S&P Global Ratings

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New Mexico Mortgage Finance Authority; General Obligation

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Credit Profile		
New Mexico Mtg Fin Auth Issuer Credit Rating		
Long Term Rating	AA-/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'AA-' issuer credit rating (ICR) on the New Mexico Mortgage Finance Authority (NMMFA). The rating reflects our view of the general obligation (GO) and credit quality of NMMFA. The outlook is stable.

The 'AA-' rating reflects our view of the following strengths:

- Improving equity ratios, which measure an agency's ability to absorb operating deficiencies;
- Improving asset quality, measured by the percent of nonperforming assets (NPAs);
- The high quality of NMMFA's asset portfolio, with securitized mortgage loans comprising a majority of the assets;
- The low-risk debt profile, with variable-rate debt comprising 1% of the agency's debt profile;
- No GO debt outstanding;
- The high level of legislative and gubernatorial support of NMMFA; and
- Strong and stable management.

These strengths are offset by the following weaknesses:

- Declining total assets, with a consistent reduction in total mortgage-backed securities (MBS) value;
- Net income that continues to fluctuate year over year; and
- Five-year average profitability and leverage ratios that underperform when compared to other 'AA-' rated housing finance agencies (HFAs).

We believe NMMFA's loan portfolio has very high credit quality, with 67% of its mortgages receiving credit enhancement from Ginnie Mae, Fannie Mae, and Freddie Mac MBS and multifamily loans backed by the Federal Housing Authority (FHA) pursuant to its Risk-Sharing program. Most of NMMFA's loans are deployed under its single-family MBS loan parity bond program, which accounts for roughly 79% of its total loan portfolio and 67% of its assets. The remainder of the loan portfolio consists mostly of multifamily (12%) and general fund loans (8%).

NMMFA had $641.4 million in outstanding MBS as of Sept. 30, 2015, a 10% decline from fiscal 2014. Approximately 85% of its debt consists of single-family bonds, while 14% consists primarily of multifamily bonds. In 2015, only 1% of its total debt was variable-rate debt, while the balance was fixed rate. As of fiscal year-end 2015, NMMFA's equity position declined moderately to $190.5 million.

Our rating also reflects our opinion of the strength and stability of NMMFA's management team, which has been providing affordable housing finance opportunities for New Mexico residents for over 40 years.

Outlook

The stable outlook reflects our opinion of NMMFA's low-risk asset base, improved profitability, and stable management. Should its loan portfolio performance decline or its equity levels show a trend of deteriorating equity, we could take a negative rating action. However, given the high quality of NMMFA's loan portfolio, its improving profitability, and its low-risk debt profile, we believe the rating will remain stable in the outlook period.

