S&P Global Ratings

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Summary:

Texas Department of Housing & Community Affairs; Multifamily Multiple MBS; Single Family Multiple MBS

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Credit Profile		
US$100.0 mil residential mtg rev bnds ser 2021A due 01/01/2052		
Long Term Rating	AA+/Stable	New
US$59.046 mil residential mtg rev bnds ser 2021B due 07/01/2042		
Long Term Rating	AA+/Stable	New
Texas Dept of Hsg & Comnty Affairs SFMULTMBS		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' rating to the Texas Department of Housing & Community Affairs' (TDHCA) series 2021A and 2021B residential mortgage revenue bonds (RMRBs). At the same time, we affirmed our 'AA+' ratings on all outstanding bonds under the RMRB indenture. The outlook on the long-term ratings is stable.

The $100 million 2021A bonds will be issued to purchase Ginnie Mae mortgage-backed securities (MBS). The $59 million 2021B bonds will be issued to refund existing series series 2011A/2009C1 and series 2011B/2009C2 bonds.

The series 2021A and 2021B bonds are limited obligations of the department and are payable solely from and secured by all funds pledged under the indenture. The bonds will be held on parity with approximately $234 million bonds and notes outstanding (as of Jan. 1, 2021).

Credit overview

The rating reflects our opinion of:

- The indenture's very strong resolution cash flows showing opening assets-to-liabilities (A/L) parity of 104.826% and low A/L parity of 102.31%;
- The bond program's cash flow sufficiency and overcollateralization;
- High-quality MBS assets, virtually all of which are secured through either Ginnie Mae or Fannie Mae; and
- The very high quality of investments of the indenture.

The stable outlook reflects our opinion that the indenture will perform at the current rating level--specifically in regard to A/L parity, asset quality, and risk profile--during the two-year outlook period.

Environmental, social, and governance (ESG) factors

We have analyzed the transaction's ESG risks relative to its legal framework, operational risk framework, cash flow, and enhancement. We view health and safety risks related to the COVID-19 pandemic as social risks, which have broadly affected the U.S. economy and its workforce. The resulting elevated unemployment and the greater likelihood of nonpayment of rent could lead to a decrease in rental revenue and elevate near-term social risk. In addition to increased federal funding support to individuals, we believe the transaction's A/L parity and federal enhancement on the MBS insulate it from near-term financial pressures related to COVID-19. As vaccine rollouts continue in the U.S., S&P Global Ratings believes there remains a high degree of uncertainty 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. We believe governance and environmental risks for the transaction are both in line with the sector standard.

Stable Outlook

Downside scenario

While we find it unlikely, should the indenture's A/L parity deteriorate to near or below 100%, where full and timely payment on the bonds becomes uncertain, we could lower the rating. Additionally, a negative rating action on the U.S. government could result in a lower rating on the bonds.

Upside scenario

Should, through overcollateralization, the indenture's A/L parity increase to levels that are able to satisfy our stressed loss coverage requirements for a 'AAA' rating, we could take a positive rating action. Additionally, a positive rating action on the U.S. government could result in a positive rating action on the bonds.

Credit Opinion

The indenture

The RMRB trust indenture was created in 1987 as a whole loan indenture. As of Jan. 1, 2021, the indenture was entirely MBS, consisting of $231 million MBS. As of Jan. 1, 2021, the indenture's consolidated A/L parity was strong, with an opening parity of 104.826% and a low parity of 102.311%.

Legal framework and operational risk framework requirements

The transaction meets the legal framework as set forth in our criteria, "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published Oct. 9, 2014, which focuses on the underlying security and collateral, bankruptcy risk, eligible investments, flow of funds, additional bonds, redemptions, events of default, reserves, and trustee responsibilities. The transaction also meets the eligibility conditions for key transaction participants (KTP) as set forth under our criteria for assessing operational risk. The maximum potential rating for the bonds is 'AAA' based on our view of moderate severity risk of the potential impact of a disruption in KTP services on the issuer's cash flows and low portability risk (or the likelihood that the KTP could be replaced if needed).

Federal enhancement

All of the underlying mortgage collateral supporting the bonds outstanding in the resolution is in the form of MBS, of which all are 'AA+' eligible under our criteria, based on full credit enhancement via a guarantee from a U.S. federal agency (Ginnie Mae), and from a U.S. government-sponsored enterprise (Fannie Mae and Freddie Mac).

Cash flow analysis

We have analyzed consolidated indenture cash flows, which assumed S&P Global Ratings' stressed reinvestment earnings commensurate with the rating on the bonds (0.05% for the 'AA' rating category) and include a variety of stress scenarios including nonorigination, several different prepayment speeds, and assumption of a $10 million withdrawal for permitted expenditures in the resolution. The cash flows have a basis date of Jan. 1, 2021. In our view, the cash flows demonstrate the issuer's ability to pay full and timely debt service on the bonds through their maturity or earlier redemption. While the lowest A/L parity ratio calculated in any of the consolidated cash flow scenarios is approximately 102.31% for the consolidated cash flows (which is above the 100.25% threshold as stated in our "U.S. Federally Enhanced Housing Bonds" criteria, published Nov. 12, 2019), the ratio has dropped from 104.10% based on the series 2019 issuance. In our view, this is due to increased bond issuance and conservative assumptions in the cash flows.

Related Research

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

Ratings Detail (As Of March 12, 2021)		
Texas Dept of Hsg & Comnty Affairs residential mtg rev bnds		
Long Term Rating	AA+/Stable	Affirmed
Texas Dept of Hsg & Comnty Affairs rmktd and conversion date 04/10/2013 (Taxable)		
Long Term Rating	AA+/Stable	Affirmed
Texas Dept of Hsg & Comnty Affairs single fam mtg rev bnds ser 2020A due 09/01/2050		
Long Term Rating	AA+/Stable	Affirmed
Texas Dept of Hsg & Comnty Affairs single fam mtg rev rfdg bnds ser 2020B due 09/01/2050		
Long Term Rating	AA+/Stable	Affirmed
Texas Dept of Hsg & Comnty Affairs SFMULTMBS		
Long Term Rating	AA+/Stable	Affirmed
Texas Dept of Hsg & Comnty Affairs SFMULTMBS		
Long Term Rating	AA+/Stable	Affirmed
Texas Dept of Hsg & Comnty Affairs (Resid Mtg Rev Bnd Trust Indenture)		
Long Term Rating	AA+/Stable	Affirmed