S&P Global Ratings

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Summary:

Low Income Investment Fund, California; General Obligation

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Table Of Contents

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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	Current
Low Income Investment Fund ICR		
Long Term Rating	A/Stable	Current

Credit Highlights

- S&P Global Ratings' long-term rating on Low Income Investment Fund (LIIF, or the organization), Calif.'s series 2019 sustainability general obligation bonds is 'A'.
- S&P Global Ratings' issuer credit rating (ICR) on LIIF is also 'A'.
- 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, a five-year average of 13.6%;
- Return on assets (ROA) that, although down significantly to negative 0.2% in fiscal 2023, had been at 1.9% in the previous five fiscal years in line with the median for similarly rated community development financial institutions (CDFIs);
- Diverse loan portfolio, with approximately 24.8% of the total loan balance exhibiting higher risk characteristics, but with a performance history of negligible, if any, delinquencies, and losses; 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 157 full-time staff members and operates nationally 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 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 five 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 increased reliance on income from government contracts associated with child care work, 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 LIIF maintained profitability and ample liquidity.

Credit Opinion

Capital adequacy

In the past five 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 18.6% at the 'A' stress level as of fiscal 2023, resulting in a stabilized over 14% net equity to assets ratio. Based on the past five years of LIIF's audited financial statements (2019-2023), adjusted net assets to total assets was 13.6%, which is in line with that of 'A' rated peers. We consider LIIF's loan loss reserves of 3.9% of total loans to be adequate.

LIIF has managed its debt profile well, in our opinion. Total debt outstanding, bonds and loans payable, was $450 million in fiscal 2023, a jump of 15% from fiscal 2022. The organization's debt ratios have steadily worsened due to meet high demand for lending in fiscal 2023. We expect LIIF's net equity over debt remain over 13% during the outlook.

Profitability

LIIF's ROA weakened to negative 0.17% in fiscal 2023 from 1.32% in fiscal 2022 and 3.70% in fiscal 2021, resulting in a five-year average ROA of 1.9%, in line with the median for similarly rated CDFIs. The ROA has similarly decreased at other CDFIs because management expenses have risen as inflation has and as LIIF has provided more early childhood and education solutions. Total operating revenue increased by $97 million offset by $98 million of expenses up by more than 96% to $98 million. As a result, total net operating income fell sharply to negative $1 million from $7.6 million in fiscal 2022 and $20.4 million in 2021 due to pass-through operating expenses.

The five-year average net interest margin is steady at 3.8%, remaining within a range of 3.5%-3.9%. LIIF has taken steps to diversify its revenue sources. Other income, including a variety of fee and servicing income, increased by $44 million in fiscal 2023.

Asset quality

LIIF's asset base consists primarily of loans, which constituted 76% of the $631 million in total assets as of fiscal 2023. Of the remaining 24%, cash or cash equivalents (12%) make up the majority. Asset growth from 2016 onward has been steady overall. In 2022, the loan portfolio experienced a 13% decrease, but 2023 experienced 18% growth, the largest change in the past five years. The current gross loan portfolio of approximately $527 million consists of 49% housing projects and 31% education. The loan portfolio is geographically dispersed among 26 states, with concentrations in California, Connecticut, New Jersey, New York, D.C.. In fiscal 2023, LIIF had no nonperforming assets, following its historical trend. Loan loss reserves accounted for slightly less 4% of the loan portfolio.

Liquidity

In fiscal 2023, short-term investments made up 12% of the organization's total assets, the lowest level of the past five years; they averaged 16% 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.

Financial ratio analysis

(%)	2019	2020	2021	2022	2023	5-year average
Capital adequacy						
Equity/total assets	25.8	26.4	26.8	28.9	26.0	26.8
Net equity/total assets	7.9	11.7	13.6	20.9	14.1	13.6
Equity/total debt	32.1	33.4	36.7	42.2	36.4	36.2
Net equity/total debt	9.8	14.8	18.6	30.4	19.7	18.7
Profitability						

Financial ratio analysis (cont.)						
(%)	**2019**	**2020**	**2021**	**2022**	**2023**	**5-year average**
Return on average assets	2.3	2.6	3.7	1.3	(0.2)	1.9
Net interest margin	3.1	3.4	3.2	3.1	3.4	3.3
Net interest margin (loans)	3.4	4.0	4.0	4.0	3.8	3.8
Asset auality						
NPAs/total loans + REO	0	0	0	0	0	0
Loan loss reserves/total loans	3.5	3.8	3.5	3.7	3.9	3.7
Liquidity						
Total loans/total assets	78.6	76.3	75.7	70.3	76.2	75.4
Short-term investments/total assets	15.7	16.1	16.0	20.7	12.0	16.1
Total investments/total assets	19.5	19.7	19.7	24.8	15.1	19.8

NPA--Non-performing assets. REO--Real estate owned.

Related Research

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

This report does not constitute a rating action.