FitchRatings

Public Finance
Community Development & Social Lending
United States

Housing Partnership Network, Inc., Massachusetts

Rating

Long-Term IDR	'A+'

Rating Outlook

Stable

Applicable Criteria

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (January 2025)

Related Research

Fitch Rates CDFI, Housing Partnership Network, Inc. (MA) 'A+'; Outlook Stable (April 2025)

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The 'A+' IDR for Housing Partnership Network, Inc. (HPN), a community development financial institution (CDFI), reflects its strong revenue defensibility assessment and sufficient operating risk profile, supported by a strongly vetted and geographically diverse lending strategy, active management oversight and solid financial performance. Through collaboration with its member organizations, HPN focuses on innovation, policy advocacy, and building partnerships to address housing challenges. HPN comprises several affiliate organizations that help carry out its social mission, including the Housing Partnership Fund (HPF), Housing Partnership Ventures (HPV), and Framework Homeownership, LLC (Framework).

HPN's lending is focused on affordable housing, one of the least volatile CDFI sectors, though approximately 58% of the loans to network members are for general business (enterprise) purposes rather than for specific real estate development projects. A high percentage of HPN's loans are unsecured (61%), and there is exposure to unenhanced pre-development, construction, and acquisition loans. HPN's historically strong asset performance demonstrates management's effective operational oversight and mitigates the risk of the unsecured portion of the loan portfolio. Revenue defensibility is also bolstered by the strength of HPN's network of over 100 leading non-profit housing developers, owners, lenders, and housing counselors across the U.S., which allows for geographic diversification of the loan portfolio and a vetted group of borrowers to advance HPN's affordable housing mission.

HPN exhibits midrange net interest spread (NIS) profitability ratios and some reliance on grant revenue, as reflected in the earned income and self-sufficiency ratios. Fitch views it as a positive that HPN's operating profile consists of a diverse revenue stream that includes grant revenue as well as operating revenue from interest and loan fee income, management and program fees, membership dues, and affiliate income. HPN exhibits prudent management of its operations, evidenced by its thorough policies regarding underwriting, servicing, debt borrowing and investment guidelines. Combined, these policies help HPN maintain solid internal risk controls and contribute to the portfolio's strong loan performance.

Fitch Ratings also factors in HPN's five-year average debt-to-equity ratio of 1.58x and healthy liquidity profile into the rating. The debt-to-equity ratio provides sufficient cushion for HPN to continue to grow the loan portfolio to meet the ongoing need for new affordable housing supply. Additionally, HPN's strong core capital ratio demonstrates sufficient equity to cover the risk of the unsecured and predevelopment/ construction lending portions of the loan portfolio, as well as HPN's equity investments.

HPN's combined program services include: counseling and education for network members; peer exchange opportunities; a capital markets team that raises CDFI grants, debt and equity, and deploys capital to support the network; access to single-family financing (including facilitating the use of New Markets Tax Credits); the Housing Partnership Insurance Exchange, a property and casualty insurance company that insures member units; and two development companies - Gulf Coast Housing Partnership and Develop Detroit, which were created by HPN. Fitch views this diversification of the business model positively as it provides HPN with a steady source of member contributions and the flexibility to adapt or pivot to different revenue sources in response to changing economic conditions. However, with the uncertain future of government funding for CDFIs and affordable housing development, there may be broader impacts on CDFIs and nonprofit housing developers. Fitch will continue to monitor how these factors affect demand for HPN's loan products, the performance of existing loans, and HPN's sources and costs of capital.

Security

HPN's obligations are secured by the organization's full faith and credit pledge, payable from all legally available revenue and assets.

