S&P Global Ratings

Research

Iowa Finance Authority; General Obligation

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Table Of Contents

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Credit Profile		
Iowa Fin Auth GO		
Long Term Rating	AA/Positive	Affirmed

Rationale

S&P Global Ratings affirmed its 'AA' issuer credit rating (ICR) on the Iowa Finance Authority (IFA). The outlook is positive. At the same time, we affirmed our 'AA' and 'AA/A-1+' ratings on the authority's general obligation (GO) and variable-rate debt.

The rating is based on our opinion of the authority's rebuilding of its balance sheet to levels that demonstrate the following strengths:

- Increasing net equity position over the last five years demonstrating solid performance and sound management;
- High-quality and low-risk asset base which consists primarily of 'AA+' rated mortgage-backed securities (MBS);
- Very low amount of nonperforming assets (NPAs), constituting a small percentage of total loans; and
- Strong management.

Offsetting those strengths, in our view, is the authority's profitability, which, while up in 2017, has shown signs of volatility due to changes in net grant income.

IFA has demonstrated solid financial strength, ability to implement strategic objectives, and continued net equity growth over the last five years. In 2017, the authority turned the tide on its decreasing asset base by shifting some of its single-family loan originations from the TBA market to bond financing. This resulted in a $66 million increase in assets, consisting of securitized MBS with 'AA+' support from FNMA, FHLMC, or GNMA. The authority's net equity over total assets grew to 29.77% in fiscal 2017, continuing a positive trend over the last five years. Furthermore, IFA's capital adequacy ratios reflect a low-risk profile consistent with its current rating and solidly in line with other 'AA' rated housing finance agencies (HFAs).

Outlook

The positive outlook reflects S&P Global Ratings' opinion of the quality of IFA's overall financial position, particularly its net equity ratio, which continues to demonstrate steady annual growth. The outlook also reflects our view of IFA's strong management and existing high-quality asset base. S&P Global Ratings believes IFA's continued low-risk asset base and high capital-adequacy ratios create solid credit stability. Through our peer analysis, we assess an organization's equity ratios in both absolute terms and relative to other rated HFAs. IFA's equity levels are very strong when compared with other 'AA' rated peers, while its strong profitability in 2015 and 2017 are part of a volatile trend that we will continue to monitor during the outlook period.

Upside scenario

We would view sustained, positive growth in equity and profitability, combined with strong asset quality and liquidity levels, as positive effects on the rating. Should equity remain strong during the outlook period, in conjunction with stability in profitability and a continued low-risk asset base, we could raise the rating.

Downside scenario

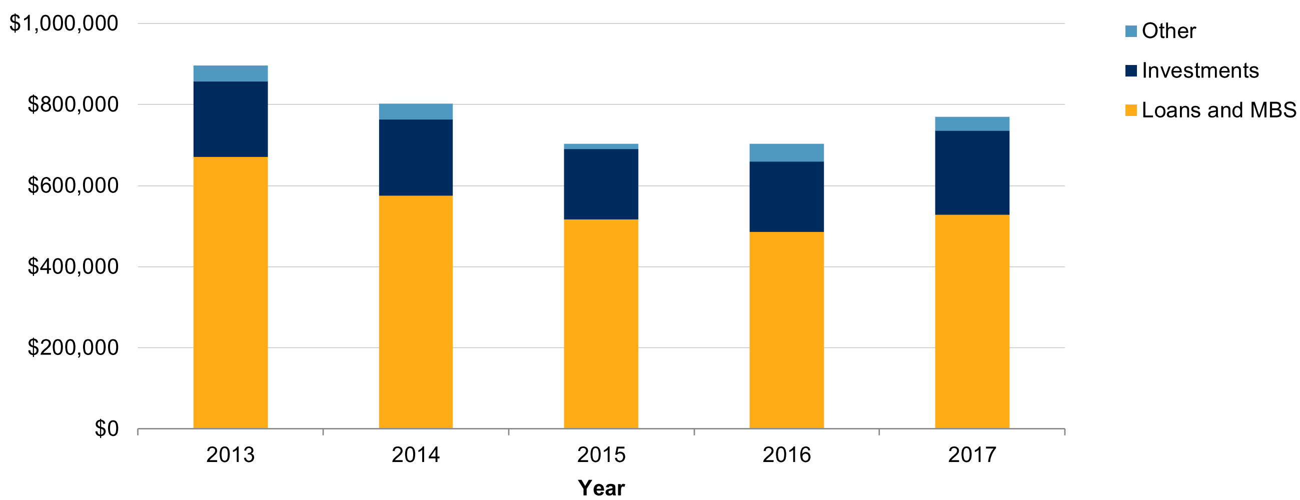
If equity as a percentage of assets decreases or IFA's profitability declines in 2018 as result of volatile net income, however, the rating could remain unchanged or we could lower it.

