

RatingsDirect®

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, Société 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

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

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.