S&P Global Ratings

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Housing Trust Silicon Valley, California; General Obligation

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Credit Highlights

- S&P Global Ratings revised the outlook to positive from stable and affirmed its 'AA-' issuer credit rating (ICR) on Housing Trust Silicon Valley, Calif.
- The outlook revision reflects the likelihood that Housing Trust's capital adequacy, as measured by a five-year average net equity-to-assets ratio, will remain above-average compared with that of similarly rated peers over the next two years as the organization continues executing its lending and capital raising strategies.

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 our publicly rated community development financial institutions (CDFIs) with a five-year average net equity-to-assets ratio of 34.3% in fiscal 2024;
- Profitability as measure by a five-year average return-on-average assets (ROA) of 5.5%, among the highest of other CDFI peers, and net interest margin (NIM) of 2.4% in fiscal 2024;
- 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) of 3% in fiscal 2024 due to one loan, which is above the median for peers. NPAs to total loans and REO have fallen from a high of 12% in fiscal 2023.

Housing Trust ranks among the highest capitalized of our rated CDFIs, as measured by five-year average equity to total assets (45.7%). Its five-year average net equity-to-assets ratio is 34.3%, after accounting for estimated losses. As of June 30, 2024, Housing Trust had $177 million in loans outstanding, net of allowance for loan losses, reflecting a 16% growth compared with 2023. Its five-year average of 6% loan loss reserves over total loans is the highest of all CDFIs, reflecting prudent risk management due to elevated NPAs in fiscal years 2022 and 2023.

In addition, we believe Housing Trust practices prudent risk management and has conservative lending policies. While loans make up the majority of its assets, at 64.5% in fiscal 2024, we believe that Housing Trust has sufficient liquidity and proactively manages assets and liabilities, maintaining approximately 34.9% in short-term investments to total assets as of the same period as well as a $17 million in lines of credit.

Environmental, social, and governance

We analyzed Housing Trust's environmental, social, and governance 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 positive outlook reflects our view that Housing Trust will likely maintain above-average capital adequacy ratios as it proceeds with its current lending and capital strategy. We expect net equity will remain above 30% on a five-year average in the outlook period. Although five-year average asset quality is weaker than that of other CDFIs in the near term, we believe Housing Trust has adequate reserves and risk management practices in place. In addition, Housing Trust's self-sufficiency of more than 100% the past six fiscal years mitigates its 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 ratio declines as a result of actual or projected losses or if Housing Trust increases its debt significantly to expand its loan portfolio, resulting in a reduction in capital adequacy that is no longer in line with that of peers, we could consider a negative rating action, including an outlook revision to stable.

Upside scenario

We could raise the rating if the net-equity-to-assets ratio continues to exceed 30% in the near term, coupled with sustained strength in profitability and stabilized or improving asset quality. 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

