S&P Global Ratings

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Low Income Investment Fund, California

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This report does not constitute a rating action.

Credit Highlights

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

Rationale

Security

The ICR reflects our opinion of LIIF's general creditworthiness and capacity and willingness to meet financial commitments when they come due. It neither applies to any specific financial obligation nor does it consider the obligation's nature and provisions, bankruptcy standing, liquidation, statutory preferences, or legality and enforceability.

The series 2019 bonds are a general obligation of LIIF and, therefore, the organization's credit pledge supports the bonds. Bonds are payable from all legally available revenue and LIIF's assets. LIIF issued $100 million of fixed-rate taxable 2019 sustainability bonds to refinance existing floating-rate and fixed-rate obligations, eliminating unhedged variable-rate debt and flattening the principal maturity profile. As of June 30, 2024, $100 million in bonds remained outstanding. We rate the series 2019 bonds the same as LIIF's ICR based on minimal exposure to secured debt outstanding.

Credit overview

LIIF's loan balance outstanding increased by 25% in fiscal 2024, the largest year-over-year jump in at least 10 years, as LIIF deployed approximately $240 million in new loans, exceeding annual averages. Following trends we have observed among other rated community development financial institutions (CDFIs), as LIIF sought to attract low-cost capital to expand its reach into underserved communities, LIIF's equity-to-total-assets ratio has decreased. LIIF has demonstrated a deliberate lending strategy, focusing on early-stage real estate financing for borrowers that are underserved by conventional financial institutions. While profitability and asset-quality ratios remain credit strengths, LIIF's capital adequacy remains in-line with the benchmark for the 'A' category, and the ICR also reflects peer comparisons to other similar-rated CDFIs.

LIIF has projected an improvement of its equity-to-total assets ratio by fiscal year-end 2025, due in part to the receipt of a $30 million unrestricted grant from MacKenzie Scott that strengthens its balance sheet.

The rating reflects our opinion of LIIF's:

- Net-equity-to-assets ratio, averaging 14.1% during the past five years and decreasing to 9.8% in 2024 from 14.7% in 2023, which we view as weaker than other rated CDFIs;
- Improving return on assets (ROA) that increased to positive 0.4% from negative 0.2% in fiscal 2024, with a five-year average of 1.6%, which is in line with the median for similarly rated CDFIs and improving net interest margin of 3.7% in fiscal 2024 up from 3.5% in fiscal 2023, which is above-average relative to peers;
- Diverse and high-performing loan portfolio, with the majority of loans targeting higher-risk early stage financing but with a performance history of negligible 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 over 140 full-time staff members and operates in 31 states from five offices. The organization's fiscal year 2021-2025 strategic plan centers impact-led lending, early care and education (ECE), and affordable housing. Through its Revolving Loan Fund, LIIF provides a variety of lending products to the communities it serves, including pre-development, acquisition, bridge, construction, and permanent loans to support affordable housing and community facilities. LIIF also maintains a large off-balance sheet lending program and has closed over 15 multi-party funds. In addition, LIIF provides pass-through grants and advisory services to ECE providers.

Environmental, social, and governance

We have analyzed environmental, social, and governance factors relative to LIIF's financial strength, management and legislative mandate, and local economy. We think LIIF's loan portfolio could have exposure to certain environmental factors, such as climate transition and physical risk, particularly with loans located in California. The organization partially mitigates these risks through its portfolio's geographic diversity, strong underwriting practices, and culture of risk management. We view social and governance factors as neutral to our credit analysis.

Outlook

The stable outlook reflects S&P Global Ratings' view that LIIF's financial strength, which is in line with that of similarly rated peers, will likely remain consistent during the next two years. 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 on-balance sheet equity declined such that LIIF’s capital adequacy weakens materially, indicating a weakening ability to absorb potential loan losses. A lower net equity ratio could result from poor loan performance, riskier lending, 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. We may also consider a negative rating action on the series 2019 bonds if LIIF’s exposure to secured debt were to increase to levels above what we view as minimal.

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 closer to 2022 levels, and stronger relative to other rated CDFIs, while the organization maintains comparable profitability and sufficient liquidity to levels projected in fiscal 2025. This may reflect an equity balance that increases more than debt over the near-term based on management’s strategy for executing on its mission. In this scenario, LIIF’s five-year average net equity may reach or exceed 15% of total assets.

Credit Opinion

Financial Strength

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 remained fairly consistent (with a jump in fiscal year 2022) and are slightly below-average compared with other rated CDFIs. We estimate LIIF had about $74 million of net equity available in fiscal 2024, after our assumed credit losses of about 20% of the loan portfolio, which considers loan performance, mitigants to repayment risk for early-stage loans, and other loan characteristics. These loan assumptions resulted in a net-equity-to-total assets ratio of 9.8%, the lowest since fiscal 2019. LIIF’s five-year average (2020-2024) for net equity to total assets was 14.2%, which is in line with that of 'A' rated peers.

LIIF has managed its debt profile well, in our opinion. Total debt outstanding, bonds and loans payable, was $545 million in fiscal 2024, a jump of 21% from fiscal 2023 and 32.6% from fiscal 2020. Debt is primarily unsecured loans or lines of credit from conventional banks that are motivated by the community reinvestment act, and LIIF’s average cost of funds is 3.5%. Between fiscal years 2022 and 2024, total debt outstanding increased by 39% while gross loan balance outstanding increased by 47%. As of fiscal 2024, 17% of the loan balance was pledged to external lenders, which accounted for about 20% of total debt outstanding, which we consider as minimal. The organization's debt ratios have worsened as LIIF increased its leverage to meet the high demand for lending in fiscal 2024. LIIF expects that annual lending in fiscal

2025 and beyond will normalize to levels that are lower than fiscal year 2024, projecting to range between $150 million and $200 million per year.

