S&P Global
Ratings

Research

Low Income Investment Fund, California; General Obligation

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Credit Profile		
Low Income Investment Fund GO bnds ser 2019 dtd 07/15/2019 due 07/15/2029		
Long Term Rating	A/Stable	Affirmed
Low Income Investment Fund ICR		
Long Term Rating	A/Stable	Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'A' issuer credit rating (ICR) on Low Income Investment Fund (LIIF, or the organization), Calif., and its 'A' long-term rating on LIIF's series 2019 sustainability general obligation bonds.
- The outlook is stable.

Security

The ICR reflects LIIF's general creditworthiness and capacity and willingness to meet financial commitments when they come due. The series 2019 bonds are a general obligation of LIIF and, therefore, the organization's credit pledge supports the bonds.

Credit overview

The rating reflects our opinion of LIIF's:

- Strengthening capital adequacy assessment, as measured by a strong and increasing net equity-to-total assets ratio, at 20.9% in fiscal 2022 and a four-year average of 13.5%;
- Return on average assets (ROA), which, although down significantly to 1.3% in fiscal 2022, at 2.2% during the past five years is in line with the median for similarly rated community development financial institutions (CDFIs);
- Diverse loan portfolio, with approximately 25% of the total loan balance exhibiting higher risk characteristics but with a performance history of negligible, if any, delinquencies; and
- Experienced, proactive management team that has established clear goals to guide its mission-driven strategy while maintaining comprehensive origination and loan monitoring practices.

LIIF was founded in 1984 and certified as a CDFI by the U.S. Department of the Treasury in 1997. It is organized as a California nonprofit, public-benefit, tax-exempt corporation under section 501(c)(3) of the Internal Revenue Code. It has 104 full-time staff members and operates in 31 states from five offices. The organization's strategic plan established racial equity as its overarching goal, which will inform its lending and investment decisions. LIIF provides a variety of lending products to the communities it serves including pre-development, construction, interim, and permanent loans with a focus on affordable housing and early childhood education.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) risks relative to LIIF's financial strength, management and legislative mandate, and local economy. We view these risks as neutral to our credit analysis.

Outlook

The stable outlook reflects S&P Global Ratings' view of LIIF's financial position, which, while solidly in line with that of peers at the 'A' rating level, has steadily and notably strengthened in the past four years as guided by the management team. Furthermore, LIIF has demonstrated stable balance-sheet strength, allowing it to sustain operations through somewhat volatile markets. We believe LIIF's strategic initiatives have and will continue to lead to stabilized financial ratios and will position the organization to maintain its credit quality even during a downturn.

Downside scenario

We could consider a negative rating action or revise the outlook to negative if loan performance deteriorated or the net equity to asset ratio decreased significantly, indicating a weakening ability to absorb potential loan losses. A lower ratio could result from poor loan performance or higher debt. Furthermore, a significant reduction in net income, potentially from a narrowing interest spread, or continued high reliance on volatile grant income, could also lead us to take a negative rating action.

Upside scenario

We could consider raising the rating or revising the outlook to positive if LIIF's net equity to asset ratio continued to show sustained growth or stability at 2021 and 2022 levels while the organization maintained profitability and ample liquidity.

Credit Opinion

Financial Strength

Capital adequacy

In the past four years, LIIF's equity and net equity (which includes adjustments for S&P Global Ratings' projected loan losses, loan loss reserves, and other program-specific factors) have steadily improved. We estimate credit enhancement required for the loan portfolio at approximately 14.6% at the 'A' stress level as of fiscal 2022, resulting in a much-improved 20.9% net equity to assets ratio. Based on the last four years of LIIF's audited financial statements (2019-2022), adjusted net assets to total assets was 13.5%, which is in line with that of 'A' rated peers. We consider LIIF's loan loss reserves of 3.7% of total loans to be adequate.

LIIF has managed its debt profile well, in our opinion. Total debt outstanding, bonds and loans payable, was $391 million in fiscal 2022, a drop of 8.8% from fiscal 2021. The organization's debt ratios have steadily improved due to strengthening net equity and falling debt. The current 30.4% net equity to debt ratio has improved considerably from fiscal 2021's 18.5%; total equity to total debt increased more modestly, to 42.2% in fiscal 2022 from 36.7% in fiscal 2021.