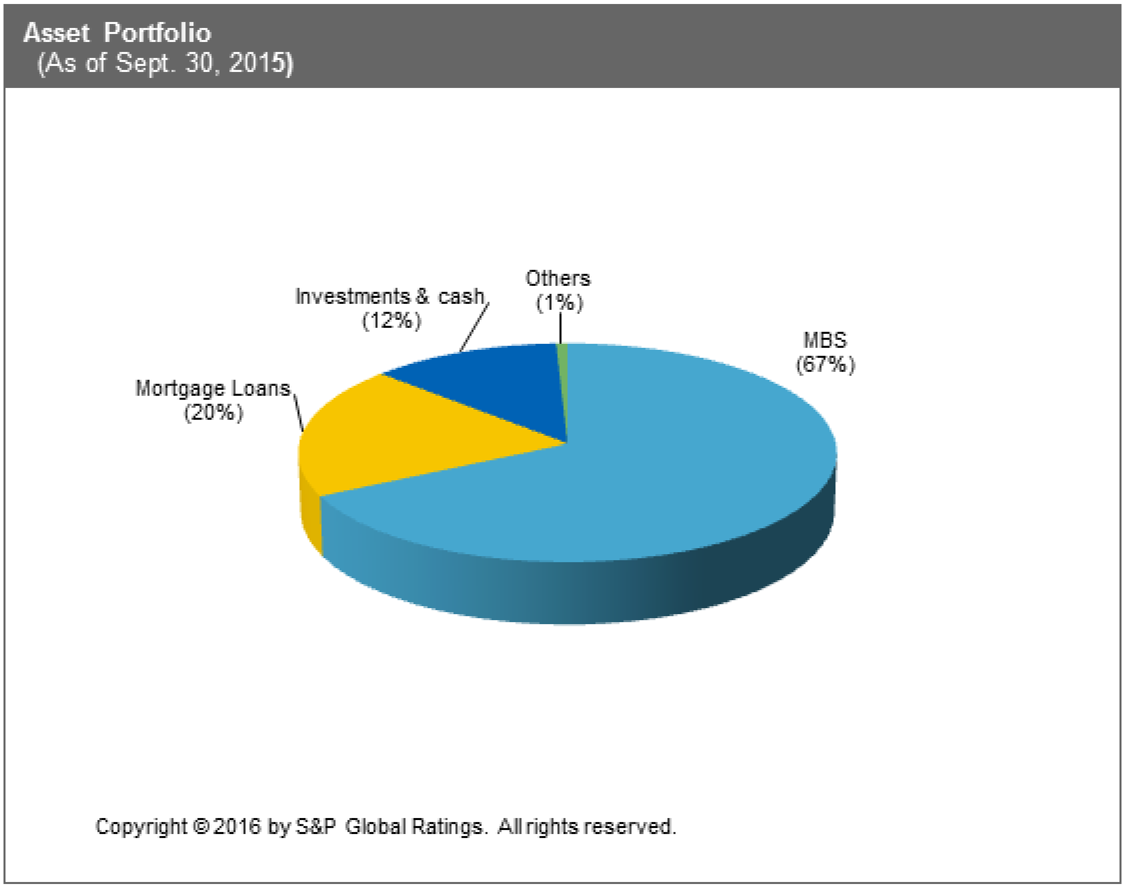
Asset Quality

NMMFA's asset base has steadily declined over the past five years. Total assets in 2015 were $953 million, a drop of 6.8% compared to fiscal 2014, reflecting an average decline of 10.5% per year since 2011. The decline has been due to the amount of loan prepayments exceeding the issuance of new loans. Specifically, NMMFA purchased $29.9 million in MBS and $15.8 million in whole loans during 2015. These purchases were offset by MBS prepayments totaling $80.1 million and whole loan prepayments totaling $0.8 million, bringing the net decrease of MBS and mortgage loans receivable to $65.5 million. The total value of MBS held by the authority has declined since 2009, from a high of $1.09 billion to $641 million in 2015.

Most of NMMFA's assets consist of Fannie Mae and Ginnie Mae MBS-enhanced mortgage loans and MBS (87%), as well as high-quality investment securities (12%). NMMFA's MBS and loan portfolio totaled $827.9 million in fiscal 2015, down more than 7% from fiscal 2014. The single-family bond programs are MBS-guaranteed, while the multifamily programs are mostly issued as conduits, with risk limited to applicable risk-share agreements on most of those transactions.

NMMFA's MBS and loan-to-total assets ratio decreased slightly to 86.87% in 2015 (see table 1). The single-family MBS loan parity bond program accounts for 79% of the total loan portfolio and 67% of NMMFA's assets (see chart 1). The remainder of the portfolio consists mainly of multifamily (11%) and general fund loans (8%). In addition to its mortgage revenue bond (MRB) program, the authority had $103 million in multifamily/rental housing loans and about $70 million in general fund loans as of Sept. 30, 2015.

Chart 1



NMMFA's mortgage loans represent 20% of total assets. Certain mortgage loans of the authority are insured by the FHA and partially guaranteed by the VA. As of Sept. 30, 2015, the authority held approximately $2.6 million of FHA-insured loans. The authority participates in the Risk Sharing loan program, under which the Department of Housing and Urban Development (HUD) provides credit enhancements for multifamily housing project loans, and assumes 90% of the risk of loss in the event of default on specific loans.

