S&P Global
Ratings

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Century Housing Corp., California; General Obligation

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Credit Profile		
US$250.0 mil sustainable impact nts due 10/15/2027		
Long Term Rating	AA/Stable	New
Century Housing Corp. taxable cml pap (Sustainability) nts ser 2022-A due 07/28/2023		
Short Term Rating	A-1+	Affirmed
Century Hsg Corp ICR		
Long Term Rating	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Century Housing Corp. (Century), Calif.'s, $250 million sustainable impact notes .
- At the same time, we affirmed our 'AA' issuer credit rating (ICR) on Century and our 'A-1+' short-term rating on its commercial paper (CP) outstanding.
- The outlook, where applicable, is stable.

Security

Century's general obligation secures the sustainable impact notes, as well as its bonds and CP outstanding. We view the general obligation at the same level as the ICR given that repayment benefits from revenue that we consider central to Century's purpose and covenants, which, in our view, support creditor security at the senior debt level.

The 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.

The corporation's lending operations are through Century Housing, and affordable housing development and preservation through Century Villages at Cabrillo Inc. and Century Affordable Development Inc. Our ICR is only on Century Housing as a stand-alone entity, given that it is Century's lending arm.

Credit overview

Century plans to issue up to $250 million in aggregate principal amount outstanding of sustainable impact notes as part of its revolving note program. It expects to use approximately half of the proceeds of the notes to support the financing of affordable housing through lending and investment activities, and the other half to refinance certain existing debt obligations related to the development of multifamily rental housing. As of May 31, 2024, the aggregate principal amount of notes outstanding was $105.5 million. The amount of notes available for purchase will vary from time to time depending on the amount of notes sold and the amount of notes that mature and are repaid during the offering period.

The ICR and long-term rating reflect our view of Century's:

- Extremely strong capital adequacy ratios that have sustained five-year levels higher than those of all other rated community development financial institutions (CDFIs), and availability of capital to absorb loan losses and withstand economic volatility;
- Very high profitability, as is evident in very strong average return on assets, and an average net interest margin ratio stronger than that of rated peers;
- Very strong asset quality, with five-year average nonperforming assets at 1.31% of total loans and real estate owned, which is lower than the median; and
- Strong liquidity, with total investments to assets that is higher than that of peers, although lower-than-average holdings of short-term investments somewhat offset this.

The short-term rating on the CP notes reflects our view of the linkage between long- and short-term ratings.

Environmental, social, and governance

In our opinion, Century's programs exhibit social capital opportunities, reflecting its mission to finance the creation and preservation of affordable housing throughout the state. We think the need for affordable housing within Century's footprint, especially in California, will continue fueling demand for its programs, and this factors into our capital adequacy analysis.

We view environmental risk for Century's portfolio as somewhat elevated given geographic concentration in the State of California and exposure to wildfire and seismic risk, but the shorter-term nature of the majority of Century's loans and its strong underwriting and insurance requirements partly mitigate this risk. Social and governance risks have neutral implications in our credit analysis, in our view.

Outlook

The stable outlook reflects our view of Century's continued very strong operating performance, equity base, and overall management. It has ample equity to cover projected loan losses and liquidity to cover near-term needs. Furthermore, we believe Century's experienced management team has demonstrated the effectiveness of its strategy to meet its mission while increasing capital and profitability and mitigating loan losses.

Downside scenario

Although we are unlikely to do so during the outlook period given that Century's capital adequacy is well above the rating median, we could lower the ratings should its capital adequacy significantly decrease as a result of increased debt, riskier underwriting, or declining loan performance. A significant decline in revenue that weakens net income could also lead us to lower the ratings.

Upside scenario

All else equal, if Century's asset quality and liquidity ratios improve compared with those of peers, while the the loan portfolio shifts to loans that we view as less risky (e.g., long-term and permanent loans), resulting in lower assumed loan losses, we could take positive rating action.

Credit Opinion

Financial Strength

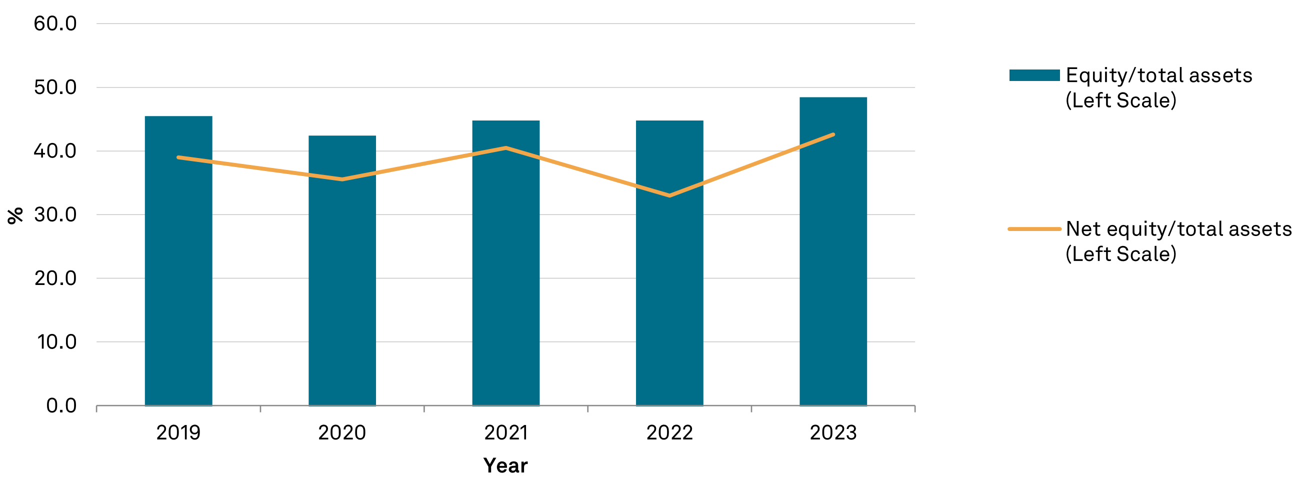
Capital adequacy

Century maintains extremely strong equity ratios as a result of its highly capitalized position, low debt, and profitability. Its total equity increased by 8% a year, on average, in fiscal years 2019 to 2023. Century's five-year average equity to assets and net equity to assets--45.0% and 38.1%, respectively--are extremely strong compared with those of peers. While both ratios have fluctuated year over year primarily as a result of increased leverage, five-year net equity to assets has improved in the past three years as a result of decreased risk in the loan portfolio as well a decline in our loss assumptions given changes in our criteria and our view of loan portfolio characteristics. In determining equity and profitability ratios, we applied our standard adjustments (e.g., fair value adjustments for investment securities).

Chart 1

Capital adequacy ratios

2019-2023



Source: S&P Global Ratings.

Century's debt profile consists of predominantly fixed-rate debt, but with shorter terms compared with those of a typical municipal housing issuer. The corporation tends to match its lending with the terms of its funding sources, although in recent years, Century led several innovative efforts to diversify its funding sources and gain access to capital, such as issuing municipal bonds. In 2022, it began its own CP program, backed by its self-liquidity and other available sources. As of Dec. 31, 2023, approximately 93% of Century's debt was fixed-rate and the rest variable-rate, and about 56% of total debt included rated bond and note obligations.

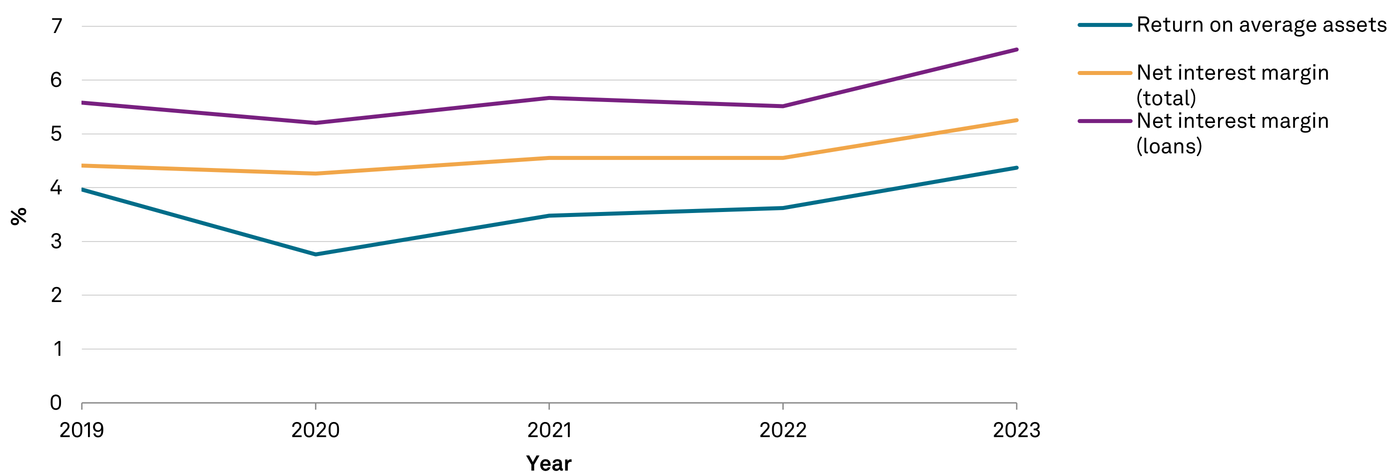
Profitability

Century's operating performance continues to be very strong, reflected in its profitability and self-sufficient business model with minimal reliance on grants income. It reported net income of approximately $26.0 million in fiscal 2023, up by 26.5% from fiscal 2022. Century's five-year average return on assets of 3.6% far exceeds the 2.8% rating median. Furthermore, its lending program is very profitable compared with that of peers, demonstrated by its five-year average net interest margin from loans of 5.7%, which is above the 3.3% median.

Chart 2

Profitability ratios

2019-2023



Source: S&P Global Ratings.

Asset quality

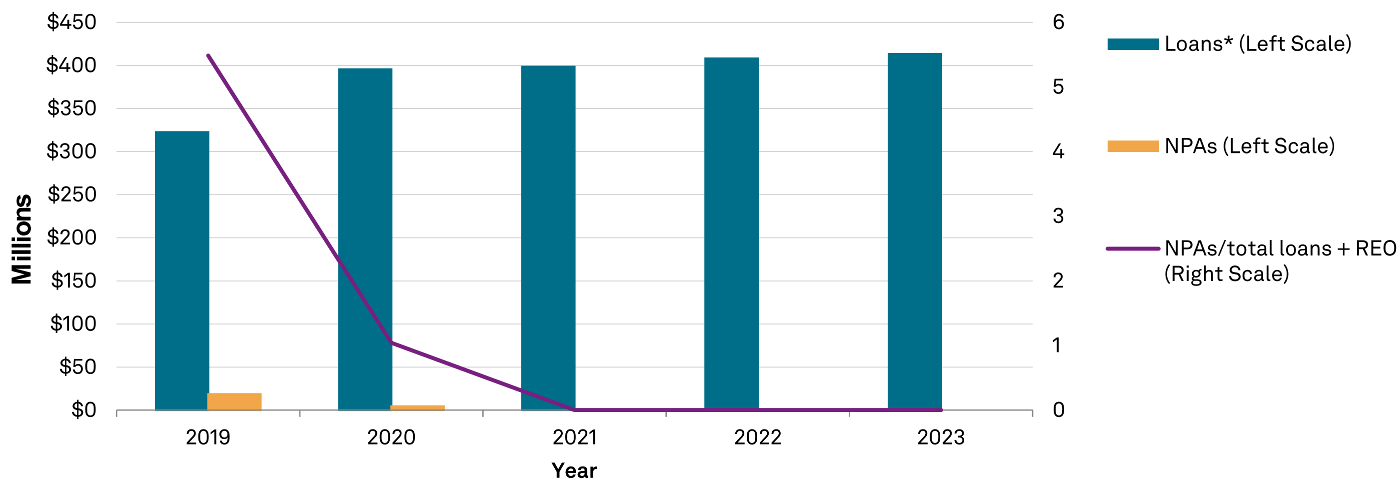
Nearly 70% of Century's total assets consist of its housing lending portfolio. Its niche in the housing market is to provide early financing multifamily loans to repeat clients in California. The corporation offers acquisition, bridge, construction, predevelopment, and, more recently, permanent financing, and its loan portfolio consists of projects located in California, with more than 70% of borrowers having long relationships with Century.

