

MOODY'S CONFIRMS Aa1 RATING ON TEXAS DEPT. OF HOUSING AND COMMUNITY AFFAIRS SENIOR LIEN SINGLE FAMILY MORTGAGE REVENUE BONDS AND CONFIRMS Aa2 ON JUNIOR LIEN

OUTLOOK IS STABLE

Texas DHCA - Single Family Mtge. Rev. Bond  
Texas Dept. of Housing & Community Affairs  
Housing  
Texas

NEW YORK, July 2, 2009 -- Moody's Investors Service has confirmed the Aa1 rating on the Texas Department of Housing and Community Affairs Single Family Mortgage Revenue senior lien Bonds and confirmed the Aa2 rating on the junior lien. The bonds had previously been on watch for possible downgrade. The outlook on the bonds is stable. The program's Aa1 and Aa2 ratings reflect the large percentage of GNMA, Freddie Mac and FNMA MBS in its portfolio, a program-asset-to-debt ratio (PADR) of 1.046 and 100% of liquidity on variable rate bonds currently being provided by the Texas Comptroller of Public Accounts (State of Texas general obligation rating of Aa1/ with a stable outlook).

LEGAL SECURITY: The bonds are special obligations of TDHCA and are secured by GNMA, Freddie Mac and FNMA mortgage-backed securities (MBS), mortgage loans and all reserves and other assets under the indenture. Payment of senior lien debt is on parity with \$1.08 billion (6/1/2009) in Single Family Mortgage Revenue Bonds and junior lien debt is on parity with \$7.8 million Single Family Mortgage Revenue Bonds.

INTEREST RATE DERIVATIVES: The senior lien of the Single Family Revenue Bond Indenture has \$362.1 million (as of 6/1/2009) in variable rate bonds which equals 33.3% of bonds outstanding. \$351.6 million is swapped to a fixed rate under five swap agreements, one with Goldman Sachs Capital Markets L.P. (guaranteed by Goldman Sachs Inc. - A1/P-1 Negative outlook), two with UBS AG (Aa2 RUR for potential downgrade) and two with J.P. Morgan Chase Bank N.A. (Aa1/P-1 Negative outlook).

#### STRENGTHS

--A strong portfolio which is 98.8% composed of GNMA, FHLMC and FNMA MBS.

--Strong asset-to-debt ratio (PADR) at 1.046.

--100% of liquidity for variable rate debt is provided by the Texas Comptroller of Public Accounts. The liquidity agreements have terms which are favorable to the bond program, including no term-out provisions

-- In an effort to increase the programs over collateralization, the Department does not plan on issuing debt under the Single Family Indenture for the near future.

#### CHALLENGES

-- The proportion of variable rate debt is high at 33.3% of debt outstanding

-- Liquidity facilities provided by the state comptroller expire on August 31, 2009. However, there is a provision for the extension of each facility, at the sole discretion of the Comptroller, for 90 day terms.

-- Swap mark-to-market valuations are substantially "out of the money," which makes refunding variable rate debt with fixed rate debt unlikely in the current interest rate environment.

-- Due primarily to high interest rates associated with bank bonds, Moody's anticipates PADR derived from fiscal 2009 audited financial statements will be lower than PADR for fiscal 2008.

#### LIQUIDITY SUPPORT: PROGRAM BENEFITS FROM STATE COMPTROLLER PROVIDING 100% OF SUPPORT

As of June 30, 2009, 100% of variable rate debt liquidity support is provided through liquidity agreements with the Texas Comptroller of Public Accounts (State of Texas general obligation rating of Aa1 with a stable outlook). The liquidity agreements contain favorable terms that benefit TDHCA. A lack of term-out provisions is especially favorable for the Single Family Indenture because it limits financial stress in the event of a failed remarketing and limits the stress to the program under Moody's bank bond stress cash flow scenarios. While each of the comptroller-provided liquidity agreements has a stated expiration date of August 31, 2009 (the end of the state's current biennium), they include provisions to extend the facilities for 90 day terms at the comptroller's sole discretion. The comptroller has instructed TDHCA to pursue replacement liquidity, but the Department anticipates the comptroller will not likely force the program to secure liquidity with unfavorable terms. Moody's anticipates the comptroller will provide liquidity for a period that is sufficient for TDHCA to secure liquidity with terms that are compatible with the Indenture's financial position.

