

## CREDIT OPINION

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New Issue

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### Contacts

Eileen Hawes 212-553-4880  
 AVP-Analyst  
 eileen.hawes@moodys.com

Florence Zeman 212-553-4836  
 Associate Managing  
 Director  
 florence.zeman@moodys.com

# Illinois Housing Development Authority

New Issue - Moody's assigns Aa3 to IL Hsng. Development Authority's Housing Bonds 2017 Series A-1 & A-2, outlook stable

## Summary Rating Rationale

Moody's Investors Service has assigned a rating of Aa3 to the proposed \$54,415,000 Illinois Housing Development Authority's (IHDA) Housing Bonds, 2017 Series A-1 and a rating of Aa3/VMIG 1 to the proposed 2017 Series A-2 (collectively the "Bonds"). In addition, we have affirmed the Aa3 and Aa3/VMIG 1 rating on all outstanding IHDA Housing Bonds. The rating outlook is stable.

The long-term rating is based on the strong financial position of the program as reflected in an asset to debt ratio of 174% 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).

The short-term VMIG 1 rating assigned to the 2017 Series A-2 Bonds is based on the standby bond purchase agreement ("SBPA") provided by the Federal Home Loan Bank of Chicago on the Bonds. The Federal Home Loan Bank of Chicago ("FHLB") currently has a long term rating of Aaa and a short term rating of P-1 by Moody's.

## Credit Strengths

- » First lien pledge on IHDA's interest in 87 multifamily mortgage loans
- » The financial condition of the program is very strong with an asset to debt ratio of 174% and 50% profitability.
- » Strong performance and seasoning of underlying loans
- » The issuer provides sophisticated management, portfolio underwriting and oversight.

## Credit 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- » The Indenture requires a Cash Flow Certificate before cash is withdrawn free and clear.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.
- » The potential for a transfer of program funds out of the resolution

## Rating Outlook

The outlook for the rating is stable based on the portfolio composition, the strong overcollateralization and the active issuer management.

### Factors that Could Lead to an Upgrade

- » Increasingly strong financial position of the program, 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

### Factors that Could Lead to a Downgrade

- » 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 substantial downgrade of IHDA's issuer rating.

## Key Indicators

Exhibit 1

### Illinois Housing Development Authority's Housing Bonds

Year Ending 06/30	2012	2013	2014	2015	2016
Total Bonds Outstanding	375,605,000	482,550,000	393,970,000	355,065,000	338,990,000
Asset to Debt Ratio	156.00%	145.00%	157.00%	164.00%	174.00%
Margins	32.01%	27.68%	33.65%	36.56%	50.49%
Variable Rate Debt as a % of Bonds Outstanding	15.00%	11.20%	13.30%	15.30%	20.00%
Swapped Debt as a % of Variable Rate Debt	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Moody's Adjusted Audited Financial Statements

## Recent Developments

Recent developments are incorporated in the Detailed Rating Considerations.

## Detailed Rating Considerations

### Loan Portfolio: 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 June 30, 2016, the portfolio consisted of 69 developments with 87 permanent loans with a principal outstanding of approximately \$364 million that are well diversified throughout the state. The majority of the loans in the portfolio (63 loans) benefit from either Section 8 or Section 236 government subsidies. Additionally, 10 loans are subject to the Risk Sharing Program administered through FHA. Fourteen loans do not receive any subsidy and are also not insured.

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.

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's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Financial Position and Performance: 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 174% as of June 30, 2016. Fund balance increased from approximately \$237 million at June 30, 2015 to \$252 million as of June 30, 2016. The program's strong financial position is also reflected in a 50% profitability ratio (net revenue as a % of total revenue).

### 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 Housing Bonds Program as of June 30, 2016 is \$338,990,000, of which \$272,265,000 is fixed rate, and \$66,725,000 is variable rate.

### DEBT-RELATED DERIVATIVES

All of the liquidity on the variable rate bonds is provided through SBPAs by the Federal Home Loan Bank of Chicago. There are no swaps.

Variable rate bonds may expose a program to additional risks including that of bondholder tenders resulting in unremarketed bonds being purchased by the liquidity provider ("bank bonds"). Bank bonds may have higher interest rates than the bonds in the primary market and may require a more rapid bond principal amortization. We believe that the program is well positioned to tolerate this risk without impairing the financial condition of the program. The program's very strong financial position, with a 174% asset to debt ratio as of 6/30/16, provides it with sufficient resources and liquidity to cover higher interest costs and a certain amount of rapid principal amortization. In addition, the program's cash flows are strong and able to demonstrate that they can support all obligations including all of their bonds as bank bonds for one year.

### Cash Flow Projections: Full And Timely Payment Demonstrated

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

### Variable Rate Analysis for 2017 Series A-2

The Bonds will bear interest at the weekly rate mode and interest shall be paid on the first business day of each month. The daily rate mode also pays interest on the first business day of each month. The Authority may elect to change the interest rate mode from the weekly rate mode and (the bonds are not subject to mandatory tender upon conversion between the daily and weekly rate modes) upon any such mode change other than daily or weekly, the Bonds are subject to mandatory tender. The short term VMIG 1 covers Bonds in the daily and weekly rate modes only. The VMIG 1 rating expires upon the earliest to occur of (i) the mandatory tender date resulting from the expiration of the SBPA, (ii) conversion of the Bonds to an uncovered mode, or (iii) earlier termination of the SBPA.

The SBPA provides for purchase by the Bank of Bonds that are tendered by bondholders and cannot be remarketed. Under certain circumstances the Bank can terminate the SBPA without notice and will therefore not be obligated to provide funds. These circumstances include any of the following: (1) any principal of or interest on any Bond (including Bonds purchased by the bank) is not paid when due; (2) certain acts of bankruptcy or insolvency by or involving the Authority; (3) provisions relating to the payment of principal or interest under the SBPA, the indenture, the Bonds, cease to be valid, binding or fully enforceable on the Authority as determined by a court or governmental agency having appropriate jurisdiction in a final non-appealable judgment; or (4) the long term rating on the Bonds falls below Baa3. Other events of termination become effective only after the bank provides sufficient notice to allow for a mandatory tender of Bonds before any termination date of the SBPA.

### PENSIONS AND OPEB

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

## Management and Governance

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.

## Legal Security

The bonds are backed by a pledge of the general obligation of IHDA (A1/Stable). 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. Although the program is backed by a pledge of the general obligation of the Authority, 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.

## Use of Proceeds

Proceeds of the bonds will be utilized to refund existing bonds, make a Reserve Fund deposit and pay costs of issuance.

## Obligor Profile

The Housing Bonds Program was established in 1999. The proceeds of bonds issued under this indenture are used to finance affordable housing to low and moderate income persons in the State of Illinois. All the bonds under the indenture are secured equally by all of the mortgage loans.

## Methodology

The principal methodology used in the long-term rating was U.S. Housing Finance Agency Multifamily Methodology published in November 2016. An additional methodology used in the short-term rating was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in March 2015. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

## Ratings

Exhibit 2

### Illinois HDA - Housing Bond Program

Issue	Rating
Housing Bonds 2017 Series A-1 (Federally Taxable)	Aa3
Rating Type	Underlying LT
Sale Amount	\$24,415,000
Expected Sale Date	01/30/2017
Rating Description	Housing Finance Agency Pledge
Housing Bonds 2017 Series A-2 (Federally Taxable Variable Rate)	Aa3
Rating Type	Underlying LT
Sale Amount	\$30,000,000
Expected Sale Date	01/30/2017
Rating Description	Housing Finance Agency Pledge
Housing Bonds 2017 Series A-2 (Federally Taxable Variable Rate)	VMIG 1
Rating Type	Enhanced ST
Sale Amount	\$30,000,000
Expected Sale Date	01/30/2017

Rating Description

Housing Finance Agency  
Pledge

*Source: Moody's Investors Service*

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## Contacts

Eileen Hawes  
AVP-Analyst  
eileen.hawes@moodys.com

212-553-4880

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
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