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The Housing Finance Corporation Ltd.

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The Housing Finance Corporation Ltd.

Major Rating Factors

Issuer Credit Rating
A+/Stable/A-1

Strengths:

- Relatively strong franchise value.
- Strong support from the U.K. government, which underpins borrower creditworthiness.
- Robust collateralization of loan book.
- Match-funded approach minimizes asset-liability risk.

Weaknesses:

- Modest liquid financial resources that heighten liquidity risk, especially when refinancing is due.
- Exposure to a single sector, with borrower-concentration risk.
- Low absolute level of earnings.
- Vulnerable to operational risk stemming from small staff numbers and key personnel risk.

Rationale

The 'A+/A-1' ratings on The Housing Finance Corporation Ltd. (THFC), a small not-for-profit financial intermediary, reflect THFC's long-standing franchise in the social housing sector, strong ongoing government support for its borrowers, the robust collateralization of its loan book, and its match-funded approach, which among other things, helps to mitigate asset-liability risk. The ratings are constrained by Standard & Poor's Ratings Services' view of THFC's modest, albeit growing, liquid financial resources; its low absolute level of earnings; relative lack of diversification; and the operational risk inherent to a small business operation. Our ratings do not factor in any uplift from potential direct extraordinary government support for THFC.

The 'AA-' rating on debt issued by T.H.F.C. (Funding No. 1) PLC reflects the corporate credit rating on THFC and the enhancement provided by a liquidity facility that is equivalent to 24-months interest on outstanding debt, which is available to the issuer to use as required. The 'A+' rating on the debt issued T.H.F.C. (Funding No. 2) PLC is linked to the corporate credit rating on THFC.

In our view, THFC has a long-standing franchise in the social housing sector, being, for most registered providers (RPs) of social housing, the main alternative to bank finance. We believe that there may be renewed interest in THFC's products from small- and midsize registered social housing providers. In our view, this is caused by recent reductions in grant allocations from the central government and the limited availability of bank finance. In recent years, THFC has been actively seeking to expand its business in Scotland, Wales, and Northern Ireland. In line with its strategy, THFC has garnered higher fees for its services and increased its income through annual agency and management fees.

In our opinion, THFC's ability to meet its financial obligations is mainly dependent on receipts from its underlying RP borrowers. Our experience of the sector leads us to believe that there is a "moderately high" likelihood of extraordinary support for these borrowers from the U.K. government, and we factor this into our analysis. According to THFC, the collateralization of loans made to underlying borrowers is generally 150%, averaging

230% across the portfolio, when calculated on a market value (subject to tenancy) basis. We believe that this robust collateralization could cover substantial recoveries if needed.

We consider THFC's thin capitalization, and resultant modest liquid financial resources, to be a key weakness that constrains the ratings. On March 31, 2010, the capital base of £5.8 million provided support to loan assets of £1.26 billion. By end-March 2011, we expect the level of reserves to have increased to about £6.6 million, supporting loan assets of about £1.38 billion. In addition, THFC's relatively narrow line of lending business presents single-industry risk. While there is quite high single-name exposure to some RPs, the risk is to a certain extent mitigated by additional, dedicated debt-service reserves.

While we consider THFC's enterprise risk management framework to be adequate, we note that it is a small organization, leaving it somewhat vulnerable to staff turnover, key personnel risk, and other operational risks. Although THFC's business model offers good operating leverage in a growing market, by contrast we consider that THFC would have limited flexibility to quickly adjust costs in the event that new business volumes were to fall materially.

As THFC lends on substantially the same terms at which it borrows, structural interest rate risk is minimal. However, the low interest rate environment has led to lower investment income for THFC and we expect this to continue in the short-to-medium term and, while we expect reserves to marginally increase, this would not represent a material strengthening.

Outlook

The stable outlook reflects our base-case expectation of satisfactory volumes of new lending, continued support of U.K. government to the social housing sector, the maintenance of the quality and the diversity of THFC's loan portfolio, and its prudent lending policies. We expect earnings to be lower in the coming financial year, but that they will remain satisfactory.

The rating could come under pressure if THFC is unable to write new business in the short term and its reserves are eroded substantially as it absorbs losses in the loan portfolio or if, in our opinion, there is a significant change in government policy resulting in reduced support for the housing sector. Conversely, if new business mandates rise and this leads to a material strengthening of profits and a build-up in capital, we may consider raising the ratings. We do not view these scenarios as likely in the medium term. Further, in the short-to-medium term, we believe that key personnel risk and THFC's modest liquid financial resources will likely cap the ratings at their present level.

Peer Analysis: Specialist Public Sector Lender, But With Weaker Government Links Than Its Nearest Peers

In our view, THFC has no close peers across the European finance companies rated by Standard & Poor's, although we do see similarities with the Nordic municipal funding agencies (see table 1) and to some extent two Dutch public sector banks, Bank Nederlandse Gemeenten N.V. (BNG, AAA/Stable/A-1+) and Nederlandse Waterschapsbank N.V. (NWB, AAA/Stable/A-1+). These municipal funding agencies and banks focus on supplying low-cost funding to the local and regional government (LRG) sectors in their respective countries, providing them with low-risk assets.

