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Housing Trust Silicon Valley, California; General Obligation

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Credit Profile		
Housing Trust Silicon Valley ICR		
Long Term Rating	AA-/Stable	Rating Assigned

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' issuer credit rating (ICR) to Housing Trust Silicon Valley (HTSV), Calif. The outlook is stable.

The rating reflects our view of HTSV's:

- Minimal loss exposure, which can be absorbed through HTSV's reserves and unrestricted equity;
- Extremely low-risk debt profile;
- Extremely strong history of loan performance dating back to the institution's founding;
- Consistent profitability and total-equity-to-total-assets ratio;
- Consistent growth in loans and assets; and
- Experienced and prudent management.

Offsetting the above-mentioned strengths, in our view, are these weaknesses:

- A dependency on future contributions and grants from public and private sources, and
- Exposure to a balance of loans that are not enhanced or guaranteed.

Outlook

The stable outlook reflects our view of HTSV's consistent profitability, high-performing loans, minimal loan loss exposure, and sufficient equity to cover potential losses. HTSV has maintained steady net income amid low returns on low-risk investments, and it has weathered economic and real estate crises spanning a decade of operations in its current form. Should equity levels rise while loan performance remains exceptional, a positive rating action could result. Conversely, significantly reduced capital adequacy caused by increased debt could impede HTSV's leveraged capacity (assuming assets and returns on assets do not rise proportionately) and lead to a negative rating action. Loan deterioration could also result in a lower rating.

Issuer Credit Rating Overview

We believe HTSV's level of financial support is sufficient to warrant a 'AA-' rating. This is due to HTSV's asset quality, profitability, liquidity, and overall management, in our view. Partially offsetting these strengths is our view of HTSV operations and lending activity as highly dependent on future funding and grants, although this is somewhat mitigated by high equity.

We have reviewed the last five years of audited financial statements, and utilized our public finance state housing finance agency ICR and structured finance commercial mortgage-backed securities criteria to determine an appropriate credit opinion for HTSV, factoring its core mission, portfolio, credit risk, and management. We also use "Criteria: Principles of Credit Ratings" (published Feb. 16, 2011, on RatingsDirect), allowing us to apply U.S. Public Finance ICR criteria for this analysis. As a result, we view HTSV as similar to a housing finance agency (HFA), albeit with a broader range of lending activity for community development, rather than mortgage loan programs, posing the greatest risk.

We believe HTSV's financial position has been extremely consistent, highlighted by growth over the last five years. Its asset base has remained fairly stable with some growth, rising from $30.7 million in 2010, to a high of $44.0 million in 2014. The institution's note receivables primarily drive HTSV's asset position. Equity remained strong from 2010 to 2014, in fact steadily increasing during that period. In 2014, retained earnings increased 5% from 2013, and were up 25% from their 2010 level. HTSV's operating income likewise grew during that span, excluding a one-year, 46% decline in 2011-2012. However, operating income rose 76% in 2012-2013. Factoring the aforementioned criteria, growing asset base and equity, and profitable operations, we view HTSV's overall financial position as strong.

About Housing Trust Silicon Valley

Housing Trust Silicon Valley, formally known as Housing Trust of Santa Clara County Inc., is a 501(c)(3) corporation incorporated on May 22, 2000. It is headquartered in San Jose, Calif. HTSV is the sole member of LTOA LLC, a California-based limited-liability company formed on July 2, 2012. HTSV is a direct lender for affordable housing, community development, and other nontraditional credit needs in California's Silicon Valley region, with a mission to fulfill affordable housing needs in this region. HTSV makes loans and grants to increase the affordable housing supply, assist first-time homebuyers, prevent homelessness, and stabilize neighborhoods.

