

FITCH RATES IOWA FINANCE AUTH'S \$323.3MM SRF REVENUE BONDS 'AAA'; OUTLOOK STABLE

Fitch Ratings-Chicago-02 February 2015: Fitch Ratings assigns a 'AAA' rating to the following Iowa Finance Authority's (IFA or the authority) bonds:

--\$323.3 million state revolving fund (SRF) revenue bonds, series 2015 (Green Bonds)

The bonds are expected to price via negotiation during the week of Feb. 2. Bond proceeds will be used to refund in entirety the outstanding series 2007, 2008 and 2009 bonds for interest savings. A portion of the proceeds will also be used to reimburse the authority for previously funding certain participant loans and to pay for the costs of issuance.

In addition, Fitch affirms the 'AAA' rating on the following IFA outstanding debt:

--\$578.39 million revolving fund revenue bonds series 2010A, 2010B, 2011 and series 2013;

--\$298.35 million revolving fund revenue bonds series 2007, 2008 and 2009 (pre-refunded).

The Rating Outlook is Stable.

SECURITY

The series 2015 bonds and the outstanding series 2010A, 2010B, 2011 and 2013 bonds (together the MTA bonds) are secured by loan principal and interest amounts pledged under the restated and amended master agreement (MTA), account investment earnings, and amounts held in the pledged equity fund.

KEY RATING DRIVERS

STRONG FINANCIAL STRUCTURE: Fitch's cash flow modeling demonstrates that the SRF program can continue to pay bond debt service even if there were loan defaults in excess of Fitch's 'AAA' liability default hurdle.

LARGELY UNRATED PORTFOLIO: Over 60% of the program's participants are assumed to be small and are not rated by Fitch. However, loan provisions are strong with virtually all loan principal secured by senior lien water, sewer, or general obligation pledges, or some combination of the three.

CROSS-COLLATERALIZATION STRENGTHENS PROGRAM: The program includes a cross-collateralization feature wherein excess funds from the clean water SRF (CWSRF) are available to cover deficiencies in the drinking water SRF (DWSRF) and vice versa. The ability for the two funds to cross-collateralize helps to minimize losses if defaults were to occur.

SOUND PROGRAM MANAGEMENT: IFA and the Iowa Department of Natural Resources (DNR) jointly manage the program, following underwriting and loan monitoring procedures set forth by the MTA. Strong program performance is exhibited by the fact that the program has yet to experience a local government borrower default.

RATING SENSITIVITIES

REDUCTION IN MODELED STRESS CUSHION: A measurable decline in program enhancement such as a significant reduction in pledged resources could pressure the rating. The Stable Outlook reflects Fitch's view that these events are not likely to occur.

CREDIT PROFILE

IFA issues revolving loan fund revenue bonds to fund SRF loans to various public entities within the state. Funds are typically disbursed to participants to pay eligible CWSRF or DWSRF project costs or to reimburse IFA for projects previously funded. The combined CWSRF and DWSRF loan pool consists of 445 individual borrowers. With this issue, IFA will refund all outstanding series of bonds that were issued before 2010 and secured by dedicated loan repayments. The deficiency fund, which only supports the pre-2010 bonds will also be eliminated with this issuance.

FINANCIAL STRUCTURE EXHIBITS STRONG DEFAULT TOLERANCE

The SRF program's scheduled loan repayments are projected to provide minimum debt service coverage of 1.2x, which does not include approximately \$250 million in pledged and available moneys in the equity fund. Overall, Fitch calculates the program's asset strength ratio (PASR) to be 1.6x, which is slightly weaker than Fitch's 'AAA' median of 1.8x. The PASR includes total scheduled loan repayments and all other pledged resources divided by total scheduled bond debt service. Given the significant pledged resources, Fitch's cash flow modeling demonstrates that the SRF program can continue to pay bond debt service even with hypothetical loan defaults of 100% over the first, middle and last four-year period of the bonds life. This is in excess of Fitch's 'AAA' liability stress hurdle of 58.7% as produced by the PSC. The liability stress hurdle is calculated based on overall pool credit quality as measured by the rating of underlying borrowers, size, and loan term.

CROSS-COLLATERALIZATION ENHANCES BONDHOLDER SECURITY

The MTA provides for cross-collateralization between the CWSRF and DWSRF accounts, meaning that deficiencies in one SRF account may be covered by available moneys from the other SRF. This feature enhances bondholder security by providing additional sources of available revenues from which to draw for debt service and increases the overall diversity of the portfolio, allowing analysis of the program as one pool instead of separate SRF portfolios. Any such transfer creates a repayment obligation by the deficient SRF, but the obligation is subordinate to the trust estate's pledge under the MTA. The cross-collateralization mechanism is provided for in the equity fund. The unencumbered equity fund balance totals approximately \$250 million. These available moneys are primarily invested in money market funds, U.S. treasury and agency securities and highly rated municipal bonds.

LARGELY UNRATED POOL; MODERATELY CONCENTRATED

The loan portfolio consists of 445 participants. Although the portfolio is large, participant concentration is moderate for an SRF pool, with the top 10 representing approximately 51% of the aggregate loan pool. Single-obligor concentration is high, with the largest obligor, the Des Moines Wastewater Reclamation Authority, representing almost 18% of the total pledged loan pool.

Fitch estimates that only approximately 31% of the pool exhibits investment-grade characteristics. However, strong underlying loan provisions provide security of loan principal from water, sewer, general obligation pledges, or some combination of the three.

STRONG PROGRAM MANAGEMENT REFLECTED IN UNDERWRITING AND LOAN MONITORING PROCESS

IFA is ultimately responsible for the arrangement of financing for borrowers. This includes the review, processing, underwriting, and approval of program-eligible loans that meet the minimum coverage

requirements. The IFA board consists of nine members appointed by the governor, with the approval of two-thirds of the members of the state Senate. Management of the program is supplemented by the state Department of Natural Resources (DNR). DNR is responsible for performing ongoing SRF program operations, monitoring project progress, and providing technical support to participants. DNR provides technical assistance to loan participants and monitors all projects to ensure conformity with SRF and DNR rules and regulations.

The authority has established a set of administrative rules to evaluate loan applications, focusing on applicant needs, ability to complete construction within the necessary time frame, and ability to repay the loan. Loan participants that pledge system revenues on parity with outstanding debt are required to establish and maintain utility rates that produce 1.1x debt service coverage prior to the release of loan funds. Subordinate lien pledges are also permitted if utility rates produce 1.05x coverage on combined senior and subordinate-lien bonds

Contact:

Primary Analyst
Adrienne M. Booker
Senior Director
+1-312-368-5471
Fitch Ratings, Inc.
70 West Madison Street
Chicago, IL 60602

Secondary Analyst
Major Parkhurst
Director
+1-512-215-3724

Committee Chairperson
Doug Scott
Managing Director
+1-512-215-3725

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria' (June 16, 2014);

--'State Revolving Fund and Leveraged Municipal Loan Pool Criteria' (Oct. 22, 2014) .

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012

State Revolving Fund and Leveraged Municipal Loan Pool (2014 Peer Review)

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=806628

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE

TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.