CDFI Market Conditions
Second Quarter 2013

Report I - Results and Analysis
Published January 2014

The Opportunity Finance Network CDFI Market Conditions Report is based on a survey of community development financial institutions (CDFIs). Opportunity Finance Network began conducting these surveys in October 2008 to better understand the impacts of tight credit markets and the economic downturn on the opportunity finance industry. Through the first half of 2012, OFN conducted a survey each quarter and published four Market Conditions Reports each year. Beginning in the second half of 2013, OFN has conducted two quarterly surveys each year and published two Market Conditions Reports each year based on second and fourth quarter activity. Each report provides a view of CDFI responses to current market conditions, analysis of regional and primary financing sector differences, and analysis of important trends.

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EXECUTIVE SUMMARY[1]

After a slight dip in the national economy's recovery in the last quarter of 2012, when gross domestic product (GDP) growth slowed to 0.4%, GDP grew at slightly higher rates of 1.1% and 2.5% in the first and second quarters of 2013, respectively.[2]

The unemployment rate hovered at around 7.5% throughout much of the first half of 2013, an improvement from the 8%+ rates seen in most of 2012[3]. Before the recession the unemployment rate was about 5% so while the improvement in employment is encouraging, it is still far below levels typically needed for a robust economy.

The percentage of FDIC-insured institutions that reported loans and leases 31 days or more past due decreased from 4.75% in the fourth quarter of 2012 to 4.07% by the end of the first half of 2013.[4] According to the FDIC Quarterly Banking Profile, net charge-offs for all loans and leases dipped below 1% for the first time (since the beginning of the Market Conditions Report in 4th Quarter 2008) when computed as an annualized calculation[5].

Another established barometer of the economy's health is the delinquency rate for mortgage loans on one-to-four-unit residential properties. This rate decreased to 6.96% (seasonally adjusted) of all loans outstanding at the end of the second quarter of 2013, the lowest level since mid-2008.[6]

One hundred and forty-three CDFIs responded to the Second Quarter 2013 CDFI Market Conditions Survey. Key findings follow.

Demand for Financing and Loan Originations

Demand for financing remained strong. In the second quarter of 2013, 64% of respondents reported an increase in the number of financing applications received year-over-year. This is the same as respondents reported in the 4th quarter of 2012 and is the highest percentage recorded since OFN began collecting these data in 2009. Less than one-fifth (19%) of CDFIs stated that they are seeing a decrease in the number of financing application–-a record low from when we started collecting this data in 2009.

Originations are strong. Sixty percent of respondents reported year-over-year increases in originations in the second quarter of 2013, up from 56% in the second quarter of 2012. We have not seen increases at this level since 2011, when 60% and 61% of CDFIs reported increases in originations in the third and fourth quarters, the highest levels reported since we began collecting this data.

1 This report presents the results of the eighteenth CDFI Market Conditions Survey. OFN conducted the survey in August - September 2013. The survey covers the second quarter (April – June) of 2013. Detailed data tables are provided in the companion report, CDFI Market Conditions, Second Quarter 2013, Report II - Detailed Tables.

2 Bureau of Economic Analysis (www.bea.gov).

3 Bureau of Labor Statistics (www.bls.gov).

4 In the second quarter of 2013, 0.98% of loans and leases were 30 – 89 days past due and 3.09% were noncurrent, defined as 90 or more days past due or in nonaccrual. This information provided by Federal Deposit Insurance Corporation (FDIC) Quarterly Banking Profile (www2.fdic.gov/qbp).

5 Year-to-date, annualized calculation. A description of the FDIC's annualization methodology can be found in the companion report, *CDFI Market Conditions, Second Quarter 2013, Report II – Detailed Tables,* Appendix I.

6 Mortgage Bankers Association's (MBA) National Delinquency Survey (www.mbaa.org). The delinquency rate includes loans that are at least one payment past due but does not include loans in the process of foreclosure.

Capitalization and Liquidity

Capital constraints jumped significantly. More than one quarter (27%) of CDFIs reported that they are capital constrained, nearly double the 14% reported in the second quarter of 2012. Not only is this a dramatic jump, it is the first time the rate has exceeded 20% since the second quarter of 2011.

