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

Obligations Foncières

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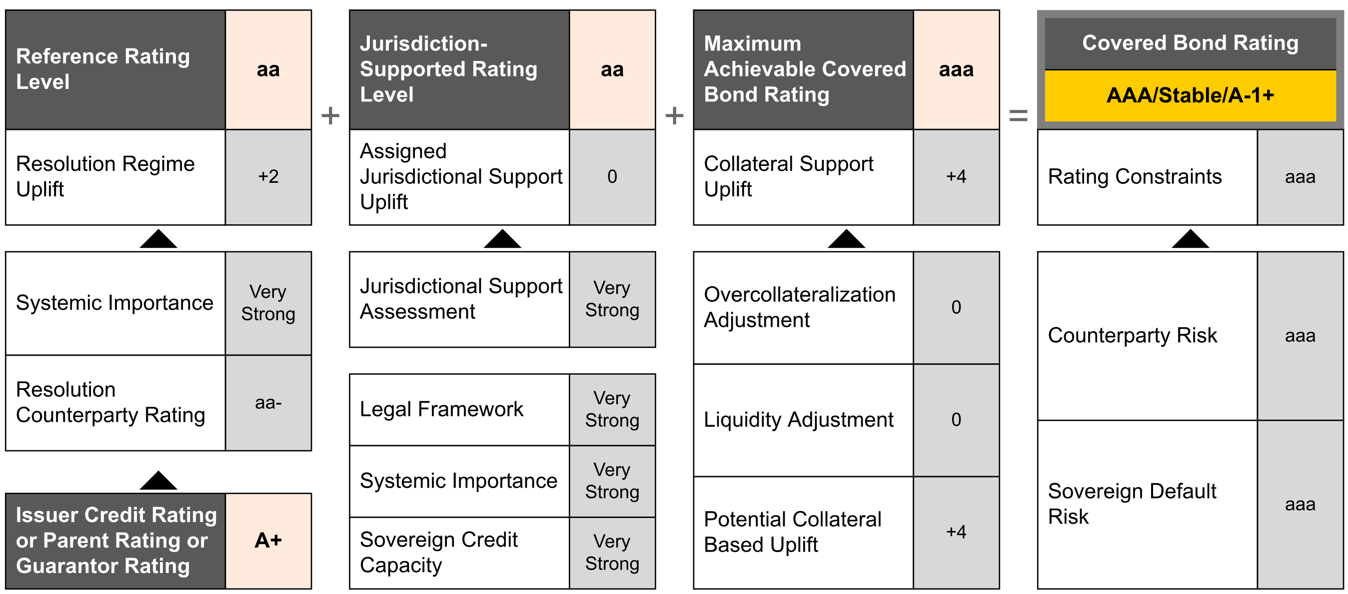
Table Of Contents

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

Obligations Foncières

Ratings Detail



Note: As a starting point of the analysis, we may use the ICR on the relevant parent or guarantor when the issuer is not rated but belongs to a group with a rated parent or payments under the covered bonds are guaranteed by another rated entity. ICR--Issuer credit rating.

Major Rating Factors

Strengths

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

Weakness

- A relatively high share of buy-to-let (BTL) loans among residential assets, which we view as more likely to default. However, the percentage of these loans is currently reducing.

Outlook

S&P Global Ratings' stable outlook on its ratings on the covered bonds ("obligations foncières" or OF) issued by France-based Compagnie de Financement Foncier (CFiF) reflects the four 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 covered bondholders' benefit. 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 and CFiF's parent, 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 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 can potentially 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 (AA-/Stable/A-1+), in accordance with our covered bonds criteria, we assess the jurisdiction-supported rating level (JRL) as 'aa', same as the RRL. This results in three unused notches of jurisdictional support uplift.

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 15.68% exceeds the required credit enhancement for two notches of collateral-based uplift of 7.11%.

Administrative and operational, legal, counterparty, or sovereign default risks do not currently constrain the 'AAA' covered bond ratings.

