S&P Global Ratings

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Summary:

Century Housing Corp., California; General Obligation

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Rationale

S&P Global Ratings' issuer credit rating (ICR) on Century Housing Corp. (Century), Calif., and its long-term rating on Century's bonds and sustainable impact notes outstanding is 'AA-'. The outlook is stable.

Credit overview

The rating reflects our view of Century's continued very strong operating performance, equity base, and overall management. We believe that at the 'AA-' rating, Century has ample equity to cover projected loan losses and high liquidity to cover near-term needs. Furthermore, we believe Century's experienced management team has demonstrated the effectiveness of its strategy to increase profitability, increase the corporation's capital, and mitigate loan losses.

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

- Very strong equity ratios and available capital to absorb loan losses and various loan-loss stress scenarios;
- High profitability, evidenced by very strong return on average assets, and a net interest margin ratio that is strongest among those of rated peers;
- Strong asset quality, with a five-year average non-performing assets at 2.59% of total loans and real estate owned, which is lower than the median level; and
- Very strong liquidity, with a total investments-to-assets position that is higher than peers; however, somewhat offset by an aggressive investment strategy that includes equities and speculative-grade debt and a lower-than-average holdings of short-term investments.

Partially offsetting Century's strengths is its loan portfolio, which we view as higher risk compared with similarly rated peers. Century participates in multifamily housing lending, with its loan portfolio primarily in short-term acquisition, bridge, predevelopment, and construction loans (early financing loans). We view these loans as inherently riskier than long-term or permanent loans due to greater exposure to repayment and takeout risk.

The stable outlook reflects our view of Century's continued experienced leadership and management as well as its strategy of mitigating financial risk and maximizing opportunity for a variety of communities during the two-year outlook period. Century's total-equity-to-assets ratio is well above medians of rated peers. We attribute this to Century's capital strategy of low leverage (albeit increasing over the past year, but still commensurate with the rating) and high liquidity, and use of its investments for reserves, liquidity, and operations if required.

Environmental, social, and governance

We have analyzed Century's environmental, social, and governance risks relative to its financial strength, management and legislative mandate, and the local economy. In addition to increased federal funding support to individuals and community development financial institutions (CDFIs), we believe Century's strong underwriting, loan subsidies, and reserves insulate it from social risk brought about by the COVID-19 pandemic. While environmental risk for Century's portfolio are somewhat elevated given geographic concentration in the state of California, the shorter-term nature of Century's lending strategy and its underwriting and insurance requirements partially mitigate this risk. We believe governance risk for Century is neutral to the credit analysis.

Stable Outlook

Downside scenario

Should Century's capital adequacy significantly decrease as a result of increased debt, riskier underwriting, or declining loan performance, we could lower the ratings. A significant decline in revenue that composes some portion of net income could also lead us to lower the ratings.

Upside scenario

If Century continues to improve profitability ratios, resulting in continued growth in equity, as well as preserve strong capital available to absorb loan losses in the most stressful scenario, we could take a positive rating action. Furthermore, we could take a positive rating action if 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.

Credit Opinion

Century maintains very strong equity ratios as a result of its highly capitalized position, low debt, and profitability. In determining equity and profitability ratios, we applied our standard adjustments (e.g., fair value adjustments for investment securities). Century's five-year average equity-to-assets and net equity-to-assets ratios--47.0% and 30.5%, respectively--are very strong compared with those of peers. While these ratios have declined over the past five years primarily as a result of increased leverage, they grew in 2021 to 45.25% and 32.3%, respectively, from 43.2% and 29.6%.

Century's investments also contribute to its very strong equity position. Unlike with our other rated CDFIs, investments are core to Century's capital strategy, used for reserves, liquidity, and operations if required. Century's five-year average total-investments-to-total-assets ratio of 28.9% is above the median of its rated peers. Century's policies mandate that it maintain at least 20% of unconsolidated equity in investments.

Our view of Century's debt position is very strong, with debt predominantly fixed rate. Century had approximately $291 million in debt outstanding in fiscal 2021, down by 1% from fiscal 2020. Approximately 95% of Century's debt was fixed rate and 5% consisted of rated bond obligations as of Dec. 31, 2021, the latter down significantly from 41% in fiscal 2020.

In our opinion, operating performance remains very strong, reflected through profitability and a self-sufficient business model with minimal reliance on grants income. Profitability is very strong compared with that of peers, with the 3.17% five-year return on average assets above the median of rated peers. Furthermore, the lending program is very profitable compared with that of peers, demonstrated by the 5.2% five-year average net-interest-margin-from-loans ratio.

Total assets consist mostly of the housing lending portfolio (70% as of Dec. 31, 2021). Century's niche in the housing market is to provide early financing multifamily loans to repeat clients in California. Century offers acquisition, bridge, construction, predevelopment, and, more recently, permanent financing, and its loan portfolio comprises projects located in California, with approximately 70% of borrowers maintaining relationships with Century.

The housing lending portfolio consists primarily of early financing loans, which we view as riskier than permanent loans given greater exposure to repayment and takeout risks. S&P Global Ratings' potential loan-loss assumptions are estimated at approximately 13.2% at the 'AA-' rating category stress level. Loans have generally performed very strongly throughout Century's history. The corporation's average ratio of nonperforming assets to total loans outstanding was 2.6% over the past five years, dropping to 0% in fiscal 2021.

