

## Public Finance Ratings



### Research:

## Research Update: U.K. Housing Finance Corporation 'A+/A-1' Ratings Affirmed; Outlook Stable

**Publication Date:** 08-Dec-2004

**Reprinted from RatingsDirect**

**Analyst:** Robert Robinson, London (44) 20-7176-3824; Adele Archer, London (44) 20-7176-3527; Nigel Greenwood, London (44) 20-7176-7211

**Credit Rating** **A+/Stable/A-1**

### ■ Rationale

On Dec. 8, 2004, Standard & Poor's Ratings Services affirmed its 'A+' long-term and 'A-1' short-term corporate credit ratings on the U.K.-based not-for-profit lender The Housing Finance Corporation Ltd. (THFC), following a review. The outlook is stable.

The affirmation reflects THFC's strong capacity to meet its financial commitments. The ratings are further supported by THFC's prudent lending policy to creditworthy counterparties in the social housing sector, strong levels of overcollateralization, and good management.

THFC is a dedicated, not-for-profit lender to the U.K. social housing market. It has a high-quality loan portfolio, and a broad diversification of borrowers and properties across the U.K. social housing sector in terms of size and location. THFC's loan book is extremely stable and reflects a microcosm of the U.K. social housing market, with no experience of cash default or economic loss to date. In this capacity, THFC functions as more of a loan aggregator than traditional lender.

THFC provides a public-policy role and has close links to the U.K. government, the sector regulator (the Housing Corporation), and the sector's trade body (the National Housing Federation). No formal support, however, is provided by these entities. THFC's not-for-profit status also provides it with a degree of flexibility and conservatism. THFC has, in the past three years, expanded into an agency role, managing housing debt transactions that provide some fee income and limited diversification from its lending activities.

THFC provides well-structured loans, which are principally secured by way of a fixed charge over about 100,000 U.K. social housing properties. It uses conservative lending covenants (relative to the market), with a minority of

loans secured by a floating charge and £5.8 million (\$10.6 million) of dedicated reserves.

Negative pledges on all debt restricts THFC and its subsidiaries from borrowing or creating any charge that might rank in priority to its existing debt, all of which is secured on a floating charge. Although all THFC secured debt must rank pari passu, the ratings on specific debt issues may differ from the ratings on THFC if, for example, there are reserves or liquidity facilities dedicated to particular issues.

THFC's reserves of £5.8 million are low in comparison with the reserves of potential comparator banks. Overall, liquidity and financial flexibility, although adequate relative to the current asset profile, are relatively limited.

THFC has a narrow line of lending business, which focuses entirely on the U.K. social housing sector and presents a single-industry risk. There are also significant obligor concentrations, as the top 10 borrowers account for about 25% of the total loan book.

THFC's competitive position in the funding market is relatively weak. This makes its business strategy potentially difficult to achieve, although THFC expects to address this situation with a new capital-markets product. Furthermore, a relatively small staff leaves it vulnerable to turnover and key-person risk.

## ■ Outlook

The stable outlook reflects the quality and diversity of the loan portfolio, THFC's prudent lending policies, and its plans for new business development. The implementation of THFC's business development strategy and growth in business in the near term will be key to its credit stability. Any material slippage in its financial targets, increasing exposure to business risks, or declining market position may put at risk its current credit standing. Standard & Poor's expects some improvement in THFC's reserves over time, which will improve capital ratios and help THFC's credit stability.

## ■ Ratings List

Corporate credit rating A+/Stable/A-1

Ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at [www.ratingsdirect.com](http://www.ratingsdirect.com). It can also be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search. Alternatively, call one of the following Standard & Poor's numbers: London Ratings Desk (44) 20-7176-7400; London Press Office Hotline (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5916; or Moscow (7) 095-783-4017. Members of the media may also contact the European Press Office via e-mail on: [media\\_europe@standardandpoors.com](mailto:media_europe@standardandpoors.com).

## ■ Analyst E-Mail Addresses

[robert\\_robinson@standardandpoors.com](mailto:robert_robinson@standardandpoors.com)

[adele\\_archer@standardandpoors.com](mailto:adele_archer@standardandpoors.com)

[nigel\\_greenwood@standardandpoors.com](mailto:nigel_greenwood@standardandpoors.com)

[PublicFinanceEurope@standardandpoors.com](mailto:PublicFinanceEurope@standardandpoors.com)

This report was reproduced from Standard & Poor's RatingsDirect, the premier source of real-time, Web-based credit ratings and research from an organization that has been a leader in objective credit analysis for more than 140 years. To preview this dynamic on-line product, visit our RatingDirect Web site at [www.standardandpoors.com/ratingsdirect](http://www.standardandpoors.com/ratingsdirect).

Standard & Poor's.  
*Setting The Standard.*



Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280. Copyright 2000 by The McGraw-Hill Companies, Inc. Reproduction in whole or in part prohibited except by permission. All rights reserved. Information has been obtained by Standard & Poor's from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities.