

**Rating Action: Moody's places the Housing Financing Fund's Baa3 ratings on review for upgrade**

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Global Credit Research - 14 Jun 2016

**Rating review for upgrade driven by review of Iceland's government ratings**

London, 14 June 2016 -- Moody's Investors Service has today placed on review for upgrade the Baa3 issuer and backed senior unsecured debt ratings of the Housing Financing Fund (HFF). This rating action follows the recent rating action on the Iceland's Baa2 sovereign issuer rating, which was placed on review for upgrade on 10 June 2016. Please refer to Moody's separate press release [Moody's places Iceland's Baa2 sovereign rating on review for upgrade "https://www.moody.com/research/--PR\\_349992"](https://www.moody.com/research/--PR_349992) ; for further details on the recent sovereign rating action.

**RATINGS RATIONALE**

The review for upgrade on HFF's long-term issuer and backed debt ratings of Baa3 reflects the Icelandic government's improving credit fundamentals, as indicated by the review for upgrade on its Baa2 long-term ratings, and its capacity to support HFF through its guarantee. The key drivers on the review for upgrade on the Icelandic government's ratings are:

1. To evaluate whether the government's new fiscal strategy and tax reform will further improve its debt sustainability in the medium term; and
2. To determine whether the upcoming auction of offshore krónur assets will be effective in reducing or containing vulnerabilities in the country's external position and thus facilitating the generalized liberalization of capital controls

Moody's has positioned HFF's ratings one notch below the Icelandic sovereign's rating to reflect that, although the government is responsible for full payment of HFF's liabilities, there is no explicit guarantee on timely payment. In case of default of HFF, because under the guarantee creditors would first have to pursue potentially lengthy legal procedures before the government would be obliged to pay, which creates uncertainty over the timeliness of the repayment.

Moody's sees HFF's intrinsic financial strength as weak, characterised by low profitability and relatively modest capitalisation, with a tangible common equity over risk weighted assets at 5.5% as of end-2015. However, these vulnerabilities are mitigated by the state guarantee that allows for creditors to have a senior claim against the Icelandic government should HFF fail to meet its obligations.

**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.

**LIST OF AFFECTED RATINGS**

Placed on Review for Upgrade:

..Issuer: Housing Financing Fund

.... Long-term Issuer Rating, currently Baa3, outlook changed to rating under review from stable

....Backed Senior Unsecured Regular Bond/Debenture, currently Baa3, outlook changed to rating under review from stable

Outlook Actions:

....Outlook changed to rating under review from stable

## PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Government-related issuers published in October 2014. Please see the Ratings Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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