S&P Global
Ratings

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Local Initiatives Support Corp., New York; General Obligation

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Local Initiatives Support Corp., New York; General Obligation

Credit Profile		
US$50.0 mil Impact Notes - 1-15 year maturities ser 2023		
Long Term Rating	AA-/Stable	New
Local Initiatives Support Corporation taxable bnds ser 2017 due 07/01/2047		
Long Term Rating	AA-/Stable	Affirmed
Local Initiatives Support Corporation ICR		
Long Term Rating	AA-/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to Local Initiatives Support Corp. (LISC), N.Y.'s series 2023 taxable impact notes.
- At the same time, S&P Global Ratings affirmed its 'AA-' issuer credit rating (ICR) on LISC and its 'AA-' long-term rating on LISC's series 2021 and 2020 taxable impact notes and series 2017 bonds.
- The outlook is stable.

Security

All impact notes and 2017 bonds outstanding are unsecured general obligations of LISC, payable from unrestricted revenue and assets from certain funds. There is no reserve fund for the bonds. Aggregate principal amount of $81.2 million of notes remained available for purchase as of Dec. 7, 2023. The note proceeds could be used to pay down maturing debt and other debt facilities, to finance loans to organizations and businesses in pursuit of LISC's mission to expand economic opportunity in underserved communities, and for LISC's general corporate purposes. Lending activities originating from the notes are expected to resemble LISC's existing portfolio.

An ICR reflects the obligor's general creditworthiness and its capacity and willingness to meet financial commitments when they come due. It does not apply to any specific financial obligation and does not consider the obligation's nature and provisions, bankruptcy standing, liquidation, statutory preferences, or legality and enforceability.

Credit overview

The rating reflects our opinion of LISC's:

- Strong capital adequacy over the last five years, which we consider sufficient to absorb assumed loan losses based on our assessment of risks in its on-balance-sheet loan portfolio, with a net-equity-to-assets ratio of 17.4% in fiscal 2022 and a five-year average of 14.5%;
- Conservative approach to loan-loss reserves, which continue to average about 5.9% of total loans between 2018 and 2022, higher than median reserves of about 3.7% for other rated community development financial institutions (CDFIs)--however, we expect this to decrease slightly over the next few fiscal years;

- Very strong liquidity, which accounted for an average of 33.5% of short-term investments over total assets during the last five years, which is higher than that of similarly rated peers; and
- Proactive management of its loan portfolio, low-risk debt profile with minimum variable-rate debt exposure, and strong administrative and financial management, supported by a culture of constant improvement, with good working relationships with borrowers/sponsors.

Partially offsetting the above-mentioned strengths, in our view, is LISC's susceptibility to year-over-year financial volatility related to government and private grants and contributions that may not be recurring, and could negatively affect the stability of key ratios.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) risks relative to LISC's financial strength, management and legislative mandate, and local economy. We view these risks as neutral to our credit analysis.

Outlook

The stable outlook reflects S&P Global Ratings' view of LISC's consistent capital-adequacy ratios. Net equity, after S&P Global Ratings' calculated losses, relative to total assets remained strong in fiscal 2022, at 17.4% after LISC received an influx of grants and contributions. At the same time, ample liquidity and asset quality remain strengths of LISC's credit quality, even through periods of macroeconomic challenges. We consider LISC's debt and loan-portfolio management critical to its rating stability.

Downside scenario

We could revise the outlook to negative or lower the ICR if LISC experiences a significant deterioration in capital adequacy metrics due to increased debt, weakening loan performance, or fewer unrestricted or donor restricted net assets, which would demonstrate volatility and weakness in its capitalization and liquidity positions.

Upside scenario

We could raise the rating or revise the outlook to positive if LISC were to demonstrate consistent and steady growth in its net equity ratios compared with those of its peers, or if loan performance were exceptional, coupled with the preservation of sufficient capital available to absorb potential loan losses.

Credit Opinion

Issuer credit rating overview

Founded in 1979, LISC is organized as a New York State not-for-profit corporation and is a 501(c)(3) tax-exempt organization headquartered in New York City, with 38 local offices and a rural program operating in 49 states and Puerto Rico. The corporation provides capital financing to all aspects of community development in the neighborhoods that it serves, with an emphasis on developing and preserving quality affordable housing, strengthening local businesses, increasing financial opportunities for low- to moderate-income individuals, providing access to education, and crafting environments that promote safe communities.

