CDFI Market Conditions
Fourth Quarter 2013

Report I - Results and Analysis
Published April 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 2012, OFN has conducted two quarterly surveys each year and published Market Conditions Reports semi-annually 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]

The national economy's recovery continued in 2013 as the gross domestic product's (GDP) quarterly growth rate rose to 4.1% in the third quarter and settled at 2.4% in the final quarter of 2013. While the fourth quarter's growth outperformed the rate seen in the final quarter of 2012 (0.1%), the 2013 annual growth rate (1.9%) fell below 2012's annual rate of 2.8%.[2]

The unemployment rate hovered at around 7.4% throughout much of 2013 before dropping to 6.7% in the fourth quarter. This is an improvement from the 8%+ rates seen in most of 2012[3] but still above the unemployment rate of approximately 5% seen before the recession.

The percentage of FDIC-insured institutions that reported loans and leases 31 days or more past due decreased from 4.07% in the second quarter of 2013 to 3.58% by the end of 2013.[4] According to the FDIC Quarterly Banking Profile, net charge-offs for all loans and leases remained below 1%.[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 6.39% (seasonally adjusted) of all loans outstanding at the end of the fourth quarter of 2013, the lowest level since mid-2008.[6]

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

Demand for Financing and Loan Originations

Demand for financing remains strong. In the fourth quarter of 2013, 63% of respondents reported an increase in the number of financing applications received year-over-year. This is nearly the same rate reported in the second quarter of 2013 (64%), the highest percentage recorded since OFN began collecting these data in 2009. The number of CDFIs seeing a decrease in the number of financing applications was up slightly from 19% in the second quarter to 23% at the end of 2013.

Originations are strong. Sixty-two percent of respondents reported year-over-year increases in originations in the fourth quarter of 2013, up from 55% in the fourth quarter of 2012. This is the highest level we have seen since we began collecting these data.

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[1] This report presents the results of the nineteenth CDFI Market Conditions Survey. OFN conducted the survey in January – February 2014. The survey covers the fourth quarter (October – December) of 2013. Detailed data tables are provided in the companion report, CDFI Market Conditions, Fourth 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 fourth quarter of 2013, 0.96% of loans and leases were 30 – 89 days past due and 2.62% 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, Fourth 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 eased except in the South. Twenty percent of CDFIs reported that they are capital constrained, falling below the 27% reported in the second quarter of 2013. Capital constraints are concentrated in the South: one-third (33%) of CDFIs in that region were capital constrained compared to 12% to 15% in all other regions.

CDFIs could have made $140 million in additional loans in the fourth quarter of 2013 if financing capital had been available. The bulk of these additional loans were reported by five CDFIs, one of which accounts for more than one-third of the total ($50 million). In addition, CDFIs projected a $690 million shortfall in financing capital over the next twelve months.

Portfolio Quality

Portfolio quality rose slightly. In the fourth quarter 2013, average portfolio-at-risk (greater than 30 days delinquent) inched up from 5.3% in the second quarter to 5.6%. These figures are low compared to the rates seen in 2008 and are significantly lower than the 7.8% average for the entire six-year period that we have been collecting these data. The average loan loss reserve of 8.8% is slightly lower than the 9.1% average for the five-year period we have been collecting these data.

CDFIs are optimistic about the future. As in previous periods, the vast majority of CDFIs expect portfolio quality to either improve (39%) or stay the same (56%) in the next quarter.

Expectations

The majority of CDFIs expect demand for their financing in the next quarter to increase. More than 7 out of 10 (71%) CDFIs state that they anticipate an increase in financing for the first quarter of 2014. Twenty-six percent estimate that demand for financing will remain the same and only 3% anticipate a decrease. On a regional basis, the percent of those anticipating an increase in financing range from 50% in the Northeast to 79% in the West.

Among the survey respondents who believe their financing will increase in the first quarter of 2014, the responses vary across the primary financing sectors:

Business

"The regional economy is improving."

"Growing pipeline of potential deals. Greater number of referrals from banks and other financial institutions."

"Based on the growing number of loans in our pipeline and the increased marketing we have planned for the year, we anticipate an increase in demand for our financing."

"As the economy continues to improve we are implementing a revised lending process to make our underwriting more efficient to absorb the increase in demand."

Commercial Real Estate

"Demand has been low lately in dollar terms; some of this is seasonal around the holidays. Our hope is that this is not a deeper trend and that activity will pick up in the coming quarter."

Community Services

"The first quarter will benefit from a lot of spillover from fourth quarter 2013."

“We have experienced consistent demand for larger loans with longer terms. We have helped to meet this need by participating with other lenders and by growing our capital base.”

