S&P Global Ratings

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Missouri Housing Development Commission; General Obligation

Primary Credit Analyst:
Daniel P Pulter, Centennial + 1 (303) 721 4646; Daniel.Pulter@spglobal.com

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

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Missouri Housing Development Commission; General Obligation

Credit Profile		
Missouri Hsg Dev Com ICR		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings affirmed its 'AA+' issuer credit rating (ICR) on the Missouri Housing Development Commission (MHDC, the commission). The outlook is stable.

Credit overview

The rating reflects our view of MHDC's:

- Financial strength measured by net equity-to-assets ratio for fiscal 2020 of 35.3%, and five-year average of 33%, which we view as above average compared to peers and for the 'AA' rating category;
- A growing balance sheet exhibited by S&P-equity of approximately $792.3 million and assets and deferred outflows totaling approximately $2.2 billion in fiscal 2020, 3.4% and 7.6% increases, respectively, from fiscal 2019;
- Very strong and above-average profitability compared to peers and criteria benchmarks with a return on average assets of 1.3%;
- High-quality and low-risk asset base consisting of loan portfolios primarily made up of program mortgage-backed securities (MBS) and investments held primarily in U.S. government agency securities and highly-rated money market funds;
- Very low delinquencies as evidenced by the commission's five-year average nonperforming assets (NPAs) to total loans of less than 0.7% for fiscal years 2016 through 2020;
- Low-risk debt profile consisting of 100% fixed-rate debt backed primarily by MBS; and
- Very strong management and governance assessment due to the organization's experienced and dedicated team with an extensive track record of successfully managing its programs, even during difficult circumstances such as the financial crisis and the COVID-19 pandemic.

The stable outlook reflects our view that MHDC will continue to exhibit credit characteristics in line with the current rating, specifically in terms of financial performance, risk management, governance, and legislative mandate during the two-year outlook period.

Environmental, social, and governance factors

We have analyzed MHDC's environmental, social, and governance (ESG) risks relative to its financial strength, management and legislative mandate, and the local economy. Widespread availability and coordination of the vaccine rollout have lowered the health and safety risk associated with the pandemic. However, the still-elevated unemployment and greater likelihood of nonpayment of rent or mortgage could lead to a decrease in revenues, elevating near-term social risk. In addition to increased federal funding support to individuals and emergency rental and homeowner relief, we believe MHDC's very strong financial ratios, liquidity positions, and overall low-risk asset and debt profiles somewhat insulate it from near-term financial pressures related to COVID-19. We believe governance and environmental risks for the commission are both in line with the sector standard.

Stable Outlook

Upside scenario

Should MHDC's credit characteristics, specifically in terms of financial performance and key ratios under 'AAA' level stress scenarios, be strong enough to warrant a rating above the sovereign and if other considerations making a rating eligible to be rated above the sovereign are met, we could take a positive rating action.

Downside scenario

Conversely, and while we find it unlikely, we could lower our issuer credit rating (ICR) for MHDC should overall credit characteristics materially worsen. Specifically, if key financial ratios deteriorate due to adverse economic and market conditions to levels that are no longer in line with the rating, we could take a negative rating action. Additionally, should there be changes in MHDC's management, governance, and legislative mandate that could, in our view, jeopardize performance and credit quality, we could lower the rating.