Currently, the application of our counterparty criteria constrains the number of unused notches of uplift to four.

The 'A-1+' short-term ratings on the program reflects 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

Established 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 also supervises it. With about €51.46 billion of outstanding covered bonds as of end of March 2024, CFiF is one of the world's largest covered bonds issuers.

CFF has originated or bought the existing pool of assets securing the OF and transferred them 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.

OF are French legislation-enabled covered bonds monitored by an independent cover pool monitor. 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 covered bonds rank pari passu and have recourse under French law to the same cover pool, which mostly comprises residential loans, public sector exposures, and substitute assets.

Table 1

Program overview (as of March 31, 2024)	
Jurisdiction	France
Year of first issuance	1999
Covered bond type	Legislation-enabled
Outstanding covered bonds (bil. €)	51.46
Redemption profile	Hard bullet
Underlying assets	Residential loans, commercial mortgages, and public sector exposures
Resolution support uplift (assigned)	2
Jurisdictional support uplift (notches assigned)	0
Unused notches for jurisdictional support	3

Table 1

Program overview (as of March 31, 2024) (cont.)	
Target credit enhancement (%)	13.19
Credit enhancement commensurate with 'AAA' rating (%)	7.11
Available credit enhancement (%)	15.68
Collateral support uplift (potential)	4
Unused notches for collateral support as per covered bond criteria	5
Unused notches as per counterparty criteria	4
Total unused notches (considering counterparty criteria cap)	4

Table 2

Program participants

Role	Name	Ratings	Rating dependency
Issuer*	Compagnie de Financement Foncier	NR	Yes
Originator	Crédit Foncier de France	A/Stable/A-1	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-1	Yes
Interest rate hedge and currency swap provider	Barclays Bank PLC	A+/Stable/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-1	Yes
Interest rate hedge and currency swap provider	The Royal Bank of Scotland PLC	A+/Stable/A-1	Yes
Interest rate hedge and currency swap provider	JP Morgan SE	A+/Positive/A-1	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+/Stable/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
Swap counterparty	Dexia Credit Local S.A guaranteed by Crédit Foncier de France	A/Stable/A-1	Yes
Interest rate hedge provider	DZ Bank AG	A+/Stable/A-1	Yes

