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Caisse Francaise de Financement Local French Covered Bond Ratings Affirmed Following Criteria Update; Outlook Negative

Primary Credit Analyst:
Tristan Gueranger, London (44) 20-7176-3628; tristan.gueranger@standardandpoors.com

Secondary Contact:
Andrew O'Neill, CFA, London (44) 20-7176-3578; andrew.oneill@standardandpoors.com

OVERVIEW

- We have reviewed our ratings on Caisse Française de Financement Local (CaFFiL)'s French legislation-enabled public sector covered bonds under our revised covered bonds and public sector covered bonds criteria, published on Dec. 9, 2014.
- Following our review, we have affirmed our 'AA+' long-term ratings and our 'A-1+' short-term ratings on the covered bond program and related issuances.
- At the same time, we have affirmed our 'AA+p' ratings on the covered bonds where our ratings only address principal repayment.
- The negative outlook on our ratings reflects the negative outlooks on our ratings on France and on the parent bank, Societé de Financement Local, as well as negative outlooks for some of the French public sector borrowers included in the cover pool.

LONDON (Standard & Poor's) July 10, 2015--Standard & Poor's Ratings Services said today that it had completed its review of its ratings on the French public sector covered bond program and related series of obligations foncières (OFs; a type of French legislation covered bonds) issued by Caisse Francaise de Financement Local (CaFFiL) under its société de crédit foncier (SCF) program. We applied our revised criteria for rating covered bonds and our revised criteria for programs backed by public sector assets (see "Covered Bonds Criteria" and "Methodology And Assumptions For Assessing Portfolios Of

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International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities," both published on Dec. 9, 2014). As a result, we have affirmed our 'AA+' long-term and 'A-1+' short-term ratings on the covered bond program and related issuances. We have also affirmed our 'AA+p' ratings on the covered bonds where our ratings only address principal repayment. The outlook on our ratings is negative.

Upon publishing our revised criteria, we had placed our ratings on those covered bond programs that could be affected by a published change in criteria "under criteria observation" (see "Covered Bond Program And Spanish Multicedulas Ratings Placed Under Criteria Observation," published on Jan. 12, 2015). Following our review, we have removed our "under criteria observation" identifier from the ratings on the covered bonds issued by CaFFiL.

Under our covered bonds criteria, we organize the analytical process for rating covered bonds into four key stages:

- Performing an initial analysis of issuer-specific factors--legal and regulatory risks and operational and administrative risks--which mainly assess whether a rating on the covered bond may be higher than the rating on the issuer. Under our bank group methodology, we consider the issuer (CaFFiL) to be a core entity to its parent, Société de Financement Local (SFIL). We therefore apply our covered bonds criteria based on the long-term issuer credit rating (ICR) on SFIL.
- Assessing the starting point for the rating analysis, based on the applicable resolution regimes, to determine the reference rating level (RRL).
- Determining the maximum achievable covered bond rating from an analysis of jurisdictional and cover pool-specific factors.
- Combining the results of the above and incorporating any additional factors, such as counterparty risk and country risk, to assign the final covered bond rating.

After assessing the RRL, to determine a maximum achievable covered bond rating we analyze jurisdictional and collateral support. Our assessment of the expected jurisdictional support for a public sector pool covered bond program in France is "very strong" (see "Assessments For Jurisdictional Support According To Our Covered Bond Criteria," published on Dec. 22, 2014). Under our covered bonds criteria, the uplift from the RRL can be up to three notches when the jurisdictional support is assessed as "very strong". In our analysis of jurisdictional support, we determine a jurisdiction-supported rating level (JRL), which is our assessment of the creditworthiness of a covered bond program once we have considered the level of jurisdictional support, but before giving credit to the amount of collateral. We give no benefit to jurisdictional support in our analysis (that is, zero incremental uplift for jurisdictional support), where the RRL is already at or above the level of the sovereign rating. In this case, the JRL is the same as the RRL.

Following the assessment of the RRL and JRL, we analyze the credit quality of the cover pool and the availability of liquidity support and committed overcollateralization to determine the maximum collateral uplift.

When applicable, our "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions" criteria cap our covered bond ratings. These criteria apply to multijurisdictional cover pools such as those held by CaFFiL. Under these criteria, we consider the exposure to country risk to be "high", which allows the program to achieve one notch of uplift above the unsolicited long-term sovereign rating on France (AA/Negative/A-1+), where most of the obligors are located. Therefore, country risk caps our ratings on the covered bonds.

In addition, a majority of swap counterparties in the program do not have replacement language that is in line with our current counterparty criteria framework (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013). Since termination payments are not subordinated to the payments on covered bonds, our covered bonds counterparty criteria cap our ratings at one notch above the RRL, at 'AA+' (see "Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions," published on May 31, 2012).

Lastly, legal and operational risks do not constrain the ratings.

The 'AA+' long-term ratings on the covered bonds reflect our RRL of 'aa' and JRL of 'aa' for the program, as well as one notch of uplift for collateral support. The available credit enhancement is sufficient to mitigate credit risk at the 'AAA' level of stress, allowing up to two notches of uplift for collateral support. We then deduct one notch of collateral uplift as there is no commitment to maintain the existing level of overcollateralization. There are three unused notches of uplift due to the sovereign rating capping the JRL.

In addition to affirming our long-term ratings on the covered bonds, we have affirmed our 'A-1+' short-term ratings to reflect the creditworthiness of the short-term maturity bonds that can be issued, or are outstanding, under this program, using the mapping methodology set out in our criteria (see "Commercial Paper I: Banks," published on March 23, 2004). We have also affirmed our 'AA+p' ratings on the covered bonds where our ratings only address principal repayment.

The negative outlook on our ratings reflects the negative outlooks on our ratings on SFIL and France. A lowering of our ratings on either SFIL or France would lead to a lowering of our ratings on the covered bonds issued by CaFFiL. The negative outlook also reflects our negative outlook on some French public sector borrower types included in the cover pool, in particular French departments. A deterioration in our assessment of the creditworthiness of these borrowers may lead to an increase in the required credit enhancement that is commensurate with the coverage of 'AAA' credit risk. We would lower our covered bond ratings if available credit enhancement were no longer sufficient to mitigate credit risk at the 'AAA' level of stress, all else remaining equal.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Covered Bonds Criteria, Dec. 9, 2014
- Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- Group Rating Methodology, Nov. 19, 2013
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Global Derivative Agreement Criteria, June 24, 2013
- Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions, May 31, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Methodology: Credit Stability Criteria, May, 3, 2010
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- Commercial Paper I: Banks, March 23, 2004

Related Research

- Covered Bond Monitor, June 26, 2015
- Global Covered Bond Characteristics And Rating Summary Q1 2015, June 19, 2015
- French Public Sector Bank Societe de Financement Local 'AA/A-1+' Ratings Affirmed; Outlook Remains Negative, April 30, 2015
- French Local And Regional Governments Will Contain Debt Growth Until 2016 By Cutting Capital Spending, March 18, 2015
- Institutional Framework Assessments For Non-U.S. Local And Regional Governments, Feb. 5, 2015
- Covered Bond Program And Spanish Multicedulas Ratings Placed Under Criteria Observation, Jan. 12, 2015
- Assessments For Jurisdictional Support According To Our Covered Bond Criteria, Dec. 22, 2014
- Assessments For Target Asset Spreads According To Our Covered Bond Criteria, Dec. 22, 2014
- Covered Bond Monitor: Technical Note, Feb. 14, 2006

Additional Contact:
Covered Bonds Surveillance; CoveredBondSurveillance@standardandpoors.com