Consumer

“We are expanding into several new loan categories in the coming year - as well as continuing to promote our prime lending product - auto loans. Auto sales are up which are helping drive that number.”

Housing to Individuals

“We have very qualified buyers who are eligible for Qualified Mortgages, that participate in 8 hours of certified housing counseling classes…. We could easily close approximately 10 to 15 loans a month based on our inventory if we had the capital.”

“The new single family loan program we piloted in 2013 is filling a gap and demand is strong… Demand is steadily increasing, and in fact in December, which is traditionally our slow time, we had our biggest month with the program.”

Housing to Organizations

“We have a new loan fund and we have consolidated our lending operations. We are also marketing to new geographies.”

“The credit market remains tight, especially for small 1-4 unit affordable housing developers who find themselves credit constrained; small contractors needing additional capital to be able to bid on the millions of public works projects coming up, especially for infrastructure; an increase in lending options as bank mergers increase and thereby decrease the local banking options; and an increase in demand from our suburban target markets which are facing a growing demand for TOD, affordable housing and commercial real estate options (including healthy food) to be able to support a growing number of lower-wealth families and individuals.”

“We expect that new relationships and outreach in our target market, and new capital available to us to lend, will create additional lending opportunities in the next quarter.”

“There’s an increased interest in shared equity lending nationally, particularly from limited-equity coops and co-housing projects.”

Intermediary

“Response to strategic partnership focus has been very positive and well-received by industry partners.”

Microenterprise

”We have expanded our product offerings to include loans to the refugee population. In addition to this new product offering, we also provide a small business loan product for individuals with little to no credit history. We are aggressively marketing these new products through partnerships with community organizations, direct outreach, online marketing, and radio ads to expand our client base.”

“Banks are still not lending aggressively and our organization is the outlet in the area to handle start-up financing and growth company (less than 2 years) loan requests.”

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

I. DEMAND FOR FINANCING AND LOAN ORIGINATIONS

Detailed Results

In the fourth quarter of 2013, 63% of respondents reported an increase in the number of financing applications received year-over-year, nearly the same rate reported in the second quarter of 2013 (64%). Less than one-fourth (23%) of CDFIs stated that they are seeing a decrease in the number of financing applications.

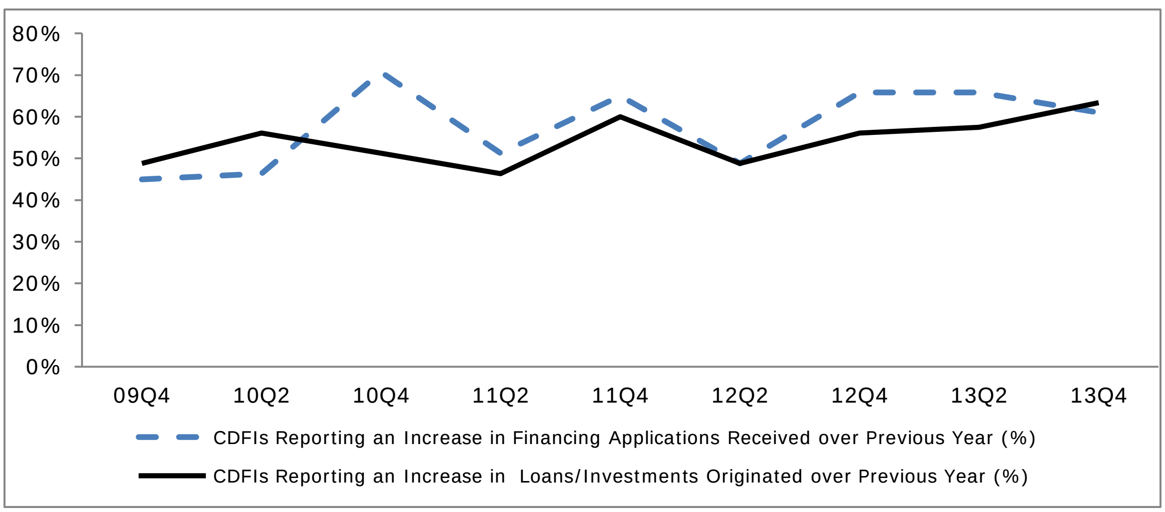
Except for Consumer and Community Services CDFIs, which reported increases of 33% and 45%, respectively, all other sectors had a 50% or more increase in the number of financing applications received.

Originations were also strong, with 62% reporting an increase in originations year-over-year. All sectors except Commercial Real Estate (33%) and Community Services (45%) reported increases of 60% or more, with Housing to Organizations and Microenterprise reporting increases of 68% and 69%, respectively.

