S&P Global
Ratings

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Housing Trust Silicon Valley; General Obligation

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

Rating Action

S&P Global Ratings affirmed its 'AA-' issuer credit rating (ICR) on Housing Trust Silicon Valley (Housing Trust). The outlook is stable.

The ICR is our forward-looking opinion about Housing Trust's overall creditworthiness. This opinion focuses on Housing Trust's capacity and willingness to meet its financial commitments as they come due, and does not apply to any specific financial obligation. In our opinion, Housing Trust's financial strength, management strategy, and economic profile are in line with our 'AA-' rating. Housing Trust's capital base is very strong compared with that of peers, and we believe its management and strategy drive a strong market position in the area economy, including partnerships with public and private entities that help further its mission. Housing Trust has no publicly rated general obligation debt outstanding as of this report.

Credit overview

The rating reflects our view of Housing Trust's:

- Financial strength and capital adequacy ratios that are among the highest of publicly rated community development financial institutions (CDFIs);
- Extremely strong history of loan performance, demonstrated by a very low nonperforming assets ratio;
- Increased self-sufficiency to more than 100% in the past two fiscal years, as evidenced by growth in revenue, profitability, and ability to pay operating expenses without grant funds;
- Market position in an economy with extremely strong demand for affordable housing, supported by the political and business climates; and
- Experienced and prudent management, with an updated strategy that capitalizes on the influx of capital to Housing Trust's footprint.

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

- Growth in loan portfolio, resulting in fluctuating capital adequacy ratios in the past several years; and
- Housing Trust's financial position strengthened in the past five years, with its asset base more than doubling over the past five years, and its equity (or net assets) increasing approximately 70% during the same period.

Housing Trust is ranked among the highest capitalized of its kind, as measured by five-year average equity to total assets (54.5%). Housing Trust's most recent average net-equity-to-assets ratio is 21.57%, after taking estimated losses into account. As of June 30, 2020, Housing Trust had $169 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 36%. Housing Trust's five-year average of 3.01% loan loss reserves over total loans is lower than that of 'AA-' rated housing finance agencies (HFAs) and CDFIs, but we believe that this level is commensurate with its extremely low delinquencies of 0.05% when compared with those of HFA and CDFI peers. Last, we believe Housing Trust practices prudent risk management and has conservative lending policies compared with other CDFIs. While the majority of its assets are in the form of loans, at 75% in fiscal 2020, we believe that Housing Trust has sufficient liquidity and proactively manages its assets and liabilities, maintaining approximately 20.5% in short-term investments to total assets as of the same period. Overall, we believe Housing Trust is well positioned to handle its planned growth and to take advantage of the capital it has received and has planned for deployment for California housing in the next several years.

The stable outlook reflects our view of Housing Trust's strategy and management, increasing asset base and capital, extremely low delinquencies, and sufficient net assets to cover potential losses. The outlook also reflects our view of Housing Trust's recent achievement of 100% self-sufficiency, eliminating its reliance on grant funding to sustain its programs.

Environmental, social, and governance (ESG) factors

We have analyzed Housing Trust's ESG risks relative to our ICR in terms of financial strength, management, federal designation, and economic fundamentals. We view health and safety risks related to the COVID-19 pandemic as social risks, which have affected affordable housing issuers and projects. Elevated unemployment and greater likelihood of nonpayment of rent and mortgages could thus create a liquidity crunch for some issuers and elevate near-term social risk. However, we think Housing Trust's minimal forbearance statistics and strong financial performance somewhat insulate it from near-term volatility resulting from COVID-19. As vaccine rollouts continue in the U.S., S&P Global Ratings believes that uncertainty remains high about the evolution of the coronavirus pandemic and its economic effects. Widespread immunization will pave the way for a return to more normal levels of social and economic activity. As the situation evolves, we will update our views. Regarding environmental factors, we see heightened seismic and wildfire risk as a result of properties' location in California. However, strong state building codes somewhat mitigate this risk. Finally, we believe governance risks are in line with sector standards.

Stable Outlook

Downside scenario

If S&P Global Ratings-calculated net equity to assets declines 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.

