

Massachusetts Housing Partnership Fund Board; General Obligation

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Credit Profile

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Long Term Rating

A+/Stable

Current

Credit Highlights

- S&P Global Ratings' issuer credit rating (ICR) on the Massachusetts Housing Partnership (MHP) is 'A+'.
- The outlook is stable.

Security

An ICR reflects an obligor's general creditworthiness and capacity and willingness to meet financial commitments when they come due. It does not apply to any specific financial obligation; it does not consider the obligation's nature and provisions, bankruptcy standing, liquidation, statutory preferences, or legality and enforceability.

Credit overview

The ICR reflects our opinion of MHP's:

- Very strong asset quality with the majority of assets in bank-funded loans, which are nonrecourse to MHP, no nonperforming assets (NPAs) in the partnership's history, minimal loss exposure due to the presence of risk-share loans, and sufficient pledged collateral and unrestricted equity to cover losses;
- Increasing financial strength, as demonstrated by an S&P Global Ratings-calculated net equity-to-total assets ratio of 11.9% in fiscal 2023, with a five-year average of 10.8% from 2019-2023, which is in line with criteria benchmarks;
- Strong profitability compared with benchmarks, including a five-year average of return-on-average assets (ROAA) of 0.8%, highlighted by 1.1% in fiscal 2023, and a steady net interest margin (NIM) of 1.9% over the five-year period 2019 through 2023, owing to off-balance-sheet income-generating loans; and
- Experienced and prudent management team and board members, as evidenced by consistently positive net income and successful management of MHP's programs even during difficult times.

Environmental, social, and governance

We have analyzed MHP's environmental, social, and governance factors relative to the partnership's financial strength, management and legislative mandate, and the local economy; we view these factors as neutral to the credit analysis.

Outlook

The stable outlook reflects our view that MHP's capital adequacy, profitability, asset quality, and overall creditworthiness will remain in line with the current rating during the two-year outlook period. Supporting our view are MHP's steady profitability, especially with respect to net interest margin, is strong asset quality reflected by no

delinquencies, lending strategy and arrangements that result in minimal exposure to loan loss, and sufficient liquidity reserves to cover potential losses MHP might experience.

Downside scenario

While we find it unlikely during the outlook period, we could lower the rating or revise the outlook to negative if our analysis were to demonstrate significant deterioration of any key credit factors to the point where financial metrics and performance are no longer consistent with the rating when compared to criteria benchmarks and peers.

Upside scenario

We could raise the rating or revise the outlook to positive if MHP were to sustain a significant improvement in the net equity-to-total assets ratio to approximately or above 15%, in line with the 'AA' rating category, while maintaining or improving other credit factors. If recent trends continue, we believe such an improvement could occur over the longer term, outside our two-year outlook horizon.

Credit Opinion

Financial Strength

Capital adequacy

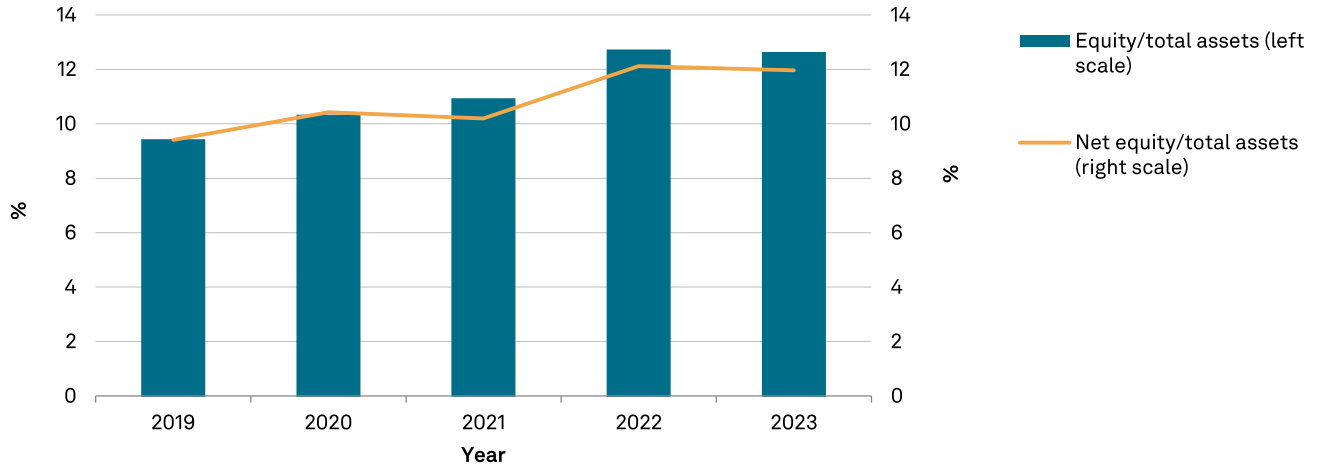
We consider MHP's capital adequacy to be in line with criteria benchmarks for the 'A+' rating based on a five-year average net equity-to-assets ratio of 10.8%, reaching approximately 12.0% in fiscal 2023, up from 9.4% in fiscal 2019.

