

Transaction Update: Compagnie de Financement Foncier (Mortgage And Public Sector Covered Bonds)

Obligations Foncières

Primary Credit Analyst:

Adriano Rossi, Milan + 390272111251; adriano.rossi@spglobal.com

Research Contributor:

Parashar Tendolkar, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

Major Rating Factors

Outlook: Stable

Rationale

Program Description

Rating Analysis

Related Criteria

Related Research

Transaction Update: Compagnie de Financement Foncier (Mortgage And Public Sector Covered Bonds)

Obligations Foncières

Ratings Detail

Reference Rating Level	aa-	+	Jurisdiction-Supported Rating Level	aa	+	Maximum Achievable Covered Bond Rating	aaa	=	Covered Bond Rating	
Resolution Regime Uplift	+2		Assigned Jurisdictional Support Uplift	1		Collateral Support Uplift	+4		AAA/Stable/A-1+	
Systemic Importance	Very Strong		Jurisdictional Support Assessment	Very Strong		Overcollateralization Adjustment	0		Rating Constraints	aaa
Resolution Counterparty Rating	A+*		Legal Framework	Very Strong		Liquidity Adjustment	0		Counterparty Risk	aaa
Issuer Credit Rating	A*		Systemic Importance	Very Strong		Potential Collateral Based Uplift	4		Country Risk	aaa
			Sovereign Credit Capacity	Very Strong						

*Since we consider Compagnie de Financement Foncier SCF to be a core entity of BPCE, we raise the ratings on the covered bonds according to the long-term issuer credit rating on the parent bank (BPCE), in line with our covered bonds criteria. The JRL is capped by the long-term sovereign rating on France ('AA').

Major Rating Factors

Strengths

- Good asset quality, mostly comprising seasoned French residential loans and public sector assets.
- Commitment to maintain an overcollateralization level in line with the requirement for current ratings and coverage of liquidity risk in line with our criteria.

Weaknesses

- There is a relatively high share of buy-to-let loans among the residential assets, which we view as being relatively more likely to default.
- Unused notches are capped by the application of our counterparty criteria.

Outlook: Stable

S&P Global Ratings' stable outlook on its ratings on the covered bonds ("obligations foncières" or OFs) issued by France-based Compagnie de Financement Foncier (CFiF) reflects the three unused notches of uplift for the ratings, which provide a buffer if we were to lower our long-term issuer credit rating (ICR) on the issuer's ultimate parent bank, BPCE (A/Stable/A-1).

Rationale

We are publishing this transaction update following our periodic review of CFiF's mortgage and public sector covered bond program and related issuances.

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

We consider that the provisions in the transaction documents, together with the French legal and regulatory framework, effectively isolate the cover pool assets for the benefit of the covered bondholders. This asset isolation allows us to assign a higher rating to the covered bonds than our long-term ICR on the issuer.

The ultimate parent bank, BPCE, is based in France, which applies the EU's Bank Recovery and Resolution Directive (BRRD).

We consider that covered bonds backed by residential mortgages and public sector loans have a very strong systemic importance in France. These factors increase the likelihood that BPCE's subsidiary, Crédit Foncier de France (CFF), would continue servicing the covered bonds without accessing the cover pool or receiving jurisdictional support, even following a bail-in of its senior unsecured obligations. Therefore, under our covered bonds criteria, we assess the reference rating level (RRL) as 'aa-', two notches above the ICR of 'A' on CFiF's ultimate parent bank, BPCE.

We consider the likelihood for the provision of jurisdictional support. Based on a very strong jurisdictional support assessment for mortgage and public sector programs in France, we assign up to three notches of uplift from the RRL. As the jurisdiction-supported uplift is capped at the long-term rating on the French sovereign, in accordance with our covered bonds criteria, we assess the jurisdiction-supported rating level (JRL) as 'aa', the same level as the RRL.

In order to reach a 'AAA' rating, the program requires two notches of uplift from the JRL. As there are no deductions for liquidity coverage and overcollateralization commitment, a 'AAA' rating requires two notches of collateral-based uplift. Based on our cash flow analysis, the available credit enhancement of 15.4% exceeds the required credit enhancement for two notches of collateral-based uplift of 8.3%.

