S&P Global
Ratings

RatingsDirect®

District of Columbia Housing Finance Agency; General Obligation

Primary Credit Analyst:
Aulii T Limtiaco, San Francisco (1) 415-371-5023; aulii.limtiaco@spglobal.com

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

Table Of Contents

Rationale

Outlook

Earnings Quality And Financial Strength

Asset Quality

Debt Obligations

Investments

Management and Strategy

Economy

District of Columbia Housing Finance Agency; General Obligation

Credit Profile		
District of Columbia Housing Finance Agency Issuer Credit Rating		
Long Term Rating	A+/Stable	Upgraded

Rationale

S&P Global Ratings raised its issuer credit rating (ICR) to 'A+' from 'A' on the District of Columbia Housing Finance Agency (DCHFA, or the agency). The outlook is stable.

The rating action reflects our view of DCHFA's:

- Five-year average financial ratios, after adjustment to exclude nonrecourse programs, that are in line with housing finance agencies (HFAs) in higher rating categories--specifically the S&P Global Ratings-adjusted equity-to-total assets ratio of 25.8%;
- Low-risk asset base, 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 mortgage-backed securities (MBS);
- Lack of general obligation (GO) debt exposure; and
- Planned strategic initiatives to increase the agency's asset base and lending programs.

Partly offsetting the above strengths, in our opinion, are DCHFA's low capitalization relative to that of other rated housing finance agencies (HFAs), and small asset base, which may be vulnerable to losses during market downturns.

DCHFA's improved equity compared with that of other 'A+' rated HFAs supports its financial strength. The agency's revenue continues to increase, primarily as a result of an increase in interest income on mortgage and construction loans, as well as increased project revenue in the multifamily program. Net income dipped nominally in fiscal 2018 by 1.3%, primarily as a result of increases in interest expense and general administrative costs, which exceeded the 31.3% revenue increase. The agency's total equity grew by more than 7% to $116.3 million in fiscal 2018 from $107.2 million in fiscal 2017, and its S&P Global Ratings-adjusted equity-to-assets ratio was strong, in our opinion, at 24.7% in fiscal 2018, in line with the five-year average of 25.8%. While generally, DCHFA's financial strength and rising equity are comparable with those of higher-rated peers, we believe that other qualitative factors contribute to the rating. DCHFA has experienced more frequent management turnover than other rated HFAs have, but in recent years it has stabilized its executive strategy, which we will continue to observe.

Outlook

The stable outlook reflects our view of a combination of DCHFA's high profitability and equity ratios relative to peers

as well as its experienced but relatively new management and strategic initiatives. We believe DCHFA's strategic initiatives will lead to stabilized financial ratios at or around the current levels, after adjustment for the agency's nonrecourse programs. While the agency's equity, profitability, and liquidity ratios are more in line with those of the 'AA-' rated HFAs, many of its strategic initiatives that could be favorable to the agency are still in preliminary stages. We will continue to monitor the agency's strategic direction given its relatively new executive management team.

Upside scenario

If the DCHFA's financial ratios continue to improve, positively affecting its capital and financial strength, combined with effective implementation and maintenance of the agency's strategic initiatives, specifically the growth of the agencies on-balance-sheet programs, we could raise the rating.

Downside scenario

A severe decline in financial performance or downturn in management and strategy could lead us to lower the rating. Given DCHFA's revised financial ratios reflecting the adjustment of nonrecourse programs, negative rating action is unlikely during the outlook period.

