S&P Global
Ratings

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Research Update:

Century Housing Corp., CA's $325 Million Sustainable Impact Notes Assigned 'AA' Rating

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Overview

- S&P Global Ratings assigned its 'AA' long-term rating to Century Housing Corp. (Century), Calif.'s, $325 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.

Rationale

Security

Century's general obligation (GO) pledge secures the sustainable impact notes, as well as its bonds and CP outstanding. We view the GO pledge 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.

Century plans to issue up to $325 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 note proceeds 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, 2025, the aggregate principal amount of notes outstanding was $112.9 million. The amount of notes available for purchase will vary depending on the amount of notes sold and the amount of notes that mature and are repaid during the offering period.

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's Century's lending arm.

Credit highlights

Century was incorporated in 1995 as a nonprofit public benefit corporation as the successor-in-interest to a housing program formerly administered by the State of California relating to the Century Freeway Housing Program. Today, Century operates as a certified community development financial institution (CDFI) and a nonprofit lender providing financing to developers of affordable and workforce housing, and through its controlled affiliates builds and operates affordable and supportive housing communities within the State of California. To date, Century and its predecessor have developed and/or financed more than 63,520 affordable housing units throughout the state.

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 of our other rated 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 its rated peers;
- Very strong asset quality, with five-year average nonperforming assets (NPAs) at 0.2% 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 most of Century's loans and its strong underwriting and insurance requirements partially mitigate this risk. Social and governance risks have neutral implications in our credit analysis.

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 unlikely 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 because 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 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 a positive rating action.

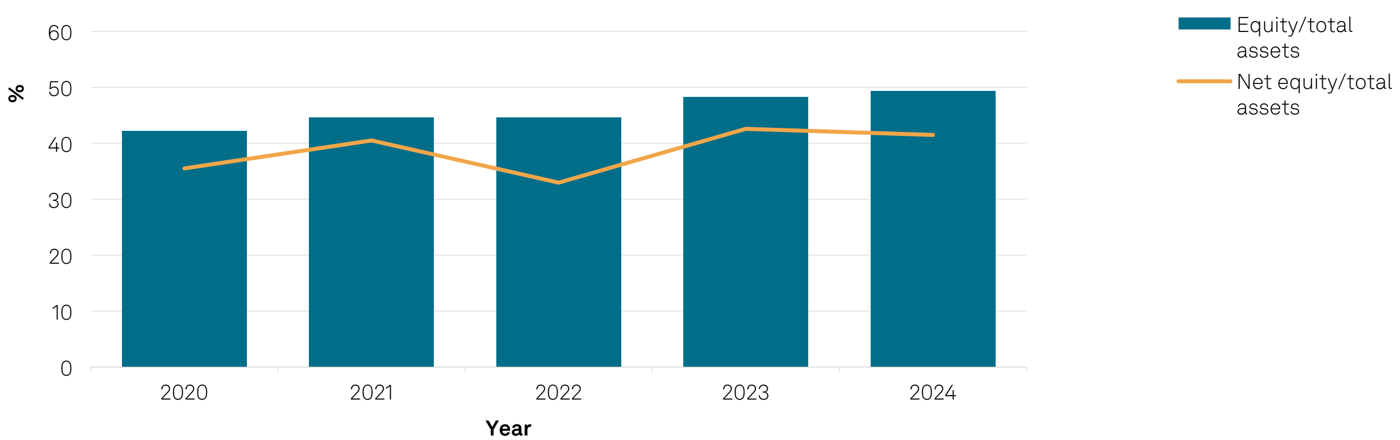
Credit Opinion

Financial Strength

Capital adequacy

Century maintains extremely strong equity ratios because of its highly capitalized position, low debt, and profitability. Its total equity increased by 7.8% a year, on average, in fiscal years 2020-2024. Century's trailing five-year average equity-to-assets and net equity-to-assets--45.8% and 38.6%, respectively--are extremely strong compared with those of peers. While total equity improved relative to total assets in 2024 for the fourth consecutive year--increasing to 49.3% from 48.3% the previous year, net equity-to-total assets remained stable, contracting just 1% over the same period. This was fueled by a robust 12.7% year-over-year growth in the corporation’s loan portfolio, even as our calculated loss assumptions were lower resulting from our assessment of decreased risk in the loan portfolio in line with loan characteristics. In determining equity and profitability ratios, we continued to adjust for the fair value adjustments for investment securities.