There are currently no rating constraints to the 'AAA' ratings relating to administrative and operational, legal, counterparty, or sovereign risk.

The 'A-1+' short-term ratings on the program reflect the creditworthiness of the short-term maturity bonds that can be

issued, or are outstanding, for this issuer.

We have based our analysis on the criteria articles referenced in the "Related Criteria" section.

Program Description

Set up in 1999, CFiF SCF is a wholly owned subsidiary of CFF, itself affiliated to BPCE, the second-largest retail bank in France. CFiF is a specialized financial institution licensed as a "société de crédit foncier" (SCF), regulated by French regulator "Autorité de Contrôle Prudentiel et de Résolution" (ACPR). The European Central Bank has also supervised it since November 2014. With about €52.2 billion of outstanding covered bonds as of end of March 2022, CFiF is one of the world's largest covered bonds issuers.

The existing pool of assets securing the OFs are originated or bought by CFF and transferred to CFiF. Since 2018 CFiF has been repositioned as the refinancing entity for public sector assets for the BPCE Group as a whole. CFiF's cover pool will continue to include existing residential loans until they fully amortize. As such, the share of public sector assets in the cover pool is growing, while residential loans are reducing.

OFs are French legislation-enabled covered bonds monitored by an independent trustee. To attract a diverse investor base, CFiF has issued them under various programs:

- €125 billion medium-term notes (EMTN);
- US\$10 billion medium-term securities (USMTS);
- €10 billion negotiable medium-term note (NEU MTN);
- A\$5 billion medium-term notes (AMTN); and
- €10 billion negotiable European commercial paper (NEU CP).

All bonds rank pari passu and have recourse under French law to the same cover pool, which mostly comprises residential loans, public sector assets, and substitute assets.

Table 1

Program Overview (As of March 31, 2022)	
Jurisdiction	France
Year of first issuance	1999
Covered bond type	Legislation-enabled
Outstanding covered bonds (bil. €)	52.18
Redemption profile	Hard bullet
Underlying assets	Residential loans, commercial mortgages, and public sector exposures
Resolution support uplift (assigned)	2
Jurisdictional support uplift (assigned)	1
Unused notches for jurisdictional support	2
Target credit enhancement (%)	10.00
Credit enhancement commensurate with 'AAA' rating (%)	8.27
Available credit enhancement (%)	15.40

Table 1

Program Overview (As of March 31, 2022) (cont.)	
Collateral support uplift (potential)	4
Unused notches for collateral support	2
Total unused notches (considering counterparty criteria cap)	3