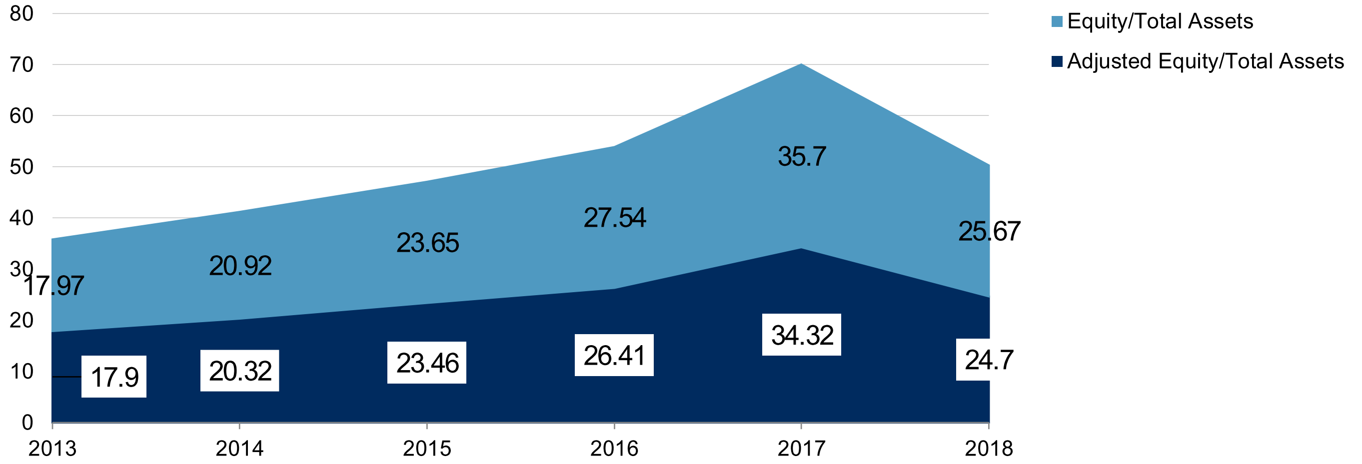
Earnings Quality And Financial Strength

DCHFA experienced growth in both its asset and equity bases in fiscal 2018. The agency's equity, after adjustment for the agency's nonrecourse programs, totaled $113.4 million in fiscal 2018, up 8% from $107.3 million in fiscal 2017. The agency experienced 51% growth in assets in 2018, after five consecutive years of declines. We view this as a step toward building the agency's balance sheet and improving its capitalization. Programmatically, the agency has also taken some steps to shore up its asset base through the establishment a new multifamily parity resolution in 2018 and pursuit of more single-family strategic initiatives such as revising its down payment assistance program.

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, after adjustment for nonrecourse programs, is 25.8%, which is higher than that of peers in the 'A' category and some 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. The agency's profitability ratio, as measured by return on average assets, is also stronger than that of peers at 2.5% on average for the past five years. Both ratios are higher than those of peers in the 'A' and 'AA-' categories, but the agency is by far the lowest capitalized of those we rate, and nonrecourse assets, which we have excluded from our analysis, make up the majority of its asset base. We attribute the high ratios mainly to the agency's small asset base, relative to net income and equity, but acknowledge that its profitability trends have been positive over the past five years, despite a dip in 2018 resulting from an increase in assets.

Chart 1

District of Columbia Housing Finance Agency Equity/Total Assets Vs. Adjusted Equity/Total Assets (%)

