Equitable School Revolving Fund, DE National Charter School Bond Outlook Revised To Positive On Loan Diversification

July 25, 2022

PRIMARY CREDIT ANALYST

Peter V Murphy
New York
+ 1 (212) 438 2065
peter.murphy
@spglobal.com

SECONDARY CONTACT

Scott D Garrigan
New York
+ 1 (312) 233 7014
scott.garrigan
@spglobal.com

NEW YORK (S&P Global Ratings) July 25, 2022--S&P Global Ratings revised the outlook to positive from stable, and affirmed its 'A' rating on the Equitable School Revolving Fund (ESRF), Del.'s senior national charter school revolving loan fund revenue bonds, issued in 2019, 2020, and 2021 in various series by the Arizona Industrial Development Authority (AZIDA), the California Infrastructure and Economic Development Bank, the Massachusetts Development Finance Agency, and the City of Albany Capital Resource Corp., N.Y.

At the same time, S&P Global Ratings assigned its 'A' rating with a positive outlook to the $170.0 million series 2022A senior bonds issued by AZIDA, and the $69.1 million series 2022B senior bonds issued by the California Infrastructure and Economic Development Bank. Bonds outstanding are senior obligations pursuant to a second amended and restated master trust indenture (MTI).

"The revised outlook is based on the trend of ongoing diversification of the loan portfolio," said S&P Global Ratings credit analyst Peter Murphy.

The portfolio is expected to increase to 58 loans in 2022, from 11 loans in 2019. The growth strengthens the pool's ability to withstand default stresses, and reduces concentration geographically, among the largest borrowers. The outlook further reflects our expectation that the demonstrated ability of ESRF in attracting loan borrowers to the pool, and the good operating performance during the program's three-year history of no delinquent payments or defaults is likely to continue over the next two years.

Our 'A' rating reflects the steady growth of ESRF in a manner consistent with its sole function to further the charitable purpose of its sole member, the nonprofit 501(c)(3) Equitable Facilities Fund (EFF): to make loans and provide financial assistance to charter schools.

We could raise the rating by one notch if the program continues generate additional loan demand that increases the pool's asset diversity, while continuing to exhibit solid operating performance with no delinquencies or defaults. In addition, we expect that as loans are added to the portfolio, the credit quality of individual borrowers is at or exceeds that of the current portfolio, and that the credit quality of existing borrowers is maintained.

We could revise the outlook to stable or lower the rating if the pledged loan portfolio begins to experience payment delinquencies or defaults even if there are sufficient funds to make all required bondholder payments. In addition, we would view negatively a weakening of the overall pledged loan portfolio by way of adding loans with a longer weighted-average maturity or deferred

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principal payments, loans to a portfolio of borrowers that are materially lower in credit quality, or loans that create undue portfolio concentration in one or several states. An additional potential factor is, if our view of the overall quality of the existing individual loan borrowers declines meaningfully. If these cases occur, the 1.3x annual debt service coverage and additional pledged revenues currently available as loss coverage might not be sufficient to sustain a higher rating or the existing rating in the context of a loan portfolio with worsening credit quality, and material actual delinquencies or defaults.

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

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