

CREDIT OPINION

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Delaware Valley Regional Finance Auth., PA

Update to credit analysis

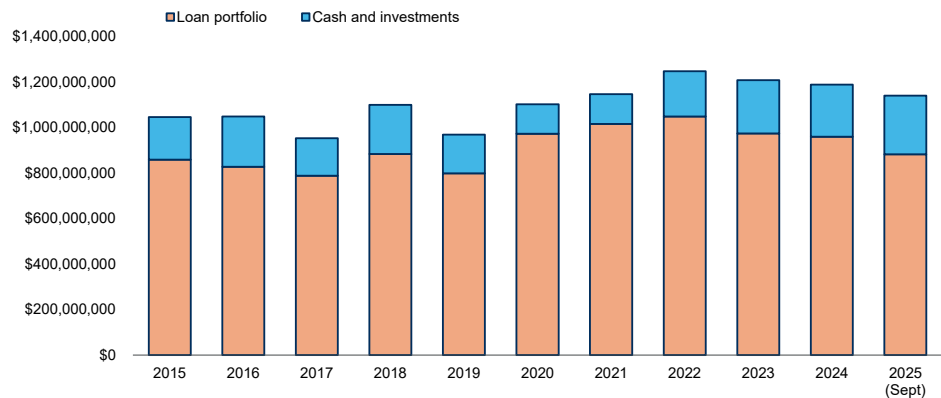
Summary

The [Delaware Valley Regional Finance Authority](#), PA's (DelVal; A1 stable) local government loan portfolio is and will remain in the solid double-A range. DelVal's \$880 million portfolio of municipal loans, plus about \$260 million of cash and investments, overcollateralize its debt by about 5%, which is lower than many comparable pool programs but adequate for the authority's purposes.

The A1 rating on DelVal's bonds captures the debt structure risk stemming from the large amounts of swaps and puttable variable rate debt in the authority's capital structure. Active management of the authority's debt, loan portfolio, swaps and timing of cash flows is crucial to maintenance of DelVal's credit stability.

Exhibit 1

DelVal's loan portfolio has been shrinking
DelVal is poised to increase lending following several years of relatively low loan origination



Cash includes restricted cash and investments.
Source: DelVal

Credit strengths

- » Solid portfolio credit quality in the double-A range
- » Credit enhancements by the state school district intercept program and bond insurance
- » Adequate overcollateralization at 5% of the loan portfolio

Credit challenges

- » Large portfolio of demand debt and swaps poses some debt structure risks
- » Less overcollateralization than many other pools

Rating outlook

The stable outlook recognizes that DelVal will continue to generate high-quality loans and responsibly manage its portfolio of variable rate debt and swaps.

Factors that could lead to an upgrade

- » Stronger pool credit quality
- » Increase in excess funds for overcollateralization

Factors that could lead to a downgrade

- » Deterioration in pool credit quality below high-single-A range
- » Failure to properly manage large portfolio of swaps and demand debt
- » Decrease in excess funds for overcollateralization

Key indicators

Exhibit 2

DelVal key indicators (\$ in millions)

DelVal	2020	2021	2022	2023	2024
Bonds outstanding	\$1,069	\$1,112	\$1,213	\$1,167	\$1,145
Loans outstanding	\$973	\$1,016	\$1,049	\$975	\$960
Cash and investments (including DSRF)	\$130	\$131	\$200	\$233	\$228
Overcollateralization	4.1%	3.9%	3.3%	4.3%	4.8%
Number of borrowers	124	122	118	105	101

Overcollateralization includes certain other assets besides cash and investments.

Source: DelVal, Moody's Ratings

Profile

DelVal was created in 1985 by Delaware County (Aa2 stable), Montgomery County (Aaa stable), Bucks County (Aa1 stable) and Chester County (Aaa stable) with the objective of providing low-cost loans to municipal borrowers in the region. The authority is governed by a 5-member board appointed by the four counties, with each county appointing one member and a fifth seat rotating among the counties.