Asset Quality

IFA's total assets grew by 9.48 % or $66.6 million in fiscal 2017, after steadily decreasing since 2011. The authority reports originating more single-family loans in fiscal 2017 than any year since 2008. Total cash, cash equivalents, and investments also grew by 18.9%, or $32 million, and total MBS increased 10.6%, or nearly $39 million in 2017. The assets and other financial information S&P Global Ratings used for this analysis excludes the state revolving fund that IFA administers as well as any conduit bond issues, which have no recourse to the authority.

Chart 1

Iowa Finance Authority -- Total Assets



*Source: Master_Iowa FA Spreads

As of June 30, 2017, IFA's loan portfolio consisted of Ginnie Mae, Fannie Mae, and Freddie Mac MBS (78%), as well as multi- and single-family mortgage loans (22%). This proportion of MBS remains high in comparison with most HFAs. Approximately 54% of the authority's asset portfolio consists of 'AA+' rated MBS.

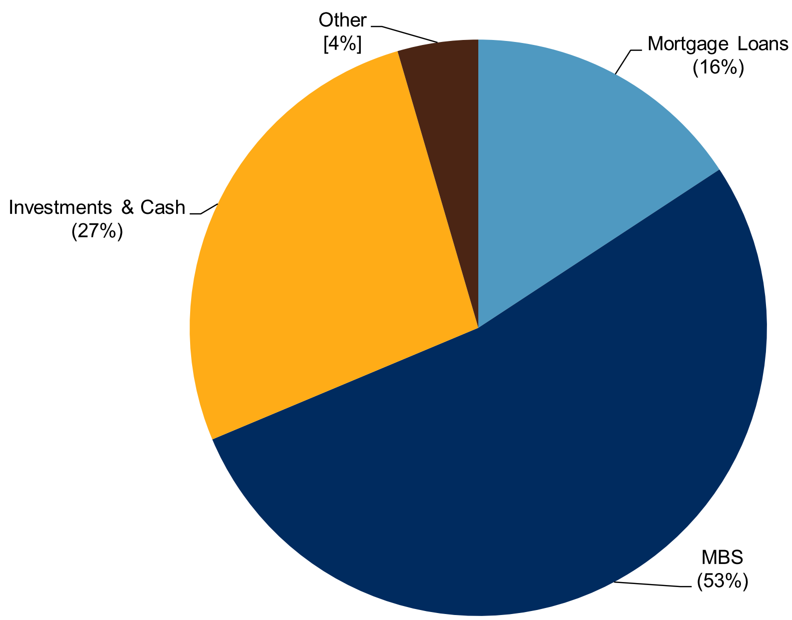
We believe that IFA's loan portfolio poses an extremely low risk, due to the authority's conservative approach to collateral. More than 99% of IFA's single-family loans were backed by Ginnie Mae, Fannie Mae, and Freddie Mac

MBS. As MBS guarantees payment on the underlying loans, no reserves are required. However, for the remaining loans, IFA has sufficient equity to cover credit losses. In our opinion, these loans are performing well and have sufficient excess assets that cover any credit shortfall or liquidity issues.

