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

Obligations Foncières

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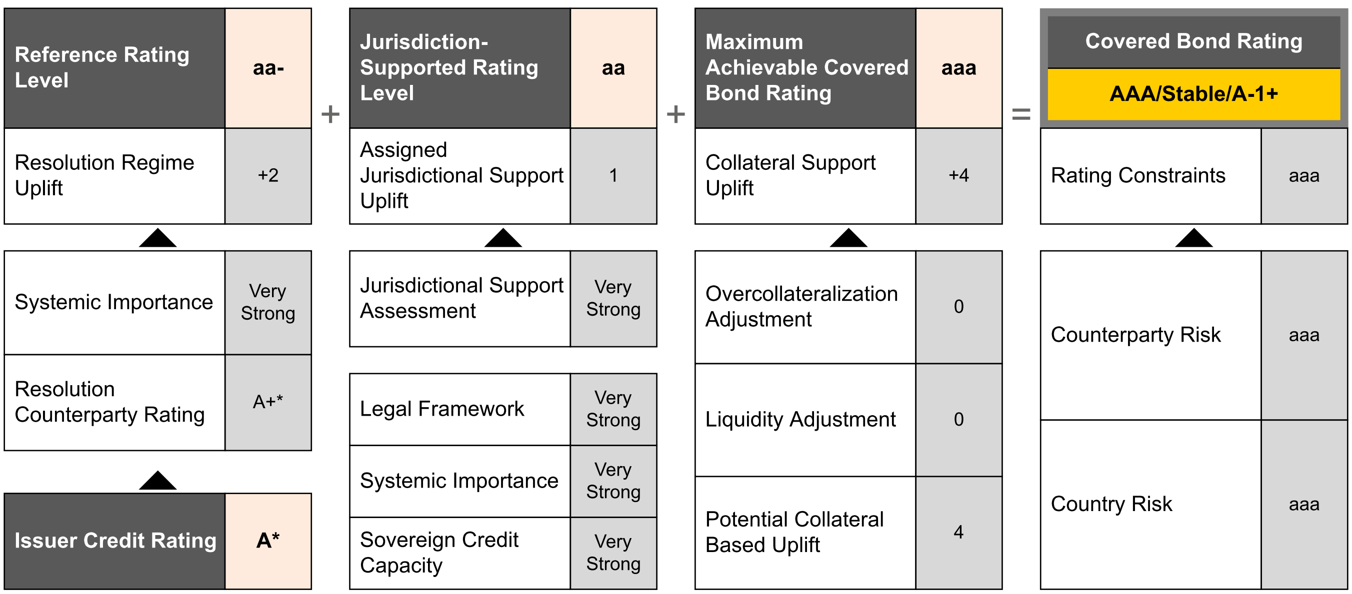
Ratings Detail



*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, public sector assets, and substitute 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 18.8% exceeds the required credit enhancement for two notches of collateral-based uplift of 8.1%.

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 some covered bonds in 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 €55.9 billion of outstanding covered bonds as of end of March 2021, 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. Following an announcement in June 2018, most of CFF's activities have now been transferred to other entities of the BPCE group. 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. We therefore expect that the cover pool composition will gradually transition to a prevalence of public sector collateral.

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 mortgage loans, global public sector assets, and substitute assets.

Table 1

Program Overview (As of March 31, 2021)	
Jurisdiction	France
Year of first issuance	1999
Covered bond type	Legislation-enabled
Outstanding covered bonds (bil. €)	55.86
Redemption profile	Hard bullet
Underlying assets	Residential and public sector loans
Resolution support uplift (assigned)	2
Jurisdictional support uplift (potential/assigned)*	3/1
Unused notches for jurisdictional support	2
Target credit enhancement (%)	9.72
Minimum credit enhancement for 'AAA' rating (%)§	8.13

Table 1

Program Overview (As of March 31, 2021) (cont.)	
Available credit enhancement (%)§	18.75
Collateral support uplift (potential/assigned)‡	4/2
Unused notches for collateral support	2
Total unused notches (considering counterparty criteria cap)	3

*Capped at the unsolicited long-term rating on the French sovereign ('AA'). §Minimum credit enhancement is floored at 5% under French SCF legislation. †Not including €0.61 billion loans to commercial real estate. ‡All ratings are capped at 'AAA'.