Upside scenario

Conversely, if Housing Trust's financial ratios continue to improve to a level beyond that of other rated CDFIs, we would consider a positive rating action. In addition, if Housing Trust's loan portfolio shifts to loans that pose less risk (e.g., long-term and permanent loans), resulting in lower estimated loan losses, we may consider positive rating action.

Credit Opinion

Financial strength

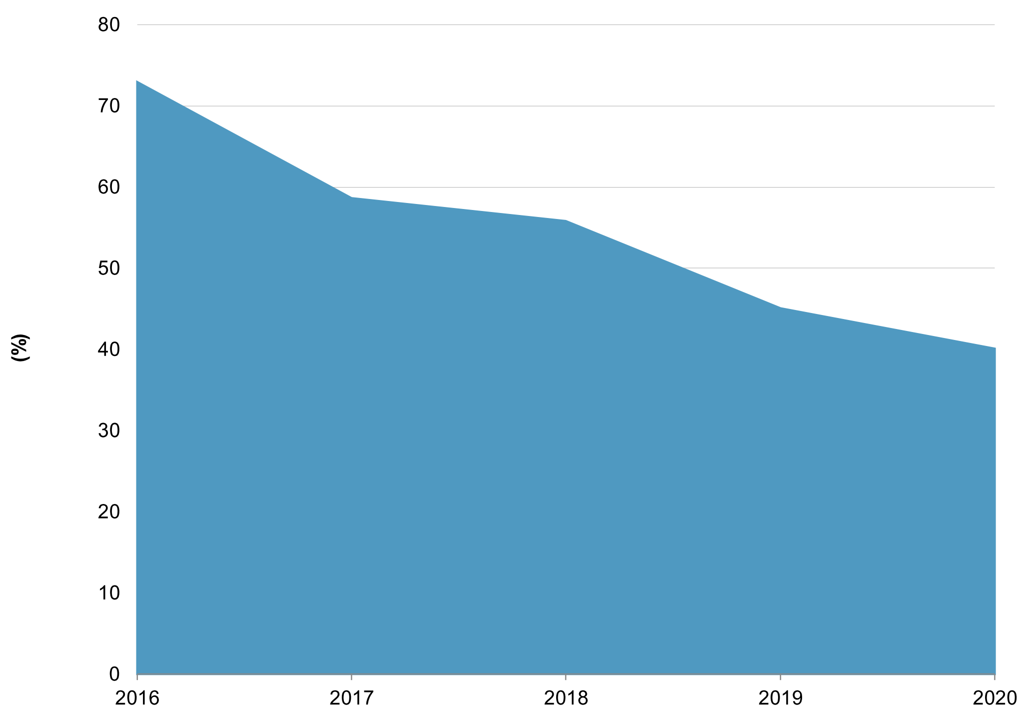
In our opinion, Housing Trust has shown improving financial strength over the past five years, despite declines or fluctuations in some key ratios. Total equity has increased by an annual average of 17.7% to $89.8 million and total assets by an annual average of 34.0% to $224 million. Additionally, while Housing Trust's net income has fluctuated as a result of grants in the past five years, its profitability ratios outpace those of most other rated CDFIs.

Capital adequacy

We consider Housing Trust well capitalized with very strong capital adequacy and leverage ratios. Housing Trust's equity to total assets averaged 54.5% a year in fiscal years 2016 to 2020. While we consider this extremely strong, it has declined steadily to 40.12% in fiscal 2020 from 72.9% in fiscal 2016 as a result of Housing Trust's strategy of leveraging and taking on more debt obligations to increase its assets.