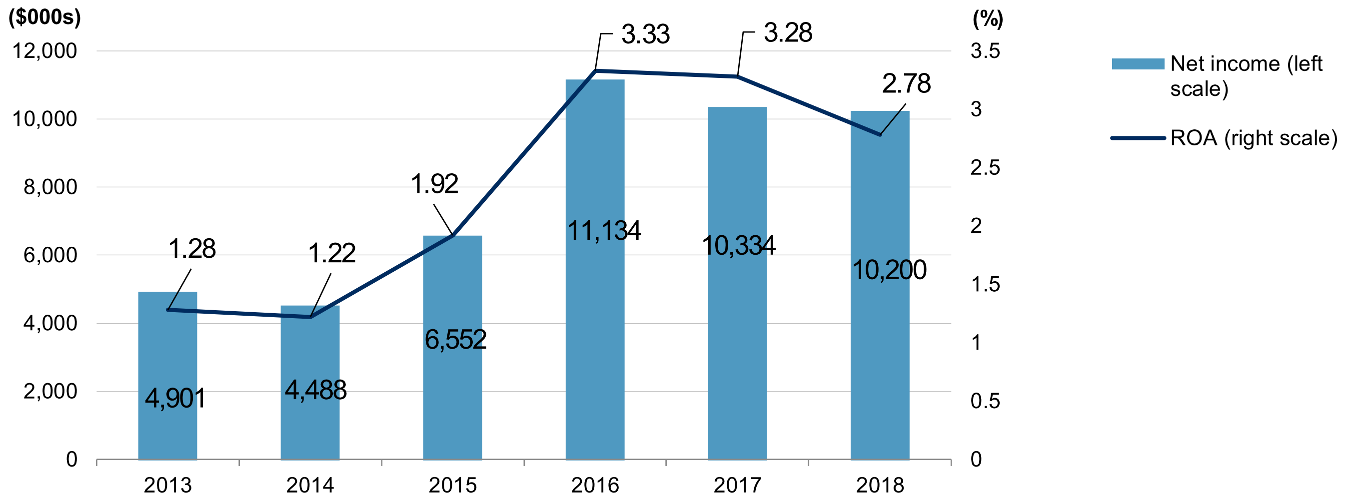


Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

Net income has primarily reflected the agency's multifamily program and financing/annual administration fees in the general fund. Audited net income dipped in fiscal 2018, by 12.7%, but after adjustment for fair value it decreased by only 1.3%.

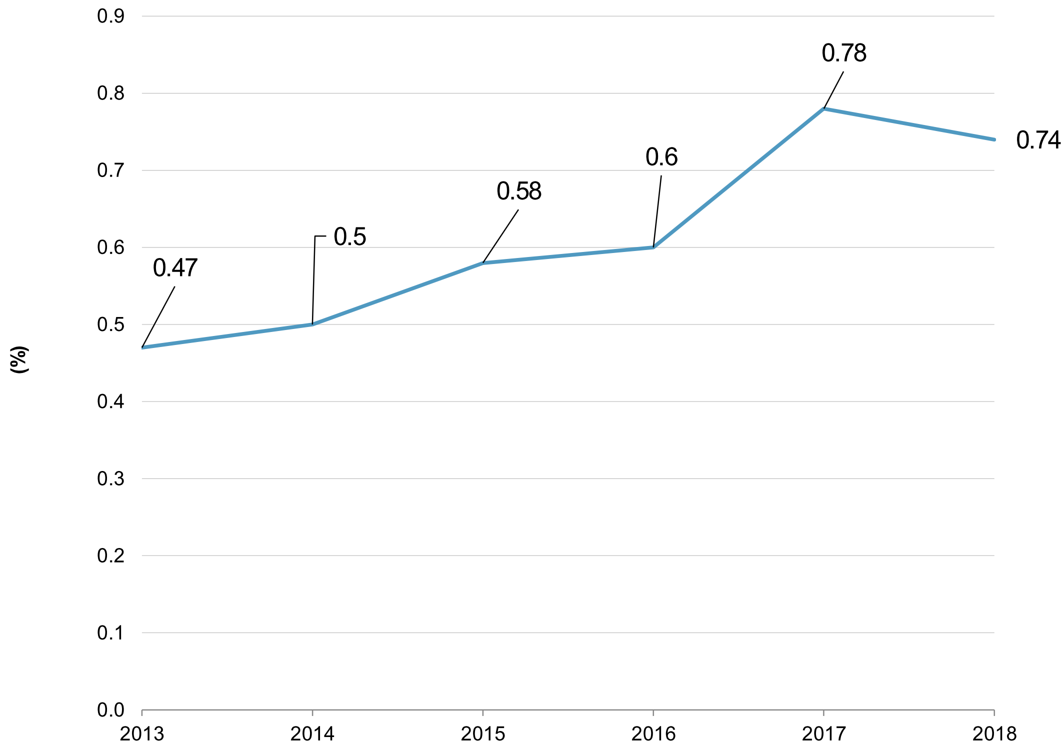
Interest income from investments has declined significantly in the past five years by 41.4%, but interest income from loans has improved by 5.2%. We view this increase as a positive trend and a reflection of growing lending programs. However, over 70.0% of the agency's income is noninterest income, which grew by 164.4% in the past five years and has been the primary driver for the agency's financial stability. While HFAs have seen a shift in revenue to noninterest income since the financial crisis, this proportion is higher than that of other rated HFAs that have active on-balance-sheet lending programs. We expect that the agency's boost in on-balance-sheet lending in fiscal 2018 and its strategic initiative to increase on-balance-sheet multifamily and single-family lending will shift the ratio to interest income over time.