We consider NMMFA's loan portfolio to be one of the strongest among HFAs rated by S&P Global. NMMFA's 2011-2015 five-year NPA (mortgages delinquent in excess of 60 days and real estate owned) ratio is, in our view, very low (0.45%), well below the 3.99% for other 'AA-' rated HFAs (see table 2). The authority had NPAs of approximately $4.9 million in fiscal 2015, constituting only 0.59% of its total mortgages and MBS. Secondary loan-loss coverage for single-family mortgages is through pool insurance policies and authority funds. These mortgages pose minimal risk to the authority's fund balances, in our view, due to guaranteed coverage from federal programs, including VA, HUD, Rural Development, as well as private mortgage insurers. For loans with loan-to-value ratios below 80%, the authority does not require mortgage loan insurance.

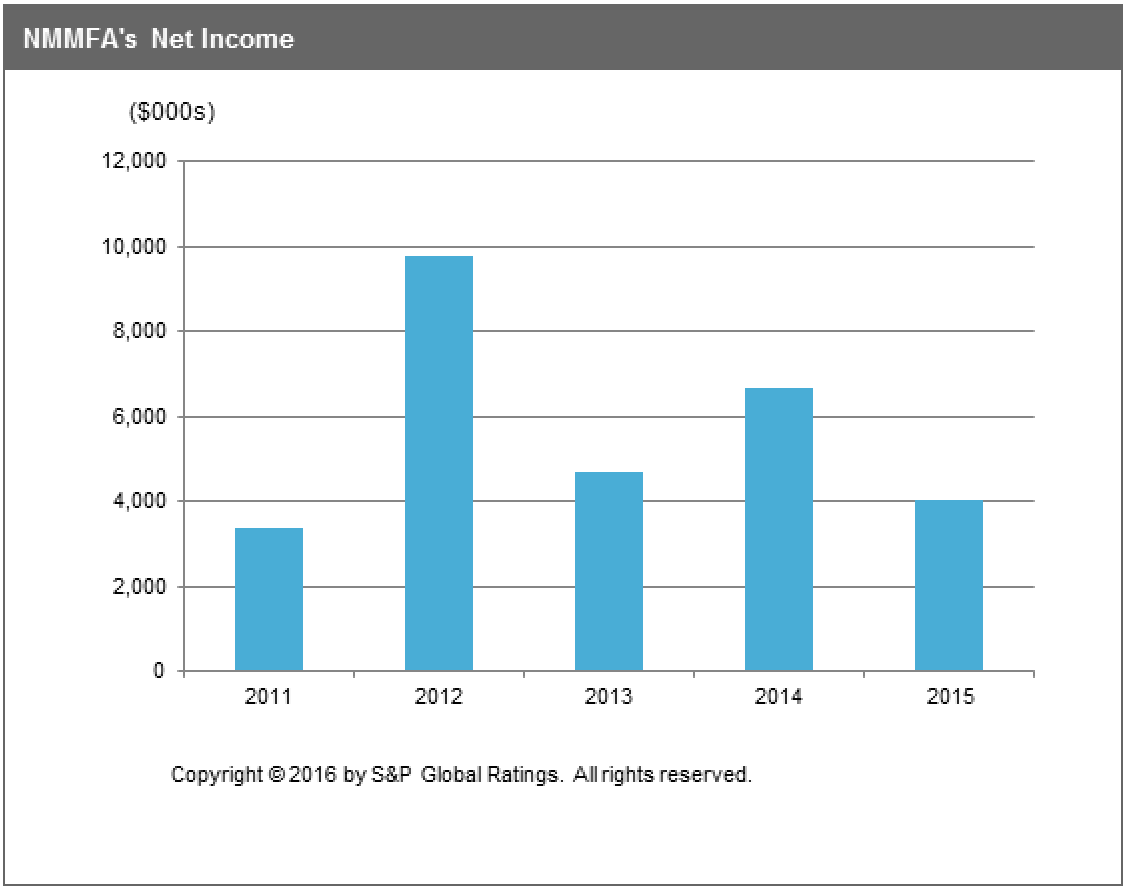
We believe the MBS program and NMMFA's strong oversight of its mortgage portfolio have helped the authority control the delinquency and foreclosure rates on its loans. In addition, we believe management's preference for government-enhanced MBS over whole loans effectively protects the authority's assets from New Mexico's volatile housing market, which is among the weaker markets in the U.S. in terms of price appreciation and delinquencies. In our view, NMMFA's use of 'AA+' eligible MBS for its single-family issues insulates NMMFA from significant exposure to changing mortgage rates.