Key Rating Drivers

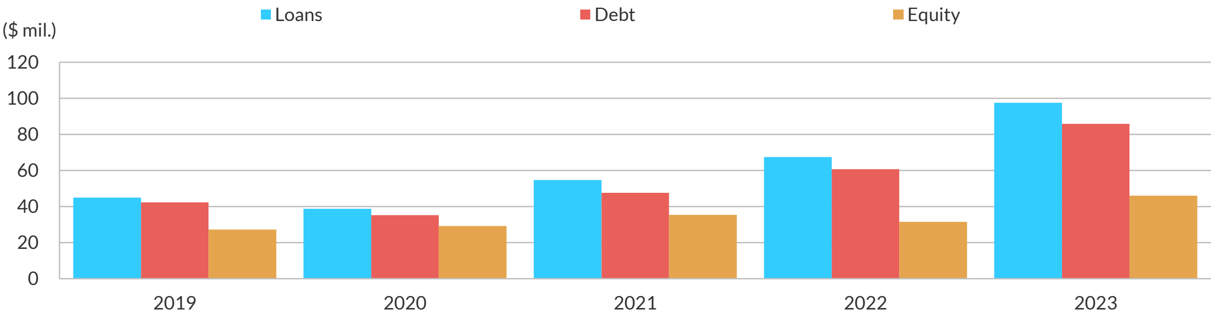
Revenue Defensibility

The 'aa' revenue defensibility assessment reflects HPN's minimal exposure to revenue disruption based on its historically low delinquency and net charge-off rates and the availability of sufficient reserves to offset loan losses. HPN's lending strategy demonstrates credit strength by focusing on affordable housing, which is one of the least volatile sectors within the CDFI landscape. Additionally, approximately 58% of the loans to network members are allocated for general business purposes, offering flexibility and diversification beyond specific real estate development projects. This approach not only supports stability within the affordable housing sector but also enhances resilience by allowing for adaptable financial solutions tailored to the broader needs of network members.

Nonetheless, the asset quality of the loan portfolio exhibits some risks, with approximately 61% of the loans unsecured and a high percentage of unenhanced, non-permanent loans (40%) due to the prevalence of predevelopment, construction, and acquisition loans. The loans are predominately fixed-rate (97.5%) and either interest-only or partially amortizing. The effectiveness of HPN's portfolio oversight and vetting of network member organizations is reflected in strong loan performance and mitigates the higher risks of certain loan types. The network also creates built-in demand for HPN's loan products and provides diversification of its revenue streams through the collection of membership dues. Additionally, due to the network, HPN's loan portfolio is geographically diverse, representing 53 borrowers in 23 states throughout all regions of the country.

Based on Fitch's review of five years of audited financial statements for fiscal 2019 through 2023, HPN has demonstrated strong portfolio performance, as measured by no non-performing loans (NPLs) or net charge-offs during the five-year period. HPN maintains sufficient loan loss provisions for impaired loans, in line with its underwriting and lending policy and loan performance monitoring. Also factored into the assessment is the strong demand for HPN's loans, as demonstrated by an average annual growth rate of the loan portfolio of 23% between fiscal 2019 and 2023, reflecting HPN's ability to meet members' affordable housing needs. The loan portfolio experienced especially strong growth of 44.5% in fiscal 2023. Unaudited 2024 financials show this trend continuing, with an increase of 25.8% in the loan portfolio. Fitch anticipates a continued unmet demand for affordable housing. However, HPN's growth may be impacted by the current uncertain funding environment, and the organization's ability to shift its focus on certain initiatives and pivot to new sources of capital.

Balance Sheet Growth



Source: Fitch Ratings

Asset Quality

HPN's loan portfolio has consistently performed well over recent years, with zero delinquencies and loan losses reported from fiscal 2019-2023. In 2024, NPLs averaged 1%, and one NPL of $500,000 had a pending renewal request. NPLs are defined as loans that are 90 days or more delinquent or in default, foreclosure or non-accrual status. Including the 2024 delinquency ratio, the five-year average NPL ratio is 0.2%.

HPN maintains sufficient loan loss reserves, averaging 3.4% of total loans outstanding during the past five fiscal years. These reserves are available to cover losses on impaired loans. In determining the loan loss reserve amount, HPN divides the portfolio into two groups – performing loans and loans considered collateral dependent financial assets – and there is a different method for calculating the allowance for losses for each group. HPN monitors credit quality indicators on a quarterly basis to determine whether any performing loans need to be evaluated separately. The credit quality indicators assessed by management include: loan security; debt service coverage; leverage ratios of the borrower; customer concentrations of the borrower; credit history of ownership of the borrower; and collateral coverage.