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Detailed credit considerations

Credit strength and default tolerance: Solid pool of loans with adequate overcollateralization

The DelVal loan pool will continue to exhibit solid credit strength, as the authority mostly lends to higher-rated local governments in a wealthy region in suburban Philadelphia.

The authority lends primarily to local governments in Delaware, Chester, Montgomery and Bucks Counties.

The authority's biggest borrower is Delaware County, at 28% of the pool. Other large borrowers with public ratings include Bucks County (Aa1 stable) at 4%, Bristol Township (Aa3) at 6%, and Upper Dublin Township (Aa1) at 5%.

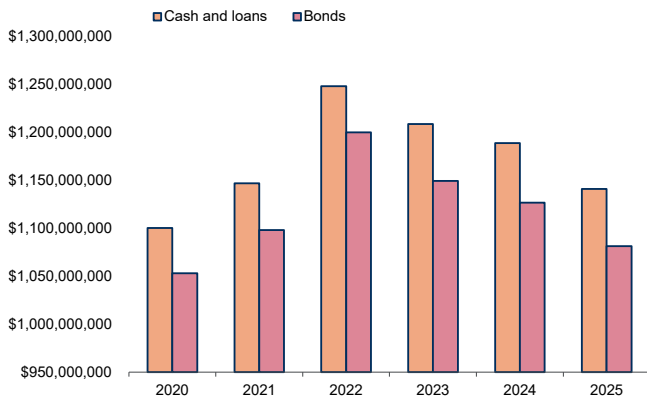
A few things protect the credit quality of the portfolio. The authority's covenants limit lending to lower-rated borrowers, and it often requires municipal guarantees or purchases bond insurance to help meet these covenants. Also, all school district borrowers' loans are enhanced under the Pennsylvania School District Intercept Program (Aa3 stable).

Lastly, the authority maintains some overcollateralization helping to generate additional default tolerance.

We do note that many pool programs have overcollateralization at a much greater level than DelVal's. Still, the solid general credit quality of the portfolio and the decent level of overcollateralization lead to an overall low-risk pool.

Exhibit 3

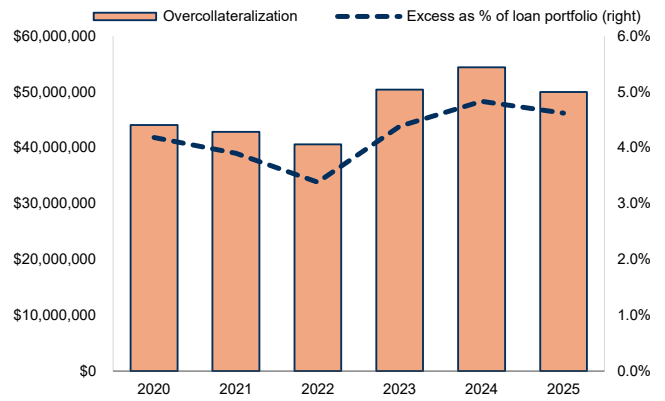
Assets exceed liabilities



Cash includes restricted cash.
Source: DelVal

Exhibit 4

Overcollateralization protects portfolio



"Excess" is defined as assets in excess of liabilities.
Source: DelVal

Portfolio diversity: Pool exposure generally concentrated in one region

Most of DelVal's loan pool is concentrated in the four-county region it serves. This represents some modest concentration risk relative to many other Moody's-rated pool programs, most of which are statewide. Concentration risk is mitigated by the stability and high credit quality of most borrowers.

Debt structure: Large variable rate and swaps portfolio presents some debt structure risks

The authority's heavy use of demand debt and interest rate swaps as a means of providing low-cost financing to borrowers in the region presents some debt structure risks for bondholders.

It is important to understand that the authority pays SIFMA (the short-term municipal index variable rate) on all of its bonds (either directly or synthetically through swaps), and receives SIFMA plus a modest spread on all of its loans (again, either directly or synthetically through swaps).

In order to achieve this, the authority has built a large portfolio of interest rate swaps.

