MOODY'S RATINGS

CREDIT OPINION
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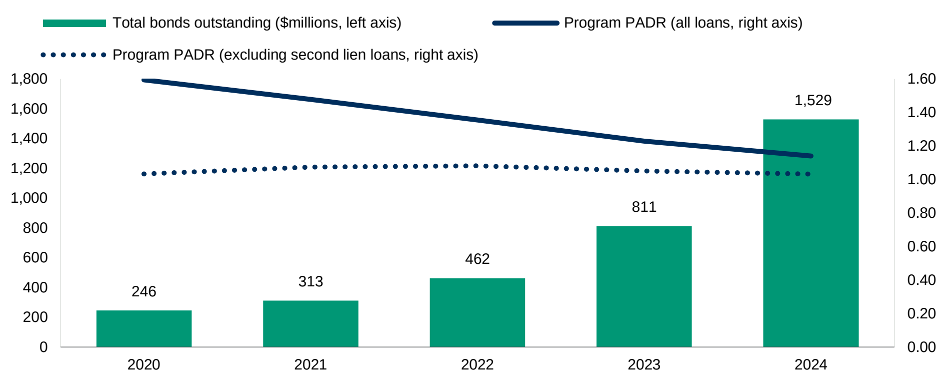
Texas DHCA - Residential Mtge. Rev. Bd. Prog.

Update to credit analysis following downgrade and change in outlook to stable

Summary

The Texas Department of Housing and Community Affairs (TDHCA or Department) Residential Mortgage Revenue Bonds (RMRB; Aa1 stable) will continue to maintain its strong credit quality despite the weakening of counterparty credit quality in its loan portfolio due to the buffer provided by the program asset-to-debt ratio (PADR) of 1.14x (1.03x excluding all second lien loans) and solid though variable margins (8% in fiscal year 2024). The first lien loan portfolio consists of mortgage-backed securities (MBS), which compliments the program's sound legal structure, cash flow projections that demonstrate sufficiency under all Moody's stress case scenarios, and the oversight of a solid management team. However, given the loan portfolio's reliance on federal guarantees for its MBS, its credit quality is closely tied to the credit quality of the US government (Aa1 stable). Furthermore, the program's asset-to-debt ratio has declined in recent years due to strong issuance. Continued active issuance will likely result in future PADR dilution and pressure on margins, however, the full-spread MBS previously added to the portfolio will boost income.

Exhibit 1
PADR will remain adequate to absorb costs from continued strong issuance



Source: Texas Department of Housing and Community Affairs audited financial statement with Moody's adjustments.

Credit strengths

» Solid PADR ratio for a fully MBS program of 1.14x (1.03x excluding second lien loans) as of August 31, 2024.

» Solid margins, which were 8% in fiscal year 2024.

» High quality collateral consisting of MBS.

Credit challenges

» Program issuance has increased significantly in recent years. This continuing trend will lead to future PADR dilution. However, the ratio will remain solid.

» There is a high percentage of second lien loans in the indenture, which have a higher expected loss than first lien loans. However, this risk is partially offset by over-collateralization and the entirety of the first lien loan portfolio consisting of MBS.

» Significant counterparty exposure to the US government.

Rating outlook

The stable outlook mirrors that of the US government rating. It also reflects RMRB's solid over-collateralization buffer and margins.

Factors that could lead to an upgrade

» Upgrade of the US government rating.

» Material improvement in PADR and/or margins

Factors that could lead to a downgrade

» Downgrade of the US government rating with stable or declining PADR ratios and/or margins.

» Material decline in PADR and/or a significant and sustained decline in margins.

» Increased risk in the program in the form of variable rate debt or counterparty risk.

Key indicators

Exhibit 2
TDHCA RMRB Program

(fiscal year)	2020	2021	2022	2023	2024
Total bonds outstanding ($000)	246,075	312,529	462,286	811,480	1,529,497
Asset-to-debt ratio (all loans)	1.59	1.48	1.36	1.23	1.14
Asset-to-debt ratio (excluding second lien loans)	1.03	1.07	1.08	1.05	1.03
Margins	45%	28%	-2%	14%	8%
Variable rate debt as a % of total bonds	0%	0%	0%	0%	0%

Source: Moody's Ratings and TDHCA.

Profile

The RMRB Program was established in 1987. The proceeds of bonds issued under this indenture are used to finance mortgage loans to low and moderate income persons in the State of Texas. All RMRB bonds are secured equally by all of the mortgage loans and other assets under the indenture.

