NEW YORK--(BUSINESS WIRE)--Fitch Ratings has affirmed the following long-term rating on Idaho Housing and Finance Association's (IHFA, the Association) single-family mortgage bonds (2003 Indenture) in anticipation of a mode change as follows:

--$ 67.6 million Class I variable-rate bonds (variable-rate obligations; VRO), Series 2009 A at 'AAA';

Additionally, Fitch affirms the following ratings on the 2003 Indenture:

--$101 million Class I variable-rate bonds (variable-rate demand bonds; VRDB) at 'AAA';

--$3.4 million Class I fixed-rate bonds at 'AAA';

--$8.9 million Class II fixed-rate bonds at 'AA';

--$35.3 million Class III fixed-rate bonds at 'A+' (GO).

Fitch also affirms approximately $98 million in Class III bonds backed by IHFA's general obligation pledge (see full list below).

The Rating Outlook for the bonds and the general obligation (GO) pledge of the IHFA 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 Class I and II bonds have asset parity maintenance requirements directing revenues to be used to call bonds of those classes respectively prior to paying debt service of the next junior class. The Class III bonds are secured by the assets and revenues of the indenture and are general obligations of the IHFA.

Upon conversion of the 2009 A VRDB bonds to VRO mode from weekly mode the credit enhancement and liquidity support under TCLP will be removed, the 2009 A bonds will be referred to as VRO bonds. The bonds will remain a Class I obligation under the indenture. However, should the bonds be unsuccessfully remarketed for three years as detailed in the mode supplement the purchase price amount of the VRO 2009 A bonds will become general obligations of the IHFA.

The current enhanced rating on the bonds is 'AAA/F1+.' This rating is being updated to reflect the present credit enhancement and liquidity support from Federal Home Loan Mortgage Corporation (Freddie Mac) and Fannie Mae (both rated 'AAA/F1+' with a Stable Outlook by Fitch) under the Temporary Credit and Liquidity Program (TCLP). Following the mode change to VRO mode, credit enhanced long and short term rating 'AAA/F1+' will be withdrawn and the long term rating will revert to the underlying rating assigned to the bonds.

KEY RATING DRIVERS

2003 Indenture:

SUFFICIENT RESOURCES: The affirmation on the 'AAA' on the 2009 A bonds in anticipation of the VRO mode change reflects its expected maintenance as a Class I obligation, the liquid resources in the 2003 Indenture, the expected market access of the issuer to refund the bonds if necessary, the duration of the remarketing window, and IHFA's current available liquid resources.

HIGH OVERCOLLATERALIZATION LEVELS: As of June 30, 2013, the Class I and II bonds had overcollateralization levels of 124% and 118%, respectively.

FEDERALLY INSURED PORTFOLIO: The program's loan portfolio is 76% insured by FHA, VA, or RD, mitigating concerns over loan performance.

INDENTURE PROVISIONS: The indenture has a debt subordination structure which provides credit enhancement to the Class I and II bonds. Additionally, the bonds have minimum indenture asset parity requirements.

General Obligation Pledge:

STRONG MANAGEMENT OVERSIGHT: IHFA has a strong management team that has demonstrated financial flexibility over the years and has effectively addressed bond and housing market challenges.

FINANCIAL POSITION MAINTAINED: Despite weakened profitability from their housing programs, IHFA has maintained its relatively moderate financial position amongst SHFAs. IHFA management has contributed to the maintenance of their financial position through the continuation of originating and selling loans monthly, which contributed $28.8 million in revenue in fiscal year (FY) 2013.

VULNERABLE LOAN PORTFOLIO: IHFA's largest indenture (2006 Indenture) is mainly secured by a loan portfolio which is only 38% federally insured and is experiencing higher than average delinquency rates. The composition of the loan portfolio as it concerns mortgage insurance leaves the portfolio susceptible to potential loan losses which may create a need to tap GO funds.

WEAK DEBT STRUCTURE: IHFA has been unable to economically redeem certain variable rate bonds due to the termination fees of existing hedging contracts associated with the debt that would be incurred upon redemption. For some IHFA housing indentures, particularly the 2006 Indenture, this has put a strain on profitability ratios and has the potential to put negative pressure on IHFA's GO rating.

RATING SENSITIVITIES

2003 Indenture:

PROLONGED FAILED REMARKETING: There could be negative pressure on the VRO's long term rating if there is a failed remarketing of the 2009 A VRO bonds and IHFA is unable to refund the debt for a prolonged duration. However, Fitch believes that the possibility of this is remote given the duration of the remarketing window and IHFA's long term credit rating.

