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New Issue

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Vermont Housing Finance Agency

New Issue - Moody's assigns Aa2 to Vermont Hsg. Fin. Agcy. MPB, Ser. 2017 A & B; Outstanding Bonds upgraded to Aa2

Summary Rating Rationale

Moody's Investors Service has assigned an Aa2 to the Vermont Housing Finance Agency (the "Agency") Multiple Purpose Bonds, 2017 Series A and Series B (collectively the ("Bonds"). All outstanding long term debt under the Multiple Purpose Bond program is also upgraded to Aa2 from Aa3. The outlook has been revised to stable.

The Aa2 long term rating reflects the strong financial position of the Multiple Purpose Bond program as well as the Agency's decision to primarily originate mortgage backed securities ("MBS' "), a sound legal structure, cash flow projections that exhibit sufficient revenues to pay timely debt service and management oversight.

Credit Strengths

» Strong financial performance as witnessed by a program asset-to-debt ratio (PADR) of 1.218x and an operating profitability ratio at 21.34% (FY 2016).

» Reserve Fund to provide liquidity in the event of cash flow shortfalls.

» GNMA, FNMA and Freddie Mac securitized mortgage loans (as of December 31, 2016) comprised of 41% of the program's portfolio and expected to grow over time.

Credit Challenges

» Flexible indenture allows to the addition of multi-family and single family whole loans.

» Variable rate debt currently totals 15% of Bonds outstanding although fully hedged and the percentage of variable rate is expected to decline.

Rating Outlook

The outlook on the Bond program has been revised to stable as a result of the rating upgrade and based on the continued strong financial program performance along with the increased portion of MBS loans in the portfolio.

Factors that Could Lead to an Upgrade

» Continued growth in the program's financial position.

» A larger percentage of MBS' in the program's portfolio.

Factors that Could Lead to a Downgrade

» Substantial Erosion of the program's asset to debt ratio.

» Deterioration of the program's whole loan portfolio performance such as increases in delinquencies.

Key Indicators

Exhibit 1
Vermont Housing Finance Agency Multiple Purpose Bonds

(Year Ending 06/30)	2012	2013	2014	2015	2016
Total Bonds Outstanding	176,130	140,110	147,195	211,712	227,485
Asset to Debt Ratio	122.70%	127.70%	130.90%	122.60%	121.80%
Margins	9.08%	26.55%	22.24%	15.39%	21.34%
Variable Rate Debt as a % of Bonds Outstanding	21.94%	26.61%	28.87%	19.16%	16.75%
Swapped Debt as a % of Variable Rate Debt	100.00%	100.00%	100.00%	100.00%	100.00%
Seriously Delinquent	3.75%	3.25%	3.50%	3.51%	2.82%

Source: Moody's Investors Service

Recent Developments

Incorporated in the sections below.

Detailed Rating Considerations

The Bonds are being issued pursuant to the Agency's Multiple Purpose Bonds Trust Indenture dated July 1, 2007 and the 2017 A and B Supplemental Indenture dated March 1, 2017 (collectively, the "Indenture").

Loan Portfolio

In 2009, the Agency changed its single family housing lending program under the Indenture from a whole loan model to a MBS model .

As of December 31, 2016, the principal outstanding balance of single family loans pledged to bondholders under the Indenture totaled $217.675 million and consisted of $126.507 million (58.12%) in single family whole loans and $91.168 million (41.88%) are MBS'.

Additionally, the Indenture is also secured by multifamily mortgage loans. As of December 31, 2016, there was $16.875 million in multifamily mortgage loans.

The single family portfolio composition is satisfactory with insurance provisions sufficient to protect the program from substantial losses arising from loan defaults. Currently, 41.88% of the single family portfolio is Freddie Mac, GNMA or Fannie Mae MBS', 8.26% Rural Development, 0.03% FHA, 28.75% uninsured and 21.04% covered by private mortgage insurance (PMI) from various providers. The Multiple Purpose Program's loan portfolio is comprised of 92.81% single family loans and 7.19% multi-family loans.

The portfolio of single family mortgage loans exhibits delinquency statistics at 2.28% for loans 90 days or more and 1.25% for loans in foreclosure (as of December 31, 2016). The Agency also reports that there are no multifamily loans in the portfolio that are 90 days or more delinquent.

The Authority was able to demonstrate to Moody's, through cash flow projections, that it could meet Moody's stressful "loss assumptions" on both multifamily and single family loans while still maintaining sufficient asset to debt ratios and net revenue balances.

