S&P Global
Ratings

RatingsDirect®

Capital Impact Partners, District of Columbia; General Obligation

Primary Credit Analyst:
Ki Beom K Park, New York (1) 212-438-8493; kib.park@spglobal.com

Secondary Contact:
Alan Bonilla, San Francisco + (415) 371-5021; alan.bonilla@spglobal.com

Table Of Contents

Capital Impact Partners, District of Columbia; General Obligation

Credit Profile		
US$100.0 mil Cap Impact Invest Nts (General Obligation Notes Shelf Offering) ser 2018 due 12/31/2029		
Long Term Rating	AA-/Stable	New
Capital Impact Partners ICR		
Long Term Rating	AA-/Stable	Downgraded
Capital Impact Partners Senior Unsecured Debt Obligations with tenors of 1-10 years		
Long Term Rating	AA-/Stable	Downgraded

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Capital Impact Partners' (CIP), D.C.'s 2018 notes. At the same time, we lowered our issuer credit rating (ICR) and long-term rating on CIP's 2017 notes to 'AA-' from 'AA'. The outlook is stable.

The rating reflects our view of CIP's:

- Declining S&P-adjusted equity over assets caused by CIP's substantial year-over-year growth in assets without a proportionate increase in equity;
- Further equity-over-asset and equity-over-debt decline resulting from our assumption of an increased debt burden with the full 2018 notes issuance in one year;
- Low return on assets and on average equity compared with 'AA' rated peers;
- Susceptibility to year-over-year government and private grants and contributions that may not be recurring, which leads to significant volatility in profitability; and
- Exposure to a balance of unenhanced loans that is, however, in our view, comparable with that of its industry peers.

Partially offsetting the above-mentioned weakness, in our view, are these strengths:

- Strong history of loan performance evidenced by nonperforming assets (NPAs) over total loans below 0.5% and very strong underwriting guidelines;
- Diverse and ongoing growth in less risky assets such as mortgage-backed securities (MBS);
- Declined S&P loan loss assumptions to 38.08% from 43.8% in the prior year;
- Improved net interest margin with benefits of revenue-generating assets (e.g., MBS);
- Low-risk debt profile evidenced by minimum exposure to contingent liability and diverse lending platforms; and
- An experienced and proactive management team with a strong social mandate.

The notes are being issued at fixed rates. CIP plans to issue multiple notes up to $100 million (par value) under the

2018 notes issuance. 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 underserved communities, and for CIP's general operating purposes. According to management, lending activity originating from the note issuance is expected to expand CIP's loan and MBS portfolio and increase unrestricted equity available for general use. Lending activities originating from the notes are expected to resemble CIP's existing portfolio.

As of Dec. 31, 2017, CIP's outstanding senior secured indebtedness totaled $51.930 million. It consisted of $41 million in Treasury's bond guarantee program and $11 million in a credit facility with the Federal Home Loan Bank of Atlanta. In the event of a bankruptcy, the holders of senior secured debt will be entitled to recover from the collateral available prior to senior unsecured debtholders (in parity with the existing and 2018 notes). Therefore, the relative risk is higher for the notes than for CIP's senior secured indebtedness. However, we rate the notes (subordinated liens to senior secured debts) at the same level as senior liens because we consider the amount of debt outstanding under the senior lien as minimal. CIP has pledged MBS as the collateral for the Federal Home Loan Bank of Atlanta. In addition, CIP has sufficient liquidity reserves to cover any potential event of default for senior lien holders.

Outlook

The stable outlook reflects our view of CIP's adequate S&P-adjusted equity-to-assets ratio when compared with similarly rated peers and asset quality with minimal nonperforming loans (NPLs). In addition, the institution has more than sufficient loss reserves to cover potential losses under our 'AA-' stress scenario. We believe CIP's management of its overall equity and loan portfolio is critical to the stability of the rating.

Downside scenario

We have observed that substantial loan portfolio growth for CDFIs in recent years that has outpaced the growth in equity, which has led to a trend of decreasing equity-over-assets ratios. Like other community development financial institutions (CDFIs), we have recognized CIP's negative trend on its S&P-adjusted equity-over-assets ratio and reduced capital adequacy level caused by an increased debt burden after it made a strategic decision to ramp up its lending growth since fiscal 2013. If CIP experiences significantly reduced capital adequacy caused by increased debt and/or declining loan performance (assuming assets and returns on assets do not rise proportionately), we may take a negative rating action. Loan deterioration, or a significant decline in government grant income that makes up a substantial portion of net income, could result in a lower rating as well.

