STANDARD & POOR'S RATINGS SERVICES

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Iowa Finance Authority; General Obligation

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Iowa Finance Authority; General Obligation

Credit Profile		
Iowa Fin Auth ICR		
Long Term Rating	AA/Stable	Affirmed

Rationale

Standard & Poor's Rating Services has affirmed its 'AA' issuer credit rating (ICR) on Iowa Finance Authority (IFA). At the same time, Standard & Poor's affirmed its 'AA' long-term rating on the Authority's existing general obligation (GO) debt and its 'AA/A-1+' rating on the variable-rate debt. The outlook is stable.

The rating reflects our opinion of the Authority's following strengths:

- The extremely high quality and very low-risk profile of its asset base;
- The very strong profitability in the past two years that are in line with 'AA+'- or higher-rated housing finance agencies (HFAs);
- The minimal GO debt exposure; and
- The active management team with strong legislative support.

Offsetting these strengths is our opinion of the following weakness:

- The relatively week leverage ratio compared with other 'AA'-rated HFAs despite the recent improvement.

IFA continues to improve its asset quality by originating all single-family loans as securitized mortgage-backed securities (MBS) with 'AA+' support from Fannie Mae or Ginnie Mae. Since reaching its peak in fiscal year 2008, the Authority's single-family loan production has declined due to the lingering effects of the financial crisis, and its assets continued to decrease as MBS and investments decrease. IFA completed a five-year plan that emphasized growth, which resulted in lower equity ratio. The Authority acknowledges Standard & Poor's concerns regarding its leverage ratios during fiscals 2010 and 2011, indicating that the ratios were a result of the escrow bonds issued under the New Issue Bond Program (NIBP) and the Federal Home Loan Bank (FHLB) limited obligation note issued to preserve private activity bond cap. Both programs were relatively new initiatives, but are no longer outstanding as of June 30, 2012. IFA had $137.9 million of NIBP escrow bonds outstanding and available for issuance as of June 30, 2011. During fiscal 2012, the Authority released $66 million of the NIBP escrow bonds, which financed the acquisition of new MBS under its single-family program. The Authority retired the remaining NIBP bond balance of $71.9 million during fiscal 2012. Also, as of June 30, 2011, and June 30, 2010, the Authority had $50 million and $122.297 million, respectively, outstanding under a limited obligation note issued to the FHLB. The Authority retired the limited obligation note in fiscal 2012.

Audited financial statements for fiscal 2012 show an increase in equity as a percentage of assets. Furthermore, IFA's capital adequacy ratios reflect a low risk profile consistent with its current rating. However, we also believe that IFA's leverage ratio, as evidenced by equity to assets, is more in line with other 'AA-'-rated HFAs despite its continued improvement in 2012 as mentioned above.

