CDFI Market Conditions
Fourth Quarter 2012

Report I - Results and Analysis
Published April 2013

The Opportunity Finance Network CDFI Market Conditions Report is a quarterly publication based on quarterly surveys 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. Each report provides a near-real-time view of market conditions and CDFI responses, analysis of regional and financing sector differences, and analysis of important trends.

Opportunity Finance Network
Public Ledger Building
620 Chestnut Street
Suite 572
Philadelphia, PA 19106-3413

P 215.923.4754
F 215.923.4755

www.opportunityfinance.net

EXECUTIVE SUMMARY[1]

In the fourth quarter of 2012, the national economy's recovery slowed. After the gross domestic product (GDP) grew at a rate of 3.1% in the third quarter – the strongest growth of the year – it fell to 0.4% in the fourth quarter, its slowest growth of the year. The unemployment rate improved slightly, from 8% in the third quarter to 7.8% in the fourth; people leaving the work force, however, may explain this drop. Unemployment continues to be a drag on the economy.

The percentage of FDIC-insured institutions that reported loans and leases 31 days or more past due decreased from 5% in the second and third quarters of 2012 to 4.75% in the fourth quarter.[2] The delinquency rate for loans on one-to-four-unit mortgages decreased to a seasonally adjusted rate of 7.09% of all loans outstanding as of the fourth quarter of 2012, a decrease of 31 basis points from the third quarter of 2012.[3]

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

Demand for Financing and Loan Originations

Demand for financing grew. In the fourth quarter of 2012, the percentage of respondents experiencing an increase in the number of financing applications received year-over-year rose to 64%, the highest percentage recorded since we began collecting these data in 2009.

Originations remained strong. More than half (55%) of CDFIs reported year-over-year increases in originations, down from 60% in the fourth quarter of 2011.

Strong demand is expected to continue. In the fourth quarter of 2012, 66% of respondents expected an increase in demand for financing in the next quarter. While strong, this is down from 73% in the first quarter and marks the first time since the third quarter of 2011 that the rate has fallen below the long-term average of 69%.

Capitalization and Liquidity

Capital constraints remained low. Fifteen percent of CDFIs reported that they are capital constrained. The percentage reporting capital constraints has remained below 20% since the third quarter of 2011. The percentage reporting increased access to capital year-over-year increased to 44%.

Notwithstanding the fact that few CDFIs reported capital constraints, those that are constrained could have made an additional $215 million in loans in the fourth quarter if financing capital were available. The bulk of these additional loans were from four organizations. In addition, respondents project a $662 million shortfall in financing capital over the next twelve months.

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1 This report presents the results of the seventeenth quarterly CDFI Market Conditions Survey. OFN conducted the survey in March - April 2013. The survey covers the fourth quarter (October– December) of 2012. OFN did not conduct a survey of the third quarter 2012. Detailed data tables are provided in the companion report, CDFI Market Conditions, Fourth Quarter 2012, Report II - Detailed Tables. Please note that we reduced the length of the survey in the fourth quarter and the detailed tables reflect that change. Also note that we have adjusted some responses that were presented in the detailed tables in earlier reports.

2 In the fourth quarter 1.15% of loans and leases were 30 – 89 days past due and 3.6% were noncurrent, defined as 90 or more days past due or in nonaccrual. Federal Deposit Insurance Corporation (FDIC) Quarterly Banking Profile.

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

Portfolio Quality

Portfolio quality continued to improve in the second half of the year. In the fourth quarter, portfolio quality continued to improve steadily. At 5.1%, the average portfolio-at-risk (greater than 30 days delinquent) is the lowest since we began conducting this survey. Likewise, the average loan loss reserve (7.8%) is the lowest.

CDFIs are optimistic about the future. Most respondents expect portfolio quality to either improve (36%) or stay the same (63%) in the next quarter. One percent of all respondents and none of the trend respondents expect portfolio quality to deteriorate, both the lowest since we began conducting this survey.

