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March 28, 2012

Summary:
Ohio
Ohio Enterprise Bond Fund; State Revolving Funds/Pools

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Credit Profile		
US$4.04 mil state econ dev rev bnds taxable bnds (Ohio Enterprise Bnd Fd) (FWT, LLC Proj) ser 2012-3 due 06/01/2022		
Long Term Rating	AA+/Stable	New
Ohio		
Ohio Enterprise Bnd Fd, Ohio		
Ohio (Ohio Enterprise Bnd Fd)		
Long Term Rating	AA+/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services has raised its long-term rating to 'AA+' from 'AA-' on debt issued by the state of Ohio for the Ohio Enterprise Bond Fund (OEBF) based on our application of criteria adopted for long-term municipal pools on March 19, 2012. At the same time, Standard & Poor's assigned its 'AA+' long-term rating to Ohio's series 2012-3 state economic development revenue bonds, issued for the OEBF.

The ratings reflect our assessment of the following characteristics:

- A very strong enterprise risk profile, given that the pool is managed by a nonprofit, nonstock public corporation and the loan program has no geographic concentration; and
- An extremely strong financial risk profile, with a loss coverage score, operating performance, and financial policies consistent with this profile.

The OEBF will loan the proceeds of the series 2012-3 issue to FWT LLC for acquiring and equipping a facility in Defiance County.

Security for bonds issued under the OEBF is provided by the following sources, in the following order:

- Loan payments received from loans under the OEBF program;
- Funds deposited into the collateral fund due primarily to prepayments and proceeds from asset sales by a defaulting OEBF borrower causing the draw on this reserve fund to occur;
- Funds deposited into the primary reserve by an OEBF borrower causing the draw on this reserve fund to occur (typically 10% of the original loan amount);
- Payments collected from direct loans under the Chapter 166 program, and the indenture requires them to be held as pledged revenues for at least six months after collection but can then be released from the security pledge for OEBF bonds;
- Program reserve fund revenues, currently totaling about $10 million;
- Remaining funds in the primary reserve, drawn on a pro rata basis from the remaining borrower account

balances; and
- Remaining funds in the collateral fund, drawn on a pro rata basis from the remaining borrower account balances.

We view the program's enterprise risk profile as very strong due to a combination of the low industry risk profile for municipal pools, and our view of the program's market position, which we consider strong. The OEBF serves an economic development program to aid businesses in the state and was authorized in 1980 under Chapter 166 of the Ohio Revised Code. The Ohio director of development manages OEBF and direct loans under the same chapter. However, excess loan revenues collected under the Chapter 166 program are eventually released from the security pledge (provided all debt service payments are current).

We view the program's financial risk profile as extremely strong based on a combination of the loss coverage score, historical operating performance, and our view of management policies.

We consider the program's loss coverage score extremely strong, with 'AAA' the highest rating category attainable under this test. Applying the largest obligor test, the program also passes this cash flow stress. The final rating is not 'AAA' because of the impact of the enterprise risk score, which we believe further limits the rating.

Overcollateralization available to cure loan defaults arise from Chapter 166 loan revenues and pledged reserves totaling $44.6 million in the primary and program reserve funds (excluding additional project reserves only available to cure defaults on a particular series). If, after accounting for defaults, we project an excess of Chapter 166 loan revenues in any given year, we consider them available to pay debt service in the next year only. The reason for this is that the indenture only requires these revenues to be held for six months, and then can be released from the indenture. The reserves are composed of money market funds, cash reserves, and letters of credit (LOCs). Pursuant to our criteria, for the purposes of cash flow analysis, we have excluded from these reserves LOCs that do not meet our counterparty criteria -- specifically, those with counterparties rated lower than 'AA-'. After excluding these investments, there is about $32 million of primary and program reserves available to cure defaults. However, we have included those LOCs not meeting the counterparty criteria as an asset in the CDO Evaluator model, since these assets are still pledged to bondholders under the indenture. We allow for 37% recovery of defaulted loan revenues.

