S&P Global
Ratings

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District of Columbia Housing Finance Agency; General Obligation

Primary Credit Analyst:
Jessica L Pabst, Englewood + 1 (303) 721 4549; jessica.pabst@spglobal.com

Secondary Contact:
Marian Zucker, New York + 1 (212) 438 2150; marian.zucker@spglobal.com

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Long Term Rating	AA-/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its issuer credit rating (ICR) to 'AA-' from 'A+' on the District of Columbia Housing Finance Agency (DCHFA).
- The outlook is stable.
- The upgrade is due to improving and high financial ratios, as measured by a five-year average net-equity-to-assets ratio of 25.6% and five-year average return on average assets (ROA) ratio of 2.8%, which is above the 'AA' category benchmarks and in line with those of similarly rated peers. The upgrade is also due to the change in our view of management's stability, successful track record of implementing strategic initiatives, and strong planning capabilities.

Security

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

Credit overview

The rating reflects our view of DCHFA's:

- Financial strength, as measured by nearly $167 million in equity, net equity-to-assets ratio of 27.5% in fiscal 2022 and 25.6% on a five-year average;
- Above-average profitability compared with that of peers, measured by a five-year average ROA of 2.8%, and net interest margin (NIM) of 0.8% and low-risk asset base, which consists of mortgages either insured by the government and private mortgage insurance providers or backed by Ginnie Mae, Fannie Mae, or Freddie Mac mortgage-backed securities (MBS);
- Strong liquidity, with a short-term investments-to-total assets ratio of 22.6%, and total loans-to-total assets ratio of 37.7% in fiscal 2022; and
- Strong management team and board members, with a track record of adapting the agency's programs through strategic initiatives that increased the agency's asset base through difficult circumstances.

Partially offsetting these strengths, in our view, is DCHFA's low capitalization relative to that of other rated housing finance agencies (HFAs), and small asset base, which could be vulnerable to losses during market downturns.

Environmental, social, and governance

We have analyzed DCHFA's environmental, social, and governance (ESG) risks relative to its financial strength, management and legislative mandate, and the local economy. We view these risks as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our view of a combination of DCHFA's high financial strength ratios measured by net equity-to-assets and ROA relative to peers as well as its experienced but relatively new management and strategic initiatives. We believe DCHFA's strategic initiatives have and will continue to lead to stabilized financial ratios and will position the agency well to maintain its credit quality even during a downturn. Therefore, we do not expect to change the rating within the two-year outlook period.

Downside scenario

We could take a negative rating action if there was a substantial decline in financial performance measure by net-equity-to-assets or ROA, or a downturn in management and strategy. However, we do not expect this will occur during the two-year outlook period, barring external market conditions.

Upside scenario

Should DCHFA's capital adequacy and profitability ratios continue to improve to levels that we consider to be in line with those of 'AA' rated peers during the outlook period due to a growing and long-term stable income source from on-balance sheet housing programs, with the continued conservative risk profile and stable management, we could raise the rating.

Credit Opinion

Financial Strength

Capital adequacy

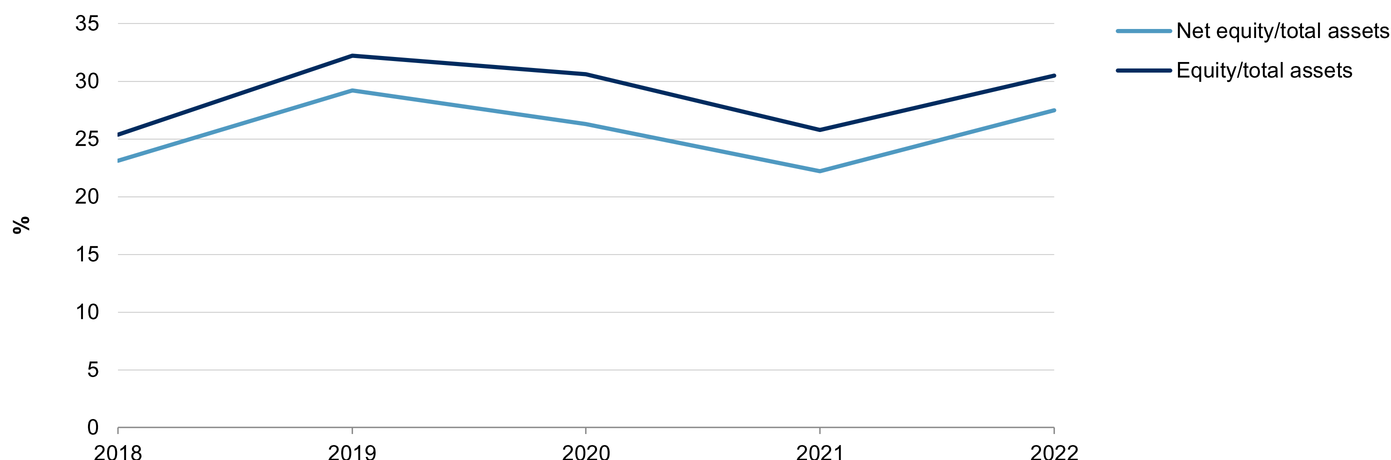
We consider DCHFA well capitalized, with strong capital adequacy ratios. We place the highest emphasis in our analysis of net equity to total assets and the related ratios. As defined in our criteria, equity refers to DCHFA's net position, excluding changes in the fair value of investments. Similarly, net equity refers to DCHFA's net position after we adjust for projected loan losses, loan-loss reserves, and other program-specific factors, excluding changes in fair value. Therefore, net equity indicates resources available to sustain operations during difficult circumstances, to fund programs that further expand housing affordability, or to pursue other strategic priorities.

