S&P Global Ratings

RatingsDirect®

Housing Trust Silicon Valley, California; General Obligation

Primary Credit Analyst:
Aulii T Limtiaco, San Francisco (1) 415-371-5023; aulii.limtiaco@spglobal.com

Secondary Contact:
Jose M Cruz, San Francisco (1) 415-371-5053; jose.m.cruz@spglobal.com

Table Of Contents

Housing Trust Silicon Valley, California; General Obligation

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) on Housing Trust Silicon Valley (Housing Trust), Calif. The outlook is stable.

The rating reflects our view of Housing Trust's:

- Very strong equity ratios, which are among the highest of publicly rated community development financial institutions (CDFIs);
- Ability to absorb S&P Global Ratings-estimated losses through capital reserves and unrestricted equity;
- Extremely strong history of loan performance since its founding Housing Trust;
- Low-risk debt profile;
- Increased self-sufficiency, as evidenced by its growth in revenue, profitability, and ability to pay operating expenses without grant funds; and
- Experienced and prudent management.

Partly offsetting the above strengths, in our opinion, are Housing Trust's:

- Portion of portfolio (approximately 30%) of loans that is not secured by real estate or has low lien positions of loans that are not enhanced or guaranteed;
- Risks associated with short-term lending; and
- Exposure to levels of year-over-year grants, which make up a significant part of Housing Trust's revenue.

We believe Housing Trust's financial position is very strong, with its asset base and net equity growing in the past five years. Housing Trust's asset base has experienced year-over-year growth, rising an average of 25% a year to more than $120 million in fiscal 2018 from $46 million in 2014. In addition, Housing Trust had the highest total-equity-to-total-assets ratio from 2013 to 2017, at 74.1%, of all CDFIs and housing finance agencies (HFAs) that we rate. In comparison, the five-year average total-equity-to-total-asset ratio is 27.8% for all other 'AA-' rated CDFIs during the same period. Although Housing Trust's net income and profitability ratios have fluctuated in the past five years because of grant volatility, we believe that the high growth in assets and revenue from its loan activity and investments offsets this volatility, with total loan revenue growing 200% in fiscal years 2014 to 2018. As of June 30, 2018, Housing Trust had $72 million in loans outstanding, net of allowance for loan losses, its highest balance to date.

In the past five fiscal years, Housing Trust has increased its loan balance by an annual average of 20%. Housing Trust maintains an average of 3.00% loan loss reserves over total loans, despite nominal delinquencies of 0.04%. Housing Trust's loan loss reserve levels are slightly higher than those for 'AA-' rated HFAs but lower than those for all other CDFIs. Despite this, we generally believe Housing Trust practices prudent risk management and has conservative lending policies compared with other CDFIs. Last, while the majority of its assets are in the form of loans, at 60% in fiscal 2018, we believe that Housing Trust has sufficient liquidity and proactively manages its assets and liabilities. Housing Trust's total-loans-to-total-assets ratio averaged 65.6% for the five years ended fiscal 2018.

Outlook

The stable outlook reflects our view of Housing Trust's strategy and management, increasing asset and equity base, low delinquencies, and sufficient equity to cover potential losses. The outlook also reflects our view of Housing Trust's steady path to self-sufficiency, which will reduce its reliance on grant funding.

Downside scenario

If the S&P Global Ratings-calculated adjusted-equity-over-assets ratio increases as a result of estimated losses, resulting in a reduction in capital adequacy or an increased debt burden without a commensurate increase in assets, we may take negative rating action. Loan deterioration, or a significant decline in income from grants and contributions that compose some portion of net income, without an offset in other income, could also result in negative rating action.

Upside scenario

Conversely, if Housing Trust continues to improve its profitability and equity ratios beyond those of other rated CDFIs, we would consider taking a positive rating action. A positive rating action may also result if Housing Trust's loan portfolio shifts to loans that we view as less risky (e.g., long-term and permanent loans), resulting in lower estimated loan losses.