Table 2

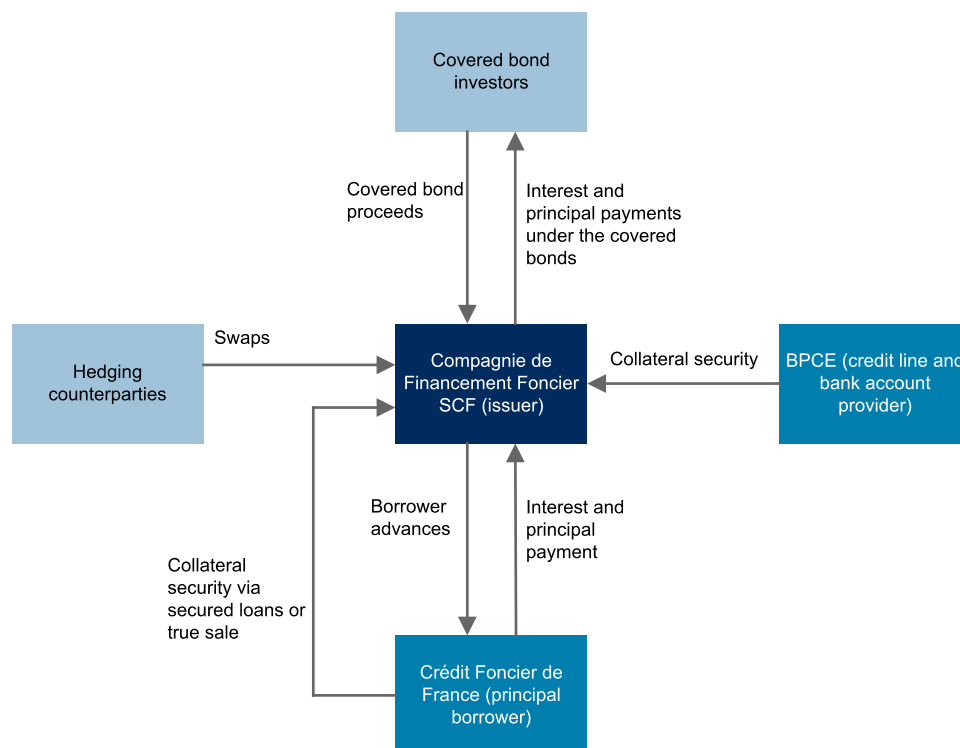
Program Participants			
Role	Name	Ratings	Rating dependency
Issuer*	Compagnie de Financement Foncier	NR	Yes
Originator	Crédit Foncier de France	A-/Stable/A-2	No
Originator	BPCE	A/Stable/A-1	No
Sponsor	BPCE	A/Stable/A-1	Yes
Credit line provider	BPCE	A/Stable/A-1	Yes
Loan guarantee provider on some residential assets	Crédit Logement	NR	No
Bank account provider	BPCE	A/Stable/A-1	Yes
Bank account provider	Banque de France	NR	Yes
Servicer	Crédit Foncier de France	A-/Stable/A-2	Yes
Interest rate hedge and currency swap provider	Barclays Bank PLC	A/Positive/A-1	Yes
Interest rate hedge and currency swap provider	BNP Paribas S.A.	A+/Stable/A-1	Yes
Interest rate hedge and currency swap provider	Credit Agricole Corporate and Investment Bank S.A.	A+/Stable/A-1	Yes
Interest rate hedge and currency swap provider	Citibank N.A.	A+/Stable/A-1	Yes
Interest rate hedge and currency swap provider	Crédit Foncier de France	A-/Stable/A-2	Yes
Interest rate hedge and currency swap provider	Deutsche Bank AG	A-/Stable/A-2	Yes
Interest rate hedge and currency swap provider	Dexia Credit Local S.A.	BBB/Stable/A-2	Yes
Interest rate hedge and currency swap provider	JP Morgan Chase Bank N.A.	A+/Positive/A-1	Yes
Interest rate hedge and currency swap provider	Merrill Lynch International	A+/Positive/A-1	Yes
Interest rate hedge and currency swap provider	Morgan Stanley Bank International Ltd.	A+/Stable/A-1	Yes
Interest rate hedge and currency swap provider	Natixis S.A.	A/Stable/A-1	Yes
Interest rate hedge and currency swap provider	Natixis S.A., guaranteed by Caisse des Dépôts et Consignations	AA/Stable/A-1+	Yes
Interest rate hedge and currency swap provider	The Royal Bank of Scotland PLC	A/Stable/A-1	Yes
Interest rate hedge provider	DZ Bank AG	A+/Stable/A-1	Yes
Interest rate hedge provider	Goldman Sachs International	A+/Stable/A-1	Yes
Interest rate hedge provider	HSBC Continental Europe	A+/Stable/A-1	Yes
Interest rate hedge provider	Royal Bank of Canada	AA-/Stable/A-1+	Yes
Interest rate hedge provider	Societe Generale S.A.	A/Stable/A-1	Yes

Table 2

Program Participants (cont.)			
Role	Name	Ratings	Rating dependency
Currency swap provider	UBS Europe S.E.	A+/Stable/A-1	Yes

*We apply the potential notches of uplift to the long-term rating on BPCE to derive the ratings on the covered bonds. See "Counterparty risk" below. NR--Not rated.

