

RatingsDirect®

Ratings On Compagnie de Financement Foncier Covered Bonds Affirmed And Removed From CreditWatch Negative

Primary Credit Analyst:

Alice Delemarle-Charton, London (44) 20-7176-3594; alice_delemarle@standardandpoors.com

Secondary Credit Analyst:

Nicolas Malaterre, Paris (33) 1-4420-7324; nicolas_malaterre@standardandpoors.com

OVERVIEW

- On Dec. 19, 2012, we placed the long-and short-term ratings on Compagnie de Financement Foncier (CFiF)'s SCF (societe de credit foncier) covered bond program on CreditWatch negative following a review of the progress the program had made toward meeting our updated criteria for assessing counterparty risk by Jan. 11, 2013.
- The issuer has continued to renegotiate its derivative documentation to bring these agreements in line with the structural features for counterparty replacement outlined in our current or previous counterparty criteria. We understand CFiF is still pursuing this initiative.
- On Dec. 28, 2012, CFiF also made a public commitment that mitigates the immediate impact of the updated counterparty criteria on the rating on the program. In particular, it has committed to taking action on swaps that do not follow a replacement framework commensurate with our counterparty criteria should the short-term issuer credit rating (I CR) on its parent, BPCE, fall below 'A-1'.
- We have reviewed the credit and cash flows of the transaction after applying the new counterparty criteria. Following these results, we are affirming and removing from CreditWatch negative our 'AAA/A-1+' long- and short-term ratings on the covered bonds issued under CFiF's SCF program. The outlook on these covered bonds is stable.

PARIS (Standard & Poor's) Jan. 9, 2013--Standard & Poor's Ratings Services

today affirmed and removed from CreditWatch negative its 'AAA/A-1+' long- and short-term ratings on the covered bonds issued by Compagnie de Financement Foncier (CFiF) under its SCF program. The outlook is stable (see list below).

On Dec. 19, 2012, we placed the program on CreditWatch negative based on the execution risk following our review of the progress made toward meeting our updated criteria for assessing counterparty risk by Jan. 11, 2013, especially around derivatives obligations.

In particular, unsubordinated termination payments could be due by CFiF to the counterparty, should the contract end prematurely. These are not mitigated by a replacement framework in line with Standard & Poor's methodology for a number of swaps in the transaction, covering more than 5% of the amount of privileged liability. According to paragraph 36 of "Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions," this constrains the rating to one notch above the rating on the issuer.

Also, the additional termination event language (ATE), which gives the issuer the option to terminate the swap agreement if there is no mutually accepted replacement, and which is present in most of the transaction's swaps, had not yet been clarified in line with paragraph 38 of "Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions." This leads us to consider that these swaps do not have a replacement framework in line with our methodology.

We understand that since Dec. 19, 2012, the issuer has continued to renegotiate the documentation for its derivatives agreements to bring them in line with a replacement framework that follows structural features outlined in the current counterparty criteria or reflects previous counterparty criteria, but as of today, the remaining notional amount as a percentage of the outstanding covered bonds remains above 5%.

Moreover, on Dec. 28, 2012, the issuer published the following commitments on its Web site:

- For swap contracts with an ATE provision: upon the ATE trigger being hit, the issuer commits to find a replacement, take over the derivative obligation, or increase the overcollateralization to address unhedged risk within 60 calendar days.
- For the unsubordinated termination costs in swap contracts with no Standard & Poor's replacement framework: if BPCE is no longer rated 'A-1', the issuer undertakes to replace or amend the swap contracts (including contractual subordination of swap termination payments) to bring the notional amount of such swaps below 5% of the outstanding privileged liability within 60 days.

These commitments mitigate the risk of an immediate constraint on the rating on the program to one notch above the ICR on CFiF.

HEDGES WITH RELATED AND UNRELATED COUNTERPARTIES

Swap contracts with related entities of the issuer's group have been updated to reflect our latest counterparty criteria. The benefit of these swaps is therefore reflected in the cash flow analysis.

We do not give benefit to swap contracts with unrelated counterparties which do not have a Standard & Poor's replacement framework, and therefore the cash flows remain unhedged and exposed to foreign exchange and interest rate risk in our cash flow models.

Swap contracts with unrelated counterparties which follow previous Standard & Poor's counterparty criteria or the current counterparty criteria with variants have been analysed in accordance with paragraph 7 of the covered bond counterparty criteria. Because the single unrelated counterparty concentration is below 25%, the applicable ICR on the unrelated derivative counterparties is in the 'AAA' to 'A-' group, and the ICR on the issuer is in the 'AAA' to 'A-' group, there is no constraint on the maximum uplift achievable by the program.