Financial Performance

While NMMFA's total equity declined 3% in fiscal 2015 to $190.5 million, its leverage ratio has continued to increase since 2010. Equity reached 20% of total assets in 2015, bringing its five-year average to approximately 16.2%. This increase is partly due to a reduction in outstanding debt from $1.3 billion in 2011 to $742 million in 2015. While this leverage ratio has been increasing steadily over recent years, NMMFA is still below the five-year average leverage for 'AA-' rated HFAs, which is 19.24% (see table 2). On a trend, however, NMMFA's equity has been increasing in recent years, whereas the equity for other 'AA-' rated HFAs has remained below 20% since 2012. As NMMFA continues to improve its equity position, we expect its five-year average leverage ratio to become more in line with its peers.

Net income in fiscal year 2015 was approximately $4 million, after reporting $6.7 million in 2014 and $4.7 million in fiscal year 2013. An increase of 50% in other revenue led to the increase in net income during 2014, while total expenses that year decreased 10%. The decrease in net income between 2014 and 2015 is partially due to reduced mortgage interest revenue and a loss in the fair value of investments, leading to an overall decline in total revenue of 14% and a decrease in total expenses of 10% (see chart 2).

Chart 2



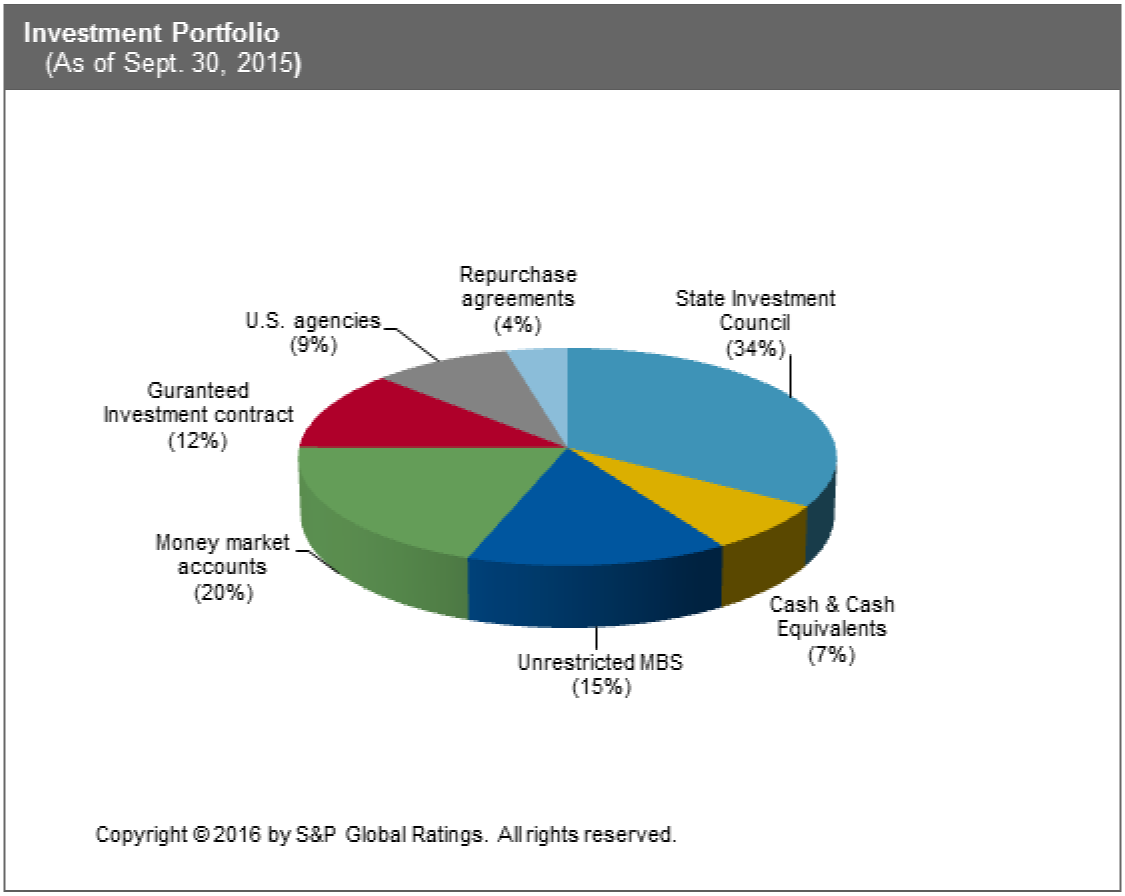
In 2013, NMMFA began selling MBS on the secondary market to fund its single-family mortgage program as the low interest rates limit its profitability issuing new bonds. This has resulted in decreases of 6.8% in total assets and 7.7% in liabilities in fiscal year 2015, but the declines are not indicators of reduced single-family production. We expect NMMFA to continue using the secondary market to finance its single-family mortgage loans, which we consider a favorable strategy to maintain its programs.