Profitability

LIIF's ROA improved to 0.4% in fiscal 2024, after dipping to negative 0.2% in fiscal 2023, resulting in a five-year average ROA of 1.6%, in line with the median for similarly rated CDFIs. LIIF's ROA has decreased partially due to inflation and because it has provided more early childhood solutions that are operationally profit-neutral. For our rated CDFIs, the frequency, size, and source of grant awards can vary, and lead to return on asset fluctuations. LIIF's net income peaked in fiscal 2021 at $20.4 million following the influx of prepayments and one-time infusions of capital during the pandemic, and since then has fluctuated, decreasing to $7.6 million in fiscal 2022 and a low of negative $1 million in fiscal 2023. In fiscal 2024, net income rebounded to $2.7 million due to a meaningful 20.9% decrease in operating expenses.

LIIF's five-year average net interest margin is steady at 3.4%, remaining within a range of 3.1%-3.7%. LIIF has taken steps to diversify its revenue sources. Other income, including a variety of fee and servicing income, was $55.5 million in fiscal 2024, down from $84.2 million in fiscal 2023 but up from $40.4 million in fiscal 2022.

Asset quality

LIIF's asset base consists primarily of loans, which constituted nearly 82% of the $752 million in total assets as of fiscal 2024. Of the remaining 18%, cash or cash equivalents (12.6%) comprises the majority. Asset growth from 2020 onward has been steady overall. In 2022, the loan portfolio experienced a 10% decrease, but 2023 experienced 20% growth, and 2024 showed 28% growth. The loan portfolio of approximately $622 million (over 240 loans) consists of 49% housing, 32% education, 6% health-related facilities, including healthy food and health centers, and 13% other uses. The loan portfolio is geographically dispersed among 31 states, with concentrations in New York (19%), California (18%), and Georgia (13%). Approximately 65% of LIIF's loan portfolio represents unsecured predevelopment loans, bridge loans, and real estate secured acquisition loans, reflecting that LIIF is highly engaged in early-stage financing. LIIF's prudent underwriting approach and strong portfolio monitoring has mitigated certain repayment risk inherent to these early-financing loans. LIIF also provides real estate secured permanent loans for cash flowing properties, representing about 35% of the portfolio.

In fiscal 2024, LIIF's nonperforming assets total $7.4 million, representing 1.1% of the gross loan portfolio and reflecting three non-performing acquisition loans. In the last 12 months, one loan has fully repaid, one loan is current on payments and is extended, and one loan is current on payments and negotiating an extension. Loan loss reserves account for approximately 3% of the loan portfolio, which we consider sufficient given historical loan performance.

Liquidity

In fiscal 2024, short-term investments made up 12.6% of the organization's total assets, slightly lower than the five-year average of 14.9%. Across rated CDFIs, short-term investments reflected an average of 20% 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. As of June 30, 2024, LIIF maintains over $100 million in undrawn lines of credit, which may be used for liquidity needs.

Management and governance

We view LIIF's strategy and management as very strong, supported by an experienced board and staff. LIIF's strategic plan, which will be updated in fall 2025, articulates a commitment to high-impact lending, and a focus on increasing efforts in affordable housing and ECE. The organization has developed a framework to screen for 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.

LIIF’s 15-member Board of Directors includes a combination of affordable housing professionals, lending experts, and early childhood policy specialists. The Board is actively involved in the organization’s strategic direction.

Economy

In our opinion, the diversity of LIIF’s loan activity mitigates risks associated with state and local economic trends. LIIF lends across 31 states, with the largest concentration of loans in New York (19% of the loan portfolio) and California (18%), followed by Georgia (13%). Sector exposure is also relatively diverse, in our view, with the largest being housing (49% of the loan portfolio), and with meaningful exposure to school facilities, health-related facilities, and other community and commercial uses. In our opinion, lending in larger areas with more diverse economies is less affected by economic trends than lending in smaller geographic regions.

Low Income Investment Fund, California--financial ratio analysis

	2020	2021	2022	2023	2024	5-Year Average
Capital Adequacy						
Equity/total assets	26.4%	26.8%	28.9%	24.8%	22.2%	25.8%
Net equity/total assets	11.7%	13.6%	20.9%	14.7%	9.8%	14.1%
Equity/total debt	33.4%	36.7%	42.2%	34.2%	30.7%	35.4%
Net equity/total debt	14.8%	18.6%	30.4%	20.3%	13.6%	19.5%
Profitability						
Return on average assets	2.6%	3.7%	1.3%	-0.2%	0.4%	1.6%
Net interest margin	3.4%	3.2%	3.1%	3.5%	3.6%	3.4%
Net interest margin (loans)	4.0%	4.0%	4.0%	3.8%	3.7%	3.9%
Asset Quality						
NPAs/total loans + REO	0.0%	0.0%	0.0%	0.0%	1.1%	0.2%
Loan loss reserves/total loans	3.8%	3.5%	3.7%	3.9%	3.1%	3.6%
Liquidity						
Total loans/total assets	76.3%	75.7%	70.3%	77.4%	81.6%	76.3%
Short-term investments/total assets	16.1%	16.0%	20.7%	10.6%	13.1%	15.3%
Total investments/total assets	19.7%	19.7%	24.8%	13.7%	15.5%	18.7%

Related Research

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Ratings List	
Current Ratings	
Housing	
Low Income Investment Fund, CA General Obligation	A/Stable

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