We have reviewed the last five years of LISC's audited financial statements (2018-2022) for LISC's parent only. Although we understand that LISC has affiliates, we have not analyzed their creditworthiness and ongoing financial trends. Therefore, in our analysis, we have excluded the effects of investment in affiliates from our financial ratios. Unrestricted grants are contributions that can be expended as best determined by LISC, and we have added the unrestricted grants received from three affiliates to LISC's adjusted revenues. Restricted grants are funds that can only be used as determined for specific purposes and in specific geographies designated by the donors. Therefore, in our capital adequacy analysis, we have deducted a portion of net assets with donor restrictions when grant and contribution sources were not fully available to absorb potential loan losses.

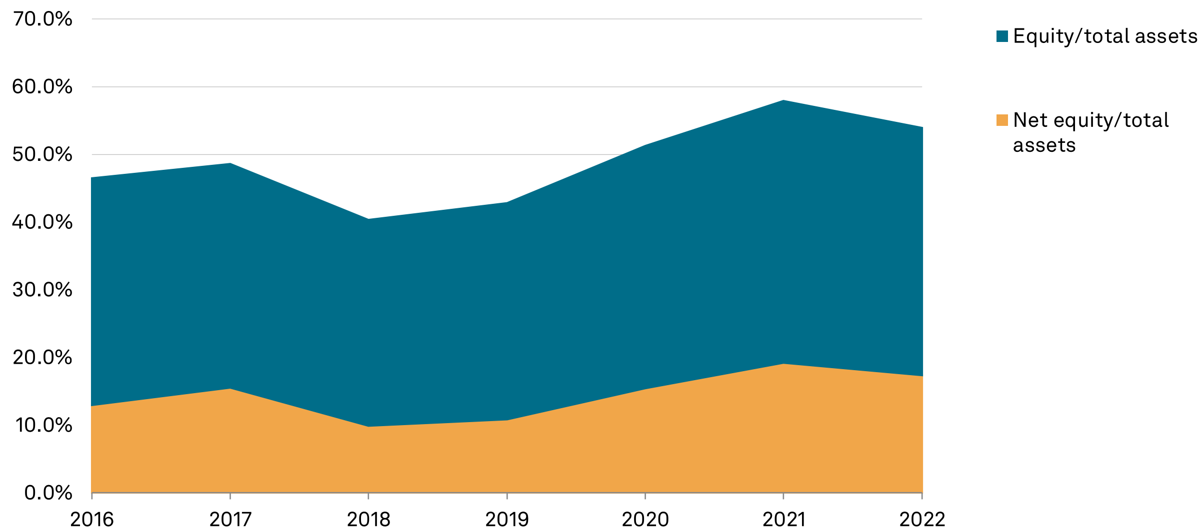
Capital adequacy

The highest emphasis in our analysis is placed on net equity and the related ratios, and are therefore primary drivers in our ratings. As defined in our criteria, equity refers to LISC's net assets, excluding changes in fair value. Similarly, the term net equity, which includes S&P Global Ratings' adjustments for projected loan losses, loan loss reserves, and other program-specific factors, refers to the LISC's net assets (excluding changes in fair value) after applying these adjustments. Net equity-to-total assets and other capital adequacy ratios give an indication of resources available to sustain operations during difficult circumstances or to fund programs that further such public-purpose missions as expanding housing affordability. LISC's net equity-to-total assets was estimated to be 14.5% in the last five years. The corporation was able to increase its net equity-to-total debt ratio to 36.6% in fiscal 2022, thanks to substantial growth in net assets, without donor restrictions, in fiscal 2022.

We assess the risk associated with LISC's loan portfolio based on the characteristics of the loans and estimate credit enhancement required for the corporation's existing loans at approximately 17.1% of the 'AA-' stress level. We will monitor LISC's capital adequacy on the portfolio, but in the two-year outlook period we believe it has sufficient net assets to cover potential losses. The staff is taking a proactive approach to managing this situation, with outreach to borrowers and exploring available tools to address any emerging risks.

