

## CREDIT OPINION

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# New Mexico Mortgage Finance Authority

## Update to credit analysis

### Summary

New Mexico Mortgage Finance Authority's issuer rating (Aa3/Stable) is favorably positioned due to its strong asset to debt ratio (ADR) of 1.27x, good profitability of 10.59%, and low risk profile. Single family bond programs have minimal risk from being backed by mortgage backed securities (MBS) as well as having minimal exposure to counter parties. Multifamily bonds are collateralized by FHA risk-share loans with the Authority only responsible for 10% of any loan losses.

We regard the coronavirus (COVID-19) outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating. We do not see any material immediate credit risks for the Agency. However, the situation surrounding Coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the Agency changes, we will update the rating and/or outlook at that time.

### Credit strengths

- » High asset-to-debt ratio of about 1.27x based on 2019 audited financial statements, with Moody's adjustments
- » Single family bond programs are insulated from loan loss as they are backed by MBS
- » Profitability remains at a good level
- » No exposure to variable rate debt

### Credit challenges

- » Lower profitability compared to peers in the Aa3 rating category, however, we expect this trend to reverse as NM MFA's loan origination accelerates

### Rating outlook

The outlook is stable reflecting the Authority's low risk profile, improving profitability and our expectation that management will maintain key credit metrics in line with the assigned rating

### Factors that could lead to an upgrade

- » Sustained increases in asset-to-debt ratio
- » Sustained increases in profitability

## Factors that could lead to a downgrade

- » Decline of asset-to-debt ratio.
- » Significant erosion of profitability.
- » Increased risk profile

## Key indicators

Exhibit 1

(Year Ending 09/30)	2015	2016	2017	2018	2019
Total Bonds Outstanding	729,878	725,135	675,778	840,245	1,062,339
Asset to Debt Ratio	132.32%	135.26%	137.53%	132.20%	126.89%
Margins	6.15%	11.52%	13.10%	10.60%	10.59%

Source: New Mexico Mortgage Finance Authority Audits with Moody's adjustments

## Profile

The New Mexico Mortgage Finance Authority (MFA) was established in 1975 and is a self-supporting quasi-governmental entity that provides financing to make quality affordable housing and other related services available to low- and moderate-income New Mexicans. Using funding from housing bonds, tax credits and other federal and state agencies, MFA provides resources to build affordable rental communities rehabilitate aging homes, supply down payment assistance and affordable mortgages, offer emergency shelter and administer rental assistance and subsidies. All state and federal housing programs are now administered by MFA, including Section 8 housing and the Department of Energy's weatherization programs.

MFA has a staff of eighty-three. The Authority is led by a seven-member board comprised of four members from the private sector, appointed by the governor with the approval of the state senate, and three ex-officio members.

## Detailed credit considerations

### Loan portfolio: MBS and FHA-Riskshare program strongly protects exposure to loan loss

All loans from bond programs are of the highest quality, either securitized single family loans or multifamily loans that are FHA insured. We expect that these high-quality loans will continue to provide protection against loan losses from loan delinquencies.

The Single Family Mortgage Program (the 2005 Indenture) is the Authority's largest program at roughly \$878 million, as of 9/30/2019, secured by Ginnie Mae (GNMA) and Fannie Mae (FNMA) Mortgage Backed Securities (MBS). The MBS are guaranteed as to timely payment of principal and interest by GNMA and by FNMA regardless of the performance of the underlying loans. In addition, the Single Family Mortgage (NIBP) Program is secured by GNMA and FNMA MBS in an amount of about \$75 million, as of 9/30/2019.

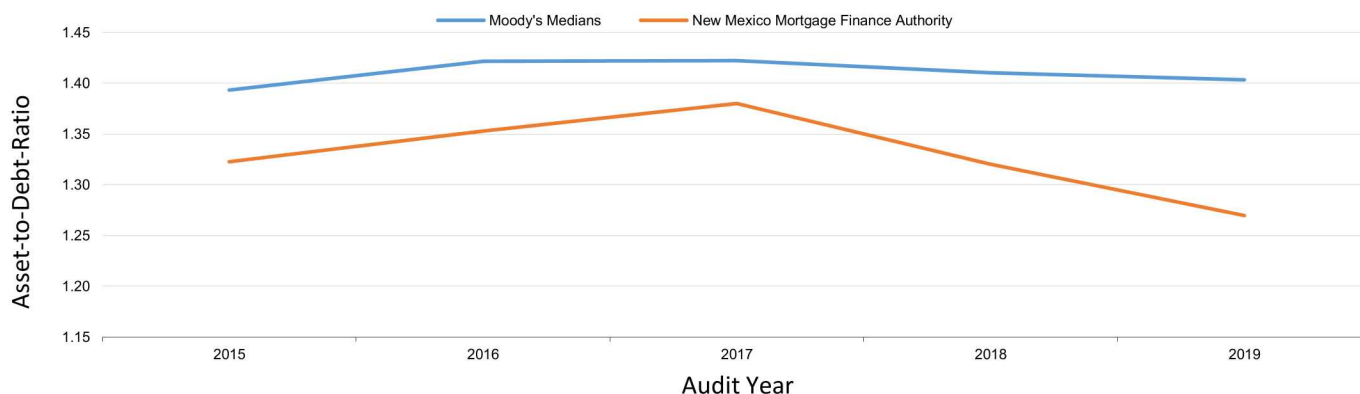
Approximately 8% of the Authority's total bonds outstanding are multifamily bonds, all of which are secured by loans insured under HUD's FHA Risk Share Program.

