

Impact Community Capital LLC, California; Affordable Housing

Primary Credit Analyst:

Raymond Kim, New York (1) 212-438-2005; raymond_kim@standardandpoors.com

Secondary Credit Analyst:

Mikiyon Alexander, New York (1) 212-438-2083; mikiyon_alexander@standardandpoors.com

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<i>Long Term Rating</i>	AAA/Stable	Affirmed
Impact Funding LLC commercial mtg pass-through certificates Class B ser 2001-A dtd 11/01/2001 due 07/25/2031		
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<i>Long Term Rating</i>	BBB/Stable	Affirmed
Impact Funding LLC commercial mtg pass-through certificates Class X (IO) ser 2001-A dtd 11/01/2001 due 07/25/2031		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its ratings on Impact Community Capital LLC (Impact), Calif.'s commercial mortgage pass-through certificates series 2001-A classes A, B, C, D, and X. The affirmation reflects our view of the following strengths:

- Very strong credit support provided by the subordinate classes of certificates;
- Low loan-to-value ratio (LTV) of approximately 47%; and
- Improving performance of the underlying mortgage loans, as evidenced by overall pool debt service coverage of 1.58x.

These strengths are offset by seven underperforming loans with coverage under 1x, which account for approximately 10% of the loan pool balance. However, in our view, the overall financial strength of the loan pool mitigates this weakness.

As of September 2009, the trust collateral consisted of 84 taxable first mortgage loans with an outstanding principal balance of \$86.8 million, down from 105 loans and \$164.2 million at issuance. The master servicer, Pacific Life Insurance Co., reported net cash flow debt service coverage (DSC) and loan performance data for all of the loans in the pool. Based on this information, Standard & Poor's calculated the weighted average DSC of the pool to be 1.58x maximum annual debt service (MADS), with an aggregate occupancy of over 96.2% at the properties.

Outlook

The stable outlook for the Class A, B, C, and D certificates reflects our view of the pool's history of high debt service coverage, the diversity of the mortgage loans, and the high quality of the pool's mortgage collateral. The loans in aggregate exhibit what we consider strong debt service, and have a low LTV of 51% according to September 2009 loan data provided by the servicer.

Transaction Overview

The certificates were issued under a real estate mortgage investment conduit structure, in which subordinate rated and unrated tranches of debt provide credit support to senior classes. Upon initial assignment of the rating, Standard & Poor's assessment was that, to cover potential losses should the loans default, credit support from the subordinated classes of 20% was consistent with the 'AAA' rating on the class A certificates.

Standard & Poor's has reanalyzed the risk profile of the pool using current operating information for the loans and now estimates lower subordination levels across every rating category, with support of 8.7% for the class A certificates, 7% for the class B, 3.3% for the class C, and 2.8% for the class D certificates. Standard & Poor's estimated subordination levels are well below the actual subordination levels, which in our view further strengthens the transaction.

Table 1 below denotes the current par amounts and actual subordination level for each class, as well as the suggested subordination level based on loan data provided as of Oct. 26, 2009.

Table 1

Pool Balance And Subordination Levels (Oct. 26, 2009)						
Class	Original balance	Balance ending	Original subordination level (%)	Current subordination level (%)	Current balance (% of pool)	
A	131,381,950	53,901,303	20.00	37.70	62.30	
B	3,284,549	3,284,549	18.00	33.90	3.80	
C	8,211,372	8,211,372	13.00	24.41	9.49	
D	2,463,412	2,463,412	11.50	21.57	2.85	
E (not rated)	18,886,155	18,658,310	N/A	N/A	21.57	
Totals	164,227,438	86,518,947				
Interest-Only Strip						
Class	Original notional	Current notional				
X	164,227,438	86,518,947				

Loan Pool Profile

The loans are secured by affordable-housing projects located throughout the country, most of which were constructed in part with federal low income housing tax credit equity, and consequently have tenant income and rent restrictions. The balance of the properties consists of standard affordable housing projects that may be income and/or rent restricted. Generally, the operating profile for affordable-housing projects is such that they typically have higher occupancy rates than class A multifamily projects, and therefore, are subject to smaller variations in net operating income over time, making them a more stable asset class.