ICR Overview

In our opinion, Housing Trust's financial strength, operating performance, overall management, and market position are in line with our 'AA-' rating. At the 'AA-' rating level, we believe Housing Trust has an extremely strong equity base and that its management team has helped drive a strong market position, including partnerships with public and private entities that help further its mission. Overall, we believe that while Housing Trust's asset base is small compared with that of other rated CDFIs, it is the highest capitalized of all the CDFIs as measured by the ratio of equity to assets. In addition, it has the highest adjusted-equity-to-assets ratio of all CDFIs, after taking estimated losses into account.

The strength in Housing Trust's equity base is partly offset by the volatility in profitability, although robust, and its reliance on grant funding, though declining.

Housing Trust has traditionally offered programs for multifamily lending and homebuyer assistance, and to counter homelessness. Housing Trust initiatives also include the Neighborhood Stabilization Program, in response to the foreclosure crisis resulting from the national economic downturn. Since its inception, Housing Trust has made funds available for the purchase of more than 2,500 homes under its first-time homebuyer program and 6,570 affordable multifamily homes under its rental housing program, and has helped more than 6,500 individuals under its homelessness prevention and assistance program. Housing Trust has also provided security/utility deposit assistance grants for individuals considered either homeless or at risk of homelessness.

While CDFIs are somewhat susceptible to year-over-year government grants and private contributions, which could be nonrecurring, Housing Trust has reduced its dependency on grants overall. Housing Trust has steadily improved its self-sufficiency as a percentage of operating revenue over operating expenses, calculated by S&P Global Ratings, to 83.5%, slightly lower than 86.5% in 2017. This compares to 47.2% in 2013. Revenue and profitability have fluctuated in the past five years, but we believe that the steadily increasing equity position is the main factor in Housing Trust's improved financial position. 2015 was a challenging year for almost all CDFIs in terms of grant funding, but given grant funding from large local companies throughout the San Francisco Bay Area, Housing Trust was not as affected as its peers on the national level.

We have reviewed Housing Trust's audited financial statements, and used our housing finance agencies (HFA) and social enterprise lending organizations (SELO) criteria, published Dec. 27, 2016 on RatingsDirect, and structured finance commercial mortgage-backed securities (MBS) criteria, to determine an appropriate credit opinion, factoring in core mission, portfolio, credit risk, and management.

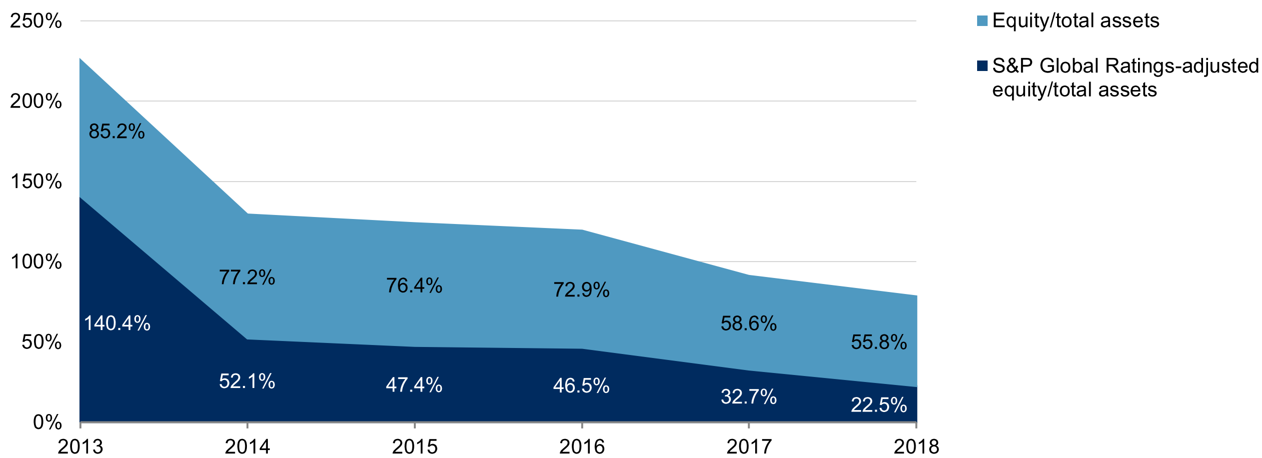
Operating Performance

In our opinion, Housing Trust has shown stable-to-improving operating performance over the past five years. While profitability in some years is volatile, reflecting an influx of grants for certain programs, steady revenue growth from assets has been consistent, allowing Housing Trust 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 given the consistent rise in total equity over the five-year period.

