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Ratings

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Century Housing Corp., California; General Obligation

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Rating Action

S&P Global Ratings affirmed its 'AA-' issuer credit rating (ICR) on Century Housing Corp. (Century), Calif. At the same time, we affirmed our 'AA-' long-term rating on Century's series 2019 and 2020 bonds, and series 2020 sustainable impact notes. The outlook is stable.

Credit overview

The 'AA-' ratings reflect our view of Century's continued very strong operating performance, equity base, and overall management. We believe that at the 'AA-' rating level, Century has sufficient equity to cover projected loan losses. Compared with those of rated peers, Century's equity ratios are very strong and above the medians. Furthermore, we believe Century's experienced management team has demonstrated its proactive strategy to grow profitability, increase the corporation's capital, and mitigate loan losses.

Partially offsetting Century's strengths are its operation and lending activity, which we view as higher risk compared with those of other community development financial institutions (CDFIs) in the 'AA' rating category. 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. Century's loan portfolio consists primarily of early financing loans, which exposes Century to higher loan-loss risk compared with that of other rated peers.

The ratings reflect our view of Century's:

- Very strong equity ratios and available capital to absorb loan losses and various loan-loss stress scenarios;
- Financially self-sufficient business model, evidenced by very strong return on average assets (ROA), and a net interest margin ratio that is strongest among those of rated peers; and
- Very strong investments position that is core to Century's operations, with approximately $120 million in long-term investments, as of Dec. 31, 2020. However, with an investment allocation that we view as aggressive, which includes equities and speculative-grade debt, we believe Century's exposure to risk is greater than that of rated peers.

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 (ESG) factors

We have analyzed Century's ESG risks relative to its financial strength, management and legislative mandate, and the local economy. We view health and safety risks related to the COVID-19 pandemic as social risks, which have broadly affected the U.S. economy and its workforce. The resulting elevated unemployment and the greater likelihood of nonpayment of loans could create a liquidity crunch for some issuers and elevate near-term social risk. In addition to increased federal funding support to individuals and CDFIs, we believe Century's strong underwriting, loan subsidies, and reserves insulate it from near-term volatility resulting from COVID-19. As vaccine rollouts continue in the U.S., S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the coronavirus pandemic and its economic effects. Widespread immunization will pave the way for a return to more normal levels of social and economic activity. As the situation evolves, we will update our views. We believe governance and environmental risks for Century are both in line with the sector standard.

Stable Outlook

Downside scenario

In recent years, substantial loan portfolio growth for CDFIs has outpaced the growth in equity, leading to decreasing equity-over-assets ratios. As we do for other CDFIs, we recognize Century's negative trend on its equity-over-assets ratio and a reduction in its capital adequacy level as a result of Century's increasing debt burden. If Century experiences a significant reduction in capital adequacy due to increased debt or declining loan performance, we could lower the ratings. Loan deterioration, or a significant decline in revenues that compose some portion of net income, could also result in lower ratings.

Upside scenario

Conversely, if Century continues to improve its profitability ratios, resulting in continued growth in equity, as well as preserving 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 Century's 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

Financial Strength

Capital adequacy

Century maintains very strong equity ratios driven by its highly capitalized position, low debt levels, and continued profitability. In determining equity and profitability ratios, we applied S&P Global Ratings standard adjustments (e.g., fair value adjustments for investment securities). Total equity grew at a steady pace of 42.8% over the past five years, and Century's five-year average equity-to-assets ratio of 49.7% is very strong compared with the median ratio of 34.2%. While its equity-to-assets ratio has declined over the last five years (to 43.2% in 2020 from 58.5% in 2016)--primarily due to increased leverage--Century's lowest equity ratio of 43.2% in 2020 is still well above the median peer ratio.

