

**HFA: Illinois Housing Development Authority**  
**Entry Name: Expect the Unexpected: Building a Stronger Rating**  
**Management Innovation: Financial**

## **Overview**

Before the collapse of the bond insurance market in 2008, state housing finance agencies historically relied on general obligation credit and/or bond insurance credit to issue bonds to finance multifamily developments. The Illinois Housing Development Authority (IHDA) recognized as early as 2000 that the process had inefficiencies that may be potentially expensive to resolve. Beginning in 2003, IHDA began focusing on efforts to create and strengthen a bond resolution that could result in a higher rating than the general obligation rating without the reliance of any third party, including bond insurance.

## **Framework**

- In 2003, IHDA designated the Housing Bond Indenture (“HB”) as the multifamily master indenture. In essence, all future financing of multifamily developments will be financed through this Indenture.
- Housing Bond Indenture carries the IHDA’s general obligation (underlying) rating of A1/A+.
- In 2003, the Authority collapsed the Housing Development Bonds Indenture (“HDB”) into HB. The primary assets of HDB were Section 236 developments.
- In 2005 and 2006, IHDA collapsed the Multifamily Housing Bonds Indenture (“MFHB”) into HB. The primary assets of MFHB were Section 8 developments.
- In 2007, IHDA collapsed the Multifamily Program Bonds Indenture (“MFPB”) into HB. The primary assets of MFPB were Section 8 developments.
- As of 2010, the assets of HB include Section 236, Section 8, FHA Risk Share, FHA and unsubsidized (80/20) developments.

## **Results**

By collapsing multiple indentures into one, IHDA achieved the following efficiencies:

- Reduced transaction and operation costs
- Consolidated resources — specifically equity
- Decreased dependency on IHDA’s general obligation to cover shortfall

On March 28, 2011, Standard & Poor’s upgraded the rating on HB from A+ to AA solely relying on the assets pledged to the bonds (See attached).

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The rating upgrade allowed IHDA to achieve measurable improvements in agency operations:

- Issue bonds to finance multifamily developments without any dependency (3<sup>rd</sup> party credit).
- Issue bonds at a lower cost of funds post New Issue Bond Program (NIBP).
- Achieve positive outlook for an upgrade to Issuer Credit Rating (ICR) as there was less financial “hit” to general obligation.

## Illinois Housing Development Authority ICR Outlook Revised To Positive On Strong Financials

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SAN FRANCISCO (Standard & Poor's) March 28, 2011--Standard & Poor's Ratings Services revised the outlook to positive from stable on its issuer credit rating (ICR) on the Illinois Housing Development Authority (IHDA), as well as on the ratings on all debt supported by the IHDA's general pledge. We also affirmed the 'A+' ICR and the debt ratings. The outlook revision reflects our view of the authority's overall financial strength.

Standard & Poor's also raised its long-term rating to 'AA' from 'A+' on the IDHA Housing Bond Program, reflecting a very strong stand-alone credit profile.

"Despite market conditions that have resulted in year-over-year declines in profitability and increases in nonperforming assets, we believe the authority has maintained a strong equity position, especially in relationship to its 'A' rated peers," said Standard & Poor's credit analyst Lawrence Witte. "In our view, IHDA's continuing levels of strong capital adequacy position it for an upgrade in the medium to long term," Witte continued.

The 'A+' rating reflects our view of the IHDA's:

- Continued demonstration of financial strength despite adverse market conditions, as evidenced by strong leverage ratios;
- Steadily performing loan portfolios resulting from strong asset management policies; and
- Strong financial management practices that have limited the IHDA's exposure to the interest rate risk associated with variable-rate debt.

*Illinois Housing Development Authority ICR Outlook Revised To Positive On Strong Financials*

RELATED CRITERIA AND RESEARCH

- USPF Criteria: Housing Finance Agencies, June 14, 2007
- USPF Criteria: Affordable Multifamily Housing Pooled Financings, June 13, 2007
- USPF Criteria: Assumptions: Update to Cash Flow Analysis for Public Finance Housing Bonds, March 3, 2009

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.