S&P Global Ratings

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Iowa Finance Authority; General Obligation

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Credit Profile		
Iowa Fin Auth ICR		
Long Term Rating	AA+/Stable	Current

Credit Highlights

- S&P Global Ratings' issuer credit rating (ICR) on the Iowa Finance Authority (IFA) is 'AA+'.
- The outlook is stable.

Security

An ICR reflects the obligor's general creditworthiness, focusing on its capacity and willingness to meet financial commitments when they come due. It does not apply to any specific financial obligation because it does not consider the obligation's nature and provision, standing in bankruptcy or liquidation, statutory preferences, or legality and enforceability.

Credit overview

The ICR reflects our opinion of the authority's:

- Increasing equity position, with its net position increasing 7% from fiscal 2023, reaching approximately $424.7 million in fiscal 2023, indicating sufficient resources to sustain operations through economic downturns and uncertainties;
- Strong asset quality, with a high-quality and low-risk asset base consisting primarily of U.S. government mortgage-backed securities (MBS), coupled with low rates of whole loan delinquencies;
- Very strong profitability metrics, as demonstrated by a five-year average return on average assets (ROA) of 1.63% in fiscal 2023; and
- A track record of strong senior management, that strategically plans and implements growth through well-embedded, formalized practices and policies amid top leadership changes.

Partially offsetting these strengths, in our view, is the authority's contracting net equity-to-total assets ratio--a primary metric used in our rating methodology--relative to that of similarly rated peers. Despite continuing a five-year trend of growing on an absolute basis in fiscal 2023, total equity and net equity alike decreased relative to total assets year-over-year, due to a proportionately higher rate of growth in liabilities corresponding with the issuance of bonded debt. Bond issuance has increased due to the authority's shift away from the to-be-announced (TBA) market for best executions, which has caused one-time premiums to fall while growing IFA's assets and liabilities. While the authority's profitability metrics previously demonstrated substantial volatility due to structural imbalance of grant income and expenses, net income has normalized and substantially strengthened since 2018 with fiscal 2023 ROA of 1.6% and a five-year average ROA was 1.63% in fiscal 2023, well above the 'AA' rating category benchmark of 0.5%.

IFA has demonstrated robust financial strength, an ability to implement strategic objectives, and stable-albeit-steadily declining net equity to assets levels since 2016. The authority continued its trend in asset-based growth in 2023 due to shifting more of its single-family loan originations, approximately 96%, from the TBA market to bond financing. In fiscal 2023, IFA came to market with four new issuances, totaling more than $385.5 million to purchase MBS and provide down payment assistance (DPA) in pursuit of its mission. This led to a 21%, or $350 million, increase in low-risk, high-quality program assets, consisting of securitized MBS with enhancement from Fannie Mae, Freddie Mac, or Ginnie Mae.

Environmental, social, and governance

We view environmental, social, and governance (ESG) risks as neutral in our credit analysis.

Outlook

The stable outlook reflects our view of IFA's still-strong equity balances, excellent governance, and strong balance sheet consisting of very low-risk assets. We also note that IFA has historically demonstrated an ability to navigate mortgage-industry turmoil while maintaining strong asset quality and leverage ratios. Accordingly, we believe that the authority's equity, capital adequacy, and liquidity ratios, position it well to maintain credit quality even in the event of a contracting business cycle.

Downside scenario

If continued bond-financed growth results in material and sustained deterioration of capital adequacy ratios below those of similarly rated peers, or if previous volatility in the authority's net income resume and materially weaken profitability and leverage ratios, or we could take a negative rating action.

Upside scenario

Should the authority's financial strength, as measured by net equity to assets, be in line with the 'AAA' category benchmarks and peers, we could take a positive rating action.