Housing Trust's total-equity-to-total-assets ratio averaged 68.2% a year in fiscal years 2014 to 2018. Despite year-over-year volatility, return on average assets averaged 9.4% for the same period (see charts 1 and 2). We believe Housing Trust has adequate liquidity, with its total-loans-to-total-assets ratio at 60.5% and having averaged 65.65% a year in fiscal years 2014 to 2018. These levels are commensurate with those of Housing Trust's HFA peers and municipal student loan finance authorities in the 'AA-' rating category, and better than those of CDFIs in that rating category.

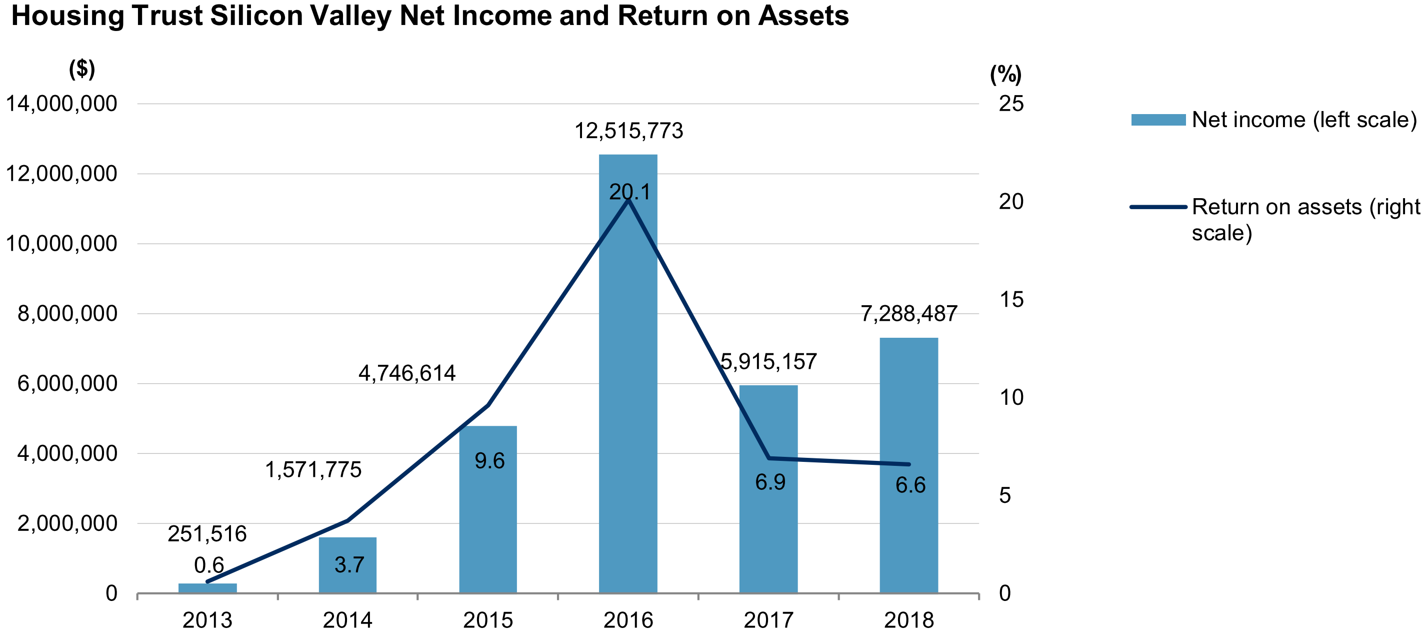
Chart 1

Housing Trust Silicon Valley Equity/Total Assets vs. S&P Global Ratings-Adjusted Equity/Total Assets (%)