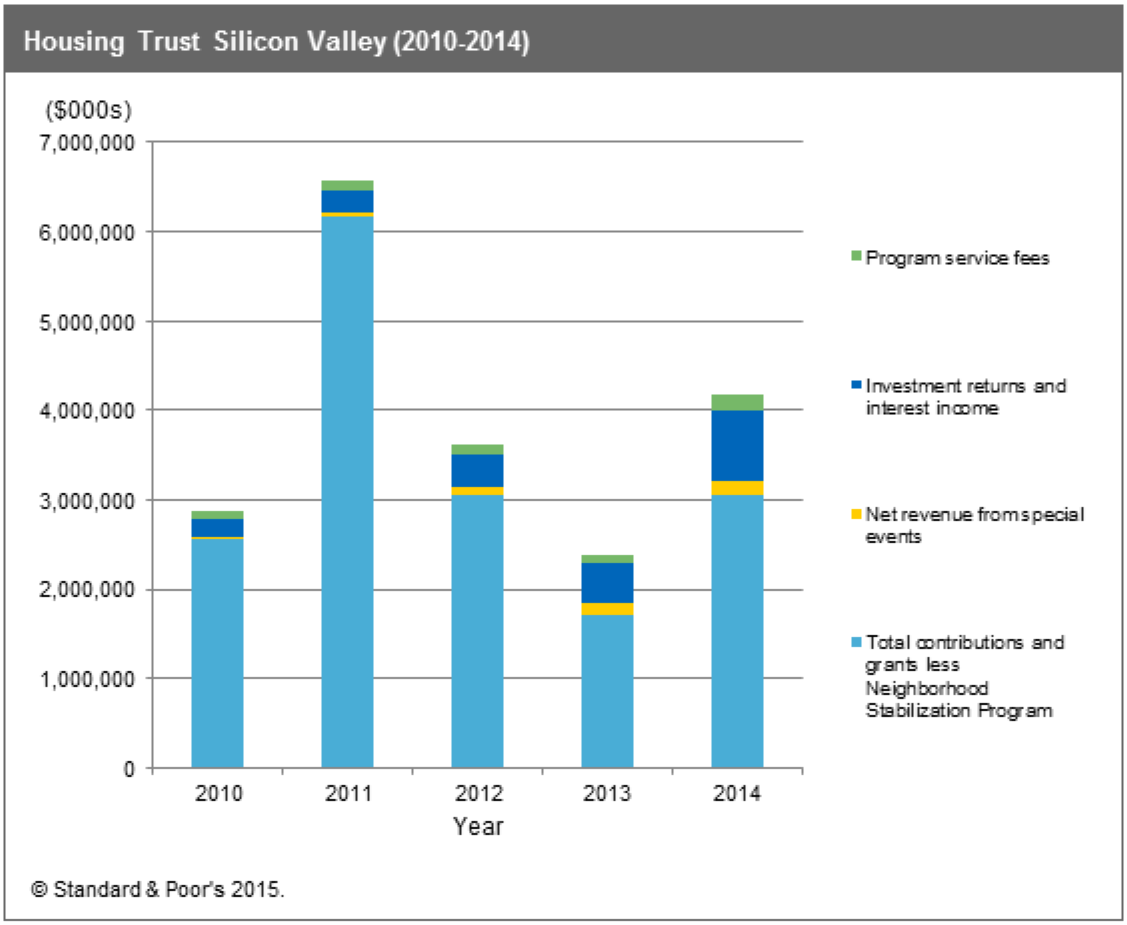
Local businesses and community leaders organized Housing Trust Silicon Valley in 1998, in response to a growing disproportion of jobs versus affordable housing in the region. Within two years, public and private sources had raised a combined $20 million, allowing HTSV to distribute the funds to low- and moderate-income households the following year. In addition, the U.S. Department of the Treasury has certified HTSV as a community development financial institution (CDFI).

HTSV has traditionally offered programs for multifamily lending and homebuyer assistance, and to counter homelessness. HTSV initiatives also include the Neighborhood Stabilization Program, in response to the foreclosure crisis resulting from the national economic downturn. In terms of multifamily lending, HTSV has loaned over $41,000,000 to date toward early financing for affordable housing, paving the way for over 4,500 new affordable multifamily units. Under its homebuyer assistance programs, HTSV has made nearly 2,400 homebuyer loans, investing over $43,000,000. HTSV has also provided security/utility deposit assistance grants for individuals considered either homeless or at risk of homelessness.