ASSET PARITY SHORTFALL: There will be negative pressure on the bonds' rating if the asset parity levels on the Class I and II bonds fall below minimum indenture requirements; however, this is remote given bond legal covenants and IHFA management oversight.

General Obligation Pledge:

HIGHER LOAN LOSSES/LIQUIDITY COSTS: Potential loan losses from a separate 2006 Indenture and potential overall liquidity costs for outstanding VRDBs could put negative pressure upon IHFA's GO rating.

HIGH LOAN PREPAYMENTS/LOW INTEREST RATES: Given the current debt structure and low interest rate environment, if IHFA mortgage loans prepay at accelerated prepayment speeds, certain single-family housing indentures will be subject to negative arbitrage and high swap termination fees which could increase or create indenture operating losses. If this were to occur, these losses would fall upon IHFA's GO and may strain the GO rating.

AGENCY NET LOSSES: IHFA has increased their overall net financial position in FY 2013, despite weak profitability ratios in their housing programs. However, should housing program losses begin to impact IHFA's overall financial position and/or GO assets; a negative rating action may be taken on the IHFA GO rating.

VRO/VRDB FAILED REMARKETING: Any failed remarketing of either the VROs or the outstanding VRDBs would result in accelerated amortization of the bonds which are secured by IHFA's general obligation pledge; therefore, a continuous failed remarketing of either would put negative pressure on their GO rating.

INCREASE IN VRO BONDS: Any additional VRO bonds would increase IHFA GO's exposure and could put negative pressure on the IHFA's GO rating as there is no facility providing liquidity for the VROs after any three year period when they cannot be successfully remarketed and the bullet payment must be made.

PENDING LITIGATION: The Lehman Brothers Bankruptcy Estate has made a claim alleging that they should have been paid a higher termination amount as a result of IHFA's termination of its interest rate swap agreements. While management represents that any settlement will not have a material effect on their financial position, there could be negative pressure on the GO rating.

CREDIT PROFILE

2003 Indenture:

CURRENT INDENTURE STRUCTURE

The 2003 Indenture has approximately $218.4 million in outstanding debt which is separated into three classes: Class I bonds ($174.2 million), Class II bonds ($8.9 million), and Class III bonds ($35.3 million). Of the $174.2 million in outstanding Class I bonds, $170.8 million, or 98% of Class I bonds, are VRDBs with the remaining 3% fixed rated debt. The various VRDBs under the 2003 Indenture are supported by one of the following liquidity facilities: Barclays Bank (rated A/F1, Stable Outlook by Fitch) or a Temporary Credit and Liquidity Support Facility (TCLF) in the form of Federal Home Loan Mortgage Corporation (Freddie Mac) or Fannie Mae (both rated 'AAA/F1+', Stable Outlook by Fitch) as part of the Temporary Credit and Liquidity Program (TCLP). The short-term ratings on the various outstanding VRDBs, either 'F1' or 'F1+', reflect the liquidity support in the form of a standby purchase agreement from their respective liquidity facility providers.

The TCLP was part of an initiative in 2009 between state housing finance agencies (SHFAs) and the Department of Treasury to provide financial support to SHFAs. The TCLP was previously extended, however it is currently set to expire in 2015. In response to TCLP's pending expiration, IHFA management is converting a portion of their outstanding VRDBs under the 2003 Indenture to VROs, thereby eliminating the need for a liquidity facility backing those bonds.

MODE CHANGE TO VRO BONDS

The Class I Series 2009 A bonds, which represents $69.8 million out of the $170.8 million outstanding VRDBs under the 2003 Indenture, are expected to undergo a mode change in the upcoming weeks to VRO mode from weekly mode. Under this VRO mode, the bonds' interest rate will be calculated daily and the bonds will no longer require a liquidity facility thereby eliminating liquidity fees on those bonds. Given the alteration in the demand feature, whereby bond holders retain the right to tender their VROs pending whether the remarketing agent is successfully able to remarket the bonds, the need for a liquidity facility on $69.8 million Class I bonds is eliminated.

If the VROs are not successfully remarketed the original bond holder will remain the owner of the bond, the bonds will receive a stepped up interest rate. An accelerated debt service payment schedule will be triggered. Under this accelerated schedule, bond holders receive interest only for three years at the stepped up interest rate. If the bonds continue to be unsuccessfully remarketed for three years, the entire principal becomes due in one bullet payment to the bond holders. All of the 2009 A bonds will remain Class I obligations following the mode change to VRO mode. However, should the bonds continue to be unsuccessfully remarketed for three years, the bullet payment becomes a general obligation of the IHFA.