Century's investments also contribute to its very strong equity position. Unique compared with our other rated CDFIs, Century's investments are core to its capital strategy, used for reserves, liquidity, and operations if required. Century's total investments grew 28.5% over the past five years, and its five-year average total-investments-to-total-assets ratio of 31.08% is above the 23.6% median ratio of its rated peers. Century's policies mandate it to maintain at least 20% of unconsolidated equity in investments (in fiscal 2020, Century's total investments to equity was 58.8%)--reflecting the importance of investments in its capital strategy.

Century's investment policies are, in our view, focused on growth, which exposes the corporation to additional risk, unlike those of similar institutions and agencies. Partially mitigating Century's aggressive investment strategy is a recent adjustment to its investment allocations. Century's updated investments portfolio contains approximately 29% in equities (compared with 34% as per its previous policy) and 71% in fixed assets (compared with 66% as per its previous policy). Furthermore, Century can monetize its investments within 30 days. However, as of Dec. 31, 2020, the corporation holds approximately 8.7% of its investments in non-U.S. equities, and approximately 5.7% in high-yield bonds--which in our view exposes Century to greater risk compared with its rated peers.

Due to the stock market downturn beginning March 2020, Century's investments portfolio suffered unrealized losses. According to management, the derisking of its investment portfolio mitigated some of the losses due to market volatility. However, as of Dec. 31, 2020, Century's investment portfolio reported approximately $8 million in realized and unrealized gains on financial investments.

Our view of Century's debt position is very strong. In fiscal 2020, the housing corporation had approximately $295 million in debt outstanding, up 19% from fiscal 2019. Growth in liabilities reflects Century's asset growth over the past five years, although an increase in liabilities outpaced asset growth. Borrowing seems to have stabilized beginning in fiscals 2018 and 2019, with 24% and 22% year-over-year increases, respectively, compared with a 42% increase in debt in fiscal 2017 from fiscal 2016. Century's recent debt activity includes the issuances of the $100 million series 2019 bonds, $85 million series 2020 bonds, and $50 million series 2020 notes.

Century's debt profile consists of predominantly fixed-rate debt. As of Dec. 31, 2020, approximately 59% of Century's debt is fixed rate, and 45.3% of total debt is rated bond obligations. Variable-rate debt makes up approximately 41% of Century's debt, which slightly increased from 37% in fiscal 2019.

While the corporation's debt profile converted to primarily fixed-rate debt in recent years, it lends primarily variable-rate loans. In our view, interest-rate risk is mitigated by the structure of the loans, which includes a fixed-rate spread in addition to LIBOR.

Table 1

Financial Ratio Analysis						
%	**2016**	**2017**	**2018**	**2019**	**2020**	**5-year average**
Capital adequacy						
Equity/total assets	58.53	51.83	48.79	46.13	43.19	49.69
Net equity/total assets	N/A	27.37	28.10	35.34	23.99	28.70
Net equity/total loans	89.13	39.06	40.09	49.82	31.52	49.93
Net equity/total loans + MBS (loans)	89.13	39.06	40.09	49.82	31.52	49.93
Equity/total debt	142.92	108.90	96.85	87.99	79.03	103.14
Net equity/total debt	141.17	57.51	55.79	67.40	43.90	73.15
Net equity/GO debt	N/A	N/A	N/A	167.58	97.01	132.29
GO Debt/ total debt	N/A	N/A	N/A	40.22	45.26	42.74
Profitability						
Return on average assets	4.49	4.47	3.01	3.59	2.16	3.55
Net interest margin	4.08	3.84	4.14	4.37	4.19	4.13
Net interest margin (MBS (loans) + loans)	5.27	4.62	5.28	5.58	5.20	5.19
Net interest margin (loans)	5.27	4.62	5.28	5.58	5.20	5.19
Asset quality						
NPAs/total loans + REO	0.23	2.58	3.86	5.49	1.04	2.64
Net charge-offs/average NPAs	0.00	0.00	0.00	0.00	0.00	0.00
Loan loss reserves/total loans	1.11	1.15	1.33	1.38	1.30	1.25
Loan loss reserves/NPAs	475.04	44.81	34.48	25.17	124.47	140.79
Net charge-offs/average loans	0.00	0.00	0.00	0.00	0.00	0.00
Liquidity						
Total loans/total assets	61.76	67.45	67.58	68.39	73.22	67.68
Short-term investments/total assets	3.66	4.48	5.40	6.94	5.00	5.09
Total investments/total assets	37.13	32.21	30.65	30.05	25.38	31.08

N/A--Not applicable.

