Illinois Housing Development Authority

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This report does not constitute a rating action.

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Credit Highlights

- S&P Global Ratings' issuer credit rating (ICR) on the Illinois Housing Development Authority (IHDA) is 'AA'.
- The outlook is stable.

Rationale

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

In 2024, IHDA's balance sheet significantly increased, primarily because of the origination of mortgage-backed securities (MBS) jumping to nearly $2.9 billion in fiscal 2024 from $1.8 billion in fiscal 2023. This increase is part of the corporation's strategic plan that includes increasing debt to finance on-balance-sheet, single-family loans (primarily MBS). The growth of the balance sheet has been an ongoing trend for the past five years, with total assets more than doubling during that time period. Given rising interest rates and market volatility, we view this as a proactive step in line with its mission.

The ICR reflects our view of IHDA's:

- Very strong capital adequacy position, as demonstrated by a five-year average total-equity-over-total-assets ratio of 26.2%, which is higher than that of similarly rated peers;
- Profitability demonstrated by a five-year average return-on-assets (ROA) ratio of 1.8%, stronger than that of similarly rated peers;
- Declining nonperforming assets (NPAs) with the five-year average ratio at 2.3% compared with 2.9% last year;

- Robust liquidity, reflected by a five-year average short-term-investments-to-total-assets ratio of 28.7%; and
- Experienced and stable management, guided by detailed strategic plans, initiatives, and policies.

Environmental, 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 the authority's 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 capital adequacy and profitability ratios will hold, as well as our expectation that the authority's NPAs will continue to improve along with the shift to a lower-risk lending portfolio.

Downside scenario

We could consider a negative rating action in the unlikely event that capital adequacy or profitability ratios deteriorate such that IHDA trends more in line with that of lower-rated peers.

Upside scenario

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

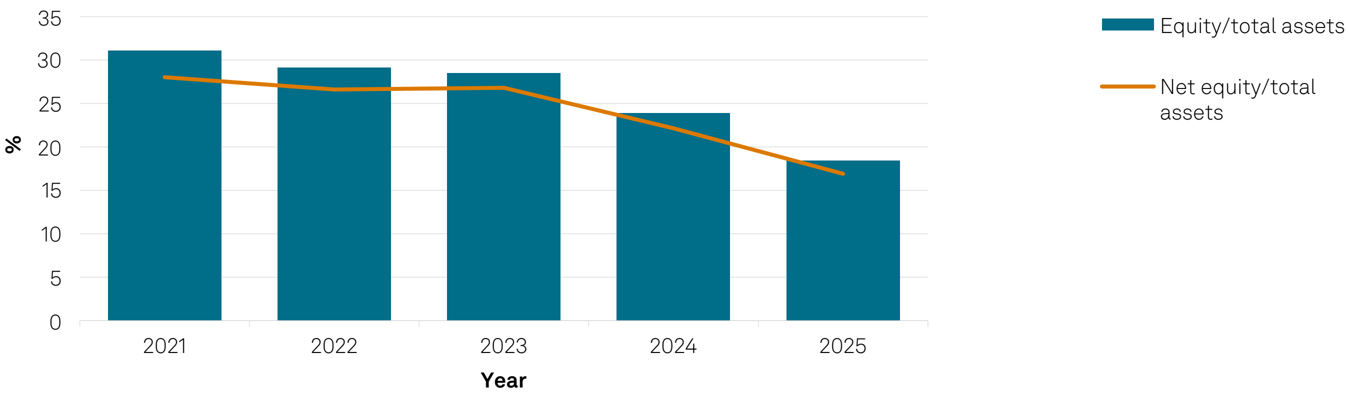
Credit Opinion

Financial Strength

Capital adequacy

IHDA remained very well capitalized as of fiscal 2024, with very strong capital adequacy and debt load ratios. IIts five-year average equity to total assets and net equity to total assets are approximately 26% and 24%, respectively. These levels exceed our benchmarks for the 'AA' category.

Illinois Housing Development Authority capital adequacy ratios



Source: S&P Global Ratings.