Credit Opinion

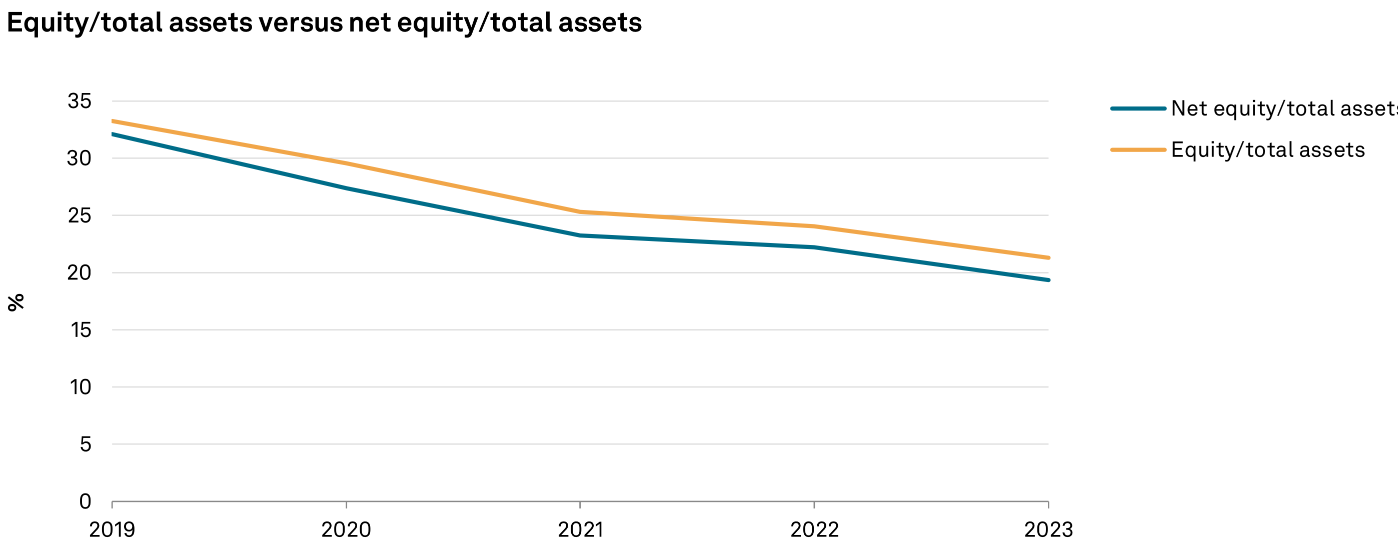
Financial Strength

Capital adequacy

We consider IFA to be well capitalized, with still-strong capital adequacy ratios, despite recent trends. The highest emphasis in our analysis is placed on net equity and the related ratios, which are therefore primary drivers in our 'AA+' ICR. As defined in our criteria, equity refers to IFA's net position, excluding changes in the fair value of investments. Similarly, the term "net equity" refers to the authority's net position after we adjusted for projected loan losses, loan loss reserves, and other program-specific factors--also excluding changes in fair value. In this regard, net equity indicates the resources available to sustain operations during difficult circumstances, authority programs that further the mission of expanding housing affordability or pursue other strategic priorities.

S&P Global Ratings-calculated net equity was strong at $386 million as of June 30, 2023, up approximately 5.7% from fiscal 2022 levels. Relative to total assets, however, net equity contracted modestly to 19.4% in fiscal 2023 from 22.2% in 2022, due largely to proportionately higher rates of growth in the asset base as the authority pursued the expansion of its single-family program assets through bond financing. While we expect this six-year trend of robust asset growth and thinning capital adequacy ratios could continue in the near term, we believe the authority will not grow its asset base at such a rate that ratios weaken below those of 'AA+' category peers or our criteria benchmarks. Chart 1 shows IFA's equity to total assets and net equity to total assets over the past five fiscal periods.

Chart 1



Source: S&P Global Ratings.

