FitchRatings

RATING ACTION COMMENTARY

Fitch Assigns Housing and Development Board First-Time 'AAA' Ratings; Outlook Stable

Mon 16 Nov, 2020 - 3:10 AM ET

Fitch Ratings - Hong Kong - 16 Nov 2020: Fitch Ratings has assigned Singapore-based Housing and Development Board (HDB) Long-Term Foreign- and Local-Currency Issuer Default Ratings of 'AAA' with a Stable Outlook. Fitch has also assigned a 'AAA' rating to the SGD32 billion medium-term note (MTN) programme and the notes directly issued by HDB from the programme, which constitute its direct, unconditional and unsubordinated obligations.

HDB is a statutory board under Singapore's Ministry of National Development (MND) that develops public housing. It is subject to the direction of the MND and is required to implement government policies and comply with the government's instructions. About 80% of the country's population lives in public housing provided by HDB, of which 90% hold the ownership of their flats. HDB also provides mortgage loans to public-housing buyers.

KEY RATING DRIVERS

'Very Strong' Status, Ownership and Control: HDB, as a statutory board, is subject to the direction of the MND and is required to implement policies and comply with instructions from the MND and other government ministries and departments. As a statutory board is established by statute, the dissolution of a statutory board and transfer of liabilities would be done via legislation. The board members and the CEO are appointed by the Minister for National Development, subject to the President of Singapore's concurrence. HDB submits its audited financial statements and budgets to the Minister for National Development and the President.

'Very Strong' Support Record: Government funding provided to HDB is reflected in the national budget and is approved by the Minister for Finance. HDB implements housing and social policies determined by the government and its deficit is fully financed by government grants. Grants are also provided to HDB to preserve the reserves of the past government. The government provides a housing development loan facility to finance HDB's operation, as well as mortgage and upgrading financing loans to fund the financing schemes provided by HDB to purchasers of flats under public housing schemes and lessees of upgraded flats. The government loans formed 61% of HDB's interest-bearing debt as of March 2020. We regard the strong regulatory support framework as the major driver of this assessment, despite the absence of a guarantee.

'Very Strong' Socio-Political Implications of Default: HDB was set up in 1960 to tackle Singapore's housing shortage. It is the country's sole agency in charge of public housing and is involved in the planning, design and construction of public housing, the implementation of public housing and related social policies as well as the provision of various commercial and social amenities for the residents. HDB also provides mortgage financing to eligible home buyers. HDB has a dominant role in the local housing market and would be difficult to substitute in the short to medium term should it default, which could have serious political repercussion in light of its policy role and scale.

'Very Strong' Financial Implications of Default: We see HDB as a proxy funding vehicle for the government as it provides mortgage loans to the purchasers of flats under the public housing scheme which are financed by government mortgage financing loans and the government routinely absorbs HDB's losses. It is a frequent issuer of Singapore-dollar bonds, with a total outstanding amount of SGD26 billion as at 31 October 2020, to fund its operation. HDB provides mortgages to eligible home buyers as part of its public role. We think its default would have significant repercussions on the availability of housing funds, which provide the government sufficient incentive to provide support, if needed.

DERIVATION SUMMARY

The ratings reflect the very tight integration of HDB in Singapore's housing policy and the high importance of those policies in the city-state's general strategy, given the population density and the scarcity of space in the country. We believe HDB acts as a quasi-sovereign entity and is in many respects the expression of the government's actions and intentions.

The ratings are derived from the assessment of the four factors under Fitch's Government-Related Entities Rating Criteria, which results in a maximum support score of 60 and leads to its ratings being equalised to those of the Singapore sovereign (AAA/Stable).

We do not assign HDB a Standalone Credit Profile because it is difficult to delink the entity from the government framework in which it operates. HDB is a not-for-profit entity. It develops and sells the flats to eligible buyers at discount to the prevailing market price. It also extends mortgage loans and rents dwellings at affordable prices based on prevailing government policy. Because of these public service obligations (below market terms and conditions), HDB has consistently recorded operating deficits before government grants. HDB relies on government support (government loans and transfers) to achieve its core policy focus. Therefore, the SCP is considered not meaningful.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The ratings are at the highest end of the rating scale and no upside is possible.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A sovereign downgrade, significant changes leading to weakened linkages with the government or diminishing incentive to provide support that results in an overall support score below 45.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The ratings on HDB are equalised with those of the Singapore sovereign.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on our ESG Relevance Scores, visit https://www.fitchratings.com/site/esg.

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International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

DATE OF RELEVANT COMMITTEE

23 October 2020

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY/DEBT	RATING		
Housing and Development Board	LT IDR	AAA Rating Outlook Stable	New Rating
•	LC LT IDR	AAA Rating Outlook Stable	New Rating
• senior unsecured	LT	AAA	New Rating

ENTITY/DEBT	RATING		
• senior unsecured	LT	AAA	New Rating

VIEW ADDITIONAL RATING DETAILS

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Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

Government-Related Entities Rating Criteria (pub. 30 Sep 2020)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Housing and Development Board	-

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