

Market developments

The Housing Financing Fund (HFF) issued ISK 1.4 billion in mortgages this month. Of that amount ISK 1.3 billion was for privately owned homes. In comparison, this amount was ISK 1.4 billion in October 2011. The average amount for privately owned homes this month was ISK 10.2 million. So far this year, the total amount in that category was ISK 10.6 billion, compared to ISK 19.2 billion for the same period in 2011.

The Fund has issued a total of 1.097 mortgages for privately owned homes this year, compared to 1.908 for the same period in 2011.

Since October 1st, 2012, four financial institutions are permitted to refer to themselves as „Primary Dealers in HFF Bonds.“ These are: Arion banki hf., Íslandsbanki hf., Landsbankinn hf. and MP banki hf.

On October 5th, Moody’s affirmed the Fund’s Baa3 rating with a negative outlook.

The yield on HFF24 rose 5 basis points this month but yields on HFF14 and HFF34 dropped 1-9 basis points. HFF44 remained unchanged. Since the beginning of the year, the yield on HFF14 has risen 5.90% and HFF24 0.21%. During the same period, the yield on HFF34 has dropped 0.38% and HFF 0.19%.

The total turnover of HFF bonds reached ISK 30.8 billion this month, compared to ISK 37.1 billion in September 2012.

The Fund’s amortization payments on HFF-bonds and other liabilities came to ISK 8.7 billion this month, and prepaid mortgages amounted to ISK 1.5 billion.

Defaults

At the end of October, mortgage defaults on privately owned homes amounted to ISK 4.97 (5.06)* billion with an underlying value of ISK 93.5 (95.2) billion which is 13.9% (14.2%) of HFF’s loan portfolio on privately owned homes. This is a 0.3% decrease from last month with defaults at the end of the month being 1.0% below the year’s average. Homes in default numbered 4,913 (5,051), and homes with suspended mortgage payments 634 (671). This means that 9.6% (9.7%) of homes with HFF mortgages were in default at the end of October 2012. At the end of 2011, this number was 9.4%.

At the end of the month, defaults on mortgages to legal entities amounted to ISK 2.37 (2.38) billion with an underlying value of ISK 30.0 (31.1) billion. 20.2% (21.0%) of the loan portfolio to legal entities was in default at the end of October, a decrease of 0.8% from the previous month and 2.2% below the year’s average. The decrease in defaults this year is mostly because HFF has taken over a number of the mortgaged properties.

At the end of the month, 2,696 (2,774) privately owned homes in the capital area were in default but 2,217 (2,277) homes outside that area. Considering the underlying value; 12.4% (12.6%) of mortgages for privately owned homes were in default in the capital area, but 16.7% (17.2%) for privately owned homes outside that area. 15.0% (15.5%) of the Fund’s loan portfolio is in default, or in payment suspension.

Defaults are past due payments of 90 days and suspended mortgage payments.

*Figures inside parentheses are last month’s figures.

Outstanding amount in the securities lending facility at the end of last month

Series	HFF14	HFF24	HFF34	HFF44
Outstanding amount (NV)	1,9	0,0	1,9	0,2

HFF Auctions, Lending and Payments

Actual figures 2012	Forecast 4Q	Actual 4Q	Actual Jan - Oct
HFF bond issuance (NV)	6 - 8	0	3,3
New HFF lending	6 - 8	1,4	12,9
HFF total payments	20 - 22	8,7	59,3

Revised forecast 2012	3Q	4Q	Total
HFF bond issuance (MV)	6 - 8	9 - 11	15 - 19
HFF bond issuance (NV)	4 - 6	6 - 8	10 - 14
New HFF lending	7 - 9	6 - 8	13 - 17
HFF total payments	17 - 19	20 - 22	37 - 41

HFF bond holders 31.10.12	HFF14	HFF24	HFF34	HFF44
Banks and Savings banks	5,3%	1,9%	1,5%	1,5%
Individuals	4,9%	5,0%	2,0%	1,5%
Foreign Investors	38,5%	3,4%	1,7%	0,6%
Other Corporations	9,0%	4,9%	4,1%	1,4%
Credit Institutions	16,3%	6,4%	4,5%	3,5%
Pension Funds	3,6%	47,6%	67,8%	80,8%
Securities and Investment Funds	20,2%	24,8%	15,1%	8,7%
Others	2,3%	5,9%	3,3%	2,0%
*	70,7	164,2	176,3	274,5

*Of the total issuance of the face value, ISK 9.6 bn in all HFF bonds directly belong to the lending facilitation for HFF bond market makers. All figures are in ISK billion.

October 2012

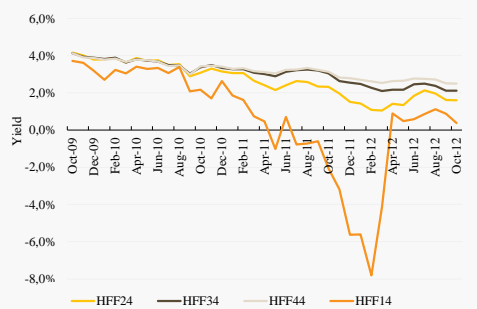
Summary

- Mortgages for privately owned homes amounted to ISK 1.3 billion in October.
- Prepayments amounted to ISK 1.5 billion.
- Privately owned homes in default decreased from last month.
- 9.6% of homes are in default.
- Total amount in default is ISK 7.34 billion, underlying loan amount equals 15.0% of loan portfolio.
- HFF’s appropriated properties numbered 2.155