Century's lending portfolio consists of primarily early financing loans for multifamily housing, including predevelopment, bridge, and acquisition loans. We generally view early financing loans as riskier than permanent loans given greater exposure to repayment and takeout risks, but in certain cases we believe other characteristics such as the presence of low-income housing tax credits (LIHTCs), strong debt service coverage, and low loan-to-value ratios mitigate this risk.

Century's loans have historically exhibited very strong performance. Over the past five years, the corporation's average ratio of nonperforming assets to total loans outstanding was 1.3%, mostly on account of delinquencies and forbearances in 2019 and 2020. In fiscal years 2021, 2022 and 2023, the ratio stabilized at 0%.

Chart 3

Asset quality ratios
2019-2023



*Includes MBS. NPA--Non-performing asset. REO--Real estate owned. Source: S&P Global Ratings.

In our opinion, Century's loan underwriting and monitoring policies are strong. Its underwriting policy consists of identifying key risks (e.g., takeout, construction, and interest rate risk), and applying risk ratings on the borrower and project (e.g., borrower's experience, past relationship with Century, and financial strength and leverage). In its underwriting Century also performs a loan review, which analyzes the proposed project, site characteristics, market analysis, and third-party reports.

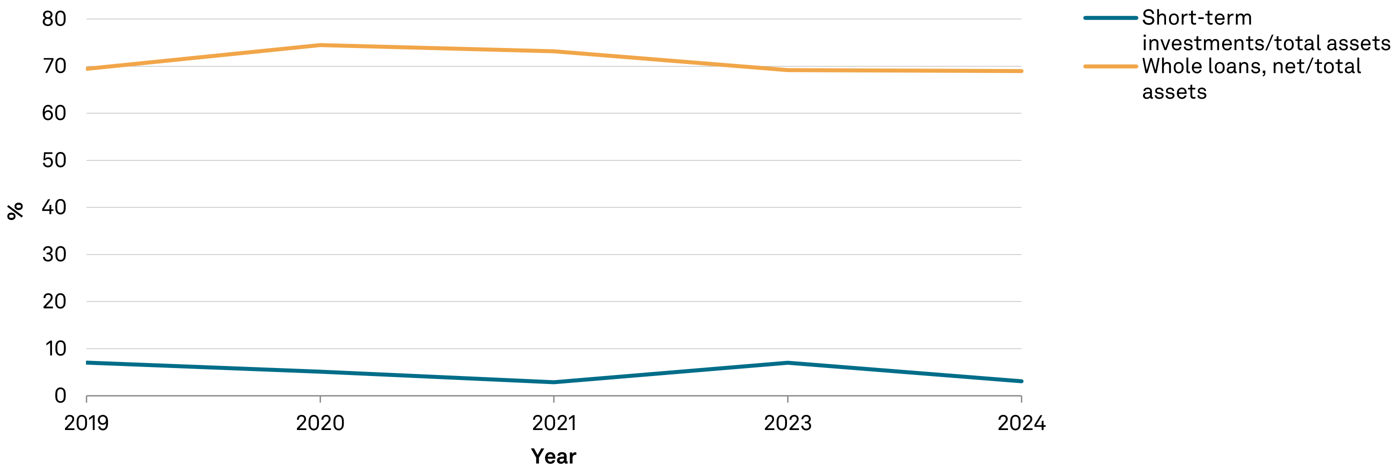
Century's asset liability committee monitors loans monthly, and any delinquent loans (over 90 days) biweekly. The frequency of monitoring has improved, in our opinion, from several years ago, when Century reviewed its loan portfolio annually. Its asset liability committee model assists the corporation in monitoring loan and debt allocations and deploying capital strategically.

Liquidity

Century maintains strong liquidity, with a five-year average total investment to total assets of approximately 27.7%. Total investments to total assets was 29.9% in fiscal 2023, up from 29.7% in fiscal 2022. Total loans to total assets was 69.0% in fiscal 2023, and the five-year average was 71.0%. These levels are in line with the median of other CDFIs.

Chart 4

Liquidity ratios
2019-2023



Source: S&P Global Ratings.

