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Fitch: Strong Bal. Sheets, Fed Subsidies May Cushion Housing in 2021

Fitch Ratings-New York/Chicago-08 December 2020: Fitch Ratings views the tax-exempt housing sector as having an evolving Outlook in 2021. The sector was financially well-positioned in 2020 and housing finance agencies (HFAs) are expected to adequately navigate in an environment of rising single and multifamily delinquencies and loan forbearances. HFA equity ratios have steadily improved yoy with a 23% increase from 2015-2019. Fitch does not expect to see the same level of increases (yoy average of 5%) in 2021, however the challenges going into 2021 do not rise to wide spread financial pressure given the strength of HFA balance sheets. Increases in single-family and multifamily housing delinquency rates in 2020 have been mitigated by stimulus and federal programs that we anticipate will persist in 2021 given the essential need for affordable housing.

The sector's ratings are largely unchanged however, and rating Outlooks changes were more prevalent in 2020 due to the revision of the Outlook to Negative for loan programs with a direct link to the United States' Issuer Default Rating, which Fitch revised to 'AAA/Negative' in July 2020. Aside from prudent management; federal stimulus payments and expanded unemployment benefits have supported the sectors performance so far. Given the lack of supply and greater demand, it remains uncertain how much housing supply will come to the market in 2021. While affordable housing providers operate throughout the nation, rural vs. urban dwelling is not a major concern for the sector, aside from overvaluation of home prices.

The evolving Outlook reflects certain factors that remain to be seen and is contingent upon how key stakeholders, including investors, respond to the essential needs of the sector. Given these factors, Fitch expects to see an evolution of the sector throughout 2021. However, Fitch does not anticipate the sector will experience a significant negative impact based on how these factors evolve.

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