DCHFA's net equity was $150 million in fiscal 2022, up 15.7% from $130 million in fiscal 2021. In fiscal 2022, DCHFA's net-equity-to-assets ratio was 27.5% with a five-year average or 25.6%. Over the past five years net equity improved due to the agency's strategic initiatives to build the balance sheet while maintaining consistent net income (chart 1). In our opinion, DCHFA's growing net equity trend is a credit strength. We believe DCHFA has sufficient capital based on the low-risk profile of its balance sheet. The five-year average of its equity-to-assets ratio is 28.9%, which is higher than

that of some peers in the 'AA' category. However, given the agency's relatively low volume of on-balance-sheet programs, the ratio can be hard to measure against other program-heavy HFAs.

Chart 1

Equity/Total Assets Versus Net Equity/Total Assets (%)



Source: S&P Global Ratings.

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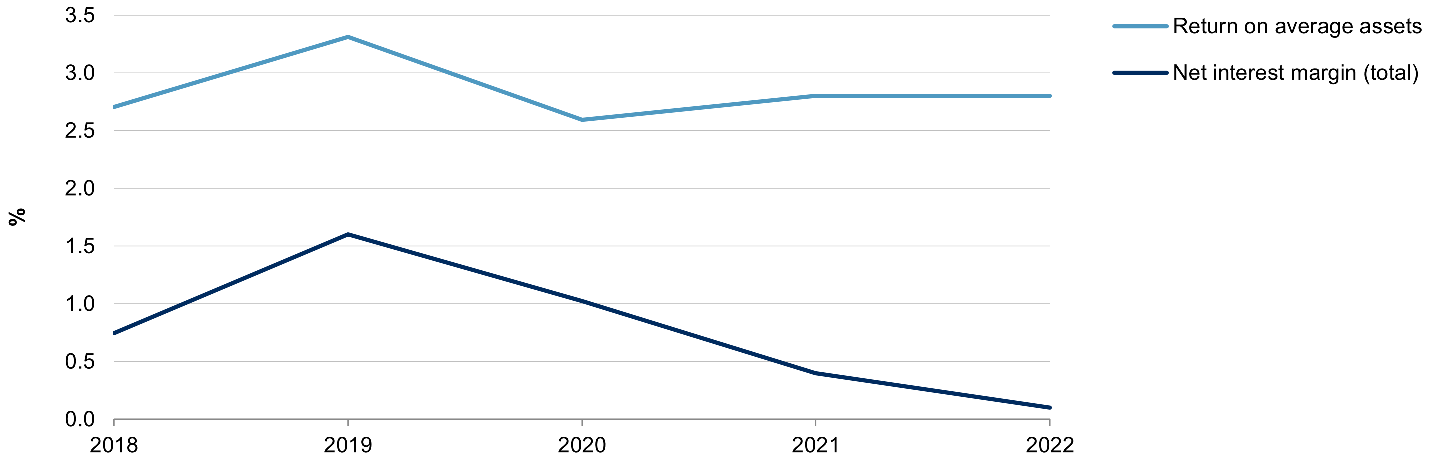
We view the relatively low-risk nature of DCHFA's debt profile to be a strength. DCHFA does not carry general obligation debt on its books. In fiscal 2022, DCHFA combined its 1996 and 2009 single-family indentures into the agency's 1988 indenture to save administrative costs and time. As a result, the agency's programs do not rely on general agency funds. The HFA's total debt outstanding was $278 million in fiscal 2022, representing a 1% decrease from fiscal 2021, after that fiscal year's 42% increase in debt to $280 million. Attributable to the decline is DCHFA's use of the to-be-announced (TBA) platform for single-family loans and the agency's focus on conduit issuances for multifamily business, which have no recourse to the agency. We do not include DCHFA's multifamily conduit program in our analysis, which is the agency's primary focus and vehicle for multifamily lending. The agency's participation in the conduit program aligns with its public purposes mission to provide affordable housing to residents of the greater District of Columbia. DCHFA will issue bonds, backed up Federal Housing Administration (FHA) risk-share loans, out of its multifamily resolution when the deal aligns with the HFA's strategic goals. The agency established its multifamily parity resolution in 2018, which primarily includes FHA risk-share loans. DCHFA issued approximately $47.8 million in bonds in fiscal 2020, which was offset by $49.9 million in redemptions. We view the creation of the resolution to be a prudent strategy that will help build the agency's asset base and create ongoing income.