Table 1

Peer Comparison

	The Housing Finance Coporation Ltd	Kommuninvest i Sverige AB	KommuneKredit	KBN Kommunalbanken Norway	Bank Nederlandse Gemeenten NV
Issuer credit rating	A+/Stable/A-1	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+
Country	U.K..	Sweden	Denmark	Norway	Netherlands
Sovereign credit rating	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+
Establishment date	1987	1986	1898	1926	1914
Guarantee structure	14% owned by a government agency. No guarantee.	Joint and several guarantee from local and regional governments	Joint and several guarantee from local and regional governments	100% owned by the Norwegian government. Letter of support from owner.	Owned 50% by central government, 50% by Dutch municipalities and provinces. No guarantee.
Estimated market share (%)	3	40	More than 90	47	40-60
Competition	Moderate	Limited	Very limited	Limited	Limited
Total adjusted assets (£ billion)	2.2	16.0	17.3	25.1	170.7
Adj. total equity/adj. assets (%)	0.4	0.3	3.1	1.9	1.8
Adj. total equity/customer loans (%)	0.5	0.4	3.9	2.8	2.7
Government-related entity?	No	No	No	Yes	Yes

Financial data as at Dec. 31, 2009, except March 31, 2009 for THFC.

All of these entities have very strong credit profiles with similarly high asset quality and all are wholesale-funded. THFC faces less asset-liability risk, in our view, due to it being entirely match-funded. However, we consider its financial profile to be weaker than these peers due to:

- Higher credit risk: whereas its peers lend wholly or almost exclusively to entities benefiting from government guarantees, THFC's borrowers are not guaranteed, although they are, in our view, government-related entities (GREs). To help mitigate this higher risk of loss, THFC lends only on a highly secured basis.
- Weaker capitalization: all these entities are quite highly leveraged, but THFC, like Kommuninvest, has a notably small capital base compared with its adjusted assets; and
- Higher liquidity risk: this results mainly from THFC's low capitalization and consequent financial resources. Also, unlike Kommuninvest and the Dutch banks, THFC does not have central bank access to repurchase agreement transactions.

With regards to the business profile, all these entities are specialist lenders to some degree, although most lend to a variety of public sector entities, not just to the social housing sector. In our view, while we consider THFC to be highly visible as a lender to the social housing sector, it is also notable for its low market share in comparison with these peers and the greater competition that it faces from other lenders. It is also a much smaller institution, measured by adjusted assets.

Importantly, unlike some of these peers, we do not regard THFC as a GRE. This partly reflects THFC's more modest market position, but is mainly driven by its rather different ownership and support structure. Unlike these peers, THFC is neither majority-owned by, nor benefits from guarantees by, central or local government.

Business Profile: Small Financial Intermediary To The Social Housing Sector

Since 1987, THFC has been a financial intermediary for the social housing sector, borrowing from banks and the capital markets to lend to RPs. This provides RPs cost-effective and reliable access to the capital markets and other lending institutions, like the European Investment Bank (EIB), which they ordinarily may not have access to. It also allows investors to lend to the sector while diversifying their risk across underlying RPs.

At end-March 2010, THFC and subsidiaries together had loan assets of £2.14 billion, representing about 3% of private lending to the sector. As such, THFC ranks behind several major U.K. banks in order of total funds lent to the sector, with the largest RPs being additionally able to go direct to the capital markets themselves. However, despite this seemingly modest position, we consider THFC's franchise to be strong, reflecting the important niche role that it plays, its long track record, and its strong relationships and high profile with borrowers. In our view, THFC's franchise and reach into the sector is evidenced by the EIB's longstanding use of THFC as one of the main conduits of its U.K. housing regeneration funding.