Compagnie de Financement Foncier (Mortgage And Public Sector Covered Bonds)



Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

Rating Analysis

Legal and regulatory risks

In our view, France's legal framework for OH covered bonds issued by an SCF, defined in article L.513-2 and related articles of the French Monetary and Financial Code, sufficiently addresses the legal aspects in our covered bonds criteria, enabling us to rate the covered bonds higher than the issuer. OF-holders have recourse to the sponsor and to the assets in the cover pool.

Under French law, holders of privileged liabilities, such as OH covered bonds, have a preferential claim to the SCF's assets ahead of all other creditors. The SCF must maintain overcollateralization of at least 5% for the privileged liabilities, weighted in accordance with the legal framework, and ensure 180 days of liquidity needs at all times. The

difference between the weighted-average life (WAL) of the assets ensuring regulatory overcollateralization and that of the privileged liabilities cannot exceed 18 months. Only assets meeting the legal eligibility criteria can form part of the regulatory minimum collateralization. Eligible assets are:

- First-ranking mortgage loans, or guaranteed residential loans. Credit is given for the loan portion up to a maximum loan-to-value (LTV) ratio of 80% for individual borrowers;
- Residential loans guaranteed by the "Fonds d'Accession à l'Accession Sociale" (FGAS) with a maximum LTV ratio of 100% for the guaranteed part;
- Mortgage loans to commercial borrowers. Credit is given for the loan portion up to a maximum loan-to-value (LTV) ratio of 60%; and
- Public-sector loans to states or local authorities.

Substitute assets meeting the legal eligibility criteria are also allowed in the cover pool, however they must not exceed 15% of the liabilities to privileged creditors.

An SCF can enter a repurchase agreement with the European Central Bank for liquidity purposes, including after the sponsor's bankruptcy.

The EU Covered Bonds Directive has been transposed into national legislation by enacting changes to the French Monetary and Financial Code by means of decree-law (ordonnance) n. 2021-858 dated 30 June 2021, decree (décret) n. 2021-898 dated July 6, 2021, ministerial decree (arrêté) dated July 7, 2021, and decree (décret) n. 2022-766 dated May 2, 2022. These amendments will apply as of July 8, 2022 to all outstanding covered bond programs.

The main changes comprise:

- Soft bullet maturity extension: allowed in cases of principal payment default by the issuer or the sponsor on the scheduled maturity date of the covered bonds, or if the issuer or sponsor becomes subject to insolvency proceedings. Soft bullet extensions cannot invert the maturity order of outstanding bonds.
- Premium and standard labels: premium covered bonds require enhanced monitoring by the asset monitor (specific controller) to ensure compliance with article 129 of the Capital Requirements Regulations.

Since the French legislation is already well-aligned with the EU Directive, the scope of updates is limited and does not affect our analysis of the French legal framework.

We base our analysis of legal risk on our "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017, and other criteria articles listed in our covered bonds rating framework.

Operational and administrative risks

We have not identified any operational or administrative risk that would affect our assessment of the program. We consider CFF's and BPCE's servicing and origination procedures to be in line with its peers.

As a regulated entity, CFiF is subject to ongoing monitoring of its compliance with legal covenants from the specific controller, an asset monitor.

Our analysis of operational and administrative risks follows the principles laid out in our covered bonds ratings framework.

Resolution regime analysis

Like other French covered bonds we rate, the program exhibits asset-liability mismatch risk not addressed by structural features (for example as would be the case for pass-through liabilities). The ratings on the covered bonds are therefore linked to the issuer's RRL, under our covered bonds criteria.

We assess the systemic importance for mortgage and public sector programs in France as very strong. Under our covered bonds criteria, a very strong systemic importance means the RRL is the maximum between two notches above the long-term ICR and the resolution counterparty rating (RCR). As the ICR on BPCE is 'A', the resulting RRL is 'aa-', which reflects the two-notch uplift from the ICR. This uplift recognizes that resolution regimes like the BRRD increase the probability that an issuer could service its covered bonds even following a default on its senior unsecured obligations because the law exempts covered bonds from bail-in risk in the event of bank resolution. We consider this as an internal form of support, because the bail-in of certain creditors of the issuer does not require direct support from the government.

