S&P Global
Ratings

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Illinois Housing Development Authority; General Obligation

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Illinois Housing Development Authority; General Obligation

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Illinois Hsg Dev Auth ICR		
Long Term Rating	AA/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its issuer credit rating (ICR) to 'AA' from 'AA-' on the Illinois Housing Development Authority (IHDA).
- The outlook is stable.
- The rating action reflects our opinion of IHDA's strengthening asset base, financial ratios that are consistent with those of higher-rated peers, and very strong and stable management.

Security

An ICR reflects our view of the obligor's general creditworthiness, focusing on its capacity and willingness to meet financial commitments as 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 ICR reflects our view of IHDA's:

- Strong and stable capital adequacy position, demonstrated by a five-year average total-equity-over-total-assets ratio of 30.8%, stronger than that of similarly rated peers;
- Solid financial performance as is evident in a five-year average return-on-assets (ROA) ratio of 2.0%, stronger than that of similarly rated peers;
- Significant improvement in nonperforming assets (NPAs) to 2.2% in fiscal 2022, with the five-year average ratio at 3.0% compared with 4.0% five years prior;
- Robust liquidity, reflected by a five-year average short-term-investments-to-total-assets ratio of 31.7%; and
- Very strong and stable management, guided by detailed strategic plans, initiatives, and policies.

Environment, social, and governance

In our opinion, IHDA's programs exhibit social capital opportunities reflecting the authority's mission to finance the creation and preservation of affordable housing throughout the state. We think the need for affordable housing in Illinois will continue fueling demand for IHDA's programs, affecting its financial strength analysis. We view environmental, governance, and social risks as having a neutral influence on our analysis.

Outlook

The stable outlook reflects our expectation that IHDA's financial ratios will remain comparable with those of similarly rated peers, as well as our expectation that IHDA's weaker metrics, such as NPAs, will continue to improve along with the shift to a lower-risk lending portfolio.

Downside scenario

Although such a scenario is unlikely during the outlook period given IHDA's average financial ratios compared with those of lower-rated peers, we could consider a negative rating action if IHDA's whole loan portfolio experienced an uptick in NPAs, leading to a decline in asset quality. Similarly, should IHDA's profitability or capital adequacy ratios deteriorate such that it trends more in line with lower-rated peers, we could consider a negative rating action.

Upside scenario

We could take further positive rating action if the authority's equity, capital adequacy, and profitability ratios further strengthen to a level on par with that of higher-rated peers, and if its NPAs-to-total-loans ratio declined to a level below our benchmarks for the rating category.