Credit Opinion

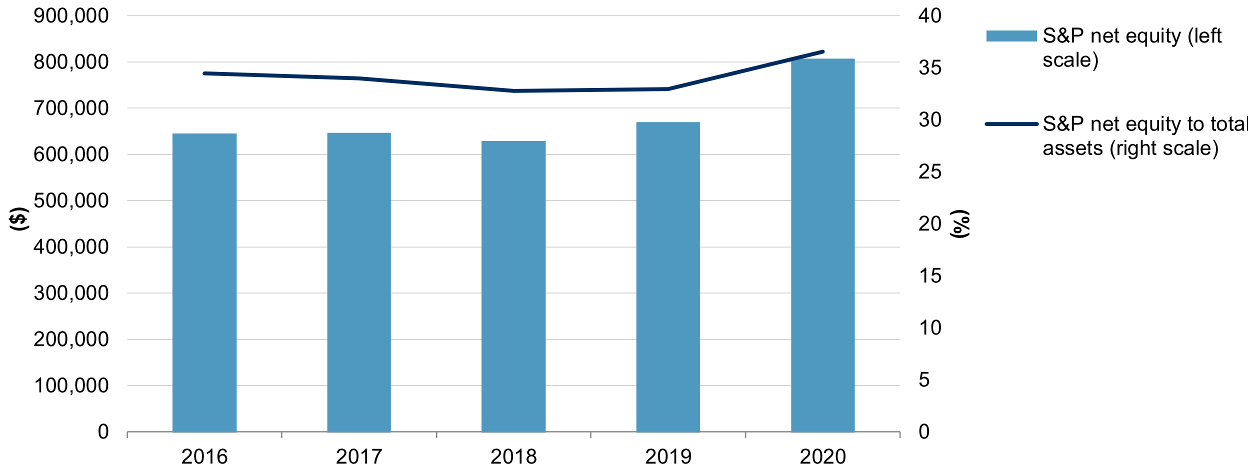
Financial Strength

Capital adequacy

We consider MHDC's capital adequacy to be very strong and above average based on a five-year average net equity-to-assets ratio for fiscal years 2016 through 2020 of 33.1%. This key ratio is also above our benchmark of 15% for the 'AA' category. Over the last five fiscal periods, the commission's net equity, calculated as the audited net position adjusted to remove fair value reporting and then haircut to apply S&P Global Ratings' calculated losses and other program-specific factors, has been very high and stable, fluctuating only a few percentage points with a low of approximately 32.4% in 2019 to a high of 35.3% in 2020. This high and stable capital adequacy trend is a credit positive, indicating substantial and reliable resources available to sustain operations during difficult circumstances or to fund programs that further the mission of expanding housing affordability and other public-purpose missions in the state. Chart 1 below shows MHDC's key capital adequacy performance over the last five fiscal periods through its net equity and net-equity-to-total assets trend. Primary generators of the positive trend in net equity ratios in fiscal 2020 were an increase in total revenues (excluding the net change in fair value of investments) of 7.7% to $246.0 million from $228.41 million in 2019 and a 7.6% increase in total assets to $2.2 billion in fiscal 2020.

Chart 1

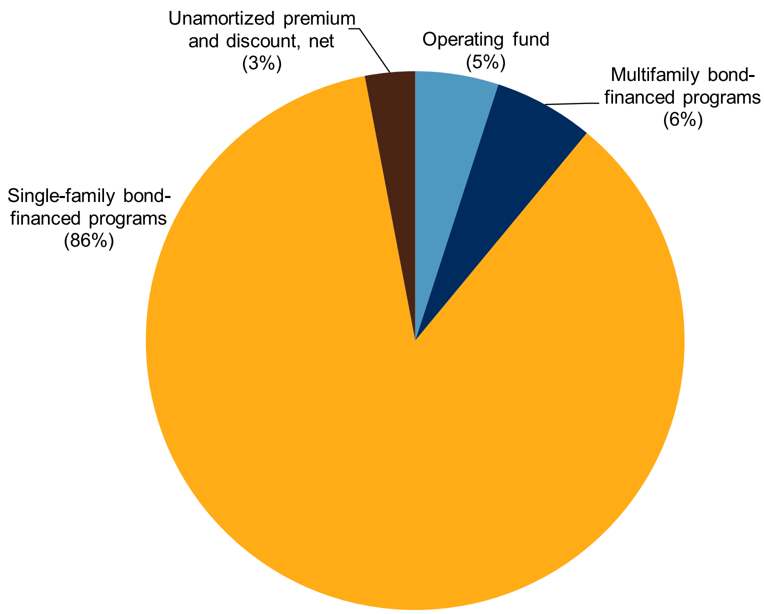
MHDC Capital Adequacy Net Equity And Net Equity-To-Total Assets



The commission's total debt outstanding (excluding conduit debt) reached approximately $1.16 billion in fiscal 2020, up from $1 billion in 2019, a 13% increase year over year. There was a net increase of revenue bonds of approximately $121.3 million due to $375.5 million in issuances under the First Place Homeownership program, and reductions of approximately $254.2 million across the various bond-financed programs. This increase in program bonds outstanding reflects MHDC's strategy in regularly accessing and using the capital market. All of its outstanding bonds are fixed rate, which we view as low risk and in line with the commission's stated risk profile. MHDC has bonds outstanding in five bond-financed programs. The distribution of outstanding debt by fund and program as of year-end June 30, 2020 is shown in chart 2 below.

