Moody's Investors Service

Global Credit Research
New Issue
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New Issue: Iowa Finance Authority

MOODY'S ASSIGNS Aaa RATING TO $35.2 MILLION OF IOWA FINANCE AUTHORITY SINGLE FAMILY MORTGAGE BONDS, 2008 SERIES D & E (NON-AMT), Aaa/VMIG 1 TO $17.3 MILLION 2008 SERIES F (AMT - VARIABLE RATE) AND Aaa/VMIG 1 TO $22.5 MILLION 2008 SERIES G (TAXABLE VARIA

APPROXIMATELY $1.1 BILLION IN DEBT OUTSTANDING

Iowa Finance Authority
Housing
IA

Moody's Rating

ISSUE		RATING
Single Family Mortgage Bonds, 2008 Series D (Non-AMT)		Aaa
Sale Amount	$4,670,000	
Expected Sale Date	09/09/08	
Rating Description	Mortgage	
Single Family Mortgage Bonds, 2008 Series E (Non-AMT)		Aaa
Sale Amount	$30,500,000	
Expected Sale Date	09/09/08	
Rating Description	Mortgage	
Single Family Mortgage Bonds, 2008 Series F (AMT-Variable Rate)		Aaa/VMIG 1
Sale Amount	$17,330,000	
Expected Sale Date	09/09/08	
Rating Description	Mortgage	
Single Family Mortgage Bonds, 2008 Series G (Taxable-Variable Rate) (Mortgage-Backed Securities Program)		Aaa/VMIG 1
Sale Amount	$22,500,000	
Expected Sale Date	09/09/08	
Rating Description	Mortgage	

Opinion

NEW YORK, Sep 12, 2008 -- Moody's Investors Service has assigned a rating of Aaa with a stable outlook to Iowa Finance Authority's Single Family Mortgage Bonds, 2008 Series D and E and Aaa/VMIG 1 to the Single Family Mortgage Bonds, 2008 Series F (AMT - Variable Rate) and G (Taxable - Variable Rate). 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 stable and secure financial performance, as evidenced by strong asset to debt ratios and strong legal provisions.

USE OF PROCEEDS: Proceeds from the 2008 Series D, E, F, and G 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 obligations 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 billion (as of 6/30/2008) in Single Family Mortgage Bonds.

INTEREST RATE DERIVATIVES: The Series 2008 F bonds are AMT variable rate bonds and the Series 2008 G bonds are taxable variable rate bonds. Both will bear interest at a rate set Goldman Sachs & Co.. As typical with previous variable rate issuances, IFA will mitigate interest rate risk through the use of a floating-to-fixed rate swap Goldman Sachs Capital Markets, L.P. with a guarantee from the Goldman Sachs Group, rated Aa3, by Moody's. The swap will have an initial notional amount equal to the initial principal balance of the 2008 Series F and G Bonds respectively ($17,330,000 and $22,500,000). IFA will pay a fixed payor rate and receive a rate equal to SIFMA + 8 bps (Series F) and one month LIBOR (Series G).

The Single Family Mortgage Bond 1991 Resolution has issued $ 364,785,000 in variable rate debt hedged by various interest rate agreements provided by Goldman Sachs Capital Markets, L.P. with a guarantee from the Goldman Sachs Group, rated Aa3 by Moody's and UBS Securities LLC, rated Aa2/P-1 by Moody's. Currently, Goldman Sachs Capital Markets, L.P. with a guarantee from the Goldman Sachs Group serves as counterparty for approximately 45% of the Authority's swapped debt. UBS Securities LLC serves as counterparty for the remaining swapped debt. Swap obligations are not on parity with the bonds although they are secured by Revenues and MBSs under the 1991 Resolution. IFA has no exposure to Auction Rate Securities.

STRENGTHS

- The GNMA guarantee on payment of principal and interest on the mortgage loans; backed by the full faith and credit of the United States

- The FNMA guarantee, their strong equity position, access to capital markets, and substantial support from the federal government. The strong guarantees protect the program from cash flow disruptions and losses from future loan defaults.

-The bonds are general obligations of the agency.

- High quality and well-diversified investment agreements with sound legal structures, providing additional security for the program.

- Consolidated Cash Flow projections demonstrating that under all stressful loan prepayment speed scenarios provided, including 25%, 100%, 2500% and non-origination, MBS and investment revenues are more than adequate to pay debt service on the bonds.

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 (FNMA). 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 based on their strong equity position, access to capital markets, and substantial support from the federal government. The strong guarantees protect the program from cash flow disruptions and losses from future loan defaults.

FINANCIAL PERFORMANCE: PROGRAM PROFITABLE WITH HEALTHY PADR & OVERCOLLATERALIZATION LEVELS

Moody's believes that the program's strong financial condition, as illustrated by a program asset to debt ratio (PADR) of 1.069 as of June 30, 2007, will continue to support the program throughout the life of the bonds due largely to moderate levels of bond issuance and strong loan portfolio performance. Moody's expects that the program's fund balance (currently 6.9% of bonds payable) will continue to grow over the foreseeable future, driven by positive program net revenues.

CASH FLOW PROJECTIONS: FULL AND TIMELY PAYMENT DEMONSTRATED UNDER ALL

PREPAYMENT SCENARIOS WHEN CONSIDERING STRENGTH OF CONSOLIDATED CASHFLOWS

Stand-alone cash flows demonstrated sufficient revenues to pay debt service through various Moody's stress scenarios imposed on the program. Stand-alone cash flows assume last-day origination of loans under stressful 25%, 650% and under non-origination scenarios. Consolidated cashflow projections (as of June 30, 2007) indicate the program's continued strength under stressful prepayment, maintaining sufficient fund balances and no deficiencies. Moody's believes the program will continue to generate sufficient surpluses based on these cashflow projections and IFA's satisfactory management of the program's financial resources.

Outlook

The stable outlook is based on the strong financial position and favorable loan performance.

What could change the rating - UP

Not applicable

What could change the rating - DOWN

Presence of economic or external factors that severely erode asset to debt ratio.

Key Statistics as of June 30, 2007:

Program asset to debt ratio: 1.069x

Fund balance as a percent of bonds outstanding: 6.90%

Net revenue as a percent of total revenue: 6.19%

Type of obligation: General Obligation, Iowa Finance Authority

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

Analysts

Ferdinand S. Perrault
Analyst
Public Finance Group
Moody's Investors Service

Toby Cook
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

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