Chart 2



Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 3



Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

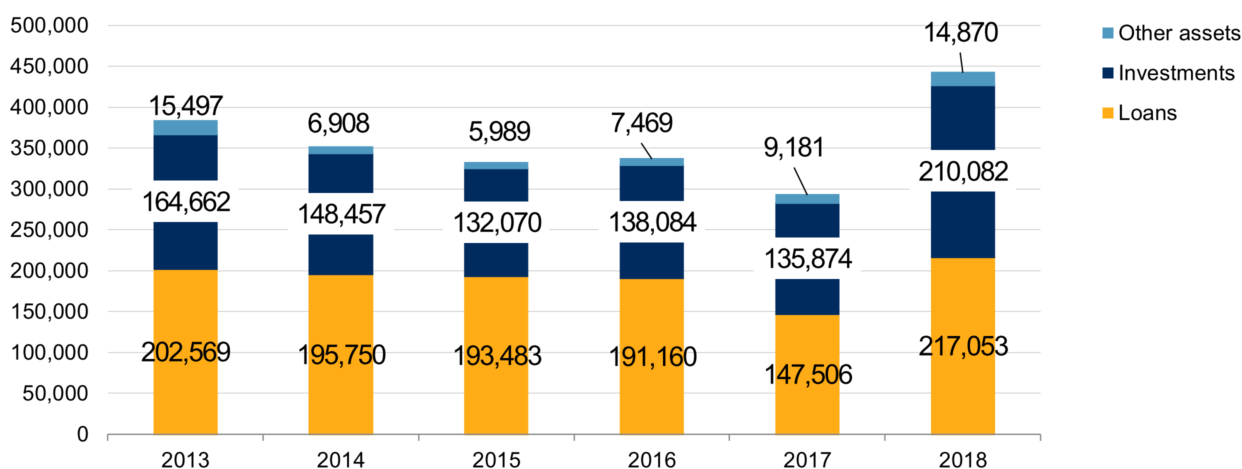
Furthermore, the agency's five-year average liquid assets are 29.3% of mortgage loans outstanding and the agency has a good liquidity ratio of 54.1% total loans to total assets, indicating sufficient available resources in the event of immediate liquidity needs; these compare favorably with those of other state HFAs, in our view.

Asset Quality

DCHFA's asset base increased significantly in fiscal 2018, totaling $442.8 million, after excluding nonrecourse program loans, up 51.08%. The increase was mainly due to an increase in mortgage and construction loans of 47.93%. We view the quality of the agency's assets as strong, given their low-risk nature and government guarantees.

As of fiscal 2018, DCHFA's asset portfolio consisted of mortgage loans and MBS enhanced by Ginnie Mae, Fannie Mae, and Freddie Mac (49%), investment securities (48%), and other assets (3%). As all of the agency's loans are guaranteed, it does not maintain records of or report nonperforming assets.

Chart 4



Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

DCHFA has three 'AA+' rated single-family parity resolutions (1988, 1996, and 2009 New Issue Bond Program) with strong asset-to-liability ratios of 1,049%, 246%, and 115%, respectively. The agency's 1988 resolution is in runoff, and its 1996 resolution has not originated new loans or issued debt in several years, contributing to the indentures' unusually high parity ratios. According to the agency, issuance under the 1996 resolution may be planned in the latter half of 2019. Since the Great Recession, all of the agency's single-family production has been funded through the to-be-announced platform. On the multifamily program side, in fiscal 2018, the agency started a multifamily parity resolution, to boost on-balance-sheet lending activity. While we do not rate the resolution, its initiation is, in our view, a favorable strategic move for the agency, which has historically done mostly conduit (nonrecourse) multifamily issuance.