Jurisdictional support analysis

In our jurisdictional support analysis, we assess the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative instead of from the liquidation of collateral assets in the open market.

Our assessment of the expected jurisdictional support for French mortgage and public sector programs is very strong. Under our covered bonds criteria, this means that the program can receive up to three notches of jurisdictional uplift over the RRL. However, the uplift is capped at the unsolicited long-term sovereign rating on France, therefore, the JRL is 'aa'.

Collateral support analysis

We base our current analysis on loan-by-loan data as of a cut-off date of March 31, 2022.

The cover pool comprises mostly French residential loans and global public sector exposures originated by CFF or other entities of the BPCE group (see table 3). Compared with our previous review the share of public sector loans has increased by 6.1%, while the share of residential assets has decreased by 2.8%. We expect this trend to continue going forward, due to the shift in focus to public sector origination (see "Program Description"). The cover pool also includes a minor portion (1.1% of the total pool) of loans backed by commercial real estate assets. We now give credit to commercial loans as, although the size of this subpool is below the minimum threshold under our commercial real estate criteria, they are part of an overall granular pool. As long as the loan count for commercial mortgages is below the minimum threshold under the commercial real estate criteria (150 loans) we will assume a weighted-average foreclosure frequency of 100%. Consequently, we now include commercial mortgages in our measure of available credit enhancement.

The available overcollateralization of 15.4% covers the credit enhancement commensurate with a 'AAA' rating on the covered bonds of 8.27% (compared with 8.13% previously).

We have performed our credit of the residential assets in this program under our global residential loans criteria.

Since our previous review, the weighted-average foreclosure frequency (WAFF) of French residential assets (95.6% of the mortgage pool) decreased from 12.09% to 11.11% due to an increase in loan seasoning and a reduction in the effective weighted-average effective LTV ratio (based on 80% original LTV ratio and 20% current LTV ratio). At the same time the WAFF of Belgian residential assets (2.1% of the mortgage pool) increased from 10.13% to 11.62%. The WAFF for the overall mortgage pool, including French commercial mortgages (2.3% of the mortgage pool), has increased to 13.18% from 12.1% with the main driver being the assumption of a WAFF of 100% for commercial mortgages.

The weighted-average loss severity (WALS) decreased to 40.5% from 44.7% on the back of a decrease in the average current LTV ratio and the share of jumbo loans.

We have performed our credit analysis of the public sector assets in this program in accordance with the public sector criteria. The scenario default rate (SDR) that we consider to be commensurate with a 'AAA' credit stress for public sector loans increased slightly to 34.3% from 34.0%, mostly reflecting the marginal increase in the share of assets rated 'B' and below and the marginal increase in the weighted-average life of the pool. The recovery rate for public sector loans improved slightly to 74.3% from 73.8% due to an increase in the share of local and regional government assets, which we assume to have a higher recovery than sovereign assets.

The available credit enhancement of 15.4% exceeds the credit enhancement commensurate with a 'AAA' rating on the covered bonds (second notch of collateral based uplift given by 'AAA' credit risk plus 50% of refinancing risk) of 8.3% as well as the target credit enhancement to achieve the full four notches of potential collateral-based uplift of 10.0%.

Credit risk at the 'AAA' level has remained unchanged as positive factors--marginal decrease in overall credit loss on residential and commercial assets and marginal increase in excess spread--have compensated the marginal increase in SDR on public sector assets. Target credit enhancement has slightly increased from the previous review mainly due to the additional negative factors--a decrease in cash reserves (including cash-like instruments) and a decrease in asset liability mismatch--outweighing positive factors.

There are no negative adjustments on these potential four notches of uplift for the overcollateralization commitment (published on the issuer's website in October 2020) or liquidity risk.

