

NHMFC Bonds 2024 Senior Notes Gets Very Strong Credit Rating

Philippine Rating Services Corporation (PhilRatings) has assigned Final Issue Credit Ratings of **PRS Aa minus** to the ₱1.0 billion Class A Senior Notes and **PRS Baa** to the ₱300.3 million Class B Subordinated Notes of National Home Mortgage Finance Corporation's (NHMFC) proposed seventh securitization transaction (NHMFC Bonds 2024). The Outlook for both ratings is **Stable**.

Obligations rated **PRS Aa** are of high quality and are subject to very low credit risk. The obligor's capacity to meet its financial commitment on the obligation is very strong. The 'minus' further qualifies the assigned rating.

Obligations rated **PRS Baa** exhibit adequate protection parameters. Adverse economic conditions and changing circumstances, however, are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. PRS Baa-rated issues may possess certain speculative characteristics.

An Outlook, on the other hand, is an indication as to the possible direction of any rating change within a one-year period and serves as further refinement to the assigned credit rating for the guidance of investors, regulators, and the general public. A **Stable Outlook** indicates that the rating is likely to be maintained or to remain unchanged in the next twelve (12) months.

The ratings and Outlook took into consideration the following: (a) concerns on the foreseen Asset Pool collection performance; (b) easing inflation may improve the ability of the loan obligors to pay their loans; (c) the Senior Notes benefit from significant subordination coverage of the Class B Subordinated Notes, along with substantial liquidity reserves and overcollateralization; (d) limited prepayment risk and interest rate risk; and (e) transaction participants are experienced.

NHMFC's proposed seventh securitization transaction, called NHMFC Bonds 2024, is made up of a pool of low-cost and socialized housing loans acquired by NHMFC from the Home Development Mutual Fund (HDMF) and various real estate developers through the Housing Loan Receivables Purchase Program (HLRPP). The securitization transaction, consisting of one tranche of Senior Notes and one tranche of Subordinated Notes, involves a total issuance amount of approximately ₱1.3 billion. The Class A Senior Notes and Class B Subordinated Notes will amount to ₱1.0 billion and ₱300.3 million, respectively. The Class B Subordinated Notes will be paid after all Class A Senior Notes have been fully settled.

PhilRatings has observed the noticeable upward trend in the default rates of the Asset Pools for NHMFC's past securitization transactions—indicating a deterioration in the asset quality. It is also worth noting that the interest rates of the Asset Pools have been declining, and which has resulted in lower excess spreads. Nonetheless, all the Class A Senior Notes of the Company's previous securitization transactions that have matured – Bahay Bonds 1, Bahay Bonds 2, and BALAI Bonds 1 – were settled in full and on time.

Moreover, the country's move towards a benign inflation environment beginning in 2024 may provide some relief to the purchasing power of the Residential Loan obligors. Such, in turn, may improve their ability to pay off their loan obligations. In December 2024, the Philippine banks' gross non-performing loan (NPL) ratio fell to a 12-month low of 3.27% - the lowest recorded since the 3.24% recorded in December 2023.

The Asset Pool for NHMFC Bonds 2024 consists of 1,658 long-term secured Residential Loans for low-cost and socialized housing units. Of the total portfolio, only 7 loans or 0.42% underwent restructuring or condonation. In terms of outstanding principal amounts, around 0.51% or ₱6.68 million of the Asset Pool was restructured or condoned. In line with the eligibility criteria, loans included in the Asset Pool were not more than six months in arrears as of cut-off date.

Credit enhancements enjoyed by the Class A Senior Notes include excess spread, subordination coverage from Class B Subordinated Notes, access to accounts designed to cover cash shortfalls, and overcollateralization. The excess spread serves as the first buffer against credit losses or liquidity shortfalls in the transaction. For NHMFC Bonds 2024, the excess spread is expected to fall below 1.0%, which is much lower than the 4.79% average excess spread of the previous securitization transactions of the Company. Providing further protection for the ₱1.0 billion Class A Senior Notes is the ₱300.3 million Class B Subordinated Notes, which represent 30% coverage of the former. This can absorb losses from the Asset Pool that can no longer be covered by the excess spread. Furthermore, there are a total of six months' worth of collections and expected payments to be stored in the various liquidity accounts of the transaction. This should protect the stability of the cash flows of the transaction. It is also worth noting that 42% of the principal amount of the Class A Senior Notes will be paid by the end of the first quarter of the five-year term, according to the provided pre-defined amortization schedule. PhilRatings positively notes that the early settlement of the 42% of the Class A Senior Notes principal will bring up its subordination coverage to 51.2%. At that point, the asset pool balance will remain intact at ₱1.3 billion while the total Class A Senior Notes will be reduced to around ₱580 billion with the Class B Subordinated Notes at ₱300.3 billion (₱880.3 million total outstanding Notes), for an overcollateralization ratio of 1.48x.

Historically, it has been observed that there were minimal prepayments in NHMFC's residential loan portfolio. Prepayments are considered as a source of volatility for cash flows of an asset-backed security. Borrowers of the loans included in the Asset Pool tend to treat their loan amortizations as regular expenses which have to be paid. It is also noted that the loans included in the Asset Pool have fixed interest rates, which ensures the stability of cash flows and spreads of the transaction, relative to a pool of loans with variable interest rates.

PhilRatings further notes that participants in the transaction are well-established institutions, which are seen as capable of performing their functions in relation to this transaction. The participants have also been involved with previous securitization transactions of NHMFC.