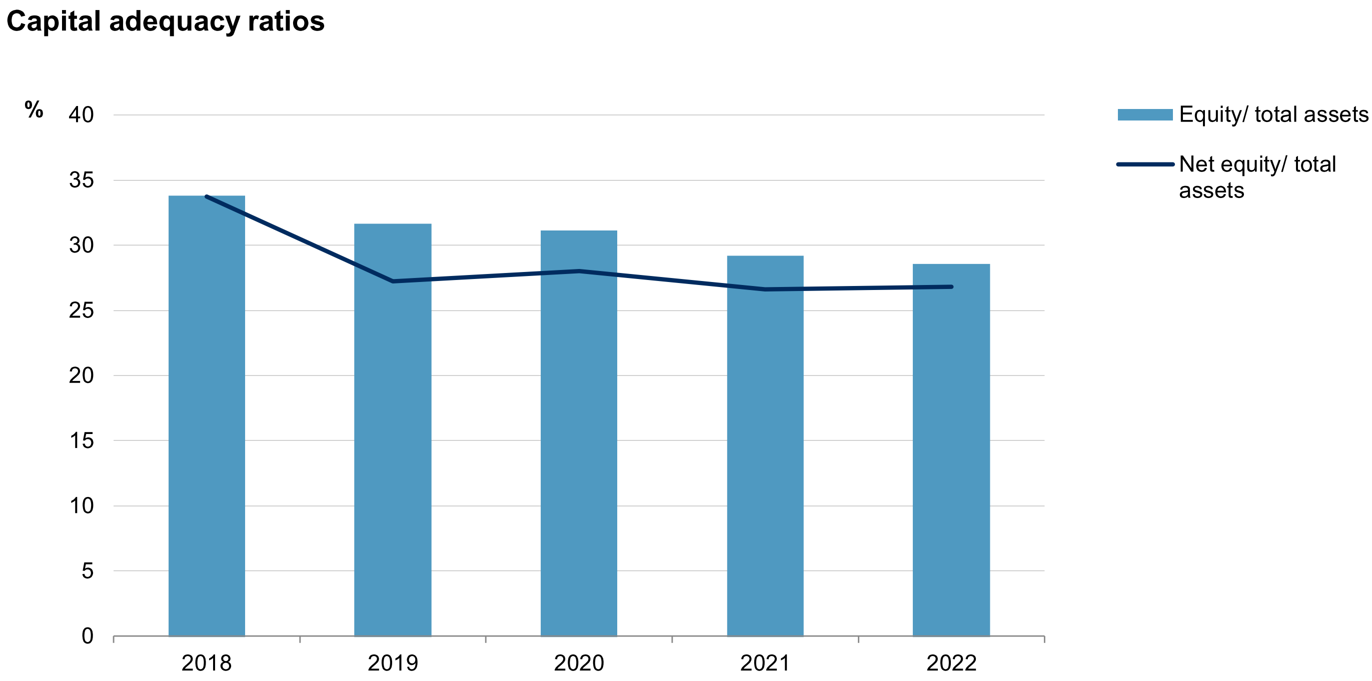
Credit Opinion

Financial Strength

Capital adequacy

We consider IHDA very well capitalized, with very strong capital adequacy and debt load ratios. IHDA's five-year average equity to total assets and net equity to total assets have stabilized at around 31% and 27%, respectively. These levels exceed our benchmarks for the 'AA' category as well as the five-year HFA averages of 30.7% and 25.3%.

Chart 1



IHDA's net equity (after S&P Global Ratings' adjustments) was, in our view, very strong at $856 million at June 30, 2022, up from $757 million the previous year. The net-equity-to-total-assets ratio remains what we consider strong, stable, and among the highest of similarly rated housing finance agencies at 26.8% in fiscal 2022, which is nominally higher than in fiscal 2021. At June 30, 2022, IHDA reported approximately $1.9 billion of debt outstanding, a consecutive year-over-year increase of 13%, but increases in equity and net equity led to largely unchanged equity-to-debt and net-equity-to-debt ratios.

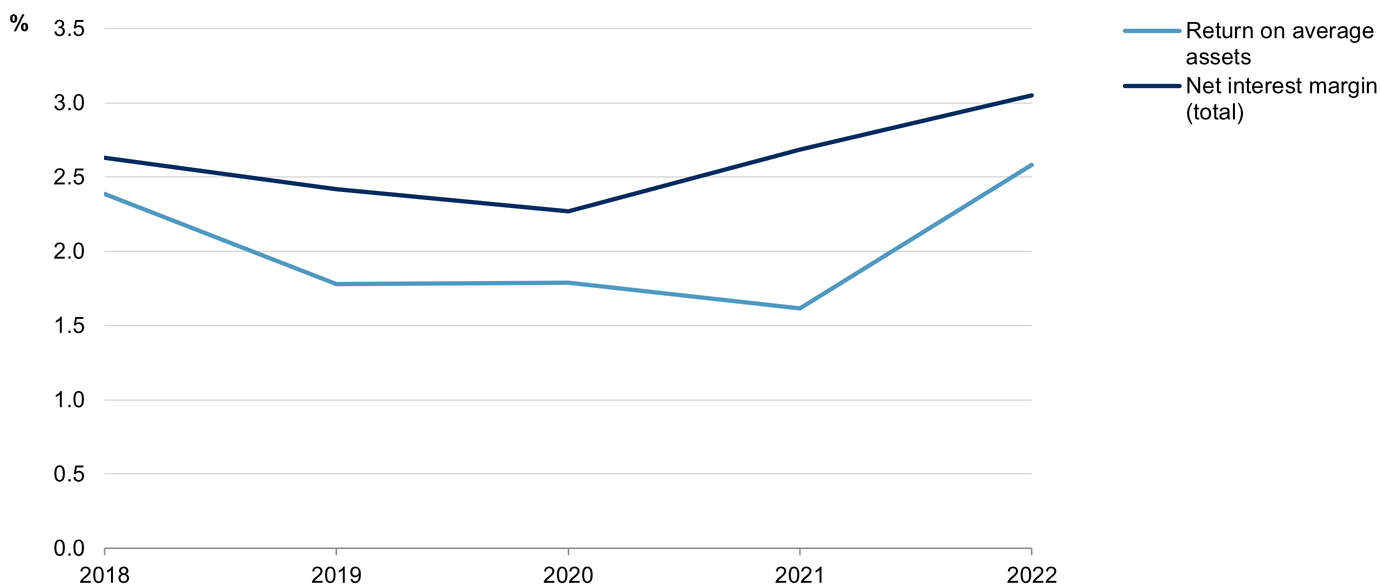
In addition, in our view, IHDA's contingent liability position is immaterial. It has no exposure to the state pension plan or other postemployment benefits, and although it does have exposure to hedging risk from its mortgage revenue bond programs, market conditions do not warrant contingent liability risks as a result.