Chart 1
Capital adequacy ratios
2020-2024



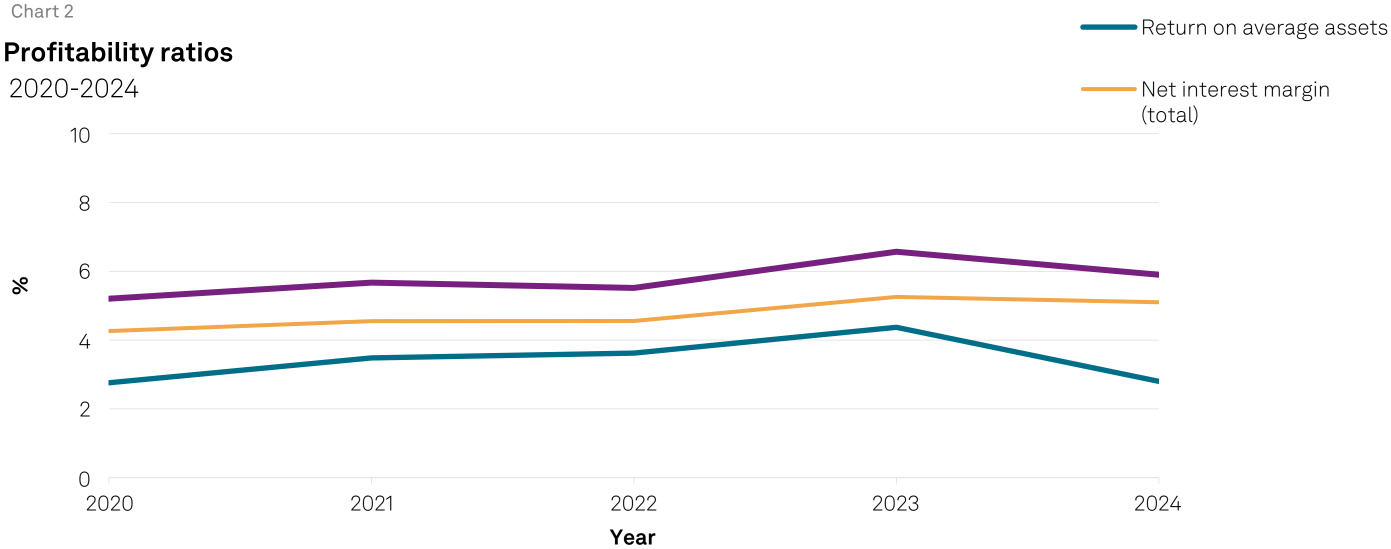
Source: S&P Global Ratings.

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, 2024, approximately 97.5% of Century's debt was fixed rate and the rest variable rate, and about 29% 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 grant income. It reported net income of approximately $17.1 million in fiscal 2024, a decrease of 34% from 2023 due to proportionately higher growth in expenses as the corporation adopted the current expected credit loss (CECL) accounting standard and experienced higher interest expenses. Nevertheless, Century's five-year average return on assets of 3.4% well 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



Source: S&P Global Ratings.

Asset quality

Nearly 75% 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.

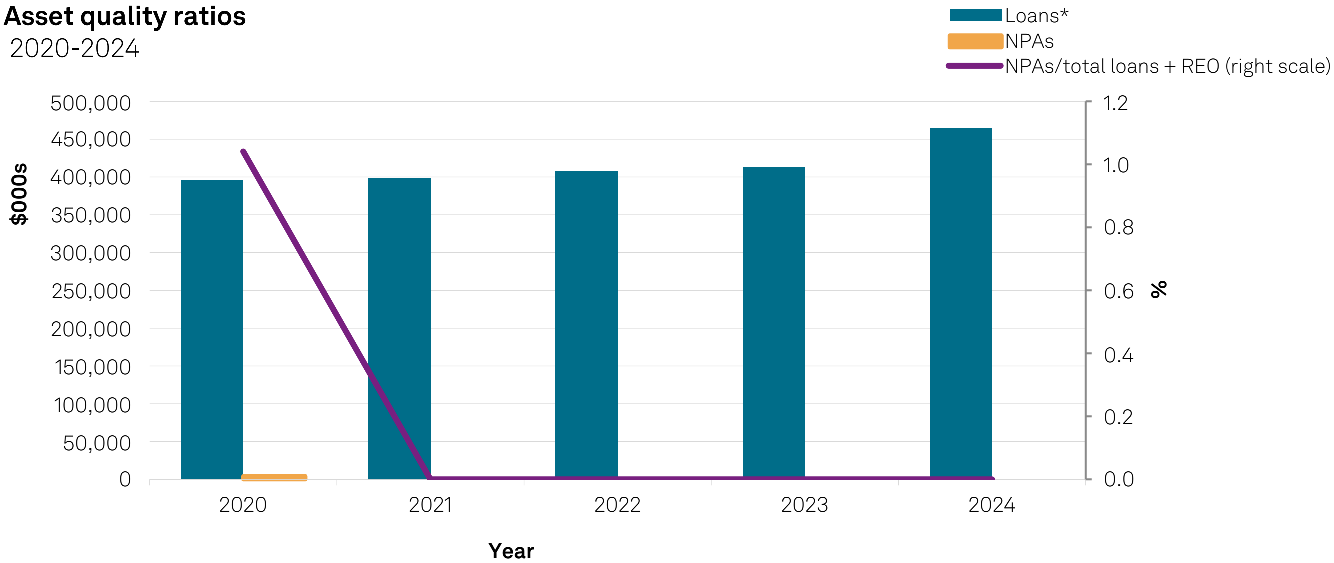
Century's lending portfolio consists of primarily early financing loans for multifamily housing, including predevelopment, bridge, and acquisition loans. We generally view early financing loans as riskier than permanent loans given greater exposure to repayment and takeout risks, but in certain cases 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 0.2%, mostly on account of delinquencies and forbearances in 2020. In the fiscal years since, the ratio stabilized at 0%.