Expectations

Among the survey respondents who commented on their expectations for the next quarter, the responses vary across regions and sectors:

"We have closed some of our largest loans in this past quarter and we anticipate seeing an increase in earnings over the next year."
(Business CDFI, located in the South)

"Submissions are increasing. Quality of borrowers is improving."
(Business CDFI, located in the West)

"Demand for business loans has increased steadily and the last quarter was one of our most productive in terms of number and dollar of loans disbursed. We believe this is due in part to a more stable economy and a slightly better economic outlook as the year came to an end. There appears to be more confidence in the future economy, so businesses are investing. Additionally, new, stronger startups are coming back to the market. During the recession we had fewer new businesses approach us for financing."
(Business CDFI, located in the Northeast)

"While our local housing market is recovering we know there will be some underwater borrowers in our portfolio for years to come. When they face a hardship it will translate into a short sale or foreclosure. We expect this cloud to linger for at least a couple of years. Regarding capital, we are seeing less capital per year from our state housing tract fund and less pass through of HOME and CDBG by local jurisdictions due to federal budget cuts in recent years. Future budget cuts will only make this worse. It also remains almost impossible to obtain EQ2 type investments in the current market as well."
(Housing to Individuals CDFI, located in the West)

"Constrained budget/subsidy environment impacts our affordable housing developer portfolio in particular, and our response is to focus lending on larger developers less dependent on state and federal HUD subsidies to sustain their businesses."
(Intermediary CDFI, located in the South)

"State and municipal budgets are a large unknown to most investors."
(Commercial Real Estate CDFI, located in the Midwest)

"The uncertainty of the budget cutbacks funding our TA services could have profound impact, since we are expanding and our portfolio is growing. Of course, as the numbers increase, inevitably, so will the number of Special Asset loans."
(Business CDFI, located in the Midwest)

"The uncertainty of federal and state budgets is hurting our ability to properly fund Development Services. These programs provide necessary support to our loan programs by offering valuable TA to our clients. To solve this problem, we are continuing to grow non-government revenues and grants."
(Consumer CDFI, located in the Northeast)

"In some areas, we have seen state budget constraints actually help our lending as states look to us to provide interim financing where they have traditionally been able to."
(Housing to Organizations CDFI, located in the Northeast)

CDFI Market Conditions, Fourth Quarter 2012
Report I – Results and Analysis

I. DEMAND FOR FINANCING AND LOAN ORIGINATIONS

Detailed Results

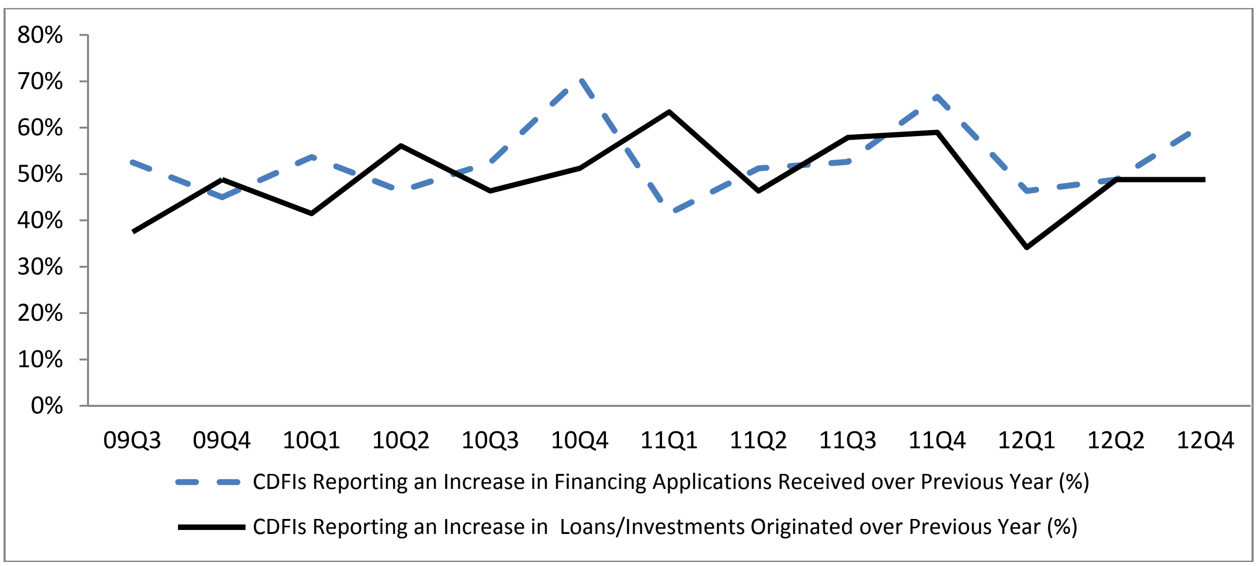
The percentage of 149 respondents experiencing a year-over-year increase in the number of financing applications received rose to 64% in the fourth quarter of 2012, the highest rate of the year and of any quarter since we began collecting these data in 2009. The Community Services and Facilities sector continued to show particular strength, with 88% of CDFIs in this sector experiencing an increase in applications in the fourth quarter.