Asset Quality

HTSV had $31.45 million in loans outstanding as of June 30, 2014, its highest total to date. The entity has averaged approximately $27.01 million in loans outstanding for the past five fiscal years, with a 10% average annual increase in loans for that period. Overall, assets have increased 10% annually on average since 2010.

Chart 1



We view HTSV's revenue stream as primarily dependent on contributions and grants (as mentioned above), particularly in 2011. The institution regularly applies for available grants to further its mission to stimulate community development and affordable housing activity. HTSV's level of revenue from grants has increased from 2010 to 2014, with investment returns and interest income reaching its highest proportion (18.5% of total revenue) in 2014. HTSV's revenue stream has begun to diversify, in our view, as the institution continues to utilize contributions and grants to increase its investment returns and interest income. However, we believe the manner in which HTSV fulfills its mission -- utilizing its CDFI status to apply for and use grants to create sustainable communities -- may lead to year-over-year revenue stream volatility.

In our opinion, HTSV's overall equity-to-assets position over five years (85.72% average) and total-equity-to-total-debt of 1,114.69% (average) for the same period show the institution is properly leveraged to repay debt and cover potential loan losses. This is particularly evident when considering HTSV had zero nonperforming assets and Real Estate Owned from 2010 through 2014. With a five-year average of 1.15%, while reserving more than enough on average (3%) against loans outstanding, we do not expect volatility in contributions and grants to impede HTSV operations, or its ability to repay debt and remain a viable entity. This is evidenced by the institution's profitability and return on average assets (see table 2), in our view.

Table 1

Historical Loan Activity (2011-2014)												
	--2011 --		--2012--		--2013--		--2014--		--Total--		--Portfolio--	
	($000s)	Loans	($000s)	Loans	($000s)	Loans	($000s)	Loans	($000s)	Loans	Assets (%)	Loans (%)
First-time homebuyer	10,040,839	1,196	12,612,408	1,132	13,262,513	1,024	12,466,442	876	48,382,202	4228	42.9	95.7
Developer loans	13,493,070	41	15,175,385	45	16,097,852	48	18,668,933	51	63,435,240	185	56.2	4.2
Neighborhood Stabilization Program 2 -- dream home	--	--	--	--	750,000	5	300,000	2	1,050,000	7	0.9	0.2
Total	23,533,909	1,237	27,787,793	1,177	30,110,365	1,077	31,435,375	929	112,867,442	4420	100.0	100.0

HTSV had a 3.82% loan loss reserve against all loans in 2014, despite a generally low loan loss history. This is significant, in our view, given the assets managed under the portfolio. HTSV's allowance for loan loss practice shows the institution has prudent risk management, in our view.

We apply our housing finance agency single-family loss coverage assumptions to assess HTSV's portfolio assets dating back to 2010. We use a more conservative 7.63% delinquency rate (reflecting the institution's current loan loss reserves), rather than the 0.43% average of HTSV delinquencies to write-offs, since the bulk of the portfolio consists of loans starting in second positions. For multifamily loans within the portfolio, we assume 35% of the loans are either delinquent or in default (the most onerous assumption seen in any of our portfolios to date). Because HTSV is highly leveraged (as mentioned above), its loan portfolio assumptions are easily absorbed by its current equity level. HTSV also has significant reserves to cover shortfalls, leading us to believe adjusted assets (given loss) to debt are virtually unchanged from the assumption that 100% of HTSV loans are current.

Operating Performance

HTSV has shown stability over the past five years, in our view. While operating performance in some years does reflect an influx of grants for certain programs, steady revenue growth from assets has been consistent, allowing HTSV to post positive year-over-year total revenue and net income. Fiscal 2011 was the strongest such year, due to an influx of pass-through grant income. In 2014, net income rose to $1.6 million, a significant 556% increase. Despite the volatility in year-over-year grants, we remain comfortable with the rating given the consistent rise in total equity over the five-year period. HTSV's total-equity-to-total-assets was 77.23% in 2014, down from 85.23% the year prior. However, we attribute this to asset growth within the portfolio. Despite some year-over-year volatility, the return on average assets was 3.85% in 2014, and positive for the preceding five years, with 0.65% in 2013 being the lowest ratio. HTSV's return on average equity was likewise strong during this period, excluding a decline from 2013 to 2014. This is not atypical for CDFIs given the nature of the lending practices, in step with their missions.