While Century's ratio of total investments to assets is comparable to that of other rated CDFIs, its short-term investments to total assets is lower than that of peers. However, we think that its strategy of asset-to-liability matching mitigates some liquidity risk. Century's policies mandate that it maintain at least 20% of adjusted total net assets in liquid investments or cash. In addition, it maintains liquidity covenants with its lenders such that liquid assets account for no less than six months of total operating expenses.

Century's investment strategy is proactive, in our view, although historically aggressive relative to that of peers and similar entities. However, investments are core to its capital strategy, used for reserves, liquidity, and operations if need be. At least annually, Century evaluates the allocation within its investment portfolio to various asset classes and takes actions to adjust it in response to changes in leverage and other risks the corporation faces. In recent years, Century has reduced risk in its investment portfolio, winding down its position in equities to less than one-third of holdings. In April 2022, it adopted a further diversification of its portfolio, incorporating a more effective strategy to mitigate inflation.

Management and federal designation

We view Century's management and its commitment to community development in relation to the corporation's core values, mission, and overall strategy and management as very strong. A nine-member board of directors oversees Century. The board members come from a wide array of backgrounds that include housing, nonprofits, public and private enterprises, legal, finance, and government. The board meets every other month, and its responsibilities include executive functions, governance, finance, investments, and audits. Supporting the main board of directors is an established senior management team made up of the CEO, the chief financial officer, the senior vice president of lending, the senior vice president of finance and treasury, and the senior vice president of housing. Senior staff members work closely with one another to meet Century's mission and bring operations and projects into compliance with overall strategic goals. No changes in key personnel or staffing occurred in 2023.

In our view, Century's vision is clearly defined and sets forth the corporation's overall strategic plan. We view its lending operations as generally self-supporting and contributing to its overall mission. We believe collaboration with public and private entities, external relations, and financial self-sufficiency demonstrate that Century has solid growth potential as it explores expansion opportunities in lending activities. Public and private partnerships are vital to its continued success as they play a key role in expanding its financial position. This includes partnerships with other CDFIs, foundations, and government agencies to source potential expansion opportunities.

Economy

California has a diverse economy, with its employment composition reflecting that of the U.S., as might be expected for a state that holds 12% of the nation's population. California's nominal per capita gross state product (GSP) in 2022 was approximately 121% of the U.S. overall, remaining comparatively strong, in our view.

According to IHS, employment in California grew a steady 1.6% year over year in October 2023, slightly trailing the national average of 1.8% over the same period. With employment 2.7% above pre-pandemic levels, the pace of hiring has expectedly slowed over the past year and will continue to downshift as high interest rates due to stubbornly high inflation generate a broad slowdown in economic activity.

Employment growth is expected to be slow in the medium term as tightening monetary policy and high inflation put the brakes on economic expansion.

IHS reports that although home price growth reached double digits in 2021 and the first half of 2022, the state's housing market came to a near-halt in the second half of 2022 and the first half of 2023 as a result of rising interest rates. According to data from the Federal Housing Finance Agency's purchase-only home price index, home prices in California fell on a year-over-year basis over the first half of 2023 before rebounding slightly in the third quarter to return to positive growth territory. The state recorded 2.5% year-over-year price growth in the third quarter of 2023, which ranks as the 11th weakest in the country.

Despite the near-term slowdown, housing affordability will remain an issue in the state, with the ongoing challenge of housing moderate- and low-income residents as well as the rising homeless population, all of which is central to Century's mission.

Table 1

Financial ratios (2019-2023)

%	2019	2020	2021	2022	2023	Five-year average
Capital Adequacy						
Equity/total assets	45.3	42.2	44.6	44.6	48.3	45.0
Net equity/total assets	39.0	35.5	40.5	33.0	42.6	38.1
Net equity/total loans	54.2	45.9	53.6	46.2	59.9	52.0
Equity/total debt	85.1	76.0	83.5	83.8	97.6	85.2
Net equity/total debt	73.3	63.9	75.8	61.9	86.1	72.2