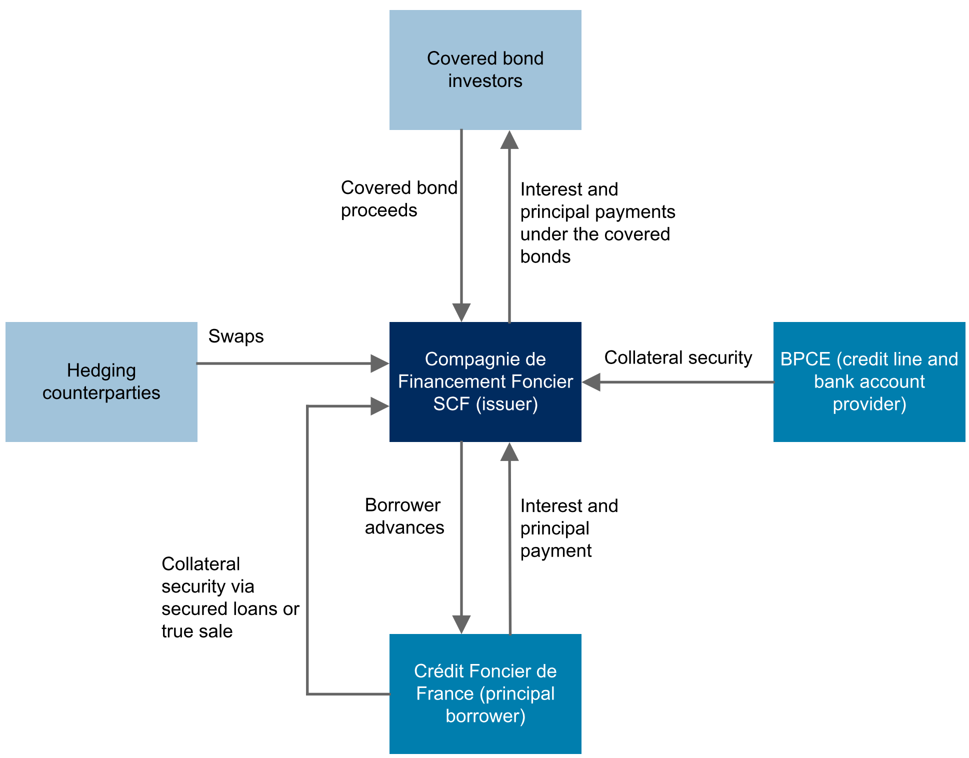
Table 2

Program participants (cont.)

Role	Name	Ratings	Rating dependency
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
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)



Rating Analysis

Legal and regulatory risks

In our view, France's legal framework for OF 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 cover pool assets.

Under French law, holders of privileged liabilities, such as OF covered bonds, have a preferential claim to the SCF's assets before all other creditors. The SCF must maintain overcollateralization of at least 5% for the privileged liabilities, weighted in accordance with the legal framework, and must always ensure 180 days of liquidity coverage. The difference between the weighted-average life 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 de Garantie 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 LTV ratio of 60%; and
- Public sector exposures to sovereign states or local authorities.

Substitute assets are also allowed in the cover pool; however, their value within the collateral amount matching the covered bond amount must not exceed certain thresholds based on asset rating.

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 was 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 were applicable from July 8, 2022. A further amendment was made through decree (décret) n. 2023-102 of Feb. 16, 2023.

The main changes comprised:

- Soft-bullet maturity extension: Allowed in cases of principal payment default by the issuer or the sponsor on the covered bonds' scheduled maturity date, or if the issuer or sponsor becomes subject to insolvency proceedings. Soft-bullet extensions due to SFH/SCF default cannot invert the outstanding bonds' maturity order.
- 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, the cover pool monitor.

Our operational and administrative risks analyses follow the principles within our covered bonds ratings framework.

Resolution regime analysis

Resolution support uplift recognizes that resolution regimes like the BRRD increase the probability that an issuer (or parent bank in the case of SFHs and SCFs) 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 a 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.

Under our covered bonds criteria, we assess the systemic importance for mortgage and public sector programs in France as very strong. This means the RRL is the maximum between two notches above the long-term ICR and the resolution counterparty rating (RCR), where applicable. The resulting RRL is 'aa', which reflects the two-notch uplift from the 'A+' ICR on BPCE.

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 collateral assets' liquidation 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', which results in three unused notches of jurisdictional support uplift.

Collateral support analysis

We base our current analysis on loan-by-loan data as of a cut-off date of March 31, 2024.

The cover pool comprises mostly French residential loans originated by CFF, and global public sector exposures originated mainly by the BPCE group's (see table 3) Caisse d'Epargne and Banque Populaire networks. Since our previous review, the share of public sector loans has increased by 5.42%, while that of residential assets has decreased by 6.76%. We expect this trend to continue due to the shift in focus to public sector origination (see "Program Description"). The cover pool also includes a minor portion (1.10% of the total pool) of mortgage loans backed by commercial real estate assets. We give credit to these assets as although the size of this subpool is below the minimum threshold of 150 loans under our commercial real estate criteria, they are part of an overall granular pool. As long as this remains the case, we will assume a weighted-average foreclosure frequency (WAFF) of 100%.

The available overcollateralization of 15.68% covers the credit enhancement commensurate with a 'AAA' rating on the covered bonds of 7.11% (compared with 8.77% previously).