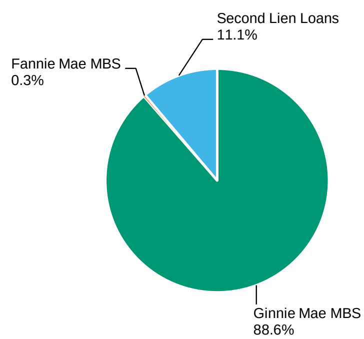
Detailed credit considerations

Loan portfolio: securitized mortgage portfolio reduces potential loan loss

Excluding second lien loans, the portfolio is comprised solely of securitized loans and almost exclusively Government National Mortgage Association (Ginnie Mae) MBS with a small portion of (Federal National Mortgage Association) Fannie Mae MBS as of December 31, 2024. Despite the downgrade of the US government, the MBS provide significant security since they guarantee full and timely payment of loan principal and interest regardless of the actual performance of the underlying loans. As a result, the MBS protect the RMRB from cash flow disruptions and losses related to loan defaults. The program's loan portfolio also includes significant down payment assistance (DPA) second lien loans related to both the RMRB as well as the Department's Taxable Mortgage Program (TMP; their TBA program). 92% of the second lien loans are zero percent, non-amortizing DPA loans with a thirty-year term that are due on sale, refinance, or repayment of the first lien. The remaining (8% as of year end 2024) second lien loans are zero percent, non-amortizing DPA loans that are forgivable after three years.

Exhibit 3

Though second lien loans comprise 11% of portfolio loans, first lien loans consist solely of MBS
(As of December 31, 2024)

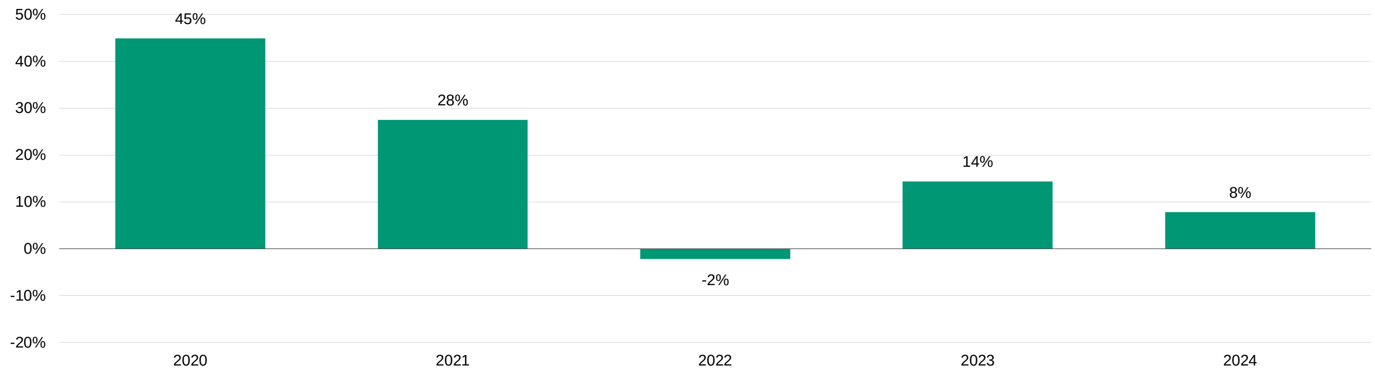


Source: TDHCA.

Financial position and performance: solid PADR and margins supports ongoing strong bond issuance

While we expect continued leveraging in fiscal year 2025 to drive down the PADR and margins, the program will remain financially strong. Audited financial statements as of August 31, 2024 indicate a solid adjusted PADR of 1.14x (1.03x excluding second lien loans). Program margins, which were 8% in fiscal year 2024, continue to drive up program equity and liquidity. Investment income will help offset future bond issuance costs. Margins, however, vary with a three-year average margin of 6.7% and a five-year average margin of 18%. The RMRB indenture will continue to fund TBA activity, which is a key factor contributing to margin variability. When TBA sales are funded under the RMRB indenture, the indenture receives the TBA settlement premium, pays various TBA related expenses/ reimbursements and holds the TBA DPA second lien loans associated with the sale on its balance sheet. Under TDHCA's new servicing arrangement with The Money Source, the RMRB indenture will also receive an upfront servicing release premium for both TBA-financed loans and bond-financed loans. The Money Source will service all TDHCA loans going forward. Because the indenture will no longer receive excess servicing fees through the life of any loans serviced by The Money Source, this new servicing strategy will decrease indenture reliance on excess servicing fees that are affected by loan prepayment speeds.

Exhibit 4
Margins will remain solid but variable; affected by TBA funding activities



Source: Texas Department of Housing and Community Affairs audited financial statement with Moody's adjustments.

Liquidity: cash flow projections demonstrate full and timely payments at all times

Consolidated cash flow projections demonstrate that the program exhibits sufficient liquidity to meet debt service obligations under all Moody's stress scenarios. Cash flow projections included 15%, 100% and 500% prepayment scenarios, as well as non-origination run scenarios.

Debt structure

The program has a conservative, fully fixed rate debt structure.