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
"Caution" to some mortgage 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	BBB+/Positive/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

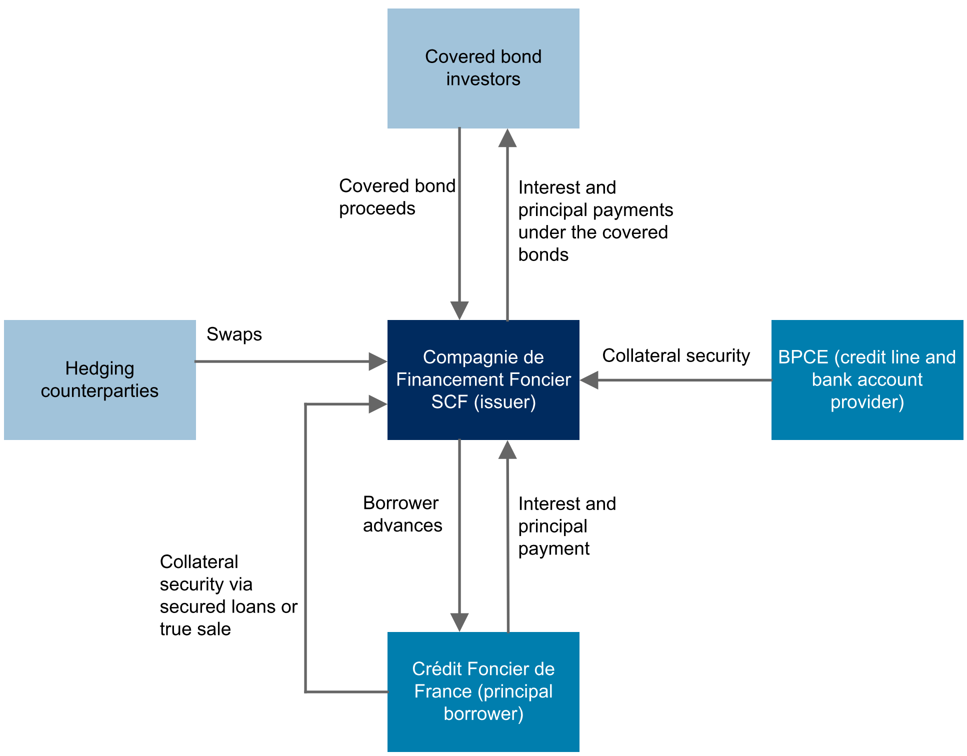
Table 2

Program Participants (cont.)

Role	Name	Ratings	Rating dependency
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 covered bonds, defined in article L513-2 and related articles of the "Code Monétaire et Financier" (last updated by the decree 2014-526 dated May 23, 2014) sufficiently addresses the legal aspects in our covered bonds criteria, enabling us to rate the covered bonds higher than the issuer. Only an SCF can issue OFs under the framework, with OF-holders having recourse first to the sponsor and, second, to the assets in the cover pool.

Under French law, holders of privileged liabilities, such as 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 loans, with a maximum loan-to-value (LTV) ratio of 80% for individual borrowers, or 60% for other borrower types;
- Residential loans guaranteed by a third-party credit institution (such as Crédit Logement), to a maximum of 35% of the cover pool;
- Residential loans guaranteed by the "Fonds d'Accession à l'Accession Sociale" (FGAS) with a maximum LTV ratio of 100%;
- Public-sector loans to states or local authorities; and
- Highly rated asset-backed securities, if at least 90% of those assets are eligible assets as described above. There are no such assets in this cover pool.

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 make a repurchase agreement with the European Central Bank for liquidity purposes, including after the sponsor's bankruptcy.

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 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 "contrôleur spécifique", 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 (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on Nov. 27, 2020).

