

Rating Action: Moody's upgrades to Aaa from Aa2 covered bonds of Caisse Francaise de Financement Local

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London, 05 February 2013 -- Moody's Investors Service has today upgraded to Aaa from Aa2 the covered bond issued by Caisse Francaise de Financement Local, previously known as Dexia Municipal Agency (DMA), under the French SCF law.

Today's rating action is prompted by the transfer of Caisse Francaise de Financement Local's ownership from Dexia Credit Local (DCL; deposits Baa2 negative; BFSR E/BCA ca stable) to Societe de Financement Local (SFIL; deposits Aa2 negative; BCA baa1). SFIL has replaced DCL as sponsor bank for the covered bond programme.

RATINGS RATIONALE

Today's rating action on the covered bonds is prompted by the change of ownership of Caisse Francaise de Financement Local, formerly known as Dexia Municipal Agency. The covered bond programme that DCL previously owned has now been transferred to Societe de Financement Local (SFIL). On 31 January, SFIL replaced DCL as sponsor and in other key functions for the programme. The TPI of Caisse Francaise de Financement Local's covered bonds remains "Probable-High".

For further information on SFIL's rating, please refer to "Moody's assigns Aa2 to Societe de Financement Local; outlook negative" published on 1 February 2013.

KEY RATING ASSUMPTIONS/FACTORS

Covered bond ratings are determined after applying a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's determines a rating based on the expected loss on the bond. The primary model used is Moody's Covered Bond Model (COBOL), which determines expected loss as (1) a function of the issuer's probability of default (measured by the issuer's rating); and (2) the stressed losses on the cover pool assets following issuer default.

The cover pool losses for this programme's covered bonds are 14.2%. This is an estimate of the losses Moody's currently models if SFIL defaults. Cover pool losses can be split between market risk of 9.5% and collateral risk of 4.7%. Market risk measures losses as a result of refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from the credit quality of the assets in the cover pool. Collateral risk is derived from the collateral score, which for this programme is currently 7.1%.

The over-collateralisation (OC) in the cover pool is 29.2%, of which Caisse Francaise de Financement Local provides 2% on a "committed" basis. The minimum OC level that is consistent with the Aaa rating target is 6%, of which 0% should be provided in a "committed" form. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

All numbers in this section are based on Moody's most recent modelling (based on data, as per September 2012).

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which indicates the likelihood that timely payment will be made to covered bondholders following issuer default. The effect of the TPI framework is to limit the covered bond rating to a certain number of notches above the issuer's rating.

SENSITIVITY ANALYSIS

The robustness of a covered bond rating largely depends on the issuer's credit strength.

The TPI Leeway measures the number of notches by which the issuer's rating may be downgraded before the

covered bonds are downgraded under the TPI framework.

Based on the current TPI of Probable-High the TPI Leeway for this programme is 4 notches, meaning the covered bonds might be downgraded as a result of a TPI cap once the issuer rating is downgraded below A3, all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances, such as (1) a sovereign downgrade negatively affecting both the issuer's senior unsecured rating and the TPI; (2) a multiple-notch downgrade of the issuer; or (3) a material reduction of the value of the cover pool.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in July 2012. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

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