CASHFLOWS RUN WITH 'AAA' STRESSES

We affirmed our ratings on CFiF's covered bonds following our review of the latest cash flow information provided (as of Sept. 30, 2012). This now excludes the benefit of swaps without a Standard & Poor's replacement framework.

Following the application of our five-step approach for rating covered bonds, we have assessed the current asset-liability mismatch (ALMM) risk measure, the program's categorization, the maximum potential covered bond ratings uplift, the cash flow and market value risk, and the credit enhancement provided.

The key results of this assessment are:

Classification of ALMM	Low
Program categorization	1
Maximum potential ratings uplift (notches)	7
Maximum potential rating	AAA
Target credit enhancement (%)	14.5
Available credit enhancement (%)*	18.1

*We calculate the current enhancement as (assets - liabilities)/liabilities.

When determining the program categorization, we consider primarily our view of the jurisdiction of a program and its ability to access external financing or monetize the cover pool. We then assign the covered bonds to one of three distinct categories. Under our criteria, to achieve the maximum potential number of notches of uplift, the available credit enhancement needs to be commensurate with the target credit enhancement.

Following our analysis, and given our view of the French SCF legal framework, we have categorized CFiF's covered bonds in category "1" and determined a "low" ALMM classification. Under our criteria for rating covered bonds, this

combination enables us to assign to the covered bonds a maximum potential ratings uplift of seven notches above our long-term ICR. Our assessment of the external swap counterparties shows that currently it does not affect the maximum number of notches uplift achievable by the program.

We believe that the cover pool can support a 'AAA' rating on CFiF's covered bonds issued under its SCF covered bond program. This reflects our assessment of the target credit enhancement, combined with the available credit enhancement for the covered bonds. We have consequently affirmed and removed from CreditWatch negative our 'AAA/A-1+' long- and short-term ratings on these covered bonds.

As the program uses only five of the seven notches of potential uplift above the ICR to achieve its current rating, we have also assigned a stable outlook to the 'AAA/A-1+' long- and short-term ratings on CFiF's covered bonds and program.

RELATED CRITERIA AND RESEARCH

Related criteria

- Counterparty Risk Framework Methodology And Assumptions, Nov. 29, 2012
- Covered Bond Ratings Framework: Methodology And Assumptions, June 26, 2012
- Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions, May 31, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Assessing Asset-Liability Mismatch Risk In Covered Bonds: Revised Methodology And Assumptions For Target Asset Spreads, April 24, 2012
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds And CDOs, Aug. 5, 2010
- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2009
- Methodology And Assumptions: Update To The Cash Flow Criteria For European RMBS Transactions, Jan. 6, 2009 (not applicable for U.K. programs)
- Methodology And Assumptions: Update To The Criteria For Rating French Residential Mortgage-Backed Securities, Jan. 6, 2009
- European Legal Criteria For Structured Finance Transactions, Aug. 28, 2008
- Methodology & Assumptions: Applying The Derivative Counterparty Framework To Covered Bonds, Feb. 26, 2008
- Revised Framework For Applying Counterparty And Supporting Party Criteria, May 8, 2007
- CDO Spotlight: Rating Approach To Synthetic CDOs Of Sovereigns Or Local And Regional Governments, May 3, 2006
- Cash Flow Criteria for European RMBS Transactions, Nov. 20, 2003 (not

applicable for U.K. programs)

- Surviving Stress Scenarios: Assessing Asset Quality of Public Sector Covered Bond Collateral, Sept. 30, 2003
- Criteria for Rating French Residential Mortgage-Backed Securities, July 16, 2003
- Swap Counterparty Requirements Expanded For Interest Rate Swaps, May 19, 2000
- Standard & Poor's Develops Criteria for Rating Obligations Foncières, May 5, 2000

Related research

- Compagnie de Financement Foncier Covered Bond Program On Watch Neg On Review Of Progress In Meeting Updated Criteria, Dec. 19, 2012
- A Listing Of S&P's New Actions Aimed At Strengthening The Ratings Process, Feb. 7, 2008

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor's Web site at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

RATINGS LIST

Ratings Affirmed/CreditWatch Action

Program	To	From
Compagnie de Financement Foncier	AAA/Stable	AAA/Watch Neg
	A-1+/Stable	A-1+/Watch Neg

Country: France Covered bond type: Obligation Fonciere

Additional Contact:

Covered Bonds Surveillance; CoveredBondSurveillance@standardandpoors.com

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, 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 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.