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Iowa Finance Authority; Single Family Multiple MBS

Primary Credit Analyst:
Ki Beom K Park, New York (1) 212-438-8493; kib_park@standardandpoors.com

Secondary Contact:
Lawrence R Witte, San Francisco (1) 415-371-5037; larry_witte@standardandpoors.com

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Iowa Finance Authority; Single Family Multiple MBS

Credit Profile		
Iowa Finance Authority (mortgage backed securities program)		
Long Term Rating	AA+/A-1+/Negative	Affirmed
Iowa Fin Auth sin fam mtg bnds mtg bckd secs prog ser 2009A		
Long Term Rating	AA+/Negative	Affirmed
Iowa Fin Auth sin fam mtg (Mtg Bckd sec prog)		
Long Term Rating	AA+/Negative	Affirmed

Rationale

Standard & Poor's Ratings Services has affirmed its ratings on Iowa Finance Authority's (IFA) single-family mortgage revenue bonds indenture. The outlook is negative.

The 'AA+' rating reflects our opinion of the following:

- The extremely high quality of assets supporting the bonds, which consist primarily of Ginnie Mae and Fannie Mae mortgage-backed securities (MBS) and reserves;
- Investment agreements with providers whose ratings are commensurate with the rating on the bonds; and
- Cash flow strength.

The single-family resolution is supported by Ginnie Mae and Fannie Mae MBS. Bond proceeds will be used to make funds available to finance the purchase of Ginnie Mae and Fannie Mae MBS backed by pools of mortgage loans. The mortgage loans will be made to qualifying borrowers throughout Iowa.

The series 2002A, 2002FGHI, 2003AB, 2003CDEFG, and 2003HIJ bonds were defeased in the spring of 2012. As of July 1, 2012, the series 2003F swap remains outstanding and has a notional balance of $5,415,000. IFA plans to reduce the swap by no later than July 1, 2015. As a result, the bond balance has decreased to $470.4 million as of June 30, 2012, compared with the par amount of $687.7 million on June 30, 2011.

Consolidated cash flows for the resolution indicate the Authority has sufficient assets and revenues to pay full and timely debt service plus fees. The basis date for the consolidated cash flows is June 30, 2012, and indicates that the resolution is performing well, with $33.7 million in excess assets equivalent to an asset-to-liability ratio of 107.925% under the most stressful 0% PSA prepayment run. Cash flows reflect approximately $49.7 million of funds held in the Security Account of the Restricted Housing Fund, which are fully pledged to the Single-Family Mortgage Program. The Authority adopted an amendment to the resolution on May 26, 2009 (Resolution FIN 09-03), which replaced the Single-Family Endowment with the Restricted Housing Fund, strengthening the pledge to bondholders by creating a Security Account and a Program Account as part of the Restricted Housing Fund. Based on the assumptions in the consolidated cash flow, the Authority may transfer $30 million from the Security Account to the Program Account on Oct. 1, 2012. We believe this transfer will not adversely affect the existing rating. The bonds are subject to redemption from unexpended proceeds, prepayments, and sinking fund installments as outlined in the series resolution.

Outlook

The negative outlook reflects the Ginnie Mae and Fannie Mae MBS backed by pools of mortgage loans.

Debt And Swap: Moderate Risk

All bonds issued since 1991 under the single-family First Home Program MBS resolution are supported by the extremely high quality of pledged collateral, which consists of Ginnie Mae and Fannie Mae MBS; the strong credit quality of investments; and cash flow sufficiency.

The Authority has continued to take actions to mitigate the impact of variable-rate counter-party exposure. The consolidated cash flows assume basis risk for tax-exempt and taxable variable-rate bonds to be equal 20 basis points over SIFMA's floating rate and LIBOR rate, incorporating the mismatch between the bond rates and the counterparty rate paid on LIBOR-based swap.

IFA has also hedged nearly all of its floating-rate exposure through interest rate swaps and caps entered into with either UBS AG (A+/Stable/A-1) or Goldman Sachs Capital Markets LP, with a guarantee from The Goldman Sachs Group (A/Negative/A-1). As of June 30, 2012, total interest rate swap notional amount is $304,915,000.

Following a review of IFA's 17 fixed-to-floating interest rate swaps, two basis swaps, and four interest rate caps and corridor transactions, Standard & Poor's assigned the Authority moderate risk. It reflects our opinion of:

- Two adequately rated swap counterparties, both of which are required to post collateral before a credit event occurs;
- Low basis risk;
- Low termination risk; and
- Good management oversight.

We believe management is proactive in monitoring risks and benefits associated with swaps, so that the Authority's exposure to either of its counterparties does not exceed a defined amount. Standard & Poor's is not factoring in the value at risk as a contingent liability at this time due to what we consider the remoteness of involuntary termination.

