

The Rise In Housing Finance Agency Delinquencies Has Slowed, But The Future Is Uncertain

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In the first quarter of 2010, housing finance agency (HFA) delinquencies declined for the first time since overall performance of loans began to deteriorate in the second quarter of 2008. Standard & Poor's Ratings Services believes that the extension of the home buyer tax credit, which has now expired, may have helped minimize new defaults and slow the rate of cumulative defaults.

Declining home prices have contributed to higher delinquency rates, as homeowners either have limited options for selling their residence or refinancing their loan, or simply decide not to continue making payments on an asset that is worth less than what is owed. The May 25, 2010, S&P/Case-Shiller National Home Price Index reported a 3.2% decrease during the first quarter of 2010, but remains higher than it was in first-quarter 2009. We believe that declining mortgage applications for home purchases, slower sales following the expired tax credit, more distressed home sales as a result of foreclosure, a large backlog of distressed properties that haven't been marketed for sale yet, and a high unemployment rate may further hamper home prices. As a result, we believe that default rates on HFA loans may increase again in the second quarter of 2010.

Standard & Poor's expects U.S. home prices and sales to remain volatile until employment improves. Our chief economist, David Wyss, projects unemployment to remain at 9.6% by the end of this year and states that the U.S. gained 100,000 jobs in June excluding the temporary census jobs. He predicts that payroll employment will stay near 130 million, which is 7 million less than in 2008. We view unemployment levels as having a key impact on delinquencies. We expect that unemployment levels, coupled with the ongoing effect of the expiration of the home buyer credit, may bring delinquencies back up in the second quarter.

Delinquencies Start To Decline

Loans associated with 33 major whole-loan bond resolutions had an average reduction in delinquency of 0.52% from the fourth quarter of 2009, while delinquencies of similar state portfolios declined by an average of 0.35% during the same time period. Delinquency rates for HFA loans remain high, with an average increase of 1.67% from the first quarter of 2009 to the first quarter of 2010. However, our analysis for the first quarter of 2010 indicates that the overall percentage of HFA loans at least 60 days delinquent or in foreclosure decreased to 6.05% from 6.57% in the fourth quarter of 2009.

The average delinquency of loans backed by Standard & Poor's-rated HFA bond resolutions decreased to 6.05% in the first quarter of 2010 from 6.57% in fourth quarter 2009. Georgia Housing and Finance Authority (GHFA) had the largest decrease in delinquencies, 2.69%, followed by Tennessee Housing Development Agency and Michigan State Housing Development Authority, at 1.87% and 1.83%, respectively. Tennessee Housing Development Agency and South Dakota Housing Development Agency were the only HFAs that saw a decrease in delinquencies to the first quarter of 2010 from the first quarter of 2009 at 0.20% and 0.46%, respectively.

State figures from the Mortgage Bankers Association (MBA) that reflect similar loans to the type within HFA bond resolutions show that no states have seen a decrease in delinquencies from the first quarter of 2009 to the first

quarter of 2010. However, overall delinquency rates for states have declined to 7.30% in the first quarter of 2010 from 7.65% in the fourth quarter 2009.

In the first quarter of 2010, eight HFA programs had an increase in delinquencies from the fourth quarter of 2009. This compares with 28 programs that had an increase in delinquencies in the fourth quarter of 2009 over the previous quarter. Rhode Island Housing and Mortgage Finance Corp. had the highest increase in the delinquencies from the previous quarter at 1.13%. California Housing Finance Agency (CalHFA) had the highest increase in delinquencies between the first quarter of 2009 and the first quarter of 2010 at 5.60%.

