S&P Global Ratings

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Housing Trust Silicon Valley, California; General Obligation

Primary Credit Analyst:
Jessica L Pabst, Englewood + 1 (303) 721 4549; jessica.pabst@spglobal.com

Secondary Contact:
Aulii T Limtiaco, San Francisco + 1 (415) 371 5023; aulii.limtiaco@spglobal.com

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

Credit Highlights

- S&P Global Ratings' issuer credit rating (ICR) on Housing Trust Silicon Valley (Housing Trust), Calif. 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. The organization'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:

- Capital adequacy ratios that are among the highest of publicly rated community development financial institutions (CDFIs) with a five-year average net equity-to-assets ratio of 27.4% in fiscal 2023;
- Profitability ratios among the highest of other CDFI peers with a five-year average return-on-average assets (ROA) of 5.6% and net interest margin (NIM) of 2.3% in fiscal 2023;
- 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.

Partially offsetting these strengths, in our opinion, is Housing Trust's nonperforming assets (NPAs) to total loans and real estate owned (REO) rising to 12% in fiscal 2023 due to two impaired loans with the same borrower.

Housing Trust ranks among the highest capitalized of our rated CDFIs, as measured by five-year average equity to total assets (44.6%). Housing Trust's five-year average net-equity-to-assets ratio is 27.4%, after taking estimated losses into account. As of June 30, 2023, Housing Trust had $152 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

20.3%, with a 6.5% decline in fiscal 2023. Its five-year average of 5.83% loan loss reserves over total loans is higher than the average of 'AA-' rated housing CDFIs, with fiscal 2023 being 9.1% as a result of an increase in NPAs in fiscal 2022 continued in fiscal 2023. The five-year average NPA ratio jumped to 4.00% in fiscal 2023 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 housing finance agency (HFA) and CDFI peers.

In addition, 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 62.5% in fiscal 2023, we believe that Housing Trust has sufficient liquidity and proactively manages assets and liabilities, maintaining approximately 36.7% 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.

Environmental, social, and governance

We have analyzed Housing Trust's environmental, social, and governance (ESG) factors 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 use transformative housing finance and public and private partnerships to create more equitable and affordable communities 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, strong 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 five fiscal years, eliminating reliance on grant funding to sustain programs.

Downside scenario

Although unlikely in the outlook period, 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 that is no longer in line with that of peers, or if Housing Trust's debt burden increases without a commensurate increase in assets, we could take a negative rating action.

Upside scenario

Conversely, if Housing Trust's financial ratios continue to improve or remain at the current level beyond that of other rated CDFIs, along with NPAs decreasing to historic levels, 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 could consider a 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 13.6% since 2019 to $125.1 million. Similarly, total assets increased by an annual average of 16.6%, with a 1.8% increase in fiscal 2023 to $243.8 million. In addition, although Housing Trust's net income has fluctuated as a result of grants in the past five years, its ROA ratio outpaces those of most other rated CDFIs.