Outlook

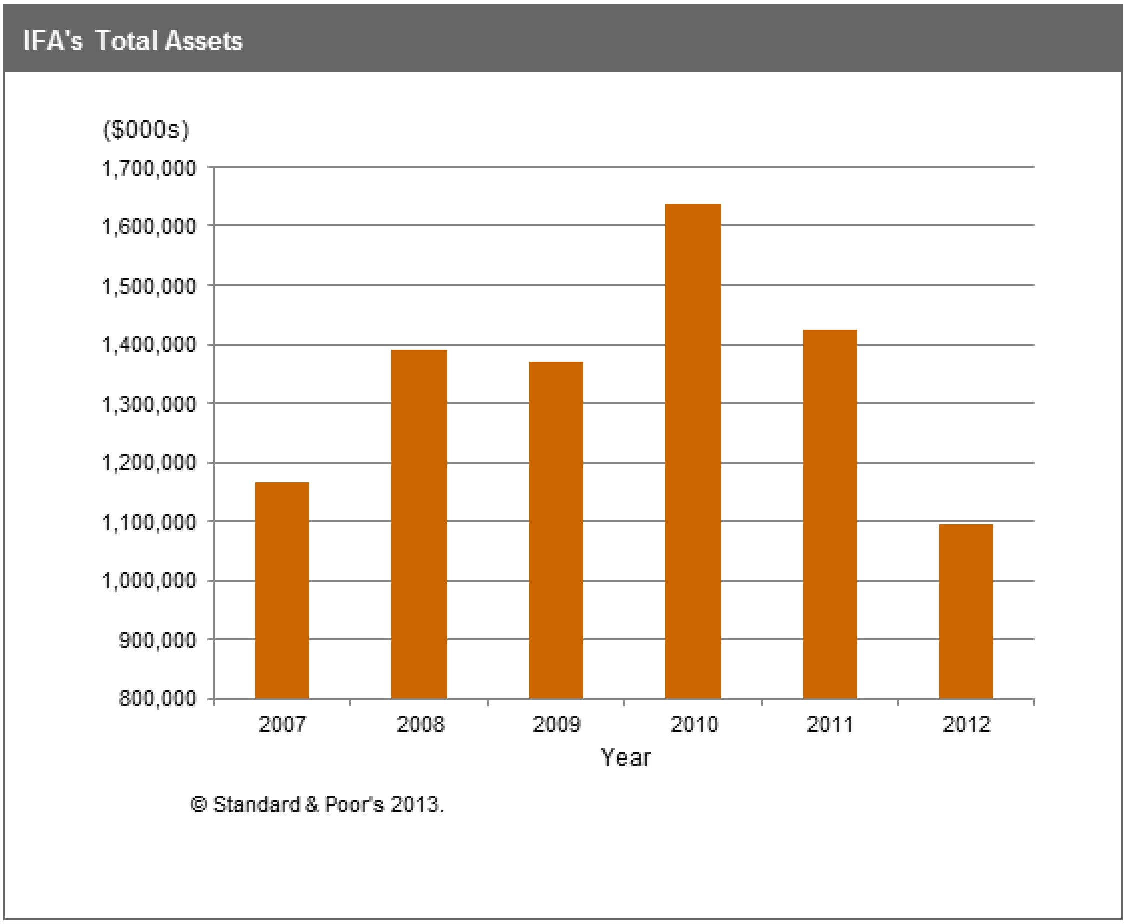
The stable outlook reflects our opinion of IFA's low-risk equity base and high capital adequacy ratios. IFA's extremely low-risk assets provide stability, and we expect this aspect of the HFA to remain a strength in all real estate markets. Should equity as a percent of assets significantly decline, a negative rating action could result. If equity increases, IFA's ratios could return to a level more in line with similarly rated HFAs, and the rating should remain unchanged.

Asset Quality: High-Quality MBS

Since 2002, the Authority's assets have increased by at least 10% every year except 2004 and 2009, with an average growth of 16%. The assets and other financial information Standard & Poor's used for this analysis exclude the state revolving fund that IFA administers as well as any conduit bond issues, which have no recourse to the Authority. The Authority's housing agency asset base was at an all-time high of $1.64 billion in fiscal 2010, due to a large increase in investments of $380 million, partly the result of unexpended bond proceeds from the NIBP. Another contributor was the Federal Home Loan limited obligation note in the amount of $122 million as of June 30, 2010.

The Authority's assets declined $341 million to $1.065 billion in fiscal 2012 from $1.406 billion in fiscal 2011. Cash and total investments declined 45%, or $221 million, and MBS declined 27.9%, or $196 million.