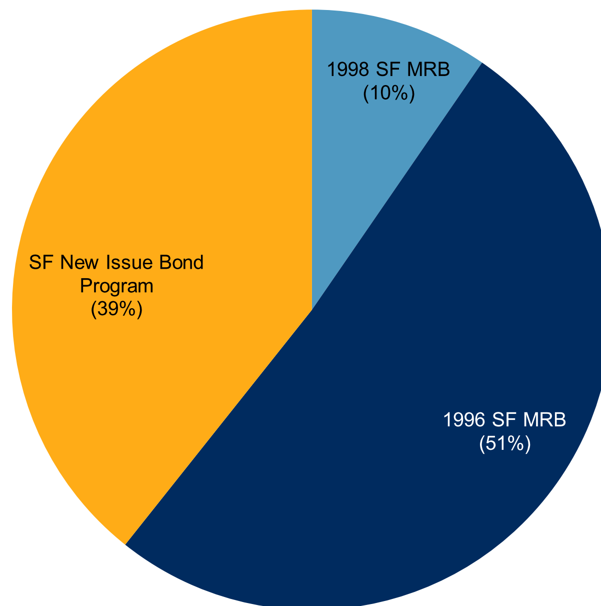
Debt Obligations

DCHFA does not carry GO debt on its books. In fact, all of its active bonding programs carry stand-alone ratings that are higher than the ICR, and we attribute this to the strength of the pledged collateral and stability and the resolutions' performance. As a result, the agency's programs do not rely on general agency funds.

As of Sept. 30, 2018, DCHFA's total debt, after adjustment for nonrecourse obligations, was $283.7 million, up 81% from the previous fiscal year and a departure from the downward trend that began in fiscal 2013. Prior to fiscal 2018, DCHFA experienced a decline in total debt as a result of a continued increase in conduit issuances. These issues have no recourse to DCHFA and therefore are netted out in our total figures. While we do not include conduit balances in our financial analysis, and we do not believe they strengthen the agency's financial endurance, participation in these programs does align with and support the agency's public purposes mission to provide affordable housing to residents of the greater District of Columbia. Conduit issuance increased 7.9% in fiscal 2018 and has increased 98.1% from what it was in 2014. The agency has had no certificates of participation (COPs) outstanding since 2014. The breakdown of the agency's debt, excluding nonrecourse programs, is as follows.

Chart 5

District of Columbia Housing Finance Agency Debt Summary As Of Sept. 30, 2018



Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

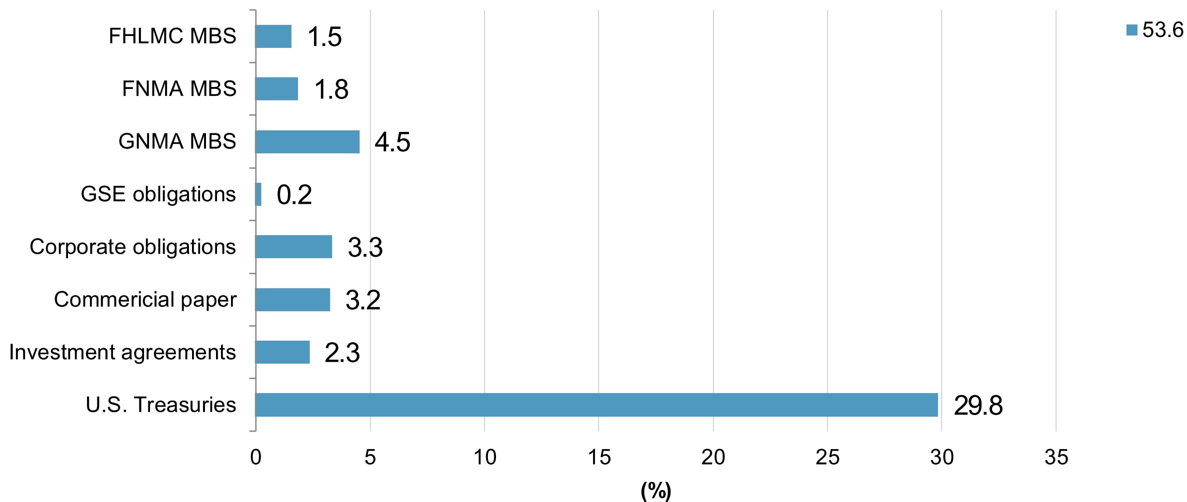
Investments

DCHFA has a conservative and prudent investment policy, in our opinion. The policy requires general fund investments to be investment grade and approved by the agency's investment committee. Trust indenture covenants govern the investment and flow of funds from bond issuance. After adjustment for nonrecourse loans, the agency's portfolio totaled $210.1 million as of fiscal year-end 2018, a significant increase (54.6%) from the $135.9 million in 2017. DCHFA holds approximately 53.6% of its cash and investments in cash and equivalents, 29.8% in U.S. Treasuries, 7.7% in agency MBS, and the remaining 9.0% in investment agreements and corporate obligations.

