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# Housing Trust Silicon Valley; General Obligation

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# Housing Trust Silicon Valley; General Obligation

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| *Long Term Rating* | AA-/Stable | Current |

## Credit Highlights

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

### Security

The ICR reflects our view of 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 low historical nonperforming assets ratio;
- Increased self-sufficiency to more than 100% in the past four fiscal years, as is evident in revenue growth, profitability, and ability to pay operating expenses without grant funds;
- Experienced and prudent management, with a strategy that capitalizes on the influx of capital to Housing Trust's footprint; and
- Economic fundamentals that support demand for affordable housing and its lending programs, which the local government and business sectors also heavily bolster.

Partly offsetting the above strengths, in our opinion, are Housing Trust's increased leverage position and fast-growing asset base in the past five years.

Housing Trust ranks among the highest-capitalized of our rated CDFIs, as measured by five-year average equity to total assets (45.6%). Housing Trust's five-year average net-equity-to-assets ratio is 23%, after taking estimated losses into account. As of June 30, 2022, Housing Trust had $162 million in loans outstanding, net of allowance for loan losses. In the past five fiscal years, however, Housing Trust has increased its loan balance by an annual average of

23.8%, with 3.0% growth in fiscal 2022 contrasting with the 6.3% decline in 2021. Its five-year average of 4.6% loan loss reserves over total loans is lower than the average of 'AA-' rated housing finance agencies (HFAs) and CDFIs, but an increase from the 3.2% in the prior review as a result of an increase in nonperforming assets (NPAs). The five-year average NPA ratio jumped to 1.6% in fiscal 2022 from 0.03% in fiscal 2021, but we believe that this is somewhat of an anomaly compared with Housing Trust's generally low historical average in relation to that of HFA and CDFI peers.

Last, we believe Housing Trust practices prudent risk management and has conservative lending policies compared with other CDFIs. While loans make up the majority of its assets, at 67.2% in fiscal 2022, we believe that Housing Trust has sufficient liquidity and proactively manages assets and liabilities, maintaining approximately 30.0% in short-term investments to total assets as of the same period. Overall, we believe Housing Trust is well positioned for growth given the capital it continues to receive from investors, despite our expectation of a shallow recession in the first half of 2023. (For further information, see "Economic Outlook U.S. Q4 2022: Teeter Totter," published Sept. 26, 2022, on RatingsDirect.)

### Environmental, social, and governance

We have analyzed Housing Trust's environmental, social, and governance risks relative to its financial strength, management, federal designation, and local economy. In our opinion, the ICR exhibits social opportunities related to social capital. Housing Trust's mission to deliver innovative financial solutions and create a strong affordable housing market aims to address socioeconomic inequities affecting demographic and income trends considered in our rating. Our rating also incorporates the elevated environmental risks for California given its exposure to various climate-related events such as wildfires and drought, and natural disasters such as earthquakes which can affect the state's economy and disrupt population migration. However, we believe Housing Trust's financial strength (especially relative to its minimal debt profile and low historical NPAs), strong building codes, and strong underwriting guidelines and insurance requirements mitigate these risks. We view social and governance risks as neutral in our credit rating analysis.

## Outlook

The stable outlook reflects our view of Housing Trust's strategy and management, increasing asset base and capital, 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 four fiscal years, eliminating reliance on grant funding to sustain programs.

### Downside scenario

If S&P Global Ratings-calculated net equity to assets declines as a result of actual or projected losses, resulting in a reduction in capital adequacy, or if Housing Trust's debt burden increases without a commensurate increase in assets, we may take negative rating action.

### Upside scenario

Conversely, if Housing Trust's financial ratios 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