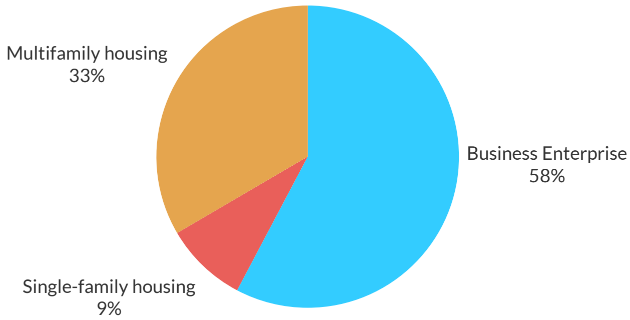
Adjustments to Revenue Defensibility

HPN operates almost entirely in the affordable housing sector, which is considered the least volatile of the CDFI sectors. However, not all of the loans are real estate loans; approximately 58% of the loans are to network members for general enterprise purposes. A high percentage of the loans (61%) are unsecured, and there is a 40% exposure in the portfolio to unenhanced pre-development, construction, acquisition and bridge loans, which tend to be less stable than permanent loans. The loans are to approximately 53 borrowers in 23 states, which provides HPN with lower geographic concentration risk compared to many CDFI peers, some of which operate in only one state.

HPN benefits from its strong relationships with members, which provide unique competitive advantages compared with other CDFIs in developing financial products and underwriting loans. HPN's members are leaders in the community, economic and affordable development sectors, collectively managing and owning over 282,000 affordable rental units. Members include nonprofit affordable housing developers and owners, housing counseling agencies, CDFIs, and public housing authorities. Collectively, they have a long track record of successful development and have proven management capabilities through economic uncertainties and cycles. These relationships provide a layer of risk mitigation, allowing HPN to offer mission-based lending with flexible, sometimes unsecured loan products to a network of already-vetted members. Additionally, HPN's innovative use of New Market Tax Credits and strong capital-raising capabilities further bolster its lending operations.

HPN’s loan portfolio grew by an average of 23% a year from fiscal 2019 to 2023, with an average total loan balance of $60.6 million. Fiscal 2023 experienced especially strong growth of 45%. Unaudited 2024 financials show this trend continuing with an increase of 26% in the loan portfolio. The unmet demand for affordable housing is likely to persist and Fitch will continue to monitor the strategies that HPN identifies to continue meeting the need for new supply. HPN’s ‘Housing for All’ three-year strategic framework focuses on key areas to continue to expand core functions by strengthening member capacity, providing opportunities for housing ecosystem change, and accelerating the production of affordable housing, all while ensuring financial and operational sustainability.

Loan Portfolio Composition



Source: Fitch Ratings

Operating Risk

The 'a' operating risk assessment reflects Fitch's evaluation of HPN’s midrange profitability ratio and moderate reliance on grant income. HPN's net interest spread (NIS), which measures the difference between the average rate earned on its assets and the average rate paid on its liabilities, averaged 51% from fiscal 2019 to 2023. This ratio has trended positively, rising from 40% in fiscal 2019 to 57% in fiscal 2023. Interest income increased to $5.3 million in fiscal 2023 from $2.3 million in fiscal 2019 and averaged $3.2 million over the past five years, exceeding the five-year average of interest expense of $1.5 million. The NIS does not consider HPN’s supplemental sources of revenue such as homebuyer education course fees, program service fees, membership fees, and management fees. These additional sources of income provide diversity in the revenue stream and operating flexibility that is not typical for many CDFI income statements, where loan fees are the sole or primary source of income.

