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TAX-EXEMPT HOUSING AUTHORITY BONDS

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This sector has several spectrums of risk:

1. Statewide portfolios of single family mortgage backed bonds, governed by state credit-lending requirements, have low default risk;
2. Statewide portfolios of multi-family mortgage apartment rental or condominium housing projects have low-to-moderate default risk; and
3. Local, site-specific projects of single family homes or apartments that are very narrow in scope or geographic diversity, have one of the highest yields, but also one of the highest default risks in the municipal market.

In general, bond ratings are higher for state-wide single family mortgage programs, with ratings as high as “AAA” to “AA”, because of loan diversity, and the intrinsic safety of single-family mortgage pledges. State home lending programs did not see the “melt-down” of the 2008-09 structured mortgage-backed market because of higher lending and approval standards.

In multi-family housing projects, default risk rises, because properties are more vulnerable to deterioration and vandalism. For statewide multi-family housing programs, particularly low income properties, default risk increases, but not significantly. Lending standards and state oversight on property management keeps defaults manageable.

Finally, small local housing projects have the most risk, even for those that have federal subsidies, such as the “Section 8” low income subsidy program. The projects are small, and continued subsidies depend upon property management. This is a sector where an initial project could be rated as high as ‘A’, but deteriorates to the point where federal subsidies shrink or disappear, leading to default. The question is: are you willing to bet your money on a single apartment building?

A word to the wise: when it comes to municipal housing debt, size does matter. In general, the bigger, the better.

About the Author

RICHARD P. LARKIN, Stoever Glass & Co., Inc.

Richard Larkin, a recognized 40 year industry veteran, has joined SG & Co. as Director of Municipal Credit Analysis. Mr. Larkin began his career in credit rating analysis at Standard & Poor's in 1975. After rising through the ranks in various analytical and management positions, Dick left S&P as its Chief Municipal Rating Officer, responsible for municipal rating policy, practices, governance and criteria. In 1998, Mr. Larkin joined Fitch Ratings as Chairman of its Public Finance Criteria Committee.

"Dick will be a unique resource to Stoever Glass' municipal clients. His knowledge in specific issues and areas of the municipal bond industry will aid our representatives and their clients in making educated decisions, in a sector where this type of research is unique," said Roland Stoever of Stoever Glass.

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