S&P Global
Ratings

RatingsDirect®

Summary:

Clearinghouse CDFI, California; General Obligation

Primary Credit Analyst:
David Greenblatt, New York + 1 (212) 438 1383; david.greenblatt@spglobal.com

Secondary Contact:
Ki Beom K Park, San Francisco + 1 (212) 438 8493; kib.park@spglobal.com

Table Of Contents

THIS WAS PREPARED EXCLUSIVELY FOR USER TERRIN ENSSLE.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Summary:

Clearinghouse CDFI, California; General Obligation

Credit Profile		
Clearinghouse CDFI ICR		
Long Term Rating	A-/Stable	Affirmed

Rating Action

S&P Global Ratings affirmed its 'A-' issuer credit rating on Clearinghouse CDFI, Calif. (Clearinghouse). The outlook is stable.

Credit overview

The rating reflects our view of Clearinghouse's:

- Financial strength, with about $92 million in equity at the end of fiscal year 2020, resulting in a net equity-to-assets ratio of 9.5% and a five-year (2016-2020) average of 6.5%, which we view as very low relative to other rated community development financial institutions (CDFIs);
- Above-average profitability, with a return on average assets (ROA) of just over 1% and net interest margin for loans that has averaged about 4.2% between fiscal years 2016 and 2020, signaling a more profitable loan spread than rated peers;
- Nonperforming assets averaging 1.4% on a five-year average, which is slightly above other rated CDFIs but which we still view as low, with a strong level of loan-loss reserves averaging more than 4% of total loans over that period;
- Adequate liquidity as measured by total loans to total assets of 82% and short-term investments to total assets of 13%, with about $32 million in undrawn external liquidity at the end of fiscal 2020;
- Very strong management team and strategic planning capabilities, as well as portfolio monitoring practices; and
- Proven track record of raising equity, with its common stock seen as an attractive investment by financial institutions seeking Community Reinvestment Act (CRA) investments.

The stable outlook reflects our expectation that Clearinghouse will continue to demonstrate strong profitability and asset quality while maintaining access to external liquidity. Clearinghouse will likely remain strategic in managing its balance sheet with an eye toward maximizing its social impact by leveraging its equity base. We believe that its low net equity may decline slightly over the outlook period and will continue to be a weakness in its credit profile. We also expect Clearinghouse's strategic decisions, including a large reliance on debt from the U.S. Treasury's CDFI Fund, will keep its net equity between 5% and 10% on a five-year average, while its strong portfolio monitoring will help sustain comparable profitability, asset quality, and liquidity ratios.

THIS WAS PREPARED EXCLUSIVELY FOR USER TERRIN ENSSLE.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Environmental, social, and governance

We have analyzed the environmental, social, and governance (ESG) factors relative to Clearinghouse's financial strength, management, and legislative mandate. We view health and safety risks related to COVID-19 as social risks, which have broadly affected the U.S. economy and its workforce. However, we believe Clearinghouse's strong portfolio monitoring insulate it from near-term negative financial effects resulting from COVID-19. We believe Clearinghouse's loan portfolio may be exposed to certain environmental factors, such as climate transition and physical risks with loans for projects in California, Arizona, Nevada, New Mexico, and Native American communities in the Western United States. The organization partially mitigates these risks as a Certified B Corp by prioritizing loans to projects with some component of renewable resources (e.g., water and energy efficiency). We view governance risk to be in line with the sector standard.

Stable Outlook

Downside scenario

Should the balance of Clearinghouse's equity decline to a level that it is unable to sufficiently absorb our calculated potential loan losses given its portfolio characteristics, or if profitability or asset quality weaken below current levels, we may take a negative rating action. This may occur with the use of additional debt to finance loan portfolio growth, particularly into projects that demonstrate weak performance or carry additional repayment risk.

Upside scenario

We may take a positive rating action following a significant and sustained increase in equity, and thus an average net equity-to-asset ratio above 10%. This would accompany continued strengths in profitability, asset quality, liquidity, and our assessment of management. We do not anticipate a positive rating action during the two-year outlook period.

Credit Opinion

Financial Strength

Capital adequacy

While Clearinghouse's equity in absolute terms continued to increase in fiscal 2020, adding approximately 26% in equity from 2018, in our view, its low equity position continues to cause downward pressure on the rating. Its five-year average equity-to-assets ratio of 15% is considerably lower than the median of our CDFI rated universe of 30%. This aligns with Clearinghouse's overarching goal of raising capital to provide financing options to underserved communities, but also allows for fewer resources on its balance sheet to absorb potential repayment risk presented by its loan portfolio. Among the current universe of rated CDFIs, Clearinghouse is the sole for-profit organization, which may explain some of the differences in metrics compared with its rated, non-profit CDFI peers.