While we view loan underwriting and monitoring policies as sufficient, they are less robust than those of rated peers, in our opinion. However, its experienced team has successfully managed loan performance, as is evident in very low nonperforming assets. Its underwriting policy consists of identifying key risks (e.g., takeout, construction, interest rate) and applying risk ratings to the borrower and project (e.g., borrower's experience, 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. Loan monitoring is performed at least semiannually.

Century maintains very strong liquidity, with an approximately 28.9% five-year average ratio of total investments to total assets. The ratio was 26.37% in fiscal 2021, up from 25.38% in fiscal 2020.

Century is committed to developing and preserving affordable housing in California through its lending and development divisions. It uses its own criteria to set general parameters for assessing opportunities designed to further its impact on the communities it serves. These parameters include likelihood of repayment, sector and project risk, collateral analysis, and financial health. We view Century's 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 comprising the CEO, chief financial officer, senior vice president of lending, senior vice president of finance and treasury, and 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. According to the housing corporation, no changes in key personnel or staffing occurred in 2021.

The housing market in California continues to have extreme shortages of affordable stock, making the housing of moderate- and low-income residents a more pressing issue alongside the challenge of a rising homeless population. Housing starts reached 100,941 in 2020 and are expected to reach 111,212 in 2021, a 10.2% increase. In our view, natural disasters that could harm the state, mainly wildfires and earthquakes, can also affect the housing supply.

California's gross state product (GSP) has held up well, even while unemployment has been elevated. IHS Markit estimates that GSP grew to 7.8% in calendar 2021, compared with GDP growth of 5.7%. It projects GSP to grow by 4.9% in 2022 and 6.2% in 2023, compared with GDP growth of 2.5% and 1.8%, respectively. In addition, IHS Markit estimates that California's unemployment rate topped out at 5.7% in 2021 but forecasts a decline to 2.5% in 2022 and 1.8% by 2023.

The state also reports strong recent housing price increases. California's median home price increased 13.4% in 2021 to a record $795,555, and IHS predicts that the measure will rise by 14.8%in 2022 to $914,923. Even though construction has returned to pre-pandemic levels, this will not make a dent in the state's deficit: Supply of homes for sale remains historically low, and per IHS projections for housing prices, this will likely remain the case.

This report does not constitute a rating action.

Financial Ratio Analysis

%	2017*	2018*	2019*	2020*	2021*	5-year average
Capital adequacy						
Equity/total assets	51.83	48.79	46.13	43.19	45.25	47.04
Net equity/total assets	27.37	28.10	35.34	29.61	32.36	30.56
Net equity/total loans	39.06	40.09	49.82	38.90	43.31	42.24
Equity/total debt	108.90	96.85	87.99	79.03	85.62	9,167.77
Net equity/total debt	57.51	55.79	67.40	54.19	61.23	5,922.36
Net equity/GO debt	N/A	N/A	167.58	119.74	74.56	12,062.44
GO debt/ total debt	N/A	N/A	40.22	45.26	82.12	5,586.74
Profitability						
Return on average assets	4.47	3.01	3.59	2.16	2.62	317.15
Net interest margin	3.84	4.14	4.37	4.19	4.33	417.35
Net interest margin (MBS (loans) + loans)	4.62	5.28	5.58	5.20	5.45	522.55
Net interest margin (loans)	4.62	5.28	5.58	5.20	5.45	522.55
Asset quality						
NPAs/total loans + REO	2.58	3.86	5.49	1.04	0.00	259.36
Net charge-offs/average NPAs	0.00	0.00	0.00	0.00	0.00	0.00
Loan loss reserves/total loans	1.15	1.33	1.38	1.30	1.29	128.98
Loan loss reserves/NPAs	44.81	34.48	25.17	124.47	0.00	4,578.44
Net charge-offs/average loans	0.00	0.00	0.00	0.00	0.00	0.00

Financial Ratio Analysis (cont.)

%	2017*	2018*	2019*	2020*	2021*	5-year average
Liquidity						
Total loans/total assets	67.45	67.58	68.39	73.22	72.32	6,979.36
Total loan + MBS (loans)/total assets	67.45	67.58	68.39	73.22	72.32	6,979.36
Short-term investments/total assets	4.48	5.40	6.94	5.00	2.85	493.34
Total investments/total assets	32.21	30.65	30.05	25.38	26.37	2,893.15

*Ratios for prior years may be restated from our previous report, due to changes or updates in our analysis. NPA--Nonperforming assets. REO--Return on equity. MBS--Mortgage-backed securities. N/A--Not applicable.

Related Research

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

Ratings Detail (As Of July 20, 2022)

Century Hsg Corp tax-exempt bnds		
Long Term Rating	AA-/Stable	Current
Century Hsg Corp Taxable Rev Bnds ser 2019		
Long Term Rating	AA-/Stable	Current
California Municipal Finance Authority, California		
Century Hsg Corp, California		
California Municipal Finance Authority (Century Hsg Corp) Sustainabilty Bonds		
Long Term Rating	AA-/Stable	Current