Chart 1

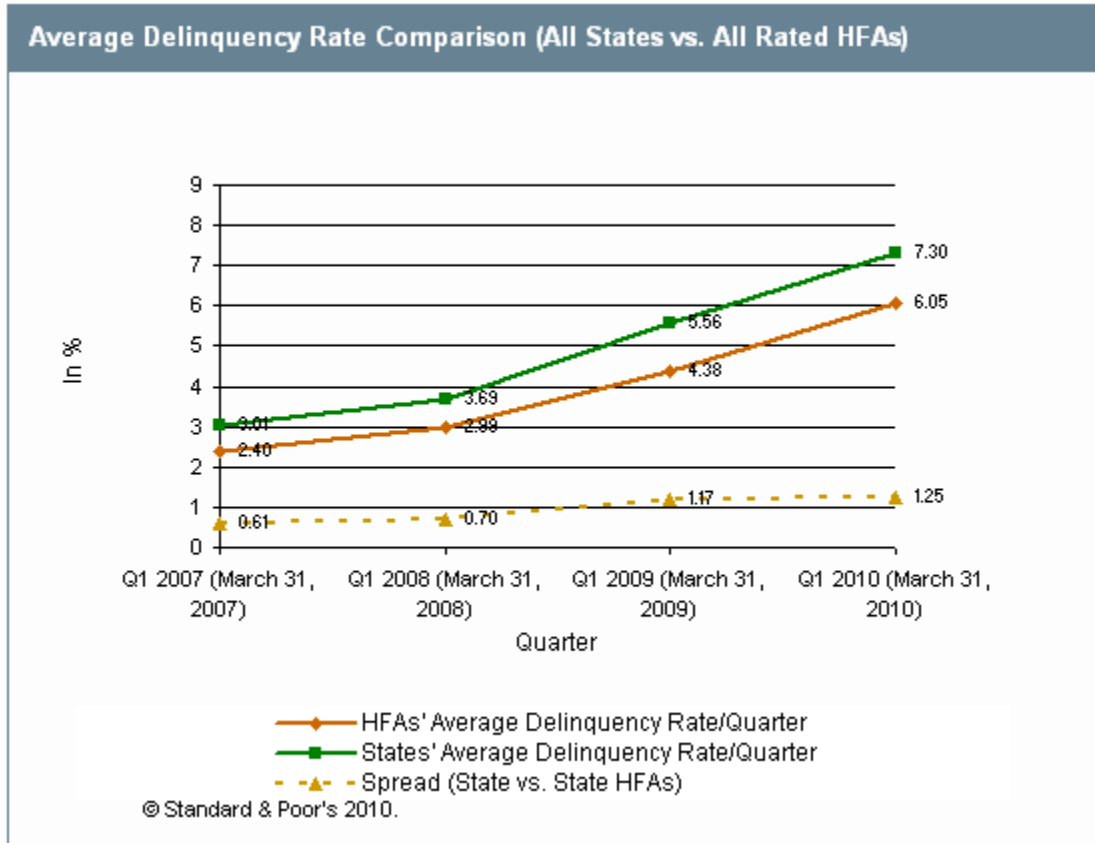
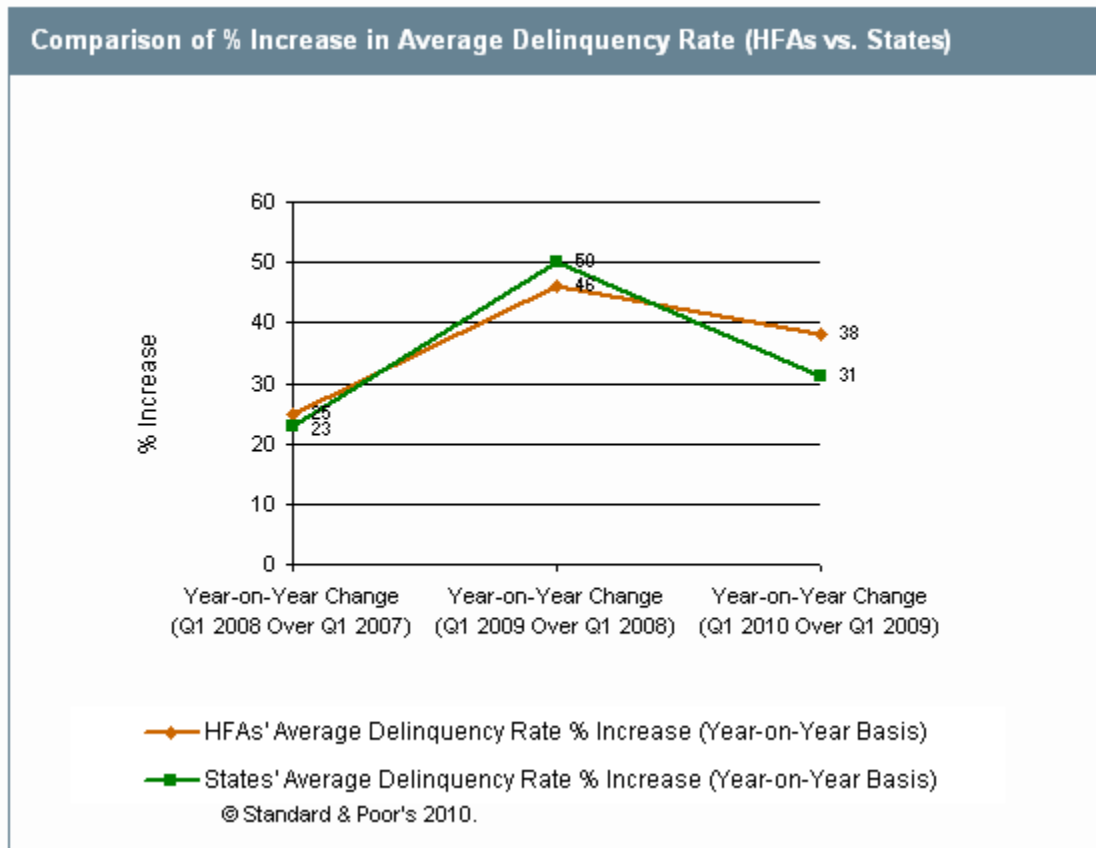