Chart 3

Asset quality ratios

2020-2024



*Includes MBS. NPA--Nonperforming 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.

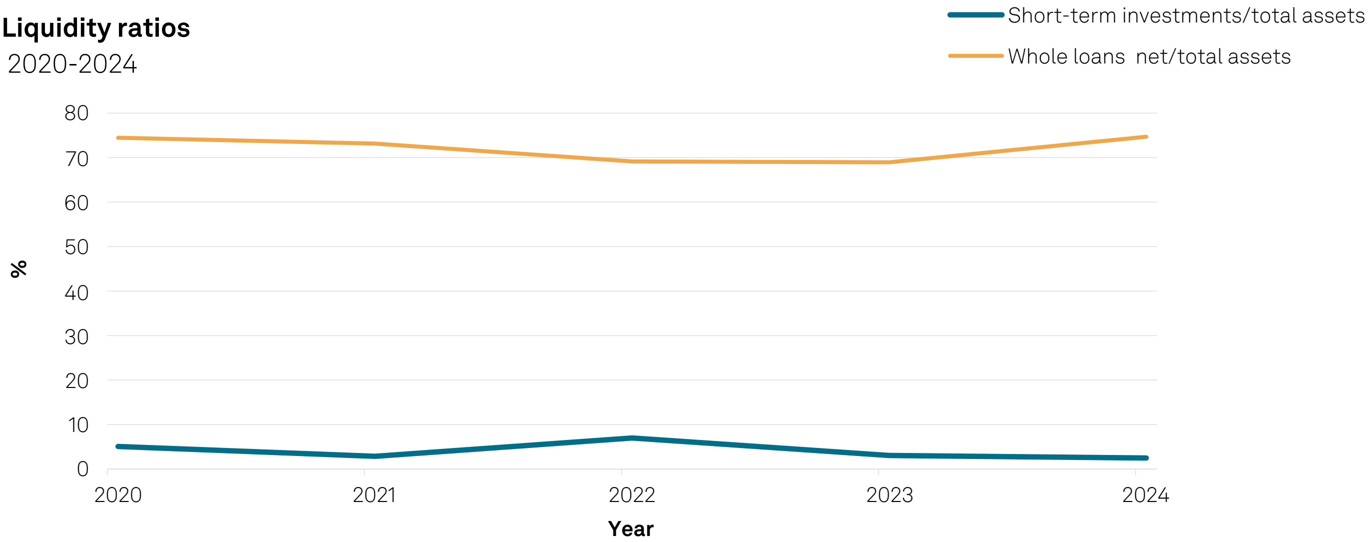
Liquidity

Century maintains strong liquidity, with a five-year average total investment to total assets of approximately 26.7%. Total investments represented 24.2% of total assets in fiscal 2024, down from 29.9% the prior year due to market volatility. Total loans accounted for 74.7% in fiscal 2024, factoring into a trailing five-year average 72.1%, and comparable with the median for rated CDFIs.

Chart 4

Liquidity ratios

2020-2024



Source: S&P Global Ratings.

While the proportionate size of Century's total investment portfolio relative to its assets is comparable with that of other rated CDFIs, its share of short-term investments remains lower than peers, at 2.5% in 2024 and a trailing five-year average of 4.1%. However, we believe that its focused and committee-based 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, the corporation 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 due to allocations in equities and high-yield bonds. However, investments are core to its capital strategy, used for reserves, liquidity, and operations if necessary. 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 deliberately reduced risk in its investment portfolio, winding down its equity positions to no more than one quarter of holdings at fiscal year-end 2024.

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. An 11-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 CFO, 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. The corporation experienced turnover at senior management roles including CEO and CFO in recent months, however we believe the depth and stability in the majority of key positions, as well as continuity with the board of directors, will prevent any disruption in Century's execution of its strategy.

