

## **FITCH AFFIRMS CAFFIL'S OF AT 'AA'; OUTLOOK STABLE**

Fitch Ratings-Paris/London-09 February 2016: Fitch Ratings has affirmed Caisse Francaise de Financement Local's (CAFFIL) Obligations Foncieres (OF; French legislative covered bonds) at 'AA'. The Outlook is Stable.

### **KEY RATING DRIVERS**

The OF rating is based on the Long-term Issuer Default Rating (IDR) of CAFFIL's parent, Societe de Financement Local (SFIL; AA-/Stable), acting as reference IDR for the programme, and the one-notch IDR uplift assigned to the programme. This results in a rating floor for the OF on a probability of default (PD) basis of 'AA', irrespective of the actual overcollateralisation (OC) protection available. As a result, the 'AA' breakeven OC is set at the legal minimum for a Societe de Credit Foncier (SCF), of 5%.

In its analysis, Fitch relies on the minimum legislative 5% OC applicable to the programme. The 5% OC is unlikely to be sufficient for maintaining the 'AA' rating of the OF, should the programme's reference IDR be downgraded.

Fitch's Discontinuity-Cap (D-Cap) assessment for CAFFIL does not currently drive the rating of the OF. The overall 'moderate high' D-Cap assessment for the programme reflects the agency's unchanged view of CAFFIL's privileged derivatives component and liquidity gap and systemic risk component, which together are the weakest of the D-Cap components in Fitch's analysis of the programme.

The cover pool has significant exposure to French public sector assets (about 78% of the cover pool), in the form of public sector loans, guaranteed public sector loans, public sector bonds and guaranteed public sector bonds. In a stress scenario above the French sovereign rating, Fitch would model a default of the sovereign and apply an 80% probability of default with minimal recoveries given default to all French public-sector exposures. Given the significant exposure of the cover pool to French public sector assets, Fitch did not run an asset analysis for the programme, as the breakeven OC needed to achieve an OF rating above the French sovereign rating is not deemed to be economically viable for the issuer.

The Stable Outlook on the OF reflects the Stable Outlook assigned to both SFIL and the French sovereign's ratings.

### **RATING SENSITIVITIES**

The Obligations Foncieres' (OF) 'AA' rating would be vulnerable to a downgrade if any of the following occur: (i) Societe de Financement Local's (SFIL) Long-term Issuer Default Rating (IDR), acting as CAFFIL's reference IDR, is downgraded by six notches to 'BBB-' or lower; (ii) Fitch's breakeven overcollateralisation (OC) for the OF rating increases above the legislative OC level of 5% on which the agency relies; or (iii) France is downgraded below 'AA'.

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#### Applicable Criteria

Counterparty Criteria for Structured Finance and Covered Bonds (pub. 14 May 2014)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=744158](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=744158)

Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum (pub. 14 May 2014)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=744175](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=744175)

Covered Bonds Rating Criteria (pub. 23 Jul 2015)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=868658](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=868658)

Covered Bonds Rating Criteria - Public Sector Liquidity and Refinancing Stress Addendum (pub. 29 Jan 2015)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=860409](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=860409)

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