

Rating Action: Moody's changes outlook of HFF (Iceland) to stable from negative

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Change of outlook follows sovereign rating action

London, 23 April 2010 -- Moody's Investors Service has today changed the outlook of the Baa3 issuer and local currency bond ratings of Iceland's Housing Financing Fund (HFF) to stable from negative. The rating action follows the outlook change of Iceland's Baa3 government foreign and local currency bond ratings to stable from negative.

HFF holds special status as a treasury Part C institution and is thus an agency of the Icelandic government. Should HFF's assets not be sufficient to cover its liabilities, a creditor would have a senior claim against the Icelandic government as the owner of HFF. This closeness to the government is the rationale for Moody's change in outlook on HFF's ratings.

Moody's pointed out that the change of outlook is not driven by a change in the rating agency's view of HFF's intrinsic financial strength or the probability of systemic support.

HFF's Baa3 rating reflects the application of Moody's rating methodology for government-related issuers (GRIs), under which it is based on (i) the intrinsic strength of HFF, represented by a BCA in the range of 14-16 (on a scale of 1 to 21, where 1 represents the lowest credit risk), (ii) the Baa3 government bond rating of the Republic of Iceland and (iii) a very high probability of systemic support for HFF.

The last rating action on HFF was on 6 April 2010 when Moody's changed the outlook of the Baa3 issuer and local currency bond ratings of Iceland's Housing Financing Fund (HFF) to negative from stable in line with the same rating action on the Icelandic government ratings.

The principal methodologies used in rating HFF are "Revised Methodology for Government Related Non-Bank Financial Institutions" and "The Application of Joint Default Analysis to Government Related Issuers". These are available on www.moody's.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Reykjavik, Iceland, HFF is a 100% government-owned Icelandic residential mortgage lender with a mission to support the government's housing policy. It had total assets of ISK795 billion (EUR4.4 billion) at the end of December 2009.

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