Chart 1

Equity/total assets (%) vs. net equity/total assets (%)



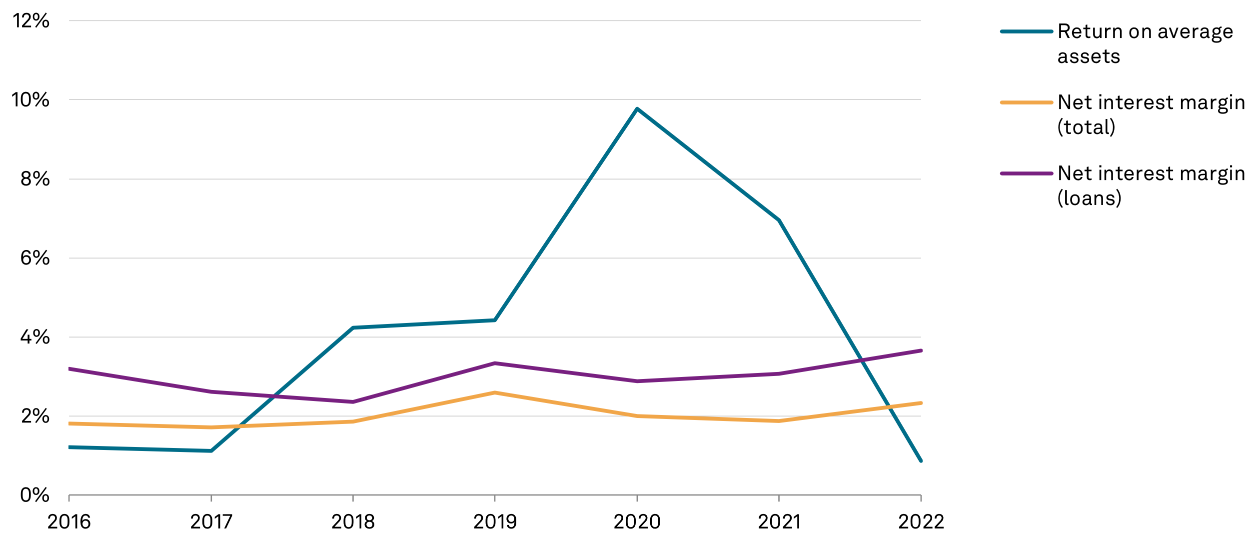
LISC has managed its debt profile well, in our opinion. Total debt outstanding, bonds, and loans payable was $557.7 million in fiscal 2022. Capital to support LISC's lending activity comes from two primary sources: investor funds lent to LISC and bank debt such as lines of credit. LISC has focused on matching the duration of assets with lending capital, managing interest rate risk with reduced exposure to unhedged variable debt obligations, avoiding negative arbitrage, and maintaining flexible capital to meet borrowers' needs.

Profitability

LISC has strong profitability. A huge portion of its revenue is derived from contributions and grants, which can be volatile year to year. However, the contribution revenue is greater than grants released, so restricted net assets related to grant/contributions remain positive. Its return on assets (5.2%) is stronger than those of other similarly rated CDFI peers (3.5%). Its revenue mix most notably improved through interest income from loans in fiscal 2022, which has more than doubled since 2016. Net interest margin (loans) has averaged 3.1% over the last five years.

