

RATING RELEASE

October 7, 2021

CariCRIS lowers its ratings on Home Mortgage Bank

Caribbean Information and Credit Rating Services Limited (CariCRIS) has lowered the assigned Corporate Credit ratings to *CariA-* (Foreign and Local Currency) on its regional rating scale, and *ttA-* on the Trinidad and Tobago (T&T) national scale to Home Mortgage Bank (HMB or the Bank). These ratings indicate that the level of creditworthiness of this obligor, adjudged in relation to other obligors in the Caribbean and within T&T is **good**.

The one-notch downgrade is driven by challenging labour market conditions in T&T which resulted in a material deterioration in HMB's asset quality over the past year, as evidenced by a significant increase in non-performing loans (NPLs) in 2020. The downgrade was also driven by 2 consecutive years of decline in profitability (FY2019 and FY2020) following years of higher earnings (FY2016-FY2018). Though reduced from the prior year, HMB's Profit after Tax (PAT) in 2020 was better than CariCRIS' forecast for the year.

HMB's ratings reflect its strong capitalization level and good financial performance notwithstanding the challenging operating environment. The ratings are also supported by good liquidity levels underpinned by a diversified funding base and prudent risk management strategies. These rating strengths are tempered by HMB's credit loan portfolio quality which was adversely impacted by the COVID-19 pandemic and the prevailing economic conditions that could negatively impact HMB's financial performance.

CariCRIS has also assigned a **stable** outlook on the ratings. The stable outlook is based on our expectation that the major impact of the COVID-19 pandemic has passed and economic activity in T&T is expected to somewhat improve over the next 12-15 months as domestic lockdown measures are gradually lifted, and the COVID-19 vaccines are rolled out. We therefore expect HMB's financial performance and asset quality to gradually improve in 2022, though at a slower pace when compared to the previous years. Furthermore, the Company is expected to comfortably cover its interest payments as they come due over the next 12 months.

Rating Sensitivity Factors

Factors that could, individually or collectively, lead to an improvement in the ratings and/or Outlook include:

- An improvement in the credit rating of the sovereign over the next 12-15 months.
- Improvement in the Bank's interest spread to > 3%, sustained over a 3-year period.
- NPLs/Gross loans improve to 5% or below over the next 12-15 months

Factors that could, individually or collectively, lead to a lowering of the ratings and/or Outlook include:

- A deterioration in the credit rating of the sovereign over the next 12-15 months.
- A sustained increase in the cost of funds by 100 bps or greater over the next 12-15 months.
- NPL's >8% over the next 12-15 months.
- A deterioration of the total earning assets/ total interest-bearing liabilities ratio to < 1 time.

About the Company:

Home Mortgage Bank (HMB) was established in the Republic of Trinidad and Tobago (T&T) under the Home Mortgage Bank Act of 1985 and commenced business in October 1986. HMB is 100% owned by the National Insurance Board of Trinidad and Tobago (NIBTT)¹.

HMB's principal business activities include the trading of residential mortgages originated by primary mortgage lenders² and commercial lending. The Bank's loan product offerings include loans for land acquisition for commercial purposes, bridge financing, commercial mortgage loans, project financing, and Public/Private Sector Partnerships (PPP)³. Its Mortgage-Backed securities include Collateralized Mortgage Obligations (CMOs), the Mortgage Participation Fund (MPF) and the Samaan Tree Fund (STF). The mutual funds established by HMB are backed by a segregated pool of

¹ Previously 0.6% of HMB's shares were held by British American Insurance Company (Trinidad) Limited, but NIBTT acquired these residual shares in 2017.

² Include the local commercial banks, non-bank mortgage institutions and credit unions.

³ For 2019, the portfolio comprised project financing, commercial facilities for land development and construction of multi and single-family homes for re-sale. In addition, to their primary commercial mortgage portfolio, HMB continues to purchase secondary mortgages from TTME.

residential mortgages. The Bank also issues taxable and tax-exempt Bonds. The Bank is a non-deposit taking institution and derives most of its funding from the issuance of medium-term and long-term bonds; additional funding is also provided through inflows from the MPF, STF and the CMOs. HMB currently has three 100%-owned subsidiaries, Tobago Fairways Villas Limited, Tobago Plantation House Limited, and Tobago Fairways Management Limited. These subsidiaries are engaged primarily in real estate development.

On August 6, 2021, the Board of the National Insurance Board of Trinidad and Tobago (“NIBTT”), as well as the Boards of the Trinidad and Tobago Mortgage Finance Company Limited (“TTMF”) and Home Mortgage Bank (“HMB”) formally approved the merger of TTMF and HMB. A team of advisors led by PricewaterhouseCoopers Advisory Services Limited (“PwC”) is providing implementation support for the merger. The approved method for the merger is a Distribution in Specie, whereby all assets and liabilities of the liquidated HMB will be transferred to TTMF.

For more information on Home Mortgage Bank’s ratings, please visit www.caricris.com or contact:

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