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

Since our previous review, the WAFF of French residential assets (97% of the mortgage pool) decreased to 9.39% from 10.24%, mainly due to lower effective LTV (ELTV) ratio, increased weighted-average seasoning of the pool, and reduced BTL loan share. The effective weighted-average LTV ratio is based on 80% of the original LTV (OLTV) ratio and 20% of the current LTV (CLTV) ratio. The weighted-average loss severity (WALS) for these assets has decreased to 25.65% from 39.29%, mainly driven by the introduction of a specific description on the recovery framework that applies to mortgage loans in France guaranteed by FGAS in our residential loans criteria, resulting in a higher recovery rate for loans guaranteed by FGAS. FGAS guarantees 53.83% of the French residential pool thereby driving the WALS. Additionally, a decreasing CLTV ratio and a lower share of jumbo valuations also contribute positively to the lower WALS.

The FGAS scheme is designed to facilitate mortgage credit access to low-income households by compensating losses to lenders if a borrower defaults. It is managed on behalf of the French State by a company named Société de Gestion des Financements et de la Garantie de l'Accession Sociale à la Propriété.

This is the first time we give credit to FGAS guarantee in our credit analysis, as our RMBS criteria was updated on July 26, 2024, to introduce a specific description on the recovery framework that applies to mortgage loans in France guaranteed by FGAS.

For mortgage loans benefiting from a guarantee provided under the FGAS scheme, we consider the creditworthiness of the scheme, its specificities on claim coverage and acceptance, the eligibility of the loan for the guarantee at the time of underwriting, and loan eligibility at the time of default.

The WAFF for Belgian residential assets (1.9% of the mortgage pool) decreased to 8.79% from 10.28% due to a lower effective weighted-average LTV ratio, slightly higher loan seasoning and a reduction in the percentage of BTL loans. The WALS for these assets has decreased to 17.49% from 24.46% due to on a lower CLTV ratio.

For the overall mortgage pool, that is, including also the French commercial mortgages (2.04% of the mortgage pool), the WAFF has decreased to 11.71% from 13.46% and the WALS has decreased to 25.99% from 39.02% due to the reasons described above.

We have performed our credit analysis of the public sector assets in this program in accordance with our public sector criteria. The scenario default rate for public sector exposures increased to 34.40% from 31.96%, mostly reflecting a slight deterioration of the credit quality of the assets and a slight increase in the weighted-average life of the pool. The recovery rate for public sector loans improved slightly to 75.8% from 73.9% due to a higher share of local and regional government assets, which we assume to have a higher recovery than sovereign and corporate assets.

Table 3

Cover pool composition

	As of March 31, 2024		As of March 31, 2023	
Asset type	**Value (mil. €)**	**Percentage of cover pool**	**Value (mil. €)**	**Percentage of cover pool**
Residential loans	24,928	42.25	26,500	43.88
Commercial mortgages	653	1.11	551	0.91
Public sector exposures	27,738	47.01	26,830	44.43
Substitute assets*	5,680	9.63	6,505	10.77
Total cover pool assets	58,999	100	60,386	100

*Including bank deposits and secured loans to BPCE.

Table 4

Key credit metrics

	March 31, 2024	March 31, 2023
Residential mortgages (French residential assets)		
Weighted-average debt service to income (%)	28.55	28.35
Weighted-average original loan-to-value ratio (%)	90.98	90.62
Weighted-average effective loan-to-value ratio (%)*	83.88	84.86
Weighted-average current loan-to-value ratio (%)	55.47	61.87
Weighted-average loan seasoning (years)§	8.85	8.05
Balance of loans in arrears (%)	0.00	0.91
Buy-to-let loans (%)	25.40	26.73
Loans guaranteed by Crédit Logement ("cautions") (%)	20.78	21.37
Credit analysis results (all residential assets):		
WAFF (%)	11.71	13.46
WALS (%)	25.99	39.02
Public sector exposures		
Weighted-average cover pool asset rating	BBB-	BBB-
Weighted-average loan asset maturity (years)	7.9	7.6
20 largest obligors (% of public sector assets)	29.83	39.01
Credit analysis results:		
SDR (%)	34.40	31.96
Weighted-average recovery rate (%)	75.79	73.97
Weighted-average time to recovery (years)	3.35	3.19
Largest obligor test result (% of covered bonds)	5.19	6.38
Largest sovereign default test result (% of covered bonds)	4.86	5.04

*Effective LTV ratio based on 80% of the original LTV ratio and 20% of the current LTV ratio. §Seasoning refers to the elapsed term. WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity. LTV--Loan-to-value. SDR--Scenario default rate.