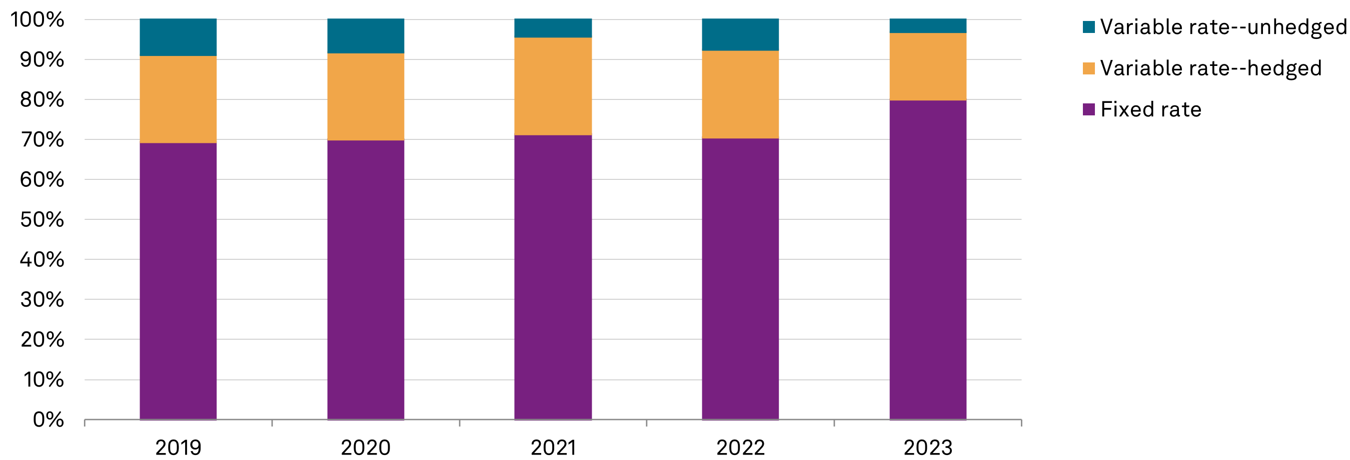
The authority has single-family bonds outstanding under two master indentures. The single-family mortgage bond resolution was adopted in 1991 and is rated 'AAA', reflecting our opinion of the extremely high quality of IFA's pledged collateral--Ginnie Mae, Fannie Mae, and Freddie Mac MBS--the strong credit quality of investments, and cash-flow sufficiency. The 1991 indenture accounted for nearly 98% of the authority's total single-family bonds outstanding at the close of fiscal 2023, and 96% of total housing authority debt. The authority's remaining single-family bonds were issued under its single-family mortgage revenue bond resolution, adopted in 2009, and are also backed by MBS. IFA has multifamily general obligation bonds outstanding under one master indenture, adopted in 2005. Chart 2 shows the distribution among the different programs over the past five years.

As of June 30, 2023, the authority reported approximately $1.3 billion in net debt outstanding--including bonded debt under its single- and multi-family bond programs--representing a year-over-year increase of 34% and extending a eight-year trend of rising debt levels as IFA uses bond financing to pursue its mission. However, because the authority's equity and net equity also increased during this time, capital adequacy ratios decreased by a lesser degree, with an equity-to-debt ratio of 31.5% and a net equity-to-debt ratio of 28.6%.

IFA continues to actively manage its variable-rate and counterparty risk exposure. At the end of fiscal 2023, approximately $315 million, equal to 20% of the authority's total debt outstanding, was issued at variable interest rates, with liquidity on demand bonds provided by Federal Home Loan Bank Des Moines (AA+/Stable/A-1+), US Bank N.A. (A+/Stable/A-1), TD Bank N.A. (AA-/Stable/A-1+), and Royal Bank of Canada (AA-/Stable/A-1+). At the end of fiscal 2023, 84.3% of the authority's floating-rate exposure was hedged through interest rate swaps and caps with counterparties The Bank of New York Mellon (AA-/Stable/A-1+), Royal Bank of Canada, Goldman Sachs Bank USA (A+/Stable/A-1), and Wells Fargo Bank N.A. (A+/Stable/A-1). As of June 30, 2023, the total notional amount of the authority's hedging derivatives was $265.6 million.