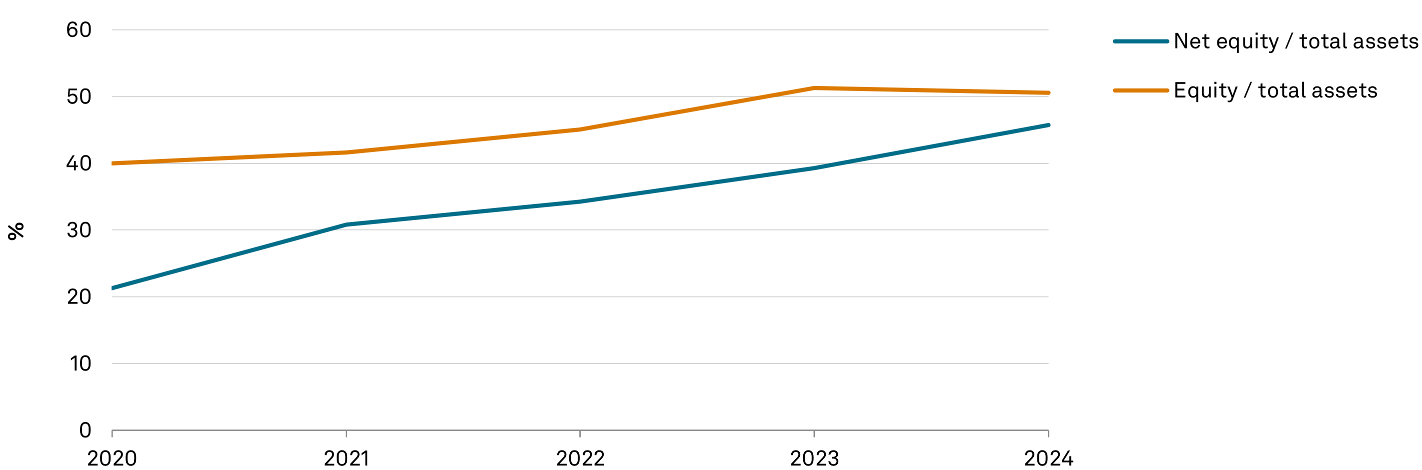
Capital adequacy

We consider Housing Trust well capitalized, with very strong capital adequacy ratios compared with those of peers. The organization's equity to total assets five-year average in fiscal years 2020-2024 was 45.7%, which is very strong compared with that of peers. The ratio was 50.6% in fiscal 2024, down slightly from fiscal 2023 of 51.3%. While we expect equity to total assets could decline slightly in the near-term due to growth and capital strategies, we do not expect it will fall to levels below those of peers.

Housing Trust's five-year average net equity to total assets for 2020-2024 was 34.3%, having ranged from 21.3% in 2020 to 45.7% in 2024. The fluctuation during this period was primarily a result of changes in our loss assumptions given various criteria changes.

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 increased to $100.4 million in fiscal 2024 compared with $96.6 million in fiscal 2023. Total equity was 138.5% of debt in 2024, up from 129.5% of debt in fiscal 2023, the highest of our rated CDFIs.

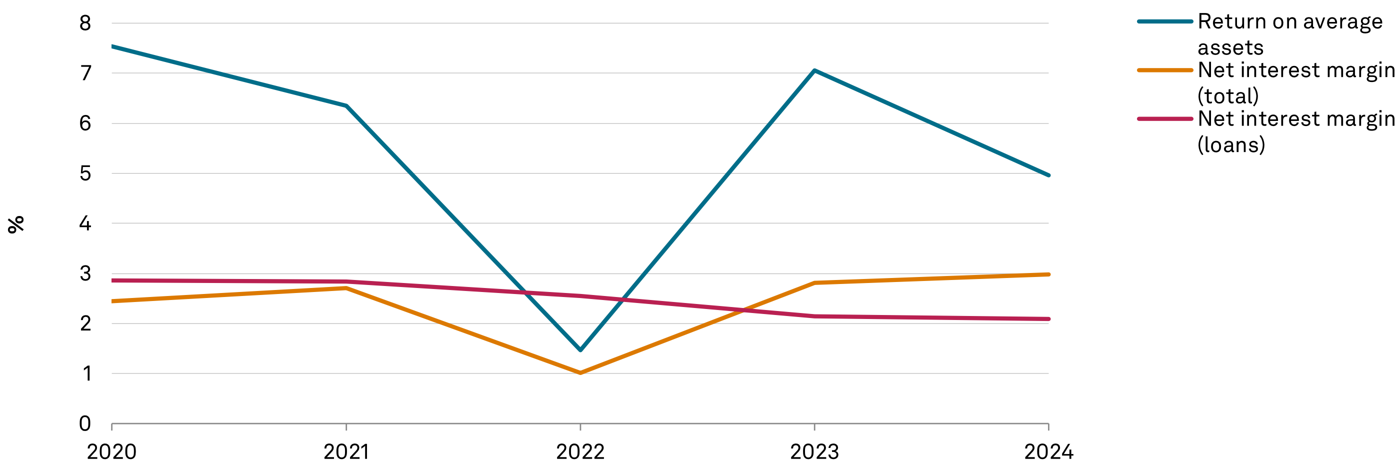
Profitability

Our two primary measures of profitability--ROA and NIM--averaged 5.5% and 2.4%, respectively, in fiscal years 2020-2024. While year-to-year net income has been volatile because of grant income, we consider ROA to be very high compared with that of CDFI peers. NIM, which increased to 3% in 2024, is in line with the CDFI median.