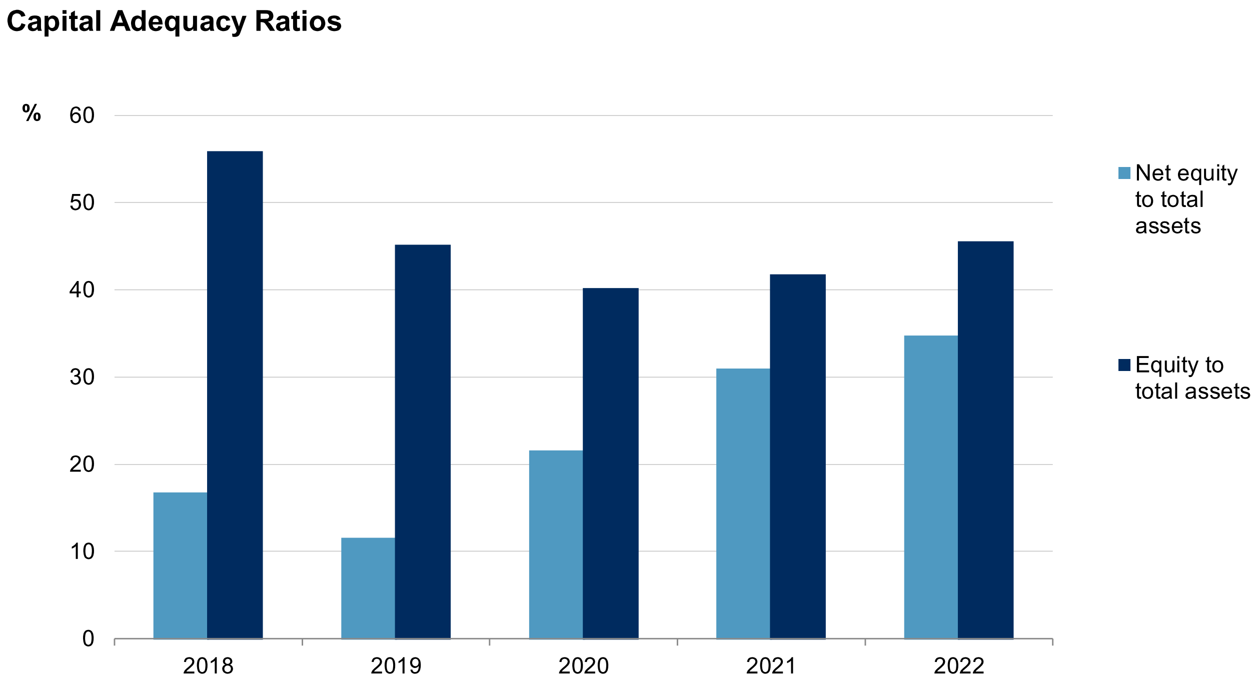
In the past five years, Housing Trust's trends in financial ratios had mixed results. The biggest driver of Housing Trust's financial strength continues to be its equity (or net assets), which has increased by an annual average of 13.4% since 2018 to $109.5 million. Similarly, total assets increased by an annual average of 20.2% with consecutive increases in 2018 to 2021 before falling nominally by 4.0% in 2022 to $240.9 million, which is still double the amount in 2018. In addition, although Housing Trust's net income has fluctuated as a result of grants in the past five years, its average 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 five-year average in fiscal years 2018 to 2022 was 45.6%, which is very strong compared with that of peers. The ratio was 45.4% in fiscal 2022, up from 41.7% in fiscal 2021 and 40.1% in fiscal 2020, as a result of Housing Trust's strategy to increase net assets.

Housing Trust's five-year average net equity to total assets for the same period was 23.0%, having ranged from 16.6% in 2018 to 34.7% in 2022. The fluctuation during this period was primarily a result of changes in S&P Global Ratings loss assumptions given various criteria changes. 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 around fiscal 2022 levels as funding is deployed into lending programs in the next few years.

**Chart 1**






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 decreased to $98 million in fiscal 2022 from $114 million in fiscal 2021. This compares to $44.4 million five years prior. Total equity was 111.7% of debt in fiscal 2022, up from 91.5% in fiscal 2021, both very high levels compared with those of other rated CDFIs. 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.