Chart 2

MHDC Debt Summary (excluding conduit debt)

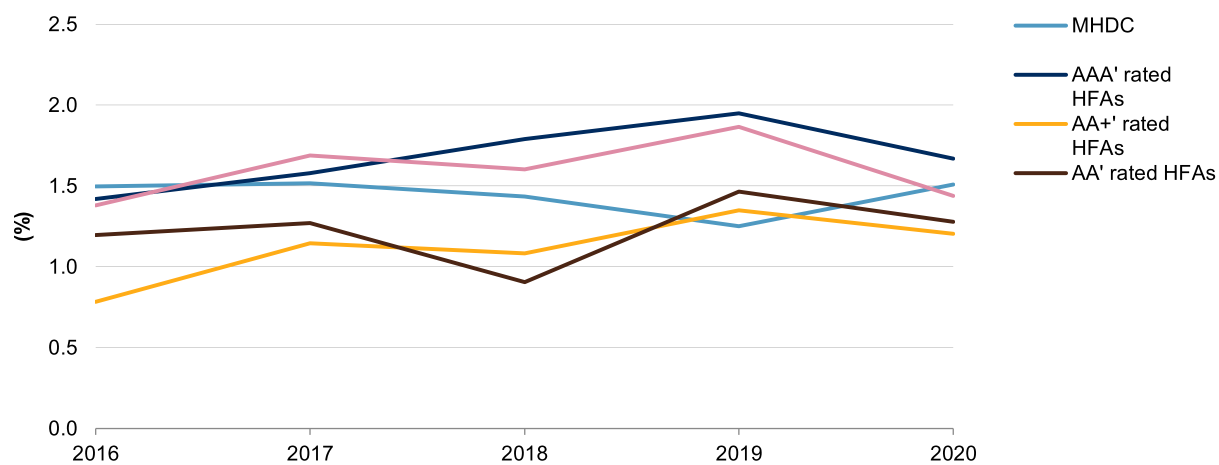


Profitability

In fiscal 2020, MHDC's S&P Global Ratings-calculated net income increased 24.7% to $26.4 million, up from $21.1 million in fiscal 2019. In general, the commission's S&P Global Ratings-calculated net income has been stable, with a five-year average of $24.3 million, reporting a low of $21.1 million in 2019 and a high of $27.1 million in 2016. As mentioned above, when excluding the effects of fair value reporting, MHDC's revenue increased $17.6 million in fiscal 2020 from 2019. Interest income from loans and program MBS rose approximately $8 million, a reflection of the commission's additional loan production and bolstering the very strong five-year average return on average assets (ROA) of 1.3x. MHDC's ROA has been consistently extremely strong and well above 1.0x, the 'AAA' benchmark according to our criteria and in line with most rated peers for at least the last five fiscal periods, indicating the efficiency in which the commission operates (chart 3). Included in MHDC's net income calculation, but excluded from S&P Global Ratings-net equity, is federal program net income, which is restricted for federal programs and equaled approximately $4.3 million in fiscal 2020. The ability of HFAs to issue debt at low enough interest rates to support affordable loans at a high rate, or earning spread, is a key element to profitability and speaks to an organization's financial acumen and access to capital markets. MHDC's profitability metrics and trends are, in our view, very strong.