Originations were also strong, with 55% reporting an increase in originations year-over-year. Three sectors reported increases of 60% or more: Consumer, Commercial Real Estate, and Community Service and Facilities.

Trend Results[4]

The subset of 41 CDFIs in the trend analysis exhibited slightly lower demand and originations than all respondents: 61% reported an increase in the number of financing applications received year-over-year and 49% 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

Sixty-six percent of all respondents and 63% of the 41 trend respondents expect demand for financing to increase in the next quarter. For the trend sample, this is a drop from the previous 2012 quarters to levels seen in 2011.

[4] Complete findings for trend respondents are available in *CDFI Market Conditions, Fourth Quarter 2012, Report II – Detailed Tables,* Table V, pages 47-50.

II. CAPITALIZATION AND LIQUIDITY

Detailed Results

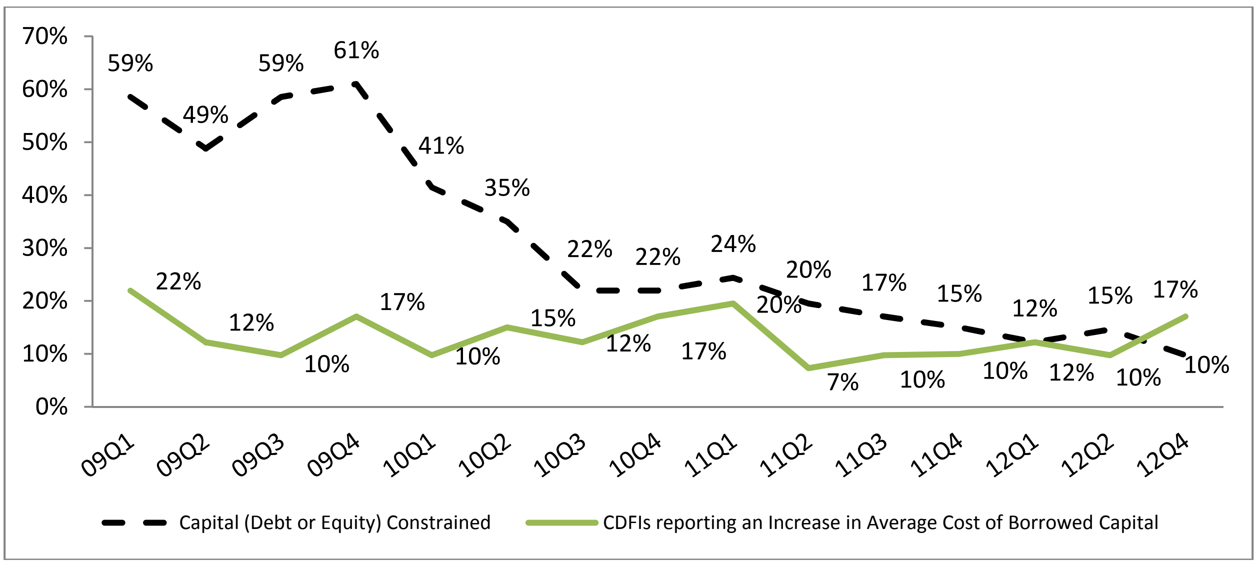
At the end of the fourth quarter, 15% of CDFIs reported that they are capital-constrained. This marks the fifth quarter that fewer than 20% of respondents reported that they are capital-constrained. Throughout 2011, more Small CDFIs reported being capital-constrained than Large or Medium CDFIs. This changed briefly in the first and second quarters of 2012, when Small CDFIs were less capital constrained than Large CDFIs. In the fourth quarter of 2012, the percentage of Small CDFIs that are capital constrained is once again higher than Large and Medium CDFIs.

