S&P Global
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

Rating Action

S&P Global Ratings affirmed its 'AA-' issuer credit rating (ICR) on Housing Trust Silicon Valley (Housing Trust), Calif. 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 afford 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 three 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 a strategy that capitalizes on the influx of capital to Housing Trust's footprint.

Partly offsetting the above strengths, in our opinion, is Housing Trust's increased leverage position and fast growth of its asset base in the past five years.

Housing Trust is ranked among the highest capitalized of its kind, as measured by five-year average equity to total assets (48.3%). Housing Trust's most recent average net-equity-to-assets ratio is 19.8%, after taking estimated losses into account. As of June 30, 2021, Housing Trust had $158 million in loans outstanding, net of allowance for loan losses. In the past five fiscal years, Housing Trust has increased its loan balance by an annual average of 29%. Housing

Trust's five-year average of 3.21% loan loss reserves over total loans is lower than the average of 'AA-' rated housing finance agencies (HFAs) and CDFIs, but we believe that this is commensurate with its extremely low average nonperforming assets ratio of 0.03% 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 63% in fiscal 2021, we believe that Housing Trust has sufficient liquidity and proactively manages assets and liabilities, maintaining approximately 31.9% in short-term investments to total assets as of the same period. Overall, we believe Housing Trust is well positioned to handle planned growth and 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 achievement of more than 100% self-sufficiency for the past three fiscal years, eliminating reliance on grant funding to sustain operations.

Environmental, social, and governance

We have analyzed Housing Trust's environmental, social, and governance 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 that have affected affordable housing issuers and projects. We think Housing Trust's minimal forbearance statistics and strong financial performance somewhat insulate it from near-term volatility resulting from COVID-19. Regarding environmental factors, we see heightened seismic and wildfire risk as a result of Housing Trust's portfolio properties' location in California. However, strong state building codes and insurance requirements 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, amortizing 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 and stable financial strength over the past five years, despite declines or fluctuations in some key ratios. Total equity has increased by an annual average of 14.8% to $104.7 million, and total assets by an annual average of 28.8% to $251 million. In addition, although 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.