Profitability

In fiscal 2022, DCHFA's net income increased 10.2% to $15.8 million from $14.4 million in fiscal 2021. The decline in net income is due to a 10% increase in other income mainly attributed to higher fee income related to DCHFA's multifamily business. ROA was 2.68% in fiscal 2022 with a five-year average of 2.8%, above our benchmark for the 'AA' rating category and ahead of that of peers. Conversely, the agency's NIM has lagged that of peers, with a five-year

average of about 0.8% compared with a five-year average of 1.2% for 'AA-' rated HFAs. Compared with similarly rated peers, DCHFA relies heavily on fee income; peer HFAs rely more on interest income from on balance-sheet assets.

Chart 2



Source: S&P Global Ratings.

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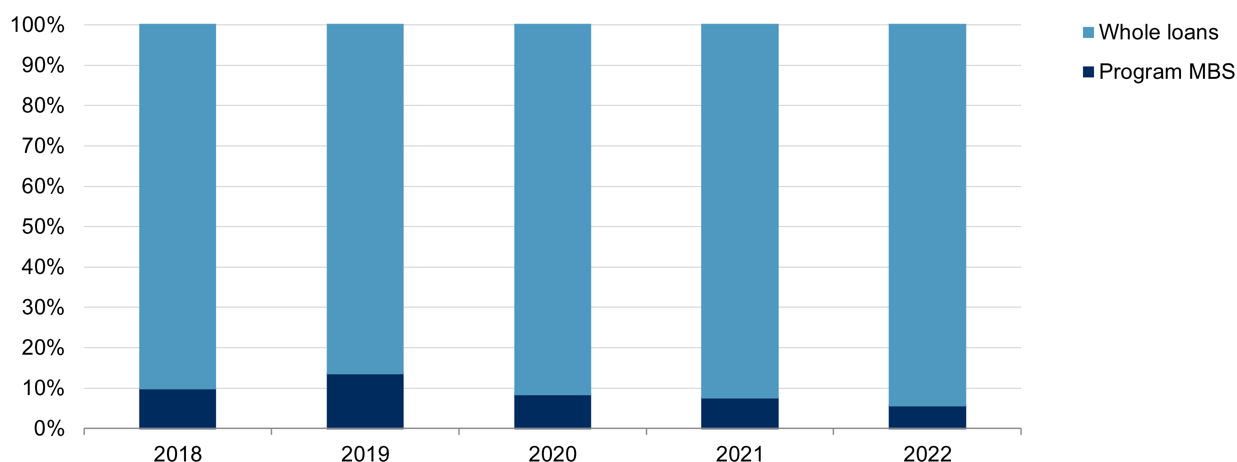
Asset quality

DCHFA's total assets fell to $548.3 million in fiscal 2022, down 6.5% from a fiscal 2021 high of $585.2 million. The decline in total assets is due to a 30% decrease in program MBS due to loan prepayments and a 24% fall in short-term investments attributed to a drop in investments held in trust.

Since fiscal 2021, DCHFA's program MBS have declined to $12.4 million from $17.6 million with whole loans, net also fell slightly to $206.2 million from $213.2 million. The percent of program MBS versus whole loans has remained relatively stable since 2020 due to DCHFA's use of the TBA MBS executions for its single-family programs, which do not stay on DCHFA's balance sheet. We view DCHFA's asset base as a credit strength based on its high-quality and low-risk characteristics.

