SCOPE Scope Ratings

Compagnie de Financement Foncier

French Covered Bonds – Performance Update

Covered bond rating
AAA

Outlook
Stable

Rating action
Affirmation

Last rating action
11 Oct 2024

Issuer rating
A+

Outlook
Stable

Last rating action
20 June 2024

The AAA rating with a Stable Outlook assigned to the French covered bonds (obligations foncières) issued by Compagnie de Financement Foncier S.A. (CieFF) are based on the bank's issuer rating of A+, enhanced by four notches of governance support-based uplift. Governance support factors, in total, can provide a rating uplift of up to six notches and, effectively, a floor against a deterioration in cover pool credit quality. This reflects our assessment of the strong governance support provided by the legal covered bond and resolution framework in France.

The covered bond programme

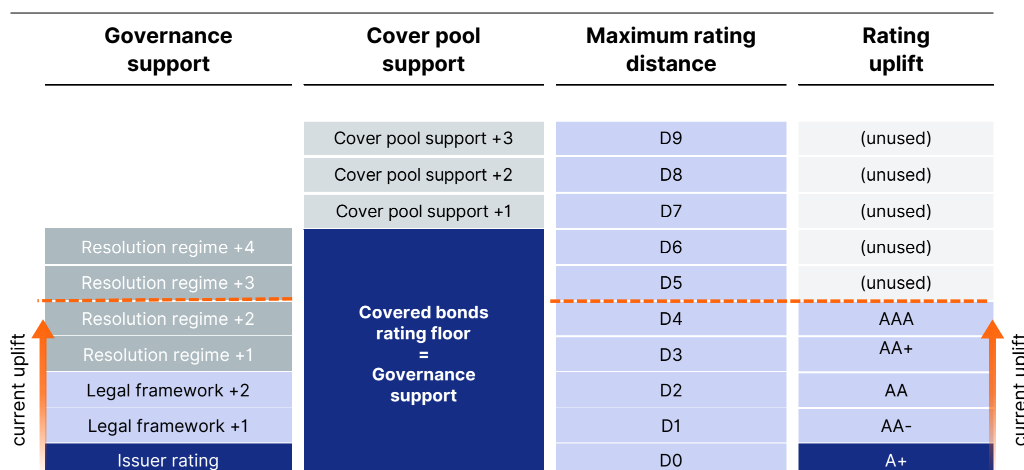
Cut-off date	Cover pool	Cover asset type	Covered bonds	Rating/Outlook
30 June 2024	EUR 61.89bn	Mortgage and Public Sector	EUR 52.69bn	AAA/Stable

Our cover pool analysis provides additional rating stability. We have assigned the interplay between complexity and transparency a cover pool complexity (CPC) category of 'low', allowing for a maximum additional uplift of up to three notches on top of the governance support uplift. The programme benefits from a five-notch buffer against an issuer downgrade.

The bonds are covered by a portfolio of mixed cover pool assets comprising public-sector loans, residential mortgage loans, commercial mortgage loans and substitute assets. The share of public sector loans is increasing following the groups strategic decision to use this programme mainly to refinance its public sector origination. This sub-portfolio mainly consists of granular, domestic sub-sovereign and lower-tier public sector exposures. The deleveraging mortgage portfolio benefits from a moderate average LTV of 60.7% and high seasoning.

The issuer has a prudent strategy to mitigate market risk (i.e. interest and foreign exchange risks). Residual interest rate risk is low. Maturity mismatches are also limited, reflecting the issuer's focus on matching cash flows, particularly in the short term, and its provision of immediate liquidity for the first 180 days via highly liