

## CREDIT OPINION

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New Issue

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# Illinois Housing Development Authority

New Issue - Moody's assigns Aa3 to Illinois Housing Development Authority's HMRB 2016 B & C; outlook positive

## Summary Rating Rationale

Moody's Investors Service has assigned a rating of Aa3 to the proposed \$146,915,000 Illinois Housing Development Authority's (the "Authority") Homeowner Mortgage Revenue Bonds 2016 Series B and 2016 Series C (the "Bonds"). Moody's maintains existing Aa3 ratings on all outstanding Homeowner Mortgage Revenue Bonds. The outlook on the rating is positive.

The rating is based on the program's strong financial performance, portfolio composition and performance, a sound legal structure, strong management oversight, and cash flows that exhibit sufficient revenues to pay timely debt service.

## Credit Strengths

- » Strong financial performance as reflected by the program-asset-to-debt ratio ("PADR") of 128.6% and an adjusted fund balance of \$97 million based on 2015 audited financial statements
- » Improved performance of the loan portfolio, including delinquencies
- » Limited challenges related to variable rate debt exposure
- » Strong management oversight

## Credit Challenges

- » Program's high concentration in downgraded private mortgage insurers (PMI) which subjects the program to a potential increase in loan loss if delinquencies and foreclosures increase
- » The resolution requires a Cash Flow Certificate before cash is withdrawn free and clear. The Cash Flow Certificate language is not ideal; the program only needs to show sufficient amounts to pay debt service.

## Rating Outlook

The positive outlook is based on the program's improved asset-to-debt ratio and profitability, based on 2015 audited financial statements, and the decrease in the portfolio's seriously delinquent loans, i.e., loans 90+ days' delinquent plus foreclosures.

## Factors that Could Lead to an Upgrade

- » Growth in current profitability and continued growth in PADR

- » Continued improvement in loan portfolio performance

## Factors that Could Lead to a Downgrade

- » Further downgrade of PMI companies
- » Transfer of program funds out of the resolution
- » A downgrade is not anticipated in the near term given the positive outlook; however, a substantial increase in the program's delinquencies or loan losses could result in a stable outlook

## Key Indicators

Exhibit 1

### Illinois Housing Development Authority Homeowner Mortgage revenue Bonds

(Year Ending 06/30)	2015	2014	2013	2012	2011
Total Bonds Outstanding	336,125	444,430	492,700	794,440	891,200
Asset to Debt Ratio	128.56%	116.71%	117.87%	110.86%	110.23%
Margins	1.43%	-19.30%	6.19%	-24.51%	-0.90%
Variable Rate Debt as a % of Bonds Outstanding	17.14%	13.52%	12.26%	7.67%	6.88%
Swapped Debt as a % of Variable Rate Debt	17.36%	16.65%	16.55%	16.40%	16.31%
Seriously Delinquent	5.32%	7.50%	8.21%	10.32%	8.23%

Source: Moody's Investors Service

## Recent Developments

Recent developments are incorporated in the Detailed Rating Considerations.

## Detailed Rating Considerations

### Loan Portfolio

The loan portfolio performance remains satisfactory when compared to published FHA data for the State of Illinois due to a fairly seasoned portfolio and sound underwriting. As of June 30, 2016, the seriously delinquent rate (90+ days plus foreclosure) for the Authority stood at 3.73% compared to FHA's 5.78% for the State. This represents a considerable decrease from the June 30, 2015 rate of 5.32%.

As of June 30, 2016, the program is comprised of approximately \$244 million of fixed-rate, first-lien whole loans with 30-year level amortization. Approximately 40% of the loans were originated prior to 2005, and the remaining 60% originated between 2005 and 2009. PMI exposure is very high at approximately 62% of the total; uninsured loans with a loan-to-value (LTV) below 80% make up 25%; federally insured or guaranteed are 6%, and MBS 8%. Approximately 13% of the PMI exposure is from providers whose ratings have been downgraded to below investment grade. Moody's uses the insurance financial strength rating of a mortgage insurer in assessing the insurer's ability to make payment on claims over the life of a bond transaction. Partial credit for PMI claims payment is given based on the provider's rating to determine the level of losses that must be absorbed.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for the most updated credit rating action information and rating history.