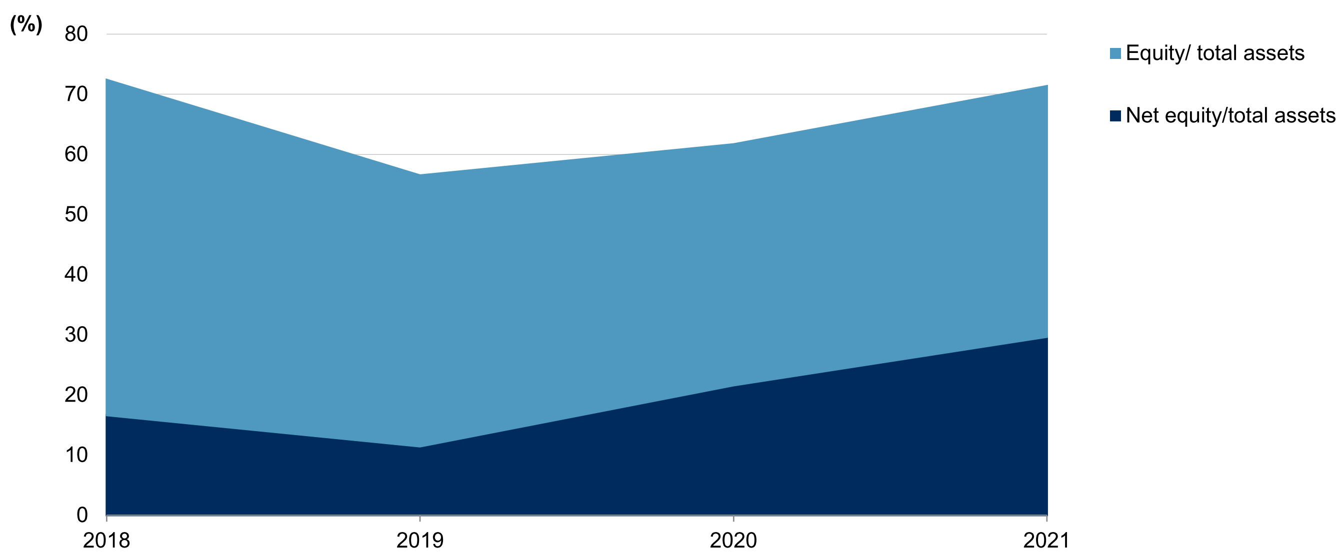
Capital adequacy

We consider Housing Trust well capitalized with very strong capital adequacy and leverage ratios. Housing Trust's equity to total assets averaged 48.3% a year in fiscal years 2017 to 2021. We consider this extremely strong, with a slight increase to 41.7% in fiscal 2021 from 40.1% in fiscal 2020 as a result of Housing Trust's strategy to increase its net asset position and high-performing loan portfolio.

Housing Trust's average net equity to total assets for the 2018-2021 period was 19.8%. The volatility in this ratio during this period was primarily a result of changes in S&P Global Ratings loss assumptions. Net equity to total assets increased to 29.6% in 2021 as a result of growth in net assets. In our view, this 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.

Chart 1

Equity/Total Assets Vs. Net Equity/Total Assets



In the past several fiscal years, Housing Trust has increased capacity and access to financing, but its balance sheet carries nominal debt compared with its equity. Housing Trust's total debt outstanding grew to $114 million in fiscal 2021 from $111 million in fiscal 2020. This compares to $22.7 million in fiscal 2017. Total equity was 91.5% of debt in fiscal 2021, up from 81.0% in fiscal 2020. Housing Trust's liabilities under its credit agreements include unsecured borrowings bearing a simple interest rate, of 1.5% to 3.0%, as of each borrowing date. Interest on the borrowings is payable quarterly or semiannually.

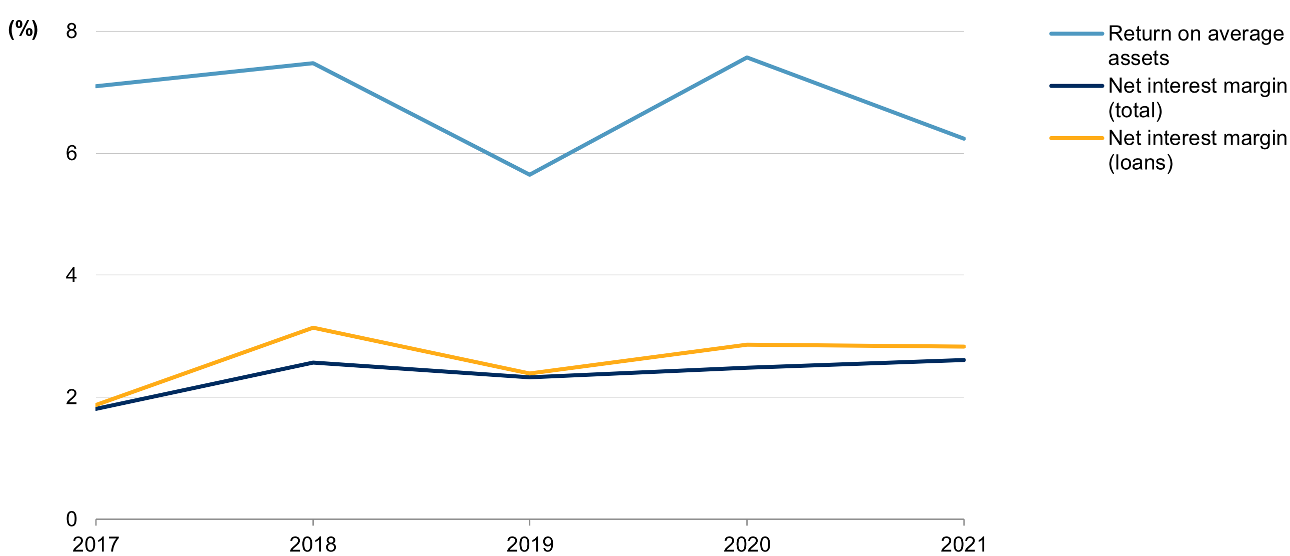
Profitability

Our two primary measures of profitability, return on average assets and net interest margin, averaged 6.8% and 2.4%, respectively, in fiscal years 2017 to 2021. 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 somewhat lower than average compared with that of peers, but is comparable with that of issuers that focus on lending programs for housing.