Reported delinquencies and NPAs as of June 30, 2017, were a very low 2.11% of total loans and MBS represented just $11.37 million in fiscal 2017, creeping up from a low in 2015 of 0.8%. While this ratio has increased since 2015, it is important to note it results from IFA adopting a more conservative practice of including impaired loans in this calculation.

Chart 2

Iowa Finance Authority -- Asset Portfolio
As of June 30, 2017 and including GASB adjustments

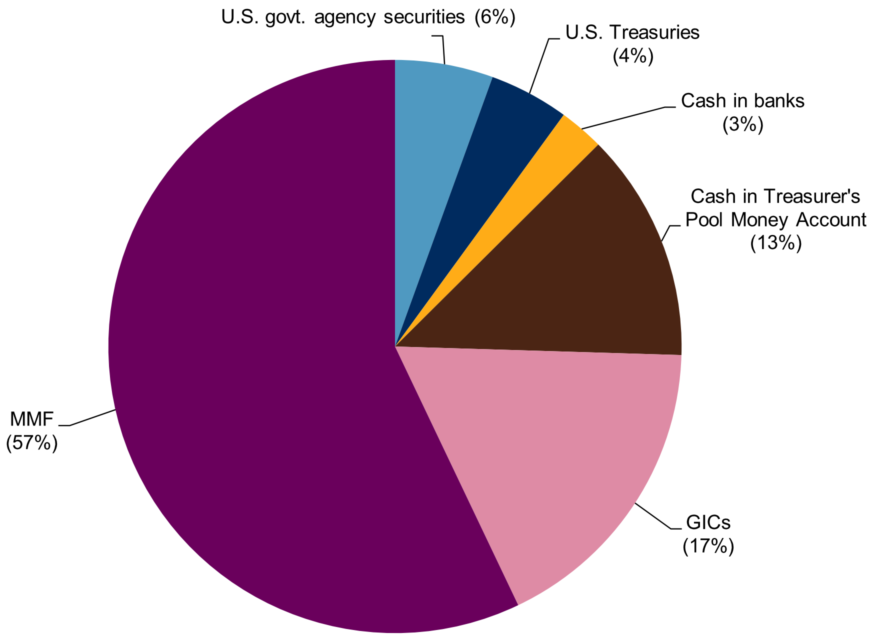


Investments

IFA's investments, in our view, are of high credit quality and provide sufficient liquidity. Management takes what we consider a conservative approach to the oversight and monitoring of the authority's investments. IFA's non-MBS investments and cash or cash equivalents total $204 million, primarily composed of short term cash or cash equivalents, including highly rated money market funds. Its longer term investment portfolio contains 96% government or agency securities. IFA's investments provided 2.87% of total revenues in 2017, a slight uptick from 2016.

Chart 3

Iowa Finance Authority -- Investment Portfolio*



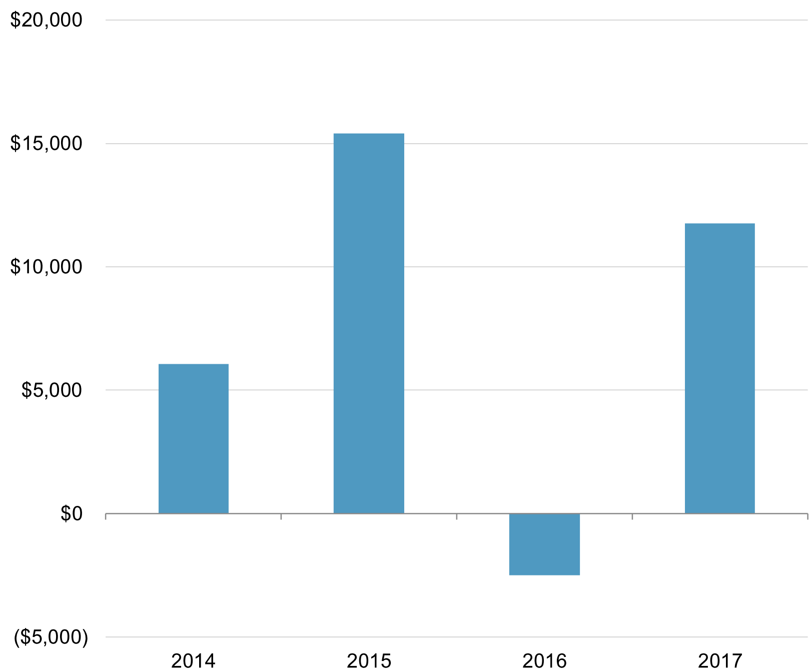
*Sourced from Page 34 of audit. CDs and municipal securities each constitute less than half of one percent.

