S&P Global Ratings

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Illinois Housing Development Authority; Multifamily Whole Loan

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Illinois Housing Development Authority; Multifamily Whole Loan

Credit Profile		
US$37.245 mil hsg bnds ser 2017 A-1 due 07/01/2027		
Long Term Rating	AA+/Stable	New
US$30.0 mil hsg bnds ser 2017 A-2 due 07/01/2027		
Long Term Rating	AA+/A-1+/Stable	New
Illinois Hsg Dev Auth hsg bnds		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded

Rationale

S&P Global Ratings raised its rating on all existing debt under the Illinois Housing Development Authority (IHDA)'s housing bond program to 'AA+' from 'AA'. At the same time, we assigned our 'AA+' long term rating to the authority's 2017 series A-1 bonds and our 'AA+/A-1+' rating to the authority's series 2017 A-2 bonds. The outlook is stable.

The rating on the housing bond program reflects our view of:

- The cash flows indicating the program's ability to pay bondholders in full with IHDA revenue instead of general funds, reflecting improved opening asset-to-liability cash flow at 166.2% as of July 1, 2016, compared to 156.7% as of July 1, 2015, and 147.69% as of July 1, 2014;
- The credit quality of the pledged multifamily mortgages, consisting primarily of federally-subsidized mortgages under the U.S. Department of Housing and Urban Development's Section 236 and Section 8 programs;
- IHDA's general obligation (GO), which supports all issues under the housing bond indenture in case the program underperforms; and
- The credit quality of investments appropriate for the rating.

Partially offsetting these strengths, however, is our view regarding a sizable amount of the subsidized loan portfolio for which the subsidy contract is not coterminous with the bonds until maturity.

The series 2017A bonds are being issued to refund certain existing bonds under the indenture and refund all the outstanding Affordable Trust Fund Program Bonds, make a reserve deposit, and pay certain issuance costs.

The 2017 A-2 bonds are being issued as variable-rate demand obligations. The 'A-1+' short-term component of the rating reflects the short-term rating on Federal Home Loan Bank of Chicago (A-1+). The SBPA provides coverage for principal and 276 days of interest at a maximum annual rate of 12% for the purchase price of bonds that are not successfully remarketed. The SBPA provides coverage for the bonds during the weekly, daily and flexible rate modes. Optional tenders are only available under weekly/daily rate modes, but not flexible rate mode. SBPA only covers mandatory tenders for flexible rate mode.

The SBPA is scheduled to expire on Feb.14, 2022, at which time we will remove the short-term component of the rating unless the SBPA is either extended or terminated beforehand according to its terms. The SBPA provider's obligations to purchase tendered bonds will automatically terminate should certain events of default set forth in the SBPA occur. These events (which we have deemed consistent with our published criteria) include, but are not limited to, a lowering of the rating on the bonds below 'BBB-'.

Consolidated cash flows indicate sufficient revenues from mortgages and investments under the resolution to make full and timely payments to bondholders. Asset-to-liability parity as of July 1, 2016, opened at 166.2%, with excess assets of $219 million. This has increased since prior issuance when parity, as of July 1, 2015, opened at 156.7%, with excess assets of $205 million. The bonds are further supported by a debt service reserve (DSR) sized as per requirements under each series resolution. Reserves are funded from bond proceeds and are invested as directed under the resolution, commensurate with the current rating on the bonds.

Outlook

The stable outlook on the housing bond program reflects our view of the quality of the mortgage collateral, the sufficiency of indenture reserves, and very strong asset coverage to cover projected credit losses. We believe this continuous positive trend of the program's loan performance and consolidated cash flow is comparable to the 'AA+' rating level, which we believe insulates bondholders from high levels of credit risk.

We expect that IHDA will continue to manage the program in a manner consistent with the rating. We will raise the rating to 'AAA' if the resolution can satisfy stressed loss coverage requirements at the 'AAA' level through over-collateralization and endure stressed cash flow assumption at the 'AAA' level. However, significant year-over-year declines in the financial performance of the properties pledged as collateral may stress our projected credit losses for the program and result in downward pressure on the rating.

Enterprise Risk Profile

Industry risk

We currently view industry risk as low for the affordable housing industry. Residential rental markets typically pose less risk than other property classes, and the increased need for affordable housing during times of economic stress lends further stability. Competitive risk is fairly low owing to effective barriers to entry in many jurisdictions, the relatively low risk of substitution, and overall stable trends in growth and margins. In addition, ongoing governmental subsidies, other support, and oversight generally limit volatility, with the overall importance of the service delivered limiting the potential for negative government intervention.

Government support

The resolution benefits from a very high level of government support, reflecting ongoing support from multiple levels of government in the form of Section 8 and Section 236 rental subsidies, Federal Housing Administration (FHA) mortgage insurance, property tax exemptions, and tax-exempt bond financing.

Strategy and management

In our view, efficient and effective ownership and management is necessary to ensure an affordable housing program's feasibility and sustainability. Our assessment of strategy and management for IHDA's resolution is excellent, reflecting sound management and oversight of the resolution by IHDA, a very strong strategic planning process, and extremely strong operational effectiveness.

We consider IHDA's management excellent, based on its extensive, 50-year experience and its large portfolio of 62,000 units. IHDA has a dedicated asset management team. We consider its portfolio quality high due to strong curb appeal, very high occupancy rates, and low level of deferred maintenance on its properties. IHDA has an excellent track record of managing the resolution, based on positive net operating income for its properties with no prior downgrades or defaults.

