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Ratings

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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	Affirmed

Rationale

S&P Global Ratings affirmed its 'AA-' issuer credit rating (ICR), with a stable outlook, on Housing Trust Silicon Valley (HTSV), Calif.

The ICR reflects our opinion of the trust's:

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

We believe these strengths are somewhat offset by, what we consider, the trust's:

- Dependency on future contributions and grants from public and private funding sources, and
- Exposure to a balance of loans not enhanced or guaranteed.

HTSV, formally known as Housing Trust of Santa Clara County Inc., is a 501(c)(3) corporation incorporated on May 22, 2000. Its headquarters is in San Jose. HTSV is the sole member of LTOA LLC, a California-based limited-liability company formed July 2, 2012. HTSV is a direct lender for affordable housing, community development, and other nontraditional credit needs in the San Francisco Bay Area region. Its mission is 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 HTSV in 1998 in response to a growing disproportion of jobs compared to affordable housing in the region. Within two years, public and private sources had raised a combined $20 million, allowing HTSV to distribute 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, as well as to counter homelessness. HTSV initiatives include the neighborhood stabilization program, in response to the foreclosure crisis resulting from the national economic downturn. It has also provided security and utility deposit assistance grants for individuals who are either homeless or at risk of homelessness.

We have used our housing finance agency (HFA) ICR and structured finance commercial mortgage-backed securities criteria, factoring in HTSV's core mission, portfolio, credit risk, and management. We also used our "General Criteria: Principles of Credit Ratings," allowing us to apply HFA ICR criteria for this analysis. Therefore, we view HTSV as similar to an 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 finances have been extremely consistent, highlighted by growth over the past five fiscal years. Its asset base has remained stable, rising to a high of $52.6 million in fiscal 2015 from $38.9 million in fiscal 2011. The institution notes receivables primarily drive HTSV's asset position. Equity remained strong from 2011-2015; in fact, it steadily increased during that period. Likewise, HTSV's retained earnings increased during that span to a high of $40.2 million in fiscal 2015 from $32.9 million in fiscal 2011. Factoring in the aforementioned criteria, a growing asset base and equity, and profitable operations, we view HTSV's overall finances as strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion 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 rise while loan performance remains exceptional, we could raise the rating or revise the outlook to positive. Conversely, significantly reduced capital adequacy, caused by increased debt, could impede HTSV's debt capacity--assuming assets and returns on assets do not rise proportionately--and lead to our lowering the rating or revising the outlook to negative. Loan deterioration could also result in a lower rating.

Asset Quality

HTSV had $37.07 million in loans outstanding as of June 30, 2015, its highest loan outstanding balance to date. The entity has averaged approximately $30.16 million in loans outstanding for the past five fiscal years with a 12% average annual increase in loans for that period. Concurrently, assets have increased steadily to $52.6 million in 2015 from $38.9 million in 2011.

We view HTSV's revenue stream as primarily dependent on contributions and grants. The institution regularly applies for available grants to further its mission to stimulate community development and affordable housing activity. From 2011-2015, an average of 9.2% from HTSV's revenue has come from its investment returns and interest income. HTSV's revenue stream has begun to diversify, in our view, as the institution continues to use contributions and grants to increase its investment returns and interest income. However, we believe the manner in which HTSV fulfills its mission--using its CDFI status to apply for and use grants to create sustainable communities--could lead to year-over-year revenue stream volatility.

In our opinion, HTSV's overall 82.48% equity-to-assets positon over five years and total-equity-to-total-debt ratio of

856.7% (average) for the same period show the institution can repay debt and cover potential loan losses. This is particularly evident when considering HTSV had zero nonperforming assets and real estate owned from 2011-2015. 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, in our view (see Table 1).

HTSV had a 2.7% loan-loss reserve against all loans in 2015 despite a generally low loan-loss history. In our view, this is significant due to the assets managed under the portfolio. HTSV's allowance for its loan-loss practice shows the institution has prudent risk management.

We applied our HFA single-family loss-coverage assumptions to assess HTSV's portfolio assets. We used a more-conservative 7.63% delinquency rate, reflecting the institution's current loan-loss reserves, rather than the 0.51% average of HTSV delinquencies to write-offs since the bulk of the portfolio consists of loans staring in second positions. For multifamily loans within the portfolio, we assumed 35% of the loans are either delinquent or in default--the most onerous assumption seen in any of our portfolios to date. Because HTSV does not have a high debt load, its loan portfolio assumptions are easily absorbed by its current equity level. HTSV also has significant reserves to cover shortfalls, leading us to believe the adjusted assets-to-debt ratio, given loss, is nearly 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 reflects 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. Despite the volatility in year-over-year grants, we remain comfortable with the rating due to the consistent rise in total equity over the five-year period.

