Fitch Ratings

Fitch Affirms Idaho Housing & Finance Assoc 2009 Indenture Class I & II Bonds; Outlook Stable

Fitch Ratings-New York-20 April 2017: Fitch Ratings has affirmed the following ratings for Idaho Housing and Finance Association's (IHFA) single-family mortgage bonds (2009 Indenture):

--$21.5 million class I bonds, series 2009C and 2010A at 'AAA';
--$4.9 million class II bonds, series 2009C and 2010A at 'AA'.

The Rating Outlook is Stable.

SECURITY

The single-family mortgage bonds were issued under a master indenture that pledges revenues, investment earnings, reserves, and other trust funds to secure the bonds. The assets and revenues of the trust estate secure the class I and II bonds on a senior basis to the class III bonds which are also backed by the general obligation (GO) pledge of the issuer's assets (rated 'A+'/Stable Outlook).

KEY RATING DRIVERS

SUFFICIENT ASSET PARITY LEVELS: Affirmation of the 'AAA' rating on the class I bonds and the 'AA' rating on the class II bonds reflects the program strong asset parity levels of 140.3% and 114.2%, respectively.

STRONG INDENTURE PROVISIONS: The supplemental indentures provide for strong asset parity requirements of 111.5% for the class I bonds and 102% for the class II bonds.

HIGHLY-INSURED LOAN PORTFOLIO: As of Dec. 31, 2016, the underlying loan portfolio was insured by the following providers: FHA (72.7%), VA

(4.7%), and RD (22.2%) while the remaining 0.4% is uninsured.

IMPROVED ASSET COMPOSITION: Following bond calls in January 2017, the program's asset composition has improved to 90% mortgage loans and 10% investments, which should eliminate the negative arbitrage between the assets and bonds and improve program profitability.

RATING SENSITIVITIES

INABILITY TO MAINTAIN ASSET PARITY LEVELS: Any failure to maintain the asset parity requirements on the class I and II bonds would put negative pressure on the ratings.

CREDIT PROFILE

The affirmation of the class I and II bonds reflects the credit quality of the underlying collateral, the credit enhancement afforded by the debt subordination structure, and current asset parity ratios. Additionally, the class I and II bonds have minimum indenture asset requirements of 111.5% and 102%, respectively, directing revenues to be used to call bonds of that class prior to paying debt service of the next junior class.

Following a cash infusion of funds by IHFA and subsequent calling of class I bonds in January 2017, asset parity ratios on the class I and II bonds remain sufficient to support their current rating levels. As of Jan. 4, 2017, asset parity ratios on the class I and II bonds were 140% and 114%, respectively. As of Dec. 31, 2016, the loan portfolio had a delinquency (60+ days) rate of 6.5%. Concerns over loan losses are mitigated by the insurance on the loan portfolio which is currently 72.7% FHA-insured, 22.2% RD-insured, and 4.7% VA-insured.

Credit concerns for the program have been its negative net position and weak profitability ratios. As of fiscal 2016, the program had a negative net position of $859,000 and a net interest spread of negative 48%. This weak performance was primarily attributed to the program's asset composition which was 35% cash and investments and 65% mortgage loans as of Dec. 31, 2016. As mortgages prepaid, proceeds were reinvested in highly-rated, low interest-yielding instruments which resulted in negative arbitrage within the program over the last three fiscal years. However, following bond calls in January 2017, the program's asset composition has improved, which should help improve program profitability moving forward. As of Jan. 4, 2017, the program's asset composition was 90% mortgage loans and 10% cash and investments.

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Applicable Criteria

Revenue-Supported Rating Criteria (pub. 16 Jun 2014) (https://www.fitchratings.com/site/re/750012)

State Housing Finance Agencies: Single-Family Mortgage Program Rating

Criteria (pub. 27 Jul 2016) (https://www.fitchratings.com/site/re/885137)

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