Chart 3



MBS--Mortgage-backed securities. Source: S&P Global Ratings.

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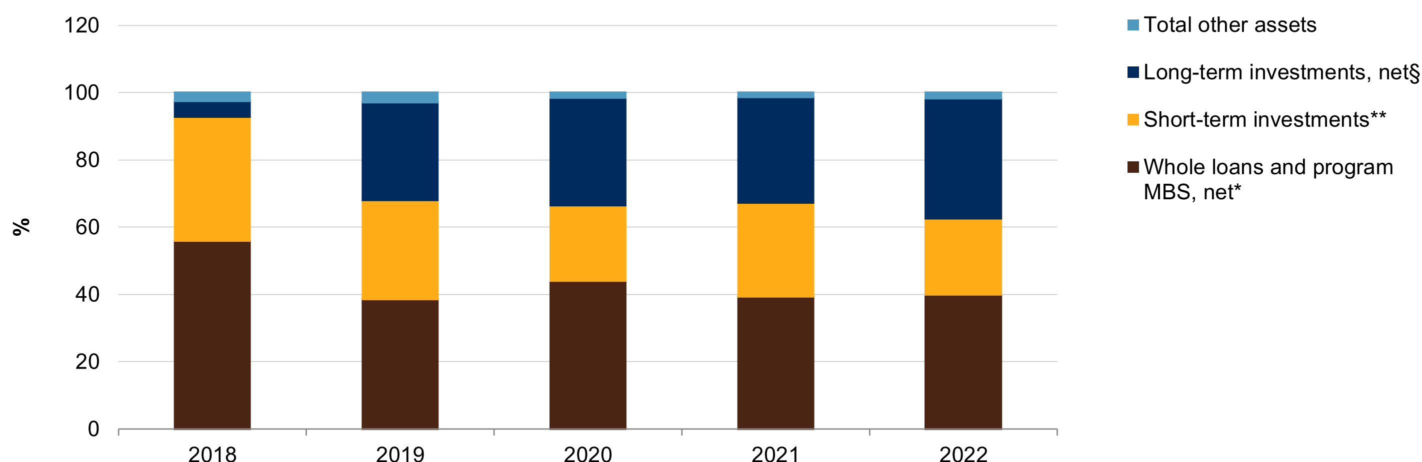
Because HFAs cannot levy taxes or raise user fees, the assessment of asset quality, in tandem with profitability, is of paramount importance in our evaluation of HFA creditworthiness. In our opinion, asset quality is very strong due the agency's low-risk investments and loan portfolio, which consists primarily of mortgages either insured by the government and private mortgage insurance providers or backed by Ginnie Mae, Fannie Mae, or Freddie Mac MBS. As all of the agency's loans are guaranteed, it does not maintain records of or report nonperforming assets. In addition, we view DCHFA's investment portfolio as generally low risk based on its composition including U.S. government securities, MBS, and highly rated corporate debt. We reviewed the amount of funds being invested, investment fund management policies, and operational guidelines. We find DCHFA's investment policies and management to be strong.

Liquidity

The agency, in our view, has strong liquidity to cover short-term financial needs. We consider asset liability management a primary mitigant to liquidity risk as the balance sheets of most HFAs consist of long-term obligations with maturity dates that are structured to match the maturities of long-term assets. Approximately 37.7% of DCHFA's total assets consisted of its loan portfolio, while 22.6% were short-term investments (including cash and cash equivalents) in fiscal 2022 (chart 4). DCHFA has strong access to external liquidity, which is demonstrated by its historical capital market access and a pre-established line of credit.

Chart 4

Liquidity And Investments As A Percentage Of Total Assets



*Whole loans and program MBS reported net of loan loss allowance. **Short-term investments including accrued interest receivable on investments and loans. §Long-term investments reported net of fair value adjustment. Source: S&P Global Ratings.

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Management

Despite DCHFA's relatively new executive leadership when compared with that of other HFAs, which often have long-tenured management teams, we view the agency's management team to be strong due to its sector experience and demonstrated proactive leadership. The agency is governed by five independent board members, currently with one vacant position--all appointed by the mayor of D.C.--who serve two-year terms. The autonomous nature and relatively new composition of the management team has, in our view, revitalized the agency's strategic initiatives to allow for the proactive development of programs in order to meet the HFA's mission and address the needs of its constituents.

