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CDFI Loan Funds Trends Report for 9/30/2021

As of 9/30/21, CDFI loan fund performance continued to shine. While quality was strong, loans outstanding began to decrease.

Aeris has examined CDFI loan fund performance through 9/30/21 using sector-specific median measurements in the Aeris® Explorer peer analytic tool. In September 2021, the Delta variant of COVID-19 was in retreat in most areas of the country. Many of us were preparing for what we thought would be a 'normal' holiday season, and to most, Omicron was still just a Greek letter. How were CDFIs performing in that moment?

Overall, CDFI loan fund performance through 9/30/21 continued to shine:

- Delinquencies were consistent with, or lower than, historical norms. As in prior quarters, small business lenders continued to maintain higher-than-normal allowances for loan losses as a precaution against potential portfolio deterioration.
- Contributed revenues and operating surpluses were on track to exceed the new highs reached in 2020, as CDFIs continued to attract capital resources and prove their value in helping communities survive and recover from the pandemic.

Despite this strong performance, we are starting to see some slowing:

- Although the median loan portfolio size had grown at 9/30/21, an increasing percentage of CDFIs had shrinking loan portfolios. This trend held true even when excluding Paycheck Protection Program (PPP) loans, which decreased significantly as the Small Business Administration (SBA) processed and approved PPP loan forgiveness. This decrease in PPP loans also contributed to declining deployment rates, most noticeably among small business lenders.
- Earned revenue among both community facilities/commercial real estate and housing development lenders decreased over the 12-month period ended 9/30/21, just as it did for the prior period that ended 9/30/20. However, earned revenue among small business lenders continued to march higher, as it had during the 12-month period ending 9/30/20, as CDFIs secured contracts to provide pandemic-related assistance to small businesses.

Currently, Aeris is receiving and processing 12/31/21 data from reporting CDFIs. Our expectation is that these data will continue to reflect strong CDFI performance trends. However, we continue to closely watch small business loan portfolios, as government and philanthropic support for small businesses sunset. We do not anticipate a significant impact on CDFI financial performance from the Omicron variant at yearend, given the strength of CDFI performance at 9/30/21. Going forward, we will be watching 2022 data closely to determine if the CDFIs with shrinking loan portfolios experience a return to growth.

Portfolio Quality

For all three CDFI lending groups*, median and average delinquency rates remained very low, and CDFI portfolio performance was consistent with or better than historical norms.

Throughout the pandemic, greater-than-90-day loan delinquencies for CDFI small business lenders have trended downward, from 1.5% at 12/31/19, to 1.1% at 12/31/20, to a new low of 0.6% at 9/30/21. This compares very favorably to the historical median greater-than-90-day delinquency rate of approximately 2.0%.

Despite their strong portfolio performance, small business lenders continued to maintain higher-than-historical levels of allowances for loan losses, reflecting CDFIs' ongoing concern for the underlying health of small businesses. We initially observed in the quarter ended 6/30/20 that the median allowance for loan losses among small business lenders had begun to tick upward. Since 12/31/20, loan loss reserves have held steady at approximately 200 basis points above the historical rate of 6%.

At 9/30/21, delinquency rates among both community facilities/commercial real estate and housing development lenders were in line with or below historical norms. The median for greater-than-30-day delinquencies for community facilities/commercial real estate lenders had dropped to 0.1%. That compares favorably with the historical norm, which has varied over time but has tended to be below 1%. For housing development lenders, greater-than-30-day delinquency rates have historically remained below 2.0%. While this rate ticked up from 0.7% to 1.0% between 12/31/19 and 12/31/20, it declined to 0% at 9/30/21.

Unlike with small business lenders, the allowance for loan losses among community facilities/commercial real estate and housing development lenders remained in line with historical levels at 4%.