Chart 3

Return On Average Assets

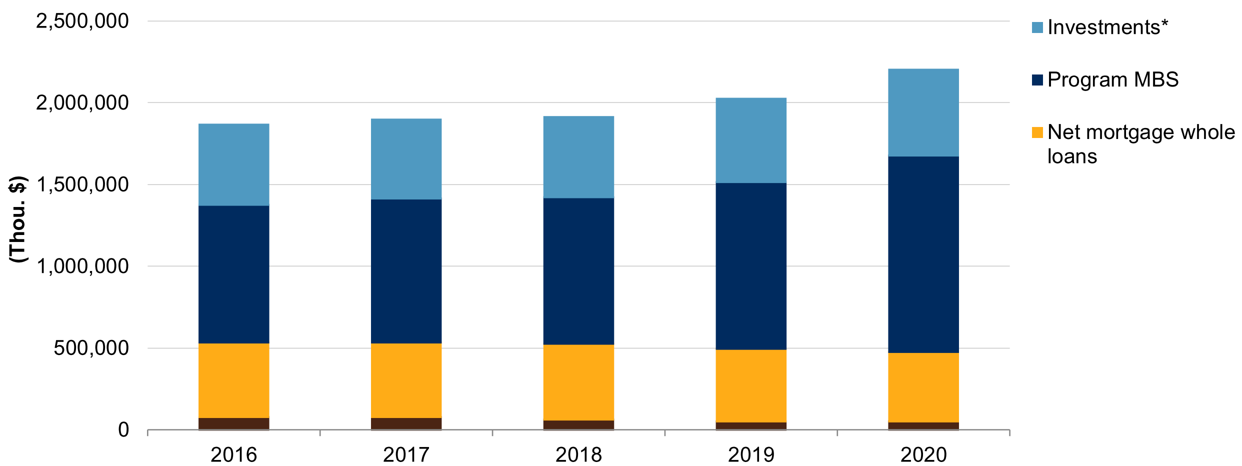


HFA--Housing finance agency.

Asset quality

As mentioned above, MHDC's total assets reached $2.2 billion in fiscal 2020, up from $2 billion in fiscal 2019. The increase in assets reflects growth in the commission's production of single-family mortgage investments, which outpaced loan paydowns and prepayments for the period. We view this as a credit-positive, based on the revenue-generating, high-quality characteristics of the commission's loan portfolio. MHDC's asset base consists primarily of U.S. government investments, agency fixed-rate securities, and, most notably, mortgage investments (whole loans and program MBS). Mortgage investments increased 10.6% during fiscal 2020 and make up 75.5% of the commission's total assets. Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and Federal Home Loan Mortgage Corp. (Freddie Mac) MBS made up 72.1% of MHDC's mortgage investments as of June 30, 2020, compared to 67.6% in 2019. We view the commission's loan portfolio to be high-quality and low-risk with all bond-financed single-family homeownership loan investments being MBS and the bond-financed multifamily loans (excluding conduit debt), backed by Federal Housing Administration (FHA) insurance, including Risk-Share loans, where MHDC participates in 50% of the insured risk. To account for any potential losses, the commission has a loan loss reserve sized at 8% of non-MBS mortgage loans which are uninsured or Risk-share. While its loan loss reserve to total loans and program MBS is lower than those of rated peers (5.3%), the commission's very high-quality and low-risk loan base, in our view, offsets this risk. Further evidence is MHDC's NPAs-to-total loans and program MBS of 0.19% in fiscal 2020, materially lower than the still-low 2.5% five-year average for all rated HFAs. MHDC's write-offs in fiscal 2020 materially increased due to an approximately $2.02 million write-off related to one risk-share loan that had previously been reported as part of NPAs. This write-off caused the commission's net charge-offs-to-NPA ratio to increase to 81.6% from 0.9% in fiscal 2019 and an average of 5% for the four years prior. While the ratio increase is substantial, the dollar amount of the write-off compared to total loans is very small, and, in our view, is not an indication of any deterioration of the commission's very high asset quality and overall loan performance. Chart 4 shows the commission's total asset distribution and chart 5 shows the distribution of single-family, multifamily, and operating fund loans over the last five fiscal periods.

