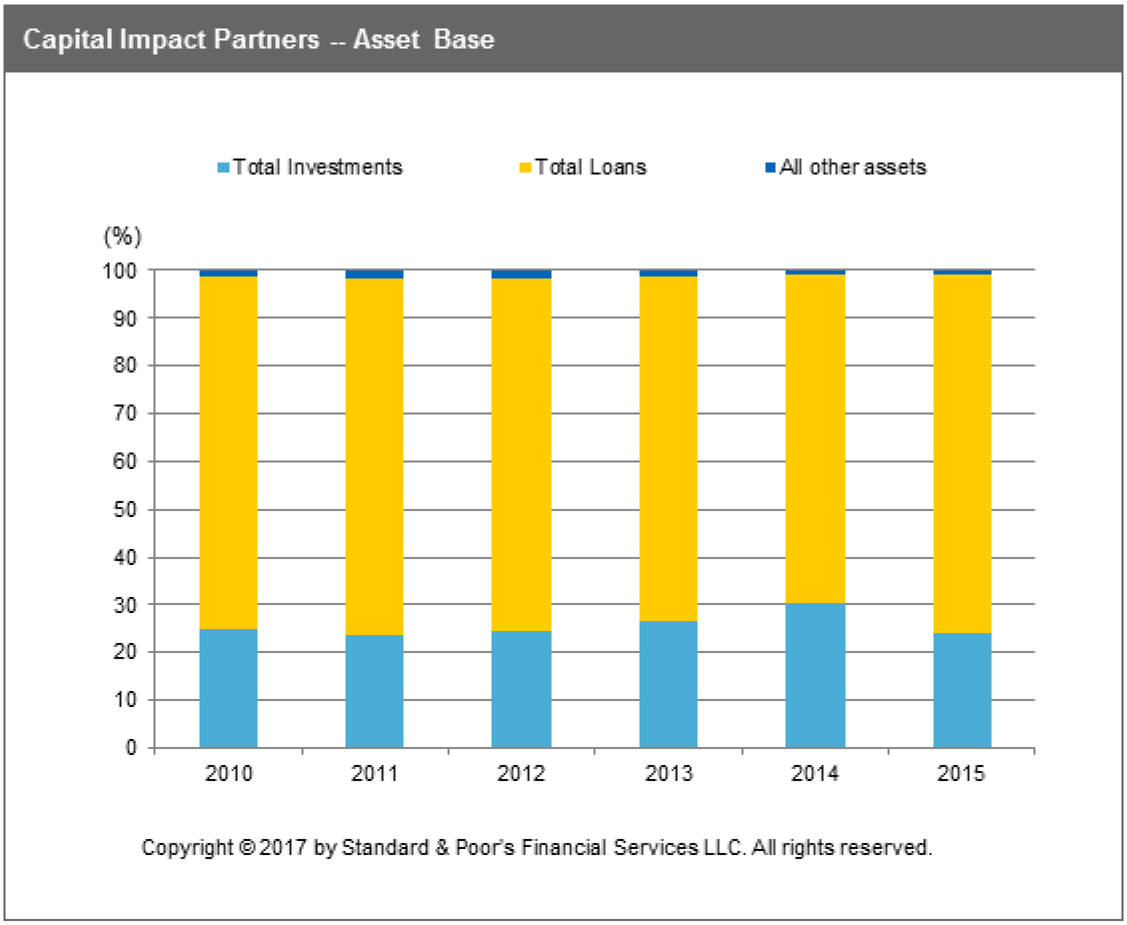
The majority of CIP's total assets (75% as of fiscal 2015) consists of the institution's diverse lending portfolio (see chart 4). CIP offers financing for a variety of community development projects but with an emphasis on the following categories:

- Affordable housing: Lending to develop as well as preserve existing affordable housing and provide support to disadvantaged neighborhoods through the Cornerstone Partnership (spun off at the end of 2015), Detroit Corridor Initiative, and through public policy.
- Co-ops: CIP provides lending, grant funding, and practical assistance to co-op developers in the food, worker, and housing sectors through strategic financing, policy, and partnerships.
- Senior housing/care: Financing for projects that benefit low-income, older adults.
- Education: Financing for charter schools. CIP has directly financed 30% of all charter school lending nationwide while bringing in technical assistance and philanthropic partnerships.
- Healthcare: Financing for the development and maintenance of community health centers providing a full range of

health-related services for patients.