STRONG INDENTURE PROVISIONS

The affirmation of the long-term ratings on the Class I and II bonds reflects the current high levels of overcollateralization, the credit enhancement provided by the debt subordination structure, and the credit quality of the underlying collateral. Additionally, the Class I and II bonds have minimum indenture asset requirements, directing revenues to be used to call bonds of that class prior to paying debt service of the next junior class.

QUALITY ASSETS

As of June 30, 2013, the asset parity ratios on the 2003 Indenture were as follows: Class I bonds had a 124% asset parity ratio, Class II bonds had a 118% asset parity ratio, and Class III bonds had a 99% asset parity ratio. Additionally, the loan portfolio is 76% federally insured by FHA, VA, or RD which mitigates concerns over loan performance and ultimately loan losses. Delinquency rates for the 2003 Indenture are currently and have historically been below state and national averages.

General Obligation Pledge:

SUFFICIENT GENERAL OBLIGATION RESOURCES

The affirmation of the Class III bonds solely reflects the credit quality of IHFA's GO debt pledge. As of June 2013, the IHFA had approximately $145 million in GO bonds, reflecting a 0.85x debt-to-equity ratio when including the bond rating compliance and affordable housing investment trust funds balance totaling $171 million. This ratio is a decrease from the 1.16x coverage in June 2012, illustrating the reduction of GO debt obligations over FY 2013. The bond rating compliance and affordable housing investment trust funds are the IHFA's primary source of unpledged assets, providing liquidity and credit support to its bond programs. The use of affordable housing investment trust funds are subject to board approval.

DEBT STRUCTURE CONCERNS

GO credit concerns stem from IHFA's debt structure and their exposure to variable rate debt. Concerns revolve around IHFA's ability to redeem certain variable rate debt obligations due to the high termination fees of existing hedging contracts tied to the debt. As mortgages prepay, subsequent moneys are reinvested in highly rated, low interest yielding instruments resulting in negative arbitrage. There will be negative pressure on the Class III bonds and the GO rating should mortgages prepay at an accelerated rate and subsequently increase the negative arbitrage within the various housing programs.

Additionally, in the event that IHFA's outstanding VRDBs or VROs cannot be successfully remarketed, the IHFA's general obligation funds are exposed to potential draws from accelerated debt service payments. While a failed remarketing scenario is a concern, Fitch views the possible scenario as manageable over the short term. However, a failed remarketing scenario may put negative pressure on the IHFA's general obligation rating and a prolonged inability to remarket or refund the bonds would likely result in a downgrade of IHFA's GO rating and the long term rating on the 2009 A bonds.

While Fitch assumes IHFA will maintain access to the capital markets for potential refunding debt, should the VRO bonds be unsuccessfully remarketed for three years and IHFA be unable to refund the bonds, the purchase price of the bonds would become a general obligation of the IHFA which increases its GO exposure. Therefore, any additional VRO bonds would further increase the IHFA's GO exposure and could put negative pressure on their long term GO rating.

SOLID FINANCIAL POSITION

IHFA's management oversight and overall financial position have mitigated concerns over the GO rating in the short term. IHFA was able to maintain its moderate financial position amongst SHFAs even through the weak housing market. IHFA continues to post profitability ratios below market averages illustrating the challenges of a prolonged low interest rate environment. While profitability ratios within their housing programs remain below average, IHFA increased their overall net financial position in FY 2013 primarily from generating income by originating and selling mortgages to GNMA and FNMA on a monthly basis. IHFA's ability to increase their net asset position is attributed to their managerial staff which is viewed as a credit positive to the individual bond program and their general obligation rating.