Growth

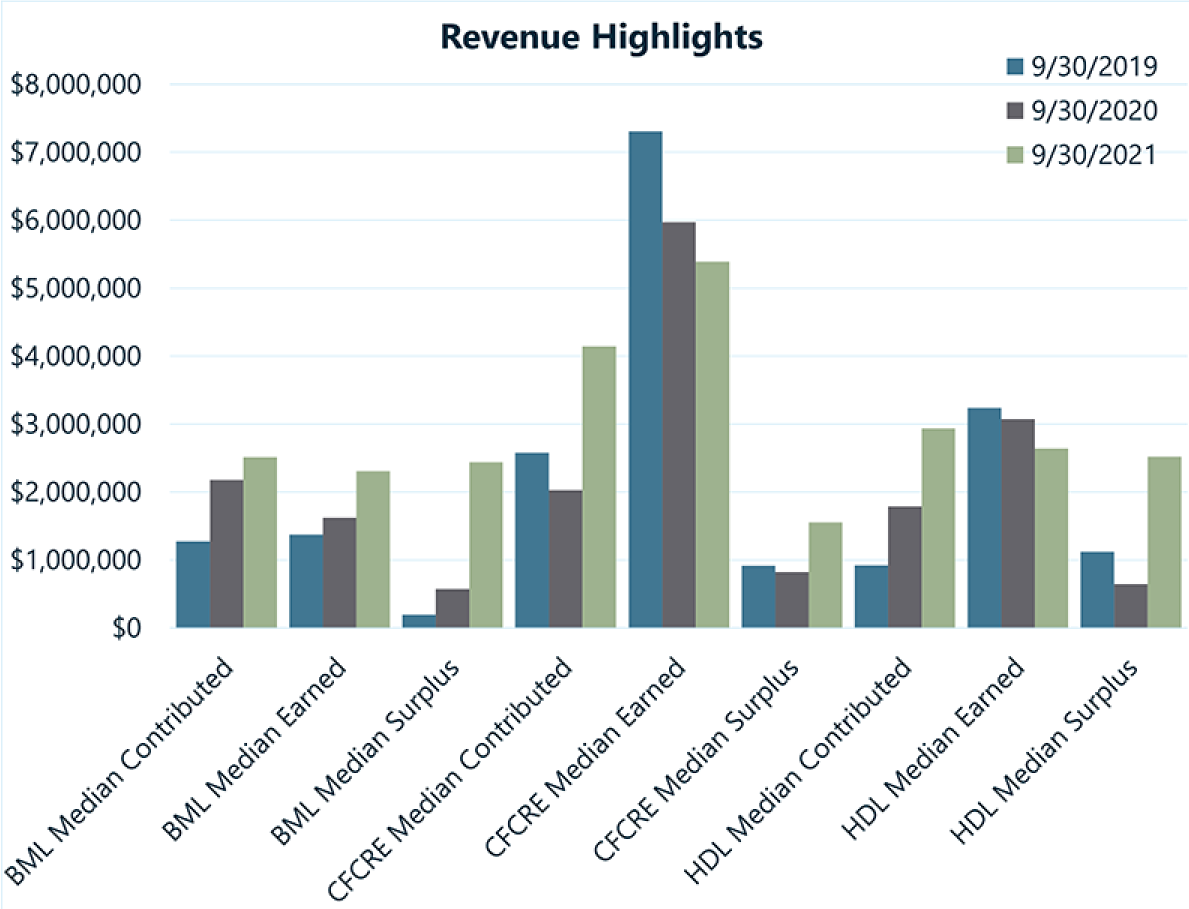
Except for community facilities/commercial real estate lenders, we continued to see strong asset growth among reporting CDFI loan funds through 9/30/21. For small business lenders, the percentage growth in total assets was about one-third of the level we saw for all of 2020 but was still strong at approximately 20% for both the top and bottom quartiles.

In a change from previously reported periods, housing development lenders outpaced small business lenders, in terms of percentage increase in median total assets. Since 12/31/20, housing development lenders' median total assets grew 45.3%, reaching $102.3MM as of 9/30/21. During the same nine-month period, small business lenders' median total assets grew by 12.9% to $43.3MM.

Notably, median total assets of community facilities/commercial real estate lenders decreased by 1.9% since 12/31/20 to $133.2MM.

As shown in the figure below, across all sectors, contributed revenues and operating surpluses appear to be on track for yet another record year in 2021. This is remarkable in the context of the unprecedented amount of capital that CDFIs attracted in 2020. It will be interesting to see if CDFIs can sustain these high levels of contributions in 2022.

However, as noted above, both community facilities/commercial real estate and housing development lenders had consecutive year-over-year decreases in median earned revenue, while small business lenders had consecutive year-over-year increases.



Lending Activity

The median deployment rate among small business lenders at 9/30/21 remained lower than historical levels. Readers of this series will recall that our analysis for 6/30/21 noted that deployment had increased for small business lenders, after decreasing through 12/31/20. The prior decrease had been driven by large infusions of new capital. Through 9/30/21, median deployment among small business lenders decreased again by roughly 500 basis points.

However, decreased deployment does not appear to be cause for alarm, nor is it an indication that CDFIs do not have the operational capacity to deploy capital. For 60% of the small business lenders with significant decreases in deployment, there was a corresponding decrease in PPP loans outstanding. This came as the SBA processed and approved PPP loan forgiveness and repaid CDFIs, causing a 30% overall decrease in PPP loans outstanding. For some small business lenders, decreased deployment was part of the normal, variable pattern associated with large capital infusions; deployment increases over time as the CDFI converts that new capital into loans.

This is the sixth in a series of CDFI trend reports tracking CDFI performance during the COVID pandemic. Reports for Q2 2021, Q1 2021, Q4 2020, Q3 2020, and Q2 2020 are also available.

* Aeris organizes CDFIs into peer groups based on three primary lending types: (1) business and micro lenders ("BML"), (2) housing development lenders ("HDL"), and (3) community facilities and commercial real estate lenders ("CFCREL").

Are you an investor with questions about the performance of your own CDFI portfolio? We are eager to hear from you. Contact us if you would like to discuss your portfolio, ask questions, or hear more about what we are seeing through our CDFI ratings and data collection work. Are you a CDFI loan fund that would like to participate in our database? Let us know.

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