Ownership And Legal Status: Independent Not-For-Profit Society

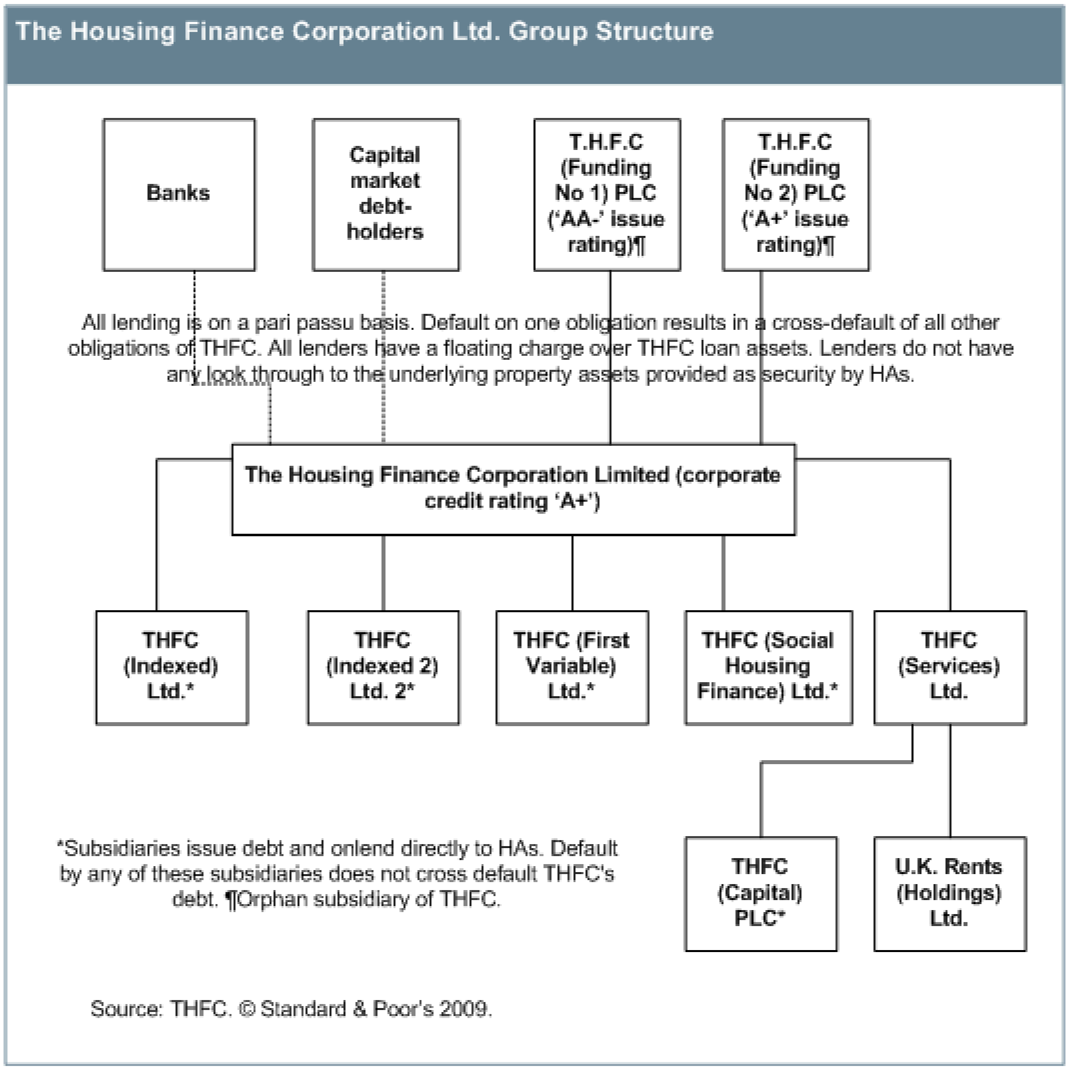
THFC is a finance company with the legal status of an Industrial and Provident (I&P) society. It operates under rules registered and approved by the Registrar for Friendly Societies, which is part of the Financial Services Authority (FSA). THFC is, however, not regulated by the FSA.

THFC is owned by seven non-executive board members, each of which holds one share. Notably, one of the shares is held on behalf of the Tenant Services Authority (TSA), a government agency and the social housing regulator. However, in view of this minor holding, TSA's inability to inject capital, and the relatively minor role THFC plays as a lender in relation to the size of the sector, we do not classify THFC as a GRE, as defined by our GRE criteria (see "Enhanced Methodology And Assumptions For Rating Government-Related Entities," published June 29, 2009, on RatingsDirect). Although the TSA will be abolished and a new committee will be set up to assume the role of economic regulator to the sector, we understand that this shareholding will pass on to the new committee or the Homes and Communities Agency.

While we do not view THFC itself as a GRE, in our view the credit quality of THFC is largely affected by the credit quality of its underlying borrowers, who we do classify as GREs, and for whom we believe there is generally a "moderately high" likelihood of extraordinary government support. This is in addition to the significant amount of ongoing support that is also factored into our ratings of RPs.

Group Structure : A Network Of I & P Societies

THFC is the parent company with several wholly owned subsidiaries. THFC (Services) Ltd. provides all administrative and management services to THFC and its main subsidiaries.



The subsidiaries are separately constituted I & P (Industrial & Provident) societies that were set up to issue bonds and onlend the proceeds to selected RPs. Importantly for THFC, a failure by any of these subsidiaries to service its respective debt would not result in a contractual cross-default of THFC's financial obligations. However, we believe that THFC's management would feel obliged to support a failing subsidiary, as long as doing so would not compromise the financial viability of THFC. The debt issued by these subsidiaries is not rated by Standard & Poor's.

THFC also has two orphan funding subsidiaries--T.H.F.C Funding (No 1) and T.H.F.C Funding (No 2). Debt issued by these two subsidiaries is rated by Standard & Poor's and the proceeds are onlent to THFC (see section on "Funding").

All lending to THFC by these funding subsidiaries, banks, and debtholders is on a pari passu basis, and defaults on any of these financial obligations would result in a cross-default of all THFC's other financial obligations. In such a situation we would expect the receiver appointed at the time to work in the best interests of all lenders.

