FitchRatings

Public Finance
Community Development & Social Lending
U.S.A.

Century Housing Corporation, California

The Issuer Default Rating (IDR) and debt ratings of Century Housing Corporation, CA (Century), a community development financial institution (CDFI), reflect its very strong revenue defensibility and operating risk profile, which are bolstered by effective oversight and solid financial performance. It exhibits a strong operating profile derived from lending products, grants and other revenue sources. Strong asset quality, a healthy capital base, profitability and a strong leverage profile, all key drivers, are stable. Earned income and liquidity exposure are also factored into the rating. Century exhibits strong and prudent management of its operations, evidenced by its management of finances, loan performance and good standing, with federal oversight provided by the U.S. Department of the Treasury's CDFI Fund.

In 2022, Fitch rated Century's CP program. The 'F1+' rating on the CP program reflects its 'AA' Long-Term IDR and sufficient liquidity, both through unrestricted cash and investment balances and available short-term liquidity facilities, to repay CP notes in the event of a failed remarketing. As of June 30, 2023, there were no CP notes outstanding, but Century is authorized to issue up to $100 million in CP notes at any given time. The leverage associated with the maximum authorized amount of CP is factored into the rating and does not have a material impact on the financial profile.

Security

Century's obligations are secured by the corporation's full faith and credit pledge. The series 2020 bonds and 2021 sustainability notes are GOs of Century, payable from all legally available revenues and assets. The CP notes are general unsecured obligations of the corporation and are not supported by external liquidity.

Rating

Long-Term Issuer Default Rating	AA
Self-Liquidity Rating	F1+

Rating Outlook

Long-Term Issuer Default Rating	Stable

Outstanding Debt

California Municipal Finance Authority Taxable Bonds, Series 2020 (Century Housing Sustainability Bonds)	AA
Century Housing Corporation 2021 Century Sustainable Impact Notes	AA
Century Housing $100 Million Maximum Taxable Commercial Paper (Sustainability) Notes, Series 2022-A	F1+

Applicable Criteria

Public Sector, Revenue-Supported Entities Rating Criteria (April 2023)

Related Research

Fitch Affirms Century Housing, CA's IDR at 'AA' and CP at 'F1+' (October 2023)

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Key Rating Drivers

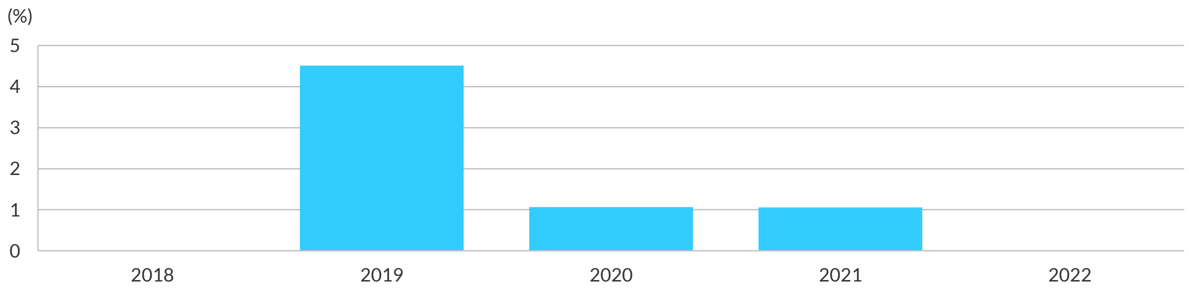
Revenue Defensibility: aa

The 'aa' revenue defensibility assessment reflects Century's exposure to revenue disruption based on the asset quality of its loan portfolio, including loan performance, portfolio composition, net chargeoff rates and the availability of reserves to offset loan losses. Overall demand for Century's loan products, which contributes to growth and profitability, is also another important factor.

Asset Quality

Based on Fitch's review of five years of audited financial statements for 2018 through 2022, Century maintains strong and stable portfolio performance, as measured by a declining NPL ratio and a very low net chargeoff ratio of 0.02%. Century's loan portfolio has historically experienced minimal losses over multiple cycles. As of June 30, 2023, Century had no NPLs outstanding (defined as loans 90 days or more delinquent or in default, foreclosure or nonaccrual status) in its portfolio, and its NPL ratio has averaged only 1.33% over the past five years, down from a five-year average NPL ratio of 2.14% in fiscal 2021.

