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U.S. Public Finance

CREDIT OPINION

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Housing New Mexico Mortgage Finance Authority

Update to credit analysis

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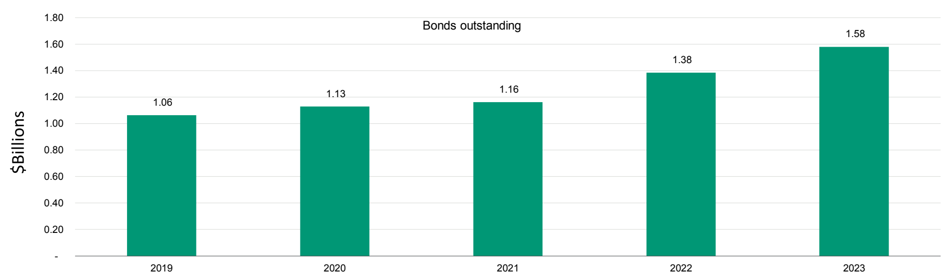
Summary

Housing New Mexico Mortgage Finance Authority's (HNM MFA or Authority) (Aa3 stable) issuer rating will remain solid due to the Authority's strong balance sheet and solid operating performance, which supports continued strong debt issuance. As of September 30, 2023, the asset-to-debt ratio was 1.21x and the combined fund balance as a percentage of bonds outstanding (net asset ratio) was 19.79% before capital charges. After capital charges, the net asset ratio is 7.76%. Profitability has been solid, though variable, and was 8.12% for fiscal year 2023. The Authority's loans, which consist predominantly of single family loans, are wrapped in mortgage backed securities (MBS) guarantee which insulates the program from loan delinquencies. Creditworthiness is further strengthened by the Authority's conservative risk position and solid management team.

Exhibit 1

Housing New Mexico Mortgage Fiance Authority's bonds outstanding will continue to grow



Source: HNM MFA audited financial statement. Includes Moody's adjustments.

Credit strengths

- » Solid balance sheet with a risk-adjusted net asset ratio of 7.76% in fiscal year 2023.
- » MBS guarantees which insulates the programs from loan delinquencies.
- » Conservative risk profile.

Credit challenges

- » Solid though variable operating margins, which were 8% in fiscal year 2023.
- » Overcollateralization levels will not be strong enough to support the Aa3 rating on the issuer if the US government rating is downgraded.

Rating outlook

The outlook on the HNM MFA issuer rating is stable. The Authority's strong financial position will continue due to its very strong balance sheet and solid profitability.

Factors that could lead to an upgrade

» Risk adjusted net assets trending over 15%.

Factors that could lead to a downgrade

» Downgrade of the US government.

» Consistent declines of average profitability below 5%.

» Increased risk in the program in the form of variable rate debt or counterparty risk.

Key indicators

Exhibit 2

Housing New Mexico Mortgage Finance Authority

	2019	2020	2021	2022	2023
Total bonds outstanding ($000)	1,062,339	1,128,630	1,163,197	1,384,416	1,579,329
Total MBS Outstanding ($000)	1,155,545	1,262,065	1,245,898	1,429,484	1,643,101
Asset-to-debt ratio	127%	126%	123%	123%	122%
Margins	11%	13%	12%	-1%	8%

Source: HNM MFA audited financial statement. Includes Moody's adjustments.

Profile

The Authority was created in 1975 and undertakes various programs to assist in the financing of housing for low and moderate income buyers in the State. The Authority is governed by a legislative oversight committee, composed of members of the State House of Representatives and the State Senate. In addition, the Low Income Housing Tax Credit program and the HOME program, previously administered by the State, were transferred to the Authority for the purpose of consolidating the administration of housing related programs. The State or any municipality located in the State is barred from contributing money to the Authority.

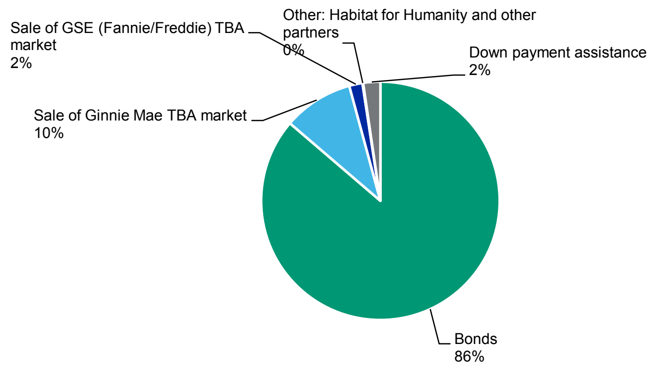
The Authority's Board is composed of seven members including the Lieutenant Governor, the Treasurer and the Attorney General, each of whom is an ex officio member of the Authority with voting privileges, and four other members to be appointed by the Governor with the advice and consent of the State Senate. The Governor is authorized to designate a member to serve as chair, and the Authority annually elects a member to serve as vice chair.

