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Ratings

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The Housing Finance Corp. Ltd.

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This report does not constitute a rating action.

Credit Highlights

Issuer Credit Rating
A/Stable/A-1

Enterprise risk profile	Financial risk profile
• The low industry risk of the U.K. social housing sector, combined with strong economic resilience and adequate financial system risk, support a low public-sector industry and country risk assessment (PICRA). • As a frequent and well-established issuer, The Housing Finance Corp. Ltd. (THFC) enjoys strong access to the markets and maintains its solid market position. • Management policies and governance standards are adequate, supporting robust financial ratios by mitigating the potential weakening of asset quality.	• Robust capitalization thanks to the accumulated reserves and the collateralization. • A strict matched-funding approach that ensures the funding and liquidity ratios remain structurally above 1x.

Outlook

The stable outlook indicates that S&P Global Ratings expects THFC to remain a leading U.K. Social Housing aggregator despite tightening competition from the 2020 Affordable Homes Guarantee Scheme, awarded to ARA Venn; and the deep U.K. bank and capital market, which housing associations can access directly. In our view, THFC's very conservative risk management practices will enable it to maintain a strong financial risk profile.

Downside scenario

We could lower our ratings if credit quality in the U.K. social housing sector deteriorated significantly, to the point where a payment default occurred and a loss crystalized, eroding the company's reserves enough to halve its capital ratio. We could also lower the rating if THFC's risk management policies became less prudent.

Upside scenario

We could raise the ratings if the company's market position strengthened significantly, with the group navigating the increasingly competitive environment and maintaining strong financial indicators.

Rationale

We base the 'A' issuer credit rating on THFC's strong financial profile and adequate enterprise profile.

Our rating on THFC reflects our view of the low industry risk of the U.K. social housing sector, to which the company lends. The sector benefits from low cyclicality, high barriers to entry, and strong government oversight via regulators. The rating also indicates that THFC has a solid market position compared with that of other U.K. aggregators, with a loan book of £8.22 billion as of March 31, 2022.

The company's strong capitalization and robust funding and liquidity ratios support the rating. We also believe THFC's prudent risk management policies will likely help in mitigating the pressure coming from the weakening credit quality of the social housing sector in the U.K. from inflation and potential introduction of the rent cap.

Enterprise risk profile: Relevant role in an competitive market, with robust risk management practices that protect the group against sector pressure

Our U.K. PICRA remains low, which supports the rating. The sector benefits from low cyclicality, high barriers to entry, and strong government oversight via regulators. Our PICRA also considers the wealthy, open, and diversified U.K. economy.

THFC on-lends predominantly long-term debt to housing associations in the U.K. As of the fiscal year (FY) 2022 (ended March 31, 2022), the company had a loan book of £8.22 billion--increasing 4.4% from £7.87 billion in FY2021 and providing funding to 160 borrowers. The increase came primarily from THFC's subsidiary, bLEND Funding PLC, which increased to £1.47 billion as of March 31, 2022.

Given the existing pressure on the social housing sector triggered by high inflation and potential introduction of the rent cap that the U.K. government is currently considering, we believe the loan portfolio growth (if any) will likely be modest during FY2023, provided THFC continues its conservative risk tolerance and its focus on strict monitoring of the borrowers' credit quality. Nevertheless, we believe the company will likely preserve its market share and will remain the largest aggregator on the market. As of March 31, 2022, it accounted for 8% of the social housing sector's total debt stock and for about 9% of the sector's funding needs in FY2022.

In our view, management has expertise and experience in operating its major business lines. Management continues enhancing internal processes and introducing innovative products to adapt to the market needs. THFC also enjoys a robust governance framework since, unlike other U.K.-based public-sector funding agencies, the group has board nominees from the regulator of the English social housing sector and from the National Housing Federation, the English housing sector's trade body. However, unlike its global peers, the company is not regulated by bank supervisors or financial services regulators and does not have to comply with any banking regulatory requirement or standards.

THFC follows a strict matched-funding approach to minimize asset-liability risk. Given that lending is on broadly the same interest rates and repayment schedule as the funds that it borrows, the group has almost no interest-rate risk. It also does not have currency risk--its funding and lending are both denominated in pound sterling. It also receives payments from borrowers up to a month before payments to investors become due, providing a timing cushion.