Although 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 2017 to 2021, an average of 25% of Housing Trust's revenue came from nongrant sources such as interest income from loans and investment income. This figure rose to 35% in 2021 from approximately 14% in 2017. In addition, Housing Trust's self-sufficiency ratio (net income to expenses, less grant income and grant expenses) was greater than 100% in the past three fiscal years. This compares to slightly less than 60% in 2015, when Housing Trust was initially rated. Housing Trust steadily improved its self-sufficiency as a percentage of operating revenue over operating expenses, calculated by S&P Global Ratings, to 146% in 2021 from 109% in 2019.

Chart 2

Profitability



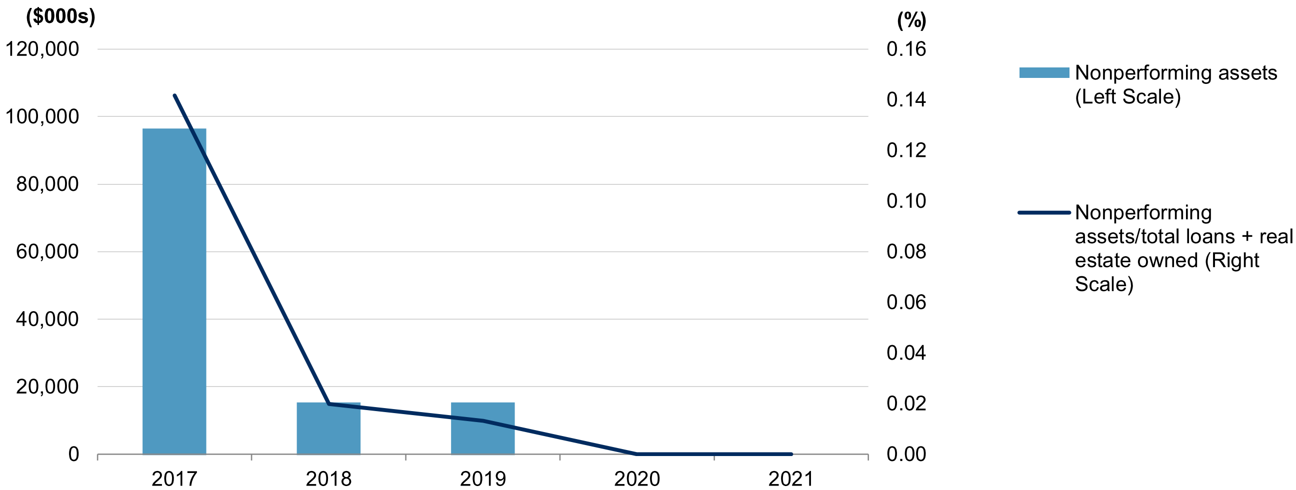
Asset quality

Housing Trust had a balance of $158 million in loans outstanding, net of allowance for loan losses, as of fiscal 2021, down slightly from $169 million in fiscal 2020. Housing Trust's loan portfolio has grown 1.4x in the past five years, averaging a 29% annual increase in loans. Total assets increased to $251 million in fiscal 2021 from $224 million in fiscal 2020 and more than doubled the fiscal 2017 figure.

Housing Trust had a 3.45% loan-loss-reserve-against-all-loans ratio in 2021, with a five-year average of 3.21%. This level has been steady for the past five years, following the changing levels in Housing Trust's loan portfolio. In our view, Housing Trust's loan loss allowance 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 2021 by applying our single-family whole loan and rental housing bond criteria, totaling approximately 16.8% of the loan portfolio. This figure is down from 22.8% in fiscal 2020 and 46.0% in fiscal 2019. While the loss estimate has declined significantly 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 2021 and an average of 0.03% 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.