Chart 1

Housing Trust Silicon Valley Equity To Assets



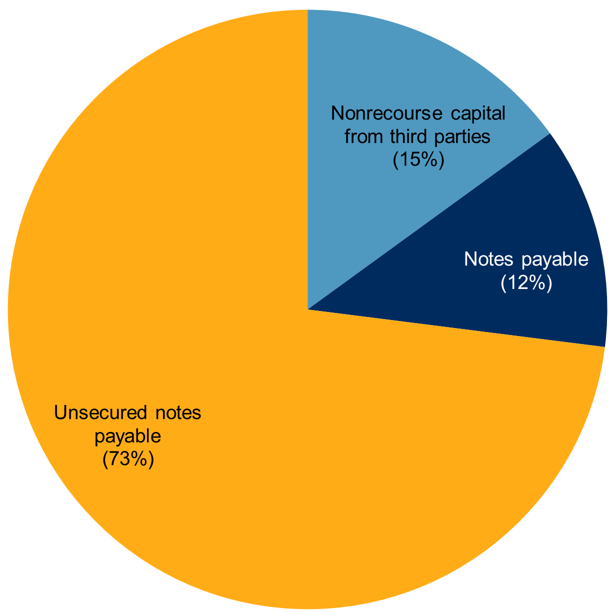
Source: S&P Global Ratings.

Housing Trust's average net equity to total assets for the 2018-2020 period was 16.6%. The ratio fluctuated from 16.6% in fiscal 2018 to 11.4% in 2019, and then to 21.6% in 2020, primarily as a result of changes in S&P loss assumptions. In our view, the average ratio is in line with the rating. With Housing Trust's strategy of leveraging up in the past few years, we expect equity and net equity to stabilize as funding is deployed into lending programs in the next few years.

In the past several fiscal years, Housing Trust has increased capacity and access to financing, but its balance sheet carries insignificant debt compared with its equity. Housing Trust's total debt outstanding grew to $111 million in fiscal 2020 from $75.9 million in fiscal 2019. This compares to $8.6 million in fiscal 2016. Total equity was 80.9% of debt in fiscal 2020, down from 98.9% in fiscal 2019. 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 or semiannually.

Chart 2

Housing Trust Silicon Valley Liabilities Fiscal 2020



Source: S&P Global Ratings.