Table 5

Mortgage loans assets distribution by seasoning*

Elapsed term	March 31, 2024	March 31, 2023
Less than 5 years	5.10	19.88
>5 and <=6 years	15.86	17.68

Table 5

Mortgage loans assets distribution by seasoning* (cont.)

Elapsed term	March 31, 2024	March 31, 2023
>6 and <=7 years	17.93	15
>7 and <=8 years	15.01	9.68
>8 and <=9 years	9.76	6.76
>9 and <=10 years	6.83	5.05
Over 10 years	29.50	25.91
Weighted-average loan seasoning (years)	8.85	8.05

*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, 2024	March 31, 2023
0-60	52.14	35.08
60-80	44.10	49.98
80-90	2.92	13.09
Above 90	0.84	1.59
Weighted-average indexed current loan-to-value ratio (%)	55.47	61.87

Table 7

Residential loans assets distribution by type of security

	Percentage of mortgage loan assets	
	March 31, 2024	March 31, 2023
Mortgages*	74.68	78.63
Crédit Logement guarantees	20.78	21.37

*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, 2024	March 31, 2023
Owner-occupied	73.36	71.98
Buy-to-let	25.40	26.73
Second homes	1.20	1.28
Total	100	100

Table 9

Public sector exposures distribution and key assumptions

			Share of pool (%)	
	'AAA' recovery rate (%)	Time to recovery (years)	March 31, 2024	March 31, 2023
Category A LRGs	90	4	50.67	45.42
French municipalities			34.40	27.72
French regions			12.98	8.75
French social housing			3.29	2.73
Other LRGs			10.21	6.21
Category B LRGs	75	4	28.39	29.09
French departments			19.80	13.92
French public hospitals			6.20	8.08
Other LRGs			2.39	7.09
Category A U.S. municipalities*	85	4	4.54	5.07
Sovereigns	37	0	9.79	17.29
France§			1.35	8.16
Italy			7.61	8.11
Japan			0.45	0.55
Other sovereigns			0.39	0.47
French non-LRG public sector	18	0	6.34	2.83
Other non-LRG public sector	18	0	0.28	0.29
Weighted-average/total	75.79	3.19	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, 2024**	**March 31, 2023**
AAA/aaa*	0.33	1.89
AA/aa*	9.23	12.30
A/a*	21.54	23.07
BBB/bbb*	59.59	40.53
BB/bb*	0.00	0.28
B/b or lower*	9.31	5.93
Non-defaulting assets§	19.94	16.01
Total	100	100

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

The available credit enhancement of 15.68% (15.50% in our previous review) exceeds the credit enhancement commensurate with a 'AAA' rating on the covered bonds (second notch of collateral-based uplift given by 'AAA' credit risk) of 7.11% (8.77% in our last review) as well as the target credit enhancement (TCE) to achieve the full four notches of potential collateral-based uplift of 13.19% (10.40% in our past analysis). After the upgrade of BPCE, and because the program does not receive any jurisdictional support uplift, the required credit enhancement to achieve the 'AAA' rating corresponds to the 'AAA' credit risk overcollateralization. Since our previous analysis, the required credit enhancement was 'AAA' credit risk plus 50% of refinancing costs, as at that time the program received one notch of jurisdictional support uplift.

Our baseline measure of cash flow risk assuming no asset-liability mismatch--'AAA'--credit risk—is stable compared to last year (7.11% compared with 7.13%).

The TCE has slightly increased since our previous review mainly due to higher redemptions in the first coming year and a minor decrease in excess spread and in the cash reserve, which have been partially offset by decreased credit coverage for mortgage assets.