Chart 2

Debt composition



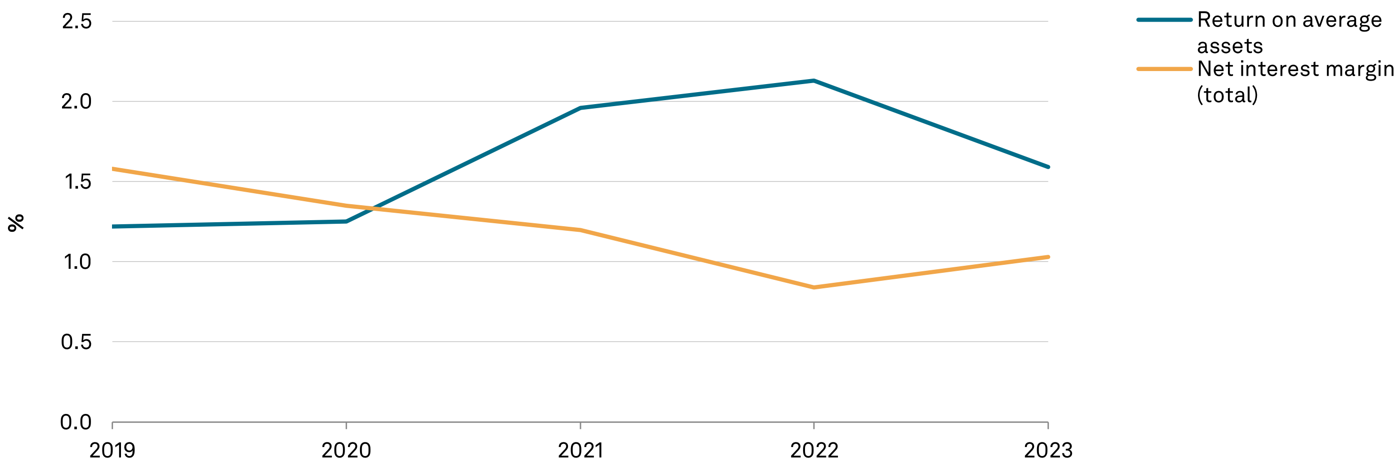
Source: S&P Global Ratings.

Profitability

We regard IFA's profitability as in line with that of similarly rated peers. In order to assess an entity's operating efficiency and potential future financial performance, we first examine profitability ratios--primarily ROA. We calculated the authority's ROA as 1.6% in fiscal 2023, down from an eight-year high of 2.13% in fiscal 2022 due expense growth outpacing revenue growth. In fiscal 2023, total revenue--adjusting for the fair value of investments and MBS--grew 16% to $71 million from $61 million in fiscal 2023 due to higher income. Expenses also grew 20% from fiscal 2022 to fiscal 2023 because of higher interest expense. Consequently, net income fell 12% from the previous year to $28.9 million in fiscal 2023, bringing the trailing five-year average to $22.3 million.

Chart 3

Profitability metrics



Source: S&P Global Ratings.

Lastly, we include net interest margin (NIM) in our assessment of an HFA's profitability, which indicates an entity's ability to issue debt at a low enough interest rate to support affordable loans at a higher rate or earnings spread. NIM increased to 1.03% in fiscal 2023 from 0.84% in fiscal 2022, due to higher interest income from investments, with, the trailing five-year average NIM remaining strong at 1.20%. The authority reported a $32.9 million in interest expense in fiscal 2023, representing a 74% year-over-year increase from fiscal 2022. Aggregate interest income from loans, MBS and investments increased 63% to $50.8 million in fiscal 2023 from $31.2 million in fiscal 2022.

