

**CREDIT OPINION**

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**Update**
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# Hawaii Housing Finance and Development Corp Rental Housing Prog System Rev Bonds

Update - Moody's upgrades to A1 from A2 Hawaii Housing Fin & Dev Corp Rental Housing Prog System Rev Bds; outlook stable

**Summary Rating Rationale**

Moody's Investors Service has upgraded the rating on the Hawaii Housing Finance and Development Corporation's (the "Corporation") Hawaii Rental Housing Program System Revenue Bonds (the "Bonds") to A1 from A2. The outlook on the rating is revised to stable from negative.

The A1 rating is based primarily on the general obligation pledge of the Corporation, whose issuer rating was upgraded to A1. The rating is also based on the favorable performance of the multifamily housing developments whose revenues are pledged to Bond repayment, Indenture reserves that provides additional protection, and the legal provisions of the Bond Indenture.

**Credit Strengths**

- » The general obligation pledge of the Corporation (A1 stable). The Corporation has a very strong financial position, with an asset-to-debt ratio of 3.29 and profitability (net revenue as a percentage of total revenue) of 61.46% as of June 30, 2015. This represents total assets and revenue on balance sheet and does not represent an adjustment based on assets available to satisfy its general obligations.
- » Favorable performance of the underlying multifamily housing developments, including debt service coverage over the last three fiscal years that has ranged from approximately 1.18x to 1.49x based on Moody's analysis of project financial results over this time period and project occupancy in the 99% range.

**Credit Challenges**

- » The credit challenges of the Corporation, as described in the recently published Credit Opinion on the Corporation.
- » The general challenges related to the operation of residential real estate properties and maintenance of net project income.

## Rating Outlook

The stable outlook reflects the strong financial position of the Corporation, its stable rating outlook and its general obligation pledge. It also reflects the strong performance of the projects supporting the Bonds.

## Factors that Could Lead to an Upgrade

- » Upgrade of the Corporation's issuer rating.

## Factors that Could Lead to a Downgrade

- » Downgrade of the Corporation's issuer rating.

## Key Indicators

Exhibit 1

### Hawaii Housing Finance and Development Corp. Rental Housing Program System Revenue Bonds

(Year Ending 06/30)	2011	2012	2013	2014	2015
Total Bonds Outstanding	92,935	90,440	87,855	85,170	82,385
Profitability	19.69%	18.65%	20.35%	26.62%	27.80%
Debt Service Coverage	1.12	1.09	1.18	1.42	1.49
Occupancy	92.87%	95.42%	99.01%	99.18%	99.75%

Source: Issuer and Moody's Investors Service adjusted issuer financial statements

## Recent Developments

Recent developments are incorporated in the Detailed Rating Considerations.

## Detailed Rating Considerations

### Portfolio

The Bonds are supported by a pledge of the revenues from six real estate developments that were financed with Bond proceeds and which are owned and operated directly by the Corporation. The projects include three high-rise, mixed-use (commercial combined with affordable rental) properties in the Honolulu area (composed of between 226 and 268 units each) and three garden-style projects located in West Oahu and on the islands of Maui and Hawaii, respectively (80, 184 and 200 units respectively). One project is for elderly residents and the remaining five are family rentals. Over the past 3 years, the average annual occupancy level for all 6 properties combined has been about 99% and no single project has had an occupancy level below about 98%.

### Financial Position and Performance: The Corporation's Strong Financial Position Provides Primary Support for Repayment of the Bonds

The Bonds are primarily supported by a general obligation pledge from the Corporation, whose rating is A1. The Corporation's financial position is very strong. The Corporation's June 30, 2015 audited financial statements (after Moody's adjustments) show an asset-to-debt ratio of 3.29 and profitability (net revenue as a percentage of total revenue) of 61.46%. This represents total assets and revenue on balance sheet and does not represent an adjustment based on assets available to satisfy its general obligations. Further information on the Corporation's rating can be found in Moody's recently published Credit Opinion on the Corporation.

Debt service coverage over the last three fiscal years has ranged from approximately 1.18x to 1.49x based on Moody's analysis of project financial results over this time period. These coverage levels include rental subsidies received from the Corporation's state-funded Rental Assistance Revolving Fund.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

**LIQUIDITY**

Significant cash reserves are being held under the Bond Indenture which are adequate to cover over a year of debt service coverage. In addition, the Corporation has a significant cash position relative to its outstanding debt and to Bond debt service.

**Legal Framework, Covenants and Debt Structure****DEBT STRUCTURE**

The total principal amount of Bonds outstanding as of June 30, 2015 was about \$82.4 million, all of which is fixed rate.

**DEBT-RELATED DERIVATIVES**

None.

**PENSIONS AND OPEB**

Not a material factor for this rating action.

**Management and Governance**

The Corporation's management team is viewed by Moody's as competent in managing its existing core business and dedicated to fulfilling the Corporation's mission to increase the supply of affordable housing within the State. The managing style is conservative. The Corporation has insulated its single family bond program from loan losses through the purchase of MBS. In addition, the Corporation does not have any variable rate debt exposure or significant counterparty exposure. Corporation management has exhibited a high degree of hands-on familiarity with the projects, the Corporation's offices are located in one of the projects and two other projects are close by in downtown Honolulu. Management was also successful in correcting certain occupancy problems that existed in prior years.

**Legal Security**

The Bonds are supported by a pledge of revenues from the projects financed through Bond proceeds, as well as a general obligation pledge of the Corporation. The Bonds are not obligations of the State. The Bond Indenture includes a covenant to maintain overall available revenues sufficient to provide 1.25x debt service coverage from all available revenues and 1.10x from project revenues.

**Use of Proceeds**

Not applicable.

**Obligor Profile**

The Corporation was established by the State Legislature in 2006 and organized in its present form as a successor to a previous corporation that combined the State's housing finance agency and public housing authority. The 2006 reorganization separated the public housing and housing finance agency functions so that the Corporation is now focused solely on affordable housing finance activities and not public housing. The Corporation's mission is to increase the supply of workforce and affordable homes by providing tools and resources to facilitate housing development.

The Corporation is governed by a Board of Directors which consists of nine members, six of whom are public members appointed by the Governor, and confirmed by the State Senate. Public members are appointed from each of the counties of Honolulu, Hawai'i, Maui, and Kaua'i. At least four of the public members must have knowledge and expertise in public or private financing and development of affordable housing. At least one public member represents community advocates for low-income housing affiliated with private nonprofit organizations that serve the residents of low-income housing. The Director of Business, Economic Development and Tourism; the Director of Finance; and a representative of the Governor's Office are ex-officio voting members.

**Methodology**

The principal methodology used in this rating was U.S. Housing Finance Agency Issuer Rating Methodology published in May 2014. Please see the Ratings Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.