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Rating Update: MOODY'S AFFIRMS A2 UNDERLYING RATING WITH STABLE OUTLOOK TO ILLINOIS HOUSING DEVELOPMENT AUTHORITY AFFORDABLE HOUSING PROGRAM TRUST FUND REFUNDING BONDS, SERIES 2005A

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APPROXIMATELY $82 MILLION IN OUTSTANDING PARITY DEBT AFFECTED

Illinois Housing Development Authority
Housing
IL

Opinion

NEW YORK, May 25, 2005 -- Moody's has affirmed the A2 underlying rating with stable outlook to the $34,480,000 Illinois Housing Development Authority (IHDA) Affordable Housing Program Trust Fund Refunding Bonds, Series 2005A (the "Bonds"). The Bonds will partially refund IHDA's outstanding Affordable Housing Program Trust Fund Bonds, Series 1995A, which were originally issued to finance the acquisition, construction, and rehabilitation of affordable multifamily housing for low and very low income households throughout the State of Illinois. The A2 rating is derived from the security provided by revenues generated from a portfolio of eleven low-interest rate mortgage loans, in addition to annual subsidies of up to $10.0 million from the Illinois Affordable Housing Trust Fund. Additional security is derived from a limited general obligation pledge from IHDA (rated A1), which will guaranty a portion of aggregate annual debt service on the underlying mortgages sufficient to bring debt service coverage on the Bonds to 1.60x.

The Bonds will be insured by Ambac Assurance Corporation, and will carry Ambac's Aaa financial strength rating. Moody's will continue to maintain its underlying A2 rating on the Bonds.

The Bonds will be secured on parity with about $44.9 million in Ambac-insured Affordable Housing Program Trust Fund Bonds, Series 2004, and a small amount of Series 1995A bonds which will remain outstanding following the partial redemption of such bonds. In conjunction with the issuance of the Bonds, Moody's has affirmed the underlying A2 rating on all outstanding parity debt as well.

Moody's believes the Bonds benefit from an annual program subsidy provided by the Illinois Affordable Housing Trust Fund, which is funded by real estate transfer taxes and used to help develop and preserve affordable housing for very low income households. IHDA annually certifies to the State of Illinois the amount of money that must be pledged to the program in order for the aggregate bond debt service coverage ratio to be 1.50x, up to a maximum amount of $10.0 million. Over the past 10 years, nearly $61 million has been transferred from the Trust Fund to the program. Since 1997, transfers have ranged from a low of $5.2 million to a high of $5.5 million. The program relies heavily on these transfers to make full and timely bond debt service payments, as the underlying projects carry mortgage rates of only 3- 4% and vary greatly in terms of occupancy and mortgage debt service coverage.

Additional security for the Bonds is provided by a limited GO pledge from IHDA, through which IHDA will guaranty 8.93% of the aggregate maximum annual debt service on the underlying mortgage portfolio, which was mathematically designed to bring the bond debt service coverage ratio up to 1.60x. IHDA's GO pledge can be released incrementally over time with respect to any one project in the event that debt service coverage for that project is maintained at least 1.15x for three consecutive years. If needed, IHDA's pledge will be called upon prior to a draw on the debt service reserve fund surety bond provided by Ambac.

Cash flow projections provided to Moody's indicate that mortgage revenues combined with transfers from the Affordable Housing Trust Fund will be sufficient to make full and timely debt service payments to bondholders. Cash flows conservatively haircut anticipated mortgage revenues by 40%, and cap Trust Fund transfers at $5.2 million annually, and demonstrate that the program will maintain adequate liquidity over the life of the bonds. Following issuance of the Bonds, the program asset to debt ratio is expected to be 1.024 with steady growth thereafter, assuming no further bond issuance.

IHDA's A1 issuer rating reflects the Authority's good financial condition as evidenced by strong and improving combined fund balances, generally sound program performance, and an experienced and capable management team with a proven record of program administration and careful monitoring of loan performance. Moody's recent surveillance of IHDA's GO-supported multifamily programs revealed that the financial condition of each program to be adequate relative to the risk posed by potential loan losses, as determined by an analysis of individual loan performance. Moody's views the programs as having sufficient equity to absorb a significant level of losses from potential mortgage defaults without the need to access IHDA's resources to pay bond debt service.

As of June 30, 2004, IHDA's adjusted general fund balance stood at nearly $120.0 million, which represents a significant source of liquidity available to G.O.-supported programs to cover costs associated with any defaulted uninsured projects. As a percentage of bonds outstanding, IHDA's adjusted general fund is a strong 8.0%, indicating that the Authority's financial resources in Moody's view are deep enough to cover potential default-related program losses. Moody's believes that IHDA's financial condition has demonstrated steady incremental improvement over the last several years, as evidenced by growth in its adjusted combined fund balance as a percentage of bonds outstanding from 9.0% in 1998 to 19.2% in 2004. Additionally, IHDA's adjusted general fund balance as a percentage of bonds outstanding has grown from 4.6% to 8.0% over the same period.

The A1 issuer rating also continues to be supported by the presence of a tenured senior management team with a good track record in program administration. The Authority's management team takes an active role in the oversight and management of its programs.

Outlook

The outlook for the Bonds is stable.

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