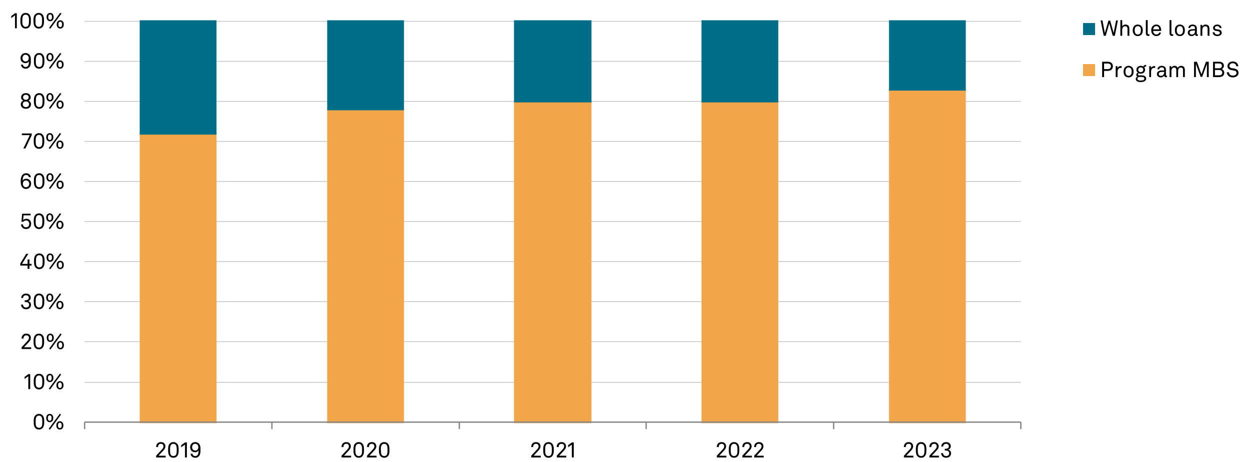
Asset Quality

We view IFA's asset quality to be very strong and high performing. Because HFAs cannot levy taxes or raise user fees, the assessment of asset quality, in tandem with earnings quality or profitability, is of paramount importance in determining the ICR.

IFA's total assets grew by 21% year-over-year in fiscal year 2023 reaching approximately $2 billion and continuing a six-year trend of consecutive increases after previously shrinking between 2011 and 2016. Total cash, cash equivalents, and short-term investments grew by 24% year over year in 2023 or $119 million, adjusted for fair value. Total program MBS increased 20% in fiscal 2023, amid the robust expansion of the authority's single-family program. The financial information used for these calculations excludes the state revolving fund that IFA administers, as well as any conduit bond issues, which have no recourse to the authority.