Profitability

We regard IHDA's profitability as very strong, with ROA at 2.6% in fiscal 2022, up from 1.6% in fiscal 2021, as a result of increases in interest income from investments and other income such as service fees and development fees. In the past several years, IHDA's five-year average ROA has exceeded 2.0%, which is stronger than that of most similarly rated peers and higher than our 'AA' benchmark of 0.5%.

Chart 2

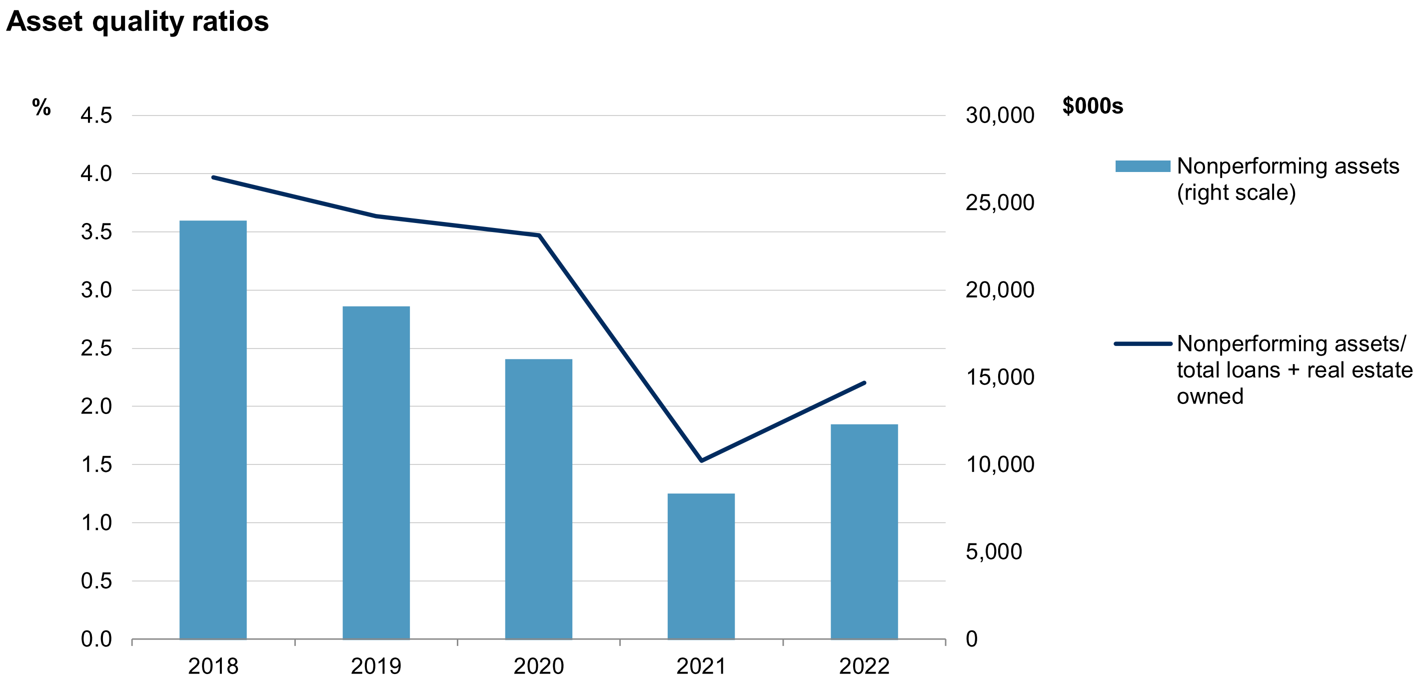
Profitability ratios



Asset quality

Concurrent with the material growth of IHDA's mortgage-backed securities (MBS) portfolio, the quality of underlying loans improved in the past five years, as assessed through NPAs. The five-year NPAs-to-total-loans-and-real-estate-owned ratio decreased to 2.9% from 3.2% in fiscal 2021 and from 3.8% in fiscal 2020, continuing a trend of improvement from a high of 4.8% in fiscal 2015. While the ratio increased from 1.5% to 2.2% in fiscal 2022, we believe the ratio will further decline as the authority continues to work through loans that became delinquent during the height of the COVID-19 pandemic. We note that the absolute value of NPAs declined by nearly 50% to $12.3 million in 2022 from $24.9 million in 2018.