Nonperforming Loans



Source: Fitch Ratings

Additional Considerations — Revenue Defensibility

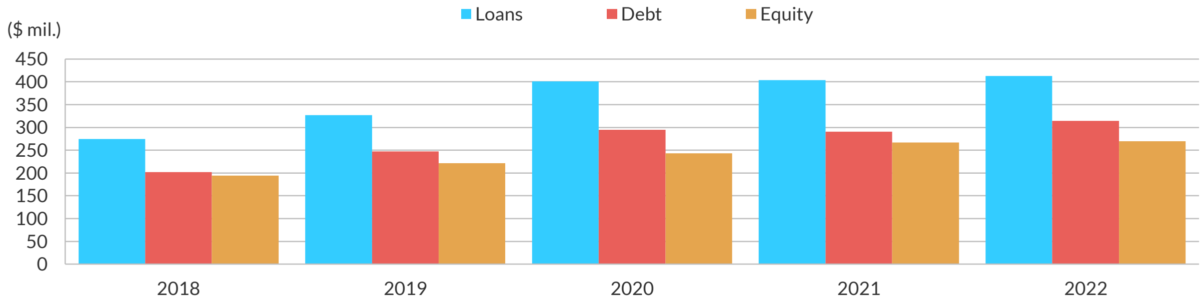
Century maintains sufficient loan loss provisions for impaired loans, in line with its internal financial covenants and loan performance monitoring. It employs a risk-based approach for estimating potential losses on its loan portfolio. Century's allowance for loan losses averaged 1.32% of total loans outstanding for 2018 through 2022, far exceeding actual loan losses (as measured by net chargeoff rates), which averaged just 0.02% per year during this period.

Century operates almost entirely in one of the least volatile CDFI sectors — affordable housing — and a high proportion of its loans are secured. This is partially offset by its relatively high exposure to unenhanced predevelopment, construction, acquisition and bridge loans, which are generally at a higher risk of default than permanent loans. Additionally, Century operates in only one state: California, which exposes it to high geographic concentration risk, although its loans finance properties in approximately 16 different metro areas statewide.

Century's expanding lending program model has proven effective, as demonstrated by overall growth and strong loan performance. Its loan portfolio demonstrated average annual growth of 11.2% between 2018 and 2022, with an average loan balance of $364 million. Fitch expects this growth to continue due to ongoing unmet demand for affordable housing, particularly in California. Further, given Fitch's worsening macroeconomic forecast for 2024, demand for affordable housing and community development loans offered by CDFIs is expected to rise.

Century's strong revenue defensibility assessment is further enhanced by its long track record of successful community development lending, resulting in strong relationships with its customers and partners, along with other competitive advantages that are likely to endure over the long term.

Balance Sheet Growth



Source: Fitch Ratings

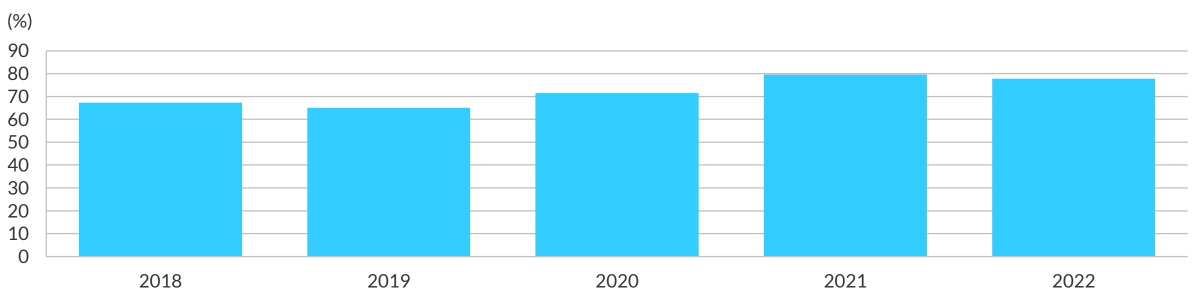
Operating Risk: aa

The 'aa' operating risk assessment reflects Fitch's view of Century's earnings and profitability. Century has consistently demonstrated solid profitability margins over time. Relative to many other CDFIs, Century is somewhat less reliant on grant income, which can be a more variable funding source compared to earned income. Operational practices and policies that reduce operating risk are also factored into the operating risk assessment.

Operating Profitability

Century’s relatively manageable cost burden creates flexibility in operations, which contributes to a stable operating profile and strong loan profitability. Century's net interest spread (NIS), which measures the difference between the average rate earned on its assets and the average rate paid on its liabilities, averaged 72.3% from 2018 through 2022. Century’s primary revenue source is interest income and fees generated from its various lending products. Interest income on loans has grown steadily to over $29 million in fiscal 2022, averaging $26 million over the past five years.

Net Interest Spread

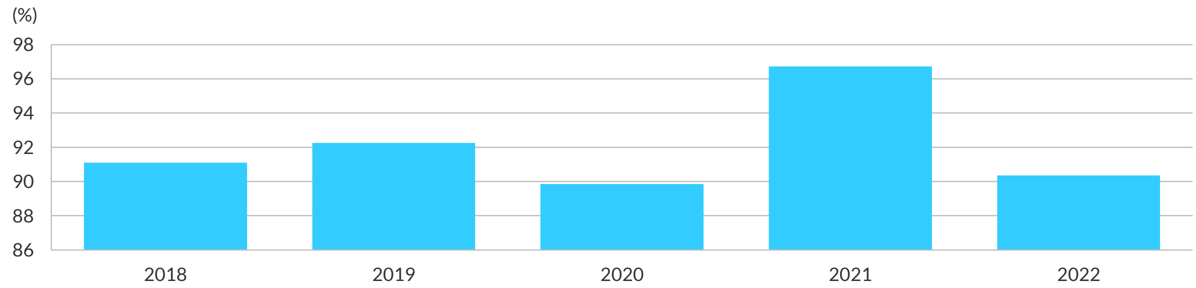


Source: Fitch Ratings

Grant Funding

Century has historically been less reliant on grant income compared to many other CDFIs, which is favorable to Fitch’s operating risk assessment. Century’s earned income ratio (EIR), a key operating risk factor, averaged 92.1% between 2018 and 2022, demonstrating a heavier reliance on earned income (versus grant income) to support its operations. Grants and contributions were, on average, $2.5 million per year from 2018 through 2022.

Earned Income Ratio



Source: Fitch Ratings

Additional Considerations — Operating Risk

Century has a sophisticated and prudent risk management approach to its overall lending activities while managing expense ratios. It has created a lending model that fulfils its mission while factoring volatility and loss exposure, which does not impede its operating flexibility or financial position.

Century's risk reporting tools are very robust and risk limits are highly conservative, consistently adhered to and routinely monitored. Safeguards are in place to limit loss exposure and prudent measures are followed to mitigate losses and ensure repayment. Asset reviews are conducted regularly, including evaluations of borrower credit to determine if loan adjustments are necessary. Additionally, risk controls such as internal ratings, watchlists and other risk monitoring scales are consistently used to measure risk exposure. In line with its mission, Century's control environment is systemically adapted to meet higher business volumes such that growth is unlikely to affect its overall ability to operate. With its strong capital position, healthy cash balances and limited debt burden, Century is in a solid position to manage borrower-related pressures amid slowing economic growth in the current environment.