Chart 2



Delinquencies Are Still High

Despite the recent decline, we believe delinquency rates remain high. The rate of delinquencies for HFAs rose 1.67% to 6.05% in the first quarter of 2010 from 4.38% in the first quarter of 2009. Five state HFAs -- California, Colorado, Georgia, Kentucky, and Michigan -- had delinquency rates above 10% in the first quarter of 2010. The Georgia Housing and Finance Authority was the only state with delinquencies above 10% in the first quarter of 2009. HFAs delinquencies have remained lower than state level delinquencies since we started tracking the data.

Delinquencies are one part of our criteria for ratings. Other factors, including our assessment of debt profile and counterparty and mortgage insurer exposure, also play a large role. Our view of these other factors has been among the major determinants of our recent rating actions.

Rankings By State Have Changed

Our analysis shows that loans in most HFA resolutions are consistent in their delinquency rates. GHFA's resolution had loans with the highest delinquency rate among the 33 tracked resolutions in each of the past seven quarters. However, CalHFA surpassed GHFA in the first quarter of 2010 with delinquency rates of 13.98% and 11.8%, respectively. GHFA had the largest decrease in delinquencies in the first quarter of 2010 from fourth quarter 2009, with a decline of 2.69%. Resolutions from the Alaska Housing Finance Corp. and Wisconsin Housing and

Economic Development Authority continue to have loan portfolios with delinquency rates ranked 31st through 33rd in almost all of the last eight quarters.

Some resolutions have reported what we consider significant changes during the last four quarters. For instance, Rhode Island Housing and Mortgage Finance Corp.'s homeownership opportunity bonds had the largest ranking increase, rising 14 positions over the last year. While the ranking for this resolution was 25th as of March 31, 2009, it rose to 11th as of March 31, 2010. Rhode Island is one of just six resolutions to experience increases in delinquency over the most recent two quarters, and its rate of delinquency is more than double the level of a year ago. Utah Housing Corp.'s single-family program (2007 indenture) increased nine positions over the same period, to 12th from 21st. CalHFA had the largest delinquency rate increase from the first quarter of 2009 to the first quarter of 2010 -- 5.6% -- while Rhode Island had the second largest at 4.65%.

The Future Of HFA Delinquency Rates Is Uncertain

At present, we are uncertain as to whether temporary factors such as the expired home buyer tax credit program had an impact on the decline of delinquency rates. According to David Wyss, difficulties restructuring loans and the delays in the foreclosure process will likely lead to bringing foreclosed homes on the market for another 18 months. Additional foreclosures could put more pressure on home prices, possibly affecting loans in HFA portfolios. We believe this could lead to more increases in HFA delinquency rates. The stimulus package aided growth in the economy in early 2010, but we expect the impact of stimulus to decrease over the next year or two. We expect that HFA delinquencies will likely remain high without a decrease in unemployment and economic improvement. Seasonally, housing typically performs well in second and third quarters, which may help lower delinquencies in the near future. We don't expect fluctuations in delinquency rates alone to cause ratings action at this time.

HFA/State Delinquency Stats							
HFA -- Indenture	Q1 2010			Q4 2009			
	Indenture Delinquency Stats	State Delinquency Stats	HFA's Delinquency "Higher/Lower" Compared With the Corresponding State's	Indenture Delinquency Stats	State Delinquency Stats	HFA's Delinquency "Higher/Lower" Compared With the Corresponding State's	
CalHFA -- home mortgage revenue bonds	13.98	9.97	Higher	13.43	10.06	Higher	
GHFA -- single-family mortgage bonds	11.80	15.02	Lower	14.49	16.09	Lower	
Michigan State Housing Development Authority -- single-family mortgage revenue bonds	11.59	13.40	Lower	13.42	14.65	Lower	
Colorado Housing and Finance Authority -- single-family mortgage bonds	10.67	7.95	Higher	11.63	8.45	Higher	
Kentucky Housing Corporation -- housing revenue bonds	10.17	8.39	Higher	10.90	9.35	Higher	