Fluctuations in net income contribute to volatility in NMMFA's profitability. Return on average assets (ROA) increased to 0.61% from 0.38% between 2013 and 2014, before decreasing to 0.41% in 2015. This fluctuation brought the authority's five-year average to 0.46%, which is below the 0.63% figure of other HFA's rated 'AA-' by S&P Global (see table 2).

Investments

Total investments (excluding the agency's restricted MBS) accounted for 12% of the total asset base in fiscal 2015, totaling $99.3 million. This represents a slight decrease in investments from 2014. NMMFA's investment portfolio is composed of state investment council pools (34%), money market funds (20%), unrestricted MBS general fund investments (15%), guaranteed investment contracts (12%), U.S. treasuries and U.S. agency securities (9%), repurchase agreements (4%), and cash and cash equivalents (7%) (see chart 3).

Chart 3

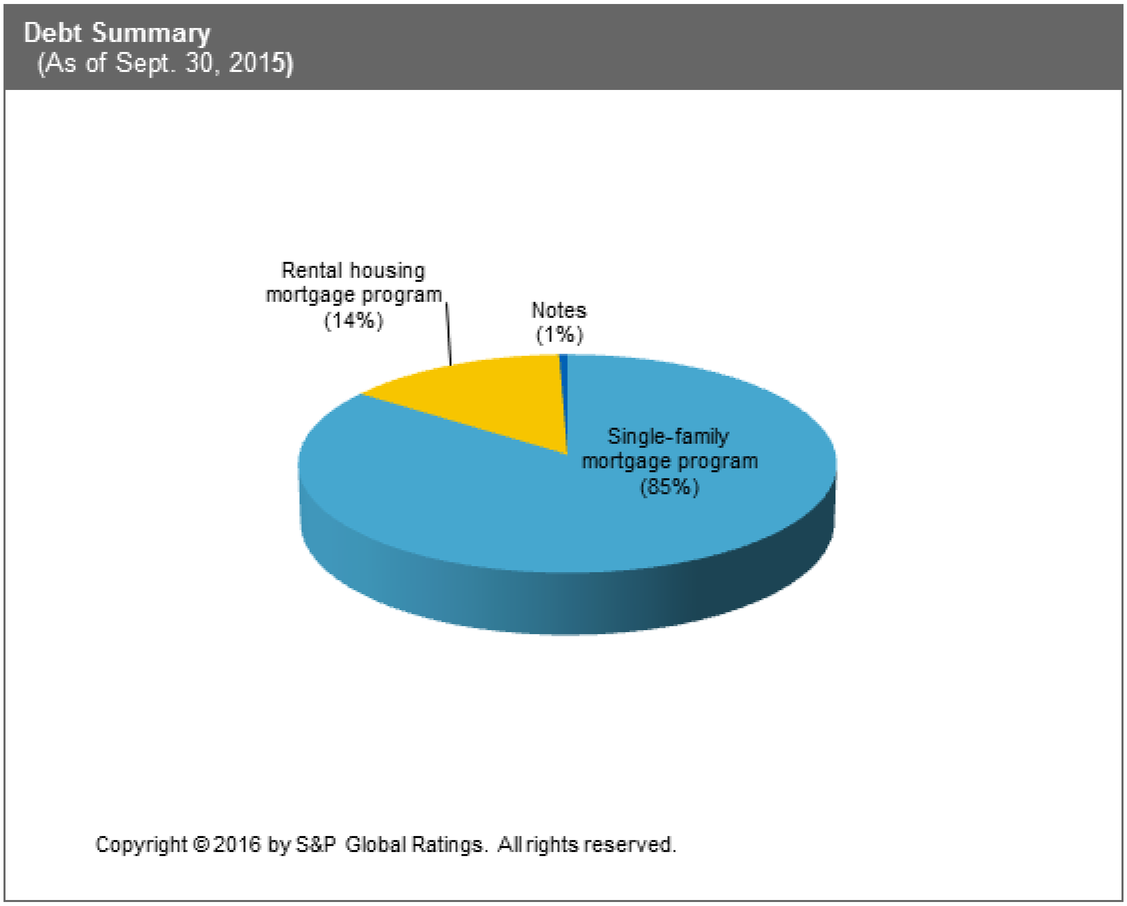


The agency's investments are made in accordance with its investment policies to ensure capital preservation and provide sufficient liquidity, with approximately 40% of its investments maturing in less than one year. Approximately 32% of NMMFA's investment contracts are held in investment agreements with providers rated 'AA' or higher, compared to 54% in 2014. These agreements provide the authority with liquidity and protection against reinvestment risk under long-term bond programs.

Debt Profile