Chart 1

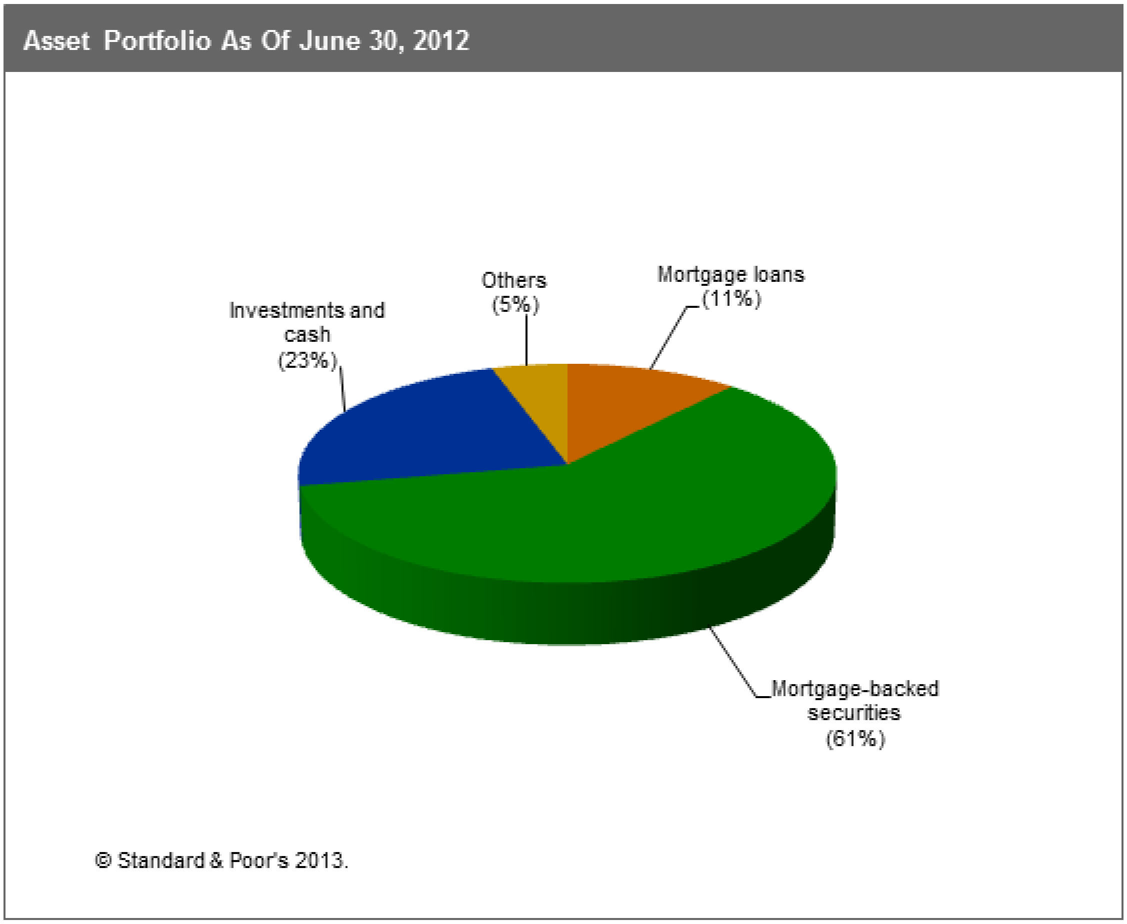


As of June 30, 2012, approximately 53% of the Authority's asset portfolio consists of 'AA+'-rated MBS, the lowest proportion since 2001. IFA's loan portfolio consisted of Ginnie Mae, Fannie Mae and Freddie Mac MBS (91%) and multifamily and single-family mortgage loans (9%). This proportion of MBS is the lowest since 2002, but remains high in comparison with most HFAs. The decline was a result of relatively low single-family MBS origination and the financing of multifamily non-MBS loans.

We believe that IFA's loan portfolio poses an extremely low risk, due to the Authority's conservative approach to collateral. As of June 30, 2012, more than 99% of IFA's single-family loans were backed by Ginnie Mae, Fannie Mae, and Freddie Mac MBS. As Standard & Poor's expected, delinquencies and nonperforming assets as of June 30, 2012, were a miniscule 0.2% of total loans and MBS, representing just $2.7 million in fiscal 2012, down from $3.4 million in fiscal 2011.

As MBS guarantees payment on the underlying loans, no reserves are required. However, for the remaining loans, IFA has provided reserves to cover potential credit losses on the portfolio. In our opinion, these loans are performing well and have sufficient excess assets that cover any credit shortfall or liquidity issues.

