MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa ratings to Iowa Finance Authority State Revolving Fund Revenue Bonds Series 2015

Global Credit Research - 29 Jan 2015

Approximately $876.7 million of debt affected

IOWA FINANCE AUTHORITY STATE REVOLVING FUND
State Revolving Funds
IA

Moody's Rating

ISSUE	RATING
State Revolving Fund Revenue Bonds Series 2015	Aaa

Sale Amount	$323,385,000
Expected Sale Date	02/04/15
Rating Description	Revenue: Pool

Moody's Outlook STA

NEW YORK, January 29, 2015 --Moody's Investors Service has assigned a Aaa rating to Iowa Finance Authority's Iowa State Revolving Fund Revenue Bonds, Series 2015 (the "2015 Bonds", together with outstanding bonds, the "Bonds"). Aaa ratings on $876.7 million of outstanding debt have also been affirmed. The outlook is stable.

SUMMARY RATING RATIONALE

The Aaa rating reflects the program's high default tolerance and the credit quality of the underlying borrowers. The 2015 Bonds are the fifth series issued after the Second Amendment of Master Trust Agreement (see details below) became effective on November 1, 2010, which pledges the Equity Fund to the trust indenture and causes amounts in the Equity Fund be available for new loan origination or pay debt service on all outstanding bonds.

OUTLOOK

The stable outlook reflects our expectation that the favorable default tolerance and debt service coverage, along with borrower credit quality and pool diversification will be maintained.

WHAT COULD MAKE THE RATING GO UP

-None

WHAT COULD MAKE THE RATING GO DOWN

-Increased leveraging of the program resulting in a significant decrease in debt service coverage or the default tolerance

-A material deterioration in the pool participants' credit quality

STRENGTHS

* Large and diverse pool of borrowers, with an average credit quality of A2

* The program will be able to meet its debt service obligation even after a significant, but highly unlikely, scenario that 38% of pledged loans default through final maturities

CHALLENGES

*The top borrower is 18% of the portfolio but this concentration risk is mitigated by its high credit quality (Des Moines Metropolitan Wastewater Reclamation Authority Aa3)

*De-pledging of loans securing the bonds is allowed upon certification of sufficient coverage of debt service; pre-payments of loans are also allowed, at management's discretion

*There are no minimum coverage requirements other than 1.05x coverage requirement for additional parity bond issuance (1.10x for additional subordinate bond issuance) and 1.20x coverage requirement for withdrawing funds

RECENT DEVELOPMENTS

The 2015 Bonds expect to refund all outstanding bonds issued before 2010 which were separately secured within each series. As a result, all remaining bonds outstanding under the SRF program will be on parity, secured by all revenues and amounts under the master trust indenture.

DETAILED CREDIT DISCUSSION

PORTFOLIO SIZE AND DIVERSITY: LARGE DIVERSE POOL OF BORROWERS EXHIBITS SATISFACTORY CREDIT QUALITY

Credit quality:

The majority of the pledged loans are secured with a first lien on net revenues of the borrower's utility system. The bonds issued by program participants to evidence their loans include rate covenants requiring net revenues to cover senior lien debt service by 1.10x (for senior lien loan pledge) or to cover aggregate debt service by 1.05x (for combined senior and subordinate lien loan pledge). A general obligation pledge is provided by a limited number of borrowers.

Pool size:

The combined loan pool includes a sizable 606 borrowers. The portfolio has been growing and its diversity is an important credit factor. The largest participants are Des Moines Metropolitan Wastewater Reclamation Authority (18%), Dubuque (6%) and Sioux City (6%). The top five borrowers represent 39.1% of the outstanding loans; however, 45.8% of the total loans outstanding have loans comprising less than 1% of the total loan portfolio. The average borrower credit quality is in the A range. We expect the program to continue to grow, while maintaining the overall credit quality of the loan pool.

UNDERLYING CREDIT QUALITY AND DEFAULT TOLERANCE: STRONG PROGRAM OVER-COLLATERALIZATION COMBINED WITH A HIGH DEFAULT

The solid reserve levels along with cash flows from participant loans are critical to the rating. The amount of loans outstanding substantially exceeds the amount of outstanding bonds, which together with investment earnings and reserves, contributes to a very high default tolerance and provides abundant security to bondholders.

As of 12/31/2014, the program asset-to-liability ratio of the program was 1.98x, with $1.486 billion of loans and $250.9 million of investments securing $876.7 million of bonds. The lowest combined debt service coverage is 1.18x. There has never been a participant default in either program in its nearly 20 year history.

Liquidity:

Preliminary cash flow projections demonstrate sufficient revenues to meet timely debt service payment obligations.

LEGAL FRAMEWORK, COVENANTS, AND DEBT STRUCTURE

Debt Structure:

100% fixed rate, parity bonds.

Debt-Related Derivatives:

None.

Pensions and OPEB:

Not a material factor for this rating action.

MANAGEMENT AND GOVERNANCE: SEASONED MANAGEMENT JOINTLY ADMINISTERS THE SRF PROGRAM WITH DEPARTMENT OF NATURAL RESOURCES

The Authority administers the Water Pollution Control Works and Drinking Water Facilities Financing Program in cooperation with the Iowa Department of Natural Resources (DNR). The Authority is responsible for underwriting loans, issuing debt and disbursing funds to borrowers, while the DNR concentrates on technical support, and construction monitoring of projects funded through the SRF programs. Loan repayments are due at least two months prior to debt service payment dates, providing the authority with ample timing to address any delinquencies. IFA has the sole financial management responsibility for the SRF program.

KEY STATISTICS (as of 12/31/14 unless otherwise noted):

REVOLVING FUND STRUCTURE: Hybrid - Reserve and Cash Flow Model

MINIMUM PROJECTED BOND COVERAGE: 1.18x

TOTAL BONDS OUTSTANDING: $876.7 million

TOTAL LOANS OUTSTANDING: $1.485 billion

LOAN PLEDGE: primarily net revenues of utility systems with 1.10x rate covenant; limited number of GO pledges provided

ASSET-TO-LIABILITY RATIOS: 1.98x

NUMBER OF TOTAL BORROWERS: 606

% OF TOP FIVE BORROWERS: 39.1%

% OF BORROWERS HOLDING LESS THAN 1% OF THE PORTFOLIO: 45.8%

DEFAULT TOLERANCE: 38.1% (does not include BAB reimbursements or interest earnings on reserves)

OBLIGOR PROFILE

Jointly administered by IFA and DNR, the SRF program provides subsidized loans to finance water pollution control facilities and drinking water facilities within the state of Iowa. As of December 31, 2014, there were $876.7 million of bonds outstanding secured by approximately $1.07 billion of loans outstanding under the Clean Water Program and $415.2 million of loans outstanding under the Drinking Water Program, plus additional $259.3 million in investments.

LEGAL SECURITY: The Bonds are limited obligations of IFA, payable solely from and secured by revenues of the SRF program including all moneys, securities, investments (including amounts held in the Equity Fund) and participation agreements pledged to the trust indenture. Generally, state match bonds, which provide the state matching funds required to access federal capitalization grants, are secured by loan interest payments, investment earnings and debt service reserve funds. On the other hand, leverage bonds are secured by loan principal payments, excess interest payments and investment earnings not needed for state match bond debt service and debt service reserve funds.

USE OF PROCEEDS: Proceeds of the 2015 Bonds will be used to refund prior outstanding bonds, (including Series 2007, Series 2008 and Series 2009), reimburse the Authority for prior loan disbursements, and pay for cost of issuance relating to the 2015 Bonds.

RATING METHODOLOGY

The principal methodology used in this rating was U.S. State Revolving Fund Debt published in March 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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