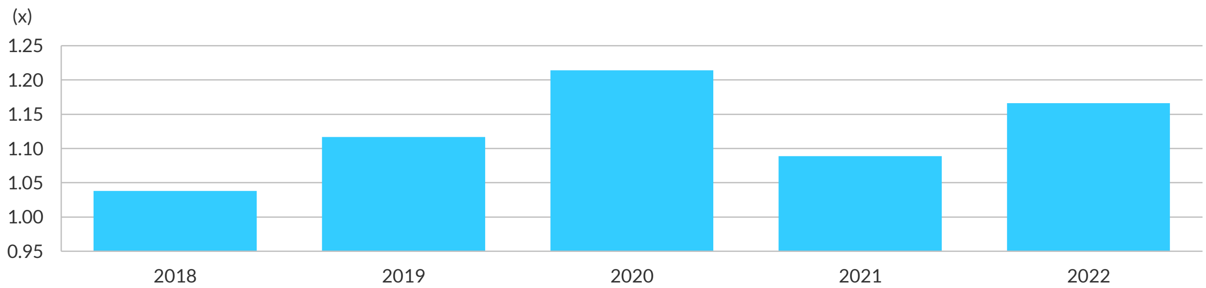
Financial Profile: a

The 'a' financial profile incorporates leverage and the impact that unreserved, unexpected losses may have on the organization's resources. The debt to equity (DTE) ratio, core capital ratio (CCR) and short-term liquidity (STL) are all key drivers for evaluating financial flexibility.

Leverage

Century's leverage profile is strong, as reflected in its DTE ratio of 1.17x in fiscal 2022, consistent with its five-year average DTE ratio of 1.13x for 2018 through 2022. Century's main funding sources include notes and bonds payable, revolving lines of credit and CP. Outstanding debt declined to $280 million as of June 30, 2023, from $314 million in December 2022. As of June 30, 2023, there were no CP notes outstanding; however, Century is authorized to issue up to $100 million in CP under the program.

Debt to Equity



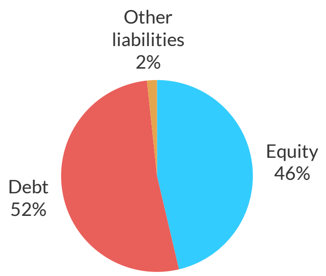
Source: Fitch Ratings

Additional Considerations — Financial Profile

Capitalization levels are stable, with a CCR of 30.7% in 2022 and a five-year average CCR of 33.0% from 2018 through 2022. This demonstrates that Century's capital base provides a strong cushion to absorb unexpected losses and incorporates its exposure to a broad range of lending risks.

STL, as measured by the ratio of unrestricted cash, liquid assets and undrawn committed facilities to short-term debt, averaged 1.74x for 2018 through 2022 and stood at 1.44x in fiscal 2022, representing sufficient coverage for meeting short-term obligations.

Sources of Capital



Source: Fitch Ratings

Asymmetric Risk Factors: Neutral

Risk factors such as management, debt and market risk characteristics, as well as external support and regulatory mandates, are considered neutral to the rating.

Management and Governance

Century is a well-governed organization managed by an objective and engaged nine-member board of directors. In addition, Century has an 11-member executive team with extensive experience in affordable housing development and lending at Century or other mission-driven organizations. Strategic objectives are transparent, well-articulated and consistent with operational and financial performance. Prudent asset, operational and financial management policies have contributed to positive growth trends and strong debt management. Century continually monitors its borrowers and reports loan performance for all segments on a regular basis. Additionally, compliance with internal covenants is consistently reported in financial reports.

Debt and Market Characteristics

Debt characteristics are neutral to the rating. Market risk characteristics are captured in the core capital analysis.

External Support and Regulatory Mandate

Century has a long track record of stable support and maintains strong relationships with all levels of government and other partners. It maintains good standing with federal oversight provided by the U.S. Department of the Treasury's CDFI Fund.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A material increase in delinquencies that causes NPLs to exceed loan loss reserves and weakens asset quality.
- Margin volatility exacerbated by operating cost escalation that outpaces revenue growth, thereby thinning financial resources and weakening margins.
- A material decline in grant revenue and/or investment income that negatively impacts overall financial flexibility.
- A deterioration in the corporation's leverage position, with its DTE ratio increasing above 3.0x.
- A deterioration in Century's financial position, with its CCR remaining below 25% for a sustained period.
- A downgrade to Century's Long-Term IDR could affect its short-term and CP ratings, pursuant to Fitch's short-term rating criteria.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Strengthened financial performance as reflected in positive trends in financial ratios, including DTE and STL, over a sustained period.
- Demonstrated trends of high profitability and reserve levels relative to loan program performance.

