

Rating Action: Moody's upgrades HFF to Baa3 from Ba1 following the upgrade of Iceland

Global Credit Research - 03 Jul 2015

London, 03 July 2015 -- Moody's Investors Service has today upgraded the Housing Financing Fund's (HFF) issuer and senior unsecured ratings to Baa3 from Ba1. Moody's has also withdrawn HFF's caa1 baseline credit assessment (BCA) and, thus, based HFF's ratings solely on its linkages with the Icelandic sovereign. The outlook on HFF is stable. This rating action on HFF follows the recent upgrade of the Icelandic sovereign to Baa2, stable outlook, from Baa3. Please refer to Moody's separate press release "https://www.moodys.com/research/Moodys-upgrades-Iceland-s-sovereign-ratings-to-Baa2-outlook-stable--PR_327549"; for further detail on the sovereign rating upgrade.

RATINGS RATIONALE

Moody's upgrade of HFF's ratings reflects the guarantee the fund receives from the Icelandic government. Moody's assesses HFF to be of poor intrinsic financial strength, with low profitability (net income averaged -0.12% of tangible assets in 2013 and 2014), and low capitalisation (4.5% capital ratio at year-end 2014). However, should HFF fail to meet its obligations, a creditor would have a senior claim against the Icelandic government. Moody's has positioned HFF's ratings at one notch below the Icelandic sovereign rating to reflect that, under the guarantee, creditors would first have to pursue potentially lengthy legal procedures, before the government would be obliged to pay, thus raising some uncertainty over the timeliness of the guarantee.

Moody's has withdrawn HFF's caa1 BCA in reflection of the government guarantee and the fund's close linkages with the sovereign. HFF, which is fully government owned, is designated as a "Treasury Part C institution" that falls under the Ministry Of Welfare. The fund's liabilities are obligations of the government, and the government also includes regular capital contributions to the otherwise lowly capitalised HFF in its budgets. In addition, Moody's takes into account that HFF was established through specific legislation, and that its tasks are outlined in Housing Act 44/1998. Icelandic law does not permit bankruptcy proceedings against HFF.

OUTLOOK

The stable outlook on HFF's ratings reflects the stable outlook on its support provider, the Icelandic sovereign.

WHAT COULD CHANGE THE RATINGS UP/DOWN

In line with the existing guarantee, an upgrade or downgrade of the Icelandic sovereign could trigger an upgrade or downgrade of HFF. In addition, strengthening or weakening of the sovereign guarantee could lead to the rating being positioned closer to, or further below the sovereign rating.

The principal methodology used in these ratings was Government Related Issuers published in October 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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