

Rating Agency Role in MRB Financings

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Ratings are opinions of credit risk

Investors use ratings to make decisions

- » Communicate credit risk of bonds to investors
- » Ratings reflect our opinion of:
 - Likelihood of a bond default
 - Expected financial loss suffered in the event of default
- » Our ratings are not:
 - Guarantees against losses
 - Recommendations to buy or sell
 - Indications of market value
 - Fixed; they may change over time

Ratings range from Aaa to C

Numerical modifiers assigned to each category

Rating	Description	
Aaa	Highest quality, lowest level of credit risk	“Investment Grade”
Aa	High quality, very low credit risk	
A	Upper-medium grade, low credit risk	
Baa	Medium-grade, moderate credit risk, may possess certain speculative characteristics	
Ba	Speculative, substantial credit risk	
B	Speculative, high credit risk	
Caa	Speculative of poor standing, very high credit risk	
Ca	Highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest	
C	Typically in default, with little prospect for recovery of principal or interest	

Rating methodologies guide our process

Each methodology consists of key rating factors

Key factors for single family MRB

- » Financial position
- » Loan portfolio
- » Bond program structure
- » Management and governance
- » Legal framework and covenants

Parity programs analyzed on consolidated basis

- » Assess the ability of entire loan portfolio to support all series of bonds

Key Factors for Single Family MRB

Each factor has a relative weight in our analysis

Financial position (45%)

- » Balance sheet strength
- » Cash flow projections
- » Historical financial performance

Loan portfolio (25%)

- » Portfolio performance
- » Portfolio characteristics
- » Mortgage type
- » State and local real estate conditions

Key Factors for Single Family MRB

Each factor has a relative weight in our analysis

Bond program structure (15%)

- » Variable rate debt
- » Counterparties

Management and Governance (15%)

What else do rating agencies do?

- » Answer investor questions
- » Publish research on the HFA market and specific issuers
- » Offer briefings and speak at conferences

Moody's Housing Team

Team rates range of transaction types

- » The Housing Team is comprised of 13 analysts
- » Ratings are assigned to the following bond types
 - » State Housing Finance Agency single family, multifamily and issuer
 - » Local Housing Finance Agency
 - » Privatized Military Housing
 - » Privatized Student Housing
 - » Public Housing Authority Capital Grant securitizations
 - » State Revolving Funds for clean water and drinking water programs



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