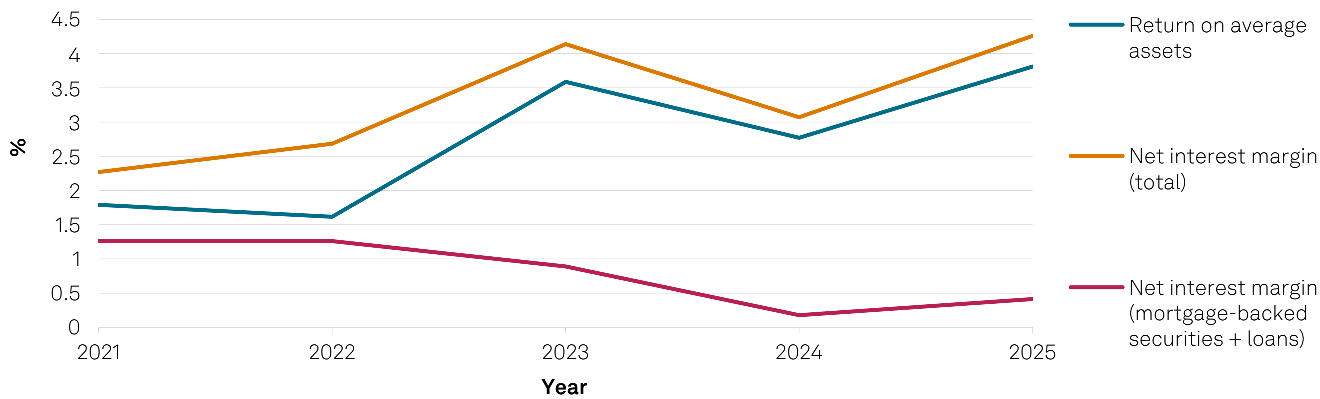
IHDA's net equity (after S&P Global Ratings' adjustments) was, in our view, very strong at $946 million at June 30, 2024, up from $892 million the previous year. The net-equity-to-total-assets ratio remains what we consider strong, stable, and among the highest of similarly rated housing finance agencies at 16.9% in fiscal 2024, which is slightly lower than in fiscal 2023. At June 30, 2024, IHDA reported approximately $4.2 billion of debt outstanding, a consecutive year-over-year increase of 52%, leading to drop in equity-to-debt and net-equity-to-debt ratios.

In addition, in our view, IHDA's contingent liability position is immaterial. The authority 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

IHDA's profitability is very strong, in our view, despite ROAs marginally declining to 1.4% in fiscal 2024 from 1.5% in fiscal 2023, because of an increase in interest expense resulting from higher interest rates. In the past several years, IHDA's five-year average ROA has exceeded or held at about 2.0%, which is stronger than that of most similarly rated peers and higher than our 'AA' benchmark of 0.5%. IHDA’s ROA remained strong compared with that of similarly rated peers. We also evaluate net interest margin (NIM) when assessing a housing finance agency’s (HFA) profitability. The NIM is an indicator of an entity's ability to issue debt at a low enough interest rate to support affordable loans at a higher rate or earnings spread. IHDA's NIM in 2024 was 4.3%, and on a five-year average, 3.3% well above that of similarly rated peers.

Illinois Housing Development Authority profitability ratios



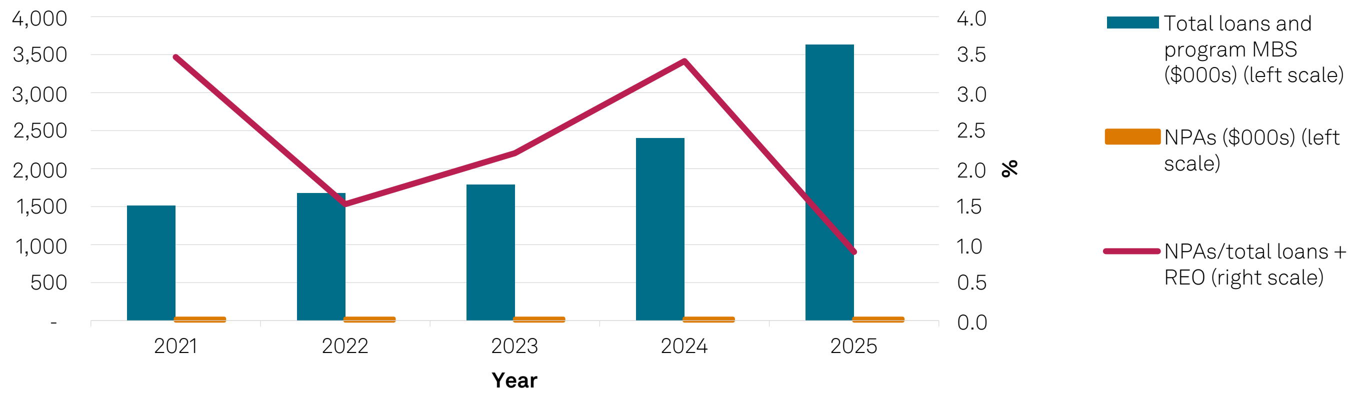
Source: S&P Global Ratings.

