

## Enterprise Community Loan Fund Inc., MD Assigned 'AA-' Issuer Credit Rating

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NEW YORK (S&P Global Ratings) May 21, 2018--S&P Global Ratings has assigned its 'AA-' issuer credit rating (ICR) to the Enterprise Community Loan Fund Inc., Md. (ECLF). The outlook is stable.

"We consider ECLF's management, capital, and business model to be key credit strengths," said S&P Global Ratings credit analyst David Greenblatt.

The rating reflects our view of ECLF's:

- Experienced and proactive management team with a prudent growth strategy and strong social mandate;
- Strong level of capital available to absorb loan losses at the current rating level through a combination of unrestricted equity and available credit facilities;
- Financially self-sufficient business model, as evidenced by a positive return on average assets (ROA) without including income from grants and contributions, and a net interest margin that grew to 3% in 2017, its highest in the past five years;
- Higher ROA of 2.7% over the past five years compared with a median of 2.1% for similarly rated community development financial institutions (CDFIs); and
- Proactive management of its loan portfolio with thorough underwriting guidelines, conservative reserve requirements, and strong oversight of interest rate risk.

Partially offsetting these strengths, in our view, are the following weaknesses:

- A weaker net equity-to-assets ratio of 13.9% in 2017 when compared with a median of 18.6% among similarly rated peers, reflecting growth in ECLF's loan portfolio that exceeds growth in its net assets;
- A lower total equity-to-total debt ratio, at 33.6% over the past five years, relative to peers, with a median of 80.0%;
- Historically high nonperforming assets (NPAs) over the past five years, at 3.2% of total loans, when compared with those of peers, although NPAs have declined to below 1.0% in 2016 and 2017;
- Susceptibility to year-over-year government and private grants and contributions that may not be recurring, but comprised an average of 26% of ECLF's revenue over the past five years, which we believe could lead to significant volatility in profitability; and
- Exposure to a balance of unenhanced loans, although they are comparable with those of industry peers.

The stable outlook reflects our view of ECLF's experienced leadership and management, as well as its strategy to mitigate financial risk and maximize opportunity for a variety of communities. Its S&P Global Ratings-calculated equity-to-assets ratio is below that of its peers, and has been declining in recent years. We attribute this to ECLF's strategic decision to expand its loan portfolio and expand its asset base. Management indicates its plan is to increase net equity in the near term by focusing on loan portfolios that remain off-balance sheet through partnerships with local funds throughout the country.

ECLF's net interest margin has risen to a peak of 3% in 2017, while NPAs comprised less than 1% of total loans in 2016 and 2017--its lowest levels in recent years. We expect these two ratios to continue to indicate strong performance. At the same time, ECLF has sufficient loan loss reserves to cover potential loan losses under the 'AA-' stress scenario. We believe the loan fund's management of its debt and loan portfolio is critical to rating stability.

In recent years, substantial loan portfolio growth for CDFIs has outpaced the growth in equity, leading to decreasing equity-over-assets ratios. As we do for other CDFIs, we recognize ECLF's negative trend on its S&P Global Ratings-calculated equity-over-assets ratio and a reduction in the loan fund's capital adequacy level as a result of ECLF's increasing debt burden. If ECLF experiences a significant reduction in capital adequacy due to increased debt or declining loan performance, or a reduction in the amount of available equity from credit facilities, we may lower the rating. Loan deterioration, or a significant decline in income from grants and contributions that compose some portion of net income, could also result in a lower rating.

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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