

# MOODY'S

## INVESTORS SERVICE

### New Issue: Moody's assigns Aa3 rating with stable outlook to Illinois Housing Development Authority's Housing Bonds 2013 Series B (Federally Taxable) and 2013 Series C (AMT)

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Global Credit Research - 24 Apr 2013

#### Approximately \$357 million in parity debt affected

ILLINOIS HOUSING DEVELOPMENT AUTHORITY  
State Housing Finance Agencies  
IL

#### Moody's Rating

ISSUE	RATING
Housing Bonds, 2013 Series B (Taxable)	Aa3
<b>Sale Amount</b> \$127,605,000	
<b>Expected Sale Date</b> 05/09/13	
<b>Rating Description</b> Housing Finance Agency Pledge	
Housing Bonds, 2013 Series C (AMT)	Aa3
<b>Sale Amount</b> \$6,270,000	
<b>Expected Sale Date</b> 05/09/13	
<b>Rating Description</b> Housing Finance Agency Pledge	

**Moody's Outlook** STA

#### Opinion

NEW YORK, April 24, 2013 --Moody's Investors Service has assigned a rating of Aa3 to the approximate \$134 million Illinois Housing Development Authority's (IHDA) Housing Bonds, 2013 Series B (Federally Taxable) and 2013 Series C (AMT). We are also affirming the Aa3 rating on all outstanding parity debt on the Housing Bonds indenture. The rating outlook is stable.

#### RATINGS RATIONALE

The rating is based on the strong financial position of the program as reflected in an asset to debt ratio of 156% and the composition and strong performance of the multifamily mortgage loans securing the bonds. It also reflects the financial position of IHDA (issuer rating of A1/Stable).

#### LEGAL SECURITY:

The bonds are backed by a pledge of the general obligation of IHDA. The full faith and credit of IHDA is pledged for payment of the principal, redemption price, and interest on the bonds, subject to provisions of resolutions or indentures pledging particular moneys, assets or revenue to the payment of notes, bonds or other obligations other than the Housing Bond Program. The bonds are also secured by a pledge of the trust estate established under the trust indenture for the Housing Bond Program, including revenues, funds, and accounts established under the trust indenture and series supplemental indentures and all deposits and investments of those funds and accounts, as well as any right to the government subsidies payable to IHDA.

#### STRENGTHS:

--First lien pledge on IHDA's interest in 112 multifamily mortgage loans

--The financial condition of the program is very strong with an asset to debt ratio of 156% and 32% profitability.

--Strong performance and seasoning of underlying loans

--The issuer provides sophisticated management and portfolio underwriting and oversight.

#### CHALLENGES:

--The Indenture requires a Cash Flow Certificate before cash is withdrawn free and clear; the Cash Flow Certificate language is not ideal; the Indenture need only show the sufficiency of amounts so as to pay debt service.

#### DETAILED CREDIT DISCUSSION:

**USE OF BOND PROCEEDS:** Proceeds of the 2013 Series B and 2013 Series C Bonds will be used to securitize certain loans under the indenture, acquire unassigned loans from IHDA's Administrative Fund, refinance one loan originally financed with bond proceeds in 2006, pay costs of issuance and capitalized interest and make a Debt Service Reserve Fund deposit.

#### SOUND PORTFOLIO COMPOSITION PROVIDES SOLID SECURITY FOR BONDS

Moody's believes that the composition of the multifamily portfolio and the program's overcollateralization will assure bondholders of timely payment of principal and interest even in stressful real estate cycles. As of March 31, 2013, the portfolio consisted of 83 developments with 112 permanent loans with a principal outstanding of over \$393 million that are well diversified throughout the state. The majority of the loans in the portfolio (96 loans) benefit from either Section 8 or Section 236 government subsidies. Additionally, 10 loans are subject to the Risk Sharing Program administered through FHA, and one loan is subject to FHA mortgage insurance. Seven loans do not receive any subsidy and are also not insured.

#### LOAN PORTFOLIO'S PERFORMANCE IS VERY STRONG

The loan portfolio performance to date has been strong with minimal delinquencies, and we believe that future performance should remain strong as well. The portfolio is well diversified throughout the state.

#### FINANCIAL CONDITION OF THE PROGRAM EXCEPTIONALLY STRONG; PROGRAM OVERCOLLATERALIZATION PROVIDES SOLID SECURITY FOR BONDS

Moody's expects that the program's financial strength will remain strong over the foreseeable future. The program's financial strength is reflected in a very strong asset to debt ratio of 156% as of June 30, 2012. This ratio has increased from 107% in 2005, primarily due to transfers of assets from IHDA's other multifamily housing indentures. Fund balance as an absolute dollar amount has increased significantly since 2005 from approximately \$12 million to \$210 million as of June 30, 2012. The program's strong financial position is also reflected in a 32% profitability ratio (net revenue as a % of total revenue), up from 24% in 2005.

#### CASH FLOW PROJECTIONS: FULL AND TIMELY PAYMENT DEMONSTRATED

Moody's believes that this bond program will continue to generate enough revenue from its loans and investments to meet existing debt obligations as demonstrated by cash flow projections prepared by IHDA's quantitative consultants.

#### SOPHISTICATED AND ACTIVE MANAGEMENT BY ISSUER FURTHER SECURES THE PROGRAM

Moody's believes that the strength of the program is enhanced by IHDA's staff which adds security to bondholders by ensuring continued financial and property maintenance. The issuer monitors the financial and physical condition of the properties that it services on an annual basis and will take remedial steps in case of any problems. The issuer's financial staff actively monitors and manages the bond program to maximize its earnings.

Although the program is backed by a pledge of the general obligation of the Agency (currently rated A1/Stable), we believe that the Housing Bonds program benefits from security enhancements that are stronger than those provided by the Authority's general obligation, specifically the Indenture's overcollateralization.

#### OUTLOOK

Moody's outlook for the program is stable. We expect the portfolio composition, the strong overcollateralization and

the active issuer management to protect the bond program from possible loan losses.

#### WHAT COULD CHANGE THE RATING -- UP

--Increasingly strong financial position of the program in the coming years, independent of any general obligation pledge from IHDA's general fund, as demonstrated in audited financial statements.

--Favorable portfolio composition and performance

--Upgrade of IHDA's issuer rating to a level above Aa3

#### WHAT COULD CHANGE THE RATING -- DOWN

--Sharp decline of the financial position of the program as a result of the transfer of funds out of the program or deterioration in the performance of the portfolio as exhibited by substantial foreclosures and loan losses.

--Presence of economic or external factors that severely erode the financial strength of IHDA, resulting in a downgrade of IHDA's issuer rating.

The principal methodology used in this rating was Moody's Approach to Analyzing Pools of Multifamily Properties published in October 2001. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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