In our opinion, the agency's relationship with the district government is strong given the current and historical partnerships with multifamily deals and the administration of the Home Purchase Assistance Program for the district's Department of Housing and Community Development. We consider management's ability to resolve difficult situations during its operating history as strong, evidenced by the agency's adaptation during the COVID-19 pandemic with few operational disruptions while maintaining its multifamily loan volume and changing single-family loan production volume as well as addressing employee retention given historic turnover and the current labor market.

Economy

As we noted in our analysis on D.C., published Feb. 27, 2023, on RatingsDirect, the D.C. employment mix reflects its unique nature, consisting of government, federal contractors and federal government-related employers, financial and other services, and tourism. D.C.'s economic metrics remain very strong and we expect continued growth across sectors given strong demand for housing and a robust employment environment.

D.C.'s seasonally adjusted unemployment rate was 4.7% in Feb. 2023, according to the U.S. Bureau of Labor and Statistics. Its population is expected to grow through 2026, which, in conjunction with projected employment growth, could lead to increased demand for housing in the near-to-medium term. Like the rest of the country, D.C. continues to have a high demand for affordable housing, which we view as a credit strength.

Table 1

Financial Ratio Analysis						
%	**2018**	**2019**	**2020**	**2021**	**2022**	**Five-year average**
Capital adequacy						
Equity/total assets	25.4	32.2	30.6	25.8	30.5	28.9
Net equity/total assets	23.1	29.2	26.3	22.2	27.5	25.6
Net equity/total loans	45.0	85.4	64.9	61.0	72.9	65.8
Net equity/total loans + MBS (loans)	40.5	73.8	59.4	56.3	68.8	59.8
Equity/total debt	39.4	62.2	69.3	53.9	60.0	57.0
Net equity/total debt	35.8	56.4	59.4	46.4	54.1	50.4
Available Liquid Assets/ total loans	23.2	49.2	38.8	21.8	26.5	31.9
Profitability						
Return on average assets	2.7	3.3	2.6	2.8	2.8	2.8
Net interest margin	0.7	1.6	1.0	0.4	0.0	0.8
Liquidity						
Total loans/total assets	50.3	33.2	40.4	36.4	37.7	39.6
Total loan + MBS (loans)/total assets	56.0	38.6	44.1	39.4	39.9	43.6
Short-term investments/total assets	36.8	29.4	22.5	27.8	22.6	27.8
Total investments/total assets	41.7	58.7	54.4	59.2	58.5	54.5
Total other assets/total assets	2.4	2.8	1.5	1.3	1.6	1.9

MBS--Mortgage-backed securities.

Table 2

Five-Year Trend Analysis ($000s)					
	2018	**2019**	**2020**	**2021**	**2022**
Total assets	440,245	390,730	446,664	585,218	547,294
% change	52.1	(11.2)	14.3	31.0	(6.5)
Total debt	283,730	202,187	197,298	280,284	278,002
% change	81.3	(28.7)	(2.4)	42.1	(0.8)
Total equity	111,681	125,855	136,715	151,071	166,893
% change	10.3	12.7	8.6	10.5	10.5
Total net equity	101,490	114,062	117,266	130,017	150,390
% change	6.1	12.4	2.8	10.9	15.7
Revenues	29,143	32,687	29,976	33,412	35,821
% change	8.5	12.2	(8.3)	11.5	7.2
Expenses	19,267	18,945	19,116	19,056	19,999
% change	12.8	(1.7)	0.9	(0.3)	4.9
Net income	9,876	13,762	10,860	14,356	15,822

Table 2

Five-Year Trend Analysis ($000s) (cont.)					
	2018	**2019**	**2020**	**2021**	**2022**
% change	(0.5)	39.4	(21.1)	32.2	10.2
Total program MBS and loans	246,332	150,747	197,126	230,750	218,575
% change	37.5	(38.8)	30.8	17.1	(5.3)

Table 3

Peer Comparison					
	2018-2022	**2017-2021**			
	DCHFA	**All 'AA-' HFAs**	**All 'AA' HFAs**	**All 'AA+' HFAs**	**All HFAs**
Profitabliity (%)					
Return on average assets	2.8	0.9	2.0	2.5	1.7
Net interest margin (total)	0.8	1.2	1.5	1.5	1.6
Capital adequacy (%)					
Total equity/total assets	28.9	21.6	33.9	41.3	31.6
Total net equity/total assets	25.6	18.2	26.6	35.9	26.4
Liquidity (%)					
Total loans/total assets	39.6	61.8	37.8	37.9	45.9

HFA--Housing finance agency.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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