Earnings Quality And Financial Strength

The authority's total revenues stood at $128.95 million, up 3.2% from 2016 on the heels of a 70% jump in 2016. Income from loans and MBS has been on a steady decline over the last six years, flattening out in 2017 with a nominal $2,000 decline from the prior year. Much of the authority's revenue within the last two years stems from a significant increase in grant income to $83.7 million and $85.1 million in 2016 and 2017, respectively. This is more than offset by an accompanying increase in grant-related expenses during the same time. The authority's net income was $11.8 million in 2017, a positive change after a one-year drop into negative territory, reflecting high grant expenses in 2016.

Chart 4

Iowa Finance Authority -- Net Income



Earnings

IFA's profitability measured by return on assets increased to 1.60% in 2017 with a five-year average of 1.12%. Net interest margin declined slightly to 1.61% in 2017 from 1.69% in 2016, yet still contributed to a general upward trend in earnings from 0.78% in fiscal 2011. As detailed in table 2, the five-year average of the authority's profitability ratios are in line with 'AA+' or higher rated HFAs despite reporting a negative net income during 2016. We view the volatility in IFA's profitability, largely reflecting IFA's reliance on grant income, as a rating weakness that we expect will continue to trouble its financial strategy. We will continue to monitor how this trend develops in the two-year outlook period.

Equity

Equity was 39.99% of assets in 2017, down for the second year in a row, from 41.92% in 2016 and 42.46% in 2015, reversing what had been a positive trend from 31 % in 2013. IFA's five-year average equity-to-asset ratio remains stronger than many other 'AA' rated HFAs. Furthermore, the authority's equity base is adequate to support its low-risk profile, in our view. Although we view positively IFA's capital adequacy and equity, we will continue to monitor the pattern to gauge whether it merits a rating change.

Debt

As of June 30, 2017, IFA's debt outstanding totaled $431.956 million, turning around what had been a steady decrease since 2010. Debt increased $61.6 million, or 16.6% from the preceding year l. The authority had $388 million of single-family bonds (90%) and $43 million of multifamily GO bonds (10%) outstanding.

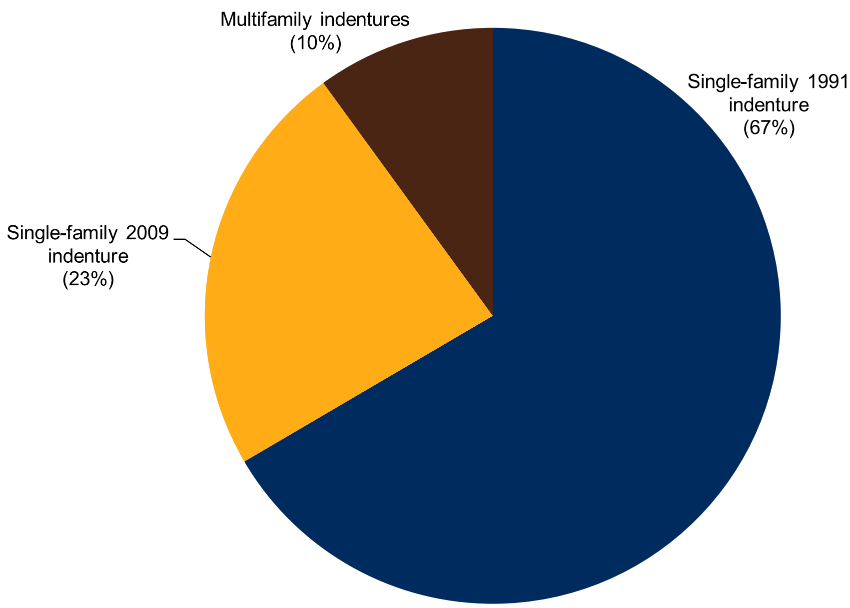
The authority has single-family bonds outstanding under two master indentures. The Single-Family Mortgage Bond Resolution was adopted in 1991 and is rated 'AAA', reflecting our opinion of the extremely high quality of IFA's pledged collateral consisting of Ginnie Mae, Fannie Mae, and Freddie Mac MBS; the strong credit quality of investments; and cash-flow sufficiency. The authority's 1991 indenture accounts for 74% of the authority's total single-family bonds outstanding and 67% of total housing authority debt. The remaining single-family bonds are issued under the Single-Family Mortgage Revenue Bond Resolution adopted in 2009 and are also backed by MBS.