NMMFA had $742 million in outstanding bonds as of Sept. 30, 2015, a 9% decline from fiscal 2014. Prepayments and bond refunding exceeded issuance, resulting in a net decrease of $73 million. Approximately 85% of its debt outstanding consisted of the single-family mortgage program, while 14% of its debt consisted of multifamily bonds (see chart 4). In 2015, only 1% of its debt was variable rate, consisting of one guaranteed variable-rate debt issue, which does not expose NMMFA to any significant interest rate or remarketing risk. In our view, the authority has a very conservative financing strategy, with no exposure to interest rate swaps, derivatives, or exotic financial instruments.

Chart 4



As of fiscal 2015, NMMFA's multifamily obligations included a portfolio of FHA mortgage loans under the FHA Risk-Sharing program with a $108.6 million balance and a Section 538 Rural Rental Housing Guarantee loan with a $1.2 million balance. In both instances, NMMFA assumes 10% of the mortgage loan risk. NMMFA reported a zero balance of net capital bonds payable as of Sept. 31, 2015.

During fiscal 2015, NMMFA issued $81.8 million in single-family mortgage program revenue bonds, of which $46.8 million was related to bond refunding transactions, which was $53.8 million more than the $28 million issued in fiscal 2014. In addition, NMMFA sold $115.5 million of single-family first-time homebuyer mortgages during fiscal 2015. The agency decreased negative arbitrage expenses by $0.5 million from the previous year by using: pass-through bond structures, an improved timing of redeeming bonds with cash received from prepayments, the continuous lending loan origination model, and the secondary market to fund single-family loans.

