

Innovative Public/Private Partnership Invests \$50 Million in Affordable Housing

The Iowa Finance Authority (IFA) fulfills its mission through partnerships amongst public and private organizations all throughout the state, including lenders, Realtors, developers, investors and housing organizations on a regular basis.

IFA and the Federal Home Loan Bank (FHLB) of Des Moines forged a unique partnership, committing \$50 million of private placement index bonds available for construction and permanent financing to qualified, affordable, multifamily properties throughout Iowa. This innovative financing partnership is believed to be the first of its kind involving a housing finance agency in the country.

Response to State Housing Need

In recent years, IFA has become a more active multifamily lender, predominately for projects with housing tax credit related projects for both construction and permanent loans. Because of the recent, significant increase in business, the agency's internal multifamily resources were extinguished.

Iowa developers communicated with IFA that there was a lack of affordable funding options to refinance, rehabilitate and construct affordable properties.

IFA and the FHLB of Des Moines had a positive existing relationship and began discussions of another possible multifamily funding source. To meet the need for an alternative source of variable rate funding, without the risks associated with a liquidity provider.

IFA takes great pride in looking for new ways to make and keep affordable housing projects attainable for property owners, as they are a vital partner in fulfilling our mission to provide affordable housing for Iowans.

Innovation at Work

The index bonds offered through this partnership provides IFA with a competitive, long-term funding source without the risks associated with variable rate demand obligations. Index bonds in other municipal sectors typically have maturities of three to five years; these bonds can be issued up to 30 years, however the FHLB which aligns well with the financing terms of many affordable multifamily projects. The variable rate borrowing from the FHLB provides flexible loan options for the project in that the developer has the choice of a fixed rate or variable interest rate. Moody's Investor Service has rated the program Aa3.

FHLB of Des Moines provides member financial institutions and state housing finance agencies with funding and liquidity to support housing finance and community development. "FHLB of Des Moines' partnership with the Iowa Finance Authority supports the creation of new properties or the enhancement of existing ones, all while keeping them affordable for Iowa families," said Mike Wilson, Chief Business Officer and Executive Vice President, FHLB of Des Moines. "The Bank is committed to finding innovative ways to make resources available to support families and communities and effectively maximize the number of affordable housing units across our district."

Replicable

Other housing finance agencies may replicate this initiative to meet their unique needs through effective use of partnerships.

Demonstrate measurable benefits to HFA targeted customers

The measurable benefits of this initiative are the amount of bonding capacity, \$11.5 million that has been used to-date to advance affordable housing in Iowa. The permanent financing was used for two housing tax credits in West Des Moines and Davenport, with a total of 352 units. This unique financing partnership will help to sustain affordable housing for hundreds of Iowans for many years to come.

Finance structure of two projects:

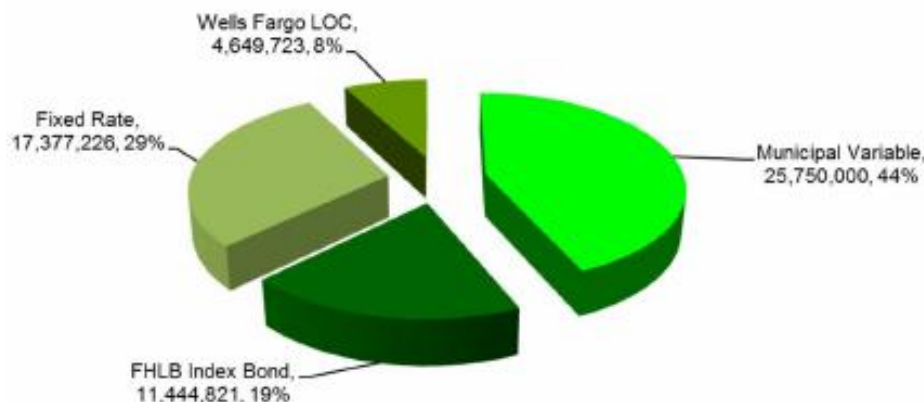
- 15 year index bond term (LIBOR)
- 30 year loan amortization
- Capped variable rate of interest
- Proceeds paid off existing short-term financing (LOC) balance

IFA is currently working with other developers on potential future loan closings for 2012 4% Low-Income Housing Tax Credit projects.

Have a proven track record of success in the marketplace

The partnership with the FHLB of Des Moines has proven to be highly successful in improving IFA's internal funding sources.

Improved match funding and diversification of IFA Multifamily portfolio:
Debt outstanding (12/31/11)



Provide benefits that outweigh costs

The FHLB financing can be issued up to 30 years and the bonds are repayable in whole or in part at any time without penalty to the agency or project. As mentioned earlier, the index bond product eliminates all risks associated with the VRDN product, such as rollover risk, basis risk and the credit risk associated with the remarketing agent and liquidity provider. It is more economical to offer privately-placed index bonds with FHLB than traditional bond financing. In part, this is due to the elimination of banker, legal and other associated fees.

Demonstrate effective use of resources

The proceeds of the initial \$11.5 million FHLB sub-series were used to pay off the short-term line of credit facility. The result substantially improved the match funding of the multifamily portfolio.

The partnership between IFA and the FHLB of Des Moines has answered the need for additional financing resources in the state of Iowa by creating a new one. This collaboration not only created a new financing source for Iowa developers, but it also supports a closer working relationship amongst two important Iowa housing finance organizations with similar missions.

Effectively employ partnerships

The additional \$50 million in bonding capacity that has led to financing affordable housing throughout Iowa would not have been possible without the partnership between the IFA and the FHLB of Des Moines.

The partnership with the FHLB of Des Moines is truly a public/private partnership that works and allows us to offer yet another option for affordable financing.

Achieve strategic objectives

The FHLB index bond product support IFA's strategic goal of effectively diversifying our multifamily funding sources. Historically, IFA had funded multifamily loans through internal equity, short-term lines of credit or the public sale of debt in the fixed rate or VRDN markets.

This partnership also fulfills the objective of providing another financing tool that the IFA can use for long-term affordable housing for Iowa developers, with considerably less risk.

Lastly, IFA has also aligned itself in a strategic relationship with the FHLB of Des Moines, to open up additional non-traditional financing opportunities in the future. IFA and the FHLB of Des Moines are currently in conversations about a similar partnership for the single-family program.