Fitch Ratings

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

Fitch Ratings Analysts

Teresa Galicia
Associate Director
Primary Rating Analyst
+1 312 368 2083
Fitch Ratings, Inc. One North Wacker Drive Chicago, IL 60606

Jeurys Grullon
Associate Director
Secondary Rating Analyst
+1 646 582 3605

Arlene Bohner
Managing Director
Committee Chairperson
+1 212 908 0554

Media Contacts

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

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

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.
Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Endorsement policy

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.