



Rating Action: Moody's assigns a Aaa rating to Hawaii Housing Finance and Development Corporation's Single Family Mortgage Purchase Revenue Bonds, 2013 Series A; Outlook is Negative

Global Credit Research - 21 Feb 2013

New York, February 21, 2013 -- Moody's Rating

Issue: Single Family Mortgage Purchase Revenue Bonds, 2013 Series A; Rating: Aaa; Sale Amount: \$27,000,000; Expected Sale Date: 3-14-2013; Rating Description: Mortgage: Single-Family: GNMA/FNMA/FHLMC

Opinion

Moody's Investors Service has assigned a rating of Aaa to Hawaii Housing Finance and Development Corporation's Single Family Mortgage Purchase Revenue Bonds, 2013 Series A (FNMA MBS Pass-Through Program) (Taxable), with a par amount of \$27,000,000. We have also affirmed the rating on all of the parity bonds issued under the Single Family Mortgage Purchase Revenue Bond Trust Indenture (approximately \$107 million outstanding as of 1/31/13). The outlook for the ratings is negative.

SUMMARY RATINGS RATIONALE

The rating is based on the high level of security provided by the strong asset- to- debt ratio of the Indenture, Indenture assets consisting of mortgage-backed securities (MBSs) issued by Ginnie Mae and Fannie Mae, and a sound legal structure.

The negative outlook is based on the outlook for the rating of the US government.

STRENGTHS

Strong balance sheet, with a PADR of 1.195 as of 6/30/12

Pledged assets consist primarily of MBS, minimizing risk of losses due to mortgage loan delinquencies or foreclosures

Debt consists of long-term fixed-rate bonds

CHALLENGES

Profitability declined in FY 2012 (net revenue -0.32% of gross revenue), due primarily to costs of reactivating the program and negative arbitrage on bond proceeds not yet converted to MBS; the 2013 Series A refunding is anticipated to improve performance by reducing the cost of bonds

Certain Indenture funds are invested in repurchase agreements with Societe Generale, with rating (A2/P1, stable) below the level provided full credit under our methodology; however, 2013 Series A refunding will result in a reduction of Societe Generale exposure, and cash flows demonstrate ability to absorb haircuts on Societe Generale investments

Outlook

The outlook on the rating is negative based on the outlook for the rating of the U.S. Government.

What Could Make the Rating Go Up

NA

What Could Make the Rating Go Down

Downgrade of the US

Material downgrade of investment providers

Significant deterioration of indenture financial performance, including reductions in asset to debt ratios, erosion of profitability or weakened cash flows

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was U.S. Housing Finance Agency Single Family Programs published in February 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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