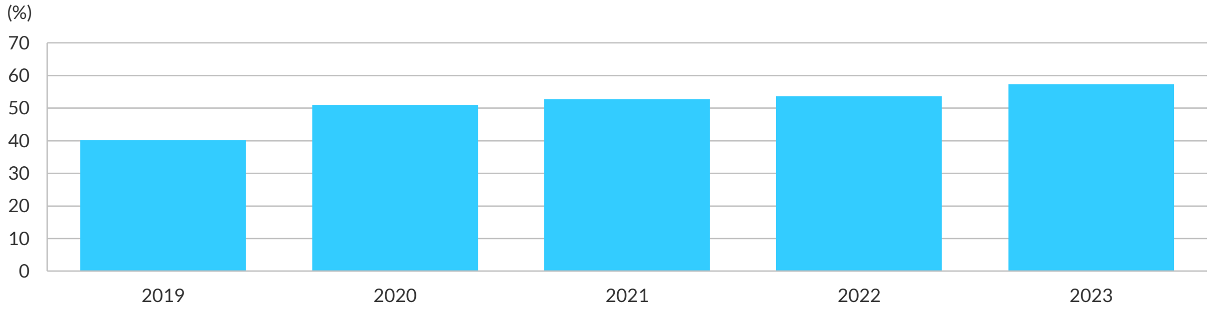
The earned income ratio (EIR), a key operating risk factor, has fluctuated in line with the changes to HPN’s grant income over the same five-year period. The EIR averaged a low of 56% in fiscal 2023 (due to the receipt of a large grant), with a high of 97% in fiscal 2022 when grant funding was minimal. The five-year average EIR is 76%. Fitch views this strong EIR positively since earned income is generally less variable YoY than contributed income.

HPN has a prudent risk management approach to its overall lending activities, with documented policies and procedures, frequent reviews and strong oversight of the loan portfolio. The strategic framework of the partnership network provides an additional layer of risk mitigation because borrowers have already been vetted by HPN prior to joining the network. HPN is somewhat reliant on grant income for operations and to grow its net asset base, with a self-sufficiency ratio below 100%. HPN's self-sufficiency ratio (calculated as total earned income as a percentage of total operating expenses) averaged 82% from fiscal 2019 to 2023. The contributed revenue (grant funding) received during this five-year period allowed HPN to increase its net assets from $27.2 million in fiscal 2019 to $45.9 million in fiscal 2023. Less than $1 million in grant funding in 2024 came from a financial assistance award from the CDFI Fund, which may not be available as a source of future funding given potential federal funding cuts to CDFIs.

Operating Profitability

HPN has demonstrated a midrange profitability margin over time. Its average annual net interest spread was 51% from fiscal 2019 to 2023, measuring the difference between its borrowing and lending rates. This ratio has improved over time to a high of 57.3% in fiscal 2023. Unaudited 2024 financials show a steady NIS of 57.2%. HPN has a more diverse revenue stream than some other CDFIs, which Fitch views as a positive. Revenue sources include grant revenue as well as operating revenue from interest and loan fee income, management and program fees, membership dues, and affiliate interest income and fees generated from lending products. Interest income increased to $5.3 million in fiscal 2023 from $2.3 million in fiscal 2019, and averaged $3.2 million over the past five years, exceeding the five-year average of interest expense of $1.5 million.

