MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns definitive Aaa to CCF SFH - Mortgage Covered Bonds

12 Dec 2024

Paris, December 12, 2024 -- Moody's Ratings (Moody's) has today assigned definitive Aaa long-term ratings to the residential mortgage covered bonds issued by CCF SFH (the "issuer", unrated), which are governed by the French legal framework for Sociétés de Financement de l'Habitat (SFH) (the SFH law).

RATINGS RATIONALE

A covered bond benefits from (1) the issuer's promise to pay interest and principal on the bonds, and (2) following a CB anchor event, the economic benefit of a collateral pool (the cover pool).

The ratings therefore reflect the following factors:

(1) The credit strength of CCF (the "sponsor bank", Bank Deposits rating Baa2 (outlook stable); adjusted baseline credit assessment baa3; LT Counterparty Risk Assessment A3(cr)) and a CB anchor of A2;

(2) Following a CB anchor event, the value of the cover pool. The stressed level of losses on the cover pool assets following a CB anchor event (cover pool losses) for this transaction is 16.3%.

We considered the following factors in our analysis of the cover pool's value:

a) The credit quality of the assets backing the covered bonds. The mortgage covered bonds are backed by French residential home loans. The collateral score for the cover pool is 2.0%;

b) The legal framework and structure of the programme. Notable aspects of the French SFH law include:

(i) the law provides for an independent cover pool monitor (contrôleur spécifique) to make regular checks on the cover pool and covered bonds programme. In addition, the issuer and the cover pool monitor report to the regulator, the Autorité de Contrôle Prudentiel et de Résolution (ACPR);

(ii) upon issuer insolvency, covered bonds are not subject to acceleration, reducing the risk of early liquidation of the cover pool;

(iii) the legal framework includes a requirement that issuers maintain 180 days liquidity coverage for bonds issued after July 2022, as well as a provision for issuers to repo up to 10% of their covered bonds with the Banque de France; and

(iv) the issuer must ensure that the difference between the average life of the cover pool (to those assets required to meet the 105% legal minimum over-collateralisation (OC)) and that of the covered bonds does not exceed 18 months.

c) The exposure to market risk, which is 15.0% for this cover pool;

d) The over-collateralisation (OC) in the cover pool is 33.2%, of which the issuer provides 5% on a "committed" basis (see KEY RATING ASSUMPTIONS/FACTORS below).

The TPI assigned to this transaction is Probable-High. Our TPI framework does not constrain the ratings.

As of September 2024, the total value of the assets included in the cover pool is approximately EUR 4.66 billion, comprising 38,095 residential mortgage loans and substitute assets. The residential mortgage loans have a weighted-average (WA) seasoning of 76 months and a WA loan-to-value (LTV) ratio of 52.8%.

KEY RATING ASSUMPTIONS/FACTORS

We determine covered bonds ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: we use our Covered Bond Model (COBOL) to determine ratings based on the expected loss on the bond. COBOL determines expected loss as (1) a function of the probability that the issuer will cease making payments under the covered bonds (such cessation, a CB anchor event); and (2) the estimated losses that will accrue to covered bondholders should a CB anchor event occur. We express the probability of a CB anchor event as a point on our alpha-numeric rating scale (i.e. the CB anchor), which is typically one notch higher than the sponsor bank's CR assessment.

The CB anchor for this programme is A2, being the CR assessment of CCF plus 1 notch.

The cover pool losses for this programme are 16.3%. This is an estimate of the losses we currently model following a CB anchor event. We split cover pool losses between market risk of 15.0% and collateral risk of 1.3%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. We derive collateral risk from the collateral score, which for this programme is currently 2.0%.

The over-collateralisation in the cover pool is 33.2%, of which CCF SFH provides 5% on a "committed" basis. Under our COBOL model, the minimum OC consistent with the Aaa rating is 16.0%, of which 0% needs to be in "committed" form to be given full value. These numbers show that we are relying on "uncommitted" OC in our expected loss analysis.

The cover pool losses are an estimate of the losses we currently model following a CB anchor event. We split cover pool losses between market risk and collateral risk. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk is derived from the collateral score, which measures losses resulting directly from the cover pool assets' credit quality.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bonds programmes rated by us, please refer to "Covered Bonds Sector Update", published quarterly.

TPI FRAMEWORK: we assign a "timely payment indicator" (TPI), which is our assessment of the likelihood of timely payment of interest and principal to covered bondholders following a CB anchor event. TPIs are assessed as Very High, High, Probable-High, Probable, Improbable or Very Improbable. The TPI framework limits the covered bonds rating to a certain number of notches above the CB anchor.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in October 2024 and available at https://ratings.moodys.com/rmc-documents/429879 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

The CB anchor is the main determinant of a covered bonds programme's rating robustness. A change in the level of the CB anchor could lead to an upgrade or downgrade of the covered bonds. The TPI Leeway measures the number of notches by which we might lower the CB anchor before we downgrade the covered bonds because of TPI framework constraints.

Based on the current TPI of "Probable-High", the TPI Leeway for this programme is 1 notch. This implies that we might downgrade the covered bonds because of a TPI cap if we lower the CB anchor by 2 notches all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain circumstances, such as (1) a country ceiling or sovereign downgrade capping a covered bonds rating or negatively affecting the CB anchor and the TPI; (2) a multiple-notch downgrade of the CB anchor; or (3) a material reduction of the value of the cover pool.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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