We believe HTSV has strong liquidity, with the majority of its assets in the form of loans. Total-loans-to-total assets were 68.32% in 2014, and at very similar levels for the preceding five years. HTSV's liquidity mainly comprises total investments and total loans, with total investments at 29.50% of total assets. These levels are commensurate with HTSV's HFA peers and municipal student loan finance authorities in the 'AA' rating category. (see table 2). HTSV's operating performance is stable, in our view, based on its record over five years, coupled with additional data stemming from its inception.

Table 2

Housing Trust Silicon Valley Financial Ratios (2010-2014)

	--Fiscal year-end June 30--				
	2010	**2011**	**2012**	**2013**	**2014**
Asset quality (%)					
Loan loss reserves/total loans	1.19	2.27	4.50	3.35	3.82
Net charge-offs/average loans	1.47	0.59	2.45	1.02	0.21
Liquidity (%)					
Total loans/total assets	69.53	62.19	73.40	76.21	68.32
Short-term investments/total assets	23.99	24.68	22.39	20.32	29.50
Total investments/total assets	23.99	24.68	22.39	20.32	29.50
Other assets/total assets	6.48	13.13	4.21	3.47	2.18
Profitability (%)					
Return on average assets	5.10	12.98	1.90	0.65	3.85
Return on assets before loan loss provision and extraordinary item	8.82	30.02	40.29	20.27	7.96
Return on average equity	5.45	14.73	2.20	0.74	4.76
Net interest margin	0.69	0.80	1.03	1.22	1.85
Net interest margin (loans)	0.94	1.10	1.39	1.56	2.05
Leverage (%)					
Total equity/total assets	92.59	84.58	88.98	85.23	77.23
Unrestricted equity/total assets	73.85	59.78	60.98	65.44	56.68
Total equity plus reserves/total loans	134.34	138.29	125.73	115.18	116.86
Total equity/total debt	1,893.28	1,097.15	1,121.50	826.74	634.79

Debt Obligations

HTSV's balance sheet does not carry significant debt. Over the past five years, HTSV's liabilities have grown from $1.5 million in 2010, to $5.6 million in 2014. Although total liabilities increased during that span, this was offset by a 50% increase in total assets from 2010 to 2014, along with a 25% rise in total equity over the same period. HTSV's liabilities under the credit agreements consist of unsecured borrowings bearing a simple interest rate (between 2% and 3%) as of each borrowing date. Interest on the borrowings is payable quarterly.

HTSV's leverage ratio (assets/debt) has been declining steadily since 2010, as the institution enters into slightly more debt obligations to grow its assets. Its total assets have improved significantly year-over-year given the lending activity and return on average assets. The institution's total assets are now 77.23% of total debt, down from 92.59% in 2010. Meanwhile, total debt is now $5.6 million, a substantial increase from $1.5 million in 2010, while assets rose from $31 million to $46 million over the same period. None of HTSV's debt is backed by the organization's general obligation pledge.

Market Position: Strategy And Management

In our view, HTSV's vision is clearly defined and sets forth the organization's overall strategic plan. This plan covers a variety of topics, including the impact on the community it serves, organizational growth, and HTSV's scope and financial stability. In addition, we believe collaboration with public and private partners, external relations, and financial self-sufficiency all show the organization has solid growth potential. Public support is vital to HTSV's continued success, as public and private partners play a key role in augmenting its financial position. This includes partnerships with local businesses that contribute annually, non-profits with whom HTSV works to facilitate community programs, and banking partners that HTSV can leverage for access to affordable capital. HTSV's primary value is providing equal access to credit in neighborhoods of all income levels and ethnicities. We view their commitment to community development as it relates to the organization's core values, mission, and overall strategy and management as very strong. We base this on the financial ratios outlined above, and the impact of over $41,000,000 in lending activity. The institution has:

- Assisted 2,405 first-time homebuyers via the Homebuyer Program,
- Created 4,814 Rental Housing homes, and
- Aided 5,480 individuals via its Homelessness Prevention and Assistance Program.