In our view, Century's vision is clearly defined and sets 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. Its unemployment rate, which now sits at 5.5% (Bureau of Labor Statistics, December preliminary), is well above the national level, and S&P Global Ratings Market Intelligence forecasts the state's rate will continue to be in the mid-5.0% range through 2028. California's gross state product (GSP) is expected to largely mirror the national level in 2026 and 2027 at 2.0% and 1.3%, respectively. The state's well-educated workforce and burgeoning high-technology, biotechnology, and alternative energy sectors position it as a leading venture capital-recipient state.

S&P Global Ratings Market Intelligence forecasts the population to be roughly 39.5 million through the 2028 forecast period. Both the state's five- and 10-year compound annual growth rates were slightly below the U.S. growth rate. Although these modest declines have been at the margins, to the extent the trend persists or accelerates, it could cause additional economic pressure in the medium-to-long term.

Certain structural features of California's economy could undermine the state's potential resilience and threaten to impede its long-term growth prospects. For example, notwithstanding its boasting strong income and wealth indicators, with per capita income above that of the nation, the state is also plagued by an above-average poverty rate and an above-average portion of its population (about one-third) being on Medicaid. After accounting for the cost of living, particularly housing costs, the state's poverty measures look even worse, especially in California's large metropolitan areas. High home prices in the state remain a housing affordability problem, with increasing home prices becoming a political issue.

Financial ratios (2020-2024)

%	2020	2021	2022	2023	2024	Five-year average
Capital adequacy						
Equity/total assets	42.2	44.6	44.6	48.3	49.3	45.8
Net equity/total assets	35.5	40.5	33.0	42.6	41.5	38.6
Net equity/total loans	45.9	53.6	46.2	59.9	53.7	51.9
Equity/total debt	76.0	83.5	83.8	97.6	100.4	88.3
Net equity/total debt	63.9	75.8	61.9	86.1	84.5	74.4
Profitability						
Return on average assets	2.8	3.5	3.6	4.4	2.8	3.4
Net interest margin	4.3	4.6	4.6	5.3	5.1	4.7
Net interest margin (loans)	5.2	5.7	5.5	6.6	5.9	5.8

Financial ratios (2020-2024)

%	2020	2021	2022	2023	2024	Five-year average
Asset quality						
NPAs/total loans + REO	1.0	--	--	--	--	0.2
Net charge-offs/average NPAs	--	--	--	--	--	--
Loan loss reserves/total loans	1.3	1.3	1.1	1.1	1.7	1.3
Loan loss reserves/NPAs	124.5	--	--	--	--	24.9
Net charge-offs/average loans	--	--	--	--	--	--
Liquidity						
Total loans/total assets	74.5	73.2	69.1	69.0	74.7	72.1
Short-term investments/total assets	5.1	2.9	7.0	3.1	2.5	4.1
Total investments/total assets	24.1	25.6	29.7	29.9	24.2	26.7

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

Five-year trends ($000s)

	2020	2021	2022	2023	2024
Total assets	530,885	544,371	590,230	599,221	621,676
% change	14.3	2.5	8.4	1.5	3.8
Total gross loans	411,048	411,378	421,297	425,836	479,767
% change	23.0	0.1	2.4	1.1	12.7
Total equity	224,139	242,858	263,404	289,404	306,573
% change	6.5	8.4	8.5	9.9	5.9
Net equity	188,552	220,544	194,619	255,200	257,807
% change	4.0	17.0	-11.8	31.1	1.0
Net income	13,731	18,719	20,547	26,000	17,168
% change	-19.8	36.3	9.8	26.5	-34.0
Revenues	30,213	31,745	36,517	57,716	44,397
% change	1.0	5.1	15.0	58.0	-23.1
Expenses	17,593	15,177	16,850	22,028	25,941
% change	-6.7	-13.7	11.0	30.7	17.8
Loan loss reserves	903	7	-458	47	2,834
% change	3.6	-99.2	-6718.1	-110.2	5,982.0
Nonperforming assets	4,279	--	--	--	--
% change	-76.7	-100.0	--	--	--
Total investments	127,976	139,445	175,527	179,420	150,260
% change	-4.9	9.0	25.9	2.2	-16.2
Total debt	295,074	290,997	314,162	296,426	305,225
% change	19.4	-1.4	8.0	-5.6	3.0

Ratings List	
New Issue Ratings	
US$325.0 mil sustainable impact nts due 10/15/2028	
Long Term Rating	AA/Stable

Ratings List	
Ratings Affirmed	
Housing	
Century Housing Corporation, CA General Obligation ICR	A-1+
Century Hsg Corp, CA 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.