Trend Results[7]

The subset of 41 CDFIs in the trend analysis exhibited lower demand for financing and slightly higher loan originations than all respondents in the survey: 61% of those in the trend sample reported an increase in the number of financing applications received year-over-year and 63% 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

71% of all CDFIs expect financing to increase in the next quarter. 68% of the 41 CDFIs in the trend sample expect financing to increase, up from the second quarter 2013 (54%).

[7] Complete findings for trend respondents are available in *CDFI Market Conditions, Fourth 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

Twenty percent of CDFIs reported that they are capital constrained, falling below the 27% reported in the second quarter of 2013. While this marks an improvement over the second quarter, the percent of CDFIs experiencing capital constraints remain above the rates seen in 2012 (11% - 15%).

While all asset sizes experienced some decrease in capital constraints, the decreases were the most pronounced for Small CDFIs.[8] The number of Small CDFIs that reported capital constraints fell to 26% in the fourth quarter from 38% in the second quarter of 2013. On a geographical basis, in all regions except the South, 12% - 15% of CDFIs reported capital constraints. In the South, the number of CDFIs that reported being capital constrained rose from 25% in the third quarter of 2013 to 33% in the fourth quarter. All but two sectors – Consumer and Community Services – experienced a decrease or no change compared to the second quarter of 2013.

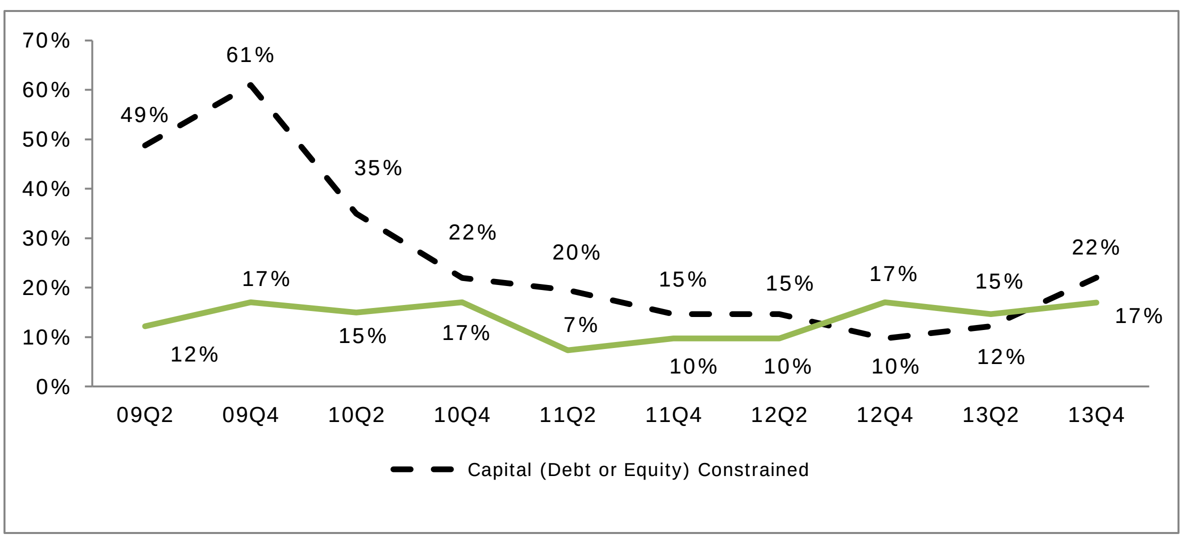
CDFIs could have made $140 million in additional loans in the fourth quarter of 2013 if financing capital had been available. The bulk of these additional loans were reported by five CDFIs, one of which accounts for more than one-third of the total ($50 million). The average shortfall was $2.9 million for Medium CDFIs and $2.5 million for Small CDFIs.[9]

On an annual forecast basis, CDFIs project a $690 million shortfall in financing capital over the next twelve months. By asset size, the projected average annual shortfall is $21.3 million for Large CDFIs, $4.3 million for Medium CDFIs and $2.5 million for Small CDFIs.

Trend Results

The trend sample's capital constraints are quite different from all CDFIs. Capital constraints increased significantly for the 41 trend CDFIs, rising from 12% in the second quarter of 2013 to 22% in the fourth quarter. The trend sample's cost of capital has increased for a larger percentage of the trend than the percentage of all respondents. Seventeen percent reported an increase in the average cost of borrowed capital year-over-year compared to 11% of all respondents.

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



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[8] Small CDFIs are defined as those whose total assets are less than $10 million.

[9] The Large CDFI (n=2) shortfall is excluded because there was an insufficient number of respondents.