In the fourth quarter, 60% of CDFIs in the Northeast reported increased ability to access capital year-over-year. This was followed by 46% of CDFIs in the West, 38% in the Midwest and 30% in the South. The West reported that 18% had decreased ability to access capital year-over-year, much higher than the Northeast (9%), South (7%), and Midwest (4%).

Trend Results

Among the 41 CDFIs in the trend sample, only 10% are capital-constrained. More than half (51%) report their ability to access capital has increased year over year, and 61% report increased capital liquidity.

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



III. PORTFOLIO QUALITY

Detailed Results

In the fourth quarter, portfolio quality continued to improve steadily.

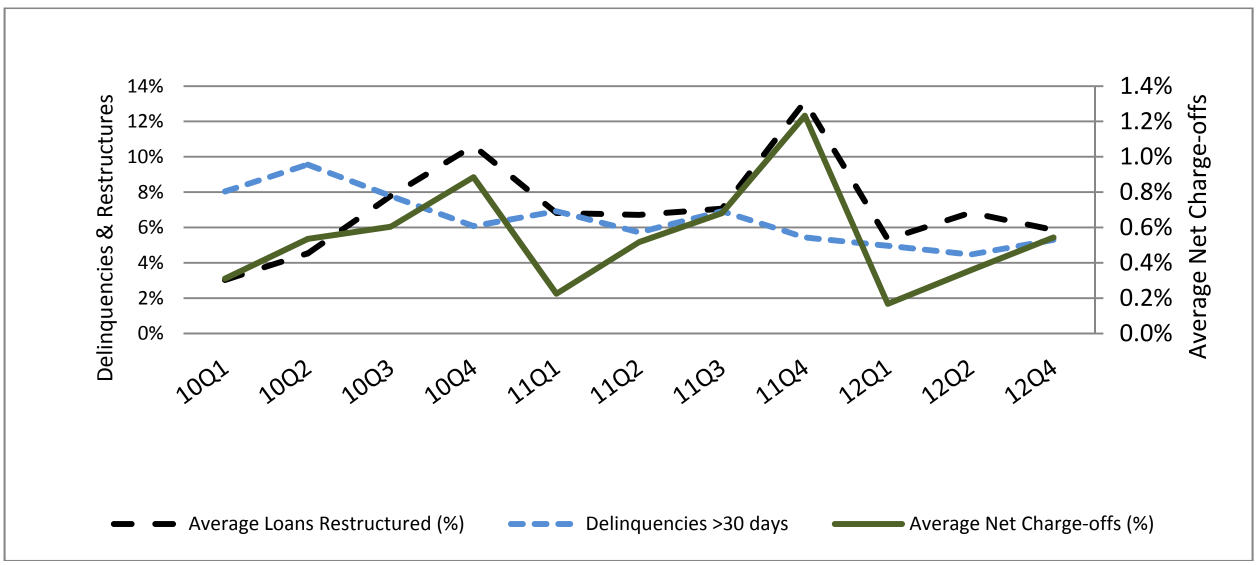
Average loans more than 30 days past due fell to 5.1%. During the same quarter, the average size of CDFIs' loan loss reserves fell to 7.8% from 10.3% in the second quarter. Both of these levels are the lowest reported since we began collecting these data in 2008. At the same time, the average nonaccruals rose from 0.9% in the second quarter to 1.2% in the fourth quarter. The percentage of loans or investments in workout increased from 16% of CDFIs in the second quarter to 17% in the fourth quarter. This level is well below the average of 44% from the fourth quarter of 2008 to the second quarter of 2010. The percent of loans restructured decreased to 4.7% in the fourth quarter, the lowest level seen since the second quarter of 2010.