Management

In our opinion, NMMFA's management is strong and actively seeks to improve its financial performance and operations with an experienced staff and an active board of directors. The authority is overseen by a 16-member legislative oversight committee, which consists of both Democratic and Republican state senators and representatives from throughout the state. The board of directors consists of seven members, four of whom are appointed by the governor and three are ex-officio voting members from New Mexico: the lieutenant governor, attorney general, and treasurer. The four appointees serve staggered, four-year terms and have experience in senior management, banking, accounting, real estate, and economic development. The authority meets to strategically plan with its board of directors annually, which we view as a strength. Senior management meets quarterly to review and ensure consistency with its plan.

The authority uses lenders and brokers throughout the state to originate single-family mortgages, which are eventually securitized by Ginnie Mae or Fannie Mae MBS and pledged under NMMFA bond programs. The authority uses master servicers to purchase mortgage loans from the lenders for its single-family program; second loans, and other special loans are serviced in-house. The department of accounting/servicing verifies all subservicer remittances monthly, and tracks MBS balances and all bond trustee accounts. Additionally, all bond redemptions are reviewed by the finance staff and trustee prior to execution to ensure compliance with trust indenture legal requirements.

NMMFA's staff consists of 71 employees and currently manages over 30 housing programs such as weatherization assistance, emergency shelter grants, the HOME investment partnership program, and low-income housing tax credits. The HUD has designated the authority as a Tier 1 or top performer as part of its FHA loss-mitigation initiative. Because of the continued success of the authority and historically strong relations with the state, we believe that it is unlikely that the state would appropriate funds from NMMFA for general state needs.

Economy

In our view, New Mexico's economy still lags the average level of the U.S. According to IHS Global Insight, New Mexico's dismal rate of payroll growth continued in the first quarter of 2016, decelerating slightly to 0.2% year on year. Weakness in the mining sector continues to exacerbate an already sluggish recovery hindered by reliance on federal government jobs and spending. Natural resources and mining plunged another 25.8% year over year in the first quarter of the year. The number of active rigs statewide fell to just 15 in March, compared with 56 at the same time last year. The decline in energy activity has rippled out to other sectors of the state economy, including transportation and warehousing, which fell 7.3% year over year. Business services, a significant contributor to job recovery in many other places, added only 0.4% in the first quarter, extending a long streak of growth under 1.0%. There were some bright spots in the service economy, however. Health services and leisure/hospitality services added jobs at a pace of 5.6% and 3.6%, respectively. Construction employment gains also accelerated to 2.9%, its fastest pace since the third quarter of last year.

IHS expresses a hopeful view of the housing market in New Mexico. According to the Federal Housing Finance Agency's purchase-only home price index, home values rose 2.6% in the second quarter compared with the same period last year. The residential market here turned the corner around the same time as the nation, but so far has recovered at a much slower pace. Home values currently stand at 90% of their prerecession peak. Given that home prices were severely overinflated during the housing boom, this is not far off from fundamentals. Construction of new single-family homes continues to bounce around near the trough as demand is simply not there and foreclosure rates are currently the eighth-highest in the nation. Multifamily starts are down as well, with the sector not seeing a run-up in apartment construction like so much of the rest of the nation.

According to the Mortgage Bankers Association, in the second quarter of 2016, 2.09% of all loans in New Mexico were 60 or more days delinquent, compared to 2.26% for the nation as a whole. However, New Mexico experienced higher percentages of loans in foreclosure (2.54%) and seriously delinquent loans (3.87%) than the nation. New Mexico's foreclosure rate was highest in the Mountain Region at the end of the June 2016. These figures reflect a decrease since the second quarter of 2015, when 2.92% of loans in New Mexico were in foreclosure and 4.44% were seriously delinquent.