The authority has issued multifamily GO bonds under two master indentures, which were adopted in 1978 and 2005.

IFA has continued to take actions to mitigate the effects of variable-rate counterparty exposure. It has hedged a prudent amount of its floating-rate exposure through interest rate swaps and caps entered into with The Bank of New York Mellon (AA-/Stable/A-1+), Royal Bank of Canada (AA-/Stable/A-1+), Goldman Sachs Bank USA (A/Stable/A-1), and Wells Fargo Bank N.A. (AA-/Negative/A-1+). As of June 30, 2017, the total derivative notional amount is $73.5 million.

Chart 5

Iowa Finance Authority -- Debt By Resolution
(As of June 30, 2017)



Management

IFA is governed by a nine-member board of directors appointed by the governor of Iowa. Board members are from the banking, business, and government sectors. The executive director, who led the authority since 2011 was terminated earlier this year. The governor appointed a senior member of the authority's staff as the acting interim director.

IFA has had a strong relationship with the state. A tangible sign of this strong relationship is IFA's consistent role in providing grant funding and associated responsibilities. The state has periodically asked IFA to handle nonhousing-related activities over the years, including serving as one of the state's primary bond-issuing authorities. In addition to its active single-family program, IFA manages numerous housing development and rehabilitation ventures meant to provide affordable housing and improve existing housing stock. IFA also administers several federal housing programs, thereby strengthening its legislative mandate.

The authority also administers, in partnership with the Iowa Department of Natural Resources, the state revolving fund (SRF), which issues tax-exempt bonds to finance wastewater and drinking water facilities. SRF bonds are rated 'AAA' based on the large size and diversity of SRF's loan portfolios, program coverage and reserves, structural features, and management team with a proven track record. Our analysis of the ICR on IFA excludes activities of SRF, as its funds are legally obligated to the program and therefore do not contribute to IFA's finances.

IFA's Title Guaranty Division (TGD) was established in 1985 to guarantee title to property in Iowa. We consider the TGD when evaluating the ICR on IFA, as surplus funds from TGD, in accordance with state code, are available to support IFA's affordable housing activities. We believe risk associated with the title guaranty to the ICR is minimal, as adequate reserves and reinsurance are in place to cover potential claims.

Economy

According to IHS Global Insight, the overall economic performance of Iowa continues to lag the national average. The state's economy is heavily based on agricultural and manufacturing activities. The share of Iowa's gross state product (GSP) represented by the agriculture sector has steadily declined from 8.8% in 2013 to a mere 4.0% in 2017 with the major agricultural products being corn, soybeans, and hogs. Since 2012, when corn and soybean prices touched record highs, output has increased faster than demand, resulting in lower prices, thereby suppressing farming income. Despite the pressure, Iowa still ranks in the top five for agricultural output across the U.S. for these products.

