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 1.38x, good profitability of 13.08%, 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.

Credit strengths
- High asset-to-debt ratio of about 1.38x based on 2017 audited financial statements, with Moody’s adjustments
- Single family bond programs are insulated from loan loss because they are backed by MBS
- Profitability is good and continues to increase year over year.
- 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 profitability.

Factors that could lead to a downgrade
- Decline of program asset-to-debt ratio.
- Significant erosion of profitability.
Key indicators

Exhibit 1

<table>
<thead>
<tr>
<th>(Year Ending 09/30)</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Bonds Outstanding</td>
<td>953,851</td>
<td>815,061</td>
<td>729,878</td>
<td>725,135</td>
<td>675,778</td>
</tr>
<tr>
<td>Asset to Debt Ratio</td>
<td>122.54%</td>
<td>125.06%</td>
<td>132.32%</td>
<td>133.60%</td>
<td>137.87%</td>
</tr>
<tr>
<td>Margins</td>
<td>5.54%</td>
<td>6.86%</td>
<td>6.15%</td>
<td>11.52%</td>
<td>13.10%</td>
</tr>
</tbody>
</table>

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 77. 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 severely limits 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 $441 million, as of 9/30/2017, 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 $101 million, as of 9/30/2017. Approximately 16% 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 1.38x as of the fiscal year ended on September 30, 2017 up from 1.35x in the prior year, and displaying steady growth over the past 5 years. We expect to see continued growth going forward. 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 from of credit enhancement such as multifamily loans guaranteed by Fannie Mae.
Margins for the fiscal year ended on September 30, 2017 was 13.08% which continues to improve year over year. The 5 years average is 8.63%.

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, 2017 was approximately $666 million, all of which is fixed rate.

Pensions and OPEB

Not a material factor for the Authority.
Management and governance: oversight of a capable and active management team enhances credit profile

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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