Chart 2

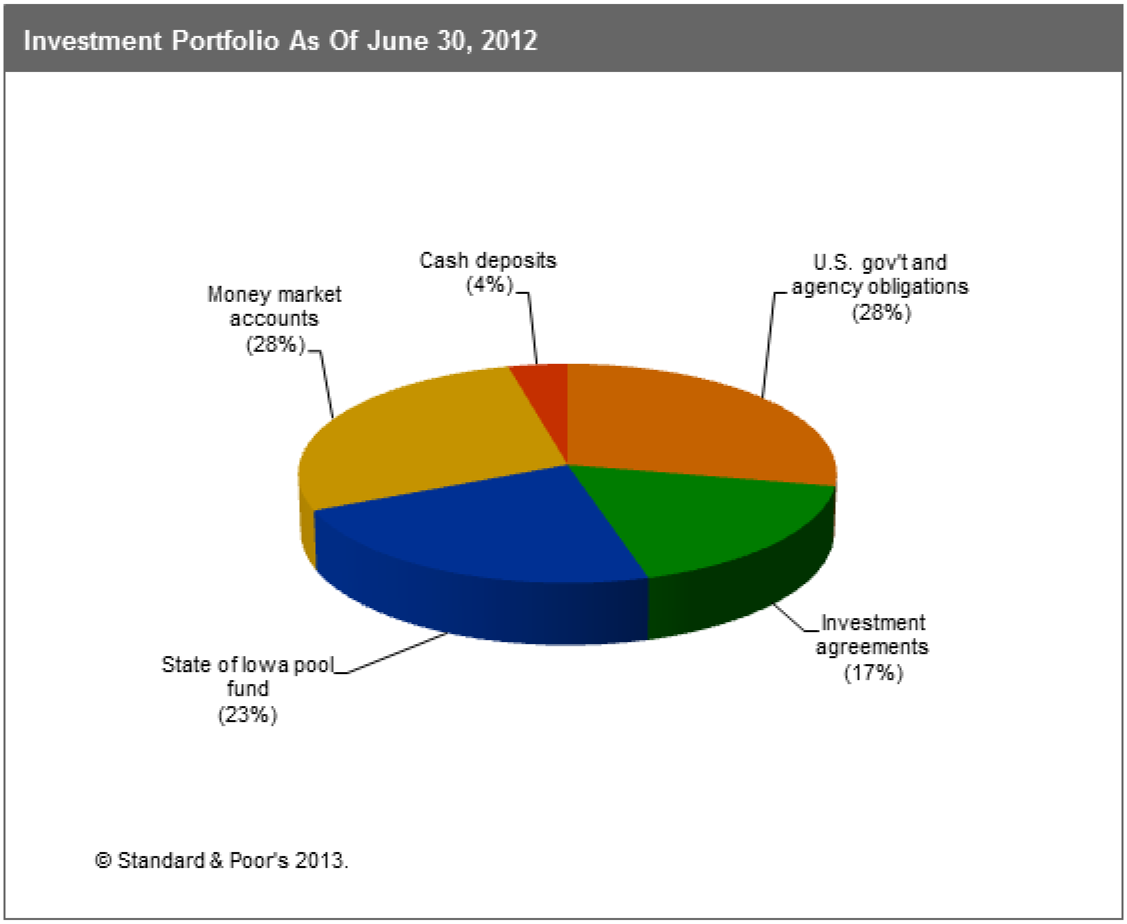


Investments

IFA's investments, as of June 30, 2012, are, in our view, of high credit quality and provide sufficient liquidity; 86% of investments are in government securities rated 'AA+'.

Management takes what we consider a conservative approach to the oversight and monitoring of the Authority's investments. IFA's investments provided 7.3% of total revenues in 2012, which was, in our view, very high compared with 2.9% in fiscal 2011, which itself was much higher than previous year's level. IFA's investment income was just \$10.8 million, up from \$6.71 million in 2011 and \$6.28 million in 2010, which was the lowest amount on record since 1997.

Chart 3



Earnings Quality And Financial Strength: Stable Revenues

IFA's total revenues have increased steadily and have more than doubled since 2007, with much of the increase attributable to grant income. As of June 30, 2012, the Authority's total revenues stood at $148 million, a 36% decrease from 2011, which was historically high since its inception.

In fiscal 2011, the Authority's housing agency grant income increased $78.4 million to $162.8 million, due to extraordinary state funding for disaster relief, water quality, and infrastructure projects; the Department of Housing & Urban Development's (HUD) HOME program, and the American Recovery and Reinvestment Act (ARRA). The Authority recognized an average of $108 million in grant income over the past three years, and recognized $45 million of grant income in fiscal 2009, Grant expenses decreased by 43% to $75 million in fiscal 2012 from $127 million in fiscal 2011.

