S&P Global
Ratings

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Summary:

Housing Trust Silicon Valley, California; General Obligation

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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 (HTSV), Calif. The outlook is stable.

The rating reflects our view of HTSV's:

- Very strong equity ratios, among the highest of publicly rated CDFIs;
- Minimal loss exposure, all of which can be absorbed through HTSV's reserves and unrestricted equity;
- Low-risk debt profile;
- Extremely strong history of loan performance since the founding of HTSV;
- Consistent growth in loans and assets; and
- Experienced and prudent management.

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

- Portfolio 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 HTSV's revenue, that may not be guaranteed year to year.

HTSV, formally known as Housing Trust of Santa Clara County Inc., is a 501(c)(3) corporation incorporated on May 22, 2000. Local businesses and community leaders organized HTSV in 1998, in response to a growing disproportion of jobs versus affordable housing in the region. Headquartered in San Jose, Calif., HTSV is the sole member of LTOA LLC, which was formed on July 2, 2012. HTSV is designated by the U.S. Department of the Treasury as a community development financial institution (CDFI). HTSV is a direct lender for affordable housing, community development, and other nontraditional credit needs, with a mission to fulfill affordable housing needs in 13 counties throughout the greater San Francisco Bay Area. HTSV makes loans and grants to increase the affordable housing supply, assist first-time homebuyers, prevent homelessness, and stabilize neighborhoods.

We believe HTSV's financial position is very strong, with its asset base and net equity growing in the past five years. HTSV's asset base has experienced year-over-year growth, rising an average of 22.2% a year to over $100.0 million in 2017 from $39.7 million in 2013. In addition, HTSV 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 36.2% for all other CDFIs and 28.2% for rated HFAs. HTSV's net income and profitability ratios have fluctuated in the past five years because of grant volatility. We believe that steadily increasing revenue growth from its loan activity and investments offsets this volatility, with total loan revenue growing by 50% a year on average in the past five years. As of June 30, 2017, HTSV had $65.7 million in loans outstanding, net of allowance for loan losses, its highest loan outstanding balance to date. In the past three fiscal years, HTSV has increased its loan balance by an annual average of 30%. HTSV maintains an average of 3.1% loan loss reserves over total loans, despite delinquencies of 0.04%. This is slightly higher than that for HFAs rated 'AA-' but lower than that for all other CDFIs. Generally, we believe HTSV's allowance for loan loss practice shows the institution has prudent risk management. Lastly, while the majority of its assets are in the form of loans, at 65.58% in fiscal 2017, we believe that HTSV has sufficient liquidity and proactively manages its assets and liabilities. HTSV's total-loans-to-total-assets ratio averages 68.2% in fiscal years 2013 to 2017. After loans, long-term investments make up 16.64% of total assets, on average, and short-term investments have made up an annual average of 11.36% for the past five years. These levels are commensurate with CDFI and HFAs in the 'AA-' rating category.

Generally, while CDFIs are somewhat susceptible to year-over-year government grants and private contributions, which could be nonrecurring, HTSV has reduced its dependency on grants overall. HTSV has steadily improved its self-sufficiency as a percentage of operating revenue over operating expenses, to 86.5% in 2017 from 57.3% in 2016. This compares to 34.2% five years ago. Revenue and profitability have fluctuated in the past five years, but we believe that the steadily increasing equity position is the main factor in HTSV's improved financial position. 2015 was a challenging year for almost all CDFIs in terms of grant funding, but housing trust was not as affected as was the case for some peers on the national level, given grant funding from large local companies throughout the Bay Area.

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. Since its inception, HTSV 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. HTSV has also provided security/utility deposit assistance grants for individuals considered either homeless or at risk of homelessness.

Outlook

The stable outlook reflects our view of HTSV's growing asset and equity base, year-to-year profitability, high-performing loans with minimal delinquencies, loss coverage, and improving self-sufficiency. HTSV has experienced several consecutive years of significant growth, which we expect will continue. Should equity continue to rise while loan performance remains strong, a positive rating action could result. On the other hand, significantly reduced capital adequacy resulting from 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. Deterioration in loan performance or dilution of the portfolio's collateral could also result in a negative rating action.

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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.