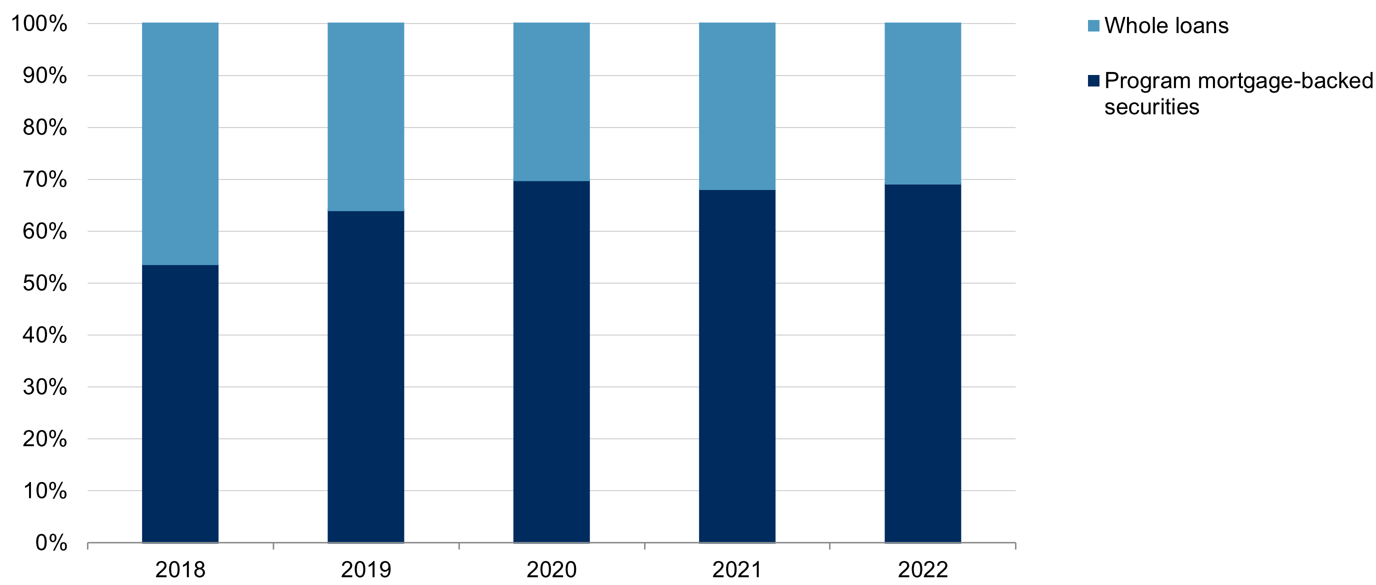
Chart 3



In addition, the ratio of MBS to whole loans has stabilized in the past several years, at around 70/30, with the authority purchasing MBS in its single-family programs. New whole loans originated by the authority are in its multifamily programs. We expect this ongoing ratio will aide in the continued reduction of NPAs in IHDA's portfolios.