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, 2021.

The cover pool comprises mostly French residential and global public sector loans originated by CFF or other entities of the BPCE group (see table 3). The proportion of residential assets has decreased by 7.1% compared with our previous review, while the share of public sector loans has increased by 1.4%. We expect this trend to continue going forward, due to 2018's announcement (see "Program Description"). The cover pool also includes a minor portion (0.92% of the total pool) of loans backed by commercial real estate assets. Due to the size of this subpool being below the minimum threshold under our commercial real estate criteria and its lack of granularity, we do not currently give credit to commercial loans in our analysis and do not include them in our measure of available credit enhancement.

Available overcollateralization increased to 18.8% compared with 15.5% at our previous review. It covers the 8.13% credit enhancement commensurate with a 'AAA' rating on the covered bonds (compared with 9.86% previously).

We have performed our credit of the residential assets in this is program under our global residential loans criteria. Since our previous review, of the residential loans' credit quality has improved. The weighted-average foreclosure frequency (WAFF) reduced to 12.1% from 13.2%, with the main drivers being an increase in loan seasoning and a reduction in debt-to-income (DTI) ratios (the latter due to a revised data treatment for loans with missing DTI and DTI above 50% based on additional information received from the issuer). The increase in the share of buy-to-let loans somewhat offset the positive factors. The weighted-average loss severity (WALS) decreased to 44.7% from 48.5% on the back of an decrease in the average current LTV ratio, which is partially offset by an increase in the share of jumbo loans.

We have performed our credit analysis of the public sector assets in this is 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 decreased to 34.0% from 35.0%, mostly reflecting the marginal increase in share of 'AA' and 'A' rated assets and the decrease in assets rated 'BBB' and below. Another contributor to the SDR improvement was the increase in non-defaulting (cash equivalent) assets in the pool. The recovery rate for public sector loans worsened slightly to 73.8% from 74.4% due to an increase in sovereign assets in the pool, which we assume to have a lower recovery than other public sector assets.

The available credit enhancement of 18.8% 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 8.1% as well as the target credit enhancement to achieve the full four notches of potential collateral-based uplift of 9.7%.

Credit risk at the 'AAA' level and target credit enhancement have decreased from the previous review mainly due to the improvement in credit results. The credit enhancement commensurate with a 'AAA' rating has also decreased for the same reason, but this improvement is also partially due to the introduction of an overcollateralization commitment.

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

	As of March 31, 2021		As of March 31, 2020	
Asset type	**Value (mil. €)**	**Percentage of cover pool (%)**	**Value (mil. €)**	**Percentage of cover pool (%)**
Residential loans	34,027	51.5	36,640	54.4
Public sector loans	22,858	34.6	22,551	33.5
Substitute assets*	9,155	13.9	8,197	12.2
Total cover pool assets	66,040	100	67,387	100

*Including bank deposits and secured loans to BPCE.

Table 4

Key Credit Metrics

	March 31, 2021	March 31, 2020
Residential mortgages (French residential assets)		
Weighted-average debt service to income (%)	28.4	32.7
Weighted-average original loan-to-value ratio (%)	89.8	89.2
Weighted-average effective loan-to-value ratio (%)*	85.9	86.0
Weighted-average current loan-to-value ratio (%)	70.1	72.9
Weighted-average loan seasoning (months)§	77.0	68.9
Balance of loans in arrears (%)	1.2	1.7
Buy-to-let loans (%)	26.3	24.7
Loans guaranteed by Crédit Logement ("cautions") (%)	19.7	18.1
Credit analysis results (all residential assets):		
WAFF (%)	12.1	13.2
WALS (%)	44.7	48.5
Country medians:		
WAFF (%)	11.7	12.55
WALS (%)	28.0	32.04

Table 4

Key Credit Metrics (cont.)

