FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades Illinois Housing Development Authority's IDR to 'AA'; Outlook Stable

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Fitch Ratings - New York - 19 Apr 2023: Fitch Ratings has upgraded Illinois Housing Development Authority's (IHDA) Issuer Default Rating (IDR) to 'AA' from 'AA-'.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Illinois Housing Development Authority (IL) [General Obligation]	LT IDR	AA Rating Outlook Stable	Upgrade	AA- Rating Outlook Positive
Illinois Housing Development Authority (IL) /Issuer Default Rating/1 LT	LT	AA Rating Outlook Stable	Upgrade	AA- Rating Outlook Positive

VIEW ADDITIONAL RATING DETAILS

The upgrade of the IDR to 'AA' reflects IHDA's strengthened asset quality, with continued increases in the mortgage-backed securities (MBS) and multifamily FHA risk-share loan portfolios, combined with the authority's continued strong profitability and low leverage ratios. As of FY 2022, programmatic MBS comprised over 69% of IHDA's total outstanding loan balance and 92% of the single-family loan portfolio (compared to 55% of the single-family loan portfolio in FY 2017).

This percentage will continue to increase with IHDA's single-family new origination program focused on the purchase of MBS with the whole loan portfolio in run-off mode. Ginnie Mae, Freddie Mac and Fannie Mae guarantee the full and timely payment of principal and interest on the MBS regardless of actual performance of the underlying loans, minimizing the amount of potential losses from the loan portfolio.

The upgrade and IDR also reflect the authority's profitability, as reflected in a consistently high net interest spread with a five-year average of 59%. IHDA's loan programs provide the bulk of operating revenue for the authority. The percentage of operating revenue from investments, which include MBS, has averaged 72% over the past five years. Additionally, IHDA's debt to equity (DTE) is low at 2.3x as of FY 2022, and IHDA's debt is primarily fixed rate (84%), presenting minimal interest rate/ counterparty risk. Though there was an increase in overall GO exposure in FY 2022, the growth was from FHA risk-share multifamily indenture loans, and the non-bond financed GO exposure declined. IHDA's net operating income has averaged $41 million over the past five years, and unrestricted administrative fund net assets remain sufficient to support the general obligation exposure.

SECURITY

IHDA's GO debt pledge is backed by a full faith and credit pledge of its administrative fund.

KEY RATING DRIVERS

STRONG ASSET QUALITY IN LOAN PROGRAMS - 'aa': As of fiscal 2022, IHDA's single family loan portfolio was comprised of 92% MBS and 8% whole loans. Asset quality has continued to strengthen as the MBS portion of the portfolio increases. The multifamily bond program with uninsured loans that is supported by IHDA's GO pledge maintains sufficient levels of overcollateralization to support the program without the use of general funds, even when considering the potential for increased non-rental payment rates. None of the three single-family programs is a GO of IHDA, and all have sufficient levels of overcollateralization to remain self-supporting and address any risk of the loan portfolio.

As of Dec. 31, 2022, the multifamily delinquency rate was 0.34% and only one multifamily loan entered, and has since exited, forbearance since the onset of the pandemic. The single-family whole loan delinquency rate as of the same date was 2.96%, steady from a year prior, and reflective of a diminishing portion of the total loan portfolio as new originations have all been securitized into MBS. The increase in FHA risk share loans in fiscal 2022 was limited to the indenture programs and the non-bond financed risk exposure decreased by 6% from fiscal 2021 to fiscal 2022. There has only been one loss to date (10 years ago) on a risk-share project with a 50/50 risk-share split and total loss amount of $4.5 million.

CONTINUED GROWTH IN OPERATING PERFORMANCE - 'aa': The rating reflects strong profitability. In recent fiscal years, IHDA has continued to report operating profits, as reflected in the net interest spread (NIS) and net operating revenues as a percentage of total revenues. In fiscal 2022, NIS was 50%, below the five-year average of 59% but significantly higher than the fiscal 2021 median NIS of 34% for 51 Housing Finance Agencies (HFAs). IHDA has a strong and responsive management team with significant affordable housing experience and a successful history of administering both single family and multifamily programs.

STRONG FINANCIAL PROFILE - 'aa': Though the authority's net asset position declined in fiscal 2022 to $847 million from $904 million in fiscal 2021, the decrease was primarily related to a fair market adjustment of $139 million, offset by a net gain in the sale of investments of $49 million. This unrealized loss does not impact the cash flow profitability or the building of equity of the bond programs. IHDA reported a net operating income (before fair market adjustments) of $29 million in fiscal 2022, and a five-year average net operating income of $41 million.

The authority's DTE ratio increased slightly to 2.3x in fiscal 2022 from 1.9x in fiscal 2021 but remains below the fiscal 2021 median DTE of 2.6x for 51 HFAs. Management maintains conservative investment strategies as evidenced by IHDA's high credit quality investments and sufficient reserve levels. IHDA's unrestricted general fund assets increased in fiscal 2022 to $324 million from $279 million in the prior fiscal year and remain sufficient to support the general obligation commitments.

Asymmetric Additional Risk Considerations

There are no asymmetric risk factors that constrain the rating.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The rating is sensitive to deterioration in IHDA's financial performance. Should profitability ratios decline over time, the negative impact on IHDA's GO assets and overall financial position may result in negative pressure on the GO rating.

A DTE ratio consistently above 4.0x to 7.0x may weaken the authority's financial profile in conjunction with other stresses, such as program losses over a prolonged period;

Significant increases to the GO exposure in the non-bond financed programs could put additional pressure on the rating.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Additional declines in the GO exposure for both the bond programs and non-bond financed programs, combined with continued strengthening of the asset quality, profitability and leverage ratios, would be viewed as a credit positive.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

PROFILE

IHDA was created by the state legislature in 1967 as a self-supporting agency to finance the creation and preservation of affordable housing across Illinois. IHDA provides low-cost financing programs and financial assistance for homeownership, multifamily rental housing and community building. Since its creation, IHDA has provided more than $20 billion to finance more than a quarter million affordable homes.

The upgrade reflects IHDA's strengthened asset quality and continued strong financial profile and operating performance. IHFA's asset base has trended to an increasing percentage of MBS on the single-family side and FHA risk-share loans on the multifamily side, thereby reducing the authority's overall exposure to losses on loans. MBS are the main component of IHDA's investment base, and the percentage of programmatic MBS has steadily increased over a five-year period from 39% of total program loans in fiscal 2018 to 69% in fiscal 2022.

The authority's fiscal 2022 financial position and capital base have demonstrated positive five-year trends. NIS, a key measurement of profitability, averaged 59% over a five-year period. Additionally, DTE has remained very low with a five-year average of 1.9x. Increased FHA risk share loans in fiscal 2022 were limited to the indenture programs and the non-bond financed risk exposure decreased by 6% from fiscal 2021 to fiscal 2022. Administrative fund unrestricted net assets increased in fiscal 2022 and are sufficient to support IHDA's general obligation commitments.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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APPLICABLE CRITERIA

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 01 Sep 2021) (including rating assumption sensitivity)

U.S. Housing Finance Agencies: General Obligation Rating Criteria (pub. 05 Jan 2023) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

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