RatingsDirect®

Iowa Finance Authority; General Obligation; Single Family Multiple MBS

Primary Credit Analyst:
Teresa Galicia, Chicago (1) 312-233-7024; teresa.galicia@standardandpoors.com

Secondary Contact:
Karen M Fitzgerald, CFA, New York (1) 212-438-4858; karen.fitzgerald@standardandpoors.com

Table Of Contents

Iowa Finance Authority; General Obligation; Single Family Multiple MBS

Credit Profile		
Iowa Fin Auth ICR		
Long Term Rating	AA/Positive	Outlook Revised
Iowa Fin Auth var rate multifam hsg		
Long Term Rating	AA/A-1+/Positive	Outlook Revised
Iowa Fin Auth GO		
Long Term Rating	AA/A-1+/Positive	Outlook Revised

Rationale

Standard & Poor's Ratings Services revised the outlook on its 'AA' issuer credit rating (ICR) on Iowa Finance Authority (IFA) to positive from stable.

At the same time, Standard & Poor's revised the outlooks on its 'AA' and 'AA/A-1+' ratings on the authority's general obligation (GO) debt and variable-rate debt, respectively, to positive from stable.

Standard & Poor's also affirmed its 'AA' ICR on the authority and its 'AA' and 'AA/A-1+' ratings on the authority's GO and variable-rate debt, respectively.

Finally, Standard & Poor's affirmed its 'AA+' and 'AA+/A-1+' ratings, with stable outlooks, on the authority's single-family mortgage bonds.

The rating is based on our opinion of the following strengths:

- The very high quality and very low-risk profile of the authority's asset base;
- Improved profitability ratios trends that are in line with 'AA' and other higher rated housing finance agencies;
- Very high capital adequacy ratios;
- Minimal GO debt exposure; and
- Experienced management team that has maintained a strong, positive relationship with the state government.

Offsetting those strengths, in our view, are the following:

- Overall improved equity over the last two years, although IFA performs lower bound compared to its housing finance agency (HFA) peers; and
- Percentage of variable-rate to fixed-rate debt creates some contingent liquidity risk.

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. Although IFA continues to sustain one of strongest asset quality ratios among all rated HFAs, we're aware of the fluctuation in non-performing assets under IFA's Federal and State programs. Under the programs, this will not lead to any material credit deterioration because the program will receive federal grants and state appropriations.

IFA's strategies emphasizing equity growth resulted in improved leverage ratios by an average of 0.6% over the last three fiscal years. Audited financial statements for fiscal 2015 show a steady increase in equity as a percentage of assets. Furthermore, IFA's capital adequacy ratios reflect a low-risk profile consistent with its current rating. Based on a five-year average of IFA's leverage ratio, as shown by equity to assets, IFA's financial performance is more in line with other 'AA' rated HFAs due to the authority's continued improvement in fiscal years 2014 and 2015.