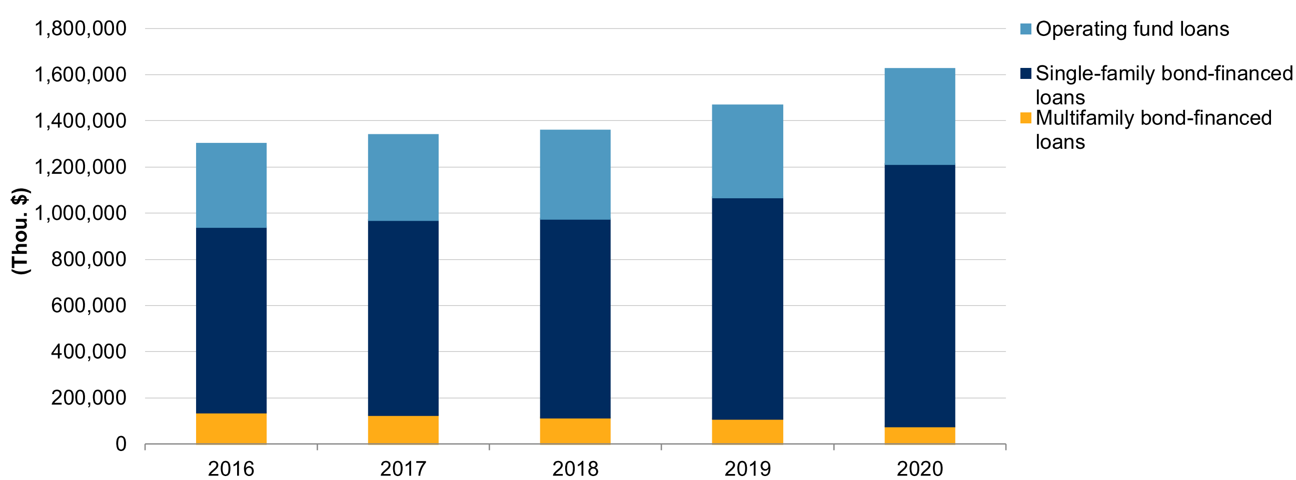
MHDC Total Assets -- Distribution



*Excluding changes in fair value. MBS--Mortgage-backed securities.

Chart 5

MHDC Loan Portfolio Distribution



Because HFAs cannot levy taxes or raise user fees, the assessment of asset quality, in tandem with profitability, is of paramount importance in our evaluation of HFA creditworthiness. In our opinion, MHDC's asset quality is very strong as reflected by the overall low-risk portfolio and NPAs to total loans and program MBS of 0.19% as of June 30, 2020, down substantially from an already-low 0.84% in fiscal 2019. In addition, the commission's investment policy, and resulting portfolio, emphasizes preservation of principal, further reflecting the low-risk, high-quality characteristics of the asset base. We have reviewed the amount of funds being invested, investment policies, and management to be very strong. As of June 30, 2020, MHDC held $415.5 million in investments, up from $410.4 in fiscal 2019 and $371.8 million in 2018.

Liquidity

In our view, MHDC has a strong liquidity position as evidenced by its five-year average total loans and program MBS-to-assets ratio of 71.1%, very much in line with the 70%-75% benchmark range for the 'AA' rating category. Our liquidity analysis considers how an organization manages its liquidity position, balancing liquidity and profitability by maintaining strong reserve levels while maximizing the amount of higher-yielding, yet less-liquid, mortgage assets. We consider asset-liability management as one of the primary mitigants to liquidity risk as the balance sheet of HFAs largely consists of long-term obligations with maturity dates that are structured to match the maturities of long-term assets.

Management

We view MHDC's management to be very strong due to its experienced, proactive, and dedicated senior leadership and board members. Further, the risk-adverse nature of management flows through the organization both financially and operationally. In our opinion, MHDC benefits from experienced and tenured leadership and senior management, as well as strong support from the state government. The focus of management and legislative mandate assessment is the entity's legal organization structure, philosophy, strategies, and administrative procedures. The continuity of management and the organization's ability to resolve difficult situations during its operating history is also a key indicator of the entity's likelihood of long-term success.

We view MHDC's experienced senior management and board as a credit-positive for the commission. We met with its senior management, virtually, due to the pandemic, on Sept. 1, 2020. We discussed several topics, including the commission's response, adaptation to, and weathering of the COVID-19 pandemic; year-to-date financial performance; bond-financed programs; five-year strategic plan; changes in political environment; and succession plans.