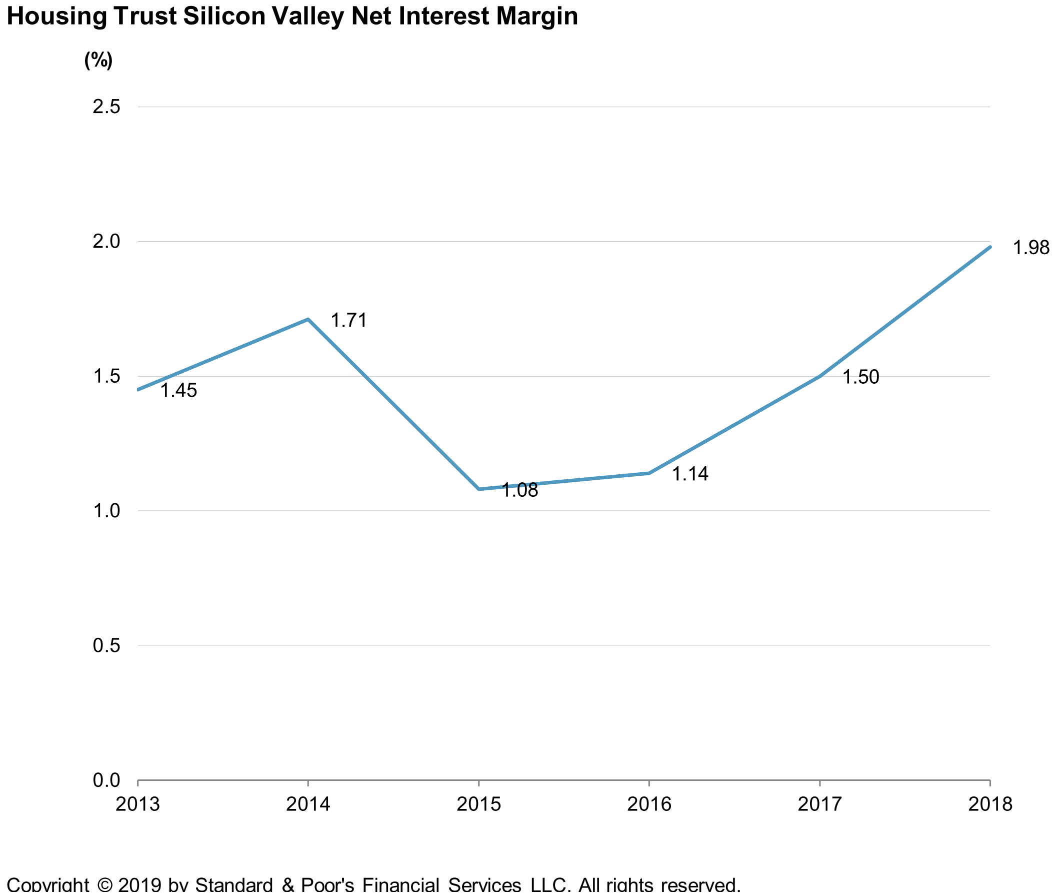
We view Housing Trust's revenue stream as primarily dependent on contributions and grants. The institution regularly applies for available grants to further its mission to stimulate community development and affordable housing activity. In 2014 to 2018, an average of 21% of Housing Trust's revenue came from nongrant sources such as interest income from loans, investment income, origination fees, and contract services. This figure rose to 32% in 2018 from approximately 15% in 2015, when we initially rated Housing Trust. In our view, Housing Trust's revenue stream has begun to diversify, as the institution continues to use contributions and grants to increase its investment returns and interest income. However, we believe the manner in which Housing Trust fulfills its mission--as with most CDFIs, using its status to apply for and use grants to create sustainable communities--could lead to year-over-year revenue stream volatility.

Chart 2



Although Housing Trust's net interest margin has increased to nearly 2% in fiscal 2018, the five-year average as of fiscal 2017 (1.4%) was lower than that of other rated CDFIs in the same category (2.9%). See chart 3.