Excluding the nonrecourse programs, the agency has seen increasing amounts of short-term investments coupled with relative decreases in long-term investments held over the past few years, contributing to the agency's favorable liquidity position as previously discussed. As of fiscal 2018, short-term investments made up 76.4% of total investments, whereas in fiscal years 2016 and 2017 this figure was 68.8% and 73.4%, respectively. However, in fiscal 2018 total investments fluctuated significantly to $210.1 million, a 55.2% jump, from the 2015-2017 average of $135.3 million. Interest income from investments as a percentage of revenue was 6.5% for fiscal 2018; this was down from 9.3% in fiscal 2017.

Chart 6

District of Columbia Housing Finance Agency Investment Portfolio As Of Sept. 30, 2018



Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

Management and Strategy

Compared with other HFAs, which often have long-tenured leadership, DCHFA has executive management that is relatively new to the organization. While experienced in the sector, most of the executive leadership team has been at the agency for less than five years. Prior to 2016, the agency was under interim leadership for several years. The

agency has seen turnover at the board level as well. A five-member board of directors, appointed by the mayor, confirmed by the Council of the District of Columbia, and serving two-year terms, governs DCHFA.

Notwithstanding the volatility in management in the past five years, the new executive team--including the CEO, chief operating officer, and chief financial officer--brings significant experience in direct or related roles, along with renewed energy, strategic initiatives, and focus to revitalize the agency's programs. In March 2019, the agency created a chief operating officer position, which was filled by an individual with experience at other HFAs and Fannie Mae. The executive team has begun to pursue a variety of strategic initiatives aimed at bolstering the agency's capital base, diversify its programs and boost production, enhance profitability and earnings stability, and increase opportunities to foster partnerships and focus on business lines. Actions being taken to achieve these initiatives include establishing a multifamily parity resolution, investing in systems upgrades and technology infrastructure, and looking for ways to establish sustainable revenue streams for the longer term.

Historically, DCHFA has relied heavily on developer, realtor, and lender relationships to meet its mission of providing affordable housing. The agency's leadership has recently shifted focus to multifamily lending using its FHA risk share program when possible, versus conduit financing, though, as discussed throughout this report, conduit financing remains a large part of the agency's overall portfolio compared with other HFAs and the agency continues to have a strong transaction pipeline related to nonrecourse projects. In fiscal 2018, DCHFA expanded its FHA risk share program to include 90/10 risk share transactions. The agency has also recently pursued multifamily development for senior and workforce housing, and last year established an asset management division. As most of the agency's multifamily lending has taken place off the balance sheet historically, we view the creation of the multifamily resolution and the reactivation of the single-family program as positive and proactive steps toward strategically improving the programs and asset base.

DCHFA has a strong relationship with the district government, in our opinion. Overall, according to the D.C. Fiscal Policy Institute, total funding for affordable housing is expected to be $217.4 million for 2019, an $8.4 million, or 4%, increase from the 2018 approved budget. According to management, in May 2019, the mayor signed an order stating the district's goal of producing 36,000 new housing units with 12,000 of them affordable by 2025.

Economy

The Washington, D.C., metro area economy consists of large government and professional services sectors that employ an above-average percentage of people in the district. The former makes up 21% of the district's employment and the latter 24%.

As of April 2019, Washington D.C., has seen growth in six of its 10 sectors. The top-performing sectors include leisure and hospitality and professional and business services, which grew at 4.5% and 2.1%, respectively, when compared with the prior-year period. However, other sectors such as financial activities and trade, transportation, and utilities have declined by 1% and 0.9%, respectively. Overall, district unemployment as of April 2019 was 5.6%, which was above the national average of 3.6%.

The Washington, D.C., metro area is expected to decelerate with the rest of the nation after 2020. Total payroll growth

is expected to grow at 0.9% annually through 2024--an exception being government payrolls, which are projected to increase at an average of 0.5% annually.