Chart 4

Program MBS versus whole loans

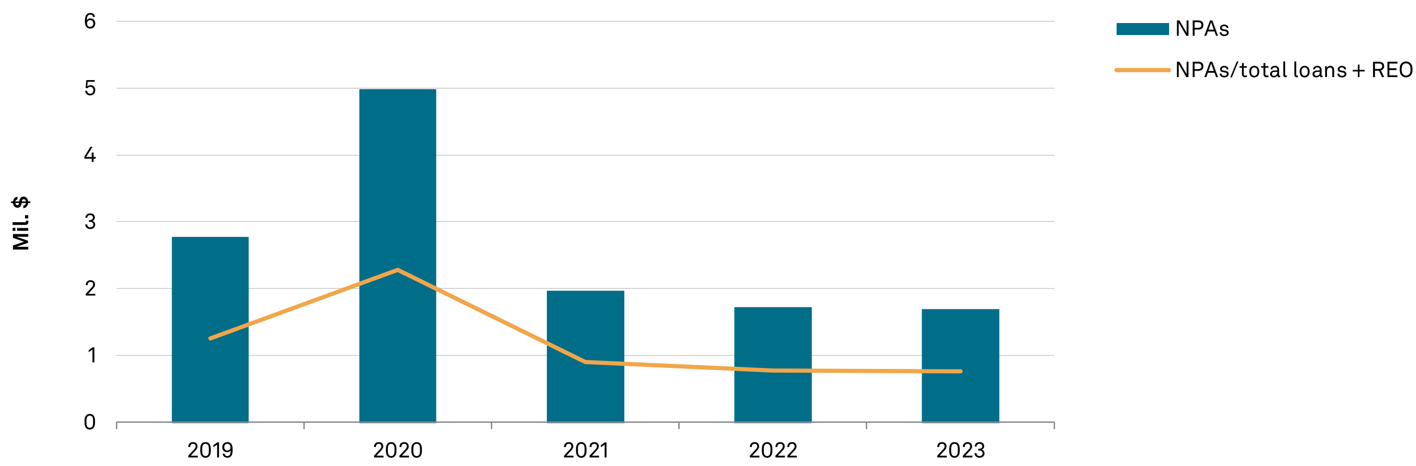


Source: S&P Global Ratings.

As of June 30, 2023, IFA's loan portfolio consisted primarily of Ginnie Mae, Fannie Mae, and Freddie Mac MBS, at 83% of net total loans and MBS, with multi- and single-family whole loans accounting for the remaining 17%. The proportion of MBS remains high relative to most HFAs. Approximately 55% of the authority's total asset portfolio consists of Ginnie Mae, Fannie Mae or Freddie Mac MBS. We generally view a high proportion of MBS as a credit strength due to the high credit quality, and the fact that MBS guarantees payment on the underlying loans. Accordingly, no reserves are required to cover potential losses. The MBS is serviced by the Idaho Housing and Finance Association, the authority's master servicer. The remaining whole loans on its balance sheet are performing well, in our opinion, and have sufficient excess assets to cover any potential credit shortfalls or liquidity issues. Reported delinquencies (or nonperforming assets) as of fiscal year-end 2023 were $1.68 million, or 0.76% of total loans, the lowest in the past 10 years.

Chart 5

Nonperforming assets



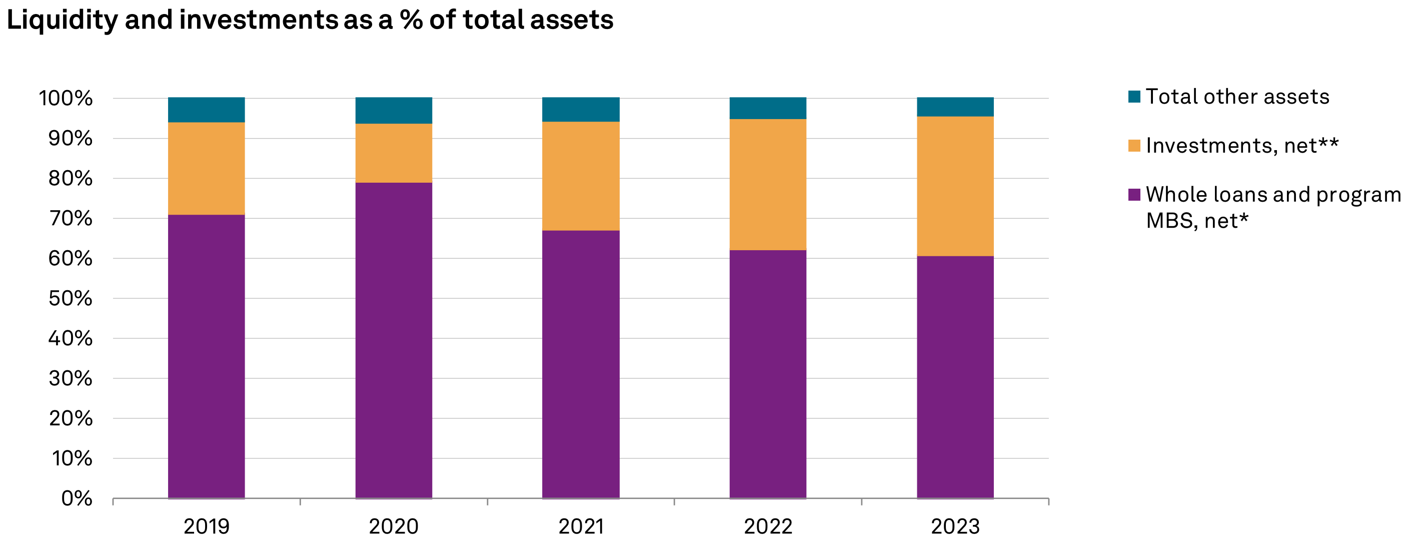
NPAs--Nonperforming assets. REO--Real estate owned. Source: S&P Global Ratings.