Asset quality

IHDA's total asset base has been consistently growing; however in the past 24 months, the authority's total assets has increased by 75% to $5.6 billion, fueled primarily by an increase in program MBS. IHDA's asset base consists primarily of U.S. government investments, agency fixed-rate securities, and, most notably, mortgage investments (whole loans and program MBS). Considering the most recent audited asset base, mortgage investments (whole loans and MBS) represented 65% of total assets.

Because HFAs cannot levy taxes or raise user fees, the assessment of asset quality, in tandem with profitability, is paramount to our evaluation of HFA creditworthiness. IHDA's asset quality is strong, in our view, as reflected by the overall low ratio of NPAs to total loans, which has been consistently below 4% in the past five years. In addition, the proportion of MBS to whole loans has increased in the past several years, to 81-19 from 70-30 in the past five years, with the authority purchasing MBS in its single-family programs. New whole loans that the authority originates are in the authority's multifamily programs. We expect this ongoing ratio to aid in the continued reduction of NPAs in IHDA's portfolios.

Illinois Housing Development Authority asset quality ratios

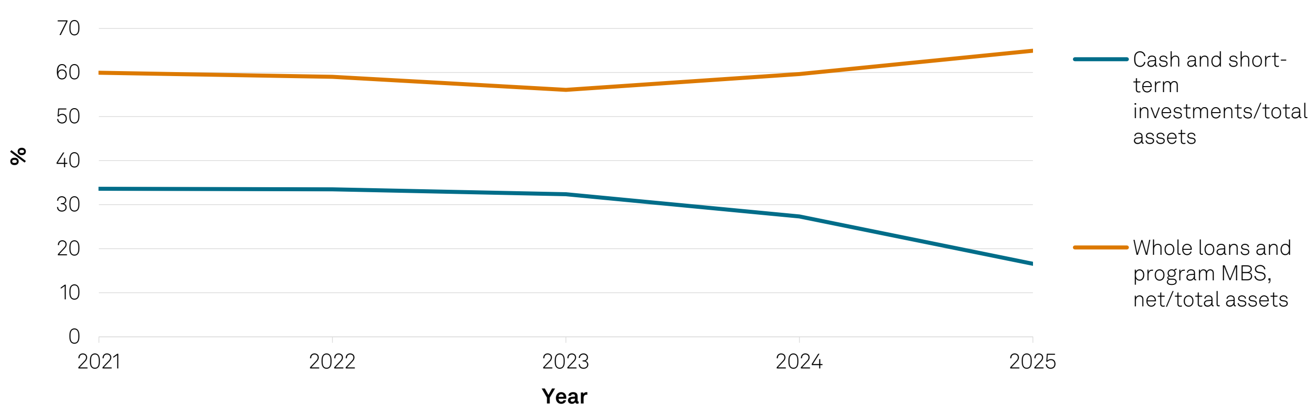


MBS--Mortgage-backed securities. NPA--Nonperforming assets. REO--Real estate owned. Source: S&P Global Ratings.

Liquidity

The authority's investment policy, and resulting portfolio, emphasize preservation of principal, further reflecting the low-risk, high-quality characteristics of the asset base. We have reviewed the amount of funds being invested and consider investment policies and management very strong. 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. As of June 30, 2024, IHDA held $900 million in cash and investments, down slightly from $1.1 billion in the previous year.

Illinois Housing Development Authority liquidity ratios



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

Debt profile

IHDA maintains a debt profile comparable to that of similarly rated HFAs, 86% fixed-rate debt and 14% variable-rate debt, approximately 94% of which is hedged. 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 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, IHDA's internal control processes are well documented and executed and its disclosure practices are thorough and transparent, in our view.

The authority 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. 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 S&P Global Market Intelligence's baseline forecast, the state's real gross state product is expected to increase by just 0.7% in 2025, while employment is forecast to grow by just 0.4% and to contract in the forecast outyears, and the unemployment rate is projected to remain about a full point higher than the U.S. rate. Demographic performance will also remain subdued, with projections indicating small population declines through 2028. Although the Illinois housing market has seen contraction in supply and home prices, the state ranks above the national average in terms of housing affordability. We expect this will help IHDA broaden programs and achieve its mission.

Ratings List	
Current Ratings	
Housing	
Illinois Hsg Dev Auth, IL General Obligation ICR	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.