Upside scenario

If CIP maintains positive net income and stronger returns on assets and equity while continuously building up the equity level proportionately to asset growth, as well as preserving strong capital available to absorb loan losses, we could take a positive rating action. In addition, should CIP's equity levels rise while loan performance remains exceptional, a positive rating action could also result.

Issuer Credit Rating Overview

We believe CIP's level of financial support is sufficient to warrant a 'AA-' rating, which, in our view, reflects its overall asset quality, debt profile, liquidity, and sufficient equity to cover potential losses. Additionally, we view the institution's lending activity as within acceptable risk parameters. We found lending operations to be generally self-sustaining, and nonlending activities are funded via grants, thus incurring minimal loss.

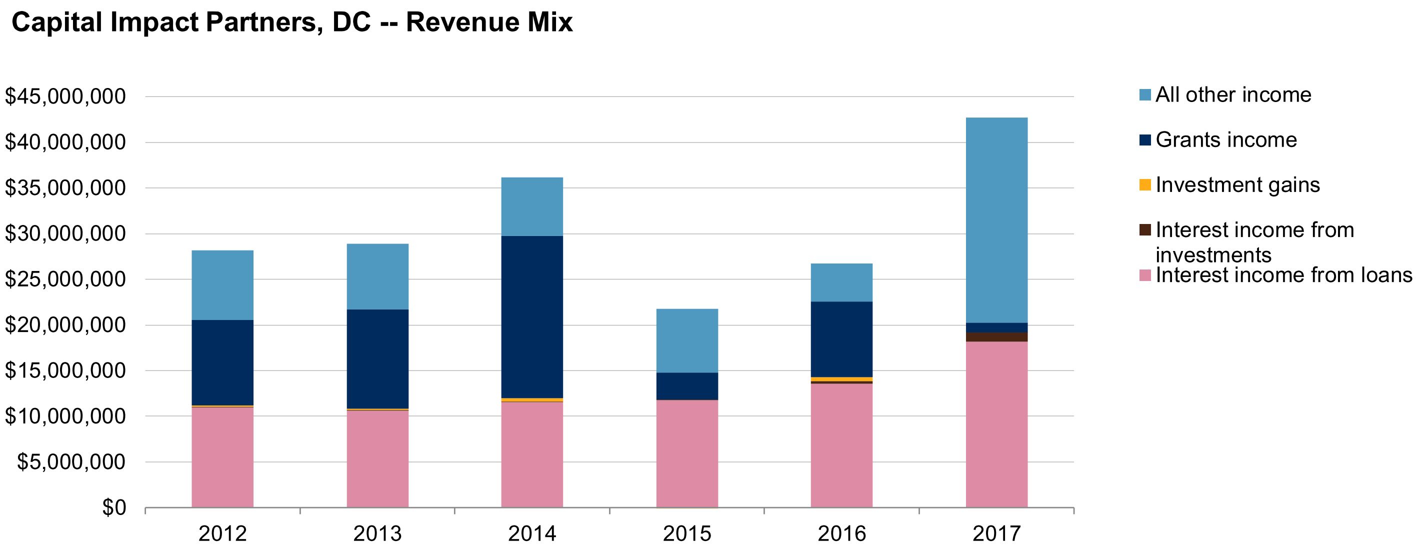
Using our commercial MBS model, we were able to assess the risk associated with CIP's loan portfolio based on the characteristics of the loans. We estimate credit enhancement required for CIP's existing loans at approximately 38.08% at the 'AA-' stress level, reduced from 43.8% in the prior review at the 'AA' stress level. Although CIP's loan loss history is very low (annually 0.5% in the past five years), our loss assumptions are based on a recovery-based analysis, which estimates the proportion of loans that can be recovered under the 'AA-' stress level. A loan lifetime default concept is incorporated into our loss assumptions. Potential losses are high because of CIP's concentration in early financing loans, which we view as risky relative to its remaining portfolio. In addition, we assume a 100% write-off to 6% of outstanding loans with non-real estate secured or based collaterals. We will monitor CIP's capital adequacy and the effects that its high concentration of early financing loans will have on the portfolio, but in the two-year outlook period, we believe it has sufficient equity to cover potential losses. We believe CIP has a strong S&P-adjusted equity (as a percentage of its total assets) of 12.42% and maintains adequate loan loss reserves (4.8%).