Profitability

In our opinion, Century's operating performance remains very strong, reflected through its profitability and self-sufficient business model with minimal reliance on grants income. In fiscal 2020, Century reported a net operating income of approximately $10.9 million, which is down 70% from fiscal 2019. The decline is primarily driven by a reduction in realized gains on financial investments and net of interest rate swaps. Century's profitability is very strong compared with that of peers, with its five-year average 3.55% ROA still above the 2.2% median of rated peers. Furthermore, Century's lending program is very profitable compared with that of peers, demonstrated by its five-year average net-interest-margin-from-loans ratio of 5.2%, which is above the 3.6% median ratio.

Asset quality

The majority of Century's total assets consist of its housing lending portfolio (71.9%). Its 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 past relationships with Century.

Century's housing lending portfolio consists of primarily early financing loans, which we view as riskier than permanent loans. As of May 31, 2021, Century's early financing loans represented 92.4% of total loans outstanding, with the majority in acquisition loans. According to our rental housing bonds criteria, we assess the risk associated with Century's loan portfolio based on loan characteristics. We view early financing loans as riskier than permanent loans due to greater exposure to repayment and takeout risks. S&P Global Ratings' potential loan-loss assumptions estimated at approximately 21% at the 'AA-' rating category stress level. Pressuring its equity by applying our assumed loan losses to Century's gross total loans of approximately $411 million results in a net-equity to total assets ratio of 24.0% in fiscal 2020, which we consider very strong compared with the 11.7% median ratio of rated peers.

Century's loans have generally exhibited very strong performance throughout its history. Over the past five years, the corporation's average ratio of nonperforming assets (NPAs) to total loans outstanding is 2.6%. However, while Century historically demonstrated very strong loan performance, fiscal 2018 and 2019 NPAs-to-total-assets ratio grew to 3.91% and 5.58%, respectively, driven by a loan in forbearance. As of May 2021, Century's NPAs-to-total-assets ratio improved to 0%. We believe Century's highly capitalized position, with equity of approximately $229 million, and equity-to-assets ratio of 42.8% offset occasional pressure on its loan portfolio performance. However, while the corporation has maintained very strong loan performance over the years, the NPA in 2018 and 2019 demonstrated that a poor performance of one loan could severely affect its asset quality.

We view Century's loan underwriting and monitoring policies as sufficient, reflected by low NPAs throughout its history. Its underwriting policy consists of identifying key risks (e.g., takeout risk, construction risk, interest-rate risk, etc.), and applying risk ratings on the borrower and project (e.g., borrower's experience, past relationship with Century, financial strength and leverage, etc.). Century also performs a loan review in its underwriting, which analyzes the proposed project, site characteristics, market analysis, and third-party reports. Loan monitoring is performed at least semiannually. While we view Century's loan underwriting and monitoring policies as less robust than those of its rated peers, its experienced team has successfully managed loan performance, as evidenced by very low NPAs.

Liquidity

Century maintains very strong liquidity, with a five-year average total investment to total assets of approximately 30.9%. Total investments over total assets was 24.8% in fiscal 2020, down from 29.7% in fiscal 2019. Total loans to total assets was 73.8% in fiscal 2020, and five-year average was 67.9%. These levels are in line with the median of other CDFIs.