According to IHS Markit, total private housing starts have remained constant at around 25,000 from 2014-2018, but are projected to increase to 27,629 in 2019. Average home prices increased consistently at around 2% to 3% each year from 2014 to 2018--an exception being 2015, which saw a slight, 0.4% increase. IHS also predicts these figures will grow, projecting an increase of 3.4% for 2019 and 3.5% 2020. While we believe the improvement in the housing market and increased supply bode well for the agency, affordability remains a challenge with consistently increasing home prices.

Table 1

District of Columbia Housing Finance Agency -- Financial Ratio Analysis						
	2014	**2015**	**2016**	**2017**	**2018**	**Five-year average**
Leverage (%)						
Total equity/total assets	20.92	23.65	27.54	35.70	25.67	26.69
Adjusted equity/total assets	20.32	23.46	26.41	34.32	24.70	25.84
Total equity/total debt	29.05	35.60	44.21	66.74	39.98	43.12
Adjusted total equity/total debt	28.21	35.33	42.38	64.16	38.49	41.71
Profitability (%)						
Return on average assets	1.22	1.92	3.33	3.28	2.78	2.51
Return on average equity	6.31	8.63	13.01	10.48	9.36	9.56
Net interest margin	0.50	0.58	0.60	0.78	0.74	0.64
Liquidity (%)						
Total loans/total assets	55.75	58.36	56.77	50.42	49.11	54.08
Total investments/total assets	42.28	39.84	41.01	46.44	47.53	43.42

Table 2

Five-Year Trend Analysis ($000s)						
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Total assets	382,729	351,115	331,542	336,713	292,561	442,005
% change	0.28	-8.26	-5.57	1.56	-13.11	51.08
Total debt	285,011	252,856	220,209	209,789	156,484	283,730
% change	-10.3	-11.28	-12.91	-4.73	-25.41	81.32
Total equity	68,789	73,458	78,396	92,737	104,436	113,441
% change	147.83	6.79	6.72	18.29	12.61	8.62
Revenues	29,230	22,663	22,763	26,755	29,681	38,967
% change	-13.08	-22.47	0.44	17.54	10.93	31.29
Net income	4,901	4,488	6,552	11,134	10,334	10,200
% change	-41.37	-8.43	46.01	69.91	-7.18	-1.30
Total loans	202,569	195,750	193,483	191,160	147,506	217,053
% change	2.77	-3.37	-1.16	-1.20	-22.84	47.15
Nonperforming assets	-	-	-	-	-	-
% change						-

Table 2

Five-Year Trend Analysis ($000s) (cont.)						
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Loan loss reserves	-	-	-	-	-	-
% change						-

Table 3

Peer Comparison						
	District of Columbia Housing Finance Agency	**District of Columbia Housing Finance Agency**	**All 'AA' rated entities**	**All 'AA-' rated entities**	**All 'A+' rated entities**	**All rated entities**
	2014-2018	**2013-2017**	**2013-2017**			
Leverage (%)						
Total equity/total assets	26.69	25.16	28.05	20.64	14.90	27.53
S&P Global Ratings-adjusted equity/total assets	25.84	24.48	21.41	6.85	9.89	18.07
S&P Global Ratings-adjusted equity/total debt	41.71	38.82	52.65	13.92	20.99	38.67
Profitability (%)						
Return on average assets	2.51	2.21	0.97	1.12	1.36	1.04
Return on average equity	9.72				1.16	
Net interest margin	0.64	0.59	1.26	1.38	1.02	1.46
Asset quality (%)						
NPAs/total loans and real estate owned	N/A	N/A	3.14	3.94	4.10	3.36
Loan loss reserves/total loans	N/A	N/A	4.30	3.20	0.58	4.38
Loan loss reserves/NPAs	N/A	N/A	144.40	201.62	14.45	258.18
Liquidity (%)						
Total loans/total assets	54.08	54.85	70.23	64.23	57.83	67.33

NPA--Nonperforming asset.

Copyright © 2019 by Standard & Poor’s Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor’s Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an “as is” basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P’s opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR’S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor’s Financial Services LLC.