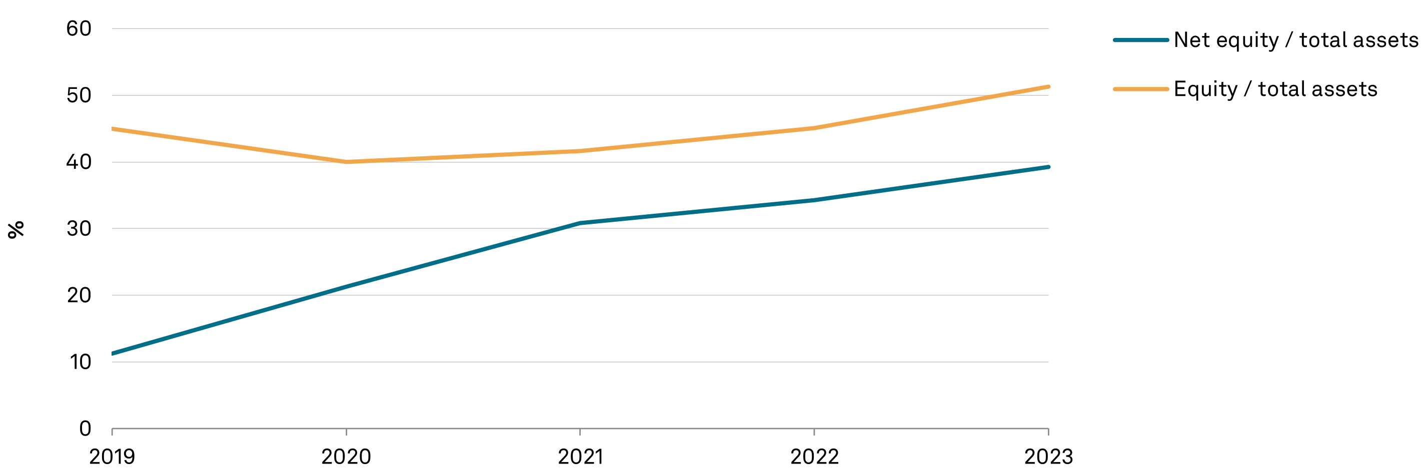
Capital adequacy

We consider Housing Trust well capitalized, with very strong capital adequacy and leverage ratios. The organization's equity to total assets five-year average in fiscal years 2019-2023 was 44.6%, which is very strong compared with that of peers. The ratio was 51.3% in fiscal 2023, up from 45.1% in fiscal 2022 and 41.7% in fiscal 2021, 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 27.4%, having ranged from 11.2% in 2019 to 39.2% in 2023. The fluctuation during this period was primarily a result of changes in our loss assumptions given various criteria changes. In our view, this average ratio is in line with the rating.

Chart 1

Net assets / total assets versus net equity / total assets



Source: S&P Global Ratings.

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 $96.6 million in fiscal 2023 from $98.0 million in fiscal 2022. Total equity was 129.5% of debt in fiscal 2023, up from 110.2% in fiscal 2022, the highest of other rated CDFIs. Housing Trust's liabilities under its credit agreements include unsecured borrowings bearing a simple interest rate, of 1%-3%, as of each borrowing date. Interest on the borrowings is payable quarterly or semiannually.

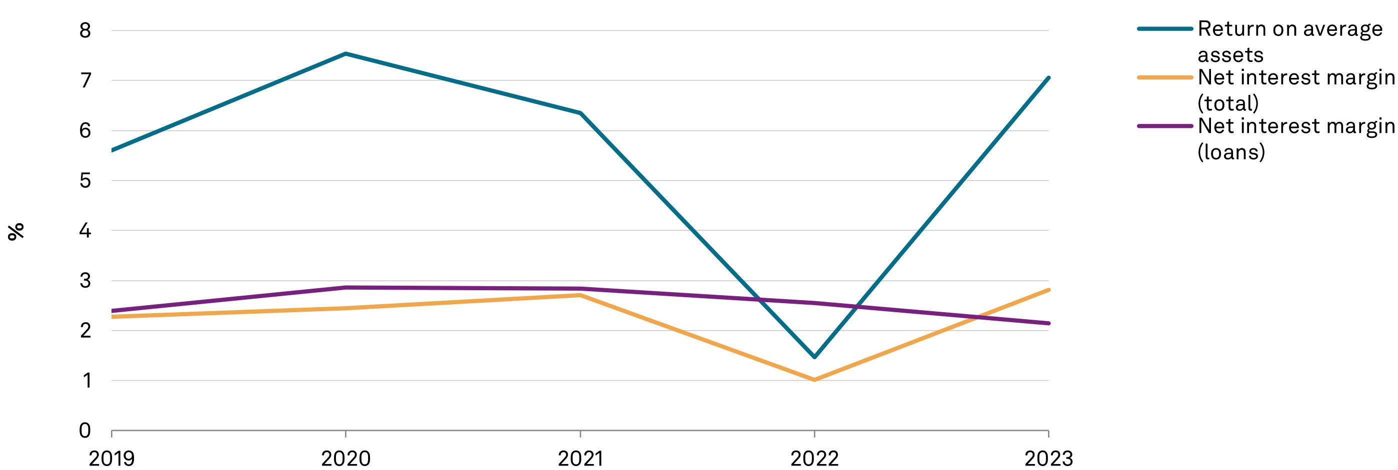
Profitability

Our two primary measures of profitability, ROA and NIM, averaged 5.6% and 2.3%, respectively, in fiscal years 2019-2023. While year-to-year net income has been volatile as a result of grant income, we consider ROA to be very high compared with that of CDFI peers. NIM, which increased to 2.8% in 2023, 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. From 2019-2023, an average of 41% 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 five fiscal years. This compares to slightly less than 60% in 2015, when Housing Trust was initially rated.

Chart 2

Profitability metrics



Source: S&P Global Ratings.

Asset quality

Housing Trust's loan balance is about 48% larger than it was five years ago, at approximately $168 million in gross loans outstanding. Total assets increased slightly to $243.8 million in 2023 from $239.5 million in 2022 due to an increase in short-term investments.