#### LOAN PORTFOLIO CHARACTERISTICS AND PERFORMANCE: STRONG PORTFOLIO

##### COMPOSITION DUE TO HIGHLY RATED MBS

The program's outstanding loan portfolio is very strong. As of May 31, 2009, the portfolio is 98.8% secured by Aaa-quality GNMA, FHLMC and FNMA MBS, and will continue to climb closer to 100% as whole loans are amortized or prepaid. When debt issuance resumes, the Department intends to only originate debt secured by GNMA, Freddie Mac and FNMA going forward, which will further strengthen the portfolio. The remainder of the portfolio is comprised of whole loans insured by the Federal Housing Administration (FHA).

#### FINANCIAL PERFORMANCE: FINANCIAL PERFORMANCE SATISFACTORY IN FISCAL 2008; PERFORMANCE WILL LIKELY DECLINE IN FISCAL 2009 FINANCIAL STATEMENTS

The program's satisfactory financial strength is reflected in its asset-to-debt-ratio of approximately 1.046 as of 8/31/08 audited financial statements. Due primarily to high interest rates associated with bank bonds, Moody's anticipates PADR derived from fiscal 2009 audited financial statements will be lower than PADR for fiscal 2008.

As of June 30, 2009, the program no longer has any bank bonds. Furthermore, due to successful remarketing and the replacement of Depfa liquidity in March 2009, financial performance turned profitable in April 2009, according to interim financial statements. Moody's anticipates the financial strength of the Indenture will improve over the near term as the Department continues its debt issuance moratorium.

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

Cash flows were run on a consolidated basis and included 0% PSA under a variety of stressful assumptions. The evaluation also incorporated the standards established in "Methodology Update: Additional Cash Flow Tests for State Housing Finance Agency Programs" dated February 2008. Based on these projections, Moody's believes the Single Family Mortgage Indenture will continue to generate enough revenue from its loans and investments to fully meet all existing debt obligations in a timely manner.

What could change the rating - UP

A substantial decrease in the proportion of variable rate debt along with sustained profitability while maintaining a portfolio that is nearly 100% secured by MBS.

What could change the rating - DOWN

Replacement of state comptroller-provided liquidity with agreements with terms which are too onerous to withstand Moody's cash flow tests, a serious erosion of the asset to debt ratio or sustained negative profitability.

Key Statistics (as of 8/31/2008):

Program asset to debt ratio: 1.046

Fund balance as a % of bonds outstanding: 3.55%

Net operating revenue as a percent of total operating revenue: 8.11%

Portfolio composition: MBS 98.8%; 1.2% whole loans (5/31/2009)

Type of obligation: Special obligations of the issuer

Bonds outstanding: \$1.08 billion (6/1/2009)

OUTLOOK:

The stable outlook is based upon the Department's self-imposed debt issuance moratorium for the program and 100% of the program's variable rate debt liquidity support provided by the Texas Comptroller of Public Accounts.

The last rating action was on March 16, 2009 when the Aa1 and Aa2 ratings were placed under review for possible downgrade. The principal methodology used in rating the bonds was "Moody's Approach to Rating Single-Family Housing Bonds Secured by MBS ", which can be found at

[www.moodys.com](http://www.moodys.com) in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the rating process can also be found in the Credit Policy & Methodologies directory.

ANALYSTS:

Toby Cook, Analyst, Public Finance Group, Moody's Investors Service  
Ferdinand S. Perrault, Backup Analyst, Public Finance Group, Moody's  
Investors Service

CONTACTS:

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