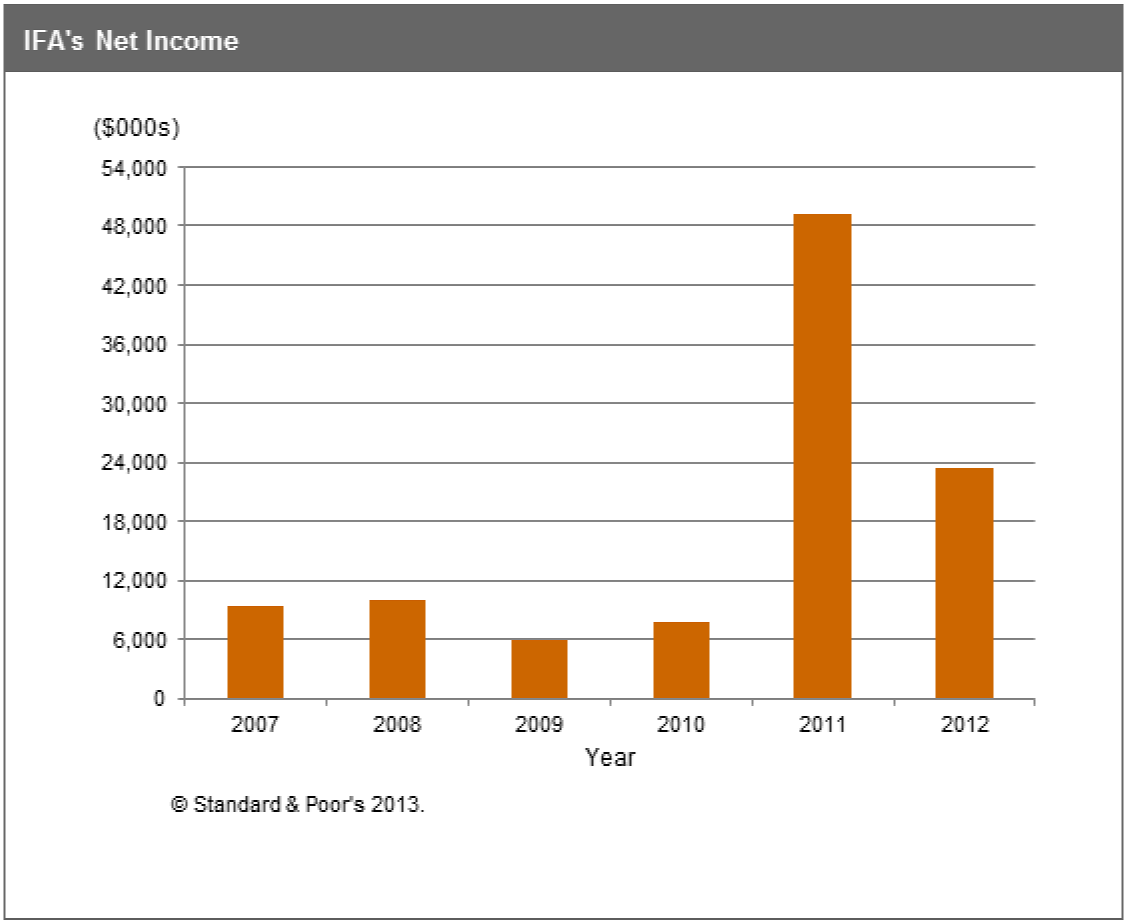
Otherwise, income from loans declined $6.4 million. In fiscal 2012, the Authority's net income was $23.4 million, a 52% decrease from the previous fiscal year, but an increase of 200% from 2010. Net income was impacted by the decline in grant income from the 2011 level.

IFA's profitability, as measured by return on assets, increased sharply to 1.9% in 2012 and 3.23% in 2011 from 0.5% in 2010 and 0.43% in 2009, respectively. Net interest margin (NIM) also improved to 1.39% in 2012 and 0.78% in 2011 from 0.69% in 2010 and 0.7% in 2009, respectively. We believe IFA's management has achieved very strong profitability ratios for the past three years that are in line with 'AA+'-or-higher-rated HFAs. As detailed in table 2, the five-year average of the Authority's profitability ratios is similar to those of its 'AA+'-rated peers, despite a low-risk profile. However, we also consider that the profitability ratio improved mainly due to the huge increases in grants for the past three years. This does not guarantee consistent profitability going forward, and we will monitor how this trend develops in the two-year outlook period.

Equity as a percentage of assets was 24.44% in 2012, up from 16.88% in 2011 and 11.39% in 2010. However, IFA's leverage ratio is more in line with an 'AA-' rating.

While IFA's growing balance sheet has diluted equity on a percent basis, much of this growth is associated with the NIBP escrow bond and FHLB limited obligation note. As these programs expired, we expected equity ratios to increase. Furthermore, we believe the Authority's equity base is adequate to support its low-risk profile. After adjusting for potential losses, the Authority's unrestricted equity as a percentage of debt is 22.54%, above Standard & Poor's threshold of 4.0%, and its liquid assets are 209.32% of loans, in excess of the 2.0% of mortgage loans outstanding. Although we are comfortable with IFA's equity position, we are concerned with the long-term decline in equity and will monitor this trend to see if it merits a change in the rating.

Chart 4



Debt: Moderate Risk

As of June 30, 2012, IFA's debt outstanding totaled $712.8 million, down 30.3% from the preceding year and 46.1% from the 2010 level. IFA's debt level peaked during fiscal 2010. The Authority had $659 million of single-family bonds (93%) and $53 million of multifamily GO bonds (7%) outstanding as of June 30, 2012.

