S&P Global
Ratings

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

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Credit Profile		
US$190.0 mil single fam mtg rev bnds ser 2022 A due 09/01/2052		
Long Term Rating	AA+/Stable	New
Texas Dept of Hsg & Comnty Affairs sin fam mtg rev bnds (1980 Trust Indenture)		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating and stable outlook to Texas Department of Housing & Community Affairs' (TDHCA) roughly $190 million series 2022A single-family mortgage revenue bonds (SFMRBs) and affirmed its 'AA+' long-term rating and underlying rating (SPUR) and 'AA+/A-1+' ratings, with a stable outlook, on all existing bonds under the SFMRB indenture.

S&P Global Ratings also affirmed its 'AA+' rating, with a stable outlook, on TDHCA's series 2020A taxable junior-lien single-family bonds.

Officials intend to use series 2022A bond proceeds to purchase Ginnie Mae mortgage-backed securities (MBS), fund loans for downpayments and closing-cost assistance, and pay lender compensation.

The series 2022A bonds are a limited obligation of TDHCA, payable solely from, and secured by, all funds pledged under the indenture. TDHCA will hold the bonds on parity with approximately $781.9 million of senior-lien bonds outstanding, as of Sept. 1, 2021. Approximately $30 million of junior-lien bonds are outstanding as of Sept. 1, 2021, under the junior-lien trust indenture, secured on a subordinated basis to the SFMRB indenture. We currently rate the junior-lien bonds on par with senior-lien bonds because cash flow shows revenue exceeds the required amount to fund bond repayment.

Credit overview

The rating reflects our opinion of TDHCA's:

- Indenture's very strong resolution cash flows, showing a consolidated opening asset-to-liability (A/L) parity ratio of 109.7% for the senior lien and 105.6% for the junior lien and a projected stressed low parity ratio of 107.2% for the senior lien and 103% when including the junior lien;
- Bond program's cash-flow sufficiency and overcollateralization;
- High-quality MBS assets, nearly all of which Ginnie Mae or Fannie Mae secure; and
- Very high-quality indenture investments.

The stable outlook reflects S&P Global Ratings' opinion that the indenture will likely perform at the current rating level--specifically regarding the A/L parity ratio, asset quality, and risk profile--during the two-year outlook.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) risks relative to TDHCA's legal framework, operational-risk framework, and cash-flow assumptions. We view health-and-safety risks related to COVID-19 as a social risk, which have broadly affected the national economy and its workforce. We think TDHCA's very strong A/L parity ratio in its SFMRB indenture, overall high-quality asset base, and low-risk debt profile should mitigate this pressure. Finally, we think governance and environmental risks are in-line with the sector standard.

Stable Outlook

Upside scenario

We could raise the rating if, through overcollateralization, the indenture's A/L parity ratio were to increase to levels capable of satisfying our stressed-loss-coverage requirements for a 'AAA' rating. In addition, a positive rating action on the U.S. government could result in a positive rating action on the bonds.

Downside scenario

While unlikely, we could lower the rating if the indenture's A/L parity ratio were to deteriorate to near or below 100%, where full and timely bond repayment becomes uncertain. In addition, a negative rating action on the U.S. government could result in a lower rating on the bonds.

Credit Opinion

The Indenture

TDHCA created the SFMRB trust indenture 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 Sept. 1, 2021, the indenture was essentially entirely MBS, totaling $643.4 million. The indenture's consolidated opening A/L parity ratio was very strong, in our view: 109.7% for the senior lien and 105.6% for the junior lien as of Sept. 1, 2021, with a stressed low parity ratio projection of 107.2% for the senior lien and 103% for the junior lien as of Sept. 1, 2022. Standalone cash flows for the series 2022A bonds also show sufficient funds to support debt service with a projected opening A/L parity ratio of 107.3% and 100.4% on June 15, 2022, and Sept. 1, 2023, respectively.

Legal-Framework And Operational-Risk-Framework Requirements

The transaction meets the legal framework as set forth in our criteria, titled "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published Oct. 9, 2014, on RatingsDirect, 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 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 effect of a disruption in KTP services on the issuer's cash flows and low portability risk, or the likelihood the authority could replace KTP, if needed.

Federal Enhancement

All 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 through a guarantee from a U.S. federal agency (Ginnie Mae) and 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), including a variety of stress scenarios, such as nonorigination, several different prepayment speeds, and stressed variable rates. Cash flows have a basis date of Aug. 31, 2021, including subsequent events, such as series 2021A originations and an assumed withdrawal of $15 million from the indenture on June 1, 2022. In our view, cash flows demonstrate the issuer's ability to pay full and timely debt service on the bonds through maturity or earlier redemption. The lowest A/L parity ratio calculated in any of the consolidated cash-flow scenarios is approximately 103%, which is more than the 100.25% threshold as stated in our criteria, titled "U.S. Federally Enhanced Housing Bonds," published Nov. 12, 2019. The low parity ratio for series 2022A bonds is 100.4%.

Related Research

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

Ratings Detail (As Of April 8, 2022)		
Texas Dept of Hsg & Comnty Affairs jr lien single fam rev & rfdg bnds (taxable) ser 2020 due 09/01/2045		
Long Term Rating	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		
Long Term Rating	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		
Long Term Rating	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		
Long Term Rating	AA+/Stable	Affirmed
Texas Dept of Hsg & Comnty Affairs single-fam mtg rev rfdg bnds ser 2015 A		
Long Term Rating	AA+/Stable	Affirmed
Texas Dept of Hsg & Comnty Affairs single-fam mtg rev bnds ser 2015 B		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of April 8, 2022) (cont.)		
Texas Dept of Hsg & Comnty Affairs sin fam mtg		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Texas Dept of Hsg & Comnty Affairs sin fam (MBIA) (National)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Texas Dept of Hsg & Comnty Affairs SFMULTMBS		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Texas Dept of Hsg & Comnty Affairs SFMULTMBS		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Texas Dept of Hsg & Comnty Affairs SFMULTMBS (AGM)		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.