Outlook

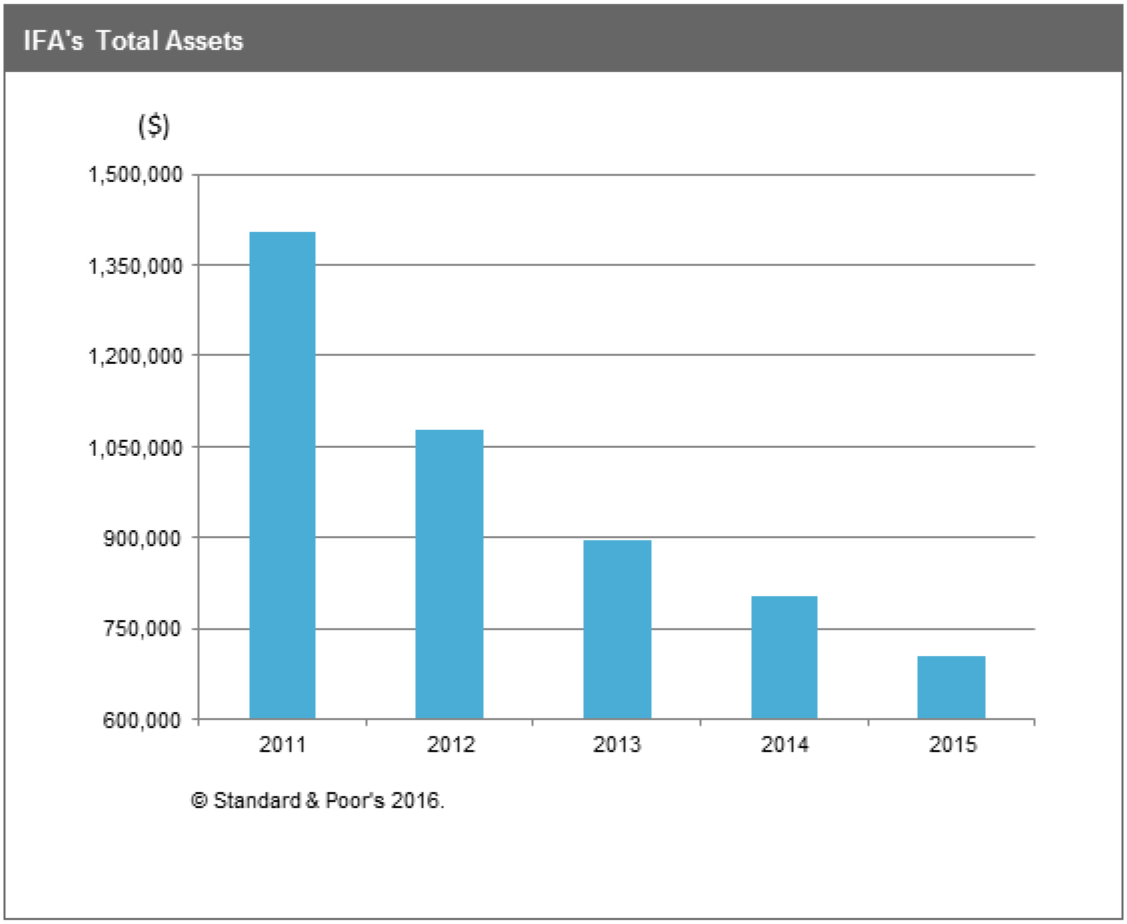
The positive outlook reflects Standard & Poor's opinion of the quality of IFA's overall improved financial strength, anchored by stronger leverage, liquidity, and profitability ratios. Equity strength, in particular, continues to increase steadily annually. The positive outlook also reflects our view of IFA's strong management and existing high-quality asset base. Standard & Poor's believes IFA's continued low-risk equity base and high capital-adequacy ratios create solid credit stability. Standard & Poor's expects this credit consideration of the HFA to remain strong in all real estate markets. Since Standard & Poor's has captured 2015 aggregate HFA performance, we will review IFA compared with its peer HFAs that Standard & Poor's rates. In addition, Standard & Poor's will continue to monitor IFA's leverage.

If equity were to continue to improve, the authority's ratios could solidify a sustained positive trend and achieve a rating level more in-line with higher rated housing finance agencies, resulting in our raising the rating. If equity as a percent of assets decreases, however, the rating could remain unchanged or we could lower the rating.

Asset Quality

IFA's total assets have steadily decreased since 2011. This is not uncommon amongst HFAs as they continue to sustain financial strength by adjusting assets to liabilities. In fiscal 2015, the authority's assets declined by 12.4% to $703 million from fiscal 2014, with a five-year average decrease in assets of a little over 16%. Total investments declined by 7.8%, or $14 million, and total MBS declined 14%, or roughly $60 million in 2015. 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.