Management, legislative mandate, or federal designation

Century originated as a state agency, formed due to the construction of the Century Freeway. In development beginning in 1972, the planned Century Freeway would displace local residents and businesses on its path between Los Angeles International Airport and the city of Norwalk. As a result of Keith v. Volpe, a lawsuit against the construction of the freeway due to its impact on the local community, Century Freeway Housing Program was created to replace the housing lost from the construction of the freeway, and to provide social services to minorities and women. Century was privatized to Century Housing Corp. following the completion of construction of the freeway in 1993 and meeting its housing development and social service goals. In 2010, Century spun off its social services divisions, focusing primarily on housing development and lending. Also in 2010, Century received CDFI designation from the U.S. Treasury.

Century's core business activities are affordable housing lending and affordable housing development. 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 the stand-alone Century Housing, the lending portion of Century.

In our view, Century's vision is clearly defined and sets forth the corporation's overall strategic plan. Among its strategic priorities are:

- Maintaining its financial strength,
- Investing in development and preservation of affordable housing through its housing development affiliates, and
- Continuing to support local communities and organizations.

In addition, the lending operations will continue to grow, considering Century's overall strategy and management. We view Century's 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 Century's 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.

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 future 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, governance, finance, investments, and audit. 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.

Economy

The housing market in California continues to have extreme shortages of affordable housing stock, making housing moderate- and low-income residents a more pressing issue as well as the continued challenge of a rising homeless population. Housing starts reached 99,733 in 2019 and are expected to reach 101,143 in 2020, a 1% increase year over year. In our view, other factors that can affect the housing supply are natural disasters that could hit the state. Recent wildfire seasons resulted in thousands of lost homes and billions of dollars in damages.

Despite pandemic restrictions, California's gross state product (GSP) has held up well, even while unemployment has been elevated. IHS Markit estimates that California's GSP contracted 2.74% in calendar 2020, compared to a larger contraction in the GDP of 3.52% for the U.S. economy. It also projects GSP growth of 5.92% in 2021 and 4.68% in 2022, compared to GDP growth of 5.71% and 4.12%, respectively, for the U.S. In addition, IHS Markit estimates California's unemployment rate topped out at an annual rate of 10.2% in 2020 but forecasts a decline to 7.1% in 2021 and 5.2% by 2022.

The state also reports strong recent housing price increases. California's median home price increased 11.3% in 2020, and rose to a record $717,930 in December, before dropping to $699,980 in January. Still, this was up 21.7% from the previous year. We believe high home prices could be an impediment to future economic growth.

Table 2

Five-Year Trend Analysis

	2016	2017	2018	2019	2020
Total assets	279,046,271	341,864,374	400,892,267	471,367,774	539,932,245
% change	11	23	17	18	15
Total debt	114,278,686	162,721,143	201,947,877	247,129,710	295,073,734
% change	19	42	24	22	19
Total equity	163,328,975	177,203,912	195,580,511	217,458,920	233,186,478
% change	6	8	10	11	7
Total net equity	161,328,975	93,575,822	112,663,068	166,570,921	129,548,862
% change	8	(42)	20	48	(22)
Revenues	22,583,388	26,043,853	25,847,033	31,915,517	30,212,536
% change	34	15	(1)	23	(5)
Expenses	10,717,811	12,565,759	15,984,831	18,854,808	17,593,250
% change	21	17	27	18	(7)
Net income	2,415,059	4,531,328	7,386,845	10,030,007	8,334,641
% change	19	88	63	36	(17)
Total loans	172,327,689	230,603,463	270,921,385	322,382,587	395,352,467
% change	24	34	17	19	23
Nonperforming assets	422,162	6,170,800	10,859,328	18,343,285	4,278,575
% change	0	1,362	76	69	(77)

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of July 26, 2021)		
Century Hsg Corp Taxable Rev Bnds ser 2019		
Long Term Rating	AA-/Stable	Affirmed
California Municipal Finance Authority, California		
Century Hsg Corp, California		
California Municipal Finance Authority (Century Hsg Corp) Sustainabilty Bonds		
Long Term Rating	AA-/Stable	Affirmed