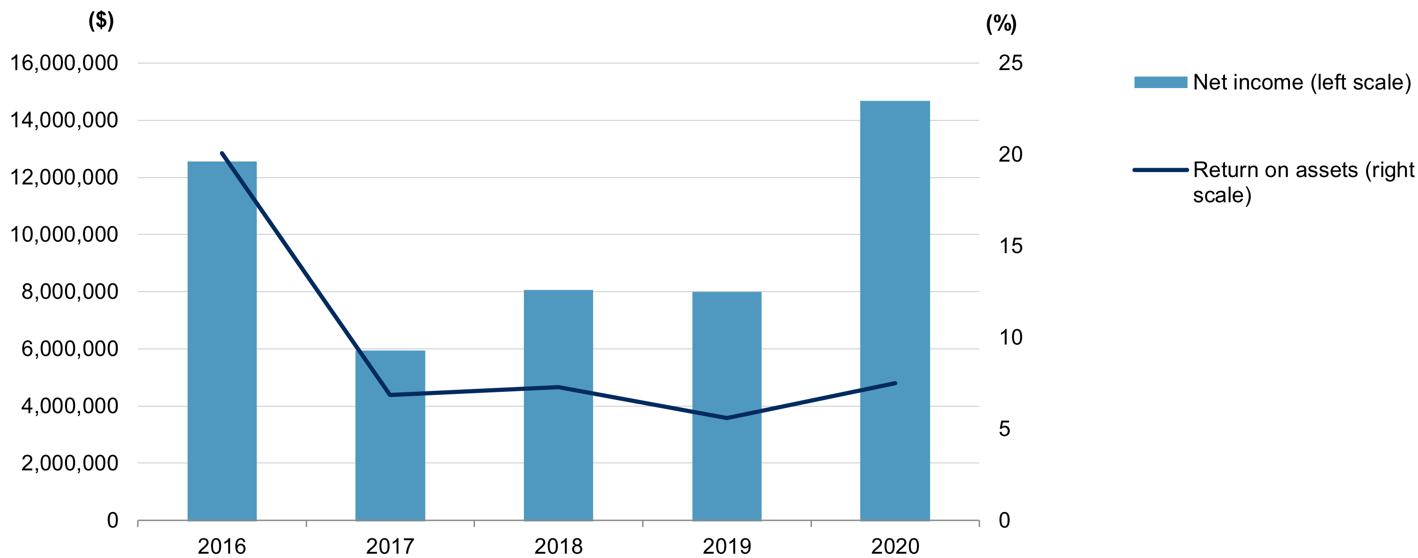
Profitability

Our primary measures of profitability, return on average assets and net interest margin, averaged 9.5% and 1.9%, respectively, in fiscal years 2016 to 2020. While year-to-year net income has been volatile as a result of grant income, we consider return on average assets very high compared with that of CDFI peers. Net interest margin is relatively low compared with that of peers, but is comparable with issuers that focus on lending programs for housing.

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 for operations. In our view, Housing Trust's revenue stream has begun to diversify, and the organization has become increasingly self-sufficient. In 2016 to 2020, an average of 32% 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 39% in 2020 from approximately 15% in 2015, when we initially rated Housing Trust. In addition, Housing Trust's self-sufficiency ratio (net income to expenses, less grant income and grant expenses) was greater than 100% in both 2019 and 2020. This compares to slightly less than 60% in 2015. Housing Trust steadily improved its self-sufficiency as a percentage of operating revenue over operating expenses, calculated by S&P Global Ratings, to 109% in 2019 from 96.8% in 2018.

Chart 3

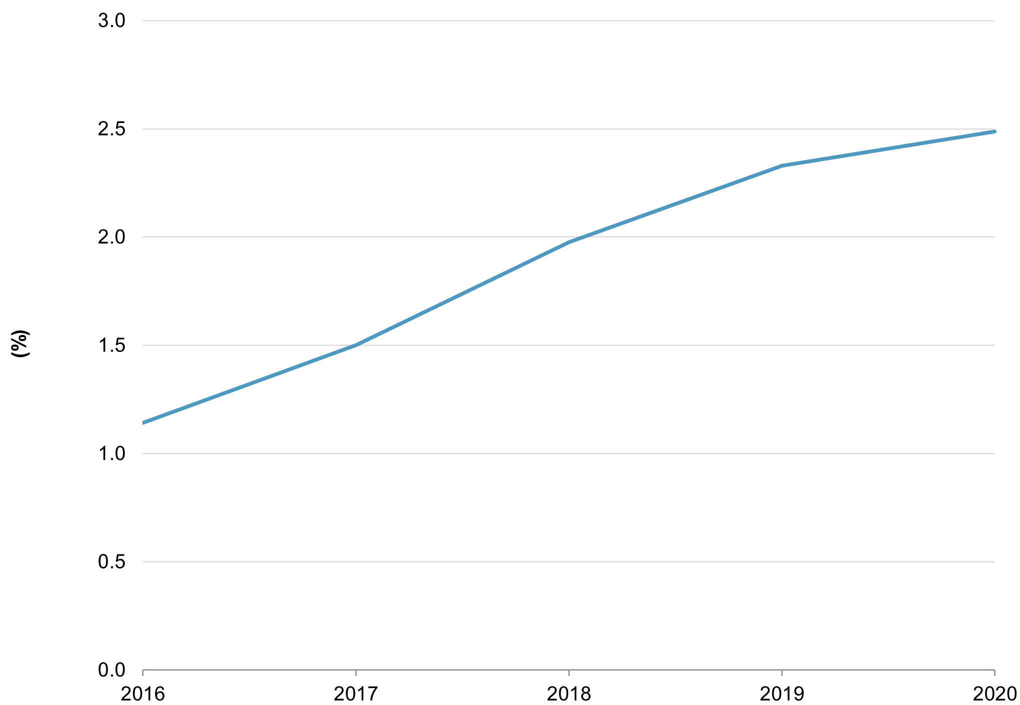
Housing Trust Silicon Valley Net Income And Return On Assets



Source: S&P Global Ratings.