Chart 1

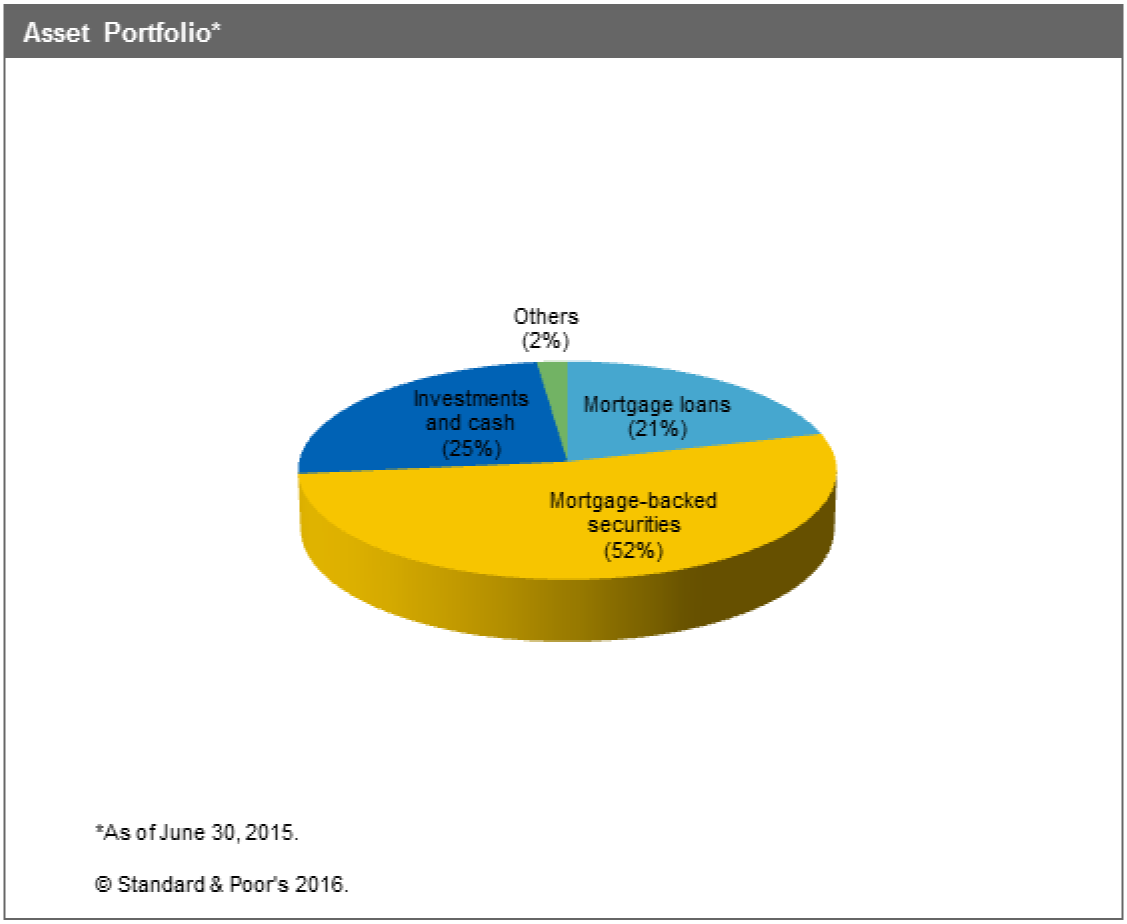


As of June 30, 2015, IFA's loan portfolio consisted of Ginnie Mae, Fannie Mae, and Freddie Mac MBS (72%), as well as multifamily and single-family mortgage loans (28%). This proportion of MBS remains high in comparison with most HFAs. Approximately 53% of the authority's asset portfolio consists of 'AA+'-rated MBS. This is a slight decrease from 54% in 2014 and 60% in 2013. As previously stated, declining assets are due to relatively low single-family MBS origination and the financing of multifamily non-MBS loans creating financial resilience by funding fewer loans, in our view.

We believe that IFA's loan portfolio poses an extremely low risk, due to the authority's conservative approach to collateral. More than 99% of IFA's single-family loans were backed by Ginnie Mae, Fannie Mae, and Freddie Mac MBS. As MBS guarantee payment on the underlying loans, no reserves are required. However, for the remaining loans, IFA has sufficient equity to cover credit losses. In our opinion, these loans are performing well and have sufficient excess assets that cover any credit shortfall or liquidity issues.

Delinquencies and non-performing assets as of June 30, 2015, were a miniscule 1% of total loans and MBS, representing just $4.2 million in fiscal 2015, compared to $2.5 million in fiscal 2014. We're aware that two-thirds of non-performing assets are related to the authority's Federal and State programs ($2.7 million). We don't believe this uptick under the program will lead to material credit deterioration, because the program receives federal grants and state appropriations; and as mentioned above, IFA maintains one of strongest asset quality ratio among all rated HFAs.

