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 sin fam mtg rev bnds ser 2022B due 03/01/2053		
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

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to Texas Department of Housing & Community Affairs' (TDHCA) roughly $190 million series 2022B single-family mortgage-revenue-bond-indenture bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating and underlying rating (SPUR) on TDHCA's parity tier 1 debt and subordinate tier 2 debt, issued under the single-family mortgage-revenue-bond indenture.
- S&P Global Ratings also affirmed its 'AA+/A-1+' rating on TDHCA's variable-rate bonds. The short-term rating reflects liquidity support provided by Texas.
- The outlook, where applicable, is stable.
- The rating reflects the application of our criteria, "Methodology For Rating U.S. Public Finance Mortgage Revenue Bond Programs," published Oct. 10, 2022, on RatingsDirect.

Security

Bonds issued under the single-family mortgage-revenue-bond indenture are limited obligations of TDHCA, payable solely from revenue, assets, and money pledged under the master indenture.

According to preliminary transaction documents, TDHCA is issuing the bonds to purchase Ginnie Mae mortgage-backed pass-through certificates to fund loans for downpayment and closing-cost assistance and issuance costs.

Credit overview

The ratings reflect our view of the program's:

- Legal framework that links duties of key transaction parties with the proper execution of the program in alignment with our criteria, coupled with no bankruptcy or other legal risks identified;
- Program management and operational-risk assessment, which we consider neutral;
- Overcollateralization and cash flows capable of withstanding our projected loss assumptions based on the asset pool's credit quality, in all provided cash-flow stress scenarios, with a minimum projected asset-to-liability parity ratio of 103.3% when including subordinate-lien debt;

- Sufficient liquidity to cover short-term disruptions in asset cash flows; and
- Market position characteristics in-line with the national housing market.

Environmental, social, and governance

We have analyzed the program's environmental, social, and governance (ESG) risks and opportunities relative to the legal framework, program management and operational risk, asset pool's credit quality, cash-flow analysis, liquidity, and market position. In our opinion, the program exhibits social opportunities related to social capital. The program's purpose to invest in affordable housing for the state's low- to moderate-income residents through mortgage lending and the development of affordable rental housing aims to address socioeconomic inequities, having an effect on demographic and income trends considered in our market-position assessment. We view ESG risks for the program as neutral in our credit analysis.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of the credit quality of the underlying mortgage-backed securities (MBS) assets supported by Ginnie Mae and Fannie Mae and our assessment of program management and operational risk. In addition, we expect our market-position-modifier assessment to remain neutral during the two-year outlook.

Downside scenario

We could lower the rating or revise the outlook to negative if we were to identify negative attributes in our assessment of program management and operational risk; if the underlying assets' credit quality were to worsen; or if the credit quality of the underlying MBS assets, via the rating on the guarantee provided by Ginnie Mae and Fannie Mae, were to weaken.

Upside scenario

We could raise the rating or revise the outlook to positive if the underlying assets' credit quality were to improve or if the underlying MBS assets' credit quality, via the rating on the guarantee provided by Ginnie Mae and Fannie Mae, were to strengthen. We could also raise the rating if cash-flow analysis were to meet our stress scenarios for ratings above the sovereign.

Credit Opinion

Legal-Framework Analysis

We have analyzed the program's legal framework, which links the duties of key transaction parties with the program's proper execution. One of the resolution's events of default include TDHCA filing for bankruptcy. We think the likelihood of such an event is sufficiently remote and does not cap the bond rating. This indenture and TDHCA's residential-mortgage-revenue-bonds indenture are TDHCA's main vehicle for financing affordable single-family homeownership. We think TDHCA has an incentive not to file for bankruptcy due to the necessity of the service it provides and its continued need to access financial markets on favorable terms.

Program Management And Operational Risk

Our program-management and operational-risk analysis considers five factors, which we assess as neutral or negative:

- Program strategy and governance,
- Loan origination and monitoring,
- Asset and liability management,
- Liquidity risk management, and
- Counterparty risk management.

In our view, TDHCA has an active role in the general oversight of the housing-bond resolution, as well as the ongoing management of these risks. Our assessment of TDHCA's program management and operational risk is neutral, resulting in no anchor cap.

Program strategy and governance

We think TDHCA's program strategy and governance is a neutral credit factor in our analysis. TDHCA has a five-year strategic plan with multiyear financial and capital projections. It maintains detailed organizational charts and written workforce planning goals and objectives. TDHCA updates this plan annually, most recently for fiscal years 2023-2027. TDHCA also provides an annual Texas low-income-housing plan and annual report that provides an overview of statewide housing needs; it also reports on the administration, funding, performance measures, and distribution of TDHCA's resources from the previous fiscal year. The state agency is transparent with disclosures with timely information statements throughout the fiscal year for each of the three bond programs.

We view TDHCA staff as highly competent, well trained, and proactive in addressing key issues. A seven-member board, appointed by the governor and confirmed by the Texas Senate, governs TDHCA. Members hold office for staggered terms with the terms of two members or three members expiring on Jan. 31 of each odd-numbered year. TDHCA oversees the executive director, as well as the deputy executive directors of administration, program controls and oversight, bond finance, external affairs, programs, and general counsel. TDHCA has approximately 361 employees with 73 temporarily funded from federal Article IX.

Loan origination and monitoring

We view TDHCA's loan-origination and monitoring practices, supported by formal policies, to be neutral without negative attributes. TDHCA posts its loan closing standards, insurance requirements, and additional documents on its website. Origination standards are in-line with MBS resolution peers, complying with the Federal Housing Administration (FHA), Veterans' Administration, U.S. Department of Agriculture, and Fannie Mae housing-finance-agency preferred guidelines.