In addition to agriculture, Iowa has a relatively high concentration of manufacturing jobs—13.7% of nonfarm employment, compared with the country's 8.7% average. States with the greatest manufacturing employment as a percentage of total working-age population include Wisconsin, Indiana, and Iowa. Manufacturing reported muted gains year over year. Part of the problem for Iowa manufacturers is a weakened farm economy. Significant farm machinery manufacturing and the sector's performance are closely tied to agricultural successes and shortcomings.

Payroll growth increased by 1.0% in 2017, slightly behind the national average of 1.6% for the same period. This was mainly because of the negative pull of suppressed agricultural profit and its effect on related industries. IHS forecasts payroll growth will be 1.2% in 2018 and nonfarm industry will be the key component. Construction employment will provide a steady boost over that period, as the housing market continues to pick up steam, and professional and business services will provide healthy average growth of about 2.6% each year. Iowa returned to its pre-recession peak level of employment in the middle of 2013.

Iowa's population growth has averaged 4.5% and is forecasted to experience roughly 5% growth in 2018, which is below average. It is projected to remain stable and maintain the same pace of average annual growth of 0.4% through 2021. The unemployment rate decreased to 3.1% in 2017 from 4.2% in 2014 and is projected to remain fairly stable at 3.1% through 2021.

On the housing front, the state has maintained a slow, but steady, pace over the last few years. Average home prices and housing starts have already reached their pre-recession levels. It is expected that construction employment will provide a steady boost over this period as the housing market picks up steam. The average home price has increased to $168,816 by the end of 2017 from $158,321 in 2014 and is projected to reach $194,256 by the end of 2021, resulting in 3.6% annual average growth between 2018 and 2021. Housing starts also displayed a positive trend by reaching 13,221 units by the end of 2017, growth of 29% from 2014. In terms of composition, single-family units made up 73% and remaining 27% were multifamily units in 2017.

For the third quarter of 2017, the total foreclosure rate was 0.9%, compared to the national average of 1.2%. According to Mortgage Bankers Association, 0.7% of conventional loans (compared with 1.2% nationally) and 1.8% of FHA loans (compared with 1.8% nationally) entered foreclosure in the third quarter of 2017. With these rates, Iowa ranked 30th in the U.S. for total loans in foreclosure.

Table 1

Iowa Finance Authority -- Financial Ratios						
	Audited					Five-year average
FY ENDING:	2013	2014	2015	2016	2017	
ASSET QUALITY (%)						
NPAs/total loans (MBS) + REO	1.00%	0.45%	0.81%	2.07%	2.11%	1.29%
Net charge-offs/average NPAs (prior period)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
REO/total loans	1.00%	0.45%	0.81%	2.07%	2.11%	1.29%
Loan loss reserves/total loans + MBS	3.57%	5.67%	19.75%	22.54%	20.54%	14.41%
Loan loss reserves/NPAs	358.37%	1262.37%	2450.35%	2450.35%	2450.35%	1794.36%
Net charge-offs/average loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LIQUIDITY (%)						
Total loans and MBS/total assets	74.81%	71.64%	73.39%	69.13%	68.67%	71.53%
Short-term investments/total assets	19.46%	21.40%	22.14%	22.41%	25.56%	22.19%
Long-term investments/total assets	1.44%	2.10%	2.60%	2.27%	1.25%	1.93%
Total investments/total assets	20.90%	23.50%	24.74%	24.68%	26.82%	24.13%
Other assets/total assets	5.03%	5.18%	2.46%	7.62%	5.96%	5.25%
PROFITABILITY (%)						
Return on average assets	1.59%	0.71%	2.05%	-0.35%	1.60%	1.12%
Return on assets before loan loss						
provision, extraordinary item	1.88%	0.80%	1.58%	0.34%	1.56%	1.23%
Return on average equity	5.87%	2.14%	5.24%	-0.84%	3.91%	3.26%
Net interest margin	1.29%	1.96%	1.81%	1.69%	1.61%	1.67%
Net interest margin (loans) (1)	0.98%	2.03%	1.64%	1.57%	1.48%	1.54%
LEVERAGE / CAPITAL ADEQUACY (%)						
Total equity/total assets	31.06%	36.03%	42.46%	41.92%	39.99%	38.29%
Unrestricted equity/total assets	19.33%	22.18%	26.99%	28.64%	29.77%	25.38%
Total equity + reserves/(total loans +MBS)	37.95%	44.62%	38.11%	38.10%	37.71%	39.30%
Total equity/total debt	50.05%	64.73%	82.89%	79.58%	71.26%	69.70%
Unrestricted equity/total debt	31.15%	39.85%	52.68%	54.36%	53.04%	46.22%

NPA--Nonperforming asset.