Table 3

Cover Pool Composition					
Asset type	As of March 31, 2022		As of March 31, 2021		
	Value (mil. €)	Percentage of cover pool (%)	Value (mil. €)	Percentage of cover pool (%)	
Residential loans	29,067	48.29	34,027	51.5	
Commercial mortgages	687	1.14	NR	NR	
Public sector exposures	24,308	40.38	22,858	34.6	
Substitute assets*	6,134	10.19	9,155	13.9	
Total cover pool assets	60,196	100	66,040	100	

*Including bank deposits and secured loans to BPCE.

Table 4

Key Credit Metrics		
	March 31, 2022	March 31, 2021
Residential mortgages (French residential assets)		
Weighted-average debt service to income (%)	28.3	28.4
Weighted-average original loan-to-value ratio (%)	90.0	89.8
Weighted-average effective loan-to-value ratio (%) [*]	84.5	85.9
Weighted-average current loan-to-value ratio (%)	62.6	70.1
Weighted-average loan seasoning (months) [§]	88.0	77.0
Balance of loans in arrears (%)	1.2	1.2
Buy-to-let loans (%)	27.0	26.3
Loans guaranteed by Crédit Logement ("cautions") (%)	21.1	19.7
Credit analysis results (all residential assets):		
WAFF (%)	13.2	12.1
WALS (%)	40.3	44.7
Country medians:		
WAFF (%)	12.1	11.7
WALS (%)	27.8	28.0
Public sector exposures		
Weighted-average cover pool asset rating	'BBB'	'BBB-'
Weighted-average loan asset maturity (years)	8.50	8.44
20 largest obligors (% of public sector assets)	41.6	45.4
Credit analysis results:		
SDR (%)	34.3	34.0
Weighted-average recovery rate (%)	74.3	73.8
Weighted-average time to recovery (years)	3.2	3.2
Largest obligor test result (% of covered bonds)	5.5	5.1
Largest sovereign test result (% of covered bonds)	5.1	4.6
Country medians:		
SDR (%)	32.7	33.3

^{*}Effective LTV ratio based on 80% original LTV and 20% current LTV LTV--Loan to value, calculated on acquisition price. [§]Seasoning refers to the elapsed term. WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity. SDR--Scenario default rate.

Table 5

Mortgage Loans Assets Distribution By Seasoning*		
Elapsed term	March 31, 2022	March 31, 2021
Less than 5 years	35.1	50.2
>5 and <=6 years	15.0	9.6
>6 and <=7 years	9.8	6.7
>7 and <=8 years	6.8	5.1
>8 and <=9 years	5.1	3.7
>9 and <=10 years	3.9	4.3
Over 10 years	24.1	20.3

Table 5**Mortgage Loans Assets Distribution By Seasoning* (cont.)**

Elapsed term	March 31, 2022	March 31, 2021
Weighted-average loan seasoning (months)	88.0	77.0

*Seasoning refers to the elapsed loan term and applies to loans not in arrears.

Table 6**Mortgage Loans Assets Distribution By Current Loan-to-Value Ratios**

(%)	Percentage of the cover pool (%)	
	March 31, 2022	March 31, 2021
0-60	33.0	27.6
60-80	50.0	29.6
80-90	15.3	26.7
Above 90	1.6	16.1
Weighted-average indexed current loan-to-value ratio (%)	62.6	70.1

Table 7**Residential Loans Assets Distribution By Type Of Security**

	Percentage of mortgage loan assets (%)	
	March 31, 2022	March 31, 2021
Mortgages*	79.3	80.3
Crédit Logement guarantees	20.7	19.7

*Including mortgages benefiting from a guarantee from the "Fonds de Garantie de l'Accession Sociale à la propriété" (FGAS).