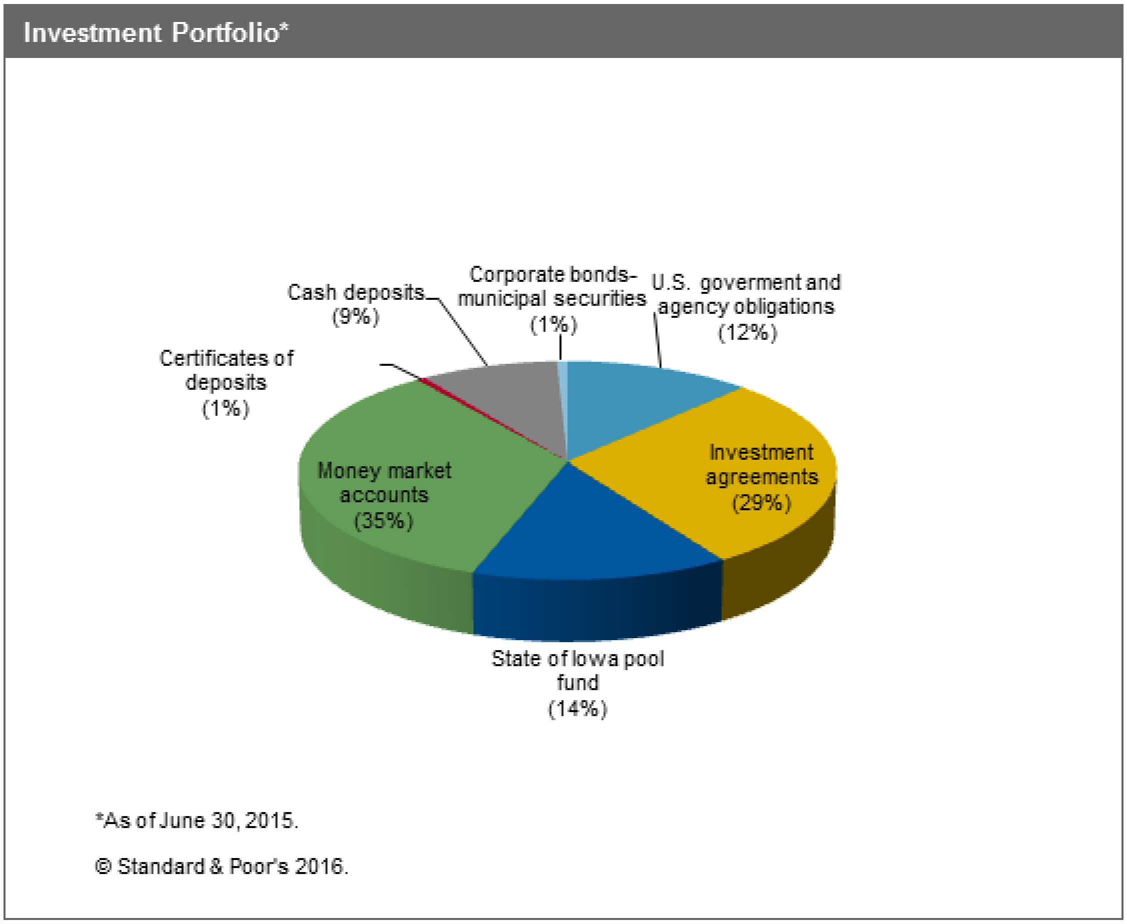
Chart 2



Investments

IFA's investments, in our view, are of high credit quality and provide sufficient liquidity; 75% 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 5.66% of total revenues in 2015, which was, in our view, improved compared with 4% in fiscal 2014. IFA's investment income in fiscal 2015 has leveled off since 2014, which was at its lowest since 1997. IFA's investment income of $4.1 million in 2015, a 30.5% increase from $3.1 million in 2014, lends to IFA's improved performance.