IFA's investments are allocated in accordance with its investment policies and, in our opinion, are of high credit quality and provide sufficient liquidity (see chart 6). Management takes what we consider to be a conservative approach to the oversight and monitoring of the authority's investments. IFA's non-MBS investment portfolio grew 30% year over year to $700 million as of June 30, 2023, and the portfolio provided approximately 15.4% of revenue throughout the fiscal year. Of this sum, 87% was held in short-term cash or cash equivalents.

Liquidity

Despite using an MBS-based strategy, we continue to view IFA's liquidity metrics to be above-average compared with those of peers. Liquidity ratios measure an organization's ability to cover short-term financial needs. In addition, we consider asset-to-liability management as one of the primary mitigants to liquidity risk, since HFA balance sheets largely consist of long-term obligations, with maturity dates that are structured to match the maturities of long-term assets. We consider total loans-to-total assets and short-term investments-to-total assets ratios to be key measures of an organization's liquidity assessment. The authority's total loans-to-total assets ratio (inclusive of MBS) was 60.7% in fiscal 2023. Short-term assets, on the other hand, remained stable in 2023, relative to total assets, topping 30.6% as cash and cash equivalents increased by 24.2% from 2022 levels.

Chart 6



*Whole loans and program MBS reported net of loan loss allowance. **Investments reported net of fair value adjustment.
MBS--Mortgage-backed securities. Source: S&P Global Ratings.

Management

IFA is governed by a nine-member board of directors, each appointed by the governor and confirmed by the state senate, serving staggered six-year terms. The majority of board members have experience in the banking, business, and government sectors. IFA is led by a long-tenured and experienced senior management team. The authority benefits from a strong relationship with the state, as evidenced by its consistent role in administering grant funding and associated responsibilities. In addition to its active single-family program, IFA manages numerous housing development and rehabilitation ventures meant to provide affordable housing and improve existing housing stock. It likewise administers several federal housing programs, further strengthening its legislative mandate.

The state has periodically tasked IFA with handling non-housing-related activities over the years, including serving as one of the state's primary bond-issuing authorities. The authority administers, in partnership with the Iowa Department of Natural Resources, the state revolving fund (SRF), which issues tax-exempt bonds to finance wastewater and drinking water facilities. SRF bonds are currently rated 'AAA.' However, our analysis of the ICR on the authority excludes SRF activities because its funds are legally obligated to the program and do not contribute to the authority's finances.

IFA's Title Guaranty Division (TGD) was established in 1986 to supplement the abstract-attorney's title opinion system by providing a low-cost mechanism for guaranties of real-property titles, to facilitate mortgage lenders' participation in the secondary market, and to add to the integrity of the land-title transfer system in the state. We consider the TGD when evaluating the ICR as surplus funds from TGD, in accordance with state code, are available to support the authority's affordable housing activities. We believe risk associated with the title guaranty to the ICR is minimal, as adequate reserves and reinsurance are in place to cover potential claims.

