

Rating Action: Housing Financing Fund

Moody's downgrades HFF (Iceland) to Baa1 following sovereign downgrade

Outlook on ratings is negative

London, 04 December 2008 -- Moody's Investors Service has today downgraded the issuer rating and local currency bond ratings of Iceland's Housing Financing Fund ("HFF") to Baa1 from A1. The outlook on the ratings is now negative. As part of this rating action, Moody's lowered HFF's Baseline Credit Assessment (BCA) to the range of 8-10 from 2-4.

The rating action follows today's downgrade of Iceland's government foreign and local currency ratings to Baa1 with a negative outlook from A1. Moody's also downgraded Iceland's foreign currency bond ceiling to A2/negative and the foreign currency deposit ceiling to Baa1/negative. In addition, the local currency deposit ceiling (LCDC) was lowered to A1 from Aaa. (See Moody's separate press release on Iceland's ratings.)

"The Baa1 ratings of HFF reflect the application of Moody's rating methodology for government-related issuers (GRIs) and are based on (i) the intrinsic strength of HFF, which is represented by a Baseline Credit Assessment in the range of 8-10 (on a scale of 1 to 21, where 1 represents the lowest credit risk), (ii) the A1 local currency deposit ceiling of the Republic of Iceland, and (iii) a high probability of systemic support for HFF," explains Kimmo Rama, Moody's lead analyst for HFF.

Moody's notes that HFF enjoys a special status as a Treasury Part C institution, which means that it is 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.

Moody's decision to lower HFF's BCA reflects its weakened profitability and concerns with regard to its asset quality development in light of the rapidly weakening credit environment in Iceland. Moody's also notes that HFF's profitability and capitalisation are likely to be further negatively affected by potential losses stemming from its exposure to Icelandic banks. HFF estimates that these losses will be in the range of ISK8-12 billion, which could result in the capital adequacy ratio decreasing to close to or even below 4%, compared to the 8% reported at end-June 2008. Nevertheless, the final loss will not be known for certain until after HFF's settlement with the banks' receivership committees.

Moody's previous rating action on HFF was on 8 October 2008, when the ratings were downgraded to A1 following the previous sovereign downgrade.

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", which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating HFF can also be found in the Credit Policy & Methodologies directory.

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 ISK663 billion (EUR5 billion) at the end of June 2008.

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