We believe management has an ongoing commitment to leverage public and private resources and increase financial strength. The goal of the commission's five-year strategic plan is to analyze the financial effects of current and proposed programs to assess long-term sustainability. Highlights of MHDC's 2019 to 2023 plan include an assessment of the current financial position based on audited statements; base-case projections using realistic, conservative estimates for future activities; and alternative case projections intended to test the commission's financial strength under various market conditions. Under all scenarios, MHDC was shown to be in a strong financial position with projected growth under each one. We view this in-depth and comprehensive planning to be extremely valuable in preparing the commission for the future.

MHDC is governed by a 10-member board of directors that includes the following elected State of Missouri officials: governor, lieutenant governor, state treasurer, and attorney general. The remaining six board members are appointed by the governor with the advice and consent of the state senate. MHDC has dedicated much time and effort to educate board members about its mission and priorities and fully anticipates the beneficial and successful relationship between it and the governing board to continue.

Finally, we expect the favorable relationship and support from the state to continue. MHDC management has a long history of a favorable and productive relationship with the state, meeting with elected representatives regularly. Additionally, the state has never in the past attempted to appropriate any of the commission's fund balances for alternative purposes, or required it to assume responsibility for any programs that would impair its financial strength, and such actions by the state are not anticipated in the future.

Economy

As we noted in our full analysis on Missouri, published March 17, 2021, on RatingsDirect, we believe the state has demonstrated a strong commitment to structural and budgetary balance and overall financial management through the one-year mark since the onset of the COVID-19 pandemic. Its budgetary position and maintenance of very strong liquidity and strong budget reserve fund balances remain remarkably resilient. Further, in our view, Missouri's proactive financial management--including the executive branch's broad administrative oversight to monitor appropriations throughout each fiscal year and swiftly implement expenditure restrictions to align spending with revenue estimates--were effective in responding to anticipated revenue shortfalls in fiscal years 2020 and 2021, reinforcing our view of high credit quality and stability.

The state's unemployment rate was 4.3% in the first quarter of 2021, a 0.6 percentage point higher than first-quarter 2020 and below the current national rate of 6.2%, according to IHS Markit's June 17, 2021 report. Overall gains in Missouri's labor market maintained a modest pace in the first quarter as jobs rose at a 2.3% annualized pace but fell 4.0% year over year as employment remains below the pre-pandemic peak. Missouri, like much of the nation, continues to recover from widespread layoffs and reductions in economic activity caused by the pandemic and while the state economy has further to climb to regain its pre-pandemic position, as noted above, we believe it is well-positioned to weather the downtimes on the way to recovery.

Partially offsetting the momentum to pre-pandemic economic levels are below-average rates of both population growth over the next 10 years and higher education attainment. This could lead to stagnant, or even falling demand for housing in the state in years to come. Missouri's housing market has seen sustained improvement since the financial crisis, but a surge in homebuilding over the summer months following the COVID-19 lockdowns will likely lead to a decline in housing starts in the near term, according to IHS reports. Single-family housing starts in 2020 rose to 13,994 from 11,509 in 2019, but are expected to stay in the mid-13,000 to high-12,000 range over the next five years. In the fourth quarter of 2020, the Federal Housing Finance Agency's (FHFA) purchase-only index recorded a 10.1% year-over-year increase. After falling about 16% during the housing crisis, the median price of an existing single-family home rose to just under $200,300, well above the pre-recession peak. New home prices, however, have stagnated since 2017 and dipped modestly to near $277,600 in 2020. In at least the near term, the demand for affordable housing in Missouri should, in our view, remain stable, which we consider a credit positive for the commission.