Chart 3

Nonperforming Assets

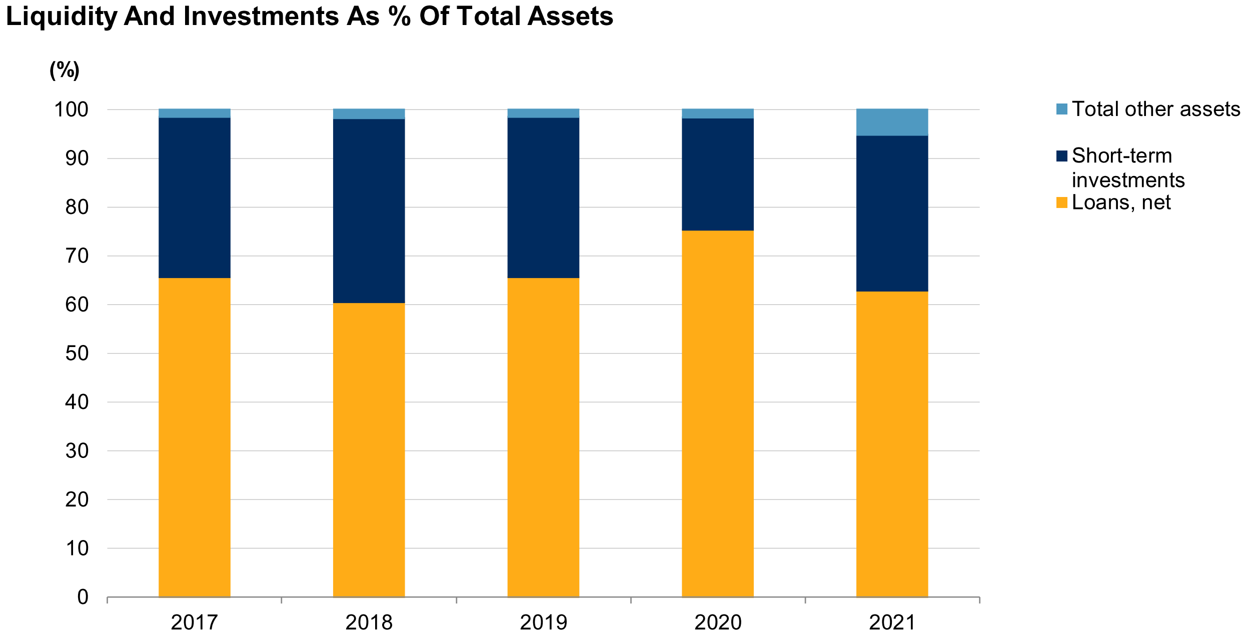


The majority of Housing Trust's loans are for multifamily projects and secured by real estate and a first lien. The Housing Trust risk rating and lending policies are conservative, in our view, compared with those of similarly rated CDFIs.

Liquidity

We believe Housing Trust has adequate liquidity, with short-term investments to total assets averaging 31.71% over the past five years. Short-term investments to total assets was 31.89% in fiscal 2021, up from 23.1% in fiscal 2020. Total loans to total assets averaged 66.0% from 2017 to 2021, measuring 62.9% in fiscal 2021. These levels are above the average of CDFIs in the same rating category. Housing Trust also has access to approximately $25 million in unused external liquidity, and we view this as a credit positive.

Chart 4



Note: Loans reported net of loan loss allowance. Short-term investments include accrued interest receivable on investments and loans. Long-term investments reported net of fair value adjustment.

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 totaling 16 board members, including two new members in 2021. All members are voting directors serving three-year terms. Board members come from a wide array of backgrounds with several being 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 more than 20 years ago, Housing Trust has made funds available for the purchase of more than 24,000 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 strong position to further its mission.

Economy

We consider the economy in Housing Trust's jurisdiction very strong, with the majority of its portfolio and lending taking place in Santa Clara County. In 2021, about 20% of Housing Trust's multifamily lending was to projects outside Santa Clara County, in greater Bay Area counties such as Sonoma and Monterey. According to our local government analysis as of June 2021, Santa Clara County, with an estimated population of approximately 2 million, is located in the broad and diverse San Jose-Sunnyvale-Santa Clara 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 7.1% in 2020 and 5% in 2021.