CDFIs could have made nearly $200 million in additional loans in the second quarter of 2013 if financing capital were available. The bulk of these additional loans were reported by three CDFIs, one of which accounts for half of the total ($100 million). In addition, CDFIs projected a $650 million shortfall in financing capital over the next twelve months.

Portfolio Quality

Portfolio quality remained steady in the first half of the year. In the second quarter 2013, average portfolio-at-risk (greater than 30 days delinquent) remained constant year-over-year at 5.3% but inched up from 5.1% in the fourth quarter 2012. These figures are the lowest since we began collecting these data in 2008 and are significantly lower than the 8.1% average for the entire four-year period. The average loan loss reserve of 8.7% is considerably less than the 10.3% average LLR reported in the second quarter 2012 and slightly lower than the 9.1% average for and the entire four-year period.

CDFIs are optimistic about the future. As in previous periods, the vast majority of CDFIs expect portfolio quality to either improve (41%) or stay the same (55%) in the next quarter.

Expectations

The majority of CDFIs expect demand for their financing in the next quarter to increase. Nearly two-thirds (64%) of CDFIs state that they anticipate an increase in financing for the third quarter 2013. Thirty-one percent estimate that demand for financing will remain the same and only 4% anticipate a decrease. Among those few who anticipate a decrease, most state that their reason is trends in their historical data rather than specific economic or policy events going forward. On a regional basis, the percent of those anticipating an increase in financing range from 57% in the Midwest to 70% in the West.

Among the survey respondents who believe their financing will increase for the third quarter 2013, the responses vary across regions and sectors:

Northeast Region

(Community Services/Facilities) "Our CDFI's marketing efforts have increased in line with our national expansion."

(Housing to Individuals) "We have received several capital fund investments to our loan fund in addition to establishment of creative collaborations with statewide organizations (private and public sectors) that has already increased applications and potential work on both the consumer residential end and receivership projects."

(Housing to Organizations) "We are in the process of raising additional lending capital through a new debt facility with banks across the state. Additionally, we are raising new capital for long-term multi-family energy efficiency lending. With this capital availability, we can market and originate new loans as we will know that we have the resources to originate them."

(Microenterprise) "We are currently negotiating a new source of lending capital which will increase our ability to finance contract-based loans and connect with additional potential borrowers."

(Business) "The anticipated increase in demand is based on several million dollars in the pre-application stage, and a similar amount in the application stage which are presently in our pipeline."

Southern Region

(Business) "We are seeing increased confidence in the overall economy by our small business clients. The improvements in the housing sector have also helped the forest products companies in our market."

(Community Services/Facilities) "As new schools are approved (typically in Q3 of the calendar year) demand for our programs should increase. Unstable bond market conditions are also adding to the number of inquiries we have/will receive."

(Housing to Individuals) "Initial contacts, applications, and closings all have picked up since Spring 2013 for residential development lending. We anticipate this eventually also leading to an increase in buyers needing our down payment assistance products as the development projects are constructed and available for sale."

(Housing to Organizations) "Increased outreach and interest in shared-equity loans, particularly in our region in the development of local partnerships."

Midwest Region

(Business) "We are strategically growing our lending program and expect to launch a new program (assuming our capital source comes through)."

(Community Services/Facilities) "With continued funding pressures at the state and federal levels, the nonprofit sector is seeking new/renewed funding from CDFIs."

(Consumer) "Continued scaling of program plus greater awareness from marketing efforts will drive increased demand."

(Housing to Individuals) "With the addition of several new loan officers in the field, we anticipate increasing the number of applications taken."

(Microenterprise) "Greater demand for our services as more individuals explore entrepreneurship. We have also developed many new partnerships."

Western Region

(Business) "Funding demand will increase due to concentrated outreach and the addition of business training programs that will help prepare clients for lending and overall business development."

(Commercial Real Estate) "Our market is improving in loan inquiries and we have a few loans in underwriting to be presented for approval."

(Housing to Individuals) "Rollout of 20+ community-based programs. As we are now in the 3rd month of the quarter we have experienced this increase already."

(Housing to Organizations) "We provide secondary financing to Manufactured Home Park Cooperatives and construction financing to small projects, both of which are very difficult to obtain in the market. Initial inquiries to these products indicate there will be an increased demand for our funding."