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 fiscal 2024, 58% of revenue came from non-grant sources such as interest income from loans and investment income compared with 29% in fiscal 2019. In addition, the self-sufficiency ratio (net income to expenses, less grant income and grant expenses) exceeded 100% in the past six fiscal years. This compares with slightly less than 60% in 2015, when we initially rated Housing Trust.

Chart 2

Profitability metrics



Source: S&P Global Ratings.

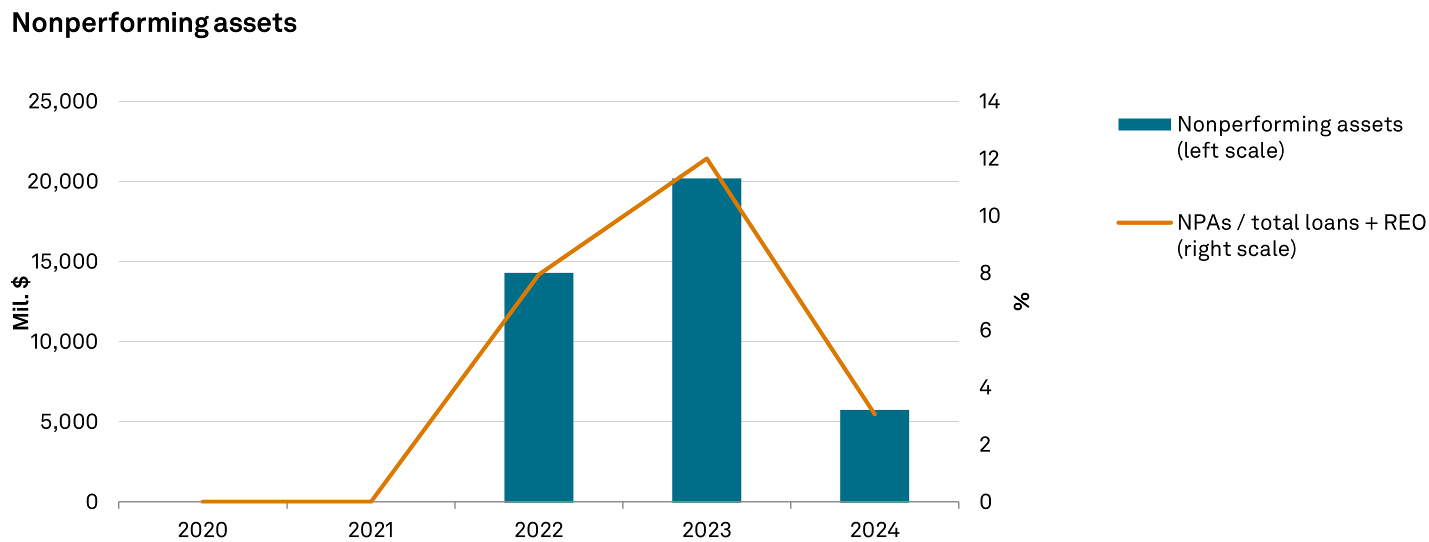
Asset quality

Housing Trust's total assets reached a high of $275 million in fiscal 2024 mainly due to net loans growing to $177 million, the highest ever. The majority of Housing Trust's loans are permanent loans for multifamily projects and are secured by real estate. The organization's risk rating and lending policies are conservative, in our view, and in line with those of similarly rated CDFIs.