All lenders to THFC are secured by floating charges on the loan assets of THFC--they have no direct access to the property collateral provided to THFC for loans that it makes to RPs. Therefore, in the event of a THFC default, lenders would have access to its loan assets alone and recovery will likely depend on the market value of those loans at that time.

Governance And Management : Skilled Board And Capable Management

We believe that the governance arrangements in place are adequate, although we do note the conflicts of interest arising from work undertaken by the executive and members of the board with other sector participants, some of which borrow from THFC.

A board of nine voting members governs THFC, comprising seven independent board members and two executive members (THFC's Chief Executive and Group Treasurer). The board members bring long experience and a strong combined skill-set, with nominees from both the TSA and the National Housing Federation (NHF; the sector's trade body), former bankers, accountants, and housing association professionals.

The credit committee is a committee of the board reflecting the importance placed on this function. It approves all new loans, whether to existing or new borrowers, and closely monitors all credits on the THFC "watch-list". While we consider that in practice THFC has a good track record on credit risk, we note that, structurally, six of the seven members of the board belong to the credit committee, making it difficult for the board to exercise truly independent oversight of this committee.

In our opinion, the management team is experienced and very capable. The Chief Executive and the Treasurer have been in post from 2003 and have extremely strong links with other sector participants. While this helps with credit control, monitoring, and new business, it also leaves THFC vulnerable to key personnel risk. The operations staff comprises only eight individuals, leaving THFC vulnerable to a degree of turnover risk. This risk is partially mitigated by well-documented practice manuals and, we understand, a good system of sharing information across the team.

Strategy: Competitive Lender Of Choice For Small And Medium RPs

THFC's primary focus is to see some modest growth in the loan book and to continue to be a competitive funder for RPs. Concurrently, THFC is seeking to increase its fee-generating advisory and administration services. We consider that these provide some modest diversification and, due to their annuity-like nature, a degree of repeatability of revenues, irrespective of transaction volumes.

Following its recent comprehensive spending review, the U.K. government is pursuing an expanded fiscal consolidation program. One consequence is that RPs will see significant reductions of about 50% in government grant rates for new unit development. We therefore expect more bond issuance in the short term as RPs crystallize business plans and need to increase private finance to fund development or refurbishment programs. In our view, this could be supportive of transaction volumes for THFC through 2011.

While bank competition has eased somewhat in the past two years, we expect THFC to face continued competition from the banks, who can often provide a more "all-round" service to RPs, as well as from other competing financial intermediaries who have established links with the sector.

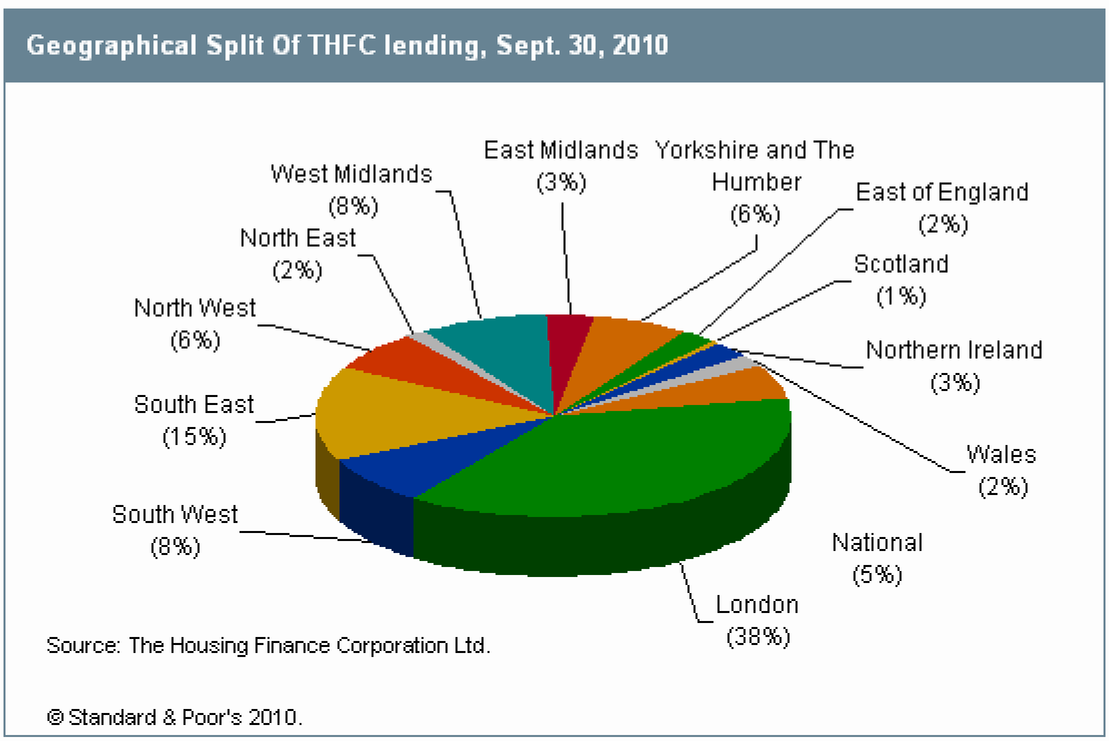
Risk Profile And Management : Risk Comes Mainly From Limited Liquid Resources And Personnel Risk

Credit risk

In our view, the highly collateralized nature of THFC's loans to RPs means that it faces a rather modest risk of loss in the event of borrower default, albeit that it could take many months to fully realize the collateral. However, THFC's low liquid resources mean that THFC's ability to meet its payment obligations on time is largely dependent on timely receipts from its RP borrowers. As a result, aside from structural protections, such as debt-service reserve accounts, the credit risk assessment and proactive monitoring by THFC of its borrowers is paramount.