CDFI Market Conditions, Second Quarter 2013
Report I – Results and Analysis

I. DEMAND FOR FINANCING AND LOAN ORIGINATIONS

Detailed Results

In the second quarter of 2013, 64% of respondents reported an increase in the number of financing applications received year-over-year. This is the same as respondents reported in the 4th quarter of 2012 and is the highest percentage recorded since OFN began collecting these data in 2009. Less than one-fifth (19%) of CDFIs stated that they are seeing a decrease in the number of financing application – a record low from when we started collecting this data in 2009.

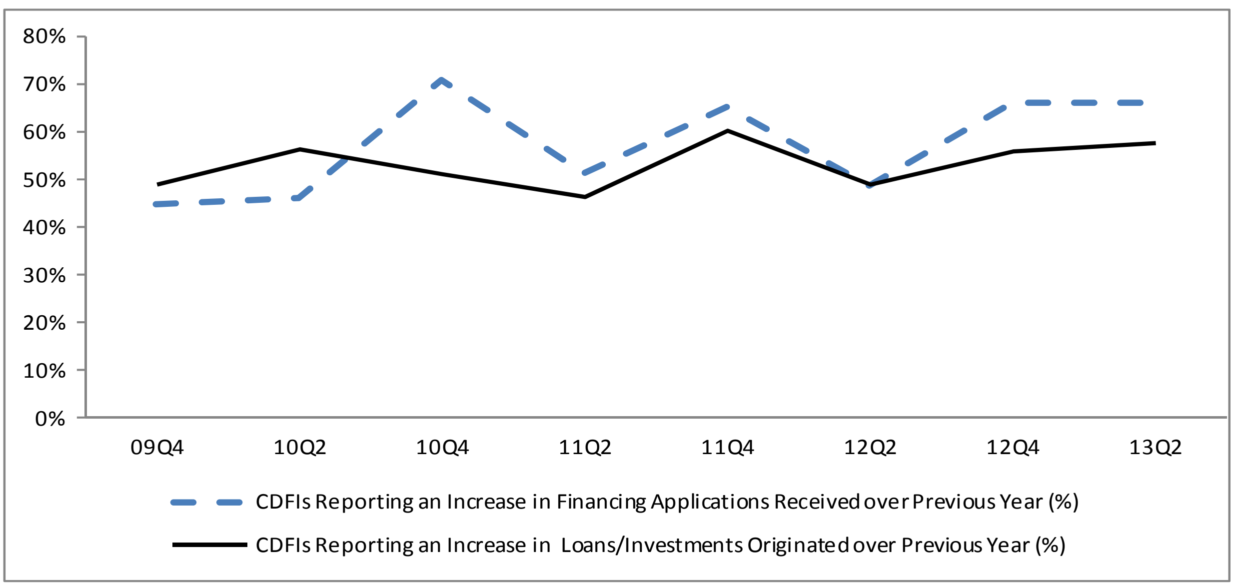
Except for Commercial Real Estate and Intermediary CDFIs which both reported increases of only 33%, in all sectors 57% or more of CDFIs reported an increase in the number of financing applications received. Regionally, CDFIs in the South reported the strongest increases in demand and originations while CDFIs in the West reported the weakest.

Originations were also strong, with 60% reporting an increase in originations year-over-year. All sectors except Intermediary (33%) reported increases of 50% or more with Housing to Organizations and Business reporting increases of 68% and 65%, respectively.

Trend Results[7]

The subset of 41 CDFIs in the trend analysis exhibited higher demand for financing and slightly lower loan originations than all respondents in the survey: 66% of those in the trend sample reported an increase in the number of financing applications received year-over-year and 58% reported an increase in originations over the previous year.

Figure 1. CDFIs in the Trend Sample Reporting an Increase in Financing Applications versus Loans/Investments Originated, % Change Over Previous Year (n=41)



Outlook

Roughly two-out-of-three (64%) of all CDFIs expect financing to increase in the next quarter. Fifty-four percent (54%) of the 41 CDFIs in the trend sample expect financing to increase, down from the fourth quarter 2012's 63%.

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7 Complete findings for trend respondents are available in *CDFI Market Conditions, Second Quarter 2013, Report II – Detailed Tables,* Table V. The tables include the results of all quarterly surveys; the figures in Report I include results for only the 2nd and 4th quarters.

II. CAPITALIZATION AND LIQUIDITY

Detailed Results

More than one quarter (27%) of CDFIs reported that they are capital constrained, nearly double the 14% reported in the second quarter of 2012. Not only is this a dramatic jump, it is the first time the rate has exceeded 20% since the second quarter of 2011.