The County of Santa Clara is the center of Silicon Valley, as reflected in the extremely high wealth and income levels. Although we consider another tech industry downturn unlikely, the high concentration in the technology industry makes the county more susceptible. 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 a recent announcement by to Google to build a 7.3 million-square-foot project in the center of the county. Despite high-profile announcements of staff relocations, jobs and employees appear to be staying put. In fiscal 2022, the county anticipates an additional assessed value increase of 4.5%, a slight decline from the 6% to 7% increase in the past two years.

Incomes within the county continues 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.

Table 1

Financial Ratio Analysis

	2017	2018	2019	2020	2021	Five-year average
(%)						
Capital adequacy						
Equity/total assets	58.63	55.78	45.06	40.12	41.70	48.26
Net equity/total assets	21.20	16.63	11.44	21.57	29.64	19.82
Net equity/total loans	31.28	26.48	16.80	27.52	45.40	29.05
Net equity/total loans + MBS (loans)	31.28	26.48	16.80	27.52	45.40	29.05
Equity/total debt	259.03	150.91	98.92	80.97	91.51	136.27
Net equity/total debt	93.67	45.00	25.11	43.54	65.04	44.67
Net equity/GO debt	93.67	44.97	25.10	50.29	74.77	48.02
Available liquid assets/ total loans	122.20	129.34	155.01	132.64	156.72	139.18
GO debt/total debt	72.08	91.19	85.47	73.26	75.39	79.48
Profitability						
Return on average assets	7.10	7.47	5.65	7.57	6.24	6.81
Net interest margin	1.81	2.57	2.33	2.49	2.61	2.36
Net interest margin (MBS (loans) + loans)	1.87	3.14	2.39	2.86	2.83	2.62
Net interest margin (loans)	1.87	3.14	2.39	2.86	2.83	2.62
Asset quality						
NPAs/total loans + REO	0.14	0.02	0.01	0.00	0.00	0.03
Net charge-offs/average NPAs	0.00	0.00	0.00	0.00	0.00	0.00
Loan loss reserves/total loans	2.47	3.16	3.22	3.75	3.45	3.21
Loan loss reserves/NPAs	1745.91	15866.67	24310.00	0.00	0.00	8384.51
Net charge-offs/average loans	0.00	0.00	0.00	0.00	0.00	0.00
Liquidity						
Total loans/total assets	65.58	60.53	65.65	75.31	62.94	66.00
Total loan + MBS (loans)/total assets	65.58	60.53	65.65	75.31	62.94	66.00
Short-term investments/total assets	33.00	37.75	32.80	23.09	31.89	31.71
Total investments/total assets	33.00	37.75	32.80	23.09	31.89	31.71

Note: Net equity ratios use a four-year average (2018-2021). GO--General obligation. MBS--Mortgage-backed securities. NPA--Nonperforming assets. REO--Real estate owned.

Table 2

Five-Year Trend Analysis

($000s unless otherwise indicated)

	2017	2018	2019	2020	2021
Total assets	100,173,849	120,047,627	166,578,851	223,956,871	250,989,111
% change	39	20	39	34	12
Total debt	22,675,000	44,375,476	75,879,087	110,963,325	114,380,564
% change	162	96	71	46	3
Total equity	58,735,935	66,966,472	75,060,855	89,844,959	104,667,889
% change	12	14	12	20	16
Total net equity	21,239,811	19,966,918	19,053,459	48,314,929	74,388,280
% change	(18)	(6)	(5)	154	54
Revenues	11,309,003	13,429,050	14,975,716	24,344,219	22,047,377
% change	(30)	19	12	63	(9)
Expenses	5,188,640	5,198,513	6,881,333	9,560,115	7,224,447
% change	43	0	32	39	(24)
Net income	6,120,363	8,230,537	8,094,383	14,784,104	14,822,930
% change	(51)	34	(2)	83	0
Total loans	65,692,978	72,669,588	109,359,080	168,668,614	157,966,826
% change	38	11	50	54	(6)
Nonperforming assets	96,225	15,000	15,000	-	-
% change	222	(84)	0	(1)	0

Related Research

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