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Fitch: State Housing Finance Agencies' Assets Continue to Decline While Equity Increases.

Fitch Ratings-New York-22 September 2016: Despite balance sheet contractions, State Housing Finance Agencies (SHFA) have increased overall equity, according to a Fitch Ratings report.

In FY 2015, aggregate adjusted equity rose 2.6% from FY 2014 levels and increased 15.9% from FY 2010 levels.

Marking the fifth straight year of across-the-board declines, aggregate SHFA assets decreased by 0.8%; aggregate debt fell by 2.9%; and aggregate loans declined by 1.8%. Albeit at a reduced rate of decline compared with recent fiscal years, these decreases are reflective of the economic and mortgage-lending environments during that period and the shift in SHFAs' business model in response.

"FY 2015 contained the same challenges for SHFAs as the past several years. Low interest rates continued to suppress investment income and low conventional mortgage rates decreased the volume of SHFA-issued debt for originating new whole loan mortgages," said Ryan Pami, Associate Director.

"SHFAs sought other ways to remain profitable, such as originating loans through the to-b--announced market, utilizing direct sales of MBS and issuing MBS pass-through instruments. Despite the challenging environment, FY 2015 results demonstrated that SHFAs are financially sound, as median ratios, such as Net Interest Spread, Net Operating Revenue and Debt-to-Equity (DTE), continued to trend positively."

Leverage ratios continued to improve as the median adjusted DTE ratio declined to 3.1x in FY 2015 from 3.4x in FY 2014. This is significantly lower than the five-year average median and the FY 2010 median, which were 3.9x and 5.5x, respectively, and now stands as the lowest median DTE ratio in the past decade.
For more information, a special report titled "State Housing Finance Agencies – Peer Study" is available on the Fitch Ratings web site at www.fitchratings.com.

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