We consider the program's operating performance score to be low, given that six of the OEBF and Chapter 166 loans are either delinquent or in default (including a recent delinquency by Xunlight on its March OEBF payment). These six loans give a rate of 2.5% based on a total portfolio of 240 loans. Given the nature of the OEBF and Chapter 166 loan portfolios, there are typically at least several delinquent or defaulted loans in existence at any time.

Averaging all of the financial policies and practices, we view the corpus as adequate.

We based our assessment on the following factors:

- Under the authorizing legislation, the director is required to consider various underwriting criteria, including economic development impacts, project costs, and the needs of the company seeking financing. However, there is also wide latitude as to which projects are ultimately approved, what the security granted will be, and how creditworthiness is to be assessed.
- There is a four-person dedicated staff that monitors financial statements and compliance with loan terms, however, the financial disclosure requirements vary depending on the project type and loan size.
- Loan payments are made monthly, and the flow of funds directs the trustee to draw or replenish various funds in

a specific order. Because all of the borrowers are corporate, defaults and delinquencies are handled differently depending on the circumstance.
- Management prioritizes projects as loan demand develops.
- The general indenture allows for funds to be invested in several investments that are in compliance with state statutes, although actual investment practices have been generally limited to cash, money market funds, U.S. Treasury obligations, and LOCs.

Based on these enterprise and financial risk profiles, the indicative rating is 'AA+'. The final 'AA+' rating is equal to the indicative rating because we have not made any overriding adjustments.

Outlook

The stable outlook reflects our expectation that the level of overcollateralization will remain consistent with the rating level and the other program features will not deviate from historical trends and practices. Within the two-year outlook horizon, we could lower the rating if reserves become insufficient for the rating level, in our view, or any other program factors negatively affect the enterprise or financial risk profiles (such as loan delinquencies, overcollateralization levels, or financial policies and practices). Conversely, we could raise the rating if our view on enterprise risk profile becomes more positive.

Program Characteristics And Bond Provisions

Although most pledged loans consist of those made to unrated corporate borrowers, most often the trustee holds a first mortgage and security interest in land, buildings, or equipment, depending on the asset that was financed with the loan. This feature, in our view, presents a further level of security to bondholders; any cash generated from these asset sales are pledged revenues and available to restore reserve balances or cure any loan defaults.

After this issue, total bonds outstanding under the OEBF program will be $245 million for 57 projects. Pledged OEBF loans will total $247 million while Chapter 166 pledged loans will total $265 million. As of Dec. 31, 2011, $3.2 million of OEBF loans from one borrower were delinquent and $3.1 million of Chapter 166 loans from four borrowers were delinquent, but no payments on any outstanding OEBF bonds are delinquent. Bond fund management expects to issue bonds on an ongoing basis to finance economic development projects.

Cash flows are structured for loan repayments to borrowers under the OEBF program to be equal to debt service on OEBF bonds issued to finance the loans. Chapter 166 loan repayments provide excess annual cash flow, creating a greater financial cushion, in our view. Loans repaid under the Chapter 166 program accrue to pledged funds for at least six to 12 months and then are released to make new loans. Combining OEBF and Chapter 166 loan revenues, coverage of annual debt service exceeds 1.7x in all years, except from 2031-2035: As Chapter 166 revenues are eliminated in 2031, debt service coverage is 1x. Despite this, we still view the currently available program reserve as sufficient to cure defaults during this time.

As of March 2011, the primary and program reserve funds had a total balance of $47.7 million ($37.6 million in the primary reserve and $10.1 million in the program reserve), which equaled about 20% of bonds outstanding. In addition, accrued Chapter 166 loan revenues in the first and second half accounts totaled $24.7 million.

Related Criteria And Research

USPF Criteria: U.S. Public Finance Long-Term Municipal Pools, March 19, 2012

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