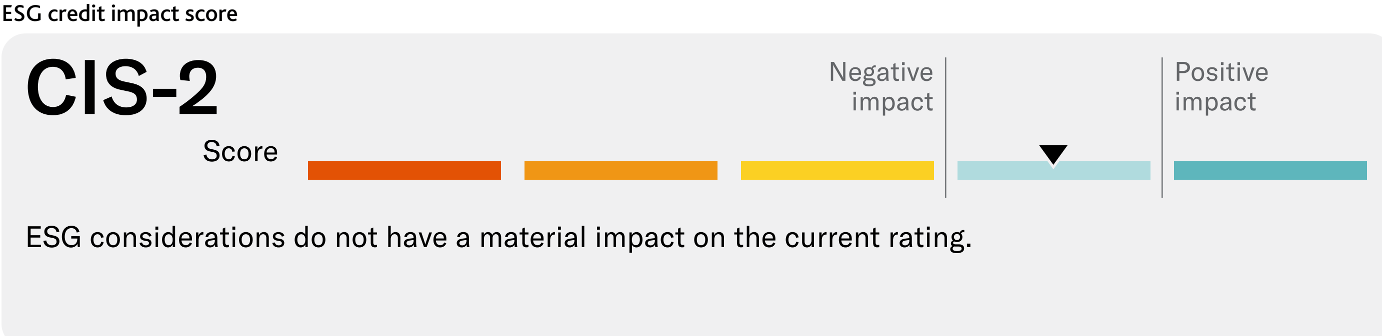
Debt-related derivatives

The program currently has no debt-related derivatives.

ESG considerations

Texas DHCA - Residential Mtge. Rev. Bd. Prog.'s ESG credit impact score is CIS-2

Exhibit 5
ESG credit impact score

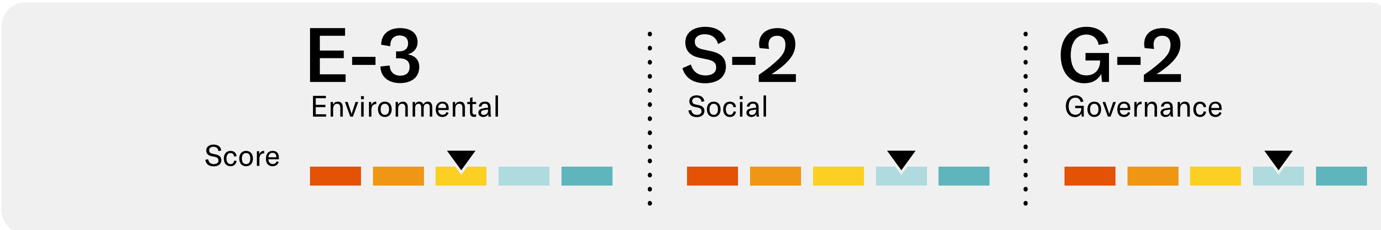


Source: Moody's Ratings

Texas DHCA - Residential Mortgage Revenue Bonds (TDHCA RMRB) ESG credit impact score is neutral-to-low (**CIS-2**), reflecting neutral-to-low exposure to social and governance risks, with moderately negative exposure to environmental risks. TDHCA RMRB's exposure to physical climate risks is mitigated by the 100% mortgage-backed securities (MBS) composition of its first lien portfolio.

Exhibit 6

ESG issuer profile scores



Source: Moody's Ratings

Environmental

TDHCA RMRB's environmental issuer profile score is moderately negative (**E-3**). TDHCA RMRB is moderately exposed to physical climate risk, especially water stress and hurricanes. Water stress, the projected change in drought-like patterns, is Texas's most severe climate exposure based on Moody's ESG Solutions data. Nearly 80% of Texas' counties (203 of 254) are classified as high risk or “red flag” counties, meaning they are exposed or highly exposed to scarce water resources today and those exposures are increasing. To mitigate its water stress risk, the state has issued debt through the Texas Water Development Board (TWDB) since the 1950s to finance a variety of water conservation and supply projects. Various local governments also issue debt related to water exposure mitigation. High exposure to hurricane risk reflects a smaller number of counties but more than one-third of state GDP.

Social

TDHCA RMRB's social issuer profile score is neutral-to-low (**S-2**). Consistent with the rest of the HFA sector, TDHCA has a mission to provide affordable housing within the state which guides its lending strategy and its relationships with borrowers and other government entities. These fair lending practices and strong relationships lead to high scores within the HFA sector for both responsible production and customer relations. TDHCA has neutral-to-low exposure in the rest of our social risk categories, supported by moderately low unemployment and relative affordability of housing in the state. These factors have helped TDHCA maintain its healthy loan origination to fulfill its mission.

Governance

TDHCA RMRB's governance risk is neutral-to-low (**G-2**). TDHCA's management team has a strong track record of advancing its mission of expanding and preserving the stock of affordable housing while maintaining a sound financial profile. TDHCA's successful record of risk management and well-established governance practices are evidenced by the maintenance of healthy margins and a solid balance sheet with single family revenue bond program portfolios that are 100% MBS. Though TDHCA is a department of the State, it has a track record of balancing mission and interest of bondholders.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

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