Our analysis of MHP's financial position excludes from our equity calculations changes in fair-value reporting and removes certain funds and programs for which MHP does not have discretion over and are largely custodial. These funds include the Homeowner Assistance Fund (HAF), which was administered through the American Rescue Plan Act (ARPA) during the COVID-19 pandemic, and externally restricted funds from state capital programs such as the 40B Site Approval Fee Program, the Housing Stabilization Fund (HSF), and the Homeownership Opportunity Program (HOP).

While MHP's average capital adequacy ratio is generally lower than most of our rated housing finance agencies, the key metric is trending upward indicating an increase of resources available to sustain operations during difficult circumstances and to fund programs that further the mission of expanding housing affordability. In addition, we believe MHP's reserves available to meet potential exposure are sufficient for the rating level due to bank-loan and risk-share agreements.

Chart 1

Capital adequacy
2019-2023



Source: S&P Global Ratings.

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MHP's debt outstanding--which includes notes payable and bank loans payable --was approximately \$488 million in fiscal 2023, up from about \$478 million in fiscal 2022 but below fiscal 2019 levels, which reached \$563 million. This overall decrease in debt outstanding from fiscal years 2019 to 2023 is a result of a shift in MHP's multifamily strategy. Starting in 2018, the partnership began to introduce more Fannie Mae and Federal Housing Administration (FHA) risk-share loans into its portfolio, which are not reported on MHP's balance sheet. For the bank-funded loans that are on the balance sheet, MHP is only exposed to a 4% top-loss position and maintains pledged cash collateral accounts of the full 4%. Accordingly, we have capped our stressed loss scenarios at a 4% haircut to MHP's on-balance-sheet loans for the purposes of our analysis.

