

# Moody's

INVESTORS SERVICE

## New Issue: MOODY'S ASSIGNS Aaa RATING TO TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS RESIDENTIAL MORTGAGE REVENUE BONDS SERIES 2009C-1 (NON-AMT) AND SERIES 2011A (NON-AMT)

Global Credit Research - 07 Feb 2011

### APPROXIMATELY \$360 MILLION IN PARITY DEBT AFFECTED

Texas Dept. of Housing & Community Affairs  
Housing  
TX

#### Moody's Rating

ISSUE		RATING
Residential Mortgage Revenue Bonds, Series 2011A (Non-AMT)		Aaa
Sale Amount	\$60,000,000	
Expected Sale Date	02/08/11	
Rating Description	GNMA/FNMA/FHLMC	
Residential Mortgage Revenue Bonds, Series 2009C-1 (Non-AMT)		Aaa
Sale Amount	\$90,000,000	
Expected Sale Date	02/08/11	
Rating Description	GNMA/FNMA/FHLMC	

#### Opinion

NEW YORK, Feb 7, 2011 -- Moody's Investors Service has assigned a rating of Aaa to the approximate \$150 million Texas Department of Housing and Community Affairs Residential Mortgage Revenue Bonds, Series 2009C-1 and Series 2011A. We are also affirming the Aaa rating on the Residential Mortgage Revenue Bonds, Series 2009C. The outlook is stable.

#### RATINGS RATIONALE

The bonds will be limited obligation revenue bonds of the Department payable solely from the revenues pledged under the resolution. The bonds are on parity with other obligations secured by the existing RMRB master resolution. The Department expects to issue the bonds for a March 2011 closing. Additional series of bonds may be issued by the Department on parity with the Bonds.

The Aaa rating on the Residential Mortgage Revenue Bond Program reflects the bond program's strong financial position, high quality GNMA and FNMA mortgage-backed securities which will collateralize the bonds, a sound legal structure, and cash flow projections that exhibit sufficient revenues to pay timely debt service under various stressful scenarios.

The bonds are issued in connection with the New Issue Bond Program (NIBP) established jointly by Fannie Mae and Freddie Mac (the GSEs), the Federal Housing Finance Agency, and the U.S. Department of the Treasury (Treasury). Under this program, in December 2009, the Department issued the Series 2009C bonds in the principal amount of \$300 million in "escrow" form at variable interest rates. The escrow bonds are expected to be converted to fixed rate in no more than six closings during 2011; at the time of conversion, under NIBP guidelines, the converted bonds must be combined with bonds sold to other investors (Market Bonds) so that the converted bonds comprise no more than 60% of the total. Any proceeds not converted by December 31, 2011 must be used to redeem Program Bonds.

The Series 2009C-1 bonds represent the first conversion of GSE bonds into fixed rate bonds, and the Series 2011A represent the first Market Bonds being sold under the Residential Mortgage Revenue Bonds resolution.

INTEREST RATE DERIVATIVES: None

#### STRENGTHS

- The GNMA guarantee on payment of principal and interest on the mortgage loans; backed by the full faith and credit of the United States.
- The FNMA guarantee due to extraordinary support from federal government. The strong guarantee protects the program from cash flow disruptions and losses from future loan defaults.
- Well-diversified and primarily high-quality investment agreements.
- Cash Flow projections demonstrating that under all stressful loan prepayment speed scenarios provided, including minimum and rapid prepayment scenarios as well as non-origination scenarios, MBS and investment revenues are more than adequate to pay debt service on the bonds.

#### CHALLENGES

- Lower-than-anticipated loan originations or external factors could negatively affect the program's asset-to-debt ratio.

LOAN PORTFOLIO CHARACTERISTICS The program's outstanding loan portfolio is strong. As of November 30, 2010, the portfolio is 99.6%

secured by Aaa-quality GNMA and FNMA MBS and will continue to climb closer to 100% as whole loans are amortized or prepaid. Going forward, the Department will continue to only originate MBS-secured mortgages under this program.

#### FINANCIAL PERFORMANCE: PADR IS STRONG FOR MBS PROGRAM WITH ONLY FIXED RATE DEBT

As of August 31, 2010, the program-asset-to-debt-ratio (PADR) is relatively strong for this type of program at 1.046, slightly higher than the PADR as of August 31, 2009 of 1.041. As of August 31, 2010, net revenue as a percent of total revenue was 11.68%, which is also higher than the August 31, 2009 net revenue as a percent of total revenue of 5.21%.

#### CASH FLOW PROJECTIONS: FULL AND TIMELY PAYMENT DEMONSTRATED UNDER ALL PREPAYMENT SCENARIOS

Moody's believes that the program will continue to generate enough revenue from its loans and investments to meet existing debt obligations under stressful prepayment scenarios. Consolidated Cash flow projections show that there are ample funds to meet all debt service obligations under stressful prepayment scenarios, including 0% and 3 Year Average Life scenarios as well as Non-origination scenarios.

#### Outlook

The stable outlook is based on the strong financial position and security provided by the MBS structure.

What could change the rating - UP

Not applicable

What could change the rating - DOWN

Presence of economic or external factors that severely erode asset to debt ratio.

Key Statistics as of Aug 31, 2010:

Program asset to debt ratio: 1.046

Loan Portfolio: GNMA and FNMA MBS

Fund balance as % of bonds outstanding: 4.04%

Net Revenue as % of total revenue: 11.68%

The principal methodology used in this rating was Strength in Structure: Moody's Approach to Rating Single-Family Housing Bonds Secured by Mortgage-Backed Securities published in October 1998.

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