Profile

Century is a CDFI supporting quality affordable home development throughout California. With offices in Culver City, Long Beach and San Francisco, it provides end-to-end financing from predevelopment to permanent loans. Century partners with state and local agencies, municipalities and other CDFIs in pioneering aggressive financing programs; examples include the Golden State Acquisition Fund and L.A. County Housing Innovation Fund.

Century finances affordable housing developments throughout California. It provides tax-credit developers and infill developers with loan solutions and services that include acquisition and construction loans.

The corporation uses the CP program to finance and refinance loans under its affordable housing lending program.

ESG Considerations

Century has an ESG Relevance Score of '4'[+] for Human Rights, Community Relations, Access and Affordability, reflecting the positive impact on loan performance from Century's emphasis on financial education, counseling for borrowers and loss mitigation strategies. This contributes to lower delinquency rates in the loan portfolio. These strategies, intrinsic to Century's mission to provide fair and responsible financing to under-resourced communities, have a positive impact on the credit profile and are relevant to the rating in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, due to either their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Key Financial Statement Data and Ratios

	As of Dec. 31					Five-Year
	2022	2021	2020	2019	2018	Average
Balance Sheet Data ($ Mil.)						
Cash and investments	180.529	164.128	147.754	146.904	124.361	152.735
Loans payable, net	408.122	398.233	395.353	322.383	270.921	359.002
Loans delinquent or in nonaccrual status	—	4.279	4.279	14.744	—	4.660
Loans written/charged off, net of recoveries	—	—	0.380	—	—	0.076
Allowance for loan losses	4.833	5.291	5.325	4.616	3.744	4.762
Loans payable, gross	412.955	403.524	400.678	326.999	274.665	363.764
Total assets	**596.331**	**568.697**	**549.738**	**475.189**	**399.872**	**517.965**
Short-term debt	149.759	84.642	54.993	134.738	167.822	118.391
Bonds outstanding	110.564	167.173	93.538	49.400	—	84.135
Total debt	**314.162**	**290.997**	**295.074**	**247.130**	**201.948**	**269.862**
Net assets	269.505	267.184	242.992	221.280	194.560	239.104
Income Statement Data ($ Mil.)						
Interest income	32.824	30.324	29.228	28.753	22.593	28.744
Contributed revenue	3.590	1.060	3.065	2.475	2.300	2.498
Earned revenue	33.628	31.371	27.147	29.441	23.546	29.027
Total operating revenue	**37.218**	**32.431**	**30.212**	**31.916**	**25.846**	**31.525**
Interest expense	−7.281	−6.180	−8.335	−10.030	−7.386	−7.842
Total operating expense	**−17.111**	**−15.326**	**−17.593**	**−18.855**	**−15.980**	**−16.973**
Net operating income	20.107	17.105	12.619	13.061	9.866	14.552
Net income	2.321	24.192	21.712	26.720	21.553	19.300
Key Ratios (%)						
NPL ratio	—	1.060	1.068	4.509	—	1.327
Net chargeoff ratio	—	—	0.095	—	—	0.019
Loan loss provision	1.170	1.311	1.329	1.412	1.363	1.317
Net interest spread	77.818	79.620	71.483	65.117	67.308	72.269
Earned income ratio	90.354	96.731	89.855	92.245	91.101	92.057
Net operating revenue as % of total revenue	54.025	52.743	41.768	40.923	38.172	45.526
ROAA	0.007	3.362	3.397	4.402	7.202	3.674
ROAE	0.015	7.371	7.499	9.264	14.262	7.682
Debt to equity ratio (x)	1.166	1.089	1.214	1.117	1.038	1.125
Equity to assets ratio	45.194	46.982	44.201	46.567	48.656	46.320
Fitch core capital ratio	30.728	31.499	32.127	33.980	36.533	32.973
Short-term liquidity ratio (x)	1.444	2.320	2.949	1.152	0.827	1.738

Source: Fitch Ratings

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.