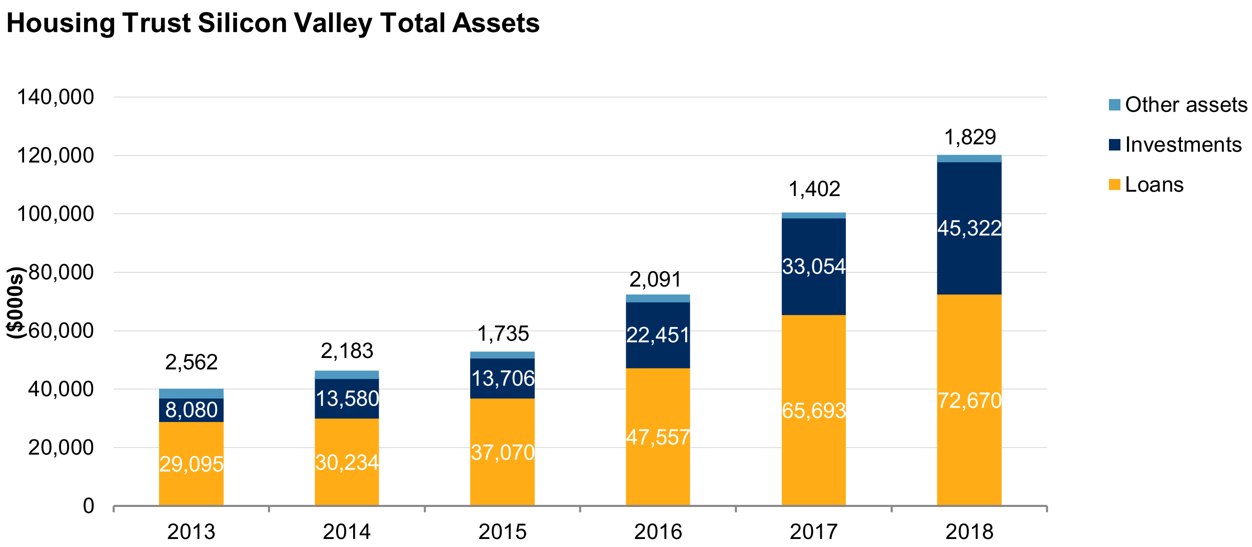
Chart 3



Asset Quality

Housing Trust had $75.1 million in loans outstanding as of June 30, 2018, doubling its loan portfolio in just three years and recording its highest loan balance to that date. Housing Trust has averaged a 20% average annual increase in loans for the past five years, signaling rapid growth as we have seen throughout the CDFI sector. Assets increased to $120 million in 2018, also doubling from 2015 and tripling from 2011.

Chart 4



In our opinion, Housing Trust's average 68.2% equity-to-assets position over the past five years and total-equity-to-total-debt ratio of 452.3% for the same period show the institution can repay debt and cover potential loan losses. This is particularly evident when considering Housing Trust had near-zero nonperforming assets and real estate owned for the same period. We do not expect volatility in contributions and grants to impede Housing Trust 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.

Housing Trust had a 3.3% loan-loss reserve against all loans in 2018, with a five-year average of 4.7%, despite a history of generally low loan-loss reserves. In our view, Housing Trust's allowance for its loan-loss practice shows the institution has prudent risk management, in line with that of similarly rated CDFIs. In evaluating Housing Trust's loan portfolio, we applied our HFA single-family and multifamily loss-coverage assumptions. These loss estimates for fiscal 2018 were high (63%) compared with Housing Trust's loan delinquency history given the nature and percentage of non-real-estate-secured, early financing loans, or lack of data regarding loans with higher liens. Nonetheless, Housing Trust's capital position after these losses are considered continues to be one of the healthiest we have seen in the sector.

As noted in table 1, the majority of Housing Trust's loans are for multifamily projects and are real estate secured. Over 50% of the loan portfolio is secured by real estate and a first lien. Housing Trust's risk rating and lending policies are conservative, in our view, compared with those of similarly rated CDFIs.