Chart 2

Profitability metrics



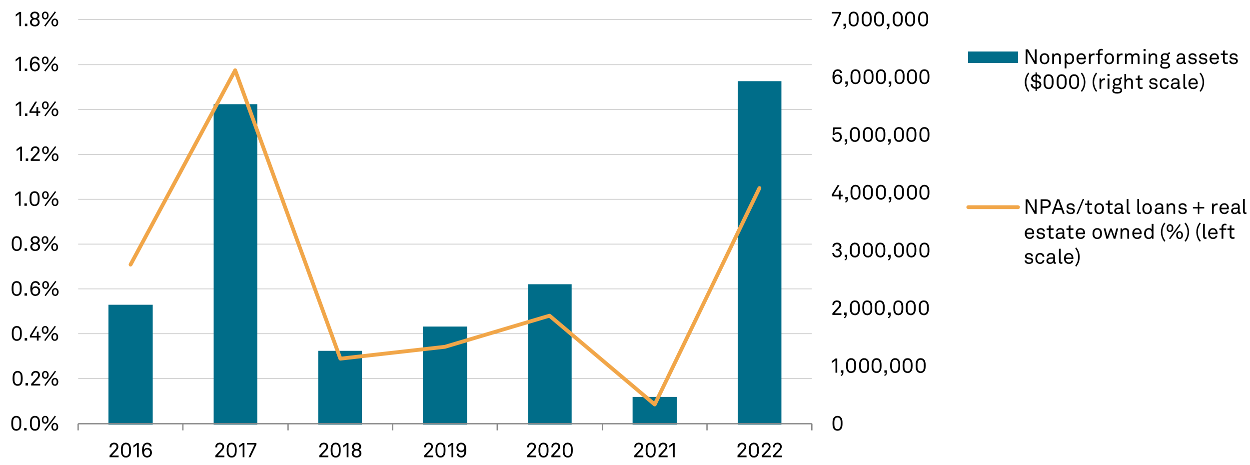
Asset quality

S&P Global Ratings believes that LISC has a history of strong asset quality, performance, and oversight. The corporation maintained strong loan performance through the COVID-19 pandemic. It sustained minimum nonperforming assets (NPAs) at $5.9 million in fiscal 2022 (0.45% NPAs over total assets in the last five years) and is easily covered by its loan loss reserve, which has a five-year average of 5.9% of total loans. LISC has significantly strengthened its underwriting, with the loan loss reserves increasing each year. In our opinion, the corporation's allowance for loan loss policy and underwriting shows that it has prudent risk management.

The corporation's total investments have increased year over year, with an approximately 83% increase from 2018 to year-end 2022. With regard to LISC's investments, we believe the corporation has an atypically aggressive investment policy that is not comparable with the investment guidelines provided by other similar institutions and agencies. LISC's alternative investments, including REIT, hedge funds, and private equity funds, were $13.2 million in fiscal 2022--a decrease from $19.6 million in fiscal 2021 and only 2.9% of its total investments.

Chart 3

Nonperforming assets



However, LISC has a strong liquidity position, with a history of maintaining short-term investments that accounted for an average of 33.5% of total assets during the past five years, which is much higher than that of similarly rated peers. In addition, as of June 2023, it had $38 million in remaining availability of unsecured credit lines from its lenders.

Strategy and management

We believe that LISC's vision sets out the corporation's business and growth strategic plan. With its national footprint, it is positioned to respond to the needs of underserved communities, facilitate financing for projects, and provide technical assistance. We view LISC's commitment to community development in relation to its core values, mission, and overall strategy and management as very strong. We base this on the financial ratios outlined above, and the effects of more than $29.7 billion in lending and investment activity since 1979.

We view LISC's management as strong overall, due to experienced and strategic senior leadership. Its governance reflects its commitment to its mission and prudent risk management. It has an active 20-member board of directors made up of a wide array of backgrounds that include public and private nonprofit and for-profit enterprise, health care, philanthropy, and finance. The management team's autonomy and relatively continuous composition allow LISC to meet its mission. We consider management's ability to resolve difficult situations during its operating history to be strong, evidenced by limiting delinquencies among its loans and proactively working with borrowers to overcome COVID-19-related challenges.

Senior staff members work closely with one another to meet LISC's mission and bring operations and projects into compliance with overall strategic goals. The corporation has internal policies and procedures that are institutionalized and built into the fabric of all operations. We also believe LISC effectively leverages partnerships with equity providers, partners, and other redevelopment organizations in the U.S.; this provides the corporation with opportunities for income streams that are not solely reliant on grants and subsidies.