Financial Position and Performance

The program's healthy financial condition is evidenced by a strong fund balance and program asset to debt ratio. The PADR is expected to remain steady throughout the life of the bonds and was 1.218x, as of the June 30, 2016 audited financial statements. The program's 2016 adjusted fund balance is $50.57 million or 21.9% of bonds outstanding. The program's net revenue as a percentage of total revenue in 2016 was 21.34%.

LIQUIDITY

Moody's believes that the program will continue to generate enough revenue from its loans and investments to meet existing debt obligations under all prepayment scenarios. Cash flow projections show that there are ample funds to meet all debt service obligations under all stressful prepayment scenarios.

Legal Framework, Covenants and Debt Structure

Moody's believes the Agency possesses adequate financial resources to maintain the debt service on all of its bonds, including adequate reserves, as well as any other contingencies over the foreseeable future.

DEBT STRUCTURE

The Program had $242.37 million in bonds outstanding as of December 31, 2016 with 84.39% fixed rate and 15.61% ($37.83) variable rate. The majority of bonds outstanding are single family at $226.78 and $15.59 are multifamily.

DEBT-RELATED DERIVATIVES

The Agency had outstanding four series of variable rate bonds totaling $37.83 million as of December 31, 2016. All of the $37.83 million in variable bonds outstanding are secured by TD Bank SBPAs, which is rated Aa2(cr)/P-1(cr). However, the 2007 Series A and 2007 Series C Bonds have VMIG 3 ratings because they are currently insured by Assured Guaranty Municipal Corp. (the "Insurer")(rated A2 by Moody's). The 2007 C Bonds will be refunded by this issuance.

In an effort to mitigate the interest rate risk associated with variable rate debt, as of December 31, 2016, the Agency has entered into several floating-to-fixed interest rate swap agreements provided by Bank of New York Mellon (BNY Mellon) in the amount of $34.1 million (the BNY Mellon Swap was originally provided to UBS AG and assigned to BNY Mellon on May 22, 2012) and Wells Fargo Bank, N.A. in the amount of $3.73 million.

Under each applicable swap agreement, each such provider will pay the Agency an amount calculated based on variable rate indices, and the Agency will pay the applicable swap provider an amount calculated at a fixed rate of interest. It should be noted that the swap agreements may not be a perfect hedge and the Agency may need to make additional floating rate or swap payments if certain events occur. Stress cash flow projections incorporate these events.

PENSIONS AND OPEB

Not a material factor for this rating action.

Management and Governance

The Agency has an experienced management team and a proven track record as a program administrator.

Legal Security

The Bonds will be secured by a pledge and assignment of assets and revenues held under the Indenture. The Bonds are also general obligations of the Agency (rated A2) and are payable from any of the Agency's funds not subject to a pledge of such funds for payment of other bonds and notes of the Agency.

Use of Proceeds

Proceeds of the Series 2017 A Bonds will be used to refund all of the Agency's Multiple Purpose Bonds, 2007 Series C. Proceeds of the 2017 B Bonds will be used to finance certain Single Family Mortgage Loans through the purchase of Federal Agency Certificates.

Additionally, proceeds will be used to fund the Reserve Fund Requirement as well as the cost of issuance. Interest on the Bonds will be payable on each May 1st and November 1st commencing on November 1, 2017.

Obligor Profile

Vermont Housing Finance Agency is authorized to issue bonds and use a portion of the proceeds to provide funds for the making or purchase of single-family mortgage loans and the purchase of federal agency mortgage backed securities. The Agency is also authorized to issue bonds the proceeds of which may be used to fund the purchase of multi-family (more than four units) housing or purchase such loans from banks, life insurance companies, savings and loan associations, mortgage companies, other financial institutions lawfully doing business in the State and the Federal government for the purpose of providing housing for persons and families of low income.

Methodology

The principal methodology used in this rating was U.S. Housing Finance Agency Single Family Programs published in November 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 3

Vermont HFA - Multiple Purpose Prog.

Issue	Rating
Multiple Purpose Bonds, Series 2017 A (AMT)	Aa2
Rating Type	Underlying LT
Sale Amount	$11,435,000
Expected Sale Date	03/08/2017
Rating Description	Housing Finance Agency Pledge
Multiple Purpose Bonds, Series 2017 B (Non-AMT)	Aa2
Rating Type	Underlying LT
Sale Amount	$15,800,000
Expected Sale Date	03/08/2017
Rating Description	Housing Finance Agency Pledge

Source: Moody's Investors Service

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