Table 1

Financial Ratio Analysis

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	5-year average
Profitability																
Return on average assets	0.56	0.45	0.41	0.35	0.44	0.45	0.42	0.31	0.08	0.34	0.22	0.70	0.38	0.61	0.41	0.46
Return on assets before loan loss provision and extraordinary item	0.58	0.43	0.42	0.35	0.43	0.45	0.42	0.31	0.13	0.39	0.27	0.88	0.39	0.71	0.49	0.55
Net interest margin	0.92	0.77	0.73	0.61	0.63	0.67	0.68	0.62	0.41	0.32	0.57	0.60	0.65	0.86	0.98	0.73
Asset Quality																
NPAs/total loans and real estate owned	0.98	0.78	0.79	0.82	0.77	0.57	0.44	0.40	0.37	0.43	0.53	0.40	0.36	0.37	0.59	0.45
Loan loss reserves/total loans and MBS	0.07	0.04	0.07	0.07	0.07	0.05	0.07	0.07	0.14	0.15	0.19	0.31	0.27	0.28	0.32	0.27
Loan loss reserves/NPAs	6.76	5.24	8.25	8.13	8.72	8.54	15.32	17.61	37.62	35.33	35.28	78.48	74.10	75.64	54.92	63.68
Leverage																
Total equity/total assets	7.91	8.03	8.48	8.58	8.50	9.89	9.11	9.81	9.54	10.28	11.45	13.95	16.27	19.21	19.99	16.17
Total equity and reserves/total loans and MBS	9.83	9.94	12.19	13.05	13.91	15.17	14.18	12.40	12.42	13.20	13.82	17.13	19.18	22.28	23.34	19.15
Liquidity																
Total loans and MBS/total assets	81.06	81.14	69.95	66.07	61.39	65.42	64.57	79.58	77.66	78.81	84.02	82.95	85.99	87.30	86.87	85.43

NPA--Nonperforming asset. MBS--Mortgage-backed securities.

Table 2

Five-Year Average Financial Ratios

	2011-2015				
	NMHFA	**All 'AA' HFAs**	**All 'AA-' HFAs**	**All 'A' HFAs**	**All HFAs**
Profitability					
Return on average assets	0.46	1.03	0.63	0.45	0.78
Return on assets before loan loss provision and extraordinary item	0.55	1.34	0.76	0.54	0.98
Net interest margin	0.73	1.11	0.99	1.11	1.21
Asset Quality					
NPAs/total loans and real estate owned	0.45	3.38	3.99	3.64	3.56
Loan loss reserves/total loans	0.27	4.82	2.31	1.45	3.53
Loan loss reserves/NPAs	63.68	253.56	96.57	36.14	731.52
Leverage					
Total equity/total assets	16.17	24.91	19.24	15.82	23.68
Total equity and reserves/total loans	19.15	36.97	30.63	24.61	36.66
Liquidity					
Total loans and MBS/total assets	85.43	72.93	70.81	69.71	71.25

NPA--Nonperforming asset. MBS--Mortgage-backed securities. HFA--Housing finance agency.

Table 3

Trend Analysis

	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Total assets	1,639,068	1,470,171	1,302,113	1,154,636	1,022,496	953,030
% change	-3.60%	-10.30%	-11.43%	-11.33%	-11.44%	-6.79%
Total loans & MBS	1,291,830	1,235,172	1,080,078	992,851	892,612	827,858
% change	-2.17%	-4.39%	-12.56%	-8.08%	-10.10%	-7.25%
Nonperforming assets	5,505	6,547	4,307	3,574	3,322	4,882
% change	13.60%	18.93%	-34.21%	-17.03%	-7.04%	46.95%
Total equity	168,568	168,338	181,666	187,825	196,396	190,543
% change	3.93%	-0.14%	7.92%	3.39%	4.56%	-2.98%
Revenues	83,830	74,513	71,675	55,534	52,625	45,375
% change	4.03%	-11.11%	-3.81%	-22.52%	-5.24%	-13.78%
Net income	5,756	3,358	9,749	4,670	6,654	4,027
% change	331.48%	-41.66%	190.32%	-52.10%	42.48%	-39.48%
Total Debt	1,444,149	1,282,463	1,106,490	955,189	815,061	741,968
% change	-4.70%	-11.20%	-13.72%	-13.67%	-14.67%	-8.97%
Loan loss reserves	1,945	2,310	3,380	2,648	2,513	2,681
% change	6.69%	18.77%	46.32%	-21.66%	-5.10%	6.69%