Net Interest Spread



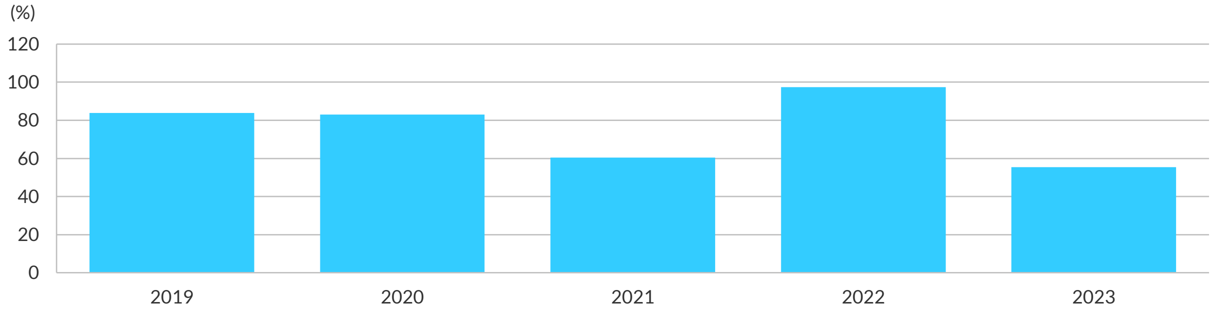
Source: Fitch Ratings

Grant Funding

HPN demonstrates some dependence on grant income to cover operating expenses and to support net asset growth. Its earned income ratio averaged 76% from fiscal 2019 to 2023. The ratio measures total non-contributed revenue, such as interest earnings, loan fee income, and membership/program service fee income as a percentage of total revenue. The earned income ratio has been somewhat volatile, partly due to the receipt of a one-time $12 million grant, which resulted in a lower EIR of 56% for fiscal 2023. Removing this one year, the four-year average EIR is 81%.

HPN's non-contributed revenue has increased, demonstrating enhanced operating flexibility. The self-sufficiency ratio, calculated as total earned income as a percentage of total operating expenses, is below 100%, with a five-year average of 82%, in line with the fiscal 2023 self-sufficiency ratio of 81%. This indicates that earned revenue is not fully sufficient to cover operating expenses, with contributed income providing a cushion to offset any shortfalls.

Earned Income Ratio



Source: Fitch Ratings

Adjustments to Operating Risk

HPN employs robust risk and reporting tools to manage its lending activities. HPN performs a comprehensive analysis of a prospective borrower, encompassing the parent organization and all its subsidiaries and affiliates, and compiles the findings into a borrower review document, which is instrumental in underwriting any transactions with the borrower.

At least quarterly, the portfolio is reviewed to identify problem loans and manage exceptions to the loan policy. The loan loss reserve is adjusted to ensure adequate reserves. Additionally, there is a watch list to monitor problem loans. If significant issues arise, actions such as suspending draws, adjusting payment schedules, restructuring debt, or adjusting loan risk ratings may be considered.

Alongside the loan portfolio, HPN has an investment portfolio, which is considered higher risk in Fitch's analysis. HPN's investment in HPIEx, a for-profit association captive insurance company, is treated as an equity investment in Fitch's analysis. As of fiscal 2023, this investment was valued at $821,614 on HPN's balance sheet, representing 13% of the total investments in affiliates and less than 1% of total assets. HPN's investment policy is broad and allows for investment in projects as long as they align with the organization's strategic objectives or focus areas.

Concentration limits at HPN are reviewed as part of the credit quality process. While no specific limits are set for product type or geography, aggregate loan exposure to any individual sponsor/member is capped as a percentage of HPF's outstanding on-balance-sheet loan portfolio. There are also dollar amount limitations on enterprise loans and unsecured loans. Concentration limits are based on total commitments rather than principal outstanding, with exemptions for certain off-balance-sheet transactions.

Financial Profile

Financial Profile ('a')

The 'a' financial profile assessment incorporates leverage and the effects of unreserved, unexpected losses on HPN's resources. Debt-to equity (DTE), the core capital ratio (CCR), and short-term liquidity are key drivers for evaluating financial flexibility. HPN's leverage profile is strong, as reflected in its average DTE ratio of 1.6x for fiscals 2019 through 2023. This ratio has gradually increased, reflecting HPN's robust growth in lending over this period. As of fiscal 2023, HPN's DTE was 1.9x. HPN had approximately $86 million in debt outstanding as of that date, an increase from $61 million in fiscal 2022, which allowed for the 46% year-over-year growth in the loan portfolio.

