S&P Global Ratings

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Summary:

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

Primary Credit Analyst:
Jose M Cruz, San Francisco (1) 415-371-5053; jose.m.cruz@spglobal.com

Secondary Contact:
Joan H Monaghan, Centennial + 1 (303) 721 4401; Joan.Monaghan@spglobal.com

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Summary:

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Credit Profile		
US$175.0 mil single fam mtg rev bnds ser 2020A due 09/01/2050		
Long Term Rating	AA+/Stable	New
US$14.0 mil single fam mtg rev rfdg bnds ser 2020B due 09/01/2050		
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+' rating to the Texas Department of Housing & Community Affairs' (TDHCA) series 2020A and 2020B 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+' underlying rating (SPUR) and 'AA+/A-1+' rating on the department's series 2004A taxable, junior-lien, single-family, variable-rate demand bonds. The outlook on the long-term ratings is stable.

The $175 million 2020A bonds will be issued to purchase Ginnie Mae mortgage-backed securities (MBS). The series 2020A 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 $586 million senior-lien bonds outstanding (as of Sept. 1, 2019). Approximately $3.855 million of taxable junior-lien bonds are outstanding as of Sept. 1, 2019, 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. The $14 million 2020B bonds will be issued to refund and redeem the SFMRB series 2013A bonds.

While we believe COVID-19 could have an effect on state housing finance agencies generally and their programs, the degree and duration of such effect is currently unknown. To keep people in their homes during this pandemic, the U.S. government has announced restrictions that limit evictions for nonpayment of rent or mortgages and precludes, in the short term, foreclosure on federally backed mortgages. These efforts may cause a liquidity crunch for some issuers. In our view, the very strong asset-to-liability (A/L) parity in the SFMRB indenture, overall high-quality asset base, and liquid assets equal to approximately 31% of outstanding MBS should mitigate a near-term material impact. TDHCA uses third-party master servicers to service its outstanding loans. Due to required loan advancing provisions, we do not expect any moratorium on borrower mortgage payments to adversely affect bond repayments. We will continue to monitor developments and impacts of COVID-19 including stimulus package provisions and have related discussions with management.

Credit overview

The rating reflects our opinion of:

- The indenture's very strong resolution cash flows showing opening A/L parity of 106.326% and low A/L parity of 102.275%;
- The bond program's cash flow sufficiency and overcollateralization;
- High-quality mortgage-backed security (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.

In our opinion, the above strengths are partly offset by the relatively high amount of variable-rate bonds still outstanding in the indenture, which represents 12% of bonds outstanding, of which approximately 89% is hedged.

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.

Stable Two-Year 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 Sept. 1, 2019, the indenture was essentially entirely MBS, consisting of $438 million MBS and approximately $19,291 in whole loans. As of Sept. 1, 2019, the indenture's consolidated A/L parity was strong, with an opening parity of 106.326% and a low parity of 102.275%. Stand-alone cash flows for the 2020A bonds also show sufficient funds to support debt service, with a projected opening A/L parity ratio of 100.132% on March 1, 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 Sept. 1, 2019, and include subsequent events such as the 2019 series A. 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 102.275% 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 low parity for the series 2020A is 100.132%, and the bonds accrue interest at a fixed rate.

Ratings Detail (As Of April 21, 2020)		
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 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
Texas Dept of Hsg & Comnty Affairs sin fam		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of April 21, 2020) (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		
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 SFMULTMBS (AGM)		
Long Term Rating	AA+/A-1+/Stable	Affirmed
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
Texas Dept of Hsg & Comnty Affairs SFMULTMBS (AGM)		
Long Term Rating	AA+/A-1+/Stable	Affirmed
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
Texas Dept of Hsg & Comnty Affairs (Resid Mtg Rev Bnd Trust Indenture)		
Long Term Rating	AA+/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.