HTSV's total-equity-to-total-assets ratio averaged 82.48% from fiscal years 2011-2015. Despite year-over-year volatility, return on average assets averaged 5.8% from fiscal years 2011-2015. During that span, the average total-equity-to-total-assets ratio for 'AA-' rated HFAs is 16% with a 0.05% return on average assets. HTSV's return on average equity was, likewise, strong during this period, excluding a decline from fiscal years 2013-2014. This is not atypical for CDFIs due to the nature of lending practices that are in step with their missions (see Table 2).

We believe HTSV has strong liquidity with the majority of its assets in the form of loans. The total-loans-to-total-assets ratio was 70.44% in fiscal 2015 with an average of 70.13% from fiscal years 2011-2015. HTSV's liquidity mainly includes total investments and total loans with total investments at 26.19% of total assets. These levels are commensurate with HTSV's HFA peers and municipal student loan finance authorities in the 'AA-' rating category. HTSV's operating performance is stable, in our view, based on its record over five years.

Debt Obligations

HTSV's balance sheet does not carry significant debt. Over the past five years, HTSV's total debt outstanding has grown to $6.65 million in fiscal 2015 from $3 million in fiscal 2011. Although total liabilities increased during that span, an increase in total assets to $52.6 million in fiscal 2015 from $38.9 million in fiscal 2011, coupled with a 22% rise in total equity over the same period, offset this. HTSV's liabilities under the credit agreements include unsecured borrowings bearing a simple interest rate, between 0% and 3%, as of each borrowing date. Interest on the borrowings is payable quarterly.

HTSV's total-equity-over-total-asset ratio has been declining steadily for the past several years as the institution enters into slightly more debt obligations to grow its assets. Total assets have improved significantly year over year due to lending activity and return on average assets. Currently, the total-equity-over-total-assets ratio is 76.41%, down from 84.58% in fiscal 2011. Meanwhile, total debt is now $6.65 million, a substantial increase from $3 million in 2011, and assets rose to $52.6 million over the same period from $38.9 million. None of HTSV's debt is backed by the organization's general obligation pledge (see Table 3).

Market Position: Strategy 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 HTSV's effect on the community it serves, organizational growth, and scope and financial stability. In addition, we believe collaboration with public and private partners, external relations, and financial self-sufficiency show the organization has solid growth potential. Public support is vital to HTSV's continued success because public and private partners play a key role in augmenting its finances. This includes partnerships with local businesses that contribute annually, nonprofits with which 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 to create affordable housing 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.

HTSV also has a wide array of donors to help fulfill its mission with the U.S Department of Housing & Urban Development its top donor. HTSV is overseen by an active 15-member board of directors, all of whom are voting officers serving three-year terms. Board members come from a wide array of backgrounds with several serving as lenders at respected financial institutions. An established senior management team--including the CEO/executive director, chief financial officer, and chief lending officer--supports the board, which has three committees. 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 institutionalized internal policies and procedures built into the fabric of all operations.

Economy

According to IHS Global Insight Inc., despite a slower rate of expansion, payroll gains remain higher than the nation. California's economy is large, dynamic, and capable of faster-than-average growth; it, however, is prone to periodic downturns that can be severe. The current economic expansion is mature, but it shows little sign of fatigue. The recession hit the state's labor market hard; it saw the loss of 1.3 million nonfarm payroll jobs or 8.6% of the total. As of February 2014, California's nonfarm payroll jobs had surpassed the previous peak of July 2007. Payroll gains were 2.8%, slightly below the previous year's gains of 3%. Over the next five years, payrolls should average 1.4% per year, marginally over the nation at 1.2%. According to IHS Global Insight, as the state inches toward full employment, the rate of job growth will be more in-line with the nation. Primarily the construction, services, and technology sectors propelled job generation in the state. Furthermore, it is believed that the technology sector will remain the engine for growth and that it will continue to create high-wage jobs in information and professional and technical services. IHS Global Insight estimates that California's GDP expanded at a robust 3.8% in 2015 and that it should continue to grow in 2016, albeit at a slower 2.7% rate.

Although the state boasts strong income and wealth, an above-average poverty rate also plagues it. These structural imbalances are more evident in the state's real estate market, where a chronic shortage of affordable housing, especially in large metropolitan areas, undercuts the business climate. Officials estimate taxpayers with the top 1% of income paid more than 45% of the state's personal income tax. Another major concern is the strained water supply that we believe will be a potential impediment to the state's long-term growth. Furthermore, the fifth year of extreme drought would have a devastating effect on the agriculture sector.

Housing affordability in the state remains lower than the nation with a higher average price of $457,000 (single-family units) in fourth-quarter 2015. In addition, home prices in the state have been growing at a higher rate than those of the nation; although the pace has been at a decelerating rate, it is still higher than income growth and inflation. IHS Global Insight projects housing starts will grow at the rate of 10.3% in 2016. The share of total-loans-in-foreclosure ratio was 0.7% compared with the national average of 1.8% for fourth-quarter 2015. During the same period, subprime loans in foreclosure averaged 3.9% of the nation's average of 7.8%, ranking the state 37th across the nation.