	March 31, 2021	March 31, 2020
Public sector loans		
Weighted-average cover pool asset rating	'BBB-'	'BBB'
Weighted-average loan asset maturity (years)	8.44	9.24
20 largest obligors (% of public sector assets)	45.4	45.8
Credit analysis results:		
SDR (%)	34.0	35.0
Weighted-average recovery rate (%)	73.8	74.4
Weighted-average time to recovery (years)	3.2	3.2
Largest obligor test result (% of covered bonds)	5.1	4.6
Largest sovereign test result (% of covered bonds)	4.6	4.7
Country medians:		
SDR (%)	33.3	32.7

*We've included the effective LTV for 2019 for comparison purposes only as it did not apply under the previous asset specific criteria. §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, 2021	March 31, 2020
Less than 5 years	50.2	56.8
>5 and <=6 years	9.6	7.0
>6 and <=7 years	6.7	5.4
>7 and <=8 years	5.1	3.9
>8 and <=9 years	3.7	4.4
>9 and <=10 years	4.3	5.4
Over 10 years	20.3	17.0
Weighted-average loan seasoning (months)	77.0	68.9

*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, 2021**	**March 31, 2020**
0-60	27.6%	24.70%
60-80	29.6%	25.90%
80-90	26.7%	25.80%
Above 90	16.1%	23.60%
Weighted-average indexed current loan-to-value ratio (%)	70.1%	72.90%

Table 7

Residential Loans Assets Distribution By Type Of Security

	Percentage of mortgage loan assets (%)	
	March 31, 2021	**March 31, 2020**
Mortgages*	80.3	81.9
Crédit Logement guarantees	19.7	18.1

*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, 2021	**March 31, 2020**
Owner-occupied	72.3	73.9
Buy-to-let	26.3	24.7
Second homes	1.4	1.4
Total	100	100

Table 9

Public Sector Loans Distribution And Key Assumptions

			Share of pool (%)	
	'AAA' recovery rate (%)	**Time to recovery (years)**	**March 31, 2021**	**March 31, 2020**
Category A LRGs	90	4	41.9	41.4
French municipalities			24.7	24.1
French regions			7.4	6.0
French social housing			1.9	2.2
Other LRGs			7.9	9.1
Category B LRGs	75	4	29.8	30.7
French departments			12.5	12.4
French public hospitals			9.1	9.6
Other LRGs			8.2	8.7
Category A U.S. municipalities*	85	4	7.9	8.8
Sovereigns	37	0	18.3	16.9
France§			7.1	5.3
Italy			9.9	10.2
Japan			0.7	0.8
Other sovereigns			0.6	0.7
French non-LRG public sector	18	0	1.7	1.8
Other non-LRG public sector	18	0	0.4	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, 2021**	**March 31, 2020**
AAA/aaa*	1.69	1.84
AA/aa*	11.02	10.72
A/a*	18.29	17.72
BBB/bbb*	35.24	37.50
BB/bb*	0.28	0.30
B/b or lower*	4.88	5.26
Non-defaulting assets§	28.60	26.66
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, 2021	March 31, 2020
Asset WAM (years)*	9.53	9.98
Liability WAM (years)	7.04	7.41
Available credit enhancement (%)	18.75	15.53
Required credit enhancement for coverage of 'AAA' credit risk (%)	6.53	7.43
Required credit enhancement for first notch of collateral uplift (%)	6.53	7.43
Required credit enhancement for second notch of collateral uplift (%)	8.13	7.43
Required credit enhancement for third notch of collateral uplift (%)	8.92	9.86
Target credit enhancement for maximum uplift (%)	9.72	10.67
Potential collateral-based uplift (notches)	4	4
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	N§	Y
Collateral support uplift (notches)	4	3

*Calculated based on no asset prepayments and excludes cash and cash-like assets. §Overcollateralization commitment was provided in October 2020. 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 €0.67 billion as of the end of March 2021. 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 with overcollateralization requirements of 4.63% and 0.62%, respectively, so both below the credit enhancement required for the current rating. Sovereign default risk therefore does not constrain the rating on the covered bond program.

Environmental, social, and governance factors

Environmental 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. In terms of governance, we consider the French SCF legislation to address the main requirements of our covered bonds criteria. 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

- 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
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