
KBRA Assigns BBB Rating to Preston Hollow's \$230 million Unsecured Notes

NEW YORK (March 3, 2022) – KBRA assigns a BBB rating to \$230 million unsecured notes issued by 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 Capital, LLC. 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 PHCC on January 31, 2022. The rating 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 noninvestment grade or unrated municipal debt, relatively high single credit concentration (top 5 credits comprise 29% of portfolio), high dividend payouts and a focus on secured debt financing with fewer sources compared to higher-rated finance companies.

The rating on the unsecured notes to be issued by PHCC is equalized with the issuer rating reflecting the Company's acceptable target leverage and significant unencumbered assets which could support potential recovery prospects. The notes include a covenant requiring the ratio of Unencumbered Assets (excluding TMT B Certificates) / Unsecured Debt to be greater than 1.50x. Moreover, at higher rating levels, KBRA focuses more on probability of default and less on potential loss severity which could be reflected through debt instrument notching. The proceeds from the issuance will be used for general corporate purposes including new investments with a portion (25% to 50%) for dividend distribution, depending upon PH's new investment origination volume.

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.

Click [here](#) to view the report. To access ratings and relevant documents, click [here](#).

Analytical Contacts

Michael Dodge, Senior Director (Lead Analyst)
+353 1 588 1190
michael.dodge@kbra.com

Danise Chui, Managing Director (Rating Committee Chair)
+1 (646) 731-2406
danise.chui@kbra.com

Marjan Riggi, Senior Managing Director
+1 (646) 731-2354
marjan.riggi@kbra.com

Business Development Contact

Arielle Smelkinson, Senior Director
+1 (646) 731-2369
arielle.smelkinson@kbra.com



Disclosures

Further information on key credit considerations, sensitivity analyses that consider what factors can affect these credit ratings and how they could lead to an upgrade or a downgrade, and [ESG factors](#) (where they are a key driver behind the change to the credit rating or rating outlook) can be found in the full rating report referenced above.

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.

About KBRA

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