The Authority has single-family bonds outstanding under two master indentures. The Single-Family Mortgage Bond Resolution was adopted in 1991 and is rated 'AA+', reflecting our opinion of the extremely high quality of IFA's pledged collateral consisting of Ginnie Mae, Fannie Mae and Freddie Mac MBS; the strong credit quality of investments; and cash flow sufficiency. The Authority's 1991 indenture accounts for 71% of the Authority's total single-family bonds outstanding and 66% of total housing Authority debt. The remaining single-family bonds are issued under the Single-Family Mortgage Revenue Bond Resolution adopted in 2009 and are also backed by MBS.

The Authority has issued multifamily GO bonds under two master indentures, which were adopted in 1978 and 2005. The Authority's GO debt exposure is 6.23%, which is low on Standard & Poor's leverage scale for HFAs.

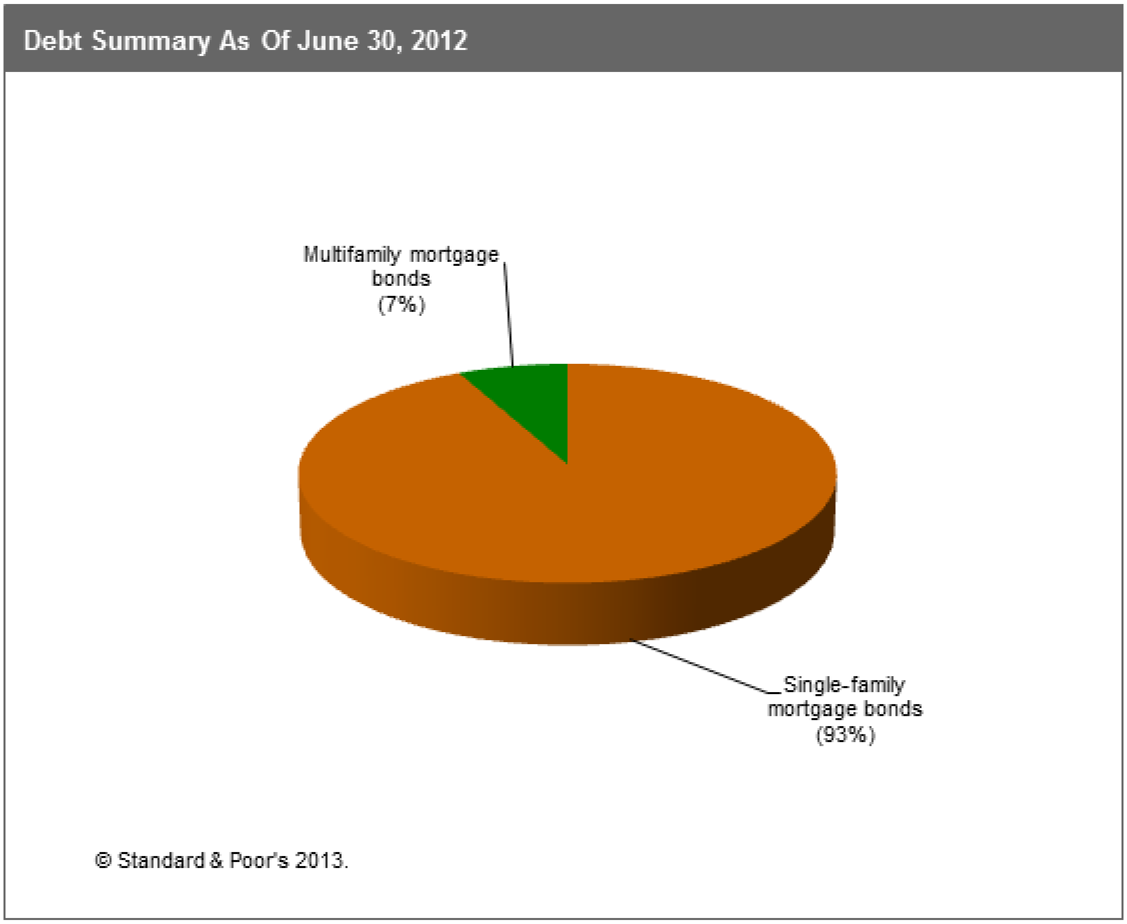
The Authority continued to take actions to mitigate the impact of variable-rate counterparty exposure. IFA has hedged nearly all of its floating-rate exposure through interest rate swaps and caps entered into with UBS AG (A+/Stable/A-1), RBC (AA-/Stable/A-1+), and Goldman Sachs Capital Markets LP, with a guarantee from The Goldman Sachs Group (A/Negative/A-1). As of June 30, 2012, total interest rate swap notional amount is $304,915,000. The series 2002A, 2002FGHI, 2003AB, 2003CDEFG, and 2003HIJ bonds were defeased in the spring of 2012. As of Jan. 1, 2013, the series 2003F swap remains outstanding and has a notional balance of $2,255,000. IFA plans to retire the swap by no later than July 1, 2015. As a result, the bond balance has decreased to $470.4 million as of June 30, 2012, from the par amount of $687.7 million on June 30, 2011.