Table 8**Mortgage Loans Assets Distribution By Property Occupation**

	Percentage of mortgage loan assets (%)	
	March 31, 2022	March 31, 2021
Owner-occupied	71.6	72.3
Buy-to-let	27.0	26.3
Second homes	1.4	1.4
Total	100	100

Table 9**Public Sector Exposures Distribution And Key Assumptions**

	'AAA' recovery rate (%)	Time to recovery (years)	Share of pool (%)	
			March 31, 2022	March 31, 2021
Category A LRGs	90	4	45.76	41.9
French municipalities			24.8	24.7
French regions			9.0	7.4
French social housing			2.5	1.9
Other LRGs			9.5	7.9
Category B LRGs	75	4	28.5	29.8
French departments			13.4	12.5

Table 9

Public Sector Exposures Distribution And Key Assumptions (cont.)				
French public hospitals			8.5	9.1
Other LRGs			6.6	8.2
Category A U.S. municipalities*	85	4	5.6	7.9
Sovereigns	37	0	17.0	18.3
France§			6.8	7.1
Italy			9.1	9.9
Japan			0.6	0.7
Other sovereigns			0.6	0.6
French non-LRG public sector	18	0	2.8	1.7
Other non-LRG public sector	18	0	0.3	0.4
Total/weighted average	73.8	3.2	100	100

*Including non-U.S. debt guaranteed by Assured Guaranty Municipal Corp. §Including "Assistance Publique Hopitaux de Paris," which we view as a sovereign exposure in terms of default risk but calculate the recovery rate of a public hospital once the exposure defaulted. LRGs--Local and regional governments.

Table 10

Public Sector And Substitute Assets Distribution By Credit Assumptions		
	Percentage of cover pool excluding mortgage assets (%)	
Rating category	March 31, 2022	March 31, 2021
AAA/aaa*	1.93	1.69
AA/aa*	11.0	11.02
A/a*	22.0	18.29
BBB/bbb*	39.05	35.24
BB/bb*	0.30	0.28
B/b or lower*	5.58	4.88
Non-defaulting assets§	20.15	28.60
Total	100	100

*Aggregated by rating category; the rating distribution includes all rating types used in the analysis, which are public ratings, sector and credit estimates, and S&P Global Ratings' last resort assumption of 'ccc-'. §Bank deposits and secured loans to BPCE.

Table 11

Collateral Uplift Metrics		
	March 31, 2022	March 31, 2021
Asset WAM (years)*	9.13	9.53
Liability WAM (years)	7.26	7.04
Available credit enhancement (%)	15.40	18.75
Required credit enhancement for coverage of 'AAA' credit risk (%)	6.53	6.53
Required credit enhancement for first notch of collateral uplift (%)	6.53	6.53
Required credit enhancement for second notch of collateral uplift (%)	8.27	8.13
Required credit enhancement for third notch of collateral uplift (%)	9.13	8.92
Target credit enhancement for maximum uplift (%)	10.00	9.72
Potential collateral-based uplift (notches)	4	4

Table 11

Collateral Uplift Metrics (cont.)		
	March 31, 2022	March 31, 2021
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	N	N
Collateral support uplift (notches)	4	4

*Calculated based on no asset prepayments and excludes cash and cash-like assets. WAM--Weighted-average maturity.

Counterparty risk

We have identified several counterparty risks to which the covered bonds are exposed. These are structurally addressed, however, and we therefore believe that they do not constrain the ratings.

Collection bank accounts. The main bank account agreement is with BPCE, which we consider a related entity to the issuer. Therefore we assess bank account risk as limited, as per our "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019. We consider that the commitment to replace the account bank if our long-term ICR on BPCE falls below 'A' is consistent with a 'AAA' long-term rating on the covered bonds.

There is also a bank account held at the Banque de France, the French central bank, on which CFiF keeps funds necessary to repay the covered bonds that mature in the coming months. This account, as typical for central bank accounts, does not have replacement language. The ratings on the covered bonds are therefore weak-linked to the creditworthiness of Banque de France.

Commingling risk. To mitigate this risk for collections received on bank accounts under CFiF's name in case CFF defaults, CFF has committed to fund a commingling reserve if it is downgraded below 'BBB'. The reserve is now funded due to liquidity coverage ratio requirements unrelated to our downgrade language. It is held in a separate bank account and represents one month of collections flowing through CFF's accounts, including prepayments. This amount covers payments to covered bond holders while borrowers redirect their payments to the new collection account.