We believe the team has provided strong oversight in all authority functions, including financial risk-management pertaining to debt and investments, and asset management relating to loan underwriting and servicing. Further, we believe the current team remains proactive in guiding the authority through difficult market conditions and helping to fulfill its mission.

Despite the state's fiscal pressures, we believe IHDA's relationship with the state government remains strong. Furthermore, we are unaware of any state proposals that may potentially affect IHDA's financial strength. The authority maintains a presence in affordable housing statewide by acting as administrator for the Rental Housing Support Program, which awards funds to local agencies that make rental units affordable to households earning below 30% of area median income.

Financial Risk Profile

Loss coverage

We consider the resolution's coverage of projected loan losses to be extremely high, based on our evaluation of the underlying properties. We derived the S&P Global' s-calculated net cash flow and S&P Global' s-calculated debt service coverage (DSC) for each property in accordance with the commercial mortgage-backed securities (CMBS) property evaluation criteria. The S&P Global' s calculated loan-to-value (LTV) ratio and S&P Global' s-calculated DSC were the primary factors used to determine the transaction's credit enhancement levels. Based on our analysis, the transaction has sufficient over-collateralization ($219 million) available to cover projected loan losses in the amount of $40 million, which corresponds to a loss coverage assessment of extremely high.

Asset quality and loan performance

As of Sept. 30, 2016, IHDA maintained approximately 75 loans under the housing bond program. Developments encompassed the following program types (listed by mortgage balance percentage):

- Section 8 or Section 236: 70.91%;
- FHA Risk Share: 8.63%; and
- Unassisted conventional financings: 20.46 %.

We believe the mortgage portfolio is performing well overall, with approximately 3.1x in average DSC, as indicated by audited financials for fiscal 2015. Occupancy for developments averaged approximately 97%. As of Sept. 30 2016, multifamily loans under the housing bond program totaled $310 million, and IHDA had one mortgage loan delinquent for 60 days or more.

Cash flow analysis

Asset-to-liability parity as of July 1, 2016, opened at 166.2%, with excess assets of $219 million. This has increased since last year, when parity, as of July 1, 2015, opened at 156.7%, with excess assets of $205 million. As of Sept. 30, 2016, IHDA had approximately $275 million in bonds under the housing bond program, with four series issued as variable rate and two hedged with interest rate caps.

Legal analysis and reserves

IHDA pledges the assets under the indenture. The bonds are further supported by a DSR sized as per requirements under each series resolution. Reserves are funded from bond proceeds and are invested as directed under the resolution, commensurate with the 'AA' rating on the bonds.

The portfolio's overall credit quality reduces the risk that the resolution places on IHDA's capital adequacy. We have evaluated the portfolio to forecast potential loan losses for a 'AA+' rating. However, the resolution has sufficient equity to cover projected losses at the 'AA+' level. Roughly half of the Section 8-supported loans have bonds that are expected to outlast the housing assistance payment contracts. We have incorporated nonrenewal risk into the loan loss assumptions.

Economy

IHS Global Insight views Illinois' economy as diversified, but lagging the nation in growth. Illinois' employment growth was tepid in 2016 as the growth was muted at 0.7% year over year; following its 1.4% year-over-year total job growth in the year before, and now it is projected to grow at 0.8% year over year in 2017. The service sector accounts for a majority of employment and is anchored by education and health services (12.8%), professional and business services (14.4%), and leisure and hospitality (8.8%). The other major anchor to the economy is trade and transportation (20.2%). Following a steep decline through the recession, economic recovery is underway in Illinois at a slow pace. Among all the stressed sectors, manufacturing caused the major drag in September 2016, losing 12,700 jobs year over year, at a rate of 2.2%, mainly because US Steel Corp. temporarily put its Illinois plant on idle as weak oil prices and a surge in Chinese exports put a crimp in steel demand, leaving 2,080 workers temporarily out of a job. The state's unemployment rate had gradually declined throughout the recovery and is expected to remain steady, hovering around 6% in the coming years. Illinois' 2016 population is estimated by the U.S. Census Bureau at 12.9 million, a 0.1% decrease from 2015.

Illinois' housing market remains weak but is gradually improving. The housing starts have reached 21,222 units in 2016 from 14,852 in 2013 and are expected to reach 30,000 by 2020. The average home price has been rising after reaching $230,063 per unit in 2016 and is projected to increase by 3.2% on average by 2020. While new home construction has been climbing, homebuilding is still below its pre-recession peak. However, a strengthening labor market will eventually aid the real estate sector's recovery as higher employment levels will correlate with an increased demand for housing.

According to the Mortgage Bankers Assn., the prime and subprime loans in foreclosure are 1.1% (the U.S. average is 0.9%) and 7.3% (7.0%), ranking it 13th and 16th in the country during the third quarter of 2016.

Ratings Detail (As Of January 10, 2017)		
Illinois Hsg Dev Auth hsg bnds		
Long Term Rating	AA+/Stable	Upgraded
Illinois Hsg Dev Auth MFWHLLNS		
Long Term Rating	AA+/A-1+/Stable	Upgraded
Unenhanced Rating	NR(SPUR)	
Illinois Hsg Dev Auth MFWHLLNS		
Long Term Rating	AA+/A-1+/Stable	Upgraded
Illinois Hsg Dev Auth hsg		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded
Illinois Hsg Dev Auth hsg bnds		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded
Illinois Hsg Dev Auth hsg bnds ser 1999A		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.