The majority of Housing Trust's loans are for multifamily projects and are 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

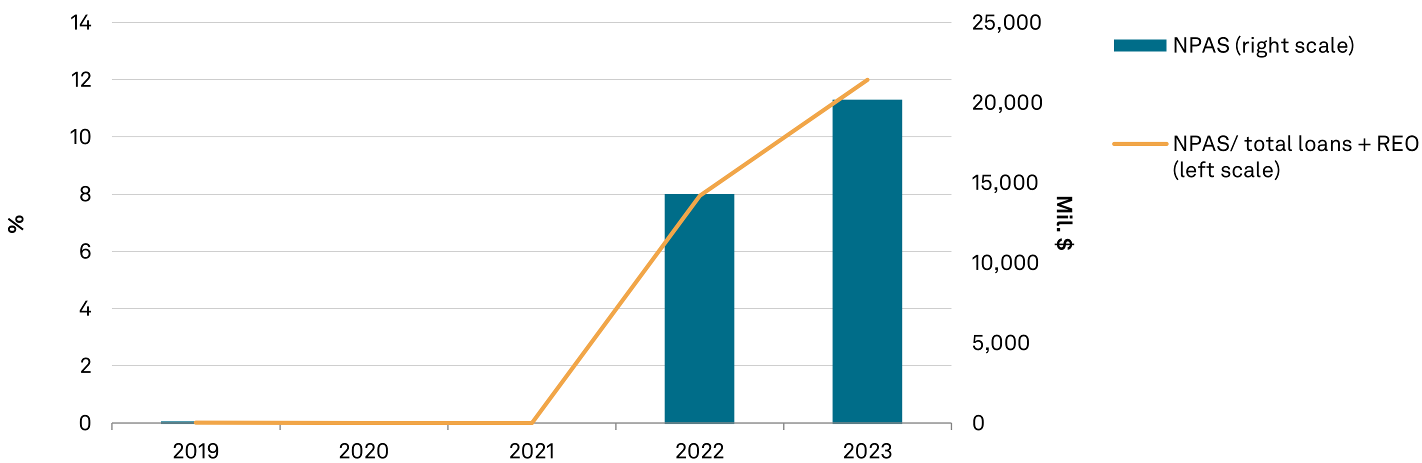
CDFIs.

Housing Trust had a 9.1% loan-loss-reserve-against-all-loans ratio in 2023, in line with the 2022's ratio of 9.6% largely due to a $14 million impaired loan, somewhat an anomaly, 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 upward in 2023, with the ratio of NPAs to total loans and REO rising to 12.0% from 7.9% in fiscal 2022. The five-year average ratio rose to 4.0% from 1.6%, which are higher when compared with that of peers.

Chart 3

Nonperforming assets



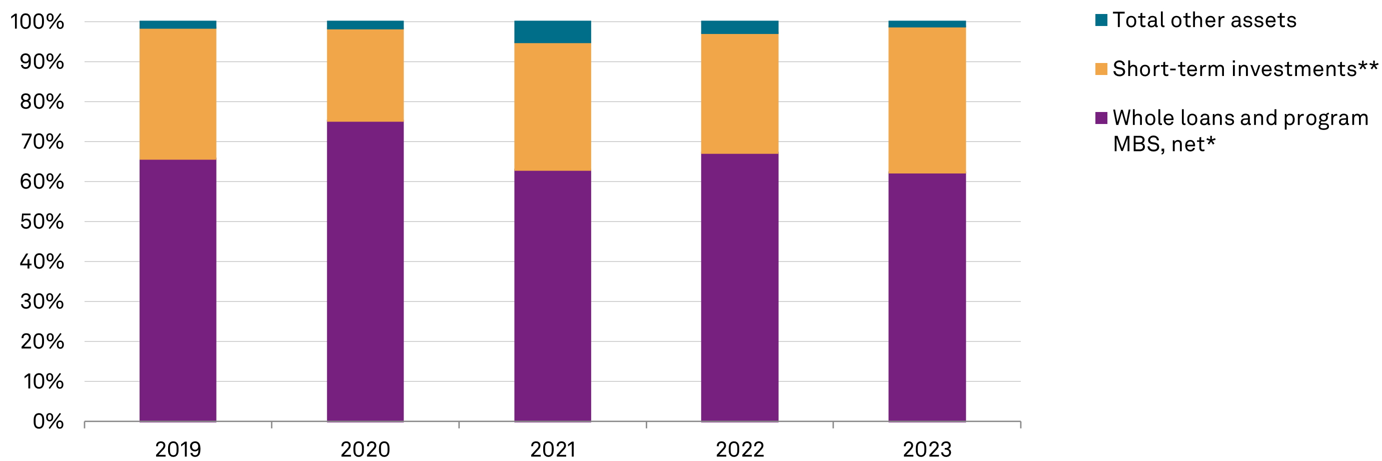
NPAS--Nonperforming assets. Source: S&P Global Ratings.

Liquidity

We believe Housing Trust has adequate liquidity, with short-term investments to total assets averaging 31.0% over the past five years. The short-term investments-to-total assets ratio was 36.7% in fiscal 2023, up from 30.2% in fiscal 2022. Total loans to total assets averaged 66.9% from 2019-2023, measuring 62.5% in fiscal 2023. These levels are above average for CDFIs in the same rating category. Housing Trust also has access to $55 million in unused external liquidity, and we view this as a credit strength.