Following a review of IFA's 17 fixed-to-floating interest rate swaps, two basis swaps, and four interest rate caps and corridor transactions, Standard & Poor's assigned the Authority moderate risk, which reflects our opinion of the following:

- Two adequately rated swap counterparties, both of which are required to post collateral before a credit event occurs;
- The low basis risk;
- The low termination risk; and
- The good management oversight.

We believe management is proactive in monitoring risks and benefits associated with swaps, so that the Authority's exposure to either of its counterparties does not exceed a defined amount. Standard & Poor's is not factoring in the value at risk as a contingent liability at this time due to what we consider the remoteness of involuntary termination.

Chart 5



Management: Experienced And Active

The Authority appointed the new Chief Financial Officer in September of 2012. Ms. Harris previously served as a senior consultant at cfX Incorporated, a company solely dedicated to providing quantitative and strategic support to state HFAs. Prior to cfX, she was a research assistant for the Board of Governors of the Federal Reserve System.

Standard & Poor's views IFA's relationship with the state as positive and expects this relationship to continue. A tangible sign of IFA's strong relationship with the state is the growth in grant funding and associated responsibilities in 2011 and 2012. The additional funding resulted from state funding for disaster relief, water quality and infrastructure projects, and an increased federal funding for the American Recovery and Reinvestment Act.

IFA has been engaged by the state during the years to take on non-housing related activities, including serving as one of the state's primary bond issuing authorities. In addition to its active single-family program, IFA manages a number of housing development and rehabilitation programs designed to provide affordable housing and improve existing housing stock. IFA also administers several federal housing programs that strengthen its legislative mandate.

The Authority also administers, in partnership with the Iowa Department of Natural Resources, the State Revolving

Fund (SRF), which issues tax-exempt bonds to finance wastewater and drinking water facilities. The SRF bonds are rated 'AAA' based on the large size and diversity of the SRF program's loan portfolios, program coverage and reserve levels, structural features, and a management team with a proven track record. Standard & Poor's analysis of the ICR on the Authority excludes the activities of SRF, as its funds are legally obligated to the program and hence do not contribute to IFA's finances.

IFA's Title Guaranty Division (TGD) was established in 1985 to guarantee title to property in Iowa. The TGD is considered when evaluating the ICR on IFA, as surplus funds from TGD, in accordance with state code, are available to support IFA's affordable housing activities. We believe the risk associated with title guaranty to the ICR is minimal, as adequate reserves and reinsurance are in place to cover potential claims.

Economy: Slow Recovery

Iowa did not experience the sharp job losses that plagued other states, but, at the same time, recovery is expected to be comparatively slow. Iowa's economy is based on services, manufacturing, and agriculture.

According to IHS Global Insight, historically high agricultural commodity prices have driven up the price for farmland and provided additional revenues for agricultural businesses. The farm machinery industry continues to remain in good shape despite the drought. Iowa began 2012 with some nice gains in job growth, but employment has been mostly unchanged since February. The housing sector has solidified, but this has not yet translated into a boost in construction employment. Manufacturing has held steady, but reduced activity in the agriculture sector may limit the potential for short-term gains in that area. State and local government employment has leveled off after shedding jobs in the wake of the recession. Iowa's job growth average was 1.0% in 2012. Unemployment actually rose a bit during 2012 as the economic recovery encouraged people to rejoin the labor force, but was still an average of a one-half percentage point below 2011.

We believe that IFA's loan portfolio is well positioned, given its nearly exclusive securitization from 'AA+' MBS with U.S. government support. Global Insight expects the state is projected to return to pre-recession employment levels in the second half of 2013, and that housing demand will increase slightly in 2013 before accelerating the next few years. We believe higher demand for housing could impact the size of the loan and asset base, but would not affect the Authority's real estate, which is mostly guaranteed from the 'AA+' MBS.

