STANDARD & POOR'S

Standard & Poor's Research

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Illinois Housing Development Authority; General Obligation

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Unenhanced Rating	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'A' underlying rating (SPUR) on the Illinois Housing Development Authority's (IHDA) outstanding affordable housing trust fund (AHTF) bonds. The outlook is stable.

The 'A' rating reflects our view of IHDA's:

- Strong coverage of maximum annual debt service (MADS) from AHTF revenues despite continuing reductions in receipts from the state's real estate transfer tax;
- No current plans for future debt issuance that may dilute service coverage; and
- Limited general obligation (GO) pledge on the bonds until debt service coverage (DSC) on the underlying loans stabilizes and on a more limited basis thereafter.

Approximately 13 mortgage loans are outstanding under the bond program. The authority uses AHTF funds to support certain multifamily mortgage loans at subsidized mortgage loan rates, thereby promoting the expansion of affordable housing in the state.

Outlook

The stable outlook reflects our view that the trust fund revenue stream supports a level of DSC that should be able to withstand a fair degree of near- and medium-term volatility without an effect on the rating. However, if DSC on the bonds deteriorates due to unexpected volatility in the trust fund revenue stream, we would consider revising the rating.

Affordable Housing Trust Fund

The Illinois Affordable Housing Program was created by the Affordable Housing Act of 1989, which was adopted to develop resources to meet low-income housing needs in the state. The act created the AHTF as a separate fund within the state treasury that requires certain funds to be deposited, including one-half of all proceeds collected by the Illinois Department of Revenue (IDOR) from the state real estate transfer tax. The AHTF is administered by IHDA.

The real estate transfer tax imposes a state tax on the privilege of transferring title to real estate. The tax is imposed at a rate of 50 cents for each $500 or fraction thereof of the full consideration for the real estate transferred. Since Sept. 15, 1989, the transfer tax act has required the state treasurer to deposit 50% of the money collected to the AHTF.

In fiscal year 2011, the state deposited $18.9 million into the AHTF, a decrease of approximately 6% from fiscal 2010 and a reduction in overall coverage to 2.95x MADS from 3.13x MADS on the trust fund bonds. Overall, state receipts into the AHTF are down 62% from a recent high of roughly $49.8 million in fiscal 2007.

Under the act, IHDA is authorized to certify to IDOR, the state comptroller, and the state treasurer the amount needed for the bond program for the upcoming fiscal year. Subject to appropriation, the state is required to transfer, not less than on a monthly basis, the required amounts to the trustee for deposit into the Real Estate Transfer Tax Fund without any further action. IHDA covenants to certify around July 1 of each year the amount needed to pay debt service from trust funds as set forth in the cash flows, or to reimburse IHDA for money advanced for such purpose. Historically, the bond debt service paid from AHTF moneys has not exceeded $5.2 million. Pursuant to the act and the general resolution, IHDA can request up to $10 million from the state for deposit into the bond trust accounts, resulting in an effective DSC of 1.55x when factoring the $6.4 million currently projected as MADS for the bonds.

Under current state law, the state is not authorized to limit or alter the basis on which AHTF funds are collected and paid to IHDA. Despite recent budgetary actions by the state to authorize additional transfers from the AHTF to the state's general revenue fund to address fiscal difficulties, we do not believe bondholder security is affected, given the aforementioned statutory requirements of the Illinois Affordable Housing Act. Further, we are not aware of any potential legislative initiatives to change the current statute.

The bond resolution requires that a trust fund bond coverage ratio be maintained at 1.5:1 based on the amount collected by IDOR for deposit in the AHTF during any 12 consecutive months of the 24-month period immediately preceding the time of calculation to the amount of debt service to be paid by AHTF proceeds. The trust bond coverage ratio has historically been much higher and equaled 3.65x in fiscal 2011, which is slightly below the fiscal 2010 coverage of 3.88x.

The authority has no plans to issue additional debt under this program. In our view, IHDA's ability to request up to $10 million enhances additional bond test coverage to almost 2x, given that transfers from the AHTF have generally not exceeded $5.2 million.

Issuer Credit Rating

IHDA pledges its GO rating (A+/Positive) to the program in two ways:

- The Construction General Obligation (CGO) during the construction and lease-up period until the projects reach 1.15x DSC for three consecutive years. In fiscal 2011, the CGO was calculated to be roughly $1.8 million.
- The Coverage Ratio General Obligation (CRGO), which on an annual basis is not to exceed 8.93% of MADS and is equal to the difference in DSC for each mortgage loan, assuming 1.4x coverage and 1.6x coverage. In fiscal 2011, the CGO was roughly $600,000.

This exposure is assessed to IHDA's capital adequacy, but IHDA has sufficient financial resources to support the potential exposure.

Mortgage Collateral

The mortgage collateral financed by the bonds consists of approximately 13 multifamily housing properties located throughout Illinois. Only five of the properties are meeting their underwritten 1.15x DSC. The mortgage loans have interest of either 3% or 4%, given the presence of the trust fund receipts. Due to IHDA's ability to request up to $10 million of AHTF money, coupled with the limited authority GO pledge, the extent to which the bonds rely on revenues from mortgages is limited. If no additional bonds were to be issued, debt service on the outstanding bonds could be paid entirely from AHTF receipts should project revenues be insufficient.

Related Criteria And Research

- USPF Criteria: Special Tax Bonds, June 13, 2007
- USPF Criteria: U.S. Public Housing Authority Issuer Credit Rating, Nov. 13, 2007