Across THFC, there are about 111 borrowers (125 borrowers for the group as a whole). Lending to the top 10 associations accounts for about 40% of the THFC loan book and, in our view, most of these borrowers are likely to be of high creditworthiness. Overall, we consider the portfolio of loans to RPs to be well diversified by size and geography (see chart 2).

Chart 2

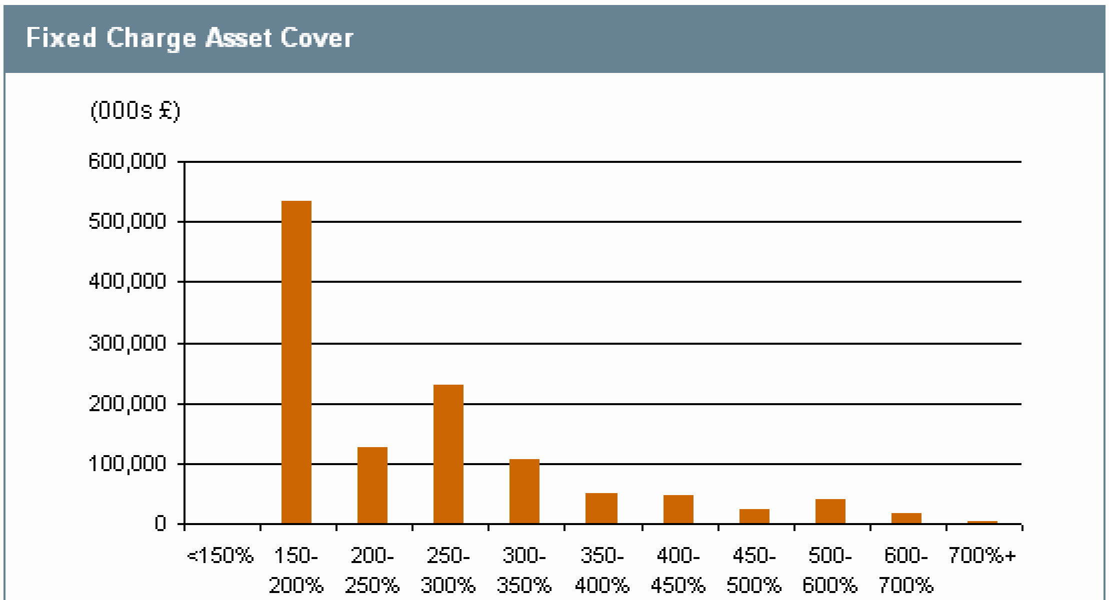


While exposure to some individual associations is large, safeguards that we have mentioned before are expected to remain in place. For example, exposure to Southern Group remains at about £146 million as of September 2010. As Southern Group is one of the associations that ultimately borrowed via the THFC (Funding No. 2) vehicle, a debt-service reserve for up to 12 months interest on £100 million is available, reducing some of the ongoing debt-service risk. Refinancing risk, however, will remain, although the loan is due only in 2039.

While there are no fixed maximum exposure limits for individual RP groups, THFC's policy is that, at a minimum, the annual payment (less any debt-service reserve) should be no greater than THFC's reserves. Currently the highest annual cash flow from any single borrower after adjusting for debt-service reserves is about £4.13 million for Midland Heart Housing Association. However, a series of defaults by its weakest borrowers (that may not happen to be the largest) has the potential to cause considerable stress to its modest liquidity reserves. We consider, however, the prospect of such a series of defaults to be unlikely over the rating horizon.

All THFC's loans to RPs are secured by either a fixed charge over specified properties, or by a floating charge over all assets. The majority of THFC's lending is secured via a fixed charge over properties with minimum asset cover of 150%, calculated on a market value with tenant-in-place basis (floating charges require 300% cover). The security pledged to THFC will remain restricted to regulated social housing assets. Levels of cover vary quite significantly (see chart 3).

Chart 3



Source: The Housing Finance Corporation Ltd. Data as at Sept. 30, 2010. Data for THFC loans only, not including lending by subsidiaries.

Liquidity and funding risk

In our view, the most significant weakness in THFC's financial structure is the size of its reserves, which stood at £5.8 million as at end-March 2010, and which we expect to touch £6.6 million in March 2011 (group reserves are £9.5 million in 2010 and expected to be £10.2 million in 2011). These reserves are THFC's only liquid resources. However, providing support for the specific borrowing (£263.25 million) from THFC (Funding No. 2) is a 12-month debt-service reserve (see section titled "THFC Funding No. 1 and No. 2").