We analyzed the performance and characteristics of Clearinghouse's loan portfolio as of September 2020 and estimate total potential loan losses were about 12% at the 'A-' stress level. Most of the portfolio consists of housing loans (32%

THIS WAS PREPARED EXCLUSIVELY FOR USER TERRIN ENSSLE.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

of the outstanding balance), with other loans financed for health care facilities, offices, retail projects, lodging, and mixed-use properties. Clearinghouse finances mostly permanent, cash-flowing loans, with only 10% being construction loans. After applying our loan-loss assumptions to Clearinghouse's equity-to-assets ratio, our calculated net equity-to-assets ratio was 9.5% in fiscal 2020, its highest level we've calculated to date. This reflects a combination of the loan portfolio performance, and, while still weak relative to peers, a stronger equity-to-assets ratio than in years past. Between fiscal years 2016 and 2020, the average net-equity-to-assets ratio is 6.5%, which is the lowest among the currently rated CDFIs. We also view its five-year average net equity-to-debt ratio of 7.9%, which is low compared with peers, as a negative rating factor.

The term "net equity" refers to adjusted net assets for CDFIs after including adjustments for projected loan losses, and loan loss reserves, which gives an indication of the resources available to sustain operations during difficult circumstances or to fund programs that further the mission of expanding housing affordability or other public-purpose missions.

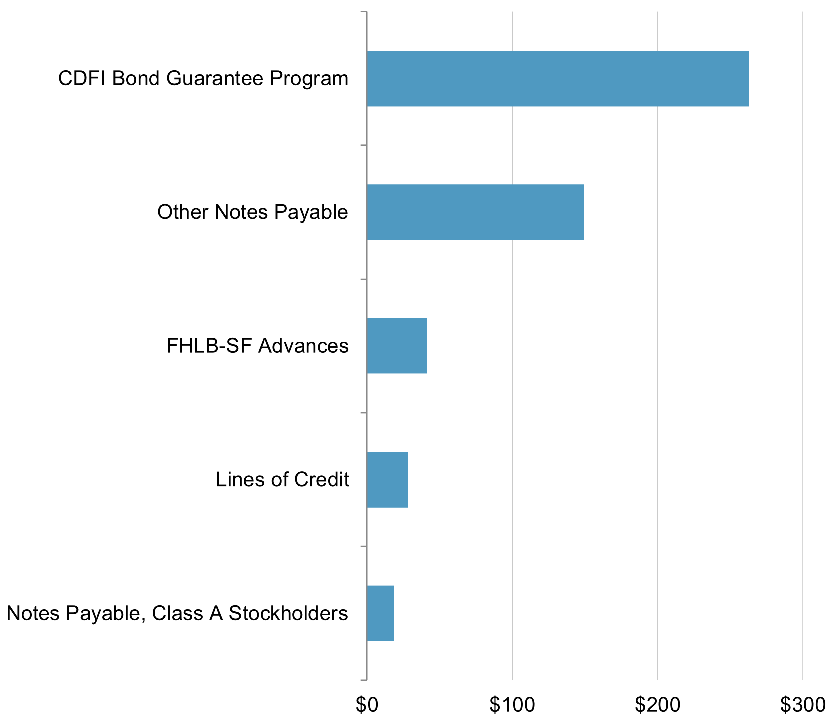
Partially mitigating our view of Clearinghouse's lower-than-average net equity is its proven ability to raise capital through issuance of its class A stock, and its access to funding from the U.S. Treasury's CDFI Fund's Bond Guarantee Program (BGP) and advances from the Federal Home Loan Bank of San Francisco (FHLB-SF), as well as other lenders.

Debt obligations remain a primary factor in Clearinghouse's outstanding gross loan balance increasing by 60% between fiscal years 2016 and 2020. While we view Clearinghouse as highly leveraged compared with peers, most (53%) of its outstanding debt obligations were through the BGP as of Dec. 31, 2020, which, due to its low interest rates and long-term structure, we generally view as favorable compared with its other debt sources (see Chart 1). As of Dec. 31, 2020, about $121.6 million (24%) of its total debt was set to mature by the end of 2023.

THIS WAS PREPARED EXCLUSIVELY FOR USER TERRIN ENSSLE.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Chart 1

Clearinghouse -- Debt Outstanding As Of Dec. 31, 2020 (millions)



Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

Clearinghouse's strategy is to utilize lines of credit, loans from banks, access to the BGP, and equity investments from shareholders to help sustain its lending business. Over the past five years, Clearinghouse's equity increased 72% while debt outstanding increased 65%, which is a credit-positive trend for its equity ratio. Based on information provided by management, we expect its debt obligations will increase by 37% between fiscal years 2020 and 2023, outpacing growth of 25% growth in equity and leading to a slight decline in its equity-to-assets ratio.