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HFA/State Delinquency Stats (cont.)						
Minnesota Housing Finance Agency -- residential housing finance bonds	8.97	6.67	Higher	9.98	7.07	Higher
Connecticut Housing Finance Authority -- housing mortgage finance program bonds	8.68	10.03	Lower	9.62	9.27	Higher
North Carolina Housing Finance Agency -- home ownership revenue bonds (1985 resolution)	8.11	12.07	Lower	9.35	13.09	Lower
Illinois Housing Development Authority -- homeowner mortgage revenue bonds	7.81	9.31	Lower	8.11	9.21	Lower
Tennessee Housing Development Agency -- homeownership program bonds	7.59	8.50	Lower	9.46	9.41	Higher
Rhode Island Housing and Mortgage Finance Corporation -- homeownership opportunity bonds	7.24	8.00	Lower	6.11	8.13	Lower
Utah Housing Corporation (UHC) -- single-family mortgage bonds (2007 series)	7.16	8.15	Lower	7.27	8.27	Lower
UHC -- single-family mortgage bonds (2000 series)	6.98	8.17	Lower	6.53	8.28	Lower
Wyoming Community Development Authority (WCDA) -- housing revenue bonds (1994 indenture)	6.92	4.52	Higher	7.04	4.71	Higher
Maine State Housing Authority -- mortgage purchase program	6.79	8.57	Lower	7.41	8.57	Lower
New Jersey Housing and Mortgage Finance Agency -- single-family housing revenue bonds	6.79	11.74	Lower	8.00	11.69	Lower
Virginia Housing Development Authority -- commonwealth mortgage bonds	6.25	5.96	Higher	7.13	6.41	Higher
California Department of Veterans Affairs	5.82	9.72	Lower	5.67	9.89	Lower
North Carolina Housing Finance Agency -- home ownership revenue bonds (1998 resolution)	5.80	8.29	Lower	6.34	8.71	Lower

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HFA/State Delinquency Stats (cont.)						
Vermont Housing Finance Agency -- single-family housing bonds	4.46	4.08	Higher	5.13	4.14	Higher
WCDA -- single-family mortgage bonds (1978 indenture)	4.24	4.95	Lower	4.21	5.20	Lower
Massachusetts Housing Finance Agency -- single-family housing revenue bonds	3.81	6.42	Lower	4.07	6.63	Lower
Pennsylvania Housing Finance Agency -- single-family mortgage revenue bonds	3.76	6.82	Lower	5.24	7.50	Lower
Alaska Housing Finance Corp. (AHFC) -- mortgage revenue bonds	3.50	3.73	Lower	3.35	3.85	Lower
West Virginia Housing Development Fund -- housing finance bonds	3.15	6.13	Lower	4.30	7.03	Lower
AHFC -- home mortgage revenue bonds fixed rate	2.81	3.48	Lower	3.22	3.59	Lower
AHFC -- veterans mortgage program bonds	2.58	3.36	Lower	1.95	3.34	Lower
Montana Board of Housing -- single-family program bonds (1977 indenture)	2.47	4.90	Lower	2.80	5.19	Lower
South Dakota Housing Development Authority -- homeownership mortgage bonds	2.14	4.06	Lower	2.80	4.35	Lower
Montana Board of Housing -- single-family mortgage bonds (1979 indenture)	2.04	5.20	Lower	2.18	5.55	Lower
AHFC -- general mortgage revenue bonds	2.02	3.30	Lower	2.22	3.40	Lower
Wisconsin Housing & Economic Development Authority (WHEDA) -- 1987 homeownership revenue bonds	1.76	4.97	Lower	1.78	5.75	Lower
WHEDA -- 1988 homeownership revenue bonds	1.69	4.97	Lower	1.56	5.75	Lower
Average	6.05	7.30		6.57	7.65	
Particulars	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q3 2008
Number of indentures whose delinquency is "higher" than state's delinquency	7	9	8	9	9	10

HFA/State Delinquency Stats (cont.)						
Number of indentures whose delinquency is "lower" than state's delinquency	26	24	25	24	24	23
Total indentures	33	33	33	33	33	33

Related Criteria And Research

- S&P/Case-Shiller Home Price Indices, June 29, 2010, on www.standardandpoors.com
- "Economic Research: U.S. Economic Forecast: Caution Signs," July 13, 2010
- "The First Quarter Of 2010 Indicates Some Weakening In Home Prices According to the S&P/Case-Shiller Home Price Indices," May 25, 2010, on www.standardandpoors.com
- "U.S. Residential Mortgage Default Index: Defaults Are Waning But Cumulative Default Rates Remain Extremely High For Recent Vintages," May 24, 2010
- "U.S. Home Prices Advance As Housing Market Indicators Start To Weaken," July 15, 2010

Gaurav Rai in Mumbai contributed to this report.

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