Chart 3

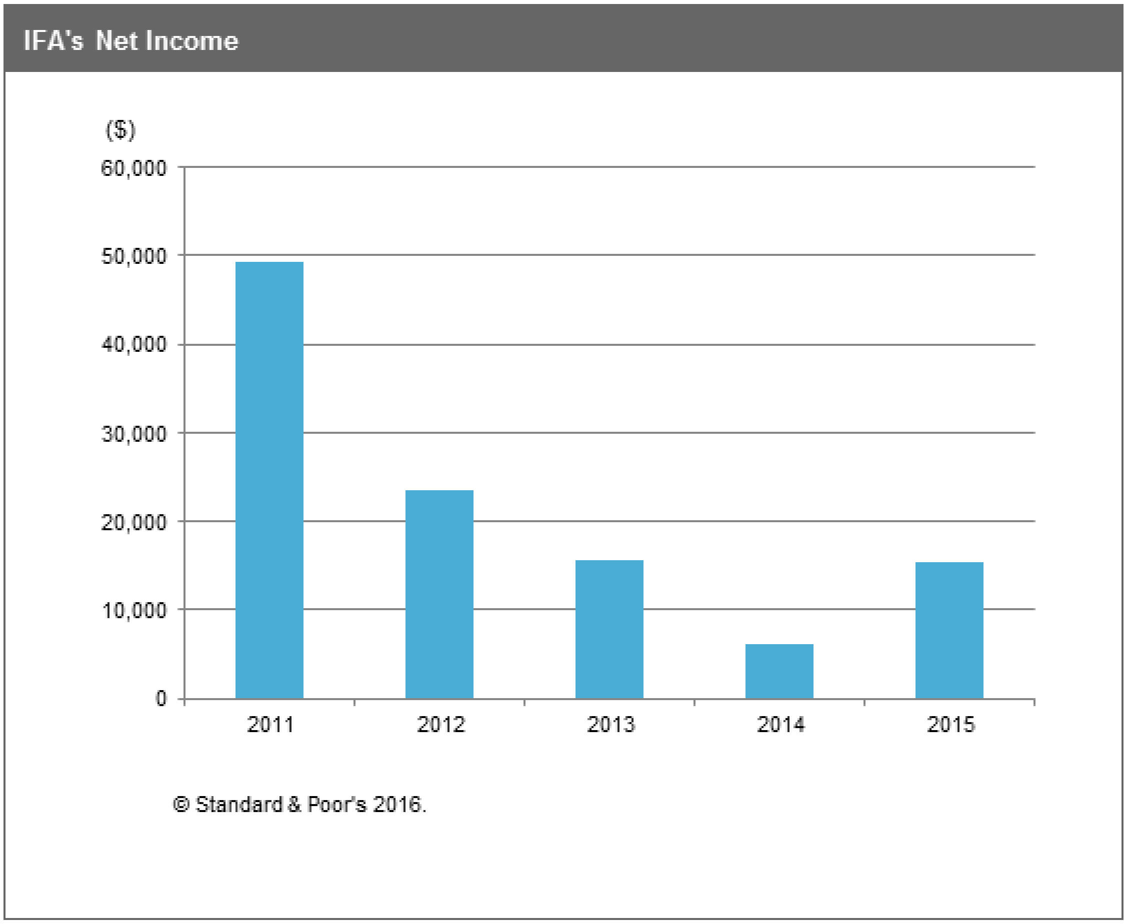


Earnings Quality And Financial Strength

The authority's total revenues stood at $73.2 million, down 9.2% from 2014. Much of the authority's revenue within the last three years stems from fluctuating interest income derived from high prepayment rates in the authority's MBS portfolio. Additionally, in fiscal 2015, grant income declined by 3.4% to $33 million, due to the cessation of numerous one-time state and federal programs. The authority recognized an average of $37.4 million in grant income over the past three years. This is offset by decreased grant-related expenses that fell by 3.7% between fiscal years 2014 and 2015.

Furthermore, income from loans declined $7.8 million, counterbalanced by declined expenses overall of 22% ($16.7 million) in fiscal 2015. The authority's net income rose significantly to $15.4 million, up $9.3 million from the previous fiscal year. Net income was primarily affected by the decline in grant income from the 2013 level and 2014 levels.

Chart 4



IFA's profitability measured by return on assets increased to 2.05% in 2015 with a five-year average of 1.89%. Net interest margin (NIM) declined slightly to 1.81% in 2015 from 1.96% in 2014, yet still solidifying an overall upward trend in earnings from 0.78% in fiscal 2011. As detailed in table 2, the five-year average of the authority's profitability ratios are in line with 'AA+' or higher rated HFAs. However, we also consider that strong profitability ratios affected by grant income do not guarantee consistent profitability, and we will continue to monitor how this trend develops in the two-year outlook period.

Equity was 42.54% of assets in 2015, up from 36% in 2014, and steadily increasing from 31 % in 2013. Specific to equity, IFA's five-year average leverage ratio, shown by the aforementioned equity to assets, remains in line with other 'AA' rated HFAs. This is due primarily to the authority's steady improvement since fiscal 2012 resulting in overall improving trends. Furthermore, the authority's equity base is adequate to support its low-risk profile, in our view. After adjusting for potential losses, the authority's unrestricted equity is 40% of debt, above our 4% threshold, while liquid assets to total mortgages are 91% of loans, in excess of 2% of mortgage loans outstanding. Although we view positively IFA's capital adequacy and equity, we will continue to monitor the pattern to gauge whether it merits a rating change.