Chart 4

Housing Trust Silicon Valley Net Interest Margin

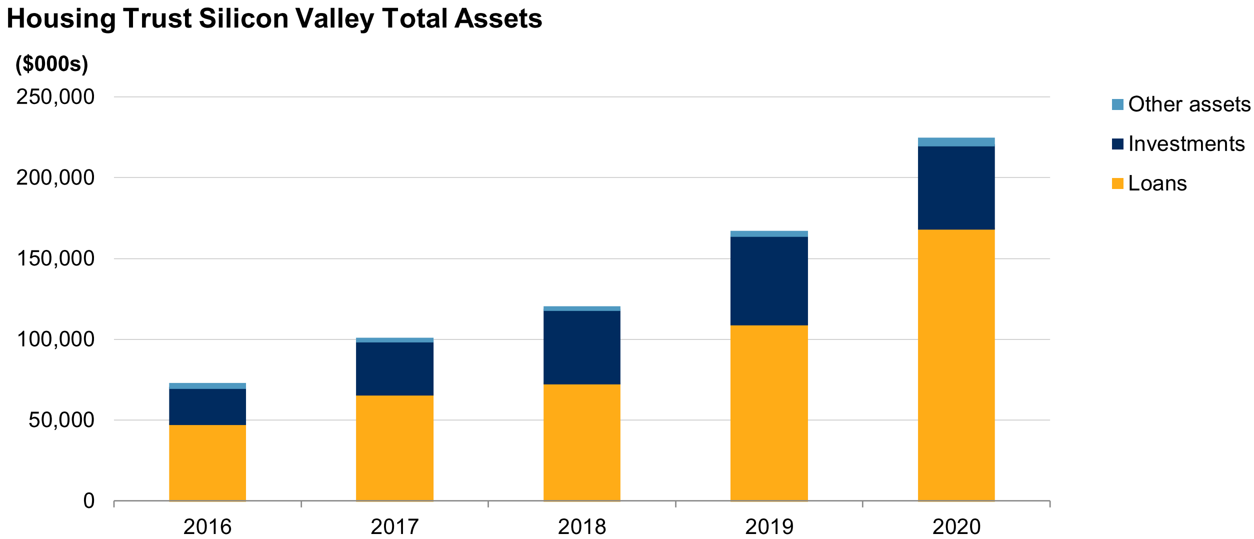


Source: S&P Global Ratings.

Asset quality

Housing Trust had a balance of $169 million in loans outstanding, net of allowance for loan losses, as of fiscal 2020, up 54% from $109 million in fiscal 2019. In line with the rapid growth seen throughout the CDFI sector, Housing Trust's loan portfolio has grown 3.5x in the past five years, averaging a 36.3% annual increase in loans. Total assets increased to $224 million in fiscal 2020, from $167 million in fiscal 2019 and more than tripling since we initially rated Housing Trust in 2015.

Chart 5



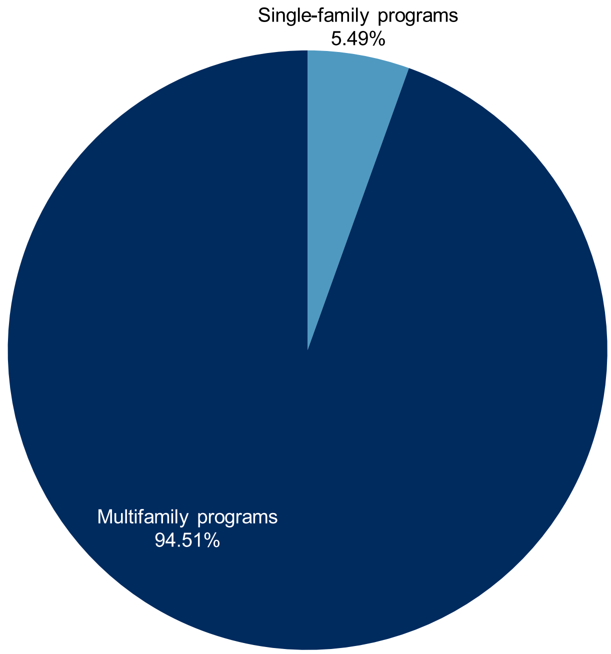
Source: S&P Global Ratings.