THFC's funding is sourced either from banks or from the capital markets. Funds are onlent almost immediately after they are raised, and are lent on materially the same terms as they were sourced. Bank finance forms about 50% of the current funding structure for THFC, and is mainly made up of loans from the EIB. Capital market debt issued by the funding subsidiaries is onlent to THFC, and THFC is therefore ultimately responsible for servicing and repaying this debt.

In our view, THFC's match-funding of loans and borrowings reduces potential structural interest rate, funding, and liquidity risk. An important further mitigant of liquidity risk is the receipt of payments from borrowers (in a vast majority of cases) one month before they are due to be paid to THFC's bankers or bond holders. This is designed to prevent a delayed payment or an operational problem of a borrower from causing a technical default by THFC. It also provides THFC with a source of interest income.

Nevertheless, if a borrower defaulted on interest payments for a significant period and THFC could not realize the value of the borrower's collateral, THFC's reserves could be severely depleted, depending on the extent of its exposure to the borrower in question. In a scenario where two of its largest borrowers defaulted, and THFC had no access to any debt-service reserves, we expect that THFC's reserves would cover the related interest payments for only 12 months, which coincides with THFC's estimated period for enforcement of its security. Unless THFC was able to organize an additional liquidity facility, committed and available to call, a delay in enforcing security or the default of a further borrower could bring about the default of THFC itself.

We note, however, that due to the proactive stance of the sector's regulator, to date there has never been a cash payment default in the sector. This is because in the fairly rare circumstances where RPs have run into viability problems, the regulator has organized an acquisition or rescue by stronger RP peers. That said, the sector has never faced a systemic default scenario, which would be harder for the regulator to manage.

Furthermore, we also note that once THFC enforces its security over the property assets of a defaulted RP, we would expect it to benefit from associated rental or asset sale income, which would provide more liquidity. Loan to asset value coverage on average stands at about 233% across the THFC portfolio and portfolio income to interest coverage needs to be at least 1.0x.

Refinancing risk for the underlying borrowers and THFC can be material at times, as most of the loans have bullet maturities, as of course does THFC's debt. We note that the next major maturity is the circa £93 million of THFC's deep discount bonds due in 2012. THFC depends on four RPs being able to refinance their loans by this date. Although just over 80% of this sum is held in sinking funds at the moment, we understand that due to restructuring with individual borrowers, at the repayment date the level of the fund will reduce to cover about 60% of the amount due at that date. THFC has access to collateral whose value is at least 150% of the loan, but as noted above this is not readily realizable. After 2012, the next significant re-financing date is 2016. To mitigate refinancing risk, THFC starts discussions with associations about refinancing plans up to two years before the date of refinancing, and would expect these plans to be firm at least six months before the due date.

Interest rate risk

THFC takes minimal structural interest rate risk because its borrowings and loans are made materially on the same terms. Nevertheless, THFC's revenues are exposed to interest rate risk as falling interest rates reduce its investment income. Given the prevailing low interest rate environment, we expect THFC's investment income to continue to remain at the current, substantially reduced level into the medium term.

Operational risk

Key operational risks for an organization like THFC stem from breaches in internal controls, systems failures, reputational risks, and personnel risk. We understand that these risks are reviewed constantly by the board. Nevertheless, the effective mitigation of operational risk typically requires periodic investment, which could be difficult for an organization like THFC with tight cost control limits in place and ability to earn a return from significant investment is limited.

THFC Funding No. 1 And No. 2

Debt issued by T.H.F.C. (Funding No. 1) PLC has about 25 years to run to maturity. The expected maturity is in 2035, but a legal final maturity in 2037. So, if THFC is unable to repay this debt in 2035, because the underlying borrower has been unable to refinance its loan or for any other reason, THFC has until 2037 to enforce and realize its security on the over-collateralized nonperforming loans or use its reserves to ultimately repay bondholders. Providing credit enhancement, a liquidity facility equivalent to 24-months interest on outstanding debt is available to the issuer to cover any shortfall in receipts from THFC. This credit enhancement allows us to rate the issue 'AA-', one notch higher than the issuer credit rating on THFC. To date, THFC has raised £249 million through issuance from this vehicle.

Similarly, debt issued by THFC (Funding No. 2) has a 32-year term, is due in 2039, but has a final maturity in 2041. THFC onlent the proceeds of this issue to eight housing associations, which have each provided debt-service reserves equivalent to 12-months interest on their respective loans. These individual reserves can only be used if the respective association defaults on its obligation under the loan agreements with THFC. Further, if the loans to these RP borrowers are not refinanced in 2039, the two-year tail is expected to allow THFC to enforce and realize its security to allow for ultimate repayment of the bonds in 2041. In our opinion, the level of credit enhancement provided by these debt-service reserves is insufficient for us to rate the issue above the rating of THFC. The debt issued by this vehicle is therefore rated 'A+', in line with the corporate rating.