Chart 4

Asset types



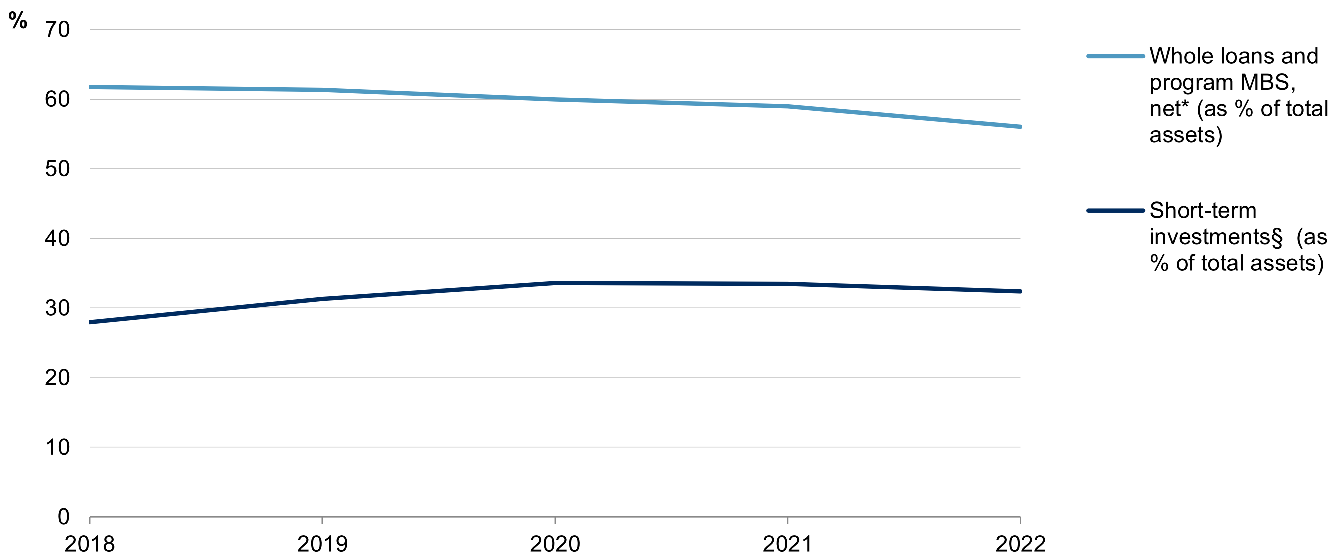
Liquidity

Concurrent with the growth of IHDA's MBS portfolio in the past five years, IHDA's liquidity position has improved. Total loans and MBS are relatively stable at around 60% of total assets. With more than 30% of investments having a duration of one year or less, IHDA has strong internal liquidity support, in our view.

IHDA's financial management policy lays out guidelines for permitted investments, investment procedures, and objectives that we view as prudent. As a practice, IHDA tracks the monthly market value of its portfolio, any negative rating changes on investments, and impact of a shift in interest rates on a quarterly basis.

Chart 5

Liquidity ratios



*Net of loan loss allowance. §Includes accrued interest receivable on investments and loans.

Debt profile

IHDA maintains a debt profile comparable to that of similarly rated HFAs, 86% fixed-rate debt and 14% variable-rate debt, approximately 88% of which is hedged. In 2022 IHDA increased its hedging position in response to market conditions, but we view this as strategic and consider the authority's management of hedging risk prudent. IHDA's financial management policy defines parameters for the use of derivatives as well as thresholds for counterparty exposure, evaluation of risks, standard form of agreements, collateral requirements, and termination provisions.

Management

We view IHDA's management team as very strong, comprising experienced, dedicated senior staff and guided by detailed strategic plans, initiatives, and policies. Despite been turnover in executive positions in the past five years, IHDA's management team shows its strength in industry tenure and staff experience with the authority in prior positions.

IHDA has thorough strategic plans for achieving its mission, from a comprehensive housing plan at the state level to the day-to-day employee operations at the authority. In addition, the authority's internal control processes are well documented and executed and its disclosure practices are thorough and transparent, in our view.

IHDA employs a staff of about 340 and is governed by a board of directors consisting of nine members, appointed by the governor with the advice and consent of the state senate. Despite some turnover at the executive level in the past five years, we consider management and staff experienced and well qualified. In our view, the management team provides solid oversight for all authority functions, including loan underwriting and servicing, and financial risk management. Furthermore, we think the team guides IHDA through difficult market conditions and helps fulfill its mission.

We consider IHDA's relationship with the state government strong based on historical fiscal support. Management, reports of no state proposals that could hurt IHDA's financial strength. IHDA also fosters good relationships with cities and counties throughout the state, particularly with the City of Chicago and its housing entities.

Economy

According to IHS Markit, the State of Illinois is performing well, and is very close to full recovery from the pandemic-led recession. Job growth accelerated in the third quarter of 2022, at 3.9% compared with the previous quarter. The state ranks eighth in job gains, well above the national average. IHS reports that unemployment, at 4.5% in the third quarter of

2022, is still less than 1 percentage point higher than its pre-pandemic low. Employment in Illinois is expected to increase 1.5% in 2023 and unemployment is expected to remain stable in 2023, which should further bolster's IHDA's trend in declining NPAs and improving asset quality as well as projected loan portfolio growth.

While the housing market in the state is seeing contraction in supply and home prices, Illinois ranks above the national average in terms of housing affordability. We expect this will help IHDA broaden programs and achieve its mission.