Housing Trust had a 3.75% loan-loss-reserve-against-all-loans ratio in 2020, with a five-year average of 3.01%. This level has increased gradually in the past five years along with Housing Trust's loan portfolio. 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. We estimated these losses for fiscal 2020 by applying our single-family whole loan and rental housing bond criteria, totaling approximately 23% of the loan portfolio. This figure is down significantly from 46% in fiscal 2019 and 55% in fiscal 2018 as a result of more detailed loan data and application of new criteria. While the loss estimate has declined compared with fiscal 2019 and earlier, it is high compared with Housing Trust's loan delinquency history, with nonperforming assets to total loans at 0% in fiscal 2020 and an average of 0.05% in the past five years. Housing Trust's capital position after consideration of these losses continues to be one of the strongest we have seen in the sector.

As noted in chart 6, the majority of Housing Trust's loans are for multifamily projects. More than 72% of the loan portfolio is secured by real estate and a first lien. The Housing Trust risk rating and lending policies are conservative, in our view, compared with those of similarly rated CDFIs.

Chart 6

Housing Trust Silicon Valley Loan Portfolio Fiscal 2020



Source: S&P Global Ratings.

Liquidity

We believe Housing Trust has adequate liquidity, with short-term investments to total assets averaging 16.7% over the past five years. Short-term investments to total assets was 20.5% in fiscal 2020, down from 31.1% in fiscal 2019 but more than double the figure of prior years. Total loans to total assets averaged 66.6% from 2016 to 2020, measuring 75.3% in fiscal 2020. While these levels are slightly lower than those of CDFIs in the same rating category, Housing Trust also has access to approximately $15 million in unused external liquidity, which we view as a credit positive.

Management, legislative mandate, or federal designation

Housing Trust, formally known as Housing Trust of Santa Clara County Inc., is a 501(c)(3) corporation incorporated on May 22, 2000, and headquartered in San Jose, Calif. Housing Trust is the sole member of LTOA LLC, a California-based limited-liability company formed on July 2, 2012. Housing Trust is leading the effort to create a strong affordable housing market in 13 counties of Silicon Valley and the greater Bay Area. From those experiencing homeless to renters to first-time homebuyers, Housing Trust assists a wide range of residents with programs across the entire spectrum of housing issues. Housing Trust is a direct lender for affordable housing, community development, and other nontraditional credit needs, using its financial expertise and extensive private and public sector partnerships so that local residents can secure stable and affordable housing. The U.S. Department of the Treasury designated Housing Trust a CDFI in September 2013.

An active board of directors oversees Housing Trust, with membership increasing to 19 from 16 in fiscal 2020 and with all members being voting directors serving three-year terms. Board members come from a wide array of backgrounds with several affordable housing finance experts, real estate developers, and lenders at respected financial institutions. An established senior management team--consisting of the CEO, chief financial officer, chief lending officer, chief compliance and risk officer, and chief development officer--supports the board, which has six committees. In June 2020 Housing Trust's CEO of 12 years resigned, and in January 2021 a new CEO was hired with extensive CDFI experience. This follows the strategic hiring of a chief lending officer in 2019. 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.

Since its inception 20 years ago, Housing Trust has made funds available for the purchase of more than 20,000 affordable homes created. Housing Trust has also provided security/utility deposit assistance grants for individuals considered either experiencing homelessness or at risk of same. 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.

We believe collaboration with public and private partners, external relations, and financial self-sufficiency show that Housing Trust 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 invest significantly or 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 as very strong its commitment to community development as relates to the organization's core values, mission, and overall strategy and management. 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. Starting in fiscal 2020, Housing Trust received large investments by Google LLC and Apple Inc. to support affordable housing in the greater San Francisco Bay Area. We believe these types of investments by Silicon Valley corporations, combined with the state government's commitment to housing in California, put Housing Trust in a unique position to further its mission.

