

# RatingsDirect®

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## Summary:

# Reinvestment Fund Inc., Pennsylvania; General Obligation

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## Table Of Contents

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Rationale

Outlook

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### Credit Profile

US\$75.0 mil Impact Invest Bnds ser 2018 due 02/15/2028

<i>Long Term Rating</i>	AA-/Stable	New
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Reinvestment Fund, Inc [The] ICR

<i>Long Term Rating</i>	AA-/Stable	Downgraded
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Reinvestment Fund, Inc [The] taxable rev bnds

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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## Rationale

S&P Global Ratings has lowered its issuer credit rating (ICR) on Reinvestment Fund Inc. (Reinvestment Fund, or RF), Pa. to 'AA-' from 'AA'. At the same time, S&P Global Ratings assigned its 'AA-' long-term rating to Reinvestment Fund's series 2018 taxable impact investment bonds. In addition, S&P Global Ratings affirmed its 'AA-' long-term rating on RF's series 2017 taxable impact investment bonds. The outlook on all ratings is stable.

The ratings reflect our view of the fund's:

- Decline in unrestricted equity (adjusted equity)-to-total assets to 10.8% in fiscal 2017 from 15.5% in fiscal 2016, which we consider comparable with those of other 'AA-' rated community development financial institutions;
- Increase in our assumed loan losses reflect changes in year-over-year loan characteristics;
- Decline in profitability as measured by return on average assets and net interest margin (NIM) in 2017;
- Reduced amount of liquid assets available to cover short-term financial needs;
- Reliance on grant income that may not be guaranteed from one year to the next, which can lead to volatility in profitability; and
- Exposure to a balance of unenhanced loans that is comparable with that of its industry peers.

Partially offsetting these factors, in our view, are the fund's:

- Strong profitability in absolute terms, as measured by an average NIM of 3.1% over the past five years--among the highest of other rated peers;
- Very low delinquencies, as measured by nonperforming assets and total debt restructurings, despite a growing loan portfolio;
- Experienced and prudent management; and
- Diversified assets reaching across a variety of sectors, including housing, charter schools, health care facilities, and

other community facilities.

Reinvestment Fund plans to issue the series 2018 bonds, with an estimated par amount of \$75.8 million, at a fixed rate. The fund will pay interest semiannually, starting from the delivery date, on each interest payment date. RF anticipates using approximately \$23 million to pay down existing obligations, and \$52 million to finance loans to organizations and businesses in pursuit of its mission, with the remaining bond proceeds to pay issuance costs. The new loans financed with these bond proceeds will support the fund's mission to expand economic opportunity in low-income communities, and RF intends for such borrowers to be organizations and businesses active in areas such as housing, community resources, education, commercial enterprise, food commerce, community health centers, business development, and sustainable energy.

The 2018 bonds are general obligations of RF and are supported by the fund's credit pledge. The bonds are payable from all legally available revenue and assets of RF and are not secured by a reserve fund, mortgage lien, or security interest on or in any funds or other RF revenue or assets.

## **Outlook**

The stable outlook reflects our view of Reinvestment Fund's expected equity, profitability, asset quality, and consistency of strategy throughout the next two years. We believe RF has a prudent lending strategy with a strong loan oversight process. As a grant recipient, RF uses grant funds to further its social mission across the country, with an emphasis in the Mid-Atlantic region. We expect the fund to maintain strong net interest margins relative to those of its peers, despite fluctuations in net income, and for its unrestricted equity to remain sufficient to absorb potential loan losses at the current rating level.

### **Downside scenario**

If RF experiences significantly reduced capital adequacy caused by increased debt and declining loan performance (assuming assets and returns on assets do not rise proportionately), we could lower the rating. A significant and sustained decline in net income, or loss of unrestricted net assets, could also result in a lower rating.

### **Upside scenario**

We could raise the rating if the fund's equity levels rise while loan performance remains exceptional.

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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