Table 1

Financial ratio analysis

(%)

	2018	2019	2020	2021	2022	Five-year average
Capital adequacy						
Equity/total assets	33.7	31.6	31.1	29.1	28.5	30.8
Net equity/total assets	28.0	27.2	28.0	26.6	26.8	27.3
Net equity/total loans	97.2	122.6	153.6	140.4	154.1	133.6
Net equity/total loans + MBS (loans)	45.0	44.1	46.4	44.8	47.4	45.5
Equity/total debt	60.3	53.5	51.3	47.8	46.7	51.9
Net equity/total debt	50.1	46.1	46.3	43.7	44.0	46.0
Net equity/GO debt	198.0	310.1	474.5	610.0	777.6	474.1
Available liquid assets/ total loans	62.5	93.0	150.1	114.5	(1.7)	83.7
GO debt/total debt	25.3	14.9	9.8	7.2	5.7	12.6
Profitability						
Return on average assets	2.4	1.8	1.8	1.6	2.6	2.0
Net interest margin	2.6	2.4	2.3	2.7	3.1	2.6
Net interest margin (MBS (loans) + loans)	1.2	1.1	1.3	1.3	N/A	1.2
Net interest margin (loans)	(0.1)	(1.6)	(3.0)	(2.7)	(2.8)	(2.0)

Table 1

Financial ratio analysis (cont.)

(%)

	2018	2019	2020	2021	2022	Five-year average
Asset Quality						
NPAs/total loans + REO	4.0	3.6	3.5	1.5	2.2	3.0
Net charge-offs/average NPAs	0.1	12.7	0.2	0.3	0.4	2.7
Loan loss reserves/total loans	2.2	1.8	2.4	2.2	2.7	2.2
Loan loss reserves/NPAs	54.4	50.6	68.2	143.2	120.4	87.4
Net charge-offs/average loans	0.0	0.5	0.0	0.0	0.0	0.1
Liquidity						
Total loans/total assets	28.2	21.8	17.8	18.5	16.9	20.7
Total loan + MBS (loans)/total assets	61.8	61.3	59.9	59.0	56.0	59.6
Short-term investments/total assets	28.0	31.3	33.6	33.5	32.4	31.7
Total investments/total assets	29.8	32.5	33.6	32.7	37.0	33.1

Note: Ratios for prior years may be restated from our previous report as a result of changes or updates in our analysis. GO--General obligation. MBS--Mortgage-backed securities. NPA--Nonperforming asset. REO--Real estate owned.

Table 2

Five-year trend analysis ($000s)

	2018	2019	2020	2021	2022
Total assets	2,080,319	2,347,447	2,526,351	2,846,050	3,194,954
% change	2.1	12.8	7.6	12.7	12.3
Total debt	1,164,425	1,386,721	1,529,871	1,731,239	1,947,760
% change	1.5	19.1	10.3	13.2	12.5
Total equity	701,813	741,236	784,865	828,277	910,358
% change	7.5	5.6	5.9	5.5	9.9
Total net equity	583,506	639,463	707,957	757,389	856,413
% change	11.2	9.6	10.7	7.0	13.1
Revenue	118,680	120,455	129,176	138,028	170,164
% change	(0)	1	7	7	23
Expenses	69,527	81,033	85,566	94,616	92,191
% change	5.0	16.5	5.6	10.6	(2.6)
Net income	49,153	39,422	43,630	43,412	78,000
% change	0.9	13.0	4.8	(9.6)	9.0
Total program MBS and loans	1,284,726	1,439,881	1,514,159	1,679,422	1,790,669
% change	13.4	12.1	5.2	10.9	6.6
Nonperforming assets	23,910	19,018	16,000	8,265	12,248
% change	9.0	(0.2)	(0.2)	(0.5)	48.2

MBS--Mortgage-backed securities.

Table 3

Peer comparison

	IHDA (2018-2022)	IHDA (2017-2021)	All 'AA' HFAs (2017-2021)	All HFAs (2017-2021)
Capital adequacy (%)				
Total equity/total assets	30.8	31.5	31.2	30.7
Total net equity/total assets	27.3	27.1	25.8	25.3
Profitabliity (%)				
Return on average assets	2.0	2.1	1.7	1.8
Net interest margin (total)	2.6	2.6	4.1	1.6
Asset quality (%)				
NPAs/total loans and real estate owned	3.0	3.2	2.6	2.6
Loan loss reserves/total loans	2.3	2.1	5.4	2.0
Liquidity (%)				
Short-term investments/total assets	31.7	30.3	65.1	69.1
Total loans + MBS/total assets	59.6	59.5	17.4	15.1

HFA--Housing finance agency. MBS--Mortgage-backed securities. NPA--Nonperforming asset.

Related Research

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