The difference in size and availability of additional liquidity to the respective issuers helps differentiate the relative risk of these bonds. In THFC (Funding No. 1), the size of the facility is equivalent to 24-months of interest payable on outstanding bond debt and is available to the issuer to cover any shortfall in funds irrespective of the reason for the shortfall. In THFC (Funding No. 2), however, a debt-service reserve equivalent to only 12-months interest payments on the relevant THFC borrower loan that remains outstanding is available to the issuer only when that particular borrower defaults on its loan obligation to THFC. In summary, not only is the size of the reserve available vastly different, the circumstances when it can be used also differs and it is these differences that are reflected in the ratings on these issues.

Profitability: High Operating Leverage, But Low Flexibility

Achieving high profitability is not THFC's primary objective and would be at odds with its ethos, but THFC does seek to make a sufficient return to boost its reserves. In this respect, we consider that the strong rise in THFC's surplus before tax over the past several years, culminating in a result of £1.46 million in the year to end-March 2010, demonstrates a series of good operating results. However, we consider the low absolute level of earnings and the potential for earnings volatility if transaction volumes fall more than we expect to be a weakness.

Increased agency and arrangement fees have helped raise levels of profitability at THFC in the past two years, and have provided a moderate offset to the much reduced investment income arising from the very low interest rate environment. They have also added an element of repeatability to THFC's revenues, irrespective of new transaction volumes. However, transaction fees continue to dominate THFC's earning streams, accounting for about 90% of revenues in the year to end-March 2010, leading to a degree of volatility in revenues.

Furthermore, although THFC's business model offers good operating leverage in a growing market, we consider that THFC would have limited flexibility to quickly adjust operating expenses in the event that new business volumes were to fall materially. For example, staff costs including independent director costs usually equate to about 60% of total operating expenses, but we see limited room for maneuver here given THFC's already small staff numbers.

Taken together, we consider that this currently leaves THFC's profitability sensitive to transaction volumes. As an example, if we assume that operating expenses and investment income remain unchanged from the year to March 2010, it would take a 10% fall in transaction fees from the four-year average of £1.74 million to leave THFC at break-even.

For the year to March 2011, we expect that transaction based revenues will struggle to match the high of the previous year, but still be relatively strong. Assuming modest investment income and operating expenses year-on-year, this points in our view to a pretax surplus of about £0.9 million, a lower but still satisfactory result.

Small Capital Base Heightens Liquidity Risk

THFC's capital is small, consisting only of share capital and reserves. The share capital is a token £7, representing the shares held by seven of the non-executive directors. As of March 31, 2010, the capital base was £5.85 million at THFC, and £9.52 million for the consolidated group as a whole including funding subsidiaries. As of March 2011, we expect the THFC reserves to increase to about £6.6 million (£10.2 million at the group level). In view of THFC's not-for-profit status, weak capital generation, and shareholder structure, we consider its financial flexibility to replenish its reserves in the event of a large loss to be rather limited. The risk of this scenario arising is, however, substantially mitigated by the generally low-risk profile of the loan book and THFC's very good record on portfolio management.

Related Criteria And Research

- Rating Finance Companies, March 18, 2004
- Principles Of Corporate And Government Ratings, June 26, 2007

Table 2

The Housing Finance Corporation Ltd. Asset Quality, Funding, And Liquidity Ratios

	--Year ended March 31--			
(%)	**2009**	**2008**	**2007**	**2006**
Asset Quality, Funding, And Liquidity Ratios				
Gross nonperforming assets/customer loans plus other real estate owned	N/A	N/A	N/A	N/A
Loan loss reserves/gross nonperforming assets	N/A	N/A	N/A	N/A
Loan loss reserves/customer loans	N/A	N/A	N/A	N/A
New loan loss provisions/average customer loans	N.M.	N.M.	N.M.	N.M.
Customer deposits/funding base	0.0	0.0	0.0	0.0
Total loans/customer deposits	N.M.	N.M.	N.M.	N.M.
Total loans/customer deposits plus long-term funds	99.5	103.2	101.6	101.8

Table 2

The Housing Finance Corporation Ltd. Asset Quality, Funding, And Liquidity Ratios (cont.)				
Customer loans (net)/assets (adjusted)	95.5	97.9	97.8	97.3

N/A--Not applicable. N.M.--Not meaningful.

Table 3

The Housing Finance Corporation Ltd. Profitability Ratios

	--Year ended March 31--			
(%)	2009	2008	2007	2006
Net interest income/average earning assets	0.0	0.1	0.1	N/A
Net interest income/revenues	8.3	35.5	45.7	42.0
Fee income/revenues	91.7	64.5	54.3	58.0
Market-sensitive income/revenues	0.0	0.0	0.0	0.0
Noninterest expenses/revenues	55.4	59.4	65.7	75.1
New loan loss provisions/revenues	0.0	0.0	0.0	0.0
Net operating income after loan loss provisions/revenues	44.6	40.6	34.3	24.9
Pretax profit/revenues	44.6	40.6	34.3	24.9
Tax/pretax profit	28.7	27.4	12.3	28.2
Core earnings/revenues	31.8	29.5	30.0	17.8
Core earnings/average adjusted assets	0.0	0.0	0.0	N/A
Noninterest expenses/average adjusted assets	0.1	0.1	0.1	N/A
Core earnings/average adjusted common equity	11.6	10.5	10.6	5.7
Pretax profit/average common equity (%)	16.2	14.4	11.9	N/A

N/A--Not applicable. N.M.--Not meaningful.