In February 2011, Clearinghouse was one of the first CDFIs to become a member of FHLB, as well as the first to borrow from FHLB. For financing from both BGP and FHLB, Clearinghouse must pledge loans as collateral sufficient to support its borrowing capacity.

Profitability

In fiscal 2020, net income decreased to about $5 million, from $6.6 million in fiscal 2019. Interest income from loans grew more than interest expense, though the provision for loan losses increased to $9 million from $2 million and led to a decrease in overall net income. This was largely due to uncertainty around the effects of COVID-19 on loan performance.

THIS WAS PREPARED EXCLUSIVELY FOR USER TERRIN ENSSLE.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Due to this additional provision for loan losses, return on average assets decreased in fiscal 2020 to 0.9%, with a five-year average of just over 1%, which we view as strong, though slightly below the 2.5% median for other rated peers. Conversely, Clearinghouse's net interest margin for loans has outpaced peers, with a five-year average (2016-2020) of about 4%, down from the 4.5% reported in fiscal 2017.

Management expects net income to be strong in fiscal 2021, based on strong portfolio performance and improving economic conditions, which led to higher prepayment fees and a lower provision for loan losses. Despite the potential for slight declines in profitability ratios with loan interest income rising slower than interest expenses, we believe Clearinghouse will maintain strong profitability in the near term.

Asset quality

Clearinghouse finances typically first-lien real-estate secured loans primarily in California, Arizona, Nevada, New Mexico, and Native American communities in the Western United States. As of September 2020, Clearinghouse had 327 loans outstanding with a balance of about $489 million. With loan originations slower in fiscal 2021, Clearinghouse projects a 2% growth in the gross outstanding loan balance, compared with an annual increase that has averaged 20% since 2016.

While continuing to grow its loan portfolio, its asset quality remains very strong. Nonperforming assets were 0.9% of the total loan balance in fiscal 2020, with a five-year average of 1.4%. As a potential risk mitigant when financing loans, Clearinghouse's loan loss reserves were 5.1% of the total loan balance in fiscal 2020 and averaged 4.4% between fiscal years 2016 and 2020. This is more conservative than the 3.5% median for other rated CDFIs.

We view Clearinghouse's allowance for loan loss matrix, utilized to manage risk, as a very prudent practice, despite the historically minimal loan loss pattern. The matrix categorizes loans by property type and assigns a risk factor to each type of loan. Clearinghouse also uses an even more conservative approach of including an economic multiplier to distinguish areas of repayment risk. With these tools, in our view, Clearinghouse assures adequate reserves for potential losses. Furthermore, in our view, Clearinghouse's loan portfolio comprises primarily long-term permanent financing loans, which we view as less risky than the early financing loans that define sometimes significant portions of rated CDFI peers' loan portfolios.