Additionally, Fitch affirms the following ratings:

--$40,000 IHFA Class III single-family mortgage bonds, series 2000A at 'A+';

--$90,000 IHFA Class III single-family mortgage bonds, series 2000B at 'A+';

--$90,000 IHFA Class III single-family mortgage bonds, series 2000C at 'A+';

--$110,000 IHFA Class III single-family mortgage bonds, series 2000D at 'A+';

--$155,000 IHFA Class III single-family mortgage bonds, series 2000E at 'A+';

--$1.150 million IHFA Class III single-family mortgage bonds, series 2003A at 'A+';

--$1.06 million IHFA Class III single-family mortgage bonds, series 2003B at 'A+';

--$865,000 IHFA Class III single-family mortgage bonds, series 2003C at 'A+';

--$1.76 million IHFA Class III single-family mortgage bonds, series 2003E at 'A+';

--$1.505 million IHFA Class III single-family mortgage bonds, series 2004A at 'A+';

--$760,000 IHFA Class III single-family mortgage bonds, series 2004B at 'A+';

--$1.925 million IHFA Class III single-family mortgage bonds, series 2004C at 'A+';

--$2.13 million IHFA Class III single-family mortgage bonds, series 2004D at 'A+';

--$1.68 million IHFA Class III single-family mortgage bonds, series 2005A at 'A+';

--$1.53 million IHFA Class III single-family mortgage bonds, series 2005B at 'A+';

--$2.775 million IHFA Class III single-family mortgage bonds, series 2005C at 'A+';

--$1.835 million IHFA Class III single-family mortgage bonds, series 2005D at 'A+';

--$2.015 million IHFA Class III single-family mortgage bonds, series 2005E at 'A+';

--$2.33 million IHFA Class III single-family mortgage bonds, series 2005F at 'A+';

--$3.21 million IHFA Class III single-family mortgage bonds, series 2006A at 'A+';

--$2.16 million IHFA Class III single-family mortgage bonds, series 2006B at 'A+';

--$2.075 million IHFA Class III single-family mortgage bonds, series 2006C at 'A+';

--$1.16 million IHFA Class III single-family mortgage bonds, series 2006D at 'A+';

--$3.4 million IHFA Class III single-family mortgage bonds, series 2009A at 'A+';

--$3.56 million IHFA Class III single-family mortgage bonds, series 2006E at 'A+';

--$3.925 million IHFA Class III single-family mortgage bonds, series 2006F at 'A+';

--$2.485 million IHFA Class III single-family mortgage bonds, series 2006G at 'A+';

--$490,000 IHFA Class III single-family mortgage bonds, series 2007A at 'A+';

--$1.47 million IHFA Class III single-family mortgage bonds, series 2007B at 'A+';

--$3.76 million IHFA Class III single-family mortgage bonds, series 2007C at 'A+';

--$2.585 million IHFA Class III single-family mortgage bonds, series 2007D at 'A+';

--$3.22 million IHFA Class III single-family mortgage bonds, series 2007E at 'A+';

--$4.885 million IHFA Class III single-family mortgage bonds, series 2007F at 'A+';

--$3.017 million IHFA Class III single-family mortgage bonds, series 2007G at 'A+';

--$4.99 million IHFA Class III single-family mortgage bonds, series 2007H at 'A+';

--$3.585 million IHFA Class III single-family mortgage bonds, series 2007I at 'A+';

--$3.805 million IHFA Class III single-family mortgage bonds, series 2007J at 'A+';

--$2.535 million IHFA Class III single-family mortgage bonds, series 2007K at 'A+';

--$6.43 million IHFA Class III single-family mortgage bonds, series 2008A at 'A+';

--$6.635 million IHFA Class III single-family mortgage bonds, series 2008B at 'A+';

--$6.1 million IHFA Class III single-family mortgage bonds, series 2008C at 'A+';

--$3.455 million IHFA Class III single-family mortgage bonds, series 2008D at 'A+';

--$8.4 million IHFA Class III single-family mortgage bonds, series 2009B at 'A+';

--$2.090 million IHFA Class III single-family mortgage bonds, series 2009C at 'A+';

--$2.255 million IHFA Class III single-family mortgage bonds, series 2010A at 'A+';

--IHFA Class I bank bonds, series 2004 D at 'A+';

--IHFA Class I bank bonds, series 2008 C at 'A+';

--IHFA Class I bank bonds, series 2008 D at 'A+';

--IHFA Class I bank bonds, series 2009 A at 'A+';

--IHFA Class I bank bonds, series 2009 B at 'A+'.

Additional information is available at ' www.fitchratings.com '.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', (June 03, 2013);

--'State Housing Finance Agencies: Single-Family Mortgage Program Rating Criteria', (July 25, 2013);

--'State Housing Finance Agencies General Obligation Rating Criteria', (Feb. 27, 2014);

--'Rating U.S. Public Finance Short-Term Debt, (Dec. 09, 2013).

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=709499

State Housing Finance Agencies General Obligation Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=736598

State Housing Finance Agencies: Single-Family Mortgage Program Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=712476

Rating U.S. Public Finance Short-Term Debt

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=724680

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