

Rating Update: Alabama Housing Finance Authority

MOODY'S UPGRADES TO Aa2 FROM Aa3 THE ISSUER RATING OF ALABAMA HOUSING FINANCE AUTHORITY; OUTLOOK REVISED TO STABLE

AHFA HAS NO GENERAL OBLIGATION DEBT OUTSTANDING

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Opinion

NEW YORK, Feb 8, 2007 -- Moody's Investors Service has upgraded the Issuer Rating to Aa2 from Aa3 of the Alabama Housing Finance Authority (AHFA). The outlook on this rating has been revised to stable from positive. The Aa2 rating reflects AHFA's strong and growing financial position and low risk profile, high credit quality of its bond programs, as well as its sound management track record. The Issuer Rating speaks to the overall health and management of AHFA. At this time, AHFA does not have any general obligation (GO) debt, nor do they plan on issuing any over the near-term.

INTEREST RATE DERIVATIVES: None.

STRONG AND GROWING FINANCIAL POSITION

Moody's anticipates that AHFA will maintain its strong financial position over the medium-to-long term. The combined fund balance has risen in both absolute value and as a percentage of bonds outstanding over the last four fiscal years. Based on audited financials ending September 30, 2006, AHFA's adjusted combined fund balance now sits at approximately \$217 million or 29.5% of outstanding bonds. This represents a solid increase over \$202 million or 26.5% of its total debt outstanding from fiscal year 2005, as well as over prior years such as \$160 million or 13.6% of total debt outstanding in fiscal year 2002. (These numbers were adjusted to add back in non-cash items, such as loan loss reserves, and exceed the amount reported in the financial statements. Not included also are the Home Funds which are comprised of funds that are appropriated by the Federal government for the administration of various housing programs).

Prudent investing and oversight of AHFA's bond programs has also contributed to earnings growth. Profitability ratio (net operating revenue as % of gross operating revenue) for fiscal year 2006 was 22.2%, which increased from 20.5% in 2005. The increase from 2002 when profitability was 16.44% is worth noting. AHFA appears to be more resilient relative to other HFAs whom have been impacted more severely by very low interest rates and high rates of prepayments experienced over the last few years. This level of profitability should allow the AHFA's financial position to continue to grow going forward.

AHFA's General Fund has decreased generally over the last several fiscal years as a result of the reassignment of single family MBS which had been held previously under the General Fund to provide collateral for new bond programs. As of September 30, 2006, AHFA's General Fund was \$26 million or 3.6% of bonds outstanding. This is an increase from \$24 million or 3.1% of bonds outstanding, but a decline from 2004's \$37 million or 4.18% of bonds outstanding. This general decrease in General Fund net assets has not had any negative impact on AHFA's Issuer Rating. The MBS's continue to be part of AHFA's combined net assets, and large interest rates spreads on the collateralized bond program flow back to the AHFA's General Fund to further increase their asset holdings. General fund balance consists of mortgage loans as well as cash and investments.

LOW RISK PROFILE AND LIMITED LIABILITIES

Moody's believes that AHFA's financial ratios are commensurate with the amount of risk currently taken by AHFA at the Aa2 rating level. All of AHFA's debt is limited obligation - AHFA currently has no general obligations, nor does it have any plans to issue GO-backed debt in the near-term; however, the fund balance could support some amount of GO debt should AHFA decide that it is an appropriate financing tool for future programs. Moody's considers AHFA to be a very fiscally conservative housing finance authority and as such, we do not expect that AHFA will consider any new financings that may deteriorate its fund balances or ratings on its various bond programs.

Moody's expects that AHFA's bond programs will continue to perform well, making it very unlikely that they

would need to access AHFA's General Fund resources. All single family bond programs, totaling approximately \$502 million of bonds outstanding, are secured by GNMA and Fannie Mae Mortgage-Backed Securities that rely on the Aaa-rated credit strength of GNMA and Fannie Mae and in general, do not pose a credit risk for AHFA. Going forward AHFA plans to continue to issue bonds under two Aaa-rated bond programs: the Taxable Mortgage Revenue Bond (Collateralized Revenue Bond Program), which was started in 2002 and has approximately \$53.7 million in bonds outstanding; and the Collateralized Single Family Mortgage Revenue Bond Program which was started in May 2006 and has approximately \$145.6 million in bonds outstanding. AHFA has issued to-date, approximately \$65 million in bonds under the May 2006 indenture, which proceeds were used to finance mortgage loans in 11 Alabama counties designated as "Gulf Opportunity Zones" under the provisions of the Gulf Opportunity Zone Act of 2005.

AHFA is largely a conduit multi-family issuer and has approximately \$282 million in multi-family bonds outstanding secured by high quality credit enhancement in the form of letters of credit, GNMA MBS or third party insurers and privately placed issues with no recourse back to AHFA. AHFA has no plans to change this policy and get into the uninsured, unenhanced multifamily arena.

SOLID FINANCIAL AND PROGRAM MANAGEMENT

AHFA's proven ability to manage its programs and financial resources, establish efficient internal controls, and execute oversight within operations enhances the strength of their Issuer Rating. AHFA's bond disclosure practices are excellent. It warehouses single family loans in the General Fund, which enables them to decrease the negative carry in the bond program that would be incurred with a slow loan origination. At the same time, AHFA is able to increase the yield on investments in the General Fund by purchasing single family loans and earning the interest float before loans are pooled into mortgage-backed securities.

The AHFA is an instrumentality of the State of Alabama. It was established in 1980 and has a board consisting of 15 members and a staff of 54.

Outlook

The outlook for the Aa2 rating is stable. All AHFA programs are currently self-sufficient and expected to remain that way over the foreseeable future.

What could change the rating - UP

A significant increase in financial position while maintaining strong bond programs and a comparable risk profile.

What could change the rating - DOWN

Deterioration in assets or actions by management or the state government that negatively impact the financial strength of AHFA or its programs.

Analysts

Maria Ting
Analyst
Public Finance Group
Moody's Investors Service

Rachael Royal McDonald
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

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