FitchRatings

FITCH RATES HAWAII HOUSING FIN & DEVEL CORP.'S 2013 SERIES A BONDS 'AAA'; OUTLOOK NEGATIVE

Fitch Ratings-New York-25 February 2013: Fitch Ratings has assigned an 'AAA' rating to the following Hawaii Housing Finance and Development Corporation (HHFDC) mortgage revenue bonds (mortgage-backed securities program):

--$27 million HHFDC mortgage revenue bonds, 2013 series A (Taxable).

Additionally, Fitch affirms approximately $85.3 million in mortgage revenue bonds (see full list below) of the approximate $119.6 million of total parity debt outstanding under the indenture. The difference between the outstanding bond amount of Fitch-rated debt and total debt outstanding under the indenture is from debt obligations for which a Fitch rating was not requested.

The Rating Outlook for the bonds is Negative.

SECURITY

The bonds are secured by Ginnie Mae (GNMA) and Fannie Mae (FNMA) mortgage-backed securities (MBS), pledged revenues, and funds and accounts deposited in the indenture.

KEY RATING DRIVERS

FNMA GUARANTEE: The 'AAA' rating on the 2013 Series A bonds reflects the underlying mortgage-backed pass-through securities, which are guaranteed as to timely payment of principal and interest by FNMA regardless of the performance of the loans. Each MBS corresponds 100% to a 2013 series A bond.

HIGHLY SECURE PORTFOLIO: The 'AAA' rating on the parity bonds under the indenture reflects the current and projected composition of the single-family mortgage portfolio, which consists of 97% Ginnie Mae and Fannie Mae MBS (both rated 'AAA', Negative Outlook by Fitch).

SUFFICIENT ASSET PARITY: Under stressed cash flow scenarios, which include various prepayment speeds and loan originations, the program had a minimum asset parity of 131%.

STRONG RESERVE REQUIREMENTS: The master indenture requires a debt service reserve account be maintained at a minimum of 10% of outstanding bonds. Additionally, a mortgage reserve account is required to be maintained at a minimum of 1% of outstanding mortgages.

RATING SENSITIVITY

RELIANCE UPON U.S. SOVEREIGN RATING: Since the rating of FNMA is directly linked to the U. S. sovereign rating (rated 'AAA', Negative Outlook), it will continue to move in tandem; therefore, a downgrade of the U. S. sovereign rating would result in a downgrade of these bonds to reflect the U.S. rating.

FNMA: The possibility that the rating of FNMA could be delinked from the U.S. sovereign rating could result in a negative rating action on the indenture.

CREDIT PROFILE

The 2013 series A bonds are the 32nd series of bonds to be issued under a master indenture, dated Jan. 1, 1980. The 2013 series A bond proceeds are expected to be used to economically refund older debt obligations in the indenture. Subsequently, all underlying FNMA mortgage-backed securities from the older debt obligations will be transferred to the 2013 series A bonds. Upon transfer, the bonds will be in a direct pass-through structure, where monthly principal and interest payments flow directly to bondholders.

While being designed in a pass-through structure, the bonds are being issued on parity with the other debt obligations under this master indenture. As of June 30, 2012, the program had $119.585 million outstanding in non-escrow bonds, secured by $64.2 million in loans and $93.8 million in cash and investments. The 'AAA' rating on the bonds primarily reflects the current and projected composition of the single-family mortgage portfolio, which consists of 97% Ginnie Mae and Fannie Mae mortgage backed securities. Only 3% of the loan portfolio consists of first-lien whole loans.

The rating and Rating Outlook of FNMA is currently linked to the U.S. sovereign rating, which reflects the U.S. government's direct financial support of FNMA. Fitch's view is this support was strengthened by the most recent U.S. Treasury's Senior Preferred Stock Purchase Agreement. However, should Fitch's view of this strength of support be reduced, the rating of FNMA could be delinked from the U.S. sovereign which would negatively affect the FNMA rating.

In addition to a strong underlying portfolio, the program also demonstrates sufficient over-collateralization. The cash flows, under a variety of stressed scenarios, show a minimum asset parity of 131% throughout the term of the bonds. While current asset parity is high, the indenture allows for excess funds to be withdrawn down to 102%. Concerns over future withdrawals of assets are mitigated by the indenture's strong reserve requirements. The master indenture requires a debt service reserve account be maintained at a minimum of 10% of outstanding bonds. Additionally, a mortgage reserve account is required to be maintained at a minimum of 1% of outstanding mortgages.

Additionally, Fitch affirms the following ratings at 'AAA':

--$1.8 million HHFDC mortgage revenue bonds, 2000 series A
--$14.7 million HHFDC mortgage revenue bonds, 2002 series A & B
--$18.9 million HHFDC mortgage revenue bonds, 2005 series A & B
--$30 million HHFDC mortgage revenue bonds, 2009 series A-1
--$20 million HHFDC mortgage revenue bonds, 2011 series A & B

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

--'State Housing Finance Agencies: Single-Family Mortgage Program Rating Criteria', (Aug 06, 2012);
--'Revenue-Supported Rating Criteria', (June 12, 2012);
--'Fitch Affirms Fannie Mae and Freddie Mac at 'AAA'; Outlook Negative', (Nov 28, 2012).

Applicable Criteria and Related Research
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681015
State Housing Finance Agencies: Single-Family Mortgage Program Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=684412