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Summary:

Reinvestment Fund, Inc., Pennsylvania; General Obligation

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Credit Profile

Reinvestment Fund, Inc [The] ICR		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Reinvestment Fund, Inc [The] taxable rev bnds		
<i>Long Term Rating</i>	A+/Stable	Affirmed

Rating Action

S&P Global Ratings has affirmed its 'A+' issuer credit rating (ICR) on Reinvestment Fund Inc. (Reinvestment Fund or RF), Pa., and its 'A+' long-term rating on RF's series 2017 and 2018 taxable impact investment bonds. The outlook on all ratings is stable.

As of March 31, 2020, there was approximately \$126 million outstanding on the series 2017 and 2018 bonds. The bonds were issued to pay down existing debt obligations, as well as to finance new loans to expand economic opportunity in low-wealth communities in pursuit of RF's mission. The bonds are general obligations of RF; therefore, its credit pledge supports the bonds. Bonds are payable from all legally available revenue and RF's assets, and are not secured by a reserve fund, mortgage lien, or security interest on or in RF funds or other revenue or assets.

Credit overview

In past years, RF's strategy for meeting its mission and expanding its loan portfolio (which increased 53% between fiscal years 2015 and 2018) included absorbing additional debt obligations (which increased more than 86% over that same period). Fiscal 2019, however, saw a modest decline of 3% in the outstanding loan balance, and debt outstanding declined 6%, driven partly by less demand for loans to charter schools and the lack of a New Markets Tax Credit (NMTC) allocation in 2019, which diminished RF's lending capacity.

Partly as a result of this slowdown in lending, fiscal 2019 brought a slight increase in Reinvestment Fund's equity ratio (equity-to-total assets) to about 33% after years of decline from 45% in fiscal 2013. This lower ratio indicates limited resources on RF's balance sheet to absorb potential loan losses, particularly compared with other rated community development financial institutions (CDFIs). Using our commercial-mortgage-backed-securities model and our methodology for rating U.S. public finance rental housing bonds, we assess the risk associated with RF's loan portfolio based on loans' characteristics and performance. We estimate credit enhancement required for RF's existing loan portfolio, as of June 30, 2019, at about 19% at the 'A+' rating stress level. This leads to a net equity-to-assets ratio of about 20% in fiscal 2019, and an average of 13% between 2015 and 2019, which we think is in line with the current rating.

Stay-at-home mandates brought about a precipitous decrease of the U.S. economy during the recent

COVID-19-related recession. We have seen record high unemployment, and we expect the recovery process to last for more than one year. (For more information on COVID-19's effect on the U.S. public finance sector, see the articles titled "U.S. Real-Time Data: A Cloudy Economic Outlook As COVID-19 Resurges," published Oct. 23, 2020, and "U.S. Biweekly Economic Roundup: U.S. Consumer Spending Continues To Outperform Expectations," published Oct. 16, 2020, on RatingsDirect.)

As of Sept. 30, 2020, about 5% of RF's loans were delinquent or received forbearance, about half the rate from July 31, 2020, with none of the loans in forbearance making their payments. We view this as a temporary credit weakness for RF, which has reported several consecutive years of minimal nonperforming assets (NPAs). Some of these loans in delinquency or forbearance are for projects with hampered revenues as a result of closures or unemployment resulting from COVID-19. While some of the loans most affected, directly or indirectly, by the COVID-19 pandemic and related economic crises may still be making their payments to Reinvestment Fund, staff have occasionally revised their internal risk ratings based on the likelihood of full repayment. We think RF has the financial strength, flexibility, and resources to perform at the current rating level and withstand near-term loan-payment disruptions.

The rating also reflects our opinion of Reinvestment Fund's:

- Conservative approach to loan-loss reserves that continue to average about 5% of total loans between 2015 and 2019, which is higher than the median reserve level of 3.7% for other rated CDFIs, even as RF's asset quality remains very strong, with NPAs averaging close to 0% over the same five-year period;
- Experienced senior management team and prudent capitalization strategy for continuing to execute on its mission while producing a strong net position; and
- Diversified lending portfolio reaching across multiple geographic markets and a variety of sectors, including charter schools, commercial real estate, healthy food, housing, and other community facilities.

Partially offsetting these factors, in our view, are Reinvestment Fund's:

- Weakened debt position, as the equity-to-total debt ratio decreased to 53% in fiscal 2019 from 73% in fiscal 2015, reflecting increases in debt outstanding that exceed increases in net assets in past years, despite the slight improvement in 2019;
- Susceptibility to fluctuations in funding from government and private grants that might not be recurring, which could lead to volatility in net asset growth and profitability, as measured by return on assets (ROA); and
- Exposure to early financing loans that is comparable with that of industry peers, which we view as carrying inherently more risk than permanent loans secured by cash-flowing projects.

Headquartered in Philadelphia, with offices in Baltimore and Atlanta, Reinvestment Fund is a mission-driven financial institution that leverages capital, analytics, and partnerships in an effort to build strong, healthy, and more equitable communities.

The stable outlook reflects our opinion that RF's net equity ratio, profitability, and asset quality will remain consistent with the rating. We view the current loan portfolio performance as a temporary credit weakness that RF could likely address within the next few months, while maintaining among the highest reserves compared with other rated CDFIs.

Our loan analysis on the portfolio as of June 30, 2020, results in more assumed losses than on the 2019 portfolio; given a generally comparable equity position in both 2020 and 2019, we believe RF's balance sheet can adequately absorb the higher losses at the current rating.

Environmental, social, and governance (ESG) factors

We have analyzed Reinvestment Fund's ESG risks relative to its ICR in terms of financial strength, management, and the economy, and determined that all are in line with our view of the sector standard. We believe that health and safety social risks exist related to the COVID-19 pandemic. We consider the environmental and governance risks generally in line with that of the sector as a whole. Measures taken to prevent the spread of COVID-19, such as social distancing and the closing of nonessential businesses, have led to a spike in unemployment and the higher likelihood of nonpayment of rent and mortgages, and delay in housing construction projects, which could create a liquidity crunch for some issuers in the sector, and, in our view, elevate the social risk in the near term. We will continue to monitor developments and the effects of COVID-19 as a health and safety social risk under our ESG factors by updating assumptions and stress tests. We also analyzed Reinvestment Fund's governance and environmental risks and determined that they are in line with our view of the sector standard.

For more information about Reinvestment Fund Inc., please see the full analysis, published Nov. 9, 2020, on RatingsDirect.

Stable Outlook

Downside scenario

If RF were to experience a significant reduction in capital adequacy as a result of weak loan performance, increased debt, or lower net equity, this would demonstrate volatility and weakness in its capitalization and debt positions. In this scenario, we could lower the rating or revise the outlook to negative. Further, should RF's total on-balance-sheet loans receivable decline, we would expect to see a corresponding decline in interest income from loans, which could have negative implications for RF's profitability. A significant reduction in net income, potentially from a decreasing interest spread, or continued high reliance on volatile grant income, could also lead to our lowering the rating or revising the outlook to negative.

If secured debt were to increase, we could lower the rating on series 2017 and 2018 bonds based on the availability of unpledged assets to cover unsecured general obligation bonds.

Upside scenario

We could raise the rating or revise the outlook to positive if RF were to demonstrate consistent and steady growth in its net equity ratios compared with its peers, as well as very strong, consistent profitability metrics. Additionally, exceptional loan performance and the preservation of sufficient capital available to absorb potential loan losses could also result in our raising the rating or revising the outlook to positive.

Related Research

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

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