

**Rating Action: Moody's changes outlook to negative for the Housing Financing Fund's Baa3 ratings**

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Global Credit Research - 30 Jul 2010

London, 30 July 2010 -- Moody's Investors Service has today changed to negative from stable the rating outlook for the Baa3 bond issuer and local currency bond ratings of Iceland's Housing Financing Fund (HFF).

The rating action on HFF follows yesterday's change in rating outlook for the sovereign. Please refer to our separate press release on the sovereign "Moody's changes outlook to negative for Iceland's Baa3 sovereign rating" for further detail on the sovereign outlook change.

**RATIONALE FOR NEGATIVE OUTLOOK FOR HFF**

HFF is an agency of the Icelandic government (specifically, it holds special status as a treasury Part C institution). 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.

Based on the application of Moody's rating methodology for government-related issuers (GRIs), HFF's Baa3 rating reflects (i) the intrinsic strength of HFF, as represented by a baseline credit assessment in the range of 14-16 (on a scale of 1 to 21, where 1 represents the lowest credit risk); (ii) Iceland's Baa3 sovereign rating; and (iii) a very high probability of systemic support for HFF.

The change of outlook for HFF is in line with the change of outlook of the sovereign, and is not driven by a change in the rating agency's view of HFF's intrinsic financial strength or the probability of systemic support.

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.

**PREVIOUS RATING ACTION & METHODOLOGY**

The last rating action on HFF was on 23 April 2010 when Moody's changed the outlook of the Baa3 issuer and local currency bond ratings of HFF to stable from negative in line with the same rating action on the Icelandic sovereign ratings.

The principal methodologies used in rating HFF are "Revised Methodology for Government Related Non-Bank Financial Institutions" and "Government Related Issuers: Methodology Update". These methodologies can be found at [www.moody.com](http://www.moody.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 the issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

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