Economy

We consider the economy in Housing Trust's jurisdiction very strong. While Housing Trust has expanded in the greater Bay Area to counties such as Sonoma and Monterey, such that in 2020 nearly 50% of its multifamily lending was to projects outside Santa Clara County, the majority of its portfolio and lending in the past five years took place in Santa Clara County. According to our local government analysis as of July 2020, Santa Clara County, with an estimated population of nearly 2 million, is located in the broad and diverse San Jose-Sunnyvale-Santa Clara, Calif., metropolitan statistical area. The county is the sixth-largest in the state by population, and its boundaries encompass approximately 1,316 square miles and 15 cities. The largest city in the county is San Jose, the third-largest city in the state. The county unemployment rate was 2.5% in 2019. While we expect that the unemployment rate will rise in the near term, based on the sharp decline in economic activity resulting from social distancing efforts, we note that the county's unemployment rate typically tracks below the national and state averages.

The County of Santa Clara is the center of Silicon Valley, as reflected in the extremely high wealth and income levels. Over the past decade, the county's assessed value (AV) has grown by an average annual rate of 6.5% to $520.5 billion in 2020. Google, the largest taxpayer, accounts for 1.2% of total AV, with no other taxpayer representing more than 0.6% of total AV alone. In total, the 10 largest taxpayers account for only 3.7% of the county's 2019 AV. Although we consider this unlikely, the high concentration in the technology industry makes the county more susceptible to another tech industry downturn. The tech sector continues to expand its footprint within the county, with recent and ongoing expansions at several of the county's largest tech firms, including Google, Apple, Facebook, LinkedIn, and Amazon, continuing to provide employment opportunities and boost property values. We note that the pandemic and increase in remote work pose some questions regarding demand for office space in the future, although it is too early to tell. In fiscal 2021, the county anticipates an additional AV increase of 5.8%.

Incomes within the county continue to rise, outpacing inflation in the past several years. However, we believe the county's high cost of living, very high housing costs, and low availability of land could limit growth in Santa Clara County and the greater Bay Area. We believe these factors, however, will continue to contribute to the high demand for and significant need for affordable housing in the area, boding well for Housing Trust's mission and vision.

Housing Trust Silicon Valley Financial Ratios

(%)

	2016	2017	2018	2019	2020	Average
Equity						
Total equity (net assets)/total assets	72.94	58.63	55.78	45.06	40.12	54.51
Net equity/total assets	N/A	N/A	16.63	11.44	21.57	16.55
Total equity + reserves/total loans	107.55	86.05	88.39	64.95	49.19	79.23
Total equity/total debt	608.27	259.03	150.91	98.92	80.97	239.62
Net equity/total debt	N/A	N/A	45.00	25.11	43.54	37.88
Profitability						
Return on average assets	20.07	6.87	7.29	5.56	7.49	9.46
Return on assets before loan loss prov & extraordinary items	17.96	6.34	7.44	5.60	7.91	9.05
Return on average equity	26.99	10.62	12.78	11.22	17.75	15.87
Net interest margin	1.14	1.50	1.98	2.33	2.49	1.89
Net interest margin (loans)	1.45	1.41	2.22	2.39	2.86	2.07
Asset quality						
NPAs/total loans + REO	0.06	0.14	0.02	0.01	0.00	0.05
Net charge-offs/average NPAs	167.32	10.31	0.00	130.00	395.24	140.57
REO/total loans	0.00	0.00	0.00	0.00	0.00	0.00
Loan loss reserves/total loans	2.46	2.47	3.16	3.22	3.75	3.01
Loan loss reserves/NPAs	4,029.18	1,745.91	15,866.67	24,310.00	87,700.00	26,730.35
Net charge-offs/average loans	0.06	0.01	0.00	0.02	0.03	0.02

Housing Trust Silicon Valley Financial Ratios (cont.)

(%)	2016	2017	2018	2019	2020	Average
Liquidity						
Total loans/total assets	65.93	65.58	60.53	65.65	75.31	66.60
Short-term investments/total assets	12.38	9.41	9.93	31.14	20.46	16.66
Long-term investments/total assets	18.74	23.58	27.83	1.66	2.56	14.88
Total investments/total assets	31.12	33.00	37.75	32.80	23.02	31.54
Other assets/total assets	2.95	1.42	1.71	1.55	1.67	1.86

N/A--Not available. NPA--Nonperforming assets. REO--Real estate owned.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020