- Commercial development: Financing for nonresidential real estate such as retailers and marketplaces, focusing on bringing fresh food to neighborhoods.
- Mixed-use development: Financing for various combination projects that include residential, commercial, cultural, and industrial development with a focus on revitalizing neighborhoods
- Other: Financing developments or project lending that is not captured in the preceding categories

Chart 4



S&P Global Ratings believes that CIP has a history of strong asset quality, performance, and oversight. The institution's loan loss over its history has been low (five-year average of NPAs to total loans + REO is 1.14%) and is easily covered by its loan loss reserve, which has a five-year average of 6.16%. Since 2011, the institution has strengthened its underwriting, with the loan loss reserves declining in each year, from a high of 6.57% in 2011 to 5.19% in 2015. In our opinion, the CIP allowance for loan loss practice and underwriting shows that the institution has prudent risk management. The company has a risk rating system for its portfolio that takes into consideration various risk factors that are specific to a particular borrower. The system involves seven numerical grades where accounts with similar credit and risk factors are grouped. CIP uses this analysis to determine what the loan loss reserves will be for each loan in the portfolio by borrower and loan type. In addition, it revisits its loan loss and risk rating migration annually to determine if it is accounting for the perceived and present risk on a year-to-year basis (see table 2).

Table 2

Capital Impact Partners -- Risk Rating		
Risk Rating	**Loan Classification**	**Characteristics**
4	Above Average	These borrowers have a clear ability to service debt from the primary repayment source, strong working capital position, experienced management, acceptable leverage ratios, and stable operating trends.
5	Pass	Typically, these borrowers have a clear ability to service debt from the primary repayment source and a history of strong financial performance.
6	Watch	These borrowers are basically acceptable risks but show some signs of weakness in cash flow or financial strength or have short or unstable earnings history but do not yet appear to jeopardize repayment.
7	Special Mention	Special mention assets have potential weaknesses that may, if not checked or corrected, weaken the asset or inadequately protect the institution’s position at some future date.
8	Substandard	Substandard assets have a high probability of payment default, or they have other well-defined weaknesses. They require more intensive supervision by bank management. Substandard assets are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization.
9	Doubtful	A doubtful asset has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its classification as loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity.
10	Loss	With loss assets, the underlying borrowers are often in bankruptcy, have formally suspended debt repayments, or have otherwise ceased normal business operations. Once an asset is classified loss, there is little prospect of collecting either its principal or interest.

Operating Performance

In our opinion, CIP has experienced volatile operating performance, given inconsistencies in year-over-year grants from both the public and private foundations. Its five-year average return on assets of 0.97% is the lowest out of its 'AA' rated CDFI peers and other social enterprise lending organizations, as are its ROE and return on assets before loan loss provision ratios. However, considering the institution's debt and risk profile, we view CIP's history of total equity-to-total debt of 99.4% as strong, although fiscal 2015 was 82.0% due to one-time costs and expenses.

CIP had positive profitability throughout our five-year analyzed period except for 2015, when it suffered a $9.7 million total net asset deficit. The volatility in profitability was mainly the result of unsteady grants income, higher expenses charges, and the fact that any assets released from restriction have a net neutral effect on net assets due to them flowing out of restricted assets and into unrestricted assets in the form of revenue. Overall growth in expenses outstripped revenue gains due to increased loan expense, program and general expenses, nd one-time expenses related to the corporation's IT transformation, as well as other expenses due to rebranding, general ledger system conversion costs, and, to a lesser extent, consulting fees among others. With that being said, over the past five years CIP's financial operations have been solid on average and we have received information regarding fiscal 2016 that enables us to be sufficiently confident that the dip in 2015 is not indicative of a longer trend in future.