Table 1

Financial Ratio Analysis

	2008	2009	2010	2011	2012	Five-year average
Profitability (%)						
Return on average assets	0.78	0.43	0.51	3.23	1.90	1.37
Return on assets before loan loss provision and extraordinary item	0.71	0.42	0.51	3.49	2.16	1.46
Net interest margin	1.10	0.70	0.69	0.78	1.39	0.93
Asset quality (%)						
Nonperforming assets (NPAs)/total loans and real estate owned	0.18	0.23	0.01	0.38	0.35	0.23
Loan loss reserves/total loans and mortgage-backed securities (MBS)	0.21	0.19	1.11	1.94	2.92	1.27

Table 1

Financial Ratio Analysis (cont.)						
Loan loss reserves/NPAs	113.40	81.20	19,811.11	511.29	840.15	4,271.43
Leverage (%)						
Total equity/total assets	12.48	13.28	11.39	16.88	24.44	15.69
Total equity and reserves/total loans and MBS	15.61	16.72	18.93	28.37	36.44	23.21
Liquidity(%)						
Total loans and MBS/total assets	78.91	78.56	58.88	63.86	72.92	70.63

Table 2

Five-Year Average Financial Ratios (2008-2012)

	IFA	All 'AA' HFAs	All 'AA+' HFAs	All 'AA-' HFAs	All HFAs
Profitability (%)					
Return on average assets	1.37	0.68	0.54	0.42	0.53
Return on assets before loan loss provision and extraordinary item	1.46	1.23	0.73	0.49	0.74
Net interest margin	0.93	1.04	1.63	0.79	1.10
Asset quality (%)					
Nonperforming assets (NPAs)/total loans and real estate owned	0.23	3.39	3.10	2.79	3.29
Loan loss reserves/total loans	1.27	3.48	2.14	0.58	2.15
Loan loss reserves/NPAs	4271.43	635.85	2910.26	38.90	721.94
Leverage (%)					
Total equity/total assets	15.69	17.58	25.91	12.52	17.34
Total equity and reserves/total loans	23.21	27.36	39.55	17.29	26.20
Liquidity (%)					
Total loans/total assets	70.62	74.06	70.63	75.39	73.09

Table 3

Trend Analysis

	2008	2009	2010	2011	2012
Total assets ($000s)	1,388,394	1,368,915	1,636,475	1,406,000	1,065,289
% Change	18.98	(1.40)	19.55	(14.08)	(24.23)
Total debt ($000s)	1,159,587	1,129,109	1,324,270	1,022,791	712,820
% Change	21.55	(2.63)	17.28	(22.77)	(30.31)
Total equity ($000s)	173,330	181,819	186,397	237,297	260,354
% Change	5.57	4.90	2.52	27.31	9.72
Revenues ($000s)	89,382	127,903	159,896	233,336	148,382
% Change	17.02	43.10	25.01	45.93	(36.41)
Net income ($000s)	9,915	5,916	7,736	49,197	23,487
% Change	4.92	(40.33)	30.76	535.95	(52.26)
Total loans and MBS ($000s)	1,095,557	1,075,402	963,478	897,839	776,764
% Change	17.38	(1.84)	(10.41)	(6.81)	(13.49)
Nonperforming assets ($000s)	2,008	2,497	54	3,400	2,700
% Change	124.57	24.37	(97.84)	6,196.30	(20.59)

Table 3

Trend Analysis (cont.)					
Loan loss reserves ($000s)	(2,276)	(2,028)	(10,698)	(17,384)	(22,684)
% Change	(12.93)	(10.90)	427.51	62.50	30.49

Related Criteria And Research

- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- USPF Criteria: Single-Family Mortgage-Backed Securities Programs, June 13, 2007
- USPF Criteria: Housing Finance Agencies, June 14, 2007
- USPF Criteria: Assumptions: Update to Cash Flow Analysis for Public Finance Housing Bonds, March 3, 2009
- U.S. Government Support In Structured Finance And Public Finance Ratings, Sept. 19, 2011

Ratings Detail (As Of February 27, 2013)		
Iowa Fin Auth multifam hsg bnds ser 2006A		
Long Term Rating	AA/Stable	Affirmed
Iowa Fin Auth var rate multifam hsg		
Long Term Rating	AA/A-1+/Stable	Affirmed
Iowa Fin Auth var rate multifam hsg bnds ser 2007A&B		
Long Term Rating	AA/Stable	Affirmed
Iowa Fin Auth Multifamily hsg bnds 2008 Ser A (AMT-var rate)		
Long Term Rating	AA/A-1+/Stable	Affirmed