CDFIs in the Northeast reported the highest average portfolio-at-risk at 6.9% of the loan portfolio; the Midwest had the lowest rate at 2.7%. In the sector breakout, Microenterprise (8.3%) and Consumer (6.4%) CDFIs reported the highest average portfolio-at-risk. Community Services and Facilities (4.3%) and Housing to Individuals (4.7%) had the lowest rates of average portfolio-at-risk.

Trend Results

Looking at the 41 CDFIs in the trend sample, we see that they reported an increase in the average portfolio-at-risk from 4.5% in the second quarter to 5.3% in the fourth quarter. As the graph below shows, the long term trend is a gradual decline in average delinquency. With only one quarter of rising delinquency, it is too early to tell if the fourth quarter signals a change in this trend. Loan loss reserves are down and average net charge-offs are below the level reported in the fourth quarters of 2010 and 2011.

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



Outlook

Most respondents expect portfolio quality to either improve (36%) or stay the same (63%) in the next quarter. One percent of all respondents and none of the trend respondents expect portfolio quality to deteriorate, both the lowest since we began conducting this survey.

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 larger CDFIs and lesser weight to smaller 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%. Since then, with a couple of exceptions, it has gradually fallen and has been approaching FDIC-insured institutions' rates. In the fourth quarter, CDFIs finally closed the gap, ending the year on par with FDIC-insured institutions at 4.75% delinquency. (See Table A.)

CDFI industry net charge-offs have been higher than FDIC-insured institutions since 2009. In 2012, CDFI net charge-offs were more than double FDIC-insured institutions: 2.56% vs. 1.10%. While higher, CDFI net charge offs have remained below 3% in all 3 years.

Table A: CDFI Industry Portfolio Performance, All Survey Respondents[5]

	2012			2011				2010				2009			
	Q4	***Q2***	***Q1***	***Q4***	***Q3***	***Q2[6]***	***Q1***	***Q4***	***Q3***	***Q2***	***Q1***	***Q4***	***Q3***	***Q2***	***Q1***
n=	***122***	***96***	***100***	***130***	***98***	***122***	***131***	***99***	***106***	***97***	***88***	***104***	***108***	***110***	***102***
Net Charge-offs, year to date (annualized)	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
% 31-90 Days Past Due	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
% >90 Days Past Due or in Nonaccrual	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
% >30 Days Past Due[7]	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
Table B: FDIC-Insured Institution Industry Portfolio Performance (n=8,000+)															
Net Charge-offs, year to date (annualized)	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
Loans and Leases															
% 30-89 Days Past Due	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
%>=90 Days Past Due or in Nonaccrual	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
% >=30 Days Past Due	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

[5] More information on calculations and methodology for the above analysis can be found in the companion report, *CDFI Market Conditions, Fourth Quarter 2012, Report II – Detailed Tables* in Appendix I page 51.

[6] Please note that the first and second quarter 2011 rates have been adjusted to correct for a calculation error and therefore do not match the rates in the first and second quarter 2011 reports.

[7] Prior to the first quarter 2010, the Market Conditions Survey did not ask CDFIs to report Additional Nonaccruals that they had not included in their greater than 90 days past due category; therefore, delinquencies prior to the first quarter 2010 do not include nonaccruals for some CDFIs.