Table 3

Capital Impact Partners -- Financial Ratios							
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**Five-Year Average**
ASSET QUALITY (%)							
Total assets ($)	$221,003,915	$227,583,269	$238,002,039	$260,715,234	$277,809,318	$283,793,920	$257,580,756

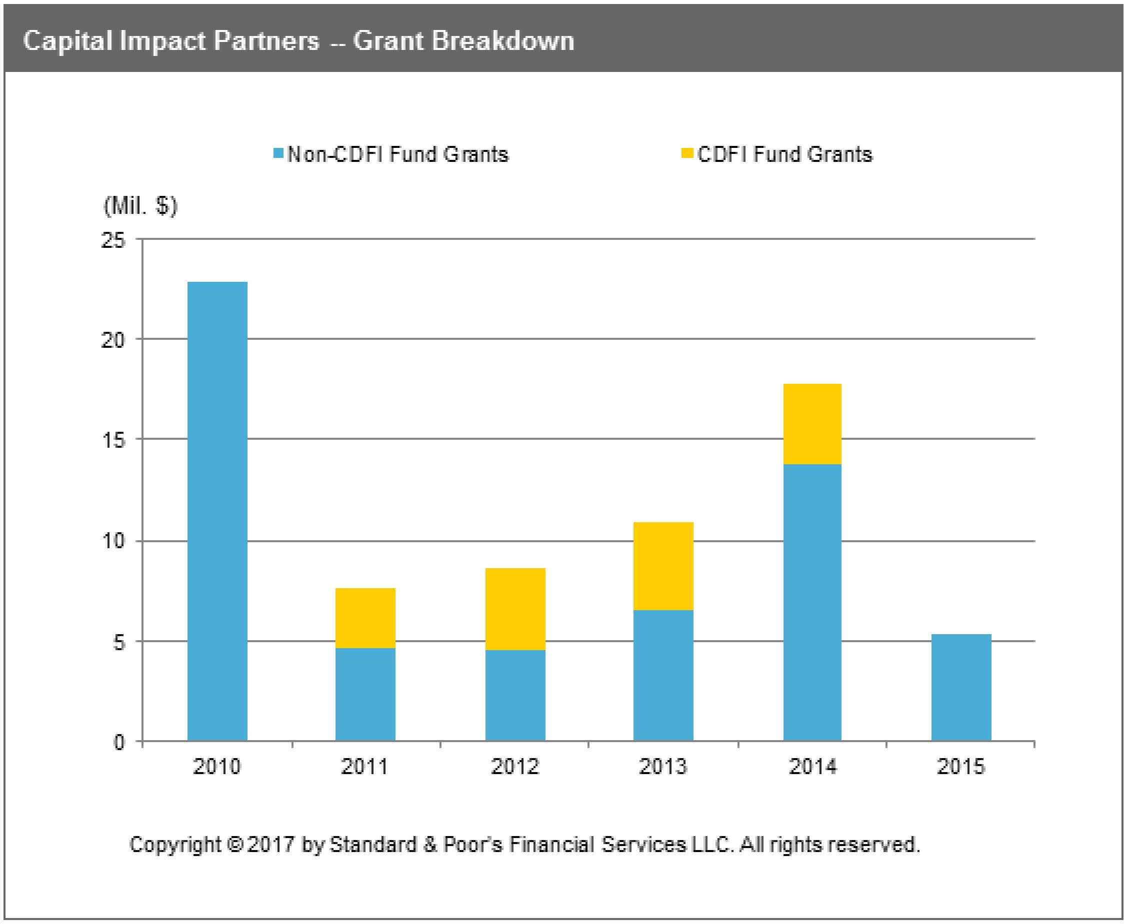
Table 3

Capital Impact Partners -- Financial Ratios (cont.)