Profitability

LIIF's return on average assets (ROA) weakened to 1.32% in fiscal 2022, resulting in a five-year average ROA of 2.2%, in line with the median for similarly rated CDFIs. ROA has similarly decreased at other CDFIs as investment earnings plummeted in the recent low interest rate environment. However, management expenses have risen as inflation has pushed salaries higher and total expenses up by more than 30% to $11.25 million. As a result, total net operating income fell sharply to $7.6 million from $20.4 million in 2021.

The five-year average net interest margin is steady at 3.2%, remaining within a range of 3.1%-3.4%. LIIF has taken steps to diversify its revenue sources. As a result of its 2020 purchase of a 60% controlling interest in National Affordable Housing Trust (NAHT), which serves as the general partner or managing member in low-income housing tax credit funds, fee income increased by over $9 million and $7 million in 2022 and 2021, respectively.

Asset quality

LIIF's asset base consists primarily of loans, which constituted 70% of the $571 million in total assets as of fiscal 2022. Of the remaining 30%, cash or cash equivalents (20.3%) comprises the majority. Asset growth from 2016 onward has been steady overall, with 2020 and 2021 growth at 8.6% and 13.1%, respectively. However, in 2022, that trend reversed to negative 2.8%, caused by an increase in loan prepayments reflecting the then-lower interest rates prevailing in the market. The organization's loan portfolio also dropped, down a more substantial 9.7% in 2022. The current gross loan portfolio of approximately $448 million consists of 39.8% education, 35.5% housing, 9% health-related facilities, including healthy food and health centers, and 13.5% other uses. The loan portfolio is geographically dispersed among 31 states, with concentrations in California (25%)and Connecticut, New Jersey, and New York (30%).

In fiscal 2022, LIIF had no nonperforming assets, following its historical trend. Loan loss reserves accounted for slightly over 4% of the loan portfolio.

Liquidity

In fiscal 2022, short-term investments made up 20.7% of the organization's total assets, the highest level of the past four years; they averaged 17.1% during that period. Across rated CDFIs, short-term investments constituted a median of 17% of total assets. LIIF's short-term investments have maturity dates of no more than three months and are typically deposited with regulated financial institutions; the organization routinely monitors them.

Market position: Strategy and management

We view LIIF's strategy and management as very strong, supported by an experienced board and staff that have been stable in the past year after several years of turnover at the top levels of the organization. LIIF's strategic plan centers on a commitment to social justice and racial equity, both internally and externally, with a focus on increasing efforts in impact-led lending, affordable housing, and early care and education. The organization has developed a framework to screen for intended impact and frames risk and profitability in the context of its goals. We view the organization's guiding documents as very strong and a factor in LIIF's ongoing success and improving financial performance.

Low Income Investment Fund - Financial Ratio Analysis						
%	**2018**	**2019**	**2020**	**2021**	**2022**	**Five-year average**
Capital adequacy						
Equity/total assets	25.04	25.75	26.39	26.81	28.92	26.58
Net equity/total assets	N/A	7.88	11.74	13.56	20.87	13.51
Net equity/total loans	2.67	8.54	12.96	15.46	26.60	13.25
Equity/total debt	31.30	32.11	33.36	36.69	42.17	35.12
Net equity/total debt	3.14	9.82	14.84	18.55	30.44	15.36
Profitability						
Return on average assets	1.23	2.27	2.59	3.69	1.32	2.22
Net interest margin	3.16	3.11	3.44	3.21	3.11	3.21
Net interest margin (loans)	3.60	3.40	4.04	3.97	3.95	3.79
Asset quality						
NPAs/total loans + REO	0.01	0.00	0.00	0.00	0.00	0.00
Loan loss reserves/total loans	2.99	3.45	3.80	3.53	3.74	3.50
Liquidity						
Total loans/total assets	82.05	78.59	76.30	75.70	70.30	76.59
Short-term investments/total assets	10.33	15.72	16.07	15.98	20.68	15.75
Total investments/total assets	14.29	19.51	19.73	19.69	24.77	19.60
Total other assets/total assets	3.66	1.90	3.96	4.60	4.92	3.81

NPAs--Nonperforming assets. REO--Real estate owned. N/A--Not applicable.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022