Debt

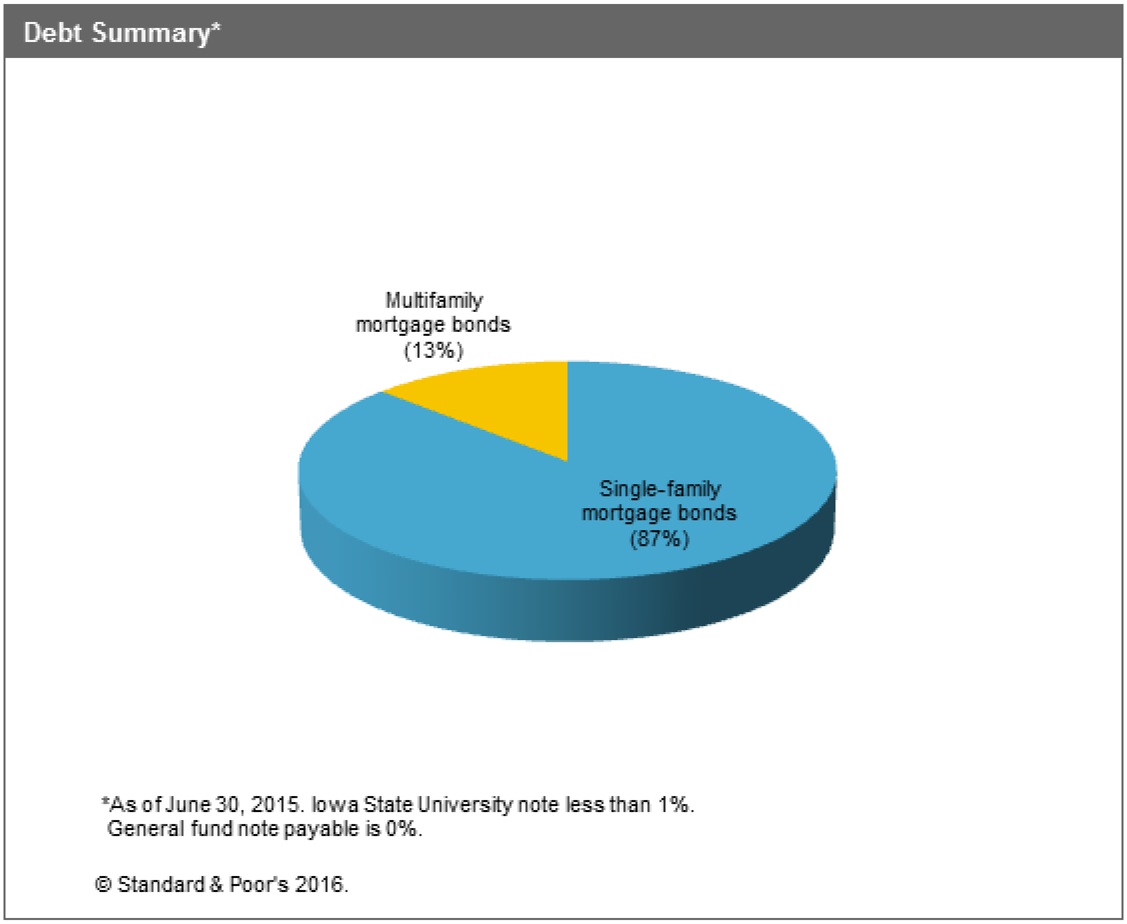
As of June 30, 2015, IFA's debt outstanding totaled $360 million, down 19.4% from the preceding year and 19.7% from the 2014 level. IFA's debt level has experienced a downward trend since its peak during fiscal 2010. The authority had $312 million of single-family bonds (87%) and $46 million of multifamily GO bonds (13%) outstanding.

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 49% of the authority's total single-family bonds outstanding and 43% 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 12%, and while it is slightly increased, it remains low on Standard & Poor's leverage scale for HFAs.

The authority has 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 The Bank of New York Mellon (AA-/Stable/A-1+), RBC (AA-/Stable/A-1+), and Goldman Sachs Bank USA (A/Stable/A-1). As of June 30, 2015, the total derivative notional amount is $147 million.