Economy

As noted in our "State Brief: Iowa", published Sept. 15, 2023, on RatingsDirect, we typically expect the state to experience slow, yet stable growth during expansionary economic periods, while also exhibiting shallower contractions during recessionary periods. Iowa's economic growth lagged that of the U.S. in 2022, with gross state product (GSP) exhibiting a 1.5% decline compared with a U.S. GDP growth rate of 2.1%. In 2023, Iowa's GSP is projected to grow 1.8%, but remain below S&P Global Market Intelligence's forecast U.S. annual GDP growth rate of 2.2%. Employment growth in Iowa has been modest over the past two years, trailing the pace of national growth despite experiencing a considerably less-severe decline in 2020 and 2021. Iowa's goods-producing sectors remain the engines of employment growth, with construction and manufacturing jobs having increased by a combined 2.8% compared with pre-pandemic levels, although overall employment growth has been tempered somewhat by a lagging recovery in the financial services and government sectors.

In addition, according to S&P Global Market Intelligence, housing starts are expected increase 11.0% in 2024 with the average home price projected to grow 6.2% in 2024. While 2025 housing starts are expected to fall 7.5% with a 2.3% projected growth in the average home price. Consequently, in at least the near term, demand for affordable housing in the state should, in our view, remain stable, which we consider a credit strength.

Table 1

Financial ratio analysis

%	2019	2020	2021	2022	2023	Five-year average
Capital adequacy						
Equity/total assets	33.3	29.5	25.3	24.1	21.3	26.7
Net equity/total assets	32.1	27.4	23.2	22.2	19.4	24.9
Net equity/total loans	142.0	143.9	154.4	164.4	174.6	155.9
Equity/total debt	52.8	45.6	43.8	39.3	31.5	42.6
Net equity/total debt	51.0	42.3	40.2	36.3	28.6	39.7
Available liquid assets/total loans	112.6	96.2	115.2	47.2	107.3	95.7
Profitability						
Return on average assets	1.2	1.2	2.0	2.1	1.6	1.6
Net interest margin	1.6	1.3	1.2	0.8	1.0	1.2
Asset quality						
NPAs/total loans + REO	1.3	2.3	0.9	0.8	0.8	1.2
Loan loss reserves/total loans	46.4	46.4	46.6	46.2	44.9	46.1
Loan loss reserves/NPAs	3,710.0	2,031.4	5,157.0	6,017.8	5,909.8	4,565.2
Liquidity						
Total loans/total assets	12.1	10.2	8.0	7.3	6.1	8.7
Total loan + MBS (loans)/total assets	71.2	79.2	67.2	62.3	60.7	68.1
Short-term investments/total assets	25.3	19.7	30.8	29.8	30.6	27.2

Table 1

Financial ratio analysis (cont.)						
%	**2019**	**2020**	**2021**	**2022**	**2023**	**Five-year average**
Total investments/total assets	23.0	14.7	27.3	32.8	35.1	26.6

NPAs--Nonperforming assets. REO--Real estate owned. MBS--Mortgage-backed securities.

Table 2

Five-year trend analysis ($000s)					
	2019	**2020**	**2021**	**2022**	**2023**
Total assets	975,984	1,143,382	1,434,652	1,644,417	1,994,001
% change	13.6	17.2	25.5	14.6	21.3
Total debt	614,811	740,699	829,154	1,006,465	1,348,831
% change	19.8	20.5	11.9	21.4	34.0
Total equity	324,526	337,747	363,021	395,814	424,698
% change	3.6	4.1	7.5	9.0	7.3
Total net equity	313,430	313,322	333,441	364,950	385,911
% change	3.1	0.0	6.4	9.4	5.7
Revenues	46,317	53,601	61,674	61,378	71,271
% change	6.5	15.7	15.1	-0.5	16.1
Expenses	29,643	38,851	42,471	49,993	59,910
% change	-9.6	31.1	9.3	17.7	19.8
Net income	11,150	13,221	25,274	32,793	28,884
% change	12.3	18.6	91.2	29.7	-11.9
Total loans and program MBS	694,615	905,980	963,872	1,024,419	1,211,133
% change	15.3	30.4	6.4	6.3	18.2
Nonperforming assets	2,760	4,968	1,953	1,703	1,681
% change	-74.3	80.0	-60.7	-12.8	-1.3

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

This report does not constitute a rating action.