

RatingsDirect®

Summary:

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

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Summary:

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| Credit Profile | | |
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| US\$175.0 mil single fam mtg rev bnds ser 2021A due 03/01/2052 | | |
| <i>Long Term Rating</i> | AA+/Stable | New |
| US\$24.83 mil single fam mtg rev rfdg bnds ser 2021B due 03/01/2038 | | |
| <i>Long Term Rating</i> | AA+/Stable | New |
| Texas Dept of Hsg & Comnty Affairs sin fam mtg rev bnds (1980 Trust Indenture) | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the Texas Department of Housing & Community Affairs' (TDHCA) series 2021A and 2021B single-family mortgage revenue bonds (SFMRBs). At the same time, we affirmed our 'AA+' and 'AA+/A-1+' ratings on all outstanding bonds under the SFMRB indenture. Finally, we affirmed our 'AA+' rating on the department's series 2020A taxable, junior-lien, single-family bonds. The outlook on the long-term ratings is stable.

The \$175 million 2021A bonds will be issued to purchase Ginnie Mae mortgage-backed securities (MBS). The approximately \$24.83 million series 2021B monthly pass-through bonds will be issued to refund the existing \$24.83 million series 2004B/D variable-rate 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 \$670 million senior-lien bonds outstanding (as of April 30, 2021). Approximately \$30 million of junior-lien bonds are outstanding as of April 30, 2021, under the junior-lien trust indenture, and are secured on a subordinated basis to the SFMRB indenture. The bonds are currently rated on par with the senior-lien bonds, as cash flows show that revenues exceed the required amount to fund the bonds' repayment.

Credit overview

The rating reflects our opinion of:

- The indenture's verystrong resolution cash flows showing consolidated opening asset-liability (A/L) parity of 106.621%, and projected stressed low parity of 102.509%;
- 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. Improvements in the supply and coordination of the vaccine rollout have lowered the health and safety risk associated with the pandemic. However, the still-elevated unemployment and eviction moratorium and resulting greater likelihood of nonpayment of rent could lead to a decrease in rental revenue and could create a liquidity crunch for some issuers and elevate near-term social risk. In addition to increased federal funding support to individuals and emergency rental and homeowner relief, 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. We believe governance and environmental risks for the transaction are both in line with the sector standard.

Stable Outlook

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.

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.

Credit Opinion

The indenture

The SFMRB trust indenture was created in 1980 as a whole loan indenture. Beginning in 1994, new mortgage loans were credit enhanced by Ginnie Mae, Fannie Mae, and Freddie Mac MBS. As of April 30, 2021, the indenture was essentially entirely MBS, consisting of \$676 million. The indenture's consolidated opening A/L parity was very strong, at 106.621% as of Sept. 1, 2020, and stressed low parity of 102.509% at Sept. 1, 2021. Stand-alone cash flows for the 2021A and 2021B bonds also show sufficient funds to support debt service, with a projected opening A/L parity ratio of 107.350% and 100.390%, respectively on Sept. 30, 2021.

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 stressed variable rates. The cash flows have a basis date of Aug. 31, 2021, and include subsequent events such as the 2020 series A and series B bonds, and junior-lien series 2020 bonds. 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. The lowest A/L parity ratio calculated in any of the consolidated cash flow scenarios is approximately 102.509%, which is above the 100.25% threshold as stated in our "U.S. Federally Enhanced Housing Bonds" criteria, published Nov. 12, 2019. The low parity for the series 2021A is 100.070%. The low parity for the series 2021B is 100%, which is sufficient due to the monthly-pass-through structure of the 2021B bonds. The bonds accrue interest at a fixed rate.

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 July 1, 2021)

| | | |
|--|------------|----------|
| Texas Dept of Hsg & Comnty Affairs jr lien single fam rev & rfdg bnds (taxable) ser 2020 due 09/01/2045 | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs residential mtg rev bnds | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs residential mtg rev bnds ser 2021A due 01/01/2052 | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs residential mtg rev bnds ser 2021B due 07/01/2042 | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs rmktd and conversion date 04/10/2013 (Taxable) | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs single fam mtg rev bnds ser 2017A (non-AMT) dtd 06/22/2017 due 09/01/2047 | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs single fam mtg rev bnds ser 2017B taxable dtd 06/22/2017 due 09/01/2037 | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs single fam mtg rev bnds ser 2017C taxable dtd 06/22/2017 due 09/01/2047 | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |

Ratings Detail (As Of July 1, 2021) (cont.)

| | | |
|--|------------------|----------|
| Texas Dept of Hsg & Comnty Affairs single fam mtg rev bnds ser 2020A due 09/01/2050 | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs single fam mtg rev rfdg bnds ser 2020B due 09/01/2050 | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs single-fam mtg rev rfdg bnds ser 2015 A | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs single-fam mtg rev bnds ser 2015 B | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs sin fam mtg | | |
| <i>Unenhanced Rating</i> | AA+(SPUR)/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs sin fam (MBIA) (National) | | |
| <i>Unenhanced Rating</i> | AA+(SPUR)/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs SFMULTMBS | | |
| <i>Long Term Rating</i> | AA+/A-1+/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs SFMULTMBS | | |
| <i>Unenhanced Rating</i> | AA+(SPUR)/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs SFMULTMBS | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs SFMULTMBS | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs SFMULTMBS | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs SFMULTMBS (AGM) | | |
| <i>Long Term Rating</i> | AA+/A-1+/Stable | Affirmed |
| <i>Unenhanced Rating</i> | AA+(SPUR)/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs SFMULTMBS (AGM) | | |
| <i>Long Term Rating</i> | AA+/A-1+/Stable | Affirmed |
| <i>Unenhanced Rating</i> | AA+(SPUR)/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs SFMULTMBS (AGM) | | |
| <i>Long Term Rating</i> | AA+/A-1+/Stable | Affirmed |
| <i>Unenhanced Rating</i> | AA+(SPUR)/Stable | Affirmed |
| Texas Dept of Hsg & Comnty Affairs (Resid Mtg Rev Bnd Trust Indenture) | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |

Many issues are enhanced by bond insurance.

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