Table 1

Housing Trust Silicon Valley, California's Five-Year Average Peer Comparison

(2011-2015)

(%)	Housing Trust Silicon Valley	'AAA' credits	'AA+' credits	'AA' credits	'AA-' credits	'A' credits	'A-' credits	All rated state housing finance agencies
Profitability								
Return on assets	5.8	1.2	0.6	1.1	0.5	0.6	(0.9)	0.7
Return on assets before loan-loss provision and extraordinary items	22.2	1.3	0.8	1.5	0.7	0.5	(0.3)	0.9
Net interest margin	1.3	2.3	1.5	1.1	1.0	0.6	1.6	1.1
Asset quality								
Nonperforming assets/loans + real estate owned	N/A	3.5	3.4	3.5	4.0	2.8	6.1	3.7
Loan-loss reserves/total loans	3.3	12.1	2.6	4.1	2.3	0.4	3.2	3.2
Loan-loss reserves/nonperforming assets	N/A	343.3	9208.9	164.8	79.7	7.3	59.7	1588.4
Leverage								
Total equity/total assets	82.5	41.9	29.6	23.8	16.0	10.1	19.8	21.4

Table 1

Housing Trust Silicon Valley, California's Five-Year Average Peer Comparison (cont.)

(2011-2015)

(%)	Housing Trust Silicon Valley	'AAA' credits	'AA+' credits	'AA' credits	'AA-' credits	'A' credits	'A-' credits	All rated state housing finance agencies
Total equity and reserves/total loans	121.4	66.7	46.6	35.7	25.9	14.6	32.4	33.4
Liquidity								
Total loans/total assets	70.1	76.6	68.7	72.8	71.8	72.8	67.2	71.8
Capital adequacy								
Adjusted assets/adjusted debt	602.0	61.3	34.4	29.7	38.3	186.6	6.6	46.5
Adjusted assets/general obligation debt	N/A	61.3	7375.9	4852.8	997.2	5311.0	42.3	3492.6
Adjusted liquid assets/total mortgages	N/A	14.8	23.2	326.7	12.9	9.3	6.4	116.8

N/A--Not applicable.

Table 2

Housing Trust Silicon Valley, California's Five-Year Average Financial Ratios

	--Fiscal year-end June 30--					
(%)	2015	2014	2013	2012	2011	Five-year average
Profitability						
Return on average assets	9.6	3.9	0.6	1.9	13.0	5.8
Return on assets before loan-loss provision and extraordinary items	11.2	8.4	20.7	40.3	30.6	22.2
Net interest margin	1.5	1.7	1.2	1.0	0.8	1.3
Asset quality						
nonperforming assets/total loans + real estate owned	0.0	0.0	0.0	0.0	0.0	0.0
Loan-loss reserves/total loans	2.7	3.8	3.3	4.5	2.3	3.3
Loan-loss reserves/nonperforming assets	N/A	N/A	N/A	N/A	N/A	N/A
Leverage						
Total equity/total assets	76.4	77.2	85.2	89.0	84.6	82.5
Total equity + reserves/total loans	111.2	116.6	115.2	125.7	138.3	121.4
Liquidity						
Total loans/total assets	70.4	68.4	76.2	73.4	62.2	70.1

N/A--Not applicable.

Table 3

Housing Trust Silicon Valley, California's Trend Analysis

($)	2015	2014	2013	2012	2011
Total assets	52,628,445	45,950,831	39,771,200	37,811,362	38,913,102
% change	14.5	15.5	5.2	(2.8)	26.9
Debt	6,650,000	5,600,000	4,100,000	3,000,000	3,000,000

Table 3

Housing Trust Silicon Valley, California's Trend Analysis (cont.)

($)	2015	2014	2013	2012	2011
% change	18.8	36.6	36.7	0.0	100.0
Total equity	40,214,865	35,468,251	33,896,476	33,644,960	32,914,467
% change	13.4	4.6	0.7	2.2	15.9
Revenue	6,787,354	3,997,400	2,213,135	3,597,154	6,360,504
% change	69.8	80.6	(38.5)	(43.4)	70.8
Net income	4,746,614	1,651,818	251,516	730,493	4,515,211
% change	187.4	556.7	(65.6)	(83.8)	90.9
Total loans	37,069,733	31,448,541	30,310,365	27,752,793	24,198,909
% change	17.9	3.8	9.2	14.7	13.5
Nonperforming assets	0	0	0	0	0
% change	0.0	0.0	0.0	0.0	0.0
Loan-loss reserves	(1,000,000)	(1,201,834)	(1,015,000)	(1,250,000)	(550,000)
% change	(16.8)	18.4	(18.8)	127.3	117.4