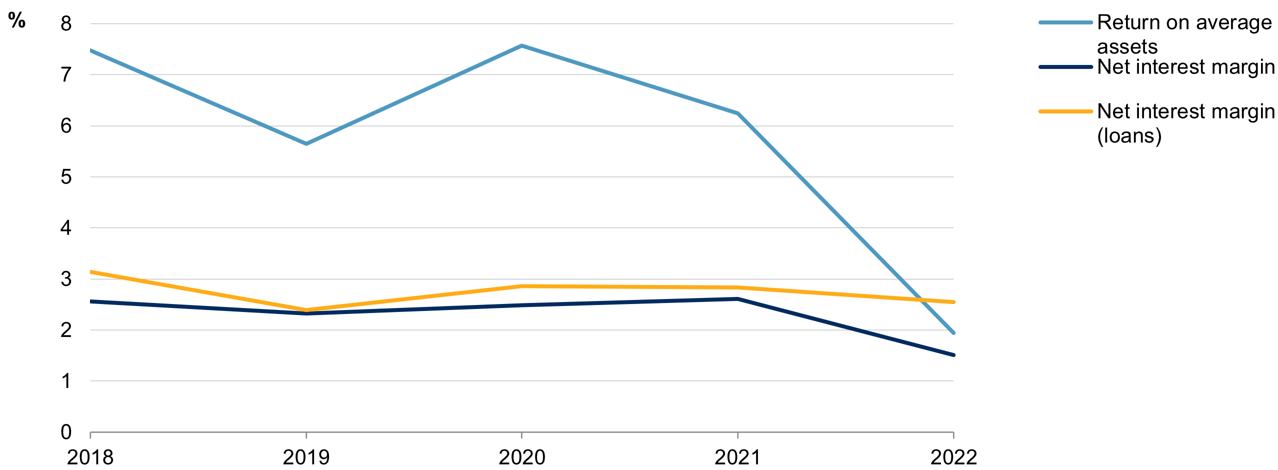
## Profitability

Our two primary measures of profitability, return on average assets and net interest margin, averaged 5.8% and 2.3%, respectively, in fiscal years 2018 to 2022. 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, which declined to 1.5% in 2022, is slightly lower 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 2018 to 2022, an average of 40% of revenue came from nongrant sources such as interest income from loans and investment income. In addition, the self-sufficiency ratio (net income to expenses, less grant income and grant expenses) exceeded 100% in the past four fiscal years. This compares to slightly less than 60% in 2015, when Housing Trust was initially rated.

**Chart 2**

**Profitability Ratios**






## Asset quality

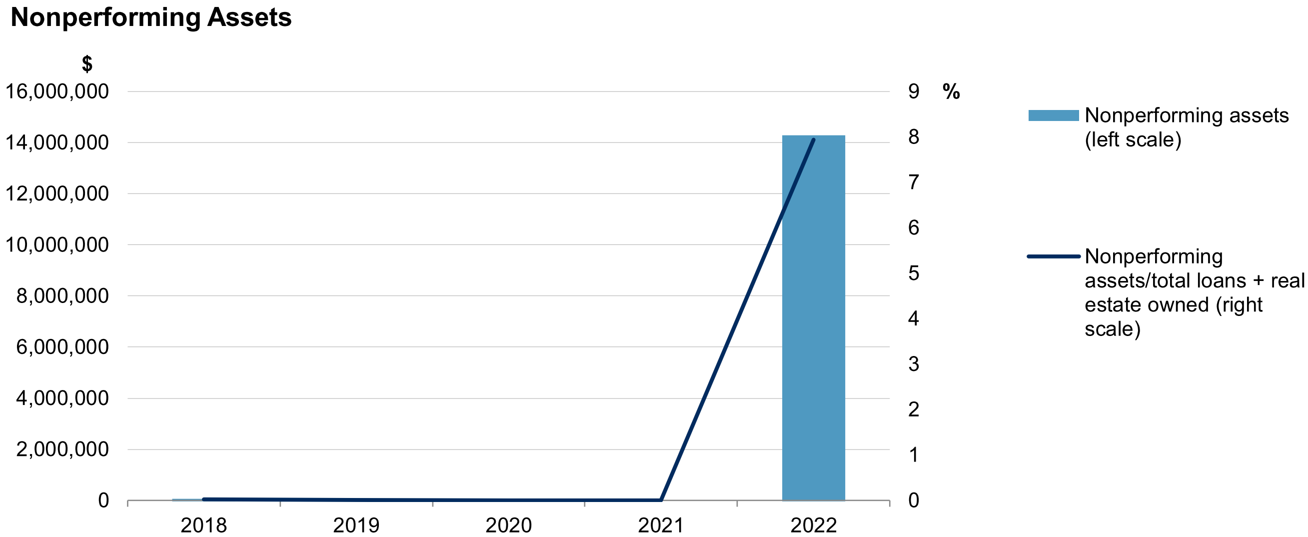
Housing Trust's loan portfolio is about 2.4x the size it was five years ago, at $179 million in gross loans outstanding. Total assets declined slightly to $240.9 million in 2022 from $250.9 million 2021, but are more than double the fiscal 2018 figure.

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.

Housing Trust had a 9.6% loan-loss-reserve-against-all-loans ratio in 2022, up significantly from 3.45% in 2021 as a result of a $14 million impaired loan and somewhat an anomaly, in our view. 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.

NPAs trended similarly in 2022, with the ratio of NPAs to total loans and real estate owned rising to 7.9% from 0% in fiscal 2021. The five-year average ratio rose to 1.6% from 0.03%, which are both very low compared with that of peers.