Detailed credit consideration

Loan portfolio: single family loan portfolios will remain strong and support creditworthiness

The Authority's loans outstanding consist primarily of single family mortgage loans wrapped in a guarantee from either Ginnie Mae, Fannie Mae, or Freddy Mac. Roughly 88% of the Authority's first lien loans reside in their single family bond programs, while the remaining 12% of loans reside in the General Fund or are part of the TBA program. The Authority also holds about $2 million in second lien down payment assistance loans.

Exhibit 3
The Authority's loan portfolio consists primarily of single family loans originated from bond proceeds
(As of June 30, 2023)

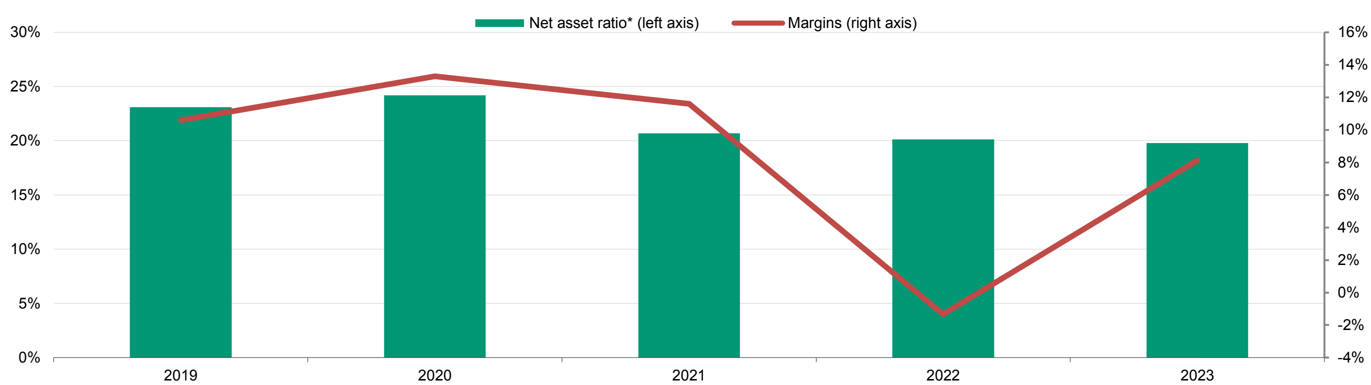


Source: HNM MFA.

Financial position and performance: robust financial metrics can absorb increased issuance

HNM MFA's financial position will continue to remain strong due to the Authority's solid balance sheet. As of September 30, 2023, the Authority had an asset-to-debt ratio after capital charges of 1.12x and a risk-adjusted net asset ratio of 7.66%. Due to the current strong level of overcollateralization, these ratios will continue to remain strong despite slight downward trend in recent years. The recent downward trend has been due to significantly increased debt issuance and growing Authority funded down payment assistance (DPA) grants. This declining trend, however, is expected to lessen with the increased revenues generated from the bond issuance. The HNM MFA's operating performance remains solid, though variable primarily due to variable levels of DPA expensed annually and cost of issuance. Margins were 8.12% in fiscal year 2023 with a five-year average of 8.46% and a three-year average of 6.13%.

Exhibit 4
The Authority's solid net asset ratio has declined but continues to remain healthy and supportive of additional debt issuance



* Combined fund balance as a percentage of bonds outstanding.
Source: HNM MFA audited financial statements. Includes Moody's adjustments

Liquidity

We regularly review consolidated cash flows for HNM MFA's single family programs. Cash flows incorporate stress tests for prepayment speeds and non-origination scenarios. The Authority's programs demonstrate sufficient revenues to meet debt service obligations in all our stress case scenarios.

Legal security

There are currently no outstanding bonds secured by the general obligation of the Authority.

Debt structure

As of December 31, 2023, all of the Authority's debt, outside of conduit debt, has been issued under its single family bond indentures. All debt has a conservative fixed rate structure. Currently, there is no guaranteed investment contracts nor variable rate debt.

Debt-related derivatives

The Authority does not have any debt-related derivatives.