Housing Trust had a 4.2% loan-loss-reserve-against-all-loans ratio in 2024 partially due to the adoption of current expected credit loss (CECL) model in fiscal 2024. The rise in loan loss reserves in 2023 and 2022 were due to an impaired loan with one borrower. Currently, Housing Trust has one loan that it views repayment as doubtful, but it believes reserves are sufficient to cover any losses. According to management, Housing Trust has reduced exposure to sponsors with troubled loans in an effort to mitigate risk. Therefore, we think asset quality will likely continue improving during the outlook period. 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 downward in 2024 with the ratio of NPAs to total loans and REO falling to 3.0% compared with 12.0% in fiscal 2023. The five-year average ratio rose of 4.6% is weaker compared with that of peers.

Chart 3



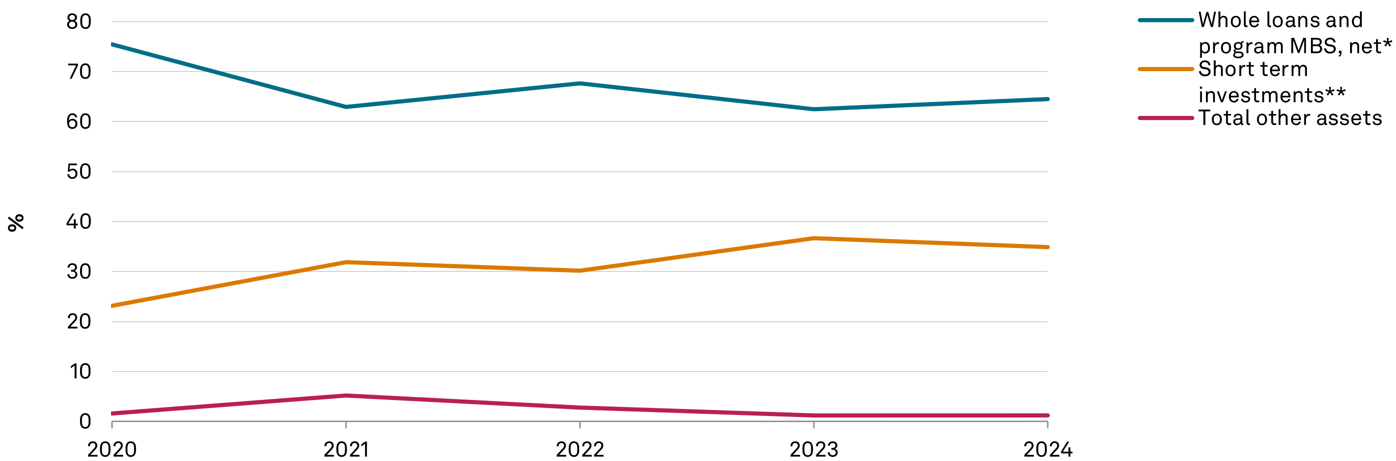
NPAs--Nonperforming assets. REO--Real estate owned. Source: S&P Global Ratings.

Liquidity

We believe Housing Trust has adequate liquidity, with short-term investments to total assets averaging 31.4% over the past five years. The short-term investments-to-total assets ratio was 34.9% in fiscal 2024. Total loans to total assets averaged 66.6% from 2020-2024, measuring 64.5% in fiscal 2024. These levels are above average for similarly rated CDFIs. Housing Trust also has access to $17 million in unused external liquidity.

Chart 4

Liquidity and investments as a percentage 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. Source: S&P Global Ratings.

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's goal is 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. The U.S. Department of the Treasury designated Housing Trust a CDFI in September 2013.

Housing Trust's board, which has six committees, consists of 14 members who are all 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. Although there has been some turnover on the senior management team, the CEO and CFO positions have demonstrated stability. In addition, the CEO, CFO, Chief Lending and Loan Management Officer, and Chief Program and Impact Officer bring a vast amount of relevant experience and expertise to the organization. Housing Trust is in the process of recruiting a permanent Chief Lending Officer and permanent Chief Credit Officer. It 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.

Since its inception in 2000, Housing Trust has made funds available for the creation of more than 27,300 affordable homes. Its vision is clearly defined and in line with the organization's overall strategic plan. The company's fiscal 2023 to 2026 strategic 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 demonstrates management's strength. Public support is vital to Housing Trust's continued success, because public and private partners play a key role in capital raising and meeting strategic goals. 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 can be leveraged for access to affordable capital.