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.

We have reviewed the last five years of CIP's audited financial statements (2013-2017) for the parent company only. Although we understand that CIP has affiliates, we have not analyzed their creditworthiness and ongoing financial trends. Therefore, in our analysis, we have excluded the effects of investment in affiliates from our financial ratios. Lastly, we conducted the analysis of CIP's assets for both its loan and investment portfolios. 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 growing in the past five years. Its asset base has experienced significant year-over-year growth, rising from $260 million in 2013 to $478 million in 2017 and not showing any signs of slowing down in 2018. A portion of the institution's revenue and profitability reflects its contributions and grants receivables, which are divided into two main categories: unrestricted and temporarily restricted support. Unrestricted support involves contributions that can be expended as best determined by CIP and temporarily restricted support involves funds that can only be used as determined by the donor. The institution, like other CDFIs, is susceptible to year-over-year government grants and private contributions, which may not be recurring every year. CIP's net income increased from negative $9.7 million in 2015 to $541,209 in 2016 and to $12.7 million in 2017 (an average of $3 million for the past five years). This increase in 2017 was mostly due to an equity contribution from newly created Community Investment Impact Fund (CIIF). CIIF was established in 2017 to build up CIP's net assets from the CIIF as CIP has focused on aggressive loan growth. CIP will invest that equity from CIIF in various social loans. Factoring in the above-mentioned criteria, asset base and equity growth, and profitable operations, we view CIP's overall financial position as strong.

Chart 1



Company Overview

CIP is a nonprofit CDFI with a 30-year history delivering strategic financing, social innovation programs, and capacity building that creates social change and financial effects nationwide. It is a District of Columbia nonprofit institution, formed in 1982 pursuant to Title 2 of the National Consumer Cooperative Bank Act of 1978, as amended, at the direction of the U.S. 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 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 the U.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.

CIP runs several community development programs, including serving as Program Administrator for the Healthier California Fund, Detroit Neighborhoods Fund, Woodward Corridor Investment Fund, Age Strong Fund, National Cooperative Grocers Fund, and Michigan Good Food Fund, through which it finances projects to expand underserved communities' access to healthy food. CIP has used its depth of experience, cooperative approach, and diverse network of alliances to generate more than $2 billion in critical investments that create a high quality of life for low income people and communities. Products and services include: financing for health care, charter schools and healthy food enterprises; co-op development; resources to create better options for low-income elders to age in their community; and support for homeownership programs that help more people buy homes, maintain them, and keep them affordable.

Table 1

Capital Impact Partners, DC -- Subsidiaries

Subsidiary name	Ownership %	Purpose	Included in consolidated financials
Community Solutions Group LLC	100.00%	Foster development and provide technical assistance to coop organizations and provide capital in support of projects by making strategic grants and business planning advances. Includes the three technical assistance groups: Green House Replication Initiative, Cornerstone Partnership, and Center for Long-Term Support Innovations.	Yes
NCBCI Education Conduit LLC	100.00%	Facilitate, encourage, and assist in financing charter schools.	Yes
Community Economic Development LLC (CED)	99.99%	Single-Purpose Entity to make qualified investments in Qualified Active Low-Income Community Businesses under the New Market Tax Credit Program.	Yes
Impact V CDE 7 LLC (Lakepoint/CHC Inc.)	99.99%	Single-Purpose Entity to make qualified investments in Qualified Active Low-Income Community Businesses under the New Market Tax Credit Program.	Yes
Impact NMTC Holdings LLC	99.99%	Act as non-managing member for New Market Tax Credit Community Development Entities with NCBCI acting as managing member. (Owns 0.01% of Impact V CDE 7 LLC)	Yes, through Impact V CDE 7's ownership of this subsidiary.
California FreshWorks Fund LLC (CAFW)	100.00%	Provide financing for eligible fresh food retailers/distributors to overcome barriers and higher costs in unerserved areas. Supports renovation/expansion of existing stores.	Yes
Impact VII CDE 11 LLC	100.00%	Act as taxable, non-managing member of CDEs on the unwind of NMTC transactions.	Yes
Woodword Corridor Investment Fund LLC (WWCF)	100.00%	Support Community Development Projects benefitting low- and moderate-income populations. Provide financing to developers of multifamily rental housing and mixed use facilities in Detroit. No activity in 2013-2014	Yes
Detroit Neighborhoods Fund LLC (DNF)	100.00%	Provide financing for mixed-use and multifamily rental housing in Detroit.	Yes
FPIF LLC	100.00%	Channel funds to a predonominately low-income population aged 50+. Currently negotiating with Calvert Foundation on a term sheet, plan to come to an agreement in 2015.	Yes
CIIF	20.00%	Established in 2017 and jointly owned by CIP and Annaly Social Impact LLC (non-managing member with 80% ownership). The loans in the fund are wholly owned by CIP and CIP will invest that equity from CIIF in various social loans.	Yes

