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Summary:

Iowa Finance Authority; State Revolving Funds/Pools

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Credit Profile		
US\$139.9 mil state revolving fund rev bonds ser 2008 dtd 12/18/2008 due 08/01/2028		
<i>Long Term Rating</i>	AAA/Stable	New
Iowa Fin Auth SRF bonds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

The 'AAA' standard long-term rating on Iowa Finance Authority's series 2008 state revolving fund (SRF) revenue bonds is based on the following credit characteristics:

- A large and diverse loan portfolio;
- Sufficient reserve levels to meet Standard & Poor's Ratings Services' SRF criteria for 'AAA' rated programs, which include cross-collateralization between clean water and drinking water portfolios; and
- A very competent management team with a proven track record.

Loan revenues and specified reserve funds within the trust estate secure the payment of debt service on the bonds. The portion of the series 2008 bonds issued to fund the 20% state match for federal capitalization grants (approximately \$4.9 million) is secured with loan interest payments and interest earnings on various funds, while the remaining leveraged portion of the bonds (approximately \$135.0 million) is secured with loan principal payments and excess revenues after the state match portion of bond debt service is paid. In addition, a debt service reserve is expected to be funded at 10% of total par.

The SRF program has \$244 million of loans currently outstanding for clean and drinking water projects to a diverse group of 315 borrowers. Of this group of borrowers, 75 loans are secured by borrowers' GO pledges while the remainder are secured by revenues only. Participants with revenue obligations are required to maintain 1.1x debt service coverage. Loans have a maximum 20-year term with an interest rate currently set at 3% annually. Notable program participants include:

- Sioux City (10.0% of total loans),
- Fort Dodge (7.5%),
- Cedar Rapids (6.2%),
- Des Moines Metropolitan Wastewater Reclamation Authority (2.6%), and
- Des Moines (2.5%).

To date, there have been no defaults under either the clean water or drinking water program.

Projected cash flows for both the clean water and drinking water portfolios are sufficient to withstand a level of defaults consistent with an 'AAA' rating. Annual coverage of debt service by pledged revenue is at least 2.2x on the

state match portion of all SRF bonds and ranges from 1.3x-2.0x on the leveraged portion of all SRF bonds.

In addition to annual coverage of debt service, the program's reserve levels also add credit support. While a debt service reserve is set up for each specific series of bonds issued under the SRF program, cross-collateralization of the clean and drinking water portfolios occurs within the deficiency fund, where all excess program revenues flow to and are then used to fund various loans (after replacing draws from any reserve fund). The balance of all SRF bond reserve funds currently stands at \$76 million, and funds are released to the deficiency fund in order to maintain reserve levels in accordance to each series indenture.

Outlook

The stable outlook reflects Standard & Poor's expectation that the diversity of pledged loans will continue and that the program structure will continue to provide sound protection against potential defaults on loan repayment.

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