	2010	2011	2012	2013	2014	2015	Five-Year Average
NPAs/total loans + REO	1.13	2.27	1.89	1.13	0.39	0.29	1.14
REO/total loans	1.12	0.94	0.75	0.21	0.00	0.00	0.35
Loan loss reserves/total loans	5.89	6.57	6.33	5.58	5.57	5.19	6.16
Net charge-offs/average loans		0.08	0.61	0.33	0.31	0.40	0.32
LIQUIDITY (%)							
Total loans/total assets	73.45	74.74	74.06	71.99	68.81	75.07	72.85
Short-term investments/total assets	22.88	21.26	21.29	23.81	27.54	21.37	23.16
Long-term investments/total assets	2.19	2.46	3.03	2.79	2.67	2.59	2.71
Total investments/total assets	25.07	23.72	24.32	26.61	30.21	23.96	25.87
Other assets/total assets	0.66	0.84	1.06	1.25	0.98	0.96	1.02
PROFITABILITY (%)							
Return on average assets		2.82	2.16	1.37	2.99	(3.46)	0.97
Return on assets before loan loss provision and extraordinary items	8.31	3.30	2.19	1.44	3.18	(3.09)	1.29
Return on average equity		5.37	4.06	2.67	6.03	(7.32)	2.05
Net interest margin		3.25	3.23	2.99	3.01	3.00	2.82
Net interest margin (loans)		4.12	4.13	3.87	3.98	3.97	3.65
LEVERAGE (%)							
Total equity/total assets	51.91	53.19	52.97	49.67	49.51	45.04	49.85
Total equity + reserves/total loans	75.63	76.54	76.70	73.74	76.75	64.40	73.29
Total equity/total debt	107.95	113.64	112.64	98.67	98.05	81.96	99.39

S&P Global Ratings believes that although CIP is susceptible to significant volatility of grants, the institution has proven that it has the strategy and management to manage and mitigate such risk. CIP depends heavily on grants income to sustain its profitability, and the volatility of such income presents itself as a weakness especially with regards to public grants (CDFI Fund Grants), which are regulated by the government. Chart 5 presents a breakdown of CIP's grants income which, as evidenced in 2015, the absence of CDFI Fund Grants can cause a significant decline in grants income and subsequently a net loss on the income statement.

Chart 5



Debt Obligations

In our view, CIP has a very strong debt position. As of Dec. 31, 2015, total liabilities stood at $156.0 million, up 11.2% from $140.3 million year-over-year. The growth in liabilities exceeds the overall total asset growth the corporation has experienced in the past five years, with total assets growing at only 2.2% year-over-year in fiscal 2015. This has resulted in a total equity-to-total-assets ratio of 45.04%, which, although steadily decreasing from a high of 53.19% in 2011, is still very strong and commensurate with a 'AA' rating. Furthermore, CIP's total equity was 82% of total debt in 2015, which we also view in line with a 'AA' rating. In 2015, CIP does not have material other liabilities, and therefore, all of its outstanding liabilities are in the form of debt outstanding. We will monitor CIP's debt profile and any future potential debt obligations.

Market Position: Strategy and Management

We believe that CIP's vision is clearly defined and sets out the institution's overall strategic plan. With its national footprint, the corporation is positioned to respond to the needs of low-income communities and has identified its strategic pillars for the next five years until 2020:

- Address systemic poverty: By effecting systemic change at scale, from social systems to government programs.
- Create equity: By supporting equitable access to quality services and economic opportunity regardless of demographic.
- Build healthy communities: By fostering connections and social supports that strengthen the links between health, education, housing, and opportunities that help people and communities thrive together.
- Promote inclusive growth: By building diverse, mixed-income communities that promote economic mobility and empower individuals to break the barriers to success.