Table 2

Iowa Finance Authority -- Financial Ratio Analysis				
	IFA	AA HFAs	AA+ HFAs	AA- HFAs
2012-2016 Average	Five-year average			
ASSET QUALITY (%)				
NPAs/total loans (MBS) + REO	1.29%	5.14%	3.18%	4.30%

Table 2

Iowa Finance Authority -- Financial Ratio Analysis (cont.)				
	IFA	**AA HFAs**	**AA+ HFAs**	**AA- HFAs**
Loan loss reserves/total loans + MBS	14.41%	8.61%	2.53%	2.70%
Loan loss reserves/NPAs	1794.36%	479.23%	67.48%	120.51%
LIQUIDITY (%)				
Total loans and MBS/total assets	71.53%	71.40%	67.70%	66.11%
PROFITABILITY (%)				
Return on average assets	1.12%	0.79%	0.82%	0.79%
Return on assets before loan loss				
provision, extraordinary item	1.23%	0.99%	0.90%	0.94%
Net interest margin	1.67%	1.14%	1.69%	1.18%
LEVERAGE / CAPITAL ADEQUACY (%)				
Total equity/total assets	38.29%	26.83%	31.86%	19.14%
Total equity + reserves/(total loans +MBS)	39.30%			

HFA--Housing finance agency. NPA--Nonperforming asset.

Table 3

Iowa Finance Authority -- Trend Analysis					
	2013	**2014**	**2015**	**2016**	**2017**
Total assets	896,350	802,587	703,029	702,957	769,612
% change	-16.84%	-10.46%	-12.40%	-0.01%	9.48%
Total loans	160,092	178,164	248,491	227,079	229,713
% change	3.20%	11.29%	39.47%	-8.62%	1.16%
Total MBS	534,367	429,449	369,378	368,400	407,294
% change	-17.07%	-19.63%	-13.99%	-0.26%	10.56%
Total equity	278,413	289,154	298,535	294,694	307,802
% change	8.61%	3.86%	3.24%	-1.29%	4.45%
Net income	15,693	6,071	15,399	(2,492)	11,769
% change	-33.18%	-61.31%	153.65%	-116.18%	-572.27%
Loan loss reserves	(23,939)	(32,607)	(101,910)	(109,533)	(108,534)
% change	5.53%	36.21%	212.54%	7.48%	-0.91%
Revenues	100,983	80,705	73,252	124,904	128,948
% change	-31.94%	-20.08%	-9.23%	70.51%	3.24%
Non-performing assets	6,680	2,583	4,159	10,061	11,142
% change	147.41%	-61.33%	61.01%	141.91%	10.74%
Unrestricted equity (cap adequacy)	173,249	178,017	189,733	201,316	229,128
% change	-4.79%	2.75%	6.58%	6.11%	13.81%
Noninterest Expenses	6,946	6,946	6,946	6,946	6,946
% change	0.00%	0.00%	0.00%	0.00%	0.00%
Debt	556,245	446,710	360,159	370,307	431,956
% change	-21.97%	-19.69%	-19.38%	2.82%	16.65%

Ratings Detail (As Of July 9, 2018)		
Iowa Fin Auth var rate multifam hsg		
Long Term Rating	AA/A-1/Positive	Affirmed
Iowa Fin Auth GO		
Long Term Rating	AA/A-1/Positive	Affirmed
Iowa Fin Auth GO		
Long Term Rating	AA/Positive	Affirmed

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