Asset Quality

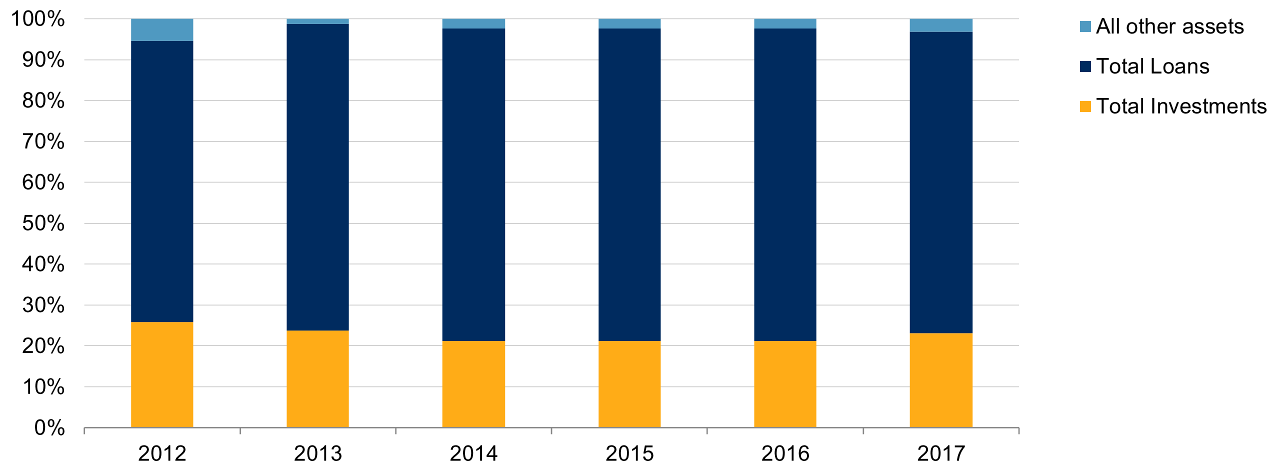
S&P Global Ratings believes CIP's asset quality is very strong. As of Dec. 31, 2017, its asset base stood at $478.7 million, up 47% year over year. Its asset portfolio consists largely of $360 million of loans (76.4%) and $48 million of MBS (10%), investments both short and long term and cash (together, 11.2%), and other assets (2.4%) (Chart 2).

Compared with the universe of CDFIs that we rate, CIP's five-year average NPA-to-total loans ratio of 0.5% compares favorably with 'AA' rated CDFIs. Additionally, this ratio has declined significantly from 1.13% in 2013 to 0.26% in 2016 and 0.42% in 2017 due to a series of nonrecurring events such as a large nonaccrual loan in 2011-2012 and a drop in real estate-owned property in 2013. The institution does not typically have Real Estate Owned (REO) as it prefers to work out loans without coming down to foreclosure.

CIP's total assets have increased year over year, with an approximately 84% rise from 2013 to year-end 2017. This growth pattern differs substantially from that of other lending agencies that we rate, including housing finance agencies (HFAs) and student loan authorities, which generally saw their loan portfolios and asset bases decline during the same period. However, it mirrors the growth of rated CDFI peers. Although we believe CIP's growth strategy works well in term of improving net income margin, it exposes them to substantial equity-over-asset and equity-over-debts deterioration, comparing to its peers.