The corporation plans to execute on its strategic pillars through a roadmap that aims to:

- Implement lending efforts that support connections and impact across multiple sectors.
- Advance equitable growth and access through local, state, and federal advocacy.
- Convene cross-sector leaders, and expand programs that scale innovative practices.
- Establish Policy to Practice (P2P), which supports innovation within business sectors as well as across the CDFI industry.
- Strengthen its financial position by expanding lending and capital diversification, and affect investing strategies.

CIP plans to continue to invest in the comprehensive revitalization of communities and to further its impact in the communities it serves through various financing options such as acquisition loans, construction loans, tenant improvement loans, and equipment loans as well as government programs to offer new markets tax credits and federally guaranteed bonds. It furthers its mission with P2P, a range of non-lending activities, including technical assistance and thought leadership, which, when connected to financing opportunities, lead to increased lending volume and enhanced impacts. P2P is accomplished through research, convenings, and participation in coalition and industry working groups, as well as development of policy briefs and white papers. CIP is intensively focused on revitalizing Detroit, as evidenced in 2015 when 26.6% of closed loans were in that region, and it plans to continue to increase its engagement in the area to:

- Catalyze and stabilize the markets,
- Support mixed-income neighborhood development,
- Improve access to housing and services in a place,
- Improve economic mobility for residents.

We view CIP's commitment to community development in relation to the institution's core values, mission, and overall strategy as very strong. We base this on the financial ratios outlined above, and the impact of more than $2.0 billion in lending deployed nationwide for over 30 years. This is demonstrated by:

- The creation of over 33,000 jobs
- 510 new health centers
- More than 2 million patient visits annually
- 225 charter schools
- Total of around 233,000 new seats
- 83 new healthy food retailers
- Providing access to healthy food for 1 million people
- 36,000 units of affordable housing

- 213 cooperative businesses
- Serving 867,000 customers

Executive Management

CIP is overseen by an 11-member board of directors. Five directors are elected from among the then-current senior executive officers or directors of the National Cooperative Bank (NCB); the remaining directors (a majority) are independent of NCB. The directors include senior executives from the nation's largest private and nonprofit community development lenders, policy makers, and practitioners. The board is a self-perpetuating board, with annual elections held in May of each year; directors serve for a term of one year and for no more than eight consecutive terms. The executive officers meet formally on a weekly basis to review corporate strategy, prioritize corporate initiatives, monitor mission-critical projects, and address operational issues.

The board currently includes the following standing committees: a six-member Executive Committee, a four-member Finance and Audit Committee, a four-member Governance and Nominations Committee, a four-member Lending and Risk Management Committee, and a four-member Cooperative Development Committee. These committees meet at least quarterly in addition to quarterly board meetings.

The board is responsible for setting the mission, vision, and direction of the institution, and for supervising management. Accordingly, the board participates in the development of, and approvesCIP's Strategic Plan; sets annual corporate goals, which are measured against the Strategic Plan; approves, and monitors progress against, the annual corporate budget; and ensures that appropriate financial controls are in place.

There are three operating officers prescribed by the bylaws: the president, the secretary and the treasurer. The president is appointed by the board and the rest of the operating officers are appointed by the president. Supporting the main board of directors is an established executive management team composed of the CEO, CFO, Chief Lending Officer, Chief Risk Officer, Chief Information Officer, and the Legal/General Counsel.

Economy

The U.S. economy has had to operate with lean budget margins, as growth in 2016 continued to be sluggish. S&P Global Ratings economists are forecasting GDP growth of 2.0% and 2.4% in 2016 and 2017, respectively. States' revenue performance for 2017 will be mostly a function of how well their economies performed in 2016, and given the outcome of the general election, budgets remain less certain. Our forecast that economic growth remains slow may have an impact on both grant and contribution incomes.

Overall, we expect current economic conditions to support a stable local government sector. School districts in states where tax revenue is slowly growing will likely see that trend continue. In addition, the collective failure to address rising health care and pension costs could undermine the credit quality of some issuers, and public resistance to tax.