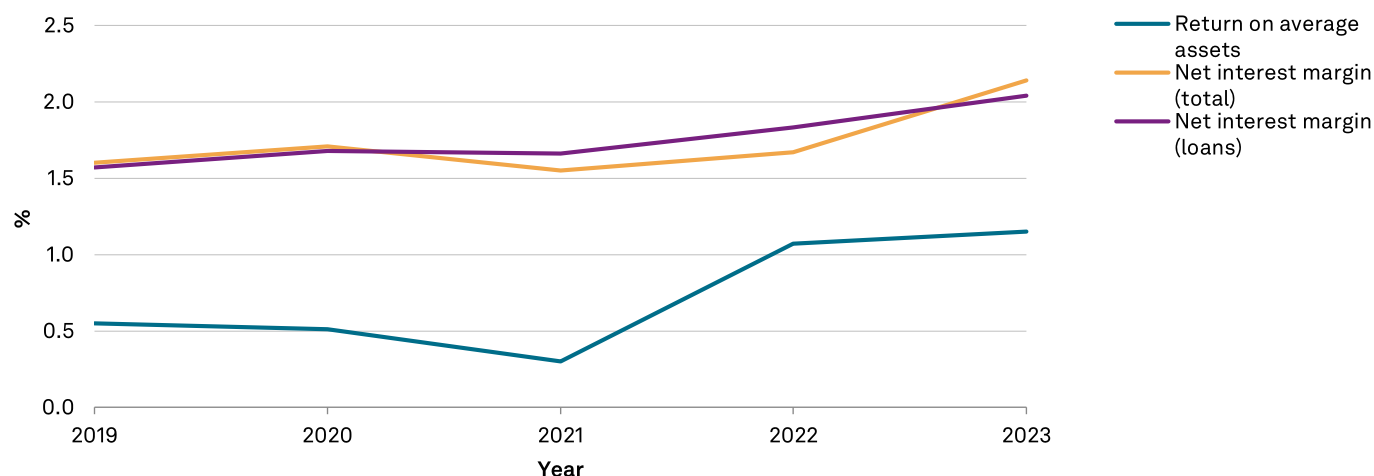
Profitability

In fiscal 2023, MHP's net income increased to \$7.4 million from \$6.7 million in fiscal 2022 and remained substantially stronger than the \$1.9 million reported in fiscal 2021. MHP continues to earn a substantial portion of its income from off-balance-sheet lending that will likely translate into continued above-benchmark profitability metrics.

Overall, MHP's profitability metrics are generally above rating benchmarks for the 'A' category, including a five-year average NIM of 1.7% and an ROAA ratio of 0.7%.

Chart 2

Profitability ratios 2019-2023



Source: S&P Global Ratings.

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Asset quality

We view MHP's asset quality as very strong. The partnership's assets include cash and high-quality investments and multifamily loans, known as Chapter 102 loans, which are funded through bank-loan agreements, whereby MHP takes a 4% cash-collateralized top-loss position, with the banks covering the remainder. None of the loan agreements have cross-collateralization or cross-default provisions. MHP enters only into permanent financing arrangements; its assets specifically exclude construction loans, which in our view further reduces the risk profile of the loan portfolio.

MHP reported \$523 million in gross loans receivable for fiscal 2023, continuing a downward trend over the past five years from \$587 million in 2019, and similar to the downward trend in debt outstanding. This is in concert with the ongoing strategy as the partnership continues to increase its off-balance-sheet risk-share loans with the FHA and Fannie Mae.

The partnership's historical loan performance has been extremely strong, as it continues to report no restructured loans and no delinquencies, resulting in a 0% NPA ratio. Furthermore, MHP's loan exposure is minimal, as noted. We credit the partnership's stringent due diligence in MHP's underwriting and proactive loan portfolio management for the loans' excellent performance. The partnership uses a thorough risk-rating system to evaluate loans and establish loss reserves. Each loan is subject to this dynamic system, where MHP is constantly reviewing each loan's risk-rating category to determine whether the respective loss reserve is appropriate and adjusting when necessary. The director of portfolio management and director of finance monitors these loan rating movements monthly and the director of portfolio management conducts quarterly reviews with senior management.

Liquidity

In our view, MHP has sufficient liquidity to cover short-term financial needs. Cash and investments totaled \$117.5 million as of June 30, 2023, which is in line with the previous fiscal year. We do note, however, that this is a significant increase from previous years that reported closer to \$100 million. This increase is primarily due to the administration of federal American Rescue Plan Act (ARPA) funds, which we do not believe represents a permanent change.

