



Moody's Investors Service

Rating Action: Moody's downgrades HFF (Iceland) to Baa3 following sovereign downgrade

Global Credit Research - 11 Nov 2009

London, 11 November 2009 -- Moody's Investors Service has today downgraded the issuer rating and local currency bond ratings of Iceland's Housing Financing Fund (HFF) to Baa3 from Baa1. The rating action follows today's downgrade of Iceland's government foreign and local currency bond ratings to Baa3 from Baa1. The outlook on HFF's ratings is now stable, in line with the stable outlook on the sovereign rating.

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 rating action on the entity.

HFF's Baa3 revised 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 implemented on 25 June 2009 when Moody's affirmed the Baa1 issuer rating and local currency bond ratings. It also lowered HFF's standalone BCA to the range of 14-16 from 8-10.

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 ISK767 billion (EUR4.3 billion) at the end of June 2009.

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