### Financial position and performance: strong balance sheet heightens credit stability

Financial position is strong with an asset-to-debt ratio (ADR) of 1.27x as of the fiscal year ended on September 30, 2019 down from 1.32x in the prior year, due to new issuance, with an average of 1.33x the past 5 years. We expect to see slight drops as new issuance continues. The Authority's risk adjusted ADR is comparable to other housing authorities in their rating category. All loan assets are primarily MBS, with 8% of assets being either FHA Insured, with the agency only taking a 10% risk share level, or having some form of credit enhancement such as multifamily loans guaranteed by Fannie Mae.

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Exhibit 2

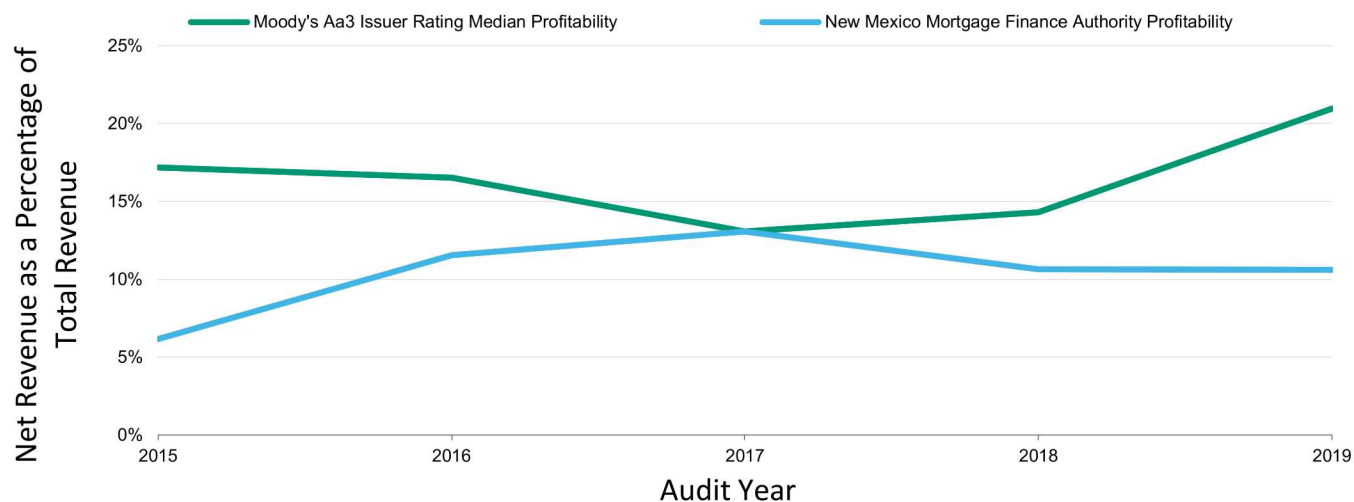
**New Mexico MFA asset to debt drops on increased bond issuance**

\* 2019 data contains 36 of 52 HFAs.

Source: Moody's rated HFA's adjusted audited financials

Margins for the fiscal year ended on September 30, 2019 was 10.59% which is a drop from prior years as the Authority's issuance has increased. The 5 years average is 10.40%.

Exhibit 3

**New Mexico MFA's profitability is stable. Chart compares New Mexico against the other Aa3 rated HFAs median profitability.**

\* 2019 data does not contain 2 HFAs that were included in prior years. One was upgraded. The other HFA's data was not available at time of publication.

Source: New Mexico Mortgage Finance Authority's audited financials with Moody's adjustments

**LIQUIDITY**

The Authority maintains sufficient liquidity to meet its obligations, based on annual cash flows for the bond programs and sufficient over collateralization.

**Legal framework, covenants, and debt structure: Strong legal provisions provide additional bond holder security.**

The Authority issues bonds under special limited obligations. The Authority does not have any taxing power, nor do they receive money from the state. Bond programs are paid solely from funds held under their respective trust indentures. All bonds issued by the Authority are fixed rate.

**DEBT STRUCTURE**

Total outstanding debt for the Corporation as of September 30, 2019 was approximately \$1.062 billion, all of which is fixed rate

### ESG considerations

Environmental risk is not a credit driver for Single Family Mortgage Revenue Bond Program due to the Ginnie Mae (GNMA) and Fannie Mae (FNMA) or Freddie Mac (FHLMC) guarantee of the underlying mortgage that will help cover debt service in the event of a natural disaster or climatic event necessitating an extraordinary mandatory redemption of the bonds.

Social Considerations are not a main driver of the issuer rating due to the bond programs collateral being guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA) or Freddie Mac (FHLMC), for the single family programs as well as the FHA insurance for the multifamily bond program. These guarantees will covers mortgage payments even in the event of heightened delinquencies due to social factors.

We view the management team as effective in managing its existing core business and fully dedicated to fulfilling the Authority's mission. Management staff has demonstrated strong competence in making decisions that have proven to have minimal risk and improve financial and operational results, while exploring key opportunities for innovative ways to continue meeting the Authority's mission.



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