Table 1

MHDC -- Financial Ratio Analysis (2016-2020)

(%)	2016	2017	2018	2019	2020	5-year average
Capital adequacy						
Equity/total assets	38.80	38.95	39.03	38.11	36.66	38.31
Net equity/total assets	32.51	32.82	32.66	32.45	35.29	33.14
Net equity/total loans	118.54	122.63	123.27	133.10	163.80	132.27
Net equity/total loans + MBS (loans)	43.88	44.28	44.49	43.25	45.78	44.34
Equity/total debt	79.09	78.99	78.60	74.15	68.03	75.77
Net equity/total debt	66.26	66.56	65.76	63.14	65.48	65.44
Net equity/G.O. debt	N/A	N/A	N/A	N/A	N/A	N/A
Available Liquid Assets/ total loans	24.44	19.18	20.13	19.49	23.43	21.33
GO Debt/ total debt	0.00	0.00	0.00	0.00	0.00	0.00
Profitability						
Return on average assets	1.54	1.24	1.29	1.08	1.26	1.28
Net interest margin	1.44	1.38	1.35	1.39	1.61	1.43
Net interest margin (Program MBS + loans)	1.50	1.52	1.44	1.25	1.51	1.44
Asset quality						
NPAs/total loans + REO	0.93	0.84	0.66	0.84	0.19	0.69
Net charge-offs/average NPAs	9.27	7.09	3.03	0.89	81.66	20.39
Loan loss reserves/total loans	8.57	8.50	8.36	8.62	8.63	8.54
Loan loss reserves/NPAs	921.49	1009.37	1270.27	1030.40	4479.55	1742.22
Net charge-offs/average loans	0.07	0.06	0.02	0.01	0.43	0.12
Liquidity						
Total loans/total assets	25.07	24.49	24.28	22.28	19.68	23.16
(Total loan + Program MBS)/total assets	68.77	70.08	71.02	72.15	73.23	71.05
Short-term investments/total assets	2.14	1.54	2.32	2.44	2.08	2.10
Total investments/total assets	26.95	25.83	25.70	25.42	24.40	25.66

Table 2

Five-Year Trend Analysis

(Thou. $)	2016	2017	2018	2019	2020
Total assets	1,811,868	1,863,710	1,908,338	2,009,667	2,161,425
% change	6.5	2.9	2.4	5.3	7.6
Total debt	888,929	918,964	947,646	1,032,913	1,164,686
% change	9.0	3.4	3.1	9.0	12.8
Total equity	703,077	725,929	744,817	765,953	792,306
% change	4.0	3.3	2.6	2.8	3.4
Total net equity	589,035	611,658	623,212	652,153	762,681
% change	2.3	3.8	1.9	4.6	16.9
Revenues	224,308	226,391	230,277	228,401	245,978
% change	1.4	0.9	1.7	(0.8)	7.7
Expenses	197,215	203,539	205,935	207,265	219,625

Table 2

Five-Year Trend Analysis (cont.)

(Thou. $)	2016	2017	2018	2019	2020
% change	(0.1)	3.2	1.2	0.6	6.0
Net income	27,093	22,852	24,342	21,136	26,353
% change	13.5	(15.7)	6.5	(13.2)	24.7
Total program MBS and loans	1,246,043	1,306,011	1,355,276	1,449,881	1,582,786
% change	10.5	4.8	3.8	7.0	9.2
Nonperforming assets	4,623	4,199	3,328	4,099	897
% change	40.0	(9.2)	(20.8)	23.2	(78.1)

MBS--Mortgage-backed securities.

Table 3

Peer Comparison

	2016-2020				
	MHDC	**All 'AAA' HFAs**	**All 'AA+' HFAa**	**All 'AA' HFAs**	**All HFAs**
Profitabliity (%)					
Return on average assets	1.28	1.68	1.11	1.22	1.45
Net interest margin (total)	1.43	2.72	1.88	1.30	1.63
Asset quality (%)					
NPAs/total loans and real estate owned	0.69	4.40	2.19	1.93	2.49
Loan loss reserves/NPAs	1742.22	397.85	723.76	140.58	307.65
Loan loss reserves/total whole loans (excludes program MBS)	8.54	15.76	5.25	5.49	6.20
Capital adequacy (%)					
Total equity/total assets	38.31	55.23	36.37	31.40	34.81
Total net equity/total assets	33.14	37.38	30.38	23.48	23.73
Liquidity (%)					
Total loans & program MBS/total assets	71.05	78.82	74.51	65.94	64.72

HFA--Housing finance agency. NPA--Nonperforming asset.