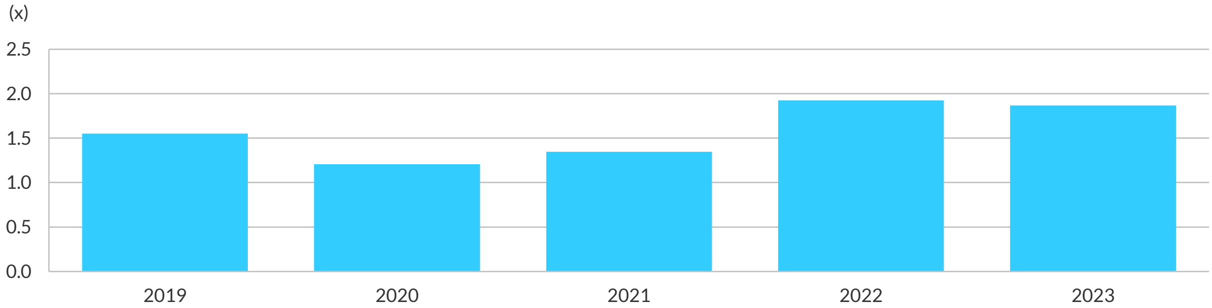
HPN's debt funding sources include primarily unsecured loans and revolving lines of credit from various entities, including private banks, foundations and the Opportunity Finance Network (OFN). Of the debt outstanding, a small portion (approximately 5%) represents short-term maturities of one year or less, with unrestricted cash providing healthy liquidity to support the short-term obligations. Additionally, Fitch views capitalization levels as having a positive impact on the financial profile, given that the core capital ratio has averaged 25% from fiscal 2019 to 2023 with a CCR of 27% in fiscal 2023. This demonstrates that the capital base provides ample cushion to absorb unexpected losses and incorporates HPN's exposure to lending risks, including enterprise and predevelopment/ construction loans. The CCR also captures the risks of HPN's equity investment portfolio, as the calculation of core capital excludes HPN's equity investments in uncombined affiliates.

Leverage

HPN's primary debt funding sources include loans and revolving lines of credit from various entities, including private banks, foundations and the Opportunity Finance Network (OFN). HPN's debt-to-equity ratio was 1.9x in fiscal 2023 and 2.3x as of the unaudited 2024 financials, trending above the five-year average of 1.6x, but still in line with the 1.0x

– 3.0x range for the ‘a’ assessment. The increase in the DTE ratio is consistent with HPN's growth strategy in its loan portfolio. Outstanding debt increased to $86 million in fiscal 2023 from $61 million in fiscal 2022 in order to support the growth in the loan portfolio. The five-year average outstanding debt amount was $54 million. During this same period, net assets increased to $46 million in fiscal 2023 from $27 million in fiscal 2019, largely due to a $12 million grant from Yield Giving (Mackenzie Scott) in 2023.

Debt to Equity



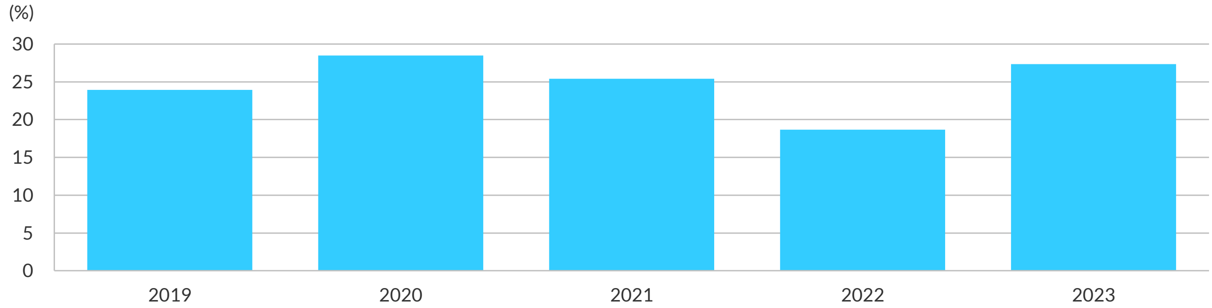
Source: Fitch Ratings

Adjustments to Financial Profile

As noted, there was a positive adjustment applied to the financial profile assessment for HPN’s capitalization levels, which have averaged 25% from fiscal 2019 to 2023. This demonstrates that the capital base provides ample cushion to absorb unexpected losses and incorporates HPN’s exposure to a range of lending risks, including enterprise and predevelopment/construction loans.

HPN’s short-term liquidity ratio represents sufficient coverage to meet its small amount of short-term obligations. An adjustment was not applied for the liquidity ratio.

Fitch Core Capital Ratio



Source: Fitch Ratings

Asymmetric Risk Factors

Risk factors such as management, debt and market risk characteristics, and external support and regulatory mandate are considered neutral to the rating.