Delinquencies in TDHCA's single-family programs have been higher on average than the state's FHA delinquency rates since the start of COVID-19 due partially to TDHCA's strategic mission to provide affordable homeownership to borrowers and COVID-19 forbearance. We think this risk is mitigated because of the Ginnie Mae and Fannie Mae guarantee on principal and interest.

Asset/liability management

We view asset-and-liability management as neutral with no negative attributes. TDHCA has demonstrated a long history of limited asset-to-liability ratio volatility, leading to stable overall parity. Cash flows, with a basis date of Sept. 1, 2022, demonstrate an opening parity of 105.1% when considering subordinate debt, decreasing to 103.3% at its low point in September 2023 at its most stressed scenario.

We do not think there is signification interest-rate risk beyond what is already captured in cash flows. The program contains variable-rate debt at 1.7% of all current debt outstanding, all of which is hedged, as of Sept. 1, 2022). TDHCA has implemented a strategy to unwind its variable-rate exposure. December 2020 balances showed a materially higher 12% of total debt as variable-rate debt.

Liquidity-risk management

We assess TDHCA's liquidity-risk management of the single-family mortgage-revenue-bonds program to be neutral. Program assets mainly include Ginnie Mae and Fannie Mae mortgage pass-thru certificates that require the master servicer to transfer to the paying agent the monthly mortgage loan payment and prepayments, regardless of whether it receives such payment. Ginnie Mae and Fannie Mae guarantee timely principal-and-interest payments on each of the certificates.

Collateral posting requirements for swaps do not introduce any additional liquidity risk due to the small size of the exposure and remote posting triggers linked to the program rating.

Counterparty-risk management

We view TDHCA's counterparty risk management as currently neutral. The program's two variable-rate issuances are hedged via one swap provider, JPMorgan Chase Bank N.A. While there is concentration in the program's swap providers, the total hedged variable-rate debt is less than 2% of total debt outstanding and nonmaterial. TDHCA maintains a formal interest-rate-swap policy to establish guidelines for the use and management of all interest-rate-management agreements; it also provides for security-and-payment provisions, risk considerations, and certain other relevant provisions.

Credit Quality Of The Asset Pool

The resolution is solely backed by single-family loans guaranteed by a U.S. federal agency, such as Ginnie Mae, and a U.S. government-sponsored enterprise, such as Fannie Mae and Freddie Mac. A summary of the loan portfolio is shown in Table 2.

Cash-Flow Analysis

We have reviewed program cash flows, including stress scenarios, and have determined overcollateralization, measured by the minimum asset-to-liability parity ratio, is sufficient to cover credit losses and cash-flow stress scenarios up to an anchor of 'aa+' based on overcollateralization and interest-rate stresses in provided cash flows. In addition, we applied a hedging risk cap of 'aa+'. In determining the cap, we considered the program's total variable-rate exposure of 0.64x net assets at the lowest parity scenario and TDHCA's credit quality as a whole. A summary of our cash-flow analysis is shown in table 3.

Anchor, Modifiers, And Holistic Analysis

Our analysis of the program's legal framework, program management and operational risk, credit quality, and cash flow results in an anchor of 'aa+'.

We note the indenture does not establish a debt-service-reserve requirement. Because we consider liquidity risk mitigated for MBS, we have applied no modifier based on our assessment of the availability of liquid reserves to cover debt service through short-term cash-flow disruptions. Reserves totaled $175 million as of Sept. 1, 2022.

Applying our holistic analysis, after applicable modifiers and caps, results in no effect on the rating.

Other Applicable Criteria And Final Rating

We did not use any other applicable criteria to derive the final program rating of 'AA+'.

Table 1

Mortgage Revenue Bonds Program Rating Summary	
Legal framework	No Cap
Program management and operational risk	No Cap
Overcollateralization	aaa
Cash flow analysis	aa+
Hedging risk	aa+
HFA general obligation pledge	N/A
Anchor	
Anchor rating	aa+
Modifiers and holistic analysis	
Liquidity reserves	No adjustment
Market position	No adjustment
Holistic analysis	No adjustment
Standalone credit profile (SACP)	
SACP	aa+
Other applicable criteria	N/A
Final	
Final rating	AA+

N/A--Not applicable.

Table 2

Program Summary And Assumptions

	Aug. 31, 2022
Program assets (% of balance)	
Single-family mortgage-backed securities	100.0
Debt and derivative (summary % of balance)	
Fixed-rate debt (% of balance)	98.04
Hedged variable-rate debt (% of balance)	1.96
Unhedged variable-rate debt (% of balance)	--
Total variable-rate debt (% of balance)	1.96
Single-family program assumptions	
No. of loans in portfolio	6,299
Total loan balance ($000s)	760,247
Weighted average mortgage rate (%)	4.29
Insurance/guarantees	
Ginnie Mae (% of balance)	97.48
Fannie Mae (% of balance)	2.31
Freddie Mac (% of balance)	0.22

Table 3

Cash Flow Analysis

	Sept. 1, 2022	Sept. 1,2023
	Opening asset/liability parity (%)	Minimum asset/liability parity (%)
Texas Department Of Housing & Community Affairs (TDHCA) single-family mortgage revenue bonds (SFMRB) Tier 1 debt	108.73	107.05
TDHCA SFMRB Tier 2 Debt	105.07	103.27

Related Research

- Housing Overvaluation May Be Peaking: How It Affects U.S. Housing RMBS, Oct 17, 2022
- 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 November 7, 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		
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

Ratings Detail (As Of November 7, 2022) (cont.)		
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
Texas Dept of Hsg & Comnty Affairs sin fam mtg		
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 (AGM)		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.