Chart 5



Management

IFA is governed by a nine-member board of directors, whom are appointed by the governor of Iowa. Board members are from the banking, business, and government sectors. The board is supported by a very experienced executive team, including the executive director, who joined the organization shortly after 2013. We believe IFA's strong conservative management lends to its improved profitability and leverage ratios trending toward that of 'AA+'-or-higher-rated HFAs.

We view IFA's relationship with the state as positive and likely to continue. A tangible sign of this strong relationship is IFA's grant funding and associated responsibilities. The state has periodically asked IFA to handle non-housing-related activities over the years, including serving as one of the state's primary bond-issuing authorities. In addition to its active single-family program, IFA manages numerous housing development and rehabilitation ventures, meant to provide affordable housing and improve existing housing stock. IFA also administers several federal housing programs, thereby strengthening 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. SRF bonds are rated 'AAA' based on the large size and diversity of SRF's loan portfolios, program coverage and reserves, structural features, and management team with a proven track record. Our analysis of the ICR on IFA excludes activities of SRF, as its funds are legally obligated to the program and therefore do not contribute to IFA's finances. IFA's Title Guaranty Division (TGD) was established in 1985 to guarantee title to property in Iowa. We consider the TGD 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 risk associated with the title guaranty to the ICR is minimal, as adequate reserves and reinsurance are in place to cover potential claims.

Economy

Iowa remains more concentrated than the U.S. as a whole in agriculture and manufacturing jobs. In 2015, 13.7% of the state's nonfarm payrolls were in the manufacturing industry, compared with only 8.7% of U.S. payrolls. Iowa's main agricultural products are corn, soybeans, and hogs. Iowa's farmers greatly benefit from the demand generated by the production of ethanol, made from corn; and biodiesel fuel, which is produced from soybean oil.

According to IHS Global Insight Inc., total nonfarm payroll growth in Iowa will average 0.9% annually in the next five years, somewhat below the 1.2% national rate. The state regained its pre-recession employment levels since mid-2013. The state's unemployment rate remains among the lowest in the nation, declining to 4.3 % in 2014 and dropping further to 3.9% in 2015. We believe that while employment growth may be slower than the nation's in the medium term, slower population and labor force growth will enable the unemployment rate to remain low relative to the U.S. rate.

Iowa projects boosts in construction and housing industries to continue to increase into 2016 and will grow on an average of about 2.6% through the next five years. According to IHS Global, home prices are anticipated to rise by 3% on an average by 2017. Construction sector has improved mainly because of the recovery and steady growth rate of the housing sector. According to the Mortgage Bankers Association, at the end of the first quarter of 2015, 6.4% of subprime mortgages (compared with 9% nationally) entered foreclosure, while 0.7% of prime mortgages entered foreclosure (compared with 1.3% nationally). With these rates, Iowa was ranked 5th lowest in the U.S. for subprime foreclosure rates.

Table 1

Iowa Financial Authority Financial Ratio Analysis 2011-2015*

	2011	2012	2013	2014	2015	Five-year average
Profitability						
Return on average assets	3.19	1.89	1.59	0.71	2.05	1.89
Return on assets before loan loss provision and extraordinary item	3.49	2.14	1.88	0.80	1.58	1.98
Net interest margin	0.78	1.38	1.29	1.96	1.81	1.44
Asset quality						
NPAs/total loans and real estate owned	0.38	0.35	1.00	0.45	0.81	0.60
Loan loss reserves/total loans and MBS	1.94	2.92	3.57	5.67	19.75	6.77
Loan loss reserves/NPAs	511.29	840.15	358.37	1262.37	2450.35	1084.51
Leverage						
Total equity/total assets	16.85	23.78	31.06	36.03	42.46	30.04
Total equity and reserves/total loans and MBS	24.45	30.08	37.95	44.62	38.11	35.04

Table 1

Iowa Financial Authority Financial Ratio Analysis 2011-2015* (cont.)

Liquidity						
Total loans and MBS/total assets	63.85	72.07	74.81	71.64	73.39	71.15

MBS--Mortgage-backed securities. NPA--Non-performing asset. *All figures in percentages.