Table 1

Housing Trust Silicon Valley Loan Portfolio As Of Fiscal 2018

	$000s	%
Single-family - closing cost, mortgage, and GAP assistance	6,363	8.47
Single-family - other programs	330	0.44

Table 1

Housing Trust Silicon Valley Loan Portfolio As Of Fiscal 2018 (cont.)

	$000s	%
Single-family - NHS portfolio	3,412	4.54
Multifamily - cash secured	7	0.01
Multifamily - corporate guarantee/personal guarantee	6,540	8.71
Multifamily - real estate secured - first lien	37,911	50.49
Multifamily - real estate secured - other liens	19,214	25.59
Neighborhood stabilization program	1,313	1.75

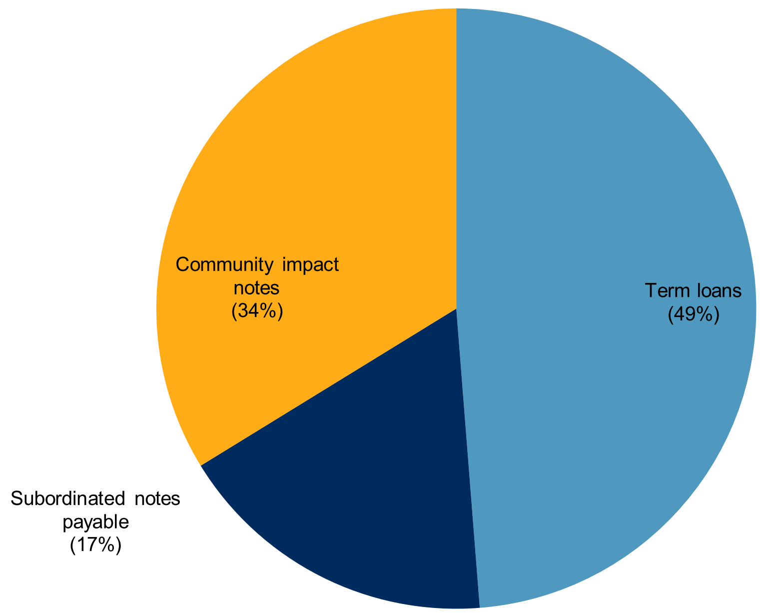
Debt Profile

In the past two fiscal years, Housing Trust has increased its capacity and access to financing, but its balance sheet does not carry significant debt compared with its equity. Housing Trust's total debt outstanding grew to $44.0 million in fiscal 2018 from $5.6 million in fiscal 2014. As a percentage of debt, total equity as a five-year average was 451.3%. In fiscal 2017, Housing Trust secured $25 million of financing from the CDFI Bond Guarantee Fund, but have not drawn down on the facility. Housing Trust's liabilities under its credit agreements include unsecured borrowings bearing a simple interest rate, of 0% to 3%, as of each borrowing date. Interest on the borrowings is payable quarterly.

Housing Trust'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. None of Housing Trust's debt is backed by the organization's general obligation pledge, but once HSTV draws from the Bond Guarantee Fund we will consider the drawn amount a general obligation. See chart 6.

Chart 6

Housing Trust Silicon Valley: Debt Summary As Of Fiscal 2018



Strategy and Management

In our view, Housing Trust's vision is clearly defined and sets forth the organization's overall strategic plan. This plan covers a variety of topics, including Housing Trust'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 Housing Trust'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 Housing Trust works to facilitate community programs, and banking partners that Housing Trust can leverage for access to affordable capital. Housing Trust'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 relates to the organization's core values, mission, and overall strategy and management as very strong. Housing Trust also has a wide array of donors to help fulfill its mission with the U.S Department of Housing and Urban Development and Santa Clara County as its top donors over the past five years, each contributing about $15 million Housing Trust 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--consisting of the CEO/executive director, chief financial officer, chief lending officer, and chief impact officer--supports the board, which has three committees. Housing Trust 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 Housing Trust's mission and to bring operations and projects into compliance with overall strategic goals. Housing Trust has institutionalized internal policies and procedures built into the fabric of all operations.