**Chart 3**



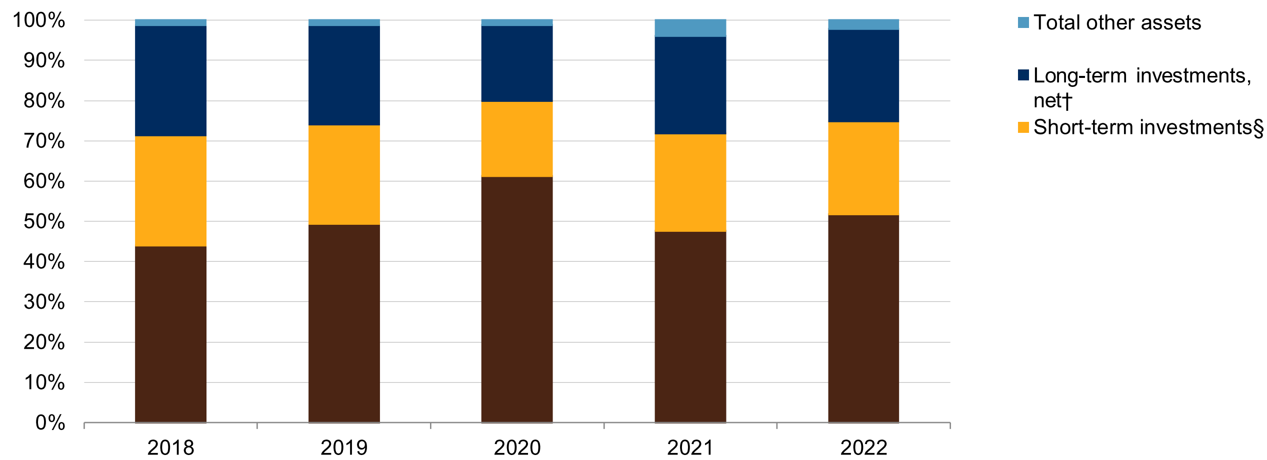



## Liquidity

We believe Housing Trust has adequate liquidity, with short-term investments to total assets averaging 31.1% over the past five years. Short-term investments to total assets was 30.0% in fiscal 2022, down slightly from 31.9% in fiscal 2021. Total loans to total assets averaged 66.3% from 2018 to 2022, measuring 67.2% in fiscal 2022. These levels are above average for CDFIs in the same rating category. Housing Trust also has access to $25 million in unused external liquidity, and we view this as a credit positive.

**Chart 4**

**Liquidity And Investments As % Of Total Assets**




*Whole loans and program mortgage-backed securities reported net of loan loss allowance. §Includes accrued interest receivable on investments and loans. †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 15. 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 credit officer, and chief development officer--supports the board, which has six committees. January 2022 marks the one-year anniversary of Housing Trust's CEO, who was recruited last year and has extensive CDFI experience. Following this and the strategic hiring of a chief lending officer in 2019, Housing Trust hired a chief credit officer in February 2022. 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 25,000 affordable homes. 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 Community Development and Apple Inc. 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 2022, slightly more than half of Housing Trust's multifamily lending was to developments outside Santa Clara County, in greater Bay Area counties such as Sonoma and Monterey. According to our local government analysis, Santa Clara County's economy is one of the strongest in the nation, with an estimated population of approximately 2 million and location in the 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 and third-largest in the state is San Jose. The county unemployment rate was 4.7% in 2021, having eased from 7.2% in 2020.

The county's income and wealth indicators and historically resilient residential real estate demand demonstrate its strength, but its 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. However, we believe these factors 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 | | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | **2019** | **2020** | **2021** | **2022** | **Five-year average** |
| **(%)** | | | | | | |
| **Capital adequacy** | | | | | | |
| Equity/total assets | 55.8 | 45.1 | 40.1 | 41.7 | 45.4 | 45.6 |
| Net equity/total assets | 16.6 | 11.4 | 21.5 | 30.8 | 34.7 | 23.0 |