Pensions and OPEB

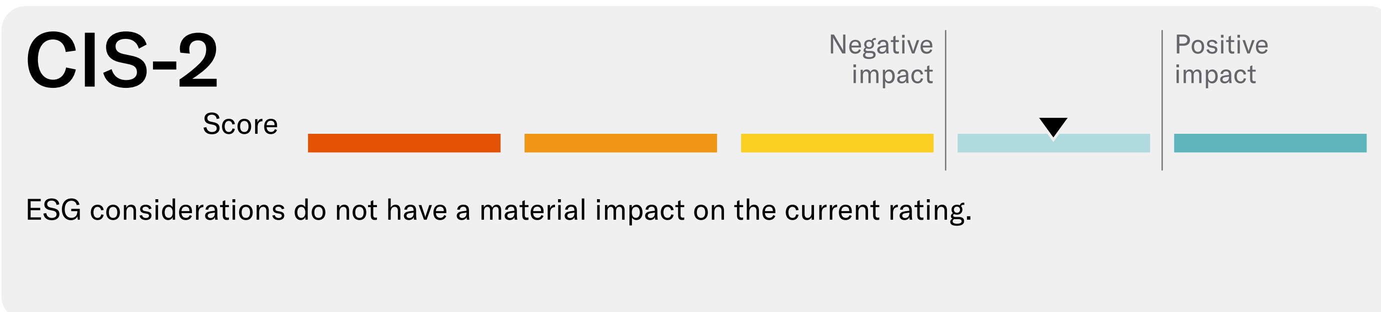
Pensions and OPEB are not a material consideration.

ESG considerations

Housing New Mexico Mortgage Fin. Auth.'s ESG credit impact score is CIS-2

Exhibit 5

ESG credit impact score

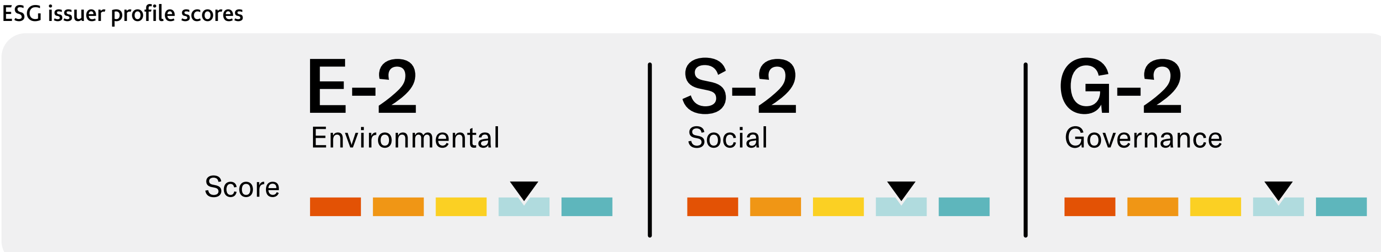


Source: Moody's Ratings

New Mexico Mortgage Finance Authority's (NM MFA) ESG credit impact score is neutral-to-low (**CIS-2**), reflecting the limited impact from environmental, social and governance risks on the rating to date.

Exhibit 6

ESG issuer profile scores



Source: Moody's Ratings

Environmental

NM MFA's environmental issuer profile score is neutral-to-low (**E-2**). Given its dependence on the oil and gas industry, the state is vulnerable to the transition to clean energy sources and away from carbon-intensive sources over the long run. The state also has elevated exposure to water stress and high exposure to wildfire risks, both of which jeopardize the health and safety of the public and hinder long-term economic growth. According to Moody's ESG Solutions, New Mexico ranks first among all 50-states in terms of its vulnerability to water shortage, with roughly 65% of its population and GDP exposed to “red flag” water stress (the most sever level), and the remainder exposed to “high” water stress. The state relies primarily on groundwater for its water source, but most areas are pumping water faster than it can be replenished. Prolonged drought and rising temperature are also increasing the severity and frequency of wildfires. Positively, the New Mexico Office of the State Engineer has central authority over the supervision, measurement, appropriation and distribution of all surface and groundwater in New Mexico; the state has a comprehensive state water plan, updated periodically, that lays down policies for conservation and strategies for infrastructure repair and improvements. Mitigation strategies for drought also include demand management through reducing losses, reducing use and employing economic incentives. Additionally, NM MFAs exposure to physical climate risks is mitigated by all bond programs having a 100% MBS portfolio.

Social

NM MFA's social issuer profile score is neutral-to-low (**S-2**). Consistent with the rest of the HFA sector, NM MFA has a mission to provide affordable housing within the state which guides its lending strategy and its relationships with borrowers and other government entities. These fair lending practices and strong relationships lead to high scores within the HFA sector for both responsible production and customer relations. Offsetting these factors are challenges related to access and affordability of housing in the state, though NM MFA has maintained healthy loan origination.

Governance

NM MFA's governance risk is neutral-to-low (**G-2**). The Agency has a track record of credible management practices, including solid financial strategy and risk management as demonstrated by its maintenance of healthy margins and a strong balance sheet with single family bond programs that are 100% MBS. The Agency diligently pursues refunding opportunities and benefits by using a mix of TBA and bond financing to originate mortgages.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

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