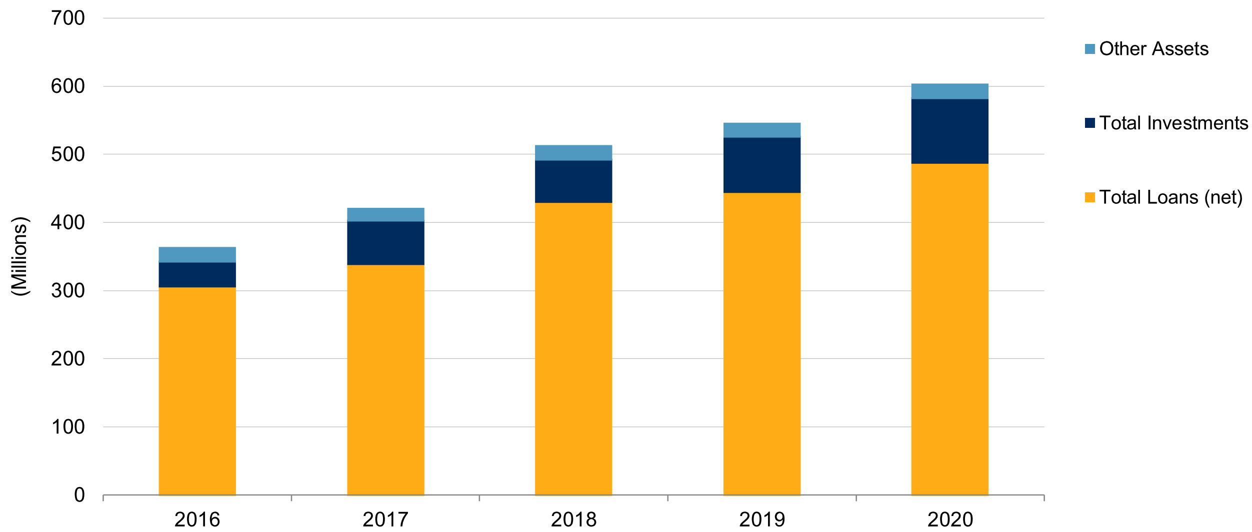
Liquidity

At the end of fiscal 2020, loans represented about 81% of Clearinghouse's total assets, down slightly from 84% in fiscal 2018 (see Chart 2), but still among the highest compared with other rated CDFIs. At about 16% of total assets in fiscal 2020, Clearinghouse's short-term investments includes cash restricted as collateral for BGP, which grew after a record level of loan prepayments; the percentage of short-term investments on its balance sheet is thereby expected to decline by fiscal 2022 as those funds are used to originate more loans. On average, between fiscal years 2016 and 2020, about 13% of total assets were short-term investments, compared with a median of 19% for other rated CDFIs.

THIS WAS PREPARED EXCLUSIVELY FOR USER TERRIN ENSSLE.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Chart 2

Clearinghouse -- Asset Base



Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

Management

We view Clearinghouse's management as very strong, due to its proactive portfolio monitoring and strategic planning. Its long-term projections cover a variety of topics, including financial soundness and community development lending via its core lending programs. Its senior leadership operates with a goal of maximizing impact and profitability through leveraging its equity base, while continuing to identify and address risks in its lending portfolio.

Clearinghouse is overseen by an active 15-member board of directors, all of whom are voting officers. The board members have a wide array of backgrounds, including financial institutions such as Wells Fargo and Western Alliance. The board has three main committees involving loan approval, asset review, and asset liability management. Members are appointed to one-year, nonstaggered terms. Board continuity is achieved through the reelection of its members, allowing experienced, valuable members to remain on the board during periods of transition. Supporting the board is an established senior management team: the CEO/president, chief financial officer, chief credit officer, and chief investment officer. Clearinghouse also has a formal succession plan, with planned transitions in place for normal and emergent circumstances.

The autonomy of the management team, along with its relatively continuous composition, allow Clearinghouse to anticipate and develop programs that address the needs of its constituents. In our opinion, it has support from the federal level through BGP and FHLB funding availability, and a history of receiving grant awards through the CDFI Fund. We consider management's ability to resolve difficult situations during its operating history as strong, as evidenced by its liquidity strategy and portfolio management during the COVID-19 pandemic.

THIS WAS PREPARED EXCLUSIVELY FOR USER TERRIN ENSSLE.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Table 1

Financial Ratio Analysis

	2016	2017	2018	2019	2020	Five-year average
Capital Adequacy						
Equity/total assets	14.8%	15.3%	14.3%	15.1%	15.3%	15.0%
Net equity/total assets	3.0%	3.2%	8.0%	8.7%	9.5%	6.5%
Equity/total debt	17.9%	18.6%	17.3%	18.3%	18.6%	18.2%
Net equity/total debt	3.7%	3.9%	9.7%	10.6%	11.6%	7.9%
Profitability						
Return on average assets	0.7%	1.1%	1.2%	1.2%	0.9%	1.0%
Net interest margin	4.0%	3.9%	3.4%	3.3%	3.4%	3.6%
Net interest margin (loans)	4.6%	4.5%	3.9%	3.8%	4.0%	4.2%
Asset Quality						
NPAs/total loans + REO	1.0%	1.9%	1.5%	1.8%	0.9%	1.4%
Loan loss reserves/total loans	4.7%	4.3%	4.0%	3.7%	5.1%	4.4%
Loan loss reserves/NPAs	473.3%	223.8%	265.9%	207.0%	556.1%	345.2%
Liquidity						
Total loans/total assets	84.3%	80.7%	84.0%	81.7%	80.9%	82.3%
Short-term investments/total assets	9.7%	14.8%	11.8%	14.5%	15.5%	13.3%
Total investments/total assets	10.1%	15.2%	12.1%	14.8%	15.8%	13.6%

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

THIS WAS PREPARED EXCLUSIVELY FOR USER TERRIN ENSSLE.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.

Copyright © 2022 by Standard & Poor’s Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor’s Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an “as is” basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P’s opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR’S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor’s Financial Services LLC.

THIS WAS PREPARED EXCLUSIVELY FOR USER TERRIN ENSSLE.
NOT FOR REDISTRIBUTION UNLESS OTHERWISE PERMITTED.