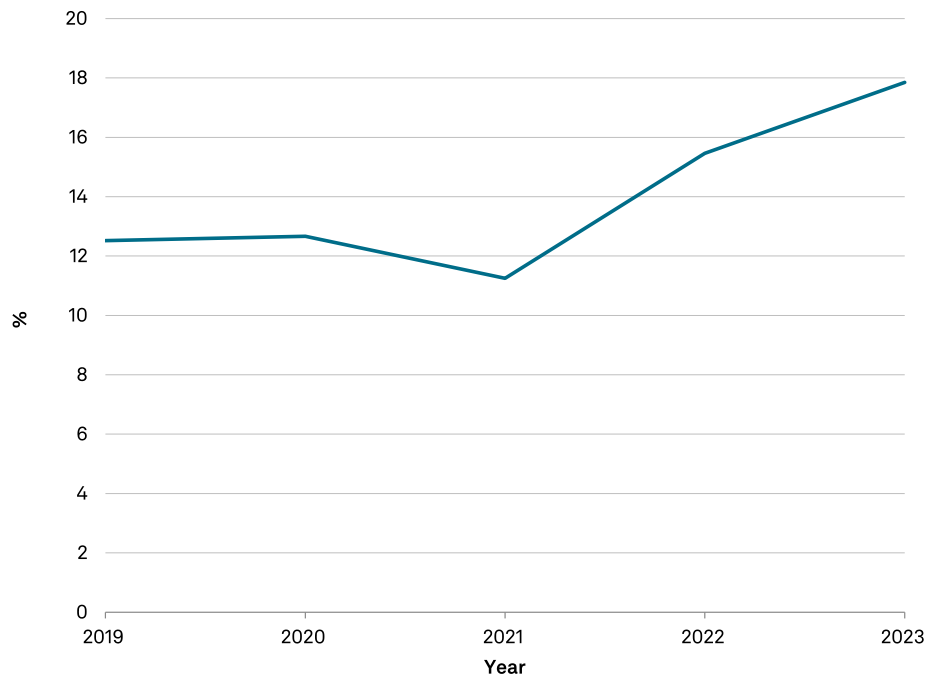
We view MHP's investment portfolio as very conservative: the partnership holds 70% of investment funds in Massachusetts Municipal Depository Trust, 6% in money market funds, and the remaining 25% in certificates of deposit; the latter includes about 19% of the total in maturities exceeding one year. In addition, in 2023, MHP moved \$17.6 million from cash to its investment portfolio, which should bolster income from investment earnings in future periods.

Due to MHP's strategy of continuing to increase its off-balance-sheet loans, the partnership's ratio of loans to assets has continued to decline, demonstrating about a 10-percentage-point decline to 70% in 2023 from 80% in 2019. We believe that as the ARPA funds administration runs its course, this figure will rebound closer to the five-year average nearing 80%. Furthermore, the one-year figure is still above the rating-category criteria benchmark.

Chart 3

Liquidity ratios

Short-term investments/total assets 2018-2022



Source: S&P Global Ratings.

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Management and legislative mandate

We view MHP's management as strong due to experienced, proactive, and dedicated senior leadership, which supports the board. We view the partnership's relationship with the commonwealth government as strong, owing to management's stability and strong record. Management is continuing to administer the commonwealth's ARPA Homeowner Assistance Fund (HAF) in fiscal 2024. As of June 30, 2023, the HAF contract with MHP is \$146 million.

Before 2017, when MHP's multifamily strategy expanded to include Fannie Mae and FHA risk-share loans, the partnership primarily used bank-funded loans, known as Chapter 102 loans, to finance multifamily development. MHP enters loan agreements with each of the banks it borrows through on a nonrecourse basis, which results in minimal loan exposure in case of borrower default.

As indicated, MHP is also an approved Fannie Mae multifamily affordable lender under a delegated underwriting and servicing loss-sharing agreement with Fannie Mae. This allows it to fund loans in full through the sale of Fannie Mae-guaranteed mortgage-backed securities.

MHP is also an FHA multifamily accelerated processing lender and an approved FHA housing finance agency risk-sharing program lender for multifamily loans. The risk-sharing program allows MHP to underwrite and service FHA-insured multifamily loans in return for sharing the risk of losses on those loans. MHP's underwriting guidelines and private and public experience demonstrate its servicing and management capabilities.

Due to strong demand for affordable housing and an average home price well out of reach of MHP's first-time homebuyer customers, we believe even the recent softening of the real estate market has not significantly tempered demand for MHP's services and its loans to finance multifamily affordable housing.

Economy

The Massachusetts economy is deep and diverse and has outperformed that of the nation on several economic indicators in recent years. According to S&P Market Intelligence, while growth in the Massachusetts' labor market started to decelerate as 2023 progressed, it still continued to outperform the national pace. The state's unemployment rate measured 2.8% in October on 2023, one hundred basis points below the national rate. The state unemployment rate is projected to rise, peaking at 3.8% in 2026, before starting to decline. Despite this projected increase, the rates still indicate a steady recovery from the pandemic high of 9%, which could lead to increasing demand for housing in the state.