Economy

According to IHS Global Insight, the State of California's economy has grown at a steady pace. Every major sector of the state labor market added jobs over the past year. As of first-quarter 2018, nonfarm payrolls in the state increased by 2.2 % year over year. The construction sector witnessed year-over-year growth of 8.7% (the best performance in two years). The growth in the sector resulted from the demand for homebuilding activity, in addition to commercial and infrastructure projects. Professional and technical services grew by 2.6% year over year, after the slowdown in 2017. The nondurable segment in the state continued to shed jobs, while payroll in the durable segment increased by 1.8% year over year.

From 2012 through third-quarter 2017, California's real GDP grew at an average annual rate of 3.2%, the fourth-fastest in the nation. From 2012 through 2017, personal income increased at an average annual rate of 4.9%, the fourth-fastest among the states. California's per capita personal income, at $58,272, edged up to 116% of the U.S. level. California's well-educated workforce and burgeoning high-technology, biotechnology, and alternative energy sectors position it as a leading venture capital recipient state.

Over the near term, the labor market is expected to grow around the same rate as in 2017. Strong demand for labor will remain balanced by tightening supplies. Payroll growth in the services sector, such as in healthy services and leisure/hospitality, should be largely similar to the growth seen in 2017. Over the medium term, full employment in the state will dampen payroll growth. For the projected period, 2017 to 2021, the labor market is expected to add jobs at an average annual pace of 1.2%. Excessive gains in technology that helped the strong growth in the state could see sharp declines.

The housing sector in the state is characterized by limited supplies and high home prices. According to the Federal Housing Finance Agency, home prices rose by 8.5% year over year in the fourth quarter of 2017. Prices in the state stand at 94.3% of their peak during the bubble (second-quarter 2006). The pace of homebuilding cannot keep up with demand, and this is one of the primary causes of the affordability crisis in the state. Regulation and political resistance to new housing at the local level have constrained new home construction, and have further exacerbated the rise in home prices. According to the Mortgage Banker Assn., total loans in foreclosure in the state averaged 0.4% in the first quarter of 2018, against a national average of 1.2%. For the same period, conventional loans and the Federal Housing Administration in foreclosure averaged 0.4 % (versus 1.1% nationally) and 0.8% (versus 1.8% nationally), respectively. While we see a slowing in the state and the San Francisco Bay Area, the market for Housing Trust's loans remains strong and the increasing need for affordable housing bodes well for Housing Trust's mission and programs.

Table 2

Five-Year Trend Analysis ($000s)					
	2014	**2015**	**2016**	**2017**	**2018**
Total revenue	5,948,022	7,910,064	16,101,292	11,309,003	13,429,050
% change	-41.36%	32.99%	103.55%	-29.76%	18.75%
Total expenses	4,296,204	3,317,862	3,626,216	5,188,640	5,898,513
% change	-56.57%	-22.77%	9.29%	43.09%	13.68%
Net income/(loss)	1,571,775	4,746,614	12,515,773	5,915,157	7,288,487
% change	524.92%	201.99%	163.68%	-52.74%	23.22%
Total assets	46,030,874	52,554,076	72,137,211	100,173,849	120,047,627
% change	15.74%	14.17%	37.26%	38.87%	19.84%
Total loans	30,233,541	37,069,733	47,556,700	65,692,978	72,669,588
% change	3.91%	22.61%	28.29%	38.14%	10.62%
Total equity	35,548,294	40,140,496	52,615,572	58,735,935	66,966,472
% change	4.87%	12.92%	31.08%	11.63%	14.01%
Loan loss reserves	1,201,834	1,000,000	1,204,000	1,680,000	2,380,000
% change	18.41%	-16.79%	20.40%	39.53%	41.67%
Non-performing assets	0	0	29,882	96,225	15,000
% change				222.02%	-84.41%
S&P Global Ratings-adjusted equity	23,976,578	24,919,797	33,559,352	32,714,972	27,037,128
% change	-57.05%	3.93%	34.67%	-2.52%	-17.36%