HTSV also has a wide array of donors to help fulfill its mission, with the U.S. Department of Housing and Urban Development considered its top donor.

HTSV is overseen by an active 17-member board of directors, all of whom are voting officers serving three-year terms. The board members come from a wide array of backgrounds, with a large majority serving as lenders at respected financial institutions. The board has three committees and is supported by an established senior management team comprising the CEO/executive director, chief financial officer, and chief lending officer. HTSV also has a formal succession plan, with planned transitions in place for normal and emergent circumstances.

Senior staff members work closely with one another to meet HTSV's mission and bring operations and projects into compliance with overall strategic goals. HTSV has internal policies and procedures that are institutionalized and built into the fabric of all operations.

Economy

California's population growth has mirrored that of the nation's over the past decade, rising 8.7% from 2003 to 2013, to reach 38.3 million residents, versus 9.0% nationwide growth during that period. California is now home to 12% of the U.S. population. The state's age dependency ratio of old to young (outside the typical working age) is 57.3% as of 2013, somewhat better than the nation's 59.8%.

Some parts of California experienced a severe real estate downturn during the recent nationwide recession. The downturn led to losses in construction employment, an increase in home foreclosures, and declining local assessed values. However, home prices have been rising statewide over the past two years. The California Department of Finance reported a median home price of $480,280 as of August 2014, 8.9% above the corresponding figure 12 months' prior, and up 3.3% from July 2014. As housing prices recover, high housing costs could pose an impediment to economic growth. However, the state's median home price is still 19% below its pre-recession peak, and recent price gains have been slowing.

The current economic recovery has allowed the state's unemployment rate to recover from its recessionary high. The average annual unemployment rate was 8.9% in 2013, still above the U.S. average of 7.4%, but down from a high of 10.5% in 2012. As of September 2014, the state's preliminary unemployment rate had declined to 7.3%, compared with 5.9% for the U.S. as of that period. The improvement is attributable to continued steady growth in employment, particularly continued growth in high technology employment, coupled with a recovering construction industry. IHS Global Insight estimates state payrolls reached their pre-recessionary peak in June 2014. IHS currently forecasts 2.2% and 1.7% state employment growth in 2015 and 2016, respectively, compared with 1.9% and 1.6% growth nationwide, respectively, for those years.

We believe the state's employment breakdown by job sector is similar to that of the U.S. In 2013, the largest sector for nonfarm payrolls was trade, transportation, and utilities at 18.50% of total employment, similar to the nation's 18.97% at that time. This was followed by government at 15.65% of total employment (16.03% for the nation), and professional and business services at 15.39% (13.61% for the nation). Other sectors include education and health services (state: 15.23%; nation: 15.47%), leisure and hospitality (state: 11.03%; nation: 10.44%), and manufacturing (state: 8.26%; nation: 8.80%). Due to the recession-induced downturn in the construction sector, construction accounted for only 4.20% of 2013 employment, compared to 4.27% for the nation.

Income and wealth figures are somewhat higher than those of the nation. In 2013, gross state product (GSP) per capita was 109% of the nation's, and per capita personal income was 106%. Real GSP has been growing at rates similar to that of the nation, in our opinion, but has recently accelerated. In 2013, real GSP increased 2.0%, compared with 1.8% for the nation, although California has somewhat lagged the nation in this category over the past five to 10 years.

We believe the state has certain economic advantages, including a well-educated workforce, the capacity to attract venture capital, and prominence in the growing biotechnology and alternative energy industries. Because California attracts about the same amount of venture capital as all other states combined, we believe it is well positioned to benefit from potentially strong growth from one of its emerging sectors. On a 1-to-4 scale ranging from strongest to weakest, we assign a score of '1.4' to California's economy.

Related Criteria And Research

Related Criteria

- USPF Criteria: Housing Finance Agencies, June 14, 2007
- Criteria: Principles of Credit Ratings, Feb. 16, 2011
- USPF Criteria: Rating Methodology And Assumptions For Affordable Multifamily Housing Bonds, June 19, 2014