Table 1

Financial ratio analysis

	2016	2017	2018	2019	2020	2021	2022	5-year average
Capital adequacy								
Equity/total assets	33.52%	33.08%	30.4%	32.0%	35.9%	38.7%	36.5%	34.7%
Net equity/total assets	12.93%	15.50%	9.9%	10.9%	15.4%	19.1%	17.4%	14.5%
Equity/total debt	68.67%	58.66%	55.6%	57.3%	71.1%	80.4%	76.9%	68.3%
Net equity/total debt	26.49%	27.48%	18.0%	19.5%	30.5%	39.7%	36.6%	28.9%
Available liquid assets/total loans	93.91%	65.56%	56.8%	51.6%	71.9%	81.6%	80.6%	68.5%
Profitability								
Return on average assets	1.22%	1.11%	4.2%	4.4%	9.8%	7.0%	0.9%	5.2%
Net interest margin	1.81%	1.71%	1.9%	2.6%	2.0%	1.9%	2.3%	2.1%
Net interest margin (MBS [loans] + loans)	3.20%	2.61%	2.4%	3.3%	2.9%	3.1%	3.7%	3.1%
Net interest margin (loans)	3.20%	2.61%	2.4%	3.3%	2.9%	3.1%	3.7%	3.1%
Asset quality								
NPAs/total loans + REO	0.71%	1.57%	0.3%	0.3%	0.5%	0.1%	1.0%	0.4%
Net charge-offs/average NPAs	23.84%	22.79%	46.6%	84.4%	215.2%	149.0%	147.0%	128.5%
Loan loss reserves/total loans	6.47%	6.28%	5.9%	6.1%	6.0%	5.7%	5.8%	5.9%
Loan loss reserves/NPAs	912.00%	398.77%	2054.3%	1776.7%	1246.9%	6648.9%	550.4%	2455.4%
Net charge-offs/average loans	0.12%	0.27%	0.4%	0.3%	0.9%	0.4%	0.9%	0.6%
Liquidity								
Total loans/total assets	42.49%	49.75%	50.8%	52.2%	47.2%	44.9%	45.2%	48.1%
Short-term investments/total assets	42.93%	35.11%	29.2%	27.3%	35.0%	38.0%	37.8%	33.5%
Total investments/total assets	45.39%	37.69%	31.5%	29.5%	36.8%	39.6%	39.2%	35.3%

Table 2

Five-year trend analysis ($000s)

	2016	2017	2018	2019	2020	2021	2022
Total assets	633,589,610	660,674,630	799,908,140	873,110,760	994,090,874	1,088,712,803	1,174,383,243
% change	0	0	21.1%	9.2%	13.9%	9.5%	7.9%
Total debt	309,318,367	372,580,049	437,758,998	486,860,370	501,625,088	524,742,226	557,709,439
% change	0	0	17.5%	11.2%	3.0%	4.6%	6.3%
Total equity	212,407,157	218,540,849	243,210,834	279,049,997	356,721,876	421,817,804	428,995,140
% change	0	0	11.3%	14.7%	27.8%	18.2%	1.7%
Total net equity	81,926,261	102,384,452	79,003,855	94,892,069	152,882,352	208,403,952	204,056,242
% change	(1)	0	-22.8%	20.1%	61.1%	36.3%	-2.1%
Revenues	142,830,642	109,204,360	140,934,564	146,939,251	303,041,752	274,178,304	224,614,236
% change	1	(0)	29.1%	4.3%	106.2%	-9.5%	-18.1%
Expenses	177,531,153	140,826,310	147,938,257	153,552,732	359,612,579	251,416,244	264,047,942
% change	1	(0)	5.1%	3.8%	134.2%	-30.1%	5.0%
Net income	6,682,418	7,167,845	30,892,879	36,946,271	91,241,611	72,479,150	9,740,211
% change	0	0	45.3%	-13.2%	20.0%	-9.6%	1.8%
Total Program MBS and loans	269,212,011	328,674,501	406,381,694	455,775,471	469,156,439	489,115,940	530,758,924

Table 2

Five-year trend analysis ($000s) (cont.)

	2016	2017	2018	2019	2020	2021	2022
% change	0	0	23.6%	12.2%	2.9%	4.3%	8.5%
Nonperforming assets	2,040,786	5,520,772	1,249,990	1,666,465	2,395,448	444,274	5,913,899
% change	4	2	-77.4%	33.3%	43.7%	-81.5%	1231.1%

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022