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Fitch: Fed Rate Cut Primes U.S. State Housing Agencies to Build Off Resurgent 2023

Fitch Ratings-New York/Chicago/San Francisco-26 September 2024: The Federal Reserve's 50-bp rate cut last week will help to spur stronger asset growth for U.S. state housing finance agencies (HFAs) after a year of renewed activity, according to a new Fitch Ratings report.

In fiscal year 2023, HFAs significantly increased their aggregate assets and debt. The rebound in debt issuance for affordable housing lending, coupled with competitive mortgage rates and down payment assistance, led to a notable 10.4% rise in total loans.

"Despite pressures from heightened operating expenses and bond rates, HFAs maintained stable net operating revenues and leveraged their strong financial positions to support ongoing affordable housing needs," said Senior Director Karen Fitzgerald. "The trend towards fixed-rate debt issuance over variable-rate debt further highlights their prudent financial management, demonstrating stability and profitability in a fluctuating economic landscape."

More restrictive bank lending standards has also helped precipitate stronger demand for loans as HFAs are able to underwrite loans to borrowers who may not currently qualify for loans from conventional lenders. However, the increase in demand for HFA loan products is somewhat tempered by the continued deterioration in housing affordability, especially for first-time homebuyers, according to Fitch Director, Kasia Reed.

"While lower rates make home purchases more affordable, supply remains an issue and constrains the demand unless more sellers enter the market in a lower rate environment," said Reed. "Additionally, lower rates may begin to increase prepayment speeds under more recent HFA bond programs as homeowners with higher mortgage rates look to refinance at lower rates."

Fitch's "State HFAs Sector Monitor: 2024" is available at www.fitchratings.com.