Investment: Guaranteed Investment Contracts

Amounts on deposit in acquisition funds, revenue funds, redemption funds, and special reserve accounts are invested in guaranteed investment contracts (GICs) for each issue of bonds. For some series of bonds where no GIC exists, the consolidated cash flows assumes revenues were invested in accordance with our minimum reinvestment rates (0.03% during year one, 0.25% during year two, 0.40% during year three, 0.50% during year four, 0.65% during year five, and 0.75% thereafter.) The master revenue account, consisting of revenue that is not associated with any particular issue of bonds, is invested at this minimum reinvestment rate. Revenues from the Authority's series 2007D, E, F, and G bonds are invested pursuant to a GIC with Bayerische Landesbank (NR). Revenues from the series 2008D, E, F, and G bonds are invested pursuant to a GIC with Calyon (AA-/A-1+). According to the cash flow, the Authority has assumed that all series 2007D, E, F, and G and 2008D, E, F, and G float funds deposited (principal amount) in these two series from July 1, 2012 to Dec. 31, 2012 are lost on Jan. 1, 2013. Future revenues in each series are also assumed to bear interest at the minimum reinvestment rates. We are comfortable with cash flow assumptions in relation to the unrated GICs and also confirm that all investment assumptions are met with our reinvestment risk criteria (see "General Criteria: Revised Minimum Reinvestment Rate Assumptions For Fixed-Rate U.S. Structured Finance And Municipal Housing Bonds," published June 7, 2010).

Liquidity: Liquidity Facility Renewals

The series 2004G, 2005C, 2005E, 2005H, 2006C, and 2006F bonds are supported by State Street Bank (AA-/A-1+) as liquidity provider, where the Authority has agreed to renew liquidity on these series through Jan. 15, 2018. Following the expiration of standby bond purchase agreements, the cash flows assume the cost of liquidity facility renewals is 100 basis points (bps) per our criteria, and all variable-rate demand obligations are remarketed at an annual fee of 10 bps.

Related Criteria And Research

- USPF Criteria: Single-Family Mortgage-Backed Securities Programs, June 13, 2007
- USPF Criteria: Housing Finance Agencies, June 14, 2007
- USPF Criteria: Revised Methodology For Certain Federal Government-Enhanced Housing Transactions, May 12, 2010
- General Criteria: Revised Minimum Reinvestment Rate Assumptions For Fixed-Rate U.S. Structured Finance And Municipal Housing Bonds, June 7, 2010

Ratings Detail (As Of October 4, 2012)		
Iowa Finance Authority (Mtg-Bckd Secs Prog) 2007C		
Long Term Rating	AA+/A-1+/Negative	Affirmed
Iowa Fin Auth sin fam mtg bnds (amt - var Rt) (Mtg Bckd Sec Prog) ser 2004B		
Long Term Rating	AA+/Negative	Affirmed
Iowa Fin Auth sin fam mtg bnds (amt - var Rt) (Mtg Bckd Sec Prog) ser 2004B due 01/01/2034		
Long Term Rating	AA+/A-1+/Negative	Affirmed
Iowa Fin Auth sin fam mtg bnds (Amt-var rate) ser 2008F		
Long Term Rating	AA+/A-1+/Negative	Affirmed
Iowa Fin Auth var rt sin fam mtg bnds (Mtg Backed Sec Prog) ser 2004D dtd 08/05/2004 due 07/01/2034		
Long Term Rating	AA+/A-1+/Negative	Affirmed
Iowa Fin Auth Single fam Mort bnds (Amt-Variable Rate) ser 2008G		
Long Term Rating	AA+/A-1+/Negative	Affirmed
Iowa Fin Auth Single fam Mort bnds (Non-Amt) ser 2008 D&E		
Long Term Rating	AA+/Negative	Affirmed

Ratings Detail (As Of October 4, 2012) (cont.)		
Iowa Fin Auth Single Family Mortgage Bonds (Mtg-Bckd Secs Prog) ser 2007 K&L		
Long Term Rating	AA+/Negative	Affirmed
Iowa Fin Auth Single Family Mortgage Bonds (Mtg-Bckd Secs Prog) ser 2007 N		
Long Term Rating	AA+/A-1+/Negative	Affirmed
Iowa Fin Auth Single Family Mortgage Bonds (Mtg-Bckd Secs Prog) ser 2007 N dtd 12/12/2007 due 01/01/2039		
Long Term Rating	AA+/Negative	Affirmed
Iowa Fin Auth Single Family Mortgage Bonds (Mtg-Bckd Secs Prog) ser 2008B		
Long Term Rating	AA+/A-1+/Negative	Affirmed
Iowa Fin Auth Single Family Mortgage Bonds (Mtg-Bckd Secs Prog) ser 2008C		
Long Term Rating	AA+/A-1+/Negative	Affirmed
Iowa Fin Auth Single Family Mortgage Bonds (Mtg-Bckd Secs Prog) 2007 ser M (Taxable)		
Long Term Rating	AA+/A-1+/Negative	Affirmed
Iowa Fin Auth Single Family Mortgage Bonds (Mtg-Bckd Secs Prog) 2007 Series G (Taxable)		
Long Term Rating	AA+/A-1+/Negative	Affirmed
Iowa Fin Auth Single Fam Mtg Bnds (Mtg-Bckd Secs Prog) ser 2006F		
Long Term Rating	AA+/A-1+/Negative	Affirmed