Moody's Investors Service

New Issue: MOODY'S ASSIGNS Aaa RATING TO IOWA FINANCE AUTHORITY SINGLE FAMILY MORTGAGE BONDS 2009 A

Global Credit Research - 28 Jul 2009

OUTLOOK IS STABLE

Iowa FA - Single Family Mortgage Bonds
State
IA

Moody's Rating

ISSUE	RATING
Single Family Mortgage Bonds 2009A	Aaa

Sale Amount	$40,000,000
Expected Sale Date	08/10/09
Rating Description	MBS

Moody's Outlook Stable

Opinion

NEW YORK, Jul 28, 2009 -- Moody's Investors Service has assigned a rating of Aaa with a stable outlook to Iowa Finance Authority's Single Family Mortgage Bonds 2009 A. The rating of Aaa is assigned to the issue based upon the high quality security provided by GNMA and FNMA guarantees, the program's expected strong financial performance, as evidenced by strong asset to debt ratios and strong legal provisions.

USE OF PROCEEDS: Proceeds from the 2009 A will be used, together with an agency contribution, to purchase mortgage-backed securities (MBS) backed by pools of qualifying mortgages made to finance the purchase of single family residences in the State of Iowa.

LEGAL SECURITY: These bonds are secured by the general obligation of the Iowa Finance Authority (IFA) payable out of any of the available moneys, assets or revenues of the Authority. These bonds as well as parity bond issuances are further secured by a pledge of the Mortgage-Backed Securities and certain other moneys, assets and revenues pledged to payment of Bonds, including Series bonds under the resolution. The outlook on the bond program is stable. Payment is on parity with approximately $1.02 billion (as of 7/1/2009) in Single Family Mortgage Bonds.

INTEREST RATE DERIVATIVES: While there are no interest derivatives associated with the 2009A bonds, the Single Family Mortgage Bond 1991 Resolution has issued $373.9 million in variable rate debt hedged by various agreements provided by Goldman Sachs Capital Markets, L.P. with a guarantee from the Goldman Sachs Group, rated A1/P-1 with a negative outlook by Moody's and UBS AG, rated Aa2/P-1 rating under review for possible downgrade by Moody's. Currently, Goldman Sachs Capital Markets, L.P. with a guarantee from the Goldman Sachs Group serves as counterparty for approximately 54% of the Resolution's interest rate swaps. UBS serves as counterparty for the remaining swapped debt as well as provider for interest rate cap on $9.3 million of bonds. Swap obligations are not on parity with the bonds although they are secured by Revenues and MBSs under the 1991 Resolution.

LOAN PORTFOLIO CHARACTERISTICS

The MBS provide the highest quality security for the bonds because they are guaranteed as to full and timely payment of principal and interest by the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (Fannie Mae). The MBS have an established pass-through rate and are guaranteed with respect to payment regardless of the actual performance of the underlying pool of mortgage loans. The GNMA guarantee is backed by the full faith and credit of the United States and therefore carries Moody's Aaa rating. Moody's rates obligations of FNMA Aaa. The strong guarantees protect the program from cash flow disruptions and losses from future loan defaults.

FINANCIAL PERFORMANCE: PADR & OVERCOLLATERALIZATION LEVELS PARTIALLY MITIGATE HIGH PROPORTION OF VARIABLE RATE DEBT

Moody's believes that the program's financial condition is strong, as illustrated by a program asset to debt ratio (PADR) of 1.052 and fund balance of $57.8 million (5.3% of bonds outstanding) as of June 30, 2008. Moody's expects the program's PADR and fund balance will show improvement in fiscal 2009 financial statements because $25 million of cash from an Indenture in the process of being closed was deposited into the Single Family program in August 2008. Another $4 million of cash from the General Fund and $4 million from the Multifamily Indenture were deposited in fiscal 2009.

As of July 1, 2009, the Resolution contained $374 million of variable rate debt, which is 36.7% of bonds outstanding. In the fall of 2008, the program experienced bank bonds. Management replaced $130 million of liquidity from providers which were associated with failed remarketings, with liquidity from the Federal Home Loan Bank of Des Moines. Variable rate demand obligations liquidity is somewhat concentrated with the Federal Home Loan Bank of Des Monies (61%). The remaining liquidity is provided by Wells Fargo (7.2%), and State Street Bank and Trust (31.8%). Management has a stated goal of reducing the proportion of variable rate debt to 25%. This will primarily be accomplished by issuing fixed rate debt in the absence of variable rate issuance. Moody's considers the current level of variable rate debt to be high, but believes the risks are partially mitigated by a strong cash position and the general obligation backing of the Authority (Aa3/ Stable).

CASH FLOW PROJECTIONS: FULL AND TIMELY PAYMENT DEMONSTRATED UNDER STANDARD SCENARIOS; SPECIFIC BANK BOND CASH FLOWS RELY ON AUTHORITY G.O.

Cash flows were run on a consolidated basis and included a variety of stressful assumptions. The evaluation also incorporated additional scenarios established in "Methodology Update: Additional Cash Flow Tests for State Housing Finance Agency Programs" dated February 2009 which tested the program's financial resiliency under various scenarios of failed remarketings of variable rate debt. Cash flows were sufficient under all standard scenarios that did not incorporate failed remarketings. However, high interest rate cash flows that assumed failed remarketings of all State Street supported variable rate demand obligations for a 12 month period projected cash shortfalls beginning in 2025. The total amount of these shortfalls was relatively small at less than $3 million future value. We believe this risk is mitigated by the additional backing of the general obligation of the Authority (Aa3) which has more than sufficient resources to cover these shortfalls.

What could change the rating - UP

Not applicable

What could change the rating - DOWN

Erosion of the asset to debt ratio, an increase in variable rate debt exposure and/or greater liquidity risk.

Key Statistics as of June 30, 2008:

Program asset to debt ratio: 1.052x

Fund balance as a percent of bonds outstanding: 5.3%

Net revenue as a percent of total revenue: 5.99%

Type of obligation: General Obligation, Iowa Finance Authority

Portfolio composition: loans are securitized, guaranteed by GNMA and Fannie Mae

Outlook

The stable outlook is based on the strong financial position and the backing of the Authority G.O.

The last rating action was on September 12, 2008 when the Aaa rating was affirmed. The principal methodology used in rating the bonds was "Moody's Approach to Rating Single-Family Housing Bonds Secured by MBS ", which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the rating process can also be found in the Credit Policy & Methodologies directory.

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