Chart 4

Liquidity and investments, as a % of total assets



MBS--Mortgage-backed securities. *Whole loans and program MBS reported net of loan loss allowance. **Short-term investments including accrued interest receivable on investments and loans.

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. It 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 14 counties of Silicon Valley and the greater Bay Area. 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 14. 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. 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. The CDFI 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 creation of more than 26,000 affordable homes. The organization 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. The organization's primary value is providing equal access to credit to create affordable housing in neighborhoods of all income levels and ethnicities. Housing Trust's commitment to community development as it relates to the organization's core values, mission, and overall strategy and management is very strong, in our view. The organization also has a wide array of donors to help fulfill its mission with the California 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'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 Housing Trust's borrowers and outstanding balances occurring in Santa Clara County. In 2023, more than half of Housing Trust's multifamily lending was to developments outside Santa Clara County, in greater Bay Area counties like Alameda and Marin. 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 two million and location in the diverse San Jose-Sunnyvale-Santa Clara metropolitan statistical area. The county's 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 3.8% in October 2023, 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						
%	**2019**	**2020**	**2021**	**2022**	**2023**	**Five-year average**
Capital adequacy						
Equity/total assets	44.94	39.99	41.64	45.11	51.29	44.59
Net equity/total assets	11.24	21.30	30.78	34.27	39.24	27.37
Net equity/total loans	16.48	27.11	47.09	45.76	57.04	38.70
Equity/total debt	98.44	80.55	91.29	110.22	129.46	101.99
Net equity/total debt	24.62	42.89	67.46	83.75	99.05	63.56
Available liquid assets/ total loans	155.01	132.64	156.72	142.19	172.06	151.72
GO debt/ total debt	85.47	73.26	75.39	73.40	82.86	78.08

Table 1

Financial ratio analysis (cont.)

%	2019	2020	2021	2022	2023	Five-year average
Profitability						
Return on average assets	5.61	7.54	6.34	1.47	7.06	5.60
Net interest margin	2.28	2.44	2.71	1.01	2.81	2.25
Net interest margin (loans)	2.39	2.86	2.83	2.55	2.14	2.55
Asset quality						
NPAs/total loans + REO	0.01	0.00	0.00	7.94	12.00	3.99
Loan loss reserves/total loans	3.22	3.75	3.45	9.62	9.12	5.83
Net charge-offs/average loans	0.00	0.00	0.00	0.00	0.00	0.00
Liquidity						
Total loans/total assets	65.80	75.47	63.00	67.64	62.48	66.88
Short-term investments/total assets	32.88	23.13	31.93	30.20	36.65	30.96

GO--General obligation. NPA--Nonperforming assets. REO--Real estate owned.

Table 2

Five-year trend analysis

	2019	2020	2021	2022	2023
Total assets	166,209,700	223,490,868	250,741,185	239,465,155	243,846,100
% change	38.79	34.46	12.19	-4.50	1.83
Total debt	75,879,087	110,963,325	114,380,564	97,996,561	96,605,694
% change	70.99	46.24	3.08	-14.32	-1.42
Total equity	74,691,704	89,378,956	104,419,963	108,012,814	125,066,415
% change	12.02	19.66	16.83	3.44	15.79
Total net equity	18,684,308	47,594,941	77,166,172	82,071,321	95,692,065
% change	-5.05	154.73	62.13	6.36	16.60
Revenues	14,895,816	24,247,367	22,265,454	23,626,138	23,846,708
% change	12.59	62.78	-8.17	6.11	0.93
Expenses	6,881,333	9,560,115	7,224,447	20,033,288	6,793,107
% change	32.37	38.93	-24.43	177.30	-66.09
Net income	8,014,483	14,687,252	15,041,007	3,592,850	17,053,601
% change	-0.21	83.26	2.41	-76.11	374.65
Total	109,359,080	168,668,614	157,966,826	161,968,493	152,359,859
% change	50.49	54.23	-6.34	2.53	-5.93
Nonperforming assets	15,000	-	-	14,240,132	20,131,044
% change					41.37

Table 3

Peer comparison

	Housing Trust (2019-2023)	CDFI median
Profitabliity (%)		
Return on average assets	5.60	3.50

Table 3

Peer comparison (cont.)	Housing Trust (2019-2023)	CDFI median
Net interest margin (total)	2.25	2.90
Asset quality (%)		
NPAs/total loans and real estate owned	3.99	0.80
Capital adequacy (%)		
Total equity/total assets	44.59	30.20
Total net equity/total assets	27.40	16.50
Liquidity (%)		
Total loans/total assets	66.88	70.70
Short-term investments/total assets	30.96	1.80

NPA--Nonperforming asset. CDFI--Community development financial institution.

Related Research

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