As S&P Global Market Intelligence notes, Massachusetts has a high cost of living; the median price of an existing single-family home was double the national average even before the pandemic. Housing starts were projected to drop more than 20% in 2023, declining further in 2024 before beginning to rebound. S&P Global Market Intelligence also indicates that the professional, scientific, and technical services (PST) sector (which includes many of the state's most critical knowledge-based industries and is a leading contributor to overall employment growth) saw payrolls in 2023 contract for the first time since spring 2020 because of layoffs in the sector. However, S&P Global Market Intelligence forecasts that the PST sector is beginning to regain footing after recent losses. At the same time, payroll growth in the health care sector, another critical and reliable growth driver in the state, has continued to accelerate, accounting for over half of the overall private sector gain, indicating potential continued economic stability. In the near term, growth is expected to slow in step with projected national trends.

Table 1

Financial ratios (2019-2023)						
%	2019	2020	2021	2022	2023	Five-year average
Capital adequacy						
Equity/total assets	9.4	10.3	10.9	12.7	12.6	11.2
Net equity/total assets	9.4	10.4	10.2	12.1	12.0	10.8
Net equity/total loans	10.7	12.2	11.9	13.6	15.4	12.7
Net equity/total loans + MBS (loans)	10.7	12.2	11.9	13.6	15.4	12.7
Equity/total debt	11.2	12.8	13.4	13.8	17.3	13.7
Net equity/total debt	11.1	12.9	12.6	14.0	16.4	13.4
Profitability						
Return on average assets	0.5	0.5	0.3	1.1	1.1	0.7
Net interest margin	1.6	1.7	1.6	1.7	2.1	1.7
Net interest margin (MBS (loans) + loans)	1.6	1.7	1.7	1.8	2.0	1.8
Net interest margin (loans)	1.6	1.7	1.7	1.8	2.0	1.8
Asset quality						
NPAs/total loans + REO	--	--	--	--	--	--
Net charge-offs/average NPAs	--	--	--	--	--	--
Loan loss reserves/total loans	2.2	2.3	2.4	2.4	2.3	2.3
Loan loss reserves/NPAs	--	--	--	--	--	--
Net charge-offs/average loans	--	--	--	--	--	--
Liquidity						
Total loans/total assets	86.2	83.6	84.0	80.6	76.1	82.1
Total loan + MBS (loans)/total assets	86.2	83.6	84.0	80.6	76.1	82.1
Short-term investments/total assets	12.5	12.7	11.3	15.5	17.9	14.0
Total investments/total assets	12.5	12.7	11.3	15.5	18.2	14.0

GO--General obligation. MBS--Mortgage-backed securities. NPA--Nonperforming asset. REO--Real estate owned.

Table 2

Five-year trends (\$000s)					
	2019	2020	2021	2022	2023
Total assets	666,982	648,356	642,319	612,172	671,309
% change	(3.2)	(2.8)	(0.9)	(4.7)	9.7
Total debt	563,248	524,800	519,633	478,205	488,702
% change	0.4	(6.8)	(1.0)	(8.0)	2.2
Total equity	62,931	67,028	69,857	77,491	84,611
% change	6.3	6.5	4.2	10.9	9.2
Total net equity	62,786	67,558	65,534	74,216	80,311
% change	7.4	7.6	(3.0)	13.2	8.2
Revenues	39,561	41,372	38,811	37,964	37,945
% change	3.0	4.6	(6.2)	(2.2)	(0.1)
Expenses	37,125	37,964	36,167	34,812	30,722
% change	11.1	2.3	(4.7)	(3.7)	(11.7)

Table 2

Five-year trends (\$000s) (cont.)					
	2019	2020	2021	2022	2023
Net income	3,722	3,385	1,961	6,717	7,377
% change	(26.7)	(9.1)	(42.1)	242.5	9.8

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- U.S. Housing Finance Agencies 2022 Medians: Strong Metrics, Balance Sheets Reinforce Credit Quality, Sept. 19, 2023

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