As affordable housing developments, many projects in the pool benefit from an additional level of asset management. For example, the properties financed with low-income housing tax credit equity have corporate or other tax credit investors that exercise what we view as considerable asset management over the properties in order to continue to receive the benefits of the tax credits. The projects may also receive oversight from local or regional governmental authorities, some of which have subordinate financing in place.

The current pool is, in our view, well seasoned and is somewhat geographically diverse, with 84 loans on properties in 14 states. There is a large concentration of loans in California, 52% by par amount, with the remainder of loans dispersed throughout the country.

Table 2

State Breakdown			
State	Par	% Total par	No. of loans
California	45,340,470	52	49
Hawaii	6,847,173	8	1
Georgia	6,579,472	8	2
Illinois	5,616,457	6	3
Washington	5,534,161	6	13
Colorado	4,245,946	5	3
Arizona	3,150,643	4	1
Idaho	2,593,655	3	3
Michigan	2,165,098	2	1
Texas	1,406,328	2	2
Nevada	1,355,384	2	1
Oregon	1,020,709	1	2
New Mexico	578,771	1	1
Alabama	345,508	0	2
Total	86,779,777	100	84

The pool had overall DSC of 1.58x for the most recent reporting period, with an estimated LTV of 51%. Fifty-five loans had coverage of 1.50x or higher; of those loans, 33 loans had coverage of 2.00x or higher. The top 10 loans ranked by loan balance (44% of the pool) have what we consider a strong weighted average DSC of 1.40x MADS. However, two of the top 10 largest loans reported DSC below 1.00x for 2009: Merchants Court Apartments in Dallas, Ga. has a current balance of \$5.45 million, or approximately 6.3% of the outstanding pool balance, and Morgan Hill Ranch Apartments in Morgan Hill, Calif. has a current balance of \$2.38 million, or approximately 2.7% of the outstanding pool balance.

Watch List Properties

As of Sept. 15, 2009, there were 13 loans on the servicer's watch list of loans that dropped below 1.20x DSC and below 80% of the underwritten coverage level. The loans on the list had a current balance of \$22 million, or approximately 25% of the pool. We understand that inclusion on this watch list does not necessarily indicate that the servicer believes a loan will eventually become delinquent or default, but it does indicate the servicer's view that the loan is weaker than the average level of the pool. Market conditions, drops in vacancy, and other deferred maintenance issues can separately contribute to lower debt service levels. However, based on our observations, it is not uncommon for multifamily projects financed in part with low income housing tax credits to operate at less than 1.0x DSC without default or foreclosure. Typically, the equity investors (i.e. the partners who receive the tax credits) will advance funds to pay operating expenses and/or debt service in order to avoid default and maintain this benefit.

The largest loan on the watch list is for Merchants Court Apartments, a 192-unit multifamily complex. The loan has

a current balance of \$5.45 million, and reported coverage of .88x; the project's general partner is contributing funds to cover cash flow deficits. The worst performing loan on the watch list was for Highland Gardens in Issaquah, Wash. The loan has a current balance of \$489,661, and reported DSC of negative .94x due to high turnover and maintenance expenses in 2009.

Since the inception of the pool, only one loan has defaulted, and that loan was liquidated in September 2005.

Servicer Information

The servicer, Pacific Life Insurance Co., visited approximately 73% of the properties in 2009 as of Sept. 15, 2009. Standard & Poor's ranks Pacific Life as a "strong" commercial mortgage loan (primary) servicer, "above average" as a commercial mortgage master servicer, and "above average" as a commercial mortgage special servicer. As of June 30, 2008, the company held commercial mortgage and real estate investments totaling more than \$9.4 billion, and had a total servicing portfolio of approximately \$6.8 billion.

The sponsor of the transaction is Impact Community Capital LLC. Impact was established in 1998 by insurance companies around the country to help create and promote affordable housing. By purchasing and securitizing the loans, Impact assists in recycling funds to organizations that provide construction loans for the development and construction of low income housing tax credit affordable multifamily properties, thereby increasing the production of affordable housing.

Related Research

USPF Criteria: "Affordable Multifamily Housing Pooled Financings," June 13, 2007

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