Financial risk profile: Consistently strong financial indicators, combined with robust policies to mitigate potential risks on asset quality

We assess THFC's capital adequacy as very strong, supported by a strong risk-adjusted capital (RAC) ratio, its business construct as a cash-flow pass-through vehicle, and robust collateralization on its loan book through physical collateral and debt service reserves. Compared with that of domestic peers, THFC has the highest level of collateralization, at about 200%. The group also has no exposure to derivatives.

THFC's RAC ratio has strengthened to 20.1% from 18.6% in FY2022 following the accumulated reserves which increased to £52.3 million at FY-end 2022. Furthermore, after adjusting for single name concentration on the loan book, the RAC ratio strengthened to 13.9% in FY2022 from 12.4% in FY2021.

Of THFC's portfolio, £3.2 billion benefits from the double-guarantee scheme the U.K. government provides to its subsidiary, AHF. Therefore, almost half of its exposure is to the central government instead of to the sector directly.

We assess THFC's funding and liquidity position as strong, supported by a robust capacity to cover its liabilities, even under severe liquidity stress scenarios. Furthermore, conservative match-funding policies ensure that liquidity ratios will remain structurally well above 1x, meaning that the group has ample cushion to cover its liabilities under a severe liquidity stress scenario without accessing capital markets. Further supporting this view is a one-month gap between the group's obligation to pay investors and payments received from its borrowers.

Selected Indicators

Table 1

The Housing Finance Corp. Ltd. -- Selected Indicators

	--Year ended March 31--				
(Mil. £)	**2022**	**2021**	**2020**	**2019**	**2018**
Business position					
Total adjusted assets	8,549.1	8,004.4	7,572.6	7,456.8	7,108.0
Gross receivables	8,220.5	7,874.1	7,453.8	7,333.0	6,991.5
Growth in loans (%)	4.4	5.6	1.7	4.9	18.8
Interest revenue	267.6	262.0	261.5	258.6	237.2
Noninterest expense	6.0	5.2	5.2	4.6	4.3
Capital and risk position					
Total liabilities	8,496.8	7,957.9	7,530.9	7,418.7	7,073.4
Total adjusted capital	52.3	46.4	41.6	38.0	34.5
Assets/capital	163.4	172.5	181.9	196.3	206.1
RAC ratio before diversification (%)	20.1	18.6	17.8	16.6	15.8
RAC ratio after diversification (%)	13.9	12.4	11.4	10.7	11.9
Funding and liquidity					
Liquidity ratio with loan disbursement (one year)	2.9	1.2	2.3	1.6	1.7
Liquidity ratio without loan disbursement(one year)	2.9	1.2	2.3	1.6	1.7

Table 1

The Housing Finance Corp. Ltd. -- Selected Indicators (cont.)					
	--Year ended March 31--				
(Mil. £)	2022	2021	2020	2019	2018
Deposits to total financial liabilities					
Funding ratio (one year)	3.3	1.5	2.5	1.8	1.9

RAC--Risk-adjusted capital.

Ratings Score Snapshot

Table 2

The Housing Finance Corp. Ltd. -- Ratings Score Snapshot	
Issuer credit rating	**A**
Stand-alone credit profile	a
Enterprise risk profile	Adequate (3)
Public-sector industry risk and country risk assessment	Low risk (2)
Business position	Adequate
Management and governance	Adequate
Financial risk profile	Strong (2)
Capital adequacy	Very strong
Funding and liquidity	Neutral and Strong
Support	0
Government-related entity support	0
Group support	0

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Governments | International Public Finance: Public-Sector Funding Agencies: Methodology And Assumptions, May 22, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Rated U.K. Social Housing Providers' Creditworthiness Could Suffer If The Gap Between Rent And Cost Increases Persists, Aug. 1, 2022
- Non-U.S. Social Housing Providers Ratings Score Snapshot: July 2022, July 27, 2022

- Non-U.S. Social Housing Providers Ratings Risk Indicators: July 2022, July 27, 2022
- Non-U.S. Social Housing Providers Ratings History: July 2022, July 27, 2022
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 22, 2022
- U.K. Social Housing Sector Borrowing Needs To Rise To Fund Investment In New Homes, March 31, 2022
- Global Regulatory Framework Report Card For Public And Nonprofit Social Housing Providers, June 8, 2021

Ratings Detail (As Of October 4, 2022)*	
Housing Finance Corp. Ltd. (The)	
Issuer Credit Rating	A/Stable/A-1
Issuer Credit Ratings History	
06-Jul-2016	A/Stable/A-1
24-Jun-2004	A+/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.