
KBRA Assigns BBB Rating to Preston Hollow Community Capital

NEW YORK (January 31, 2022) – KBRA assigns a BBB issuer rating to PHCC LLC d/b/a Preston Hollow Community Capital (“PHCC” and, together with Preston Hollow Capital, LLC, “Preston Hollow”, “PH” or “the Company”), a wholly-owned subsidiary of Preston Hollow. Preston Hollow is a private investment company founded in 2014 and headquartered in Dallas Texas, specializing in direct and secondary market investments in municipal securities. This follows KBRA’s assigning a BBB issuer rating to Preston Hollow Capital, LLC (“PHC”) on December 14, 2021. The ratings Outlook is Stable.

Key Credit Considerations

The rating reflects Preston Hollow’s deep and experienced management team with decades of municipal finance and real estate lending experience, primarily senior secured, well-collateralized and covenant-heavy debt investments diversified by region and sector, acceptable leverage with a long-term target of up to 2x Total Debt-to-Equity and approximately 1x Recourse Debt-to-Equity (excluding non-recourse term-matched trusts), strong underwriting and risk management, strong earnings metrics, permanent equity capital from established institutional investors and PH’s management team including the President/CEO and an adequate funding/liquidity profile with significant unencumbered assets.

PH’s funding strategy is focused primarily on non-recourse term matched trusts (TMTs) which provides a more stable source of borrowing compared to short-term recourse facilities. KBRA views PH’s TMT funding as relatively stable given maturities are long-term and generally matched with the maturities of assets collateralizing the TMT, there is no mark-to-market collateral posting required, and TMTs are fully non-recourse to PH. In addition, the rating considers PH’s demonstrated strong underwriting with low losses and successful workouts of distressed credits through the Covid-19 pandemic. These strengths are counterbalanced by the risks related to the business of investing in illiquid non-investment grade or unrated municipal debt, relatively high single credit concentration (top 5 credits comprise 31% of portfolio), high dividend payouts and a focus on secured debt financing with fewer sources compared to higher-rated finance companies.

The issuer rating of PHCC is the same as PHC’s given PHCC is the wholly-owned operating subsidiary of PHC and holds substantially all assets and liabilities of the Company. On January 1, 2022, the Company rebranded to emphasize its social impact finance strategy by creating PHCC and transferring all operations of Preston Hollow to PHCC.

The Stable Outlook reflects the Company’s low leverage, low non-accruals and losses through the Covid-19 pandemic to-date and adequate liquidity with significant unencumbered assets.

Rating Sensitivities

The rating Outlook is Stable, therefore, a rating upgrade is not expected in the near-term. Over time, significant market share and portfolio growth, significant improvement in single credit diversification, increased portfolio exposure to higher-rated credits and increased diversity of funding sources while maintaining leverage at or below target levels (well-below covenant levels) and stable asset quality metrics could lead to consideration for an upgrade.

The Outlook could be revised to Negative or the rating could be downgraded if a significant downturn in the U.S. economy or changes in U.S. tax policy have material negative impacts on PH’s portfolio, credit losses and/or portfolio concentrations increase materially, or leverage increases materially above target levels which could cause performance volatility; KBRA notes that higher leverage would increase the sensitivity of the rating to a deterioration in asset quality. A material weakening in the stability of funding, including weakening of term-matched trust terms that increases refinancing and liquidity risk for PH or a change in management coupled with a shift in investment strategy, investment process and/or risk management could also lead to a downgrade.

To access ratings and relevant documents, click [here](#).



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Disclosures

A description of all substantially material sources that were used to prepare the credit rating and information on the methodology(ies) (inclusive of any material models and sensitivity analyses of the relevant key rating assumptions, as applicable) used in determining the credit rating is available in the Information Disclosure Form(s) located [here](#).

Information on the meaning of each rating category can be located [here](#).

Further disclosures relating to this rating action are available in the Information Disclosure Form(s) referenced above. Additional information regarding KBRA policies, methodologies, rating scales and disclosures are available at www.kbra.com.

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