Table 2

Iowa Financial Authority Average Financial Ratios*

	IFA (2010-2014)	IFA (2011-2015)	All 'AA' rated HFAs	All 'AA+' rated HFAs	All 'AA-' rated HFAs	All HFAs
Profitability						
Return on average assets	1.58	1.89	1.03	0.49	0.43	0.60
Return on assets before loan loss provision and extraordinary item	1.76	1.98	1.37	0.67	0.56	0.84
Net interest margin	1.22	1.44	1.06	1.50	0.88	1.11
Asset quality						
NPAs/total loans and real estate owned	0.44	0.60	3.53	3.12	3.68	3.55
Loan loss reserves/total loans	3.03	6.77	3.79	2.70	1.56	2.98
Loan loss reserves/NPAs	4555.66	1084.51	638.39	5968.54	42.69	1202.76
Leverage						
Total equity/total assets	23.88	30.04	22.46	29.64	14.99	20.64
Total equity and reserves/total loans	31.21	35.04	33.98	45.96	23.55	31.91
Liquidity						
Total loans/total assets	68.45	71.15	72.27	69.99	72.60	71.77

HFAs--Housing finance agencies. NPA--Non-performing asset. *All figures in percentages.

Table 3

Iowa Financial Authority Trend Analysis

	2011	2012	2013	2014	2015
Total assets	1,406,065	1,077,855	896,350	802,587	703,029
Change (%)	(16.06)	(23.34)	(16.84)	(10.46)	(12.40)
Total debt	1,022,791	712,820	556,245	446,710	360,159
Change (%)	(22.77)	(30.31)	(21.97)	(19.69)	(19.38)
Total equity	236,906	256,345	278,413	289,154	298,535
Change (%)	20.89	8.21	8.61	3.86	3.24
Revenues	233,336	148,382	100,983	80,705	73,252
Change (%)	45.93	(36.41)	(31.94)	(20.08)	(9.23)
Net income	49,197	23,487	15,693	6,071	15,399
Change (%)	535.95	(52.26)	(33.18)	(61.31)	153.65
Total loans and mortgage-backed securities	142,760	155,125	160,092	178,164	248,491
Change (%)	52.14	8.66	3.20	11.29	39.47
Non-performing assets	3,400	2,700	6,680	2,583	4,159
Change (%)	61.96	(20.59)	147.41	(61.33)	61.01
Loan loss reserves	17,384	22,684	23,939	32,607	101,910

Table 3

Iowa Financial Authority Trend Analysis (cont.)					
Change (%)	62.50	30.49	5.53	36.21	212.54

Related Criteria And Research

Related Criteria

- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- USPF Criteria: Housing Finance Agencies, June 14, 2007
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Assumptions: Update to Cash Flow Analysis for Public Finance Housing Bonds, March 3, 2009
- Structured Finance Criteria: U.S. Interest Rate Assumptions Revised For May 2012 And Thereafter, April 30, 2012
- Criteria: U.S. Government Support In Structured Finance And Public Finance Ratings, Sept. 19, 2011
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- Criteria: Methodology For Revisions To Standard & Poor's Stressed Reinvestment Rate Assumptions For Fixed-Rate U.S. Debt Obligations, May 20, 2013

Ratings Detail (As Of February 8, 2016)		
Iowa Fin Auth single fam mtg		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Iowa Fin Auth single fam mtg		
Long Term Rating	AA+/Stable	Affirmed
Iowa Fin Auth single fam mtg		
Long Term Rating	AA+/Stable	Affirmed
Iowa Fin Auth single fam mtg		
Long Term Rating	AA+/Stable	Affirmed
Iowa Fin Auth single fam mtg		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Iowa Fin Auth sin fam mtg		
Long Term Rating	AA+/Stable	Affirmed
Iowa Fin Auth sin fam mtg bnds		
Long Term Rating	AA+/Stable	Affirmed
Iowa Fin Auth GO		
Long Term Rating	AA/Positive	Outlook Revised
Iowa Fin Auth GO		
Long Term Rating	AA/Positive	Outlook Revised
Iowa Fin Auth GO		
Long Term Rating	AA/Positive	Outlook Revised
Iowa Fin Auth SFMULTMBS		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of February 8, 2016) (cont.)		
Iowa Fin Auth SFMULTMBS		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Iowa Fin Auth SFMULTMBS		
Long Term Rating	AA+/Stable	Affirmed
Iowa Fin Auth SFMULTMBS		
Long Term Rating	AA+/A-1+/Stable	Affirmed
Iowa Fin Auth SFMULTMBS		
Long Term Rating	AA+/Stable	Affirmed