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 benefits from 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 from Google LLC and Apple Inc. to support affordable housing in the greater San Francisco Bay Area. In fiscal 2025, the CDFI received a $30 million unrestricted donation from MacKenzie Scott. We believe these types of investments by Silicon Valley corporations and other philanthropic donors, 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 the CDFI's borrowers and outstanding balances occurring in Santa Clara County. In 2024, Housing Trust continued to grow its loan portfolio outside of Santa Clara County, in greater Bay Area counties like Contra Costa, Sonoma, Alameda, and Santa Cruz. According to our local government analysis, Santa Clara County's economy is one of the strongest in the nation, with remote working not diminishing office or residential building values. The county's boundaries encompass approximately 1,316 square miles and 15 cities. According to S&P Global Market Intelligence, San Jose, the largest city and county seat of Santa Clara County, has an unemployment rate of 4.2% in 2024, 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 developments and preservation in the area, boding well for Housing Trust's mission and vision.

Table 1

Financial ratio analysis

%	2020	2021	2022	2023	2024	Five-year average
Capital adequacy						
Equity/total assets	40.0	41.6	45.1	51.3	50.6	45.7
Net equity/total assets	21.3	30.8	34.3	39.2	45.7	34.3
Net equity/total loans	27.1	47.1	45.8	57.0	70.0	49.0
Equity/total debt	80.5	91.3	110.2	129.5	138.5	110.0
Net equity/total debt	42.9	67.5	83.7	99.1	125.3	83.7
GO debt/ total debt	73.3	75.4	73.4	82.9	81.3	77.2

Table 1

Financial ratio analysis (cont.)

%	2020	2021	2022	2023	2024	Five-year average
Profitability						
Return on average assets	7.5	6.3	1.5	7.1	5.0	5.5
Net interest margin	2.4	2.7	1.0	2.8	3.0	2.4
Net interest margin (loans)	2.9	2.8	2.5	2.1	2.1	2.5
Asset quality						
NPAs/total loans + REO	0.0	0.0	7.9	12.0	3.1	4.6
Loan loss reserves/total loans	3.7	3.5	9.6	9.1	4.2	6.0
Liquidity						
Total loans/total assets	75.5	63.0	67.6	62.5	64.5	66.6
Short-term investments/total assets	23.1	31.9	30.2	36.6	34.9	31.4

NPA--Nonperforming asset. REO--Real estate owned.

Table 2

Five-year trend analysis

	2020	2021	2022	2023	2024
Total assets	223,490,868	250,741,185	239,465,155	243,846,100	275,072,917
% change	34.5	12.2	-4.5	1.8	12.8
Total debt	110,963,325	114,380,564	97,996,561	96,605,694	100,395,710
% change	46.2	3.1	-14.3	-1.4	3.9
Total equity	89,378,956	104,419,963	108,012,814	125,066,415	139,075,507
% change	19.7	16.8	3.4	15.8	11.2
Total net equity	47,594,941	77,166,172	82,071,321	95,692,065	125,812,867
% change	154.7	62.1	6.4	16.6	31.5
Revenues	24,247,367	22,265,454	23,626,138	23,846,708	16,368,025
% change	62.8	-8.2	6.1	0.9	-31.4
Expenses	9,560,115	7,224,447	20,033,288	6,793,107	3,492,914
% change	38.9	-24.4	177.3	-66.1	-48.6
Net income	14,687,252	15,041,007	3,592,850	17,053,601	12,875,111
% change	83.3	2.4	-76.1	374.7	-24.5
Total loans, net	168,668,614	157,966,826	161,968,493	152,359,859	177,322,197
% change	54.2	-6.3	2.5	-5.9	16.4
Nonperforming assets	-	-	14,240,132	20,131,044	5,673,160
% change				41.4	-71.8

Related Research

U.S. CDFIs Take On More Debt To Grow Their Lending Capacity: Ratings Will Likely Remain Stable, Nov. 19, 2024