These potential four notches of uplift are subject to no negative adjustments for overcollateralization commitment (published on the issuer's website) or liquidity risk.

Table 11

Collateral uplift metrics

	March 31, 2024	March 31, 2023
Asset WAM (years)*	8.48	8.90
Liability WAM (years)	6.44	7.07
Available credit enhancement (%)	15.68	15.50
Required credit enhancement for coverage of 'AAA' credit risk (%)	7.11	7.13
Required credit enhancement for first notch of collateral uplift (%)	7.11	7.13
Required credit enhancement for second notch of collateral uplift (%)- Required credit enhancement for AAA rating	7.11	8.77
Required credit enhancement for third notch of collateral uplift (%)	11.67	9.58
Target credit enhancement for maximum uplift (%)	13.19	10.40
Potential collateral-based uplift (notches)	4	4
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

The covered bonds are exposed to several counterparty risks. These are structurally addressed, 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 the 'AAA' long-term ratings on the covered bonds.

Another bank account is held with the Banque de France, the French central bank, in which CFiF keeps funds required to repay the covered bonds maturing 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 Banque de France's creditworthiness.

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. As the reserve is sized exceeding our assessment of asset depletion and commingling risk (0.5 month), we do not model lost collections in our cash flow analysis.

Credit line provider. CFiF has a credit line from BPCE of up to €1 billion to cover its liability for collateral deposits received from swap counterparties--the credit line amount was reduced to €1 billion from €2 billion in September 2022. 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 €59.3 million at the end of March 2024. 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.

Under the swaps agreement with CFF, a related entity 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 floating-floating currency swaps.

The swaps agreement with Natixis S.A., another related entity, has elected a moderate collateral framework option 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 current 'AAA' rating on the program. 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.

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, the application of our counterparty criteria supports a 'AAA' rating on the covered bonds.

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

However, derivative counterparty risk caps unused notches at four notches due to the potential effect on the program's maximum achievable rating of a downgrade of the issuer's parent bank by more than four notches. The derivatives causing the cap are the swap with CFF--a related counterparty--and those with certain unrelated counterparties.

Sovereign default risk

This is multi-jurisdictional cover 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 our sovereign default risk criteria, the 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 pass at a 'AAA' level. Sovereign default risk therefore does not constrain the rating on the covered bond program.

If France (AA-/Stable/A-1+; unsolicited) were to be downgraded, the supplemental tests would considerably increase the credit enhancement required to maintain the program's current rating.

Environmental, Social, And Governance

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 for originating new assets. Residential assets comprise subsidized loans with a social connotation. We consider these loans to be credit supportive and because it reduces the amount of losses that we size in our analysis. For public sector exposures--which comprise mainly loans to French public sector entities to fund investment projects--we consider social factors to be a supportive component in the underlying entities' credit assessments. 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 the program to achieve the full four notches of collateral-based uplift.

Related Criteria

- Global Methodology And Assumptions: Assessing Pools Of Residential Loans--Europe Supplement, April 4, 2024
- 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
- Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015

- 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

- S&P Global Ratings Definitions, Oct. 15, 2024
- French Covered Bond Market Insights 2024, Sept. 18, 2024
- Global Covered Bond Insights Q4 2024: On Course For A Strong Year, Sept. 18, 2024
- BPCE Upgraded To 'A+' On Increased Senior Non-Preferred Issuance To Boost Loss-Absorbing Capacity; Outlook Stable, July 15, 2024
- Research Update: France Long-Term Rating Lowered To 'AA-' From 'AA' On Deterioration Of Budgetary Position; Outlook Stable, May 31, 2024
- Bulletin: BPCE's Offer For SG's Equipment Finance Activities Signals Its Ambition To Also Expand Beyond France, April 11, 2024
- Covered Bonds Outlook Midyear 2024: Growth And Rates Support Performance, July 11, 2024
- The French Covered Bond Legal Framework: A Closer Look, April 3, 2023
- Glossary Of Covered Bond Terms, April 27, 2018