**Table 1**

## Financial Ratio Analysis (cont.)

| | 2018 | 2019 | 2020 | 2021 | 2022 | Five-year average |
|---|---|---|---|---|---|---|
| Net equity/total loans | 26.5 | 16.8 | 27.4 | 47.2 | 46.6 | 32.9 |
| Equity/total debt | 150.9 | 98.9 | 81.0 | 91.5 | 111.7 | 106.8 |
| Net equity/total debt | 45.0 | 25.1 | 43.3 | 67.7 | 85.2 | 53.3 |
| Net equity/GO debt | 45.0 | 25.1 | 50.0 | 77.8 | 98.7 | 59.3 |
| Available liquid assets/ total loans | 129.3 | 155.0 | 132.6 | 156.7 | 146.5 | 144.0 |
| GO debt/total debt | 91.2 | 85.5 | 73.3 | 75.4 | 73.4 | 79.7 |
| **Profitability** | | | | | | |
| Return on average assets | 7.5 | 5.6 | 7.6 | 6.2 | 1.9 | 5.8 |
| Net interest margin | 2.6 | 2.3 | 2.5 | 2.6 | 1.5 | 2.3 |
| Net interest margin (loans) | 3.1 | 2.4 | 2.9 | 2.8 | 2.5 | 2.8 |
| **Asset quality** | | | | | | |
| NPAs/total loans + REO | 0.0 | 0.0 | 0.0 | 0.0 | 7.9 | 1.6 |
| Net charge-offs/average NPAs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loan loss reserves/total loans | 3.2 | 3.2 | 3.8 | 3.5 | 9.6 | 4.6 |
| Loan loss reserves/NPAs | 15,866.7 | 24,310.0 | 0.0 | 0.0 | 121.1 | 8,059.6 |
| Net charge-offs/average loans | 0 | 0 | 0 | 0 | 0 | 0 |
| **Liquidity** | | | | | | |
| Total loans/total assets | 60.5 | 65.7 | 75.3 | 62.9 | 67.2 | 66.3 |
| Total loan + MBS (loans)/total assets | 60.5 | 65.7 | 75.3 | 62.9 | 67.2 | 66.3 |
| Short-term investments/total assets | 37.8 | 32.8 | 23.1 | 31.9 | 30.0 | 31.1 |
| Total investments/total assets | 37.8 | 32.8 | 23.1 | 31.9 | 30.0 | 31.1 |

GO--General obligation. MBS--Mortgage-backed securities. NPA--Nonperforming asset. REO--Real estate owned.

**Table 2**

## Five-Year Trend Analysis

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| **($ unless otherwise indicated)** | | | | | |
| Assets | 120,047,627 | 166,578,851 | 223,956,871 | 250,989,111 | 240,898,899 |
| % change | 19.8% | 38.8% | 34.4% | 12.1% | -4.0% |
| Debt | 44,375,476 | 75,879,087 | 110,963,325 | 114,380,564 | 97,996,561 |
| % change | 95.7% | 71.0% | 46.2% | 3.1% | -14.3% |
| Equity (net assets) | 66,966,472 | 75,060,855 | 89,844,959 | 104,667,889 | 109,446,558 |
| % change | 14.0% | 12.1% | 19.7% | 16.5% | 4.6% |
| Net Equity (net assets after losses) | 19,966,918 | 19,053,459 | 48,060,944 | 77,414,097 | 83,505,065 |
| % change | -6.0% | -4.6% | 152.2% | 61.1% | 7.9% |
| Revenue | 13,429,050 | 14,975,716 | 24,344,219 | 22,047,377 | 24,811,957 |
| % change | 18.7% | 11.5% | 62.6% | -9.4% | 12.5% |
| Expenses | 5,198,513 | 6,881,333 | 9,560,115 | 7,224,447 | 20,033,288 |
| % change | 0.2% | 32.4% | 38.9% | -24.4% | 177.3% |
| Net income | 8,230,537 | 8,094,383 | 14,784,104 | 14,822,930 | 4,778,669 |

**Table 2**

| Five-Year Trend Analysis (cont.) | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| % change | 34.5% | -1.7% | 82.6% | 0.3% | -67.8% |
| Loans | 72,669,588 | 109,359,080 | 168,668,614 | 157,966,826 | 161,968,493 |
| % change | 10.6% | 50.5% | 54.2% | -6.3% | 2.5% |
| Nonperforming assets | 15,000 | 15,000 | - | - | 14,240,132 |
| % change | -84.4% | 0.0% | -1.0% | 0.0% | N/A |

N/A--Not available.

**Table 3**

| Peer Comparison | Housing Trust | | CDFI medians |
|---|---|---|---|
| | Five-year average (2018-2022) | Five-year average (2017-2021)* | Five-year average (2017-2021) |
| (%) | | | |
| Equity/total assets | 45.6 | 48.3 | 30.3 |
| Net equity/total assets | 23.0 | 20.1 | 13.8 |
| Return on average assets | 5.8 | 6.8 | 2.9 |
| Net interest margin (total) | 2.3 | 2.4 | 2.9 |
| NPAs/total loans and real estate owned | 1.6 | 0.0 | 0.6 |
| Total loans/total assets | 66.3 | 66.0 | 71.1 |
| Short-term investments/total assets | 31.1 | 31.7 | 17.7 |

*Net equity to total assets ratio uses a four-year average (2018-2021). CDFI--Community development financial institution. NPA--Nonperforming asset. N/A--Not available.

## Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022