

# FitchRatings

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November 17, 2011

Mrs. Karen Seddon  
Executive Director  
Hawaii Housing Finance & Development Corp.  
677 Queen Street, Suite 300  
Honolulu, HI 96813

Dear Mrs. Seddon:

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It is important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason Fitch deems sufficient.

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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time.

Jeff Schaub  
Managing Director, Operations  
U.S. Public Finance /  
Global Infrastructure & Project Finance

JS/mb

Enc: Notice of Rating Action  
(Doc ID: 167450)

## Notice of Rating Action

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<u>Bond Description</u>	<u>Rating Type</u>	<u>Action</u>	<u>Rating</u>	<u>Outlook/ Watch</u>	<u>Eff Date</u>	<u>Notes</u>
Hawaii Housing Finance & Development Corp. (HI) single-family mtge purchase rev bonds ser 2009A-1	Long Term	New Rating	AAA	RO:Sta	15-Nov-2011	
Hawaii Housing Finance & Development Corp. (HI) single-family mtge purchase rev bonds ser 2011A	Long Term	New Rating	AAA	RO:Sta	15-Nov-2011	
Hawaii Housing Finance & Development Corp. (HI) single-family mtge purchase rev bonds ser 2011B	Long Term	New Rating	AAA	RO:Sta	15-Nov-2011	

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Key: RO: Rating Outlook, RW: Rating Watch; Pos: Positive, Neg: Negative, Sta: Stable, Evo: Evolving

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# FitchRatings

## **Fitch Rates Hawaii Housing Finance & Development Corp's \$50MM 2011A & 2009A-1 Bonds 'AAA' Ratings**

15 Nov 2011 4:53 PM (EST)

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Fitch Ratings-New York-15 November 2011: Fitch Ratings has assigned an 'AAA' rating to the following Hawaii Housing Finance and Development Corporation (HHFDC) mortgage revenue bonds (mortgage backed securities program):

- \$20,000,000 series 2011 A and B;
- \$30,000,000 series 2009A, subseries A-1.

The bonds are expected to be sold the week of Nov. 21, 2011 and close on or about Dec. 1, 2011.

Fitch also affirms the 'AAA' rating on the \$183.2 million of parity bonds outstanding under the general indenture as of Oct. 1, 2011.

The Rating Outlook for the bonds is Stable.

### SECURITY

The bonds are secured by Ginnie Mae and Fannie Mae Mortgage Backed Security (MBS), pledged revenues, and funds and accounts deposited in the Indenture.

### KEY RATING DRIVERS

**Strong Portfolio Composition:** The long-term 'AAA' rating reflects the current and projected composition of the single-family mortgage portfolio, which consists of 98% Ginnie Mae and Fannie Mae MBS. Once the mortgage loans are originated, they are pooled into MBS, which are fully guaranteed for timely payment regardless of the actual performance of underlying loans. Ginnie Mae MBS are guaranteed by the U.S. government (rated 'AAA' with a Stable Outlook by Fitch). Fitch rates Fannie Mae and Freddie Mac MBS 'AAA' with a Stable Outlook.

**Maintenance of Asset Parity:** The rating also reflects the trust indenture requirement that the program minimum asset parity be maintained at 102% net of stress scenarios. Consolidated cash flows provided to Fitch demonstrate full and timely bond payments under various prepayment and origination scenarios, with an aggregate asset parity maintained at a minimum of 129% throughout the term of the bonds.

**Debt Service Reserve Fund Requirements:** The master trust indenture requires debt service reserve funding of 10% of the outstanding bonds amount. The debt service reserve is fully funded.

### CREDIT PROFILE

The \$30 million 2009 subseries A-1 bonds constitute the first release from the \$100 million 2009 A escrow bonds originally issued under the Dec. 1, 2009 indenture as part of the New Issue Bond Program (NIBP). The bond proceeds were held in an escrow account and secured solely by amounts on deposit in the escrow account and investment earnings from the account. Upon release of the subseries A-1 bonds, approximately \$70 million will remain in the series 2009A escrow account. The \$20 million series 2011A and B bonds will be issued under the thirty-fourth supplemental indenture issued under the Jan. 1, 1980 master indenture. All bonds under the master trust are on parity.

Bond proceeds will be held in investments permitted under the program legal documents until used to purchase Ginnie and Fannie Mae MBS or until the end of the delivery period. Approximately \$6.5 million of proceeds will be used to purchase MBS on the date of delivery. Of the remaining \$44 million in proceeds all is expected to be used to purchase MBS by June 30, 2015. Consolidated cash flows reflect last-day origination and non-origination scenarios demonstrating that the assets in the indenture can absorb the negative arbitration under the non-origination scenario.

Since Treasury's authority to complete these transactions under the Housing Economic Recovery Act of 2008 was due to expire on Dec. 31, 2010, all NIBP related transactions were to be completed prior to year end 2010. However, the expiration date was extended for a year and the program now allows issuers to close prior to the Dec. 31, 2011 deadline. The funds may be held in escrow up until Dec. 31, 2011, at which point they are subject to mandatory redemption on Feb. 1, 2012 (or an earlier date selected by HHFDC).

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Additional information is available at '[www.fitchratings.com](http://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:

- Single Family Mortgage Program Rating Criteria', dated Aug. 15, 2011;
- 'Revenue-Supported Rating Criteria', dated June 20, 2011.

**Applicable Criteria and Related Research:**

State Housing Finance Agencies: Single-Family Mortgage Program Rating Criteria  
Revenue-Supported Rating Criteria

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