FitchRatings

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Fitch Affirms Credit Mutuel Home Loan SFH's OFH at 'AAA'; Outlook Stable

Fitch Ratings - Paris - 19 Jan 2021: Fitch Ratings has affirmed Credit Mutuel Home Loan SFH's (CM HL SFH) obligations de financement de l'habitat (OFH) at 'AAA'. The Outlook is Stable.

KEY RATING DRIVERS

The OFH's 'AAA' rating is based on Banque Federative du Credit Mutuel S.A. (BFCM)'s Long-Term Issuer Default Rating (IDR; A+/Negative), which is the reference IDR of the programme, the various uplifts above the reference IDR and over-collateralisation (OC) providing more protection than Fitch's 'AAA' breakeven level.

The OFH are rated four notches above the reference IDR. This is out of a maximum achievable rating uplift of eight notches, consisting of a resolution uplift of two notches, a payment continuity uplift (PCU) of four notches and a recovery uplift of two notches.

Fitch relies on the committed asset percentage (AP) of 74.9% published in the programme's latest asset cover test, which provides more protection than Fitch's 'AAA' breakeven AP of 95.5%.

The Stable Outlook on the OFH reflects a four-notch buffer against a downgrade of the reference IDR.

OC Protection

The programme's unchanged breakeven AP for the rating of 95.5% (4.7% OC equivalent) corresponds to the level offsetting the credit loss in a 'AAA' stress scenario. The OFH 'AAA' rating is reached without using any notches of PCU, so no ALM loss is modelled for this programme.

Considering the large OC cushion and stable cover assets characteristics under the programme, Fitch has carried forward the results of the previous analysis in accordance with its Covered Bond Rating Criteria.

Uplifts

The resolution uplift eligibility reflects that secured loans extended by the SFH to its parent bank are exempt from bail-in, that Fitch deems the risk of under-collateralisation at the point of resolution as sufficiently low, and that a resolution of the parent bank, should it happen, is not likely to result in the direct enforcement of the recourse against the cover pool. The two-notch uplift further reflects that BFCM's Long-Term IDR is driven by the bank's Viability Rating.

The four-notch PCU reflects the nine-months' principal liquidity protection for hard bullet OFH (35% of outstanding issuances) provided by the programme's pre-maturity test. The programme also issues soft bullet OFH (65% of outstanding issuances) with a 12-month maturity extension, but Fitch assigned the PCU corresponding to the weakest liquidity protection. A collection loss reserve also provides liquidity protection for senior costs and interest payments due over the following three months.

The recovery uplift for the programme is two notches, as the OFH's timely rating payment level is in the investment-grade range and no material downside risk to recoveries has been identified. Both notches can be used in the analysis as the AP relied upon in the analysis covers the 'AAA' credit loss.

Asset Analysis

The previously determined 'AAA' credit loss is equal to 4.5%. When determining the weighted-average foreclosure frequency, Fitch applied an originator adjustment of 1.0x, a guaranteed loan adjustment of 0.6x and a mortgage loan adjustment of 1.4x.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The ratings are 'AAA', which is the highest level on Fitch's scale. The ratings cannot be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

CM HL SFH's 'AAA' OFH rating would be vulnerable to a downgrade if BFCM's IDR was downgraded by five or more notches to 'BBB-' or below; or if the relied upon AP provided less protection than Fitch's 'AAA' breakeven AP.

Fitch's 'AAA' breakeven AP would decrease in the event of an IDR downgrade. If the IDR was downgraded by one notch to 'A', Fitch would test cash flows for timely payment. Usually the OC required to meet timely payments is higher than in a recovery given default analysis.

Fitch expects the coronavirus containment measures to negatively impact the performance of French residential loans. However, the OFH's rating benefits from a significant cushion between the AP that Fitch relies upon in its analysis and Fitch's 'AAA' breakeven AP. In addition, the rating is well protected by the four-notch buffer against a downgrade of BFCM's IDR. Nevertheless, the agency expects the OC cushion and the buffer against an issuer downgrade to reduce as a consequence of the coronavirus crisis.

Fitch performed a downside sensitivity analysis by increasing its default rate and reducing its recovery rate expectations on the cover assets by 15% respectively in its driving 'AAA' rating scenario. Under these stressed assumptions, the AP considered by Fitch in its analysis still provided sufficient protection for the 'AAA' OFH rating.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The covered bonds' rating is driven by the credit risk of the issuer's parent bank as measured by its Long-Term IDR.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Credit Mutuel Home Loan SFH					
• senior secured, Mortgage Covered Bonds, Obligations de Financement de l Habitat	LT	AAA ⭘	Affirmed		AAA ⭘

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	◆
NEGATIVE	⊖	◆
EVOLVING	⭘	◆
STABLE	⭘	

Applicable Criteria

Bank Rating Criteria (pub.28 Feb 2020) (including rating assumption sensitivity)

Covered Bonds Rating Criteria (pub.18 Nov 2020) (including rating assumption sensitivity)

European RMBS Rating Criteria (pub.22 Dec 2020) (including rating assumption sensitivity)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub.29 Jan 2020)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub.29 Jan 2020)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub.23 Sep 2020)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub.13 Nov 2020)

Additional Disclosures

Solicitation Status

Endorsement Status

Credit Mutuel Home Loan SFH	EU Issued, UK Endorsed

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