Table 1

Financial ratios (2019-2023) (cont.)						
%	2019	2020	2021	2022	2023	Five-year average
Profitability						
Return on average assets	4.0	2.8	3.5	3.6	4.4	3.6
Net interest margin	4.4	4.3	4.6	4.6	5.3	4.6
Net interest margin (loans)	5.6	5.2	5.7	5.5	6.6	5.7
Asset Quality						
NPAs/total loans + REO	5.5	1.0				1.3
Net charge-offs/average NPAs						
Loan loss reserves/total loans	1.4	1.3	1.3	1.1	1.1	1.3
Loan loss reserves/NPAs	25.2	124.5				29.9
Net charge-offs/average loans						
Liquidity						
Total loans/total assets	69.4	74.5	73.2	69.1	69.0	71.0
Short-term investments/total assets	0.1	0.1	0.0	0.1	0.0	0.1
Total investments/total assets	29.0	24.1	25.6	29.7	29.9	27.7

NPA--Nonperforming asset. REO--Real estate owned.

Table 2

Five-year trends ($000s)					
	2019	2020	2021	2022	2023
Total assets	464,317	530,885	544,371	590,230	599,221
% change	16.5	14.3	2.5	8.4	1.5
Total Gross Loans	334,313	411,048	411,378	421,297	425,836
% change	19.0	23.0	0.1	2.4	1.1
Total equity	210,408	224,139	242,858	263,404	289,404
% change	8.9	6.5	8.4	8.5	9.9
Net equity	181,264	188,552	220,544	194,619	255,200
% change	60.5	4.0	17.0	(11.8)	31.1
Net income	17,116	13,731	18,719	20,547	26,000
% change	2.9	(19.8)	36.3	9.8	26.5
Revenues	29,916	30,213	31,745	36,517	57,716
% change	15.7	1.0	5.1	15.0	58.0
Expenses	18,855	17,593	15,177	16,850	22,028
% change	18.0	(6.7)	(13.7)	11.0	30.7
Loan loss reserves	872	903	7	(458)	47
% change	(23.5)	3.6	(99.2)	(6,718.1)	(110.2)
Non-performing assets	18,343	4,279			
% change	68.9	(76.7)	(100.0)		
Total Investments	134,609	127,976	139,445	175,527	179,420
% change	11.6	(4.9)	9.0	25.9	2.2
Total Debt	247,130	295,074	290,997	314,162	296,426

Table 2

Five-year trends ($000s) (cont.)					
	2019	**2020**	**2021**	**2022**	**2023**
% change	22.4	19.4	(1.4)	8.0	(5.6)

Table 3

Peer comparison				
Five-Year Average Ratios (2019-2023)	**Century Housing (2019-2023)**	**Century Housing (2018-2022)**	**'AA-' CDFI Median***	**All CDFIs Median***
Capital Adequacy (%)				
Total equity/total assets	45.0	45.1	34.7	31.4
Total net equity/total assets	38.1	35.3	18.0	18.6
Profitabliity (%)				
Return on average assets	3.6	3.7	4.0	3.4
Net interest margin (total)	4.6	4.4	2.8	2.8
Net interest margin (loans)	5.7	5.4	3.3	3.3
Asset quality (%)				
NPAs/total loans and real estate owned	1.3	2.1	0.7	0.7
Loan loss reserves/NPAs§			0	0
Loan loss reserves/total loans	1.3	1.3	4.0	3.8
Liquidity (%)				
Total loans/total assets	71.0	70.8	70.7	72.0
Short-term investments/total assets	5.0	5.5	19.5	18.1

*As of the most recent 5-year period. Excludes Century for comparison. §NPA average is zero. 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
- What U.S. CDFI Ratios' Resilience Through Changing Economic Landscapes Means For Long-Term Credit Quality, August 10, 2023

Ratings Detail (As Of July 26, 2024)		
Century Housing Corp. century sustainable impact nts ser 2023		
Long Term Rating	AA/Stable	Affirmed
Century Hsg Corp tax-exempt bnds		
Long Term Rating	AA/Stable	Affirmed
Century Hsg Corp Century Sustainable Impact Nts		
Long Term Rating	AA/Stable	Affirmed
California Municipal Finance Authority, California		
Century Housing Corp., California		

Ratings Detail (As Of July 26, 2024) (cont.)		
California Municipal Finance Authority (Century Hsg Corp) Sustainabilty Bonds		
Long Term Rating	AA/Stable	Affirmed