Table 4

The Housing Finance Corporation Ltd. Capital Ratios

	--Year ended March 31--			
(%)	2009	2008	2007	2006
Capital Ratios				
Adjusted total equity/adjusted assets	0.4	0.4	0.4	0.4
Adjusted total equity/managed assets	0.4	0.4	0.4	0.4
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	0.4	0.4	0.4	0.4
Common dividend payout ratio	0.0	0.0	0.0	0.0

Table 5

The Housing Finance Corporation Ltd. Summary Balance Sheet

	--Year ended March 31--			
(000s £)	2009	2008	2007	2006
Assets				
Cash and money market instruments	68,819	15,480	14,392	21,628
Securities	4,005	0	0	0
Trading securities (marked to market)	N/A	N/A	N/A	N/A
Nontrading securities	4,005	0	0	0
Loans to banks (net)	0	0	0	0

Table 5

The Housing Finance Corporation Ltd. Summary Balance Sheet (cont.)

Gross receivables, nui	2,135,336	1,897,883	1,790,534	1,672,238
Loan loss reserves	0	0	0	0
Net receivables	2,135,336	1,897,883	1,790,534	1,672,238
Earning assets	2,208,160	1,913,363	1,804,926	1,693,866
Intangibles (nonservicing)	19	36	55	64
Fixed assets	0	0	29	68
Accrued receivables	27,347	24,784	24,778	23,770
All other assets	175	703	880	1,080
Total assets	2,235,701	1,938,886	1,830,668	1,718,848
Intangibles (nonservicing)	19	36	55	64
Adjusted assets	2,235,682	1,938,850	1,830,613	1,718,784
Liabilities				
Total deposits	0	0	0	0
Other borrowings	2,191,533	1,898,582	1,791,240	1,672,944
Other liabilities	34,645	31,820	31,785	39,021
Total liabilities	2,226,178	1,930,402	1,823,025	1,711,965
Total shareholders' equity	9,523	8,484	7,643	6,883
Common shareholders' equity (reported)	9,523	8,484	7,643	6,883
Share capital and surplus	0	0	0	0
Revaluation reserve	0	0	0	0
Retained profits	9,523	8,484	7,643	6,883
Total liabilities and equity	2,235,701	1,938,886	1,830,668	1,718,848

N/A--Not applicable. N.M.--Not meaningful.

Table 6

The Housing Finance Corporation Ltd. Equity Reconciliation Table

	--Year ended March 31--			
(000s £)	**2009**	**2008**	**2007**	**2006**
Common shareholders' equity (reported)	9,523	8,484	7,643	6,883
Minus nonservicing intangibles	(19)	(36)	(55)	(64)
Minus other adjustments	N/A	N/A	N/A	N/A
Adjusted common equity	9,504	8,448	7,588	6,819
Minus adjustment for securitized assets	0	0	0	0
Adjusted total equity	9,504	8,448	7,588	6,819

N/A--Not applicable. N.M.--Not meaningful.

Table 7

The Housing Finance Corporation Ltd. Profit And Loss

	--Year ended March 31--			
(000s £)	**2009**	**2008**	**2007**	**2006**
Profit And Loss				
Net interest income	270	1,010	1,156	910
Interest income	131,867	139,954	136,259	129,595

Table 7

The Housing Finance Corporation Ltd. Profit And Loss (cont.)				
Interest expense	131,597	138,944	135,103	128,685
Operating noninterest income	2,999	1,839	1,374	1,259
Fees and commissions	2,999	1,839	1,374	1,259
Operating revenues	3,269	2,849	2,530	2,169
Noninterest expenses	1,812	1,691	1,663	1,630
Other general and administrative expense	1,812	1,691	1,663	1,630
Net operating income before loss provisions	1,457	1,158	867	539
Credit loss provisions (net new)	0	0	0	0
Net operating income after loss provisions	1,457	1,158	867	539
Pretax profit	1,457	1,158	867	539
Tax expense/credit	418	317	107	152
Net income (before minority interest)	1,039	841	760	387
Net income before extraordinaries	1,039	841	760	387
Net income after extraordinaries	1,039	841	760	387

N/A--Not applicable. N.M.--Not meaningful.

Table 8

The Housing Finance Corporation Ltd. Core Earnings Reconciliation Table				
	--Year ended March 31--			
(000s £)	**2009**	**2008**	**2007**	**2006**
Net income (before minority interest)	1,039	841	760	387
Minus nonrecurring/special income	0	0	0	0
Core earnings	1,039	841	760	387

Ratings Detail (As Of December 22, 2010)*	
The Housing Finance Corporation Ltd.	
Issuer Credit Rating	A+/Stable/A-1
Issuer Credit Ratings History	
24-Jun-2004	A+/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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