III. PORTFOLIO QUALITY

Detailed Results

In the fourth quarter 2013, average portfolio-at-risk (greater than 30 days delinquent) inched up from 5.3% in the second quarter to 5.6% in the fourth quarter. These figures are low compared to the data seen in 2008 and are significantly lower than the 7.8% average for the entire six-year period that we have been collecting these data. The average loan loss reserve of 8.8% is slightly lower than the 9.1% average for the five-year period that we have been collecting these data.

Portfolio-at-risk was below 5% for Large CDFIs while Small and Medium CDFIs were at 7.8% and 5.8%, respectively. CDFIs located in the Northeast reported the highest portfolio-at-risk (10.3%) while CDFIs in the Midwest reported the lowest (3.4%).

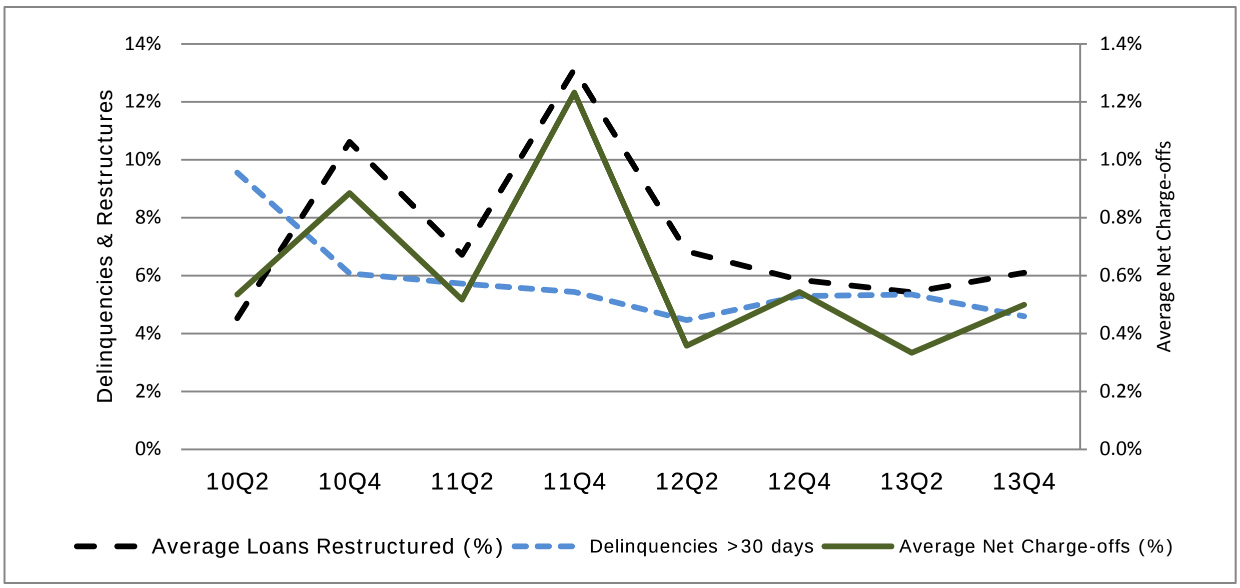
Across financing sectors, nearly all reported portfolio at risk in the range of 2% - 7%; the two exceptions are Microenterprise CDFIs (7.4%) and Housing to Individuals (12.8%).

Trend Results

Within the trend sample, the 41 CDFIs' average portfolio-at-risk fell from 5.3% in the fourth quarter of 2012 to 4.6% in the fourth quarter. This is a fairly substantial drop and is the second lowest rate we have seen since we started collecting these data.

Average loan restructures increased year-over-year, growing from 5.9% in fourth quarter 2012 to 6.1% in the fourth quarter of 2013. Average net charge-offs remained constant year-over-year at 0.5%.

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



Outlook

CDFIs are optimistic about the future as the vast majority expects portfolio quality to either improve (39%) or stay the same (56%) 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 gradually fell through 2012, ending the year on par with FDIC-insured institutions at 4.75% delinquency.

In 2013, however, CDFI delinquencies are once again higher than FDIC-insured institutions. In the fourth quarter of 2013, CDFI delinquencies were 5.30% compared to the FDIC-insured institutions' rate of 3.58%, a difference in delinquency rates not seen since early 2011.

Table A: CDFI Industry Portfolio Performance, All Survey Respondents

	2013		2012			2011				2010				2009				2008
	Q4	Q2	Q4	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
n=	130	133	122	96	100	130	98	122	131	99	106	97	88	104	108	110	102	97
Net Charge-offs, year to date	1.58	0.64	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	1.29	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	4.00	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	5.30	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
	130	Q2	Q4	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net Charge-offs, year to date (annualized)	0.69	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	0.96	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	2.62	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	3.58	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