Credit line provider. CFiF has a credit line from BPCE of up to €2 billion to cover its liability for collateral deposits received from swap counterparties. The line would be drawn if the short-term rating on BPCE fell below 'A-1'. The credit line provider is not a privileged creditor under the law, so it would rank below covered bondholders if insolvency occurs. Deposits amounted to €0.19 billion as of the end of March 2022. We give credit to the credit line by considering collateral deposit liabilities as fully covered.

Swaps. CFiF benefits from having diversified swap counterparties and does not have unhedged interest rate or foreign currency positions.

The swaps agreement with CFF, a related entity under our criteria, was amended in February 2020 to reflect our current counterparty criteria. It stipulates that CFF will replace itself if the RRL on the issuer falls below 'a'. A moderate collateral framework assessment has been elected. The collateral framework assessment is also considered to be moderate for the float-to-float currency swaps.

The swaps agreement with Natixis S.A., also a related entity, was amended in October 2020 to reflect our current counterparty criteria. A moderate collateral framework option has been selected for the time being. It stipulates that Natixis will replace itself if the RRL on the issuer falls below a level that no longer supports the program's current 'AAA' rating. This implies that the current replacement trigger is an RRL of at least 'a'.

For both related swaps the documented replacement frameworks combined with the current 'aa-' RRL on the covered bond issuer supports a 'AAA' rating on the covered bonds, in our view.

All swaps with unrelated entities include a credit support annex and therefore qualify for a moderate collateral framework assessment under our counterparty criteria, at minimum. They also include a replacement trigger set at 'BBB' or higher, and replacement must occur within 90 days of a swap counterparty downgrade. Given our 'aa-' RRL on BPCE, our current counterparty criteria support a 'AAA' rating on the covered bonds.

As a result, counterparty risk arising from the hedging strategy does not constrain our ratings on the covered bonds.

Derivative counterparty risk caps unused notches at three notches due to the potential effect of a downgrade by more than three notches of CFF as swap provider--a related counterparty--on the program's maximum achievable rating.

Sovereign default risk

This is multi-jurisdictional pool of mixed mortgage and public sector assets. The issuer is located in France, which is part of a monetary union, and liquidity risk is covered for six months. Under the multi-jurisdictional treatment for covered bonds under the sovereign default risk criteria, this program exhibits moderate sensitivity to refinancing risk, which leads to a maximum uplift of four notches above the rating on the sovereign (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019). As France has an unsolicited long-term sovereign rating of 'AA', refinancing risk sensitivity does not constrain the rating on the program.

Asset sensitivity to sovereign default risk is captured through the largest sovereign default test and the largest transfer and convertibility default test. Both tests are passed at a 'AAA' level. Sovereign default risk therefore does not constrain the rating on the covered bond program.

Environmental, social, and governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
- N/A					- Social capital					- N/A				

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021. N/A--Not applicable.

Environmental and governance factors for this program are in line with other French issuers we rate. The cover pool includes both residential loans and public sector exposures, with the latter being the main source of origination of new assets. Residential assets comprise subsidized loans with a social connotation. However, we don't consider these loans to affect credit results. For public sector exposures we consider social factors to be a supportive component in the credit assessments of the underlying entities. In this case, the cover pool consists mainly of loans to French public sector entities to fund investment projects. The issuer has an overcollateralization commitment; in addition, we

consider liquidity risk to be covered through the provisions of the SCF legislation. These features allow achieving the full four notches of collateral-based uplift.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- 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
- Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- French Covered Bond Market Insights 2022, June 30, 2022
- Global Covered Bond Insights Q2 2022, June 8, 2022
- Institutional Framework Assessment: French Cities, Intercities, And Municipal Syndicates, May 24, 2022
- ESG Credit Indicator Report Card: Covered Bonds, April 7, 2022
- Update: BPCE, Dec. 3, 2021
- Institutional Framework Assessment: French Departments And Departmental Syndicates, Nov. 22, 2021
- S&P Global Ratings Definitions, Nov. 10, 2021
- Glossary Of Covered Bond Terms, April 27, 2018

Copyright © 2022 by Standard & Poor's Financial Services LLC. 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. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

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 acknowledgment 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 acknowledgment 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 non-public 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 (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.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.