While all asset sizes experienced some increase in capital constraints, the increases were concentrated in Small (38%) and Medium (23%) CDFIs[8]. On a geographical basis, all regions reported nearly the same degree of capital-constraints (25% - 29% of CDFIs). All but two sectors – Commercial Real Estate and Housing to Organizations – experienced an increase compared to the second quarter of 2012.

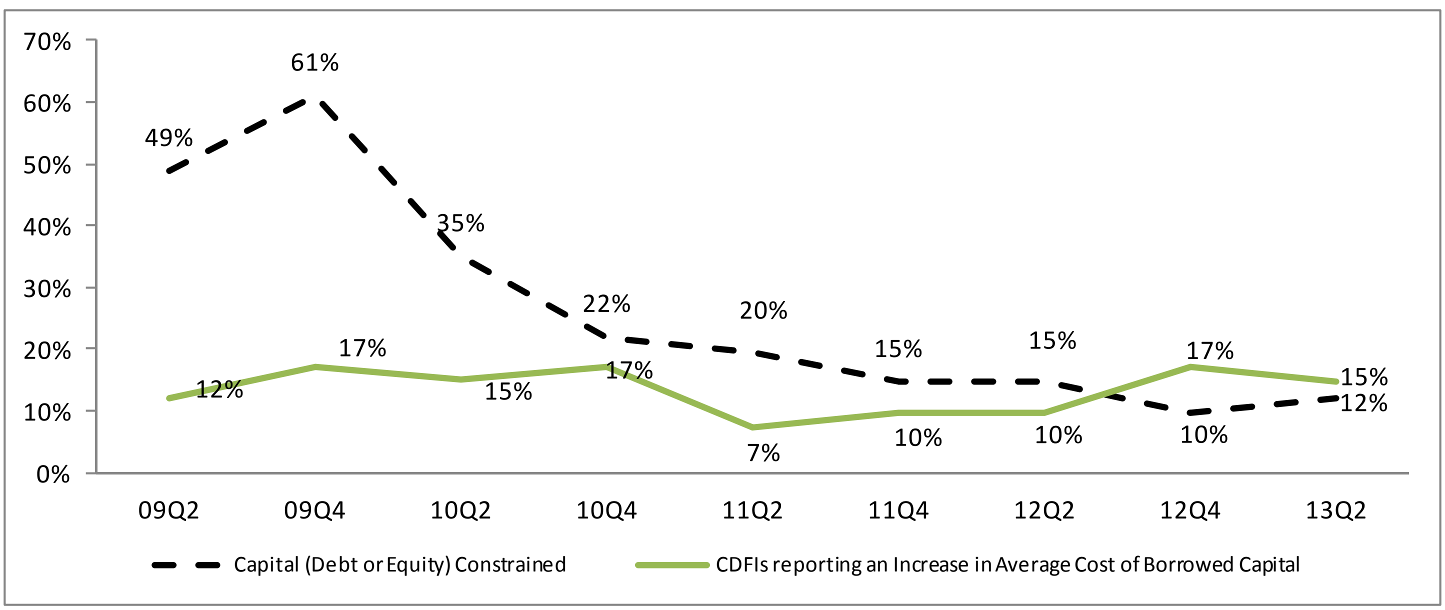
CDFIs could have made $198.5 million in additional loans in the second quarter of 2013 if financing capital were available. The bulk of these additional loans were reported by three CDFIs, one of which accounts for half of the total ($100 million). The average shortfall was $3 million for Medium CDFIs and $700,000 for Small CDFIs.[9]

On an annual forecast basis, CDFIs project a $650 million shortfall in financing capital over the next twelve months. By asset size, the projected average annual shortfall is $19.3 million for Large CDFIs, $4.2 million for Medium CDFIs and $1.4 million for Small CDFIs.

Trend Results

The trend sample's capital constraints are quite different from all CDFIs. Capital constraints increased only very slightly for the 41 trend CDFIs, rising from 10% in the fourth quarter 2012 to 12% in the second quarter 2013. The trend sample's cost of capital is similar to all CDFIs. Only a small percentage (15%) reported an increase in the average cost of borrowed capital year-over-year.

Figure 2. Capital Constraints and Borrowing Costs Reported in Trend Results, % Change Over Previous Year (n=41)



[8] Small is defined as total assets of less than $10 million. Medium is defined as total assets of $10 - $50 million.

[9] The Large CDFI (n=5) shortfall is excluded because there is a $100 million shortfall reported by one CDFI that skews the results.

III. PORTFOLIO QUALITY

Detailed Results

In the second quarter 2013, average portfolio-at-risk (greater than 30 days delinquent) remained constant year-over-year at 5.3% but inched up from 5.1% in the fourth quarter 2012. These figures are the lowest since we began collecting these data in 2008 and are significantly lower than the 8.1% average for the entire four-year period. The average loan loss reserve of 8.7% is considerably less than the 10.3% average LLR reported in the second quarter 2012 and slightly lower than the 9.1% average for the entire four-year period.

Portfolio-at-risk was under 5% for Medium and Large CDFIs while Small CDFIs were at 6.8%. CDFIs located in the Northeast reported the highest portfolio-at-risk (6.9%) while CDFIs in the Southeast reported the lowest (4.1%).

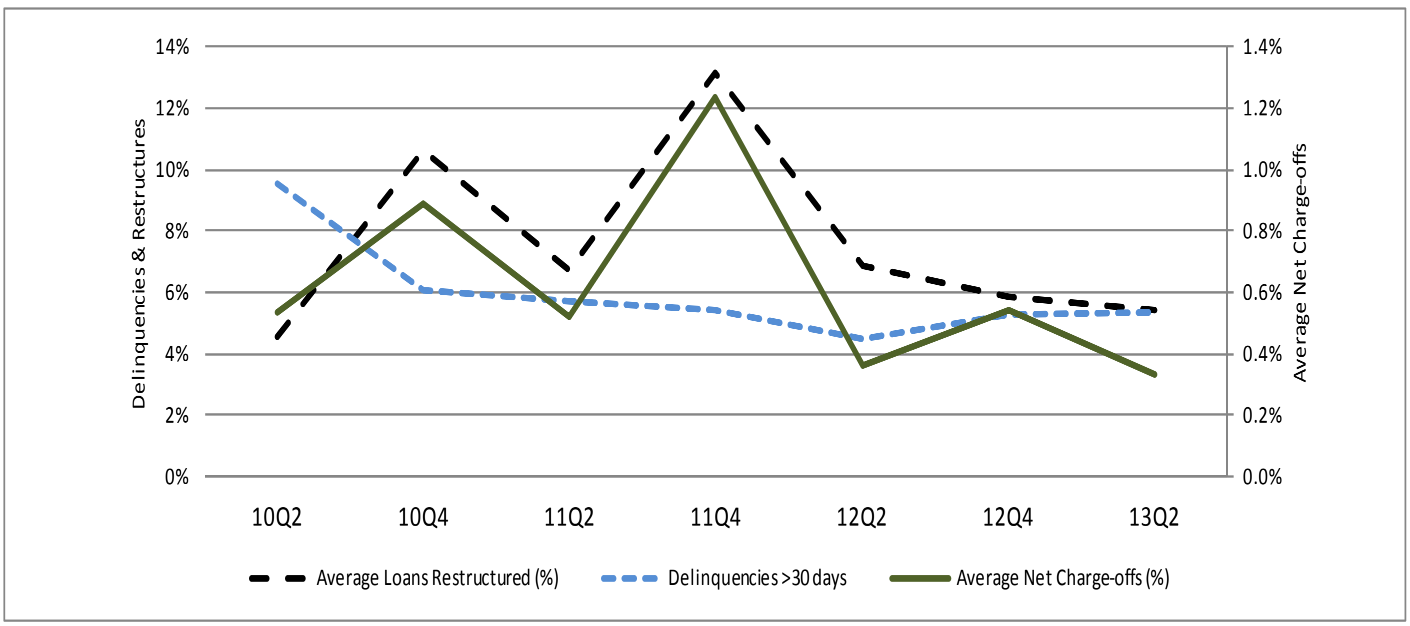
Across financing sectors, nearly all reported portfolio at risk in the range of 3% - 7%; the two exceptions are Intermediary CDFIs (1.1%) and on the high end, Housing to Individuals (8.2%).