HFF Lending Rate

- 4,20% With a prepayment fee
- 4,70% Without a prepayment fee

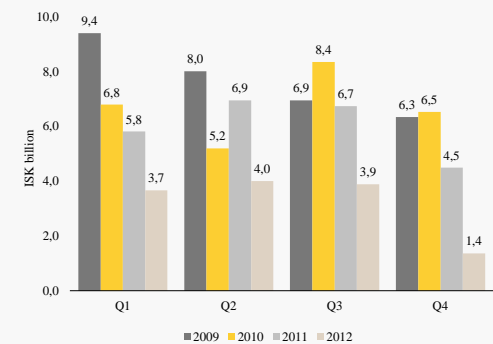
Yield of HFF Bonds



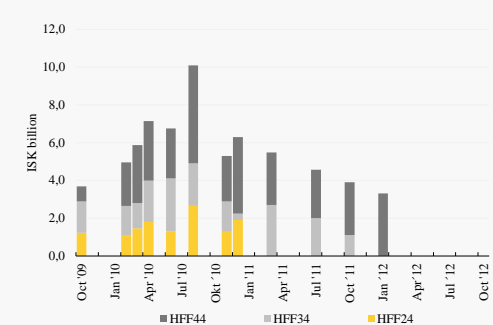
Series	August 2012	Sept 2012	Oct 2012	Duration	Face value	Outst.n. value
HFF14	0,87%	0,39%	0,30%	1,1	70,7	16,3
HFF24	1,62%	1,60%	1,65%	5,6	164,2	108,9
HFF34	2,12%	2,12%	2,11%	10,2	176,3	144,3
HFF44	2,51%	2,50%	2,50%	13,8	274,5	246,7

*Yield on the last trading day of each month
Duration (yrs) and class size (MISK) as of end of October '12
Of the total issuance of the face value, ISK 9.6 bn in all HFF bonds directly belong to the lending facilitation for HFF bond market makers.

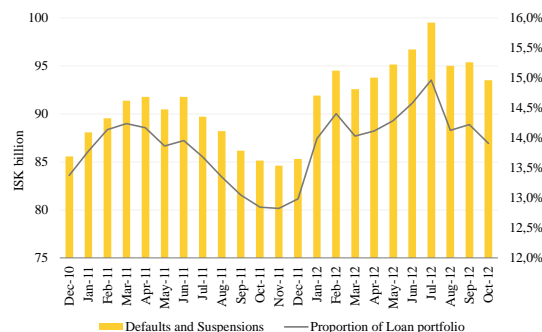
Total Lending by Quarter



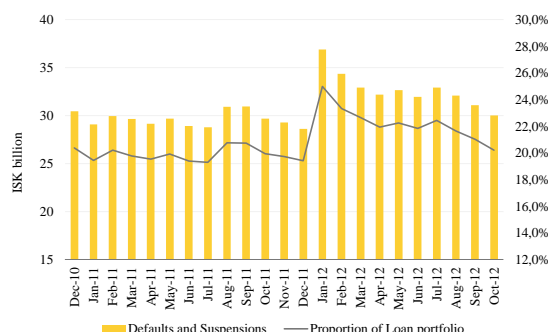
HFF Bond Auctions



Defaults and Suspensions of Individuals



Defaults and Suspensions of Legal Entities



HFF's Appropriated Property

Portfolio

At the end of October, HFF's appropriated properties throughout the country numbered 2,155, an increase of 79 from last month. Around 53% of HFF's appropriated properties were previously owned by legal entities.

HFF's appropriated property portfolio reflects Iceland's building history. The condition of these properties varies, from being fully completed and in good condition to uninhabitable due to age and poor condition. The oldest property was built in 1870 and 66 properties were built before 1932. About 50% of the properties, or 1,037, were built between 1997-2008.

The table on the right exhibits the location of these properties according to regions in addition to their present usage.

Throughout the country, 899 of these properties are being rented. HFF is authorized to rent out properties in regions where there is a shortage of rental properties. The number of rental properties in these areas have recently increased by 80. HFF's rates are based on rental market rates.

321 properties are uninhabitable. These are either in the building process, hence not fully completed or uninhabitable due to age or poor condition.

709 properties are in the process of being sold; they are either already registered for sale or in the pre-registration process. All real estate agencies throughout the country are permitted to sell HFF's properties and a contract between the agencies and HFF states the process in which this should be done.

Out of HFF's 2,155 properties, 1,651 have so far either been rented, or are in the process of being sold. 504 properties await assessment. Many of them are in regions where there is a significant supply of property.

HFF has sold 555 properties since the beginning of 2008. Presently the Fund is working on selling apartment buildings in several locations throughout the country.

HFF's Property According to Regions and Status, 31.10.2012

	Uninhabitable		In process	Total		
	Rented	Empty		31.10.1	30.09.12	
Capital Area	261	108	71	26	466	444
Southern Peninsula	232	313	136	34	715	664
Western Region	88	115	53	3	259	257
Westfjords	12	26	15	1	54	51
Northwestern Region	6	7	0	0	13	13
Northeastern Region	75	42	2	3	122	121
Eastern Region	67	145	12	1	225	225
Southern Region	130	136	32	3	301	301
Total	871	892	321	71	2,155	2,076
- Process of being sold	0	468	241	0	709	
- Rented/other	871	0	0	71	942	
Total unoccupied/ in process	0	424	80	0	504	

Sold properties