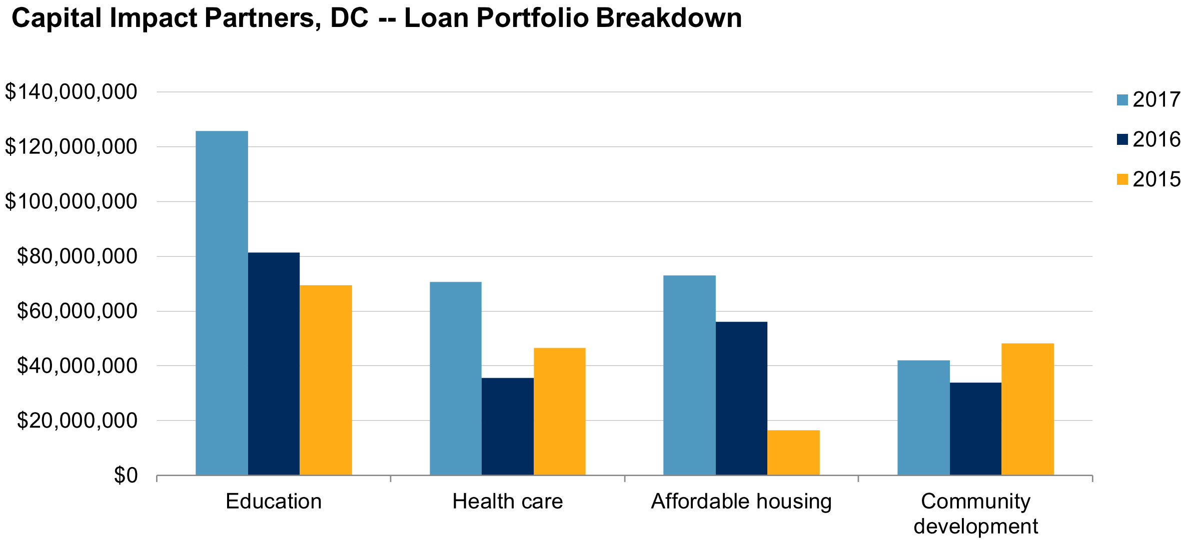
Chart 2

Capital Impact Partners, DC -- Asset Base



CIP has a diverse asset base that is not contingent on one lending product. As of Dec. 31, 2017, education loans made up the largest share, or 40.4%, of CIP's total loan portfolio. That was followed by affordable housing, health care and community development, with 23.4%, 22.7%, and 13.5%, respectively (see chart 3). 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 institution to sustain its effects 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 contributions. We believe CIP has a well-diversified business model with an appropriate risk management level.

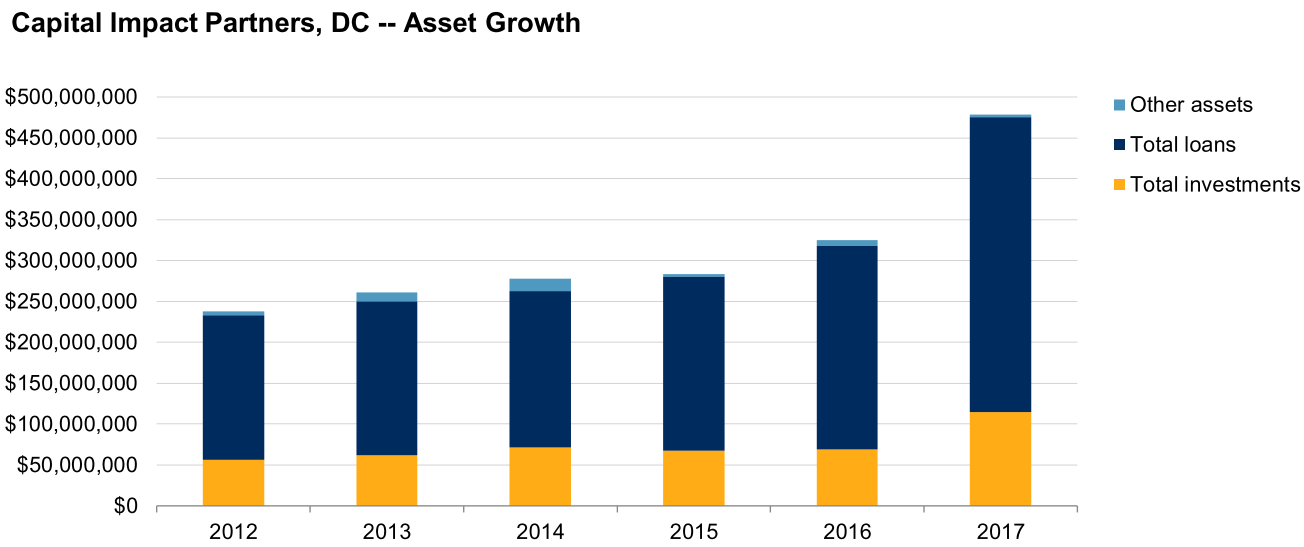
Chart 3



The majority of CIP's total assets (75.3% as of fiscal 2017) consist 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 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.
- Health care: 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 plus REO is 0.5%) and is easily covered by its loan loss reserve, which has a five-year average of 4.8% over NPAs. 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).