Trend Results

Within the trend sample, the 41 CDFIs maintained the same 5.3% average portfolio-at-risk reported in the fourth quarter 2012. Year-over-year, however, this is a fairly substantial increase from the second quarter 2012's 4.5%.

Average loan restructures improved year-over-year, falling from 6.8% in second quarter 2012 to 5.4% in the second quarter of 2013. Average net charge-offs also fell year-over-year, from 0.4% in second quarter 2012 to 0.3% in the second quarter 2013.

Figure 3. Average Trend Portfolio-at-Risk, Restructures, and Charge-offs (n=41)



Outlook

CDFIs are optimistic about the future as the vast majority expect portfolio quality to either improve (41%) or stay the same (55%) in the next quarter.

Comparison to FDIC-Insured Institutions

In the previous sections, we analyzed average portfolio quality using a methodology that weighs each CDFI equally regardless of size. In this section, to compare CDFI industry portfolio quality to FDIC-insured institutions, we use the FDIC's methodology of analyzing the portfolio quality of the respondents as a whole. This method gives greater weight to Large CDFIs and lesser weight to Small CDFIs.

Since 2009, CDFI industry delinquency (more than 30 days past due) has been higher than that of FDIC-insured institutions, sometimes approaching double the FDIC-insured rate. It reached its peak in the first quarter of 2010 at 12.8%. CDFI industry delinquency has gradually fallen and in 2012, ended the year on par with FDIC-insured institutions at 4.75% delinquency.

In the second quarter 2013, however, CDFI delinquencies jumped up to 2011 levels of 6.5% while FDIC-insured institutions continued to improve at 4.07%. This magnitude of difference between CDFI and FDIC-insured rates (2.5%) has not been seen since the second quarter 2010.

Table A: CDFI Industry Portfolio Performance, All Survey Respondents

	2013	2012			2011				2010				2009				2008
	Q2	*Q4*	*Q2*	*Q1*	*Q4*	*Q3*	*Q2*	*Q1*	*Q4*	*Q3*	*Q2*	*Q1*	*Q4*	*Q3*	*Q2*	*Q1*	*Q4*
n=	*133*	*122*	*96*	*100*	*130*	*98*	*122*	*131*	*99*	*106*	*97*	*88*	*104*	*108*	*110*	*102*	*97*
Net Charge-offs, year to date (annualized)	0.63	2.56	0.97	0.93	2.14	2.16	1.49	1.47	2.85	2.23	2.04	1.21	1.74	1.35	1.20	1.15	0.93
% 31-90 Days Past Due	2.02	1.92	1.84	1.94	2.29	1.67	1.93	4.09	3.10	2.94	3.98	4.95	5.27	4.43	5.20	4.52	6.82
% >90 Days Past Due or in Nonaccrual	4.56	2.83	3.63	3.63	3.64	4.79	4.53	6.19	5.68	5.93	6.60	7.85	6.63	5.94	6.40	4.44	3.09
% >30 Days Past Due	6.58	4.75	5.47	5.57	5.93	6.46	6.46	10.28	8.78	8.87	10.57	12.80	11.90	10.36	11.60	8.96	9.91

Table B: FDIC-Insured Institution Industry Portfolio Performance on Loans & Leases (n=approx. 7,000)

	2013	2012			2011				2010				2009				2008
	Q2	*Q4*	*Q2*	*Q1*	*Q4*	*Q3*	*Q2*	*Q1*	*Q4*	*Q3*	*Q2*	*Q1*	*Q4*	*Q3*	*Q2*	*Q1*	*Q4*
Net Charge-offs, year to date (annualized)	0.78	1.10	1.13	1.17	1.55	1.61	1.70	2.55	2.54	2.59	2.74	2.84	2.49	2.38	2.24	1.94	1.28
% 30-89 Days Past Due	0.98	1.15	1.11	1.21	1.35	1.37	1.38	1.52	1.61	1.68	1.69	1.92	1.93	1.92	1.85	2.04	2.01
%>=90 Days Past Due or in Nonaccrual	3.09	3.60	3.89	4.11	4.09	4.22	4.37	4.71	4.87	5.12	5.21	5.45	5.37	4.94	4.35	3.76	2.93
% >=30 Days Past Due	4.07	4.75	5.00	5.32	5.44	5.59	5.75	6.23	6.48	6.80	6.90	7.37	7.30	6.86	6.20	5.80	4.94