Management & Governance

HPN has approximately 45 full-time staff members. The leadership team includes the CEO and several executive vice presidents, each overseeing different operational areas such as finance, capital markets, and strategic partnerships. The organization has a fully remote workforce across 16 states.

HPN operates multiple social enterprises and partnerships, including Housing Partnership Fund (HPF) and HPVentures, which support innovation and investment in affordable housing. HPN employs robust cybersecurity measures and financial controls to manage risks across its operations.

HPN's board comprises 20 senior leaders from member organizations, with strong engagement through multiple committees. The board works closely with staff and member-driven committees to guide HPN’s programs, policies and activities.

Debt and Market Risk Characteristics

Debt characteristics are neutral to the rating. Market risk characteristics are captured in the core capital analysis.

External Support and Regulatory Mandate

HPN has a track record of stable support from private lenders and maintains strong relationships with partners. The external support provided by the network members offers a consistent and transparent mechanism for lending. HPN maintains a good standing with federal oversight provided by the Department of Treasury's CDFI Fund.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Should borrowers lose access to key funding sources or be impacted by pressured economic conditions, material increases in delinquency and net charge off ratios over several annual cycles that cause NPLs to exceed loan loss reserves and weaken asset quality;
- Operating cost escalation trends that outpace revenue growth, thereby thinning financial resources and weakening net interest spread (NIS) margins to below 40% on a five-year average basis;
- Material declines in grant revenue and/or investment income that negatively impact overall financial flexibility with the earned income ratio (EIR) trending below 60%;
- A deterioration in HPN's leverage position, with the debt-to-equity ratio increasing above 3.0x on a five-year average basis;
- Reduced funding and support for CDFIs and/or affordable housing from the federal government that lead to lower demand for HPN's loan products, impact the sources of capital available to grow its equity base, and/or cause higher costs of capital for an extended period.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Demonstrated trends of high profitability with NIS and EIR ratios both trending above 70% and the self-sufficiency ratio trending above 100%;
- Strengthened financial performance as reflected in positive trends in financial ratios, including debt-to-equity below 1.0x combined with continued strengthening of the core capital ratio with the five-year average ratio trending above 25%.

Profile

Housing Partnership Network, Inc. (HPN) is a Massachusetts not-for-profit corporation established in 1993 as a peer network and business alliance for nonprofit housing developers, owners, and financial institutions across the United States. HPN helps the 100+ network organizations increase production, share knowledge and innovation, and pool resources to access the capital markets more efficiently. HPN has facilitated the deployment of over $1.5 billion in capital that has supported the development and preservation of over 100,000 affordable homes as well as community development initiatives.

HPN comprises several affiliate organizations that help carry out the organization's social enterprises, including the Housing Partnership Fund (HPF), Housing Partnership Ventures (HPV), and Framework Homeownership, LLC (Framework). HPF is the lending affiliate of HPN and provides financing to network members for the purchase, rehabilitation, and development of affordable housing. Both HPN and HPF are certified CDFIs by the U.S. Department of the Treasury. HPV is the investing affiliate of HPN and supports the members of HPN by developing and offering loan products and funding alternatives such as working capital loans. Framework is a web-based homeownership platform that was established to meet the demand for homeowner counseling services and to embed homebuyer education into the home purchase process.

Fitch views HPN's diversification of the business model positively because it provides HPN with a steady source of member contributions and the flexibility to pivot to different revenue sources as changing economic environments present new challenges and opportunities. In the uncertain environment regarding future government funding for CDFIs, and potentially funding sources for affordable housing development, Fitch will continue to monitor the impact on demand for HPN's loan products and, more generally, the sources and cost of capital for CDFIs.

ESG Considerations

Housing Partnership Network, Inc. has an ESG Relevance Score of '4' [+] for Human Rights, Community Relations, Access & Affordability due to the positive impact on loan performance of HPN's emphasis of financial education, counseling for borrowers, and loss mitigations strategies, which contribute to lower delinquency rates in the loan portfolio. These strategies are intrinsic to HPN's mission to provide fair and responsible financing to under-resourced communities, which has a positive impact on the credit profile, and is relevant to the rating in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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