## Financial Position and Performance

Moody's believes that the program's financial condition, as illustrated by Moody's-calculated PADR of 128.6% and fund balance of approximately \$97 million, based on 2015 audited financial statements, is strong. As part of our analysis, we calculated a level of losses from mortgage delinquencies and foreclosures that a program must be able to absorb while still maintaining a PADR consistent with the rating. When we incorporate this potential loan loss, the program still meets the 100% PADR required for the Aa3 rating level. Moody's adjusted-profitability (as measured by net operating revenue as a percent of total operating revenue) for FY 2015 is a low 1.43%, an improvement over FY 2014's profitability of -19.3%. A challenge to the program is its ability to increase profitability.

## LIQUIDITY

Cash flow projections demonstrate that the program exhibits sufficient liquidity to meet all debt service obligations.

## Legal Framework, Covenants and Debt Structure

### DEBT STRUCTURE

The total outstanding debt for the Homeowner Mortgage Revenue Bonds as of June 30, 2016 is \$300,530,000, of which \$245,600,000 is fixed rate, and \$54,930,000 is variable rate.

### DEBT-RELATED DERIVATIVES

The total amount of variable rate bonds outstanding as of June 30, 2016 is approximately \$55 million, or 18% of outstanding bonds, of which \$8.5 million is swapped. Total variable rate demand obligations are \$45.3 million, all of which is supported by Standby Bond Purchase Agreements provided by the FHLB of Chicago. Further, Moody's has reviewed stressed consolidated cash flow projections demonstrating that the program can withstand risks related to basis spread, changes in tax rates and mismatch between amortization of bonds.

### PENSIONS AND OPEB

Pensions and OPEB are not a major factor in the methodology.

## Management and Governance

The Authority's seasoned and capable management team provides strong security for the program. The Authority has demonstrated the ability to actively manage their portfolio of loans while balancing the strong public purpose mission of the authority with their commitment to financial soundness.

## Legal Security

The Authority is an instrumentality of the State of Illinois and operates with the mission of financing housing for persons and families of low and moderate income and financing of residential mortgages in the State. The bonds are special limited obligations of the Authority and are secured by mortgage loans and all reserves and other assets under the Homeowner Mortgage Revenue Bonds General Resolution. The program's debt is neither the general obligation of the Authority nor the obligation of the State of Illinois.

## Use of Proceeds

The bond proceeds, along with other available funds of the Authority, are expected to be used to refund and/or redeem all or a portion of certain outstanding Homeowner Mortgage Revenue Bonds Series; purchase, or reimburse the Authority for its prior purchase of, Mortgage-Backed Securities; and to pay costs of issuance.

## Obligor Profile

The Homeowner Mortgage Revenue Bonds Program was established in 1994. The proceeds of bonds issued under this resolution are used to finance affordable residential housing to low- and moderate-income persons in the State of Illinois. All the bonds under the resolution are secured equally by all of the mortgage loans.

## Methodology

The principal methodology used in this rating was U.S. Housing Finance Agency Single Family Programs published in February 2013. Please see the Ratings Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## Ratings

Exhibit 2

### Illinois HDA-Homeowner Mtge. Rev. Bds.

Issue	Rating
Homeowner Mortgage Revenue Bonds, 2016 Series B (AMT)	Aa3
Rating Type	Underlying LT
Sale Amount	\$38,460,000
Expected Sale Date	09/08/2016
Rating Description	Mortgage: Single-Family: Whole Loans
Homeowner Mortgage Revenue Bonds, 2016 Series C (Non-AMT)	Aa3
Rating Type	Underlying LT
Sale Amount	\$108,455,000
Expected Sale Date	09/08/2016
Rating Description	Mortgage: Single-Family: GNMA/FNMA/FHLMC

Source: Moody's Investors Service

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