DelVal's debt consists of a mix of fixed and variable rate bonds. For all the fixed rate bonds, the authority has entered into swaps under which it receives a fixed rate and pays SIFMA. For all the floating rate bonds, the authority has entered into swaps under which it receives the equivalent floating rate and pays SIFMA (to hedge basis risk). Under this structure, the authority's interest costs are entirely dictated by SIFMA or directly by the VRDO rates that SIFMA is designed to indicate.

Exhibit 5

DelVal's debt structure

Debt type	Par on 10/31/2025
Fixed rate	\$576,450,000
Variable rate demand obligations	\$305,000,000
Floating rate	\$200,000,000
Total	\$1,081,450,000

The interest costs on the fixed rate bonds are synthetically converted to SIFMA through swaps.

Source: DelVal

Loan structure

With all of its bond interest costs dictated by SIFMA, the authority then assures that the interest income from its loan portfolio is dictated by SIFMA as well. All of the participants in the pool either pay interest based on SIFMA plus a spread, or pay a fixed rate that the authority then synthetically converts into SIFMA through a swap under which it pays that fixed rate and receives SIFMA.

Note that achieving this structure has required the authority to be party to swaps with more than \$1.7 billion of notional value. Favorably, these swaps are all with highly rated counterparties, and few of them require the authority to post collateral under any circumstances.

ESG considerations

Environmental

Environmental risk is generally low for the local government sector and does not factor materially into DelVal's credit profile, as responsibilities of environmental risk mitigation falls to other overlapping government entities, largely separate from DelVal's underlying borrower pool. DelVal's underlying borrowers are mostly concentrated in southeastern Pennsylvania. Municipalities in this region face high risk of extreme rainfall and water stress. Projects exist at all levels of government to address environmental issues, and overall, environmental considerations are not a driver of DelVal's rating at this time.

Social

Social considerations, such as wealth indicators and other tax base and demographic metrics are considered at the underlying loan level. These inputs help to determine the overall credit quality of borrowers, but there are no social considerations at the program level that are key to DelVal's current credit profile.

Governance

Key-person risk and associated governance concerns are material to DelVal's credit profile. The current management and administration of the authority's revolving loan pool is strong and the program administrator continues to effectively monitor and manage the pool's financial operations in a sophisticated manner. Concentration of operational knowledge with the single program administrator, however, presents a risk given the pool's financial complexity and need for continual monitoring. This risk is partially offset by the use of automated clearing houses for the participants' loan payments and the diversification of trustees to create redundancies and separate the collection of loan payments from the payment of debt service, swaps, and administrative fees. Despite these precautions and the involvement of bond counsel, the solicitor, and the board in the approval of all new loans and the maintenance of legal compliance, the financial complexities of the pool's operations necessitate active management. Significant management oversight includes ensuring new loans are originated and structured appropriately, cash flows are monitored, loan interest rates are correctly adjusted, and loan repayments are reallocated to the appropriate bond series.

Rating methodology and scorecard factors

The Public Sector Pool Programs and Financings methodology includes a scorecard that summarizes the factors that are generally most important to assessing credit risk for loans and other debt and debt-like obligations issued by pools of public sector or nonprofit entities. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not match an assigned rating.

Exhibit 6

DelVal scorecard

Rating Factors	Input	Weight	Score
Credit Strength and Default Tolerance (50%)			
Credit Quality and Default Tolerance Score	Aa	50%	Aa
Diversity of Portfolio (20%)			
Number of Borrowers	96	10%	Aa
Percentage of Loan Principal to Borrowers that Represent Less than 1% of the Pool	21%	5%	Aa
Percentage of Loan Principal to Top 5 Borrowers	49%	5%	A
Debt Structure (30%)			
Cash Flows	A	20%	A
Counterparties	A	10%	A
Notching Factors			Up/Down
Unusually Strong or Weak Management			0.0
Concentration of Pool Participants in a Volatile Sector			0.0
Total Notching Adjustments			0.0
Scorecard Indicated Outcome			Aa3
Assigned Rating			A1

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.

Source: Moody's Ratings

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