CIP has a highly conservative investment policy that provides guidance on how funds should be invested when not tied to an asset. S&P Global Ratings believes these guidelines and polices are evidence of the institution's prudent management of risk.

Table 2

Capital Impact Partners, DC -- Loan Risk Ratings

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.

Table 2

Capital Impact Partners, DC -- Loan Risk Ratings (cont.)		
Risk rating	**Loan classification**	**Characteristics**
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 sector and private foundations. Its five-year average return on assets of 0.85% is lower than its 'AA' rated CDFI peers and other social enterprise lending organizations, as are its return on equity and return on assets before loan loss provision ratios. Considering the institution's debt and risk profile, we view CIP's history of total equity-to-total debt of 77.1% (five-year average) as still strong but the ratio dramatically decreased from 98.7% in 2013 to 41.8% in 2017 as CIP's debt position has increased since 2015.

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 grant income, higher expense charges, and the fact that any assets released from restriction have a net neutral effect on net assets due to their flowing out of restricted assets and into unrestricted assets in the form of revenue. In 2015, overall growth in expenses outstripped revenue gains due to increased loan expense, program and general expenses, and one-time expenses related to the institution'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 but not as strong as 'AA' rated peers have.

S&P Global Ratings believes that although CIP is susceptible to the significant volatility of grants and equity investment, the institution has proven that it has the strategy and management to manage and mitigate such risk. CIP depends on grant income to sustain its profitability, and the volatility of such income presents itself as a weakness, especially with regard to public grants (CDFI Fund Grants), which are regulated by the government.

Debt Obligations

In our view, CIP has a strong debt position but its debt burden has expanded. As of Dec. 31, 2017, total liabilities stood at $337.7 million, up 71.5% from $196 million year over year. We expect this significant hike will continue in 2018 depending on CIP's utilization of the existing and new notes. This has resulted in a total equity-to-total assets ratio of 29.5%, which, although steadily decreasing from a high of 52.97% in 2012, is still strong and commensurate with a

'AA-' rating. Furthermore, CIP's total equity has dropped to 41.8% of total debt in 2017, which we view as not comparable with a 'AA' rated CDFI peers. 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 institution is positioned to respond to the needs of underserved communities and has identified the following strategic pillars through its five-year strategic plan that takes CIP through 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 among 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 institution 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 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 and federally guaranteed bonds. It furthers its mission with P2P, a range of nonlending activities, including technical assistance and thought leadership, which, when connected to financing opportunities, lead to increased lending volume and enhanced effects. P2P is accomplished through research, meetings, 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, and
- 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 effects of more than $2.0 billion in lending deployed nationwide for over 30 years. This financing has led to the creation of over 37,000 jobs and to the construction or expansion of:

- 533 health centers, serving more than 2.5 million patient visits annually;
- 248 charter schools, with a total of over 250,000 new school seats;
- 88 healthy food retailers, expanding access to healthy food for 1.1 million people;
- 37,000 units of affordable housing; and
- 219 cooperative businesses, serving 869,000 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: an Executive Committee; Finance, Audit and Risk Committee; and a Lending and Policy-to-Practice Committee. The board and each of its committees meet at least quarterly.

The board is responsible for setting the mission, vision, and direction of the institution, and for supervising management. Accordingly, it participates in the development of, and approves, CIP'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, corporate secretary, and treasurer. The president is appointed by the board and the rest of the operating officers are appointed bytThe president. With the approval of the board, supporting the main board of directors is an established executive management team composed of the CEO, chief financial and administrative officer, chief strategy and innovation officer, chief risk officer, chief lending officer, and general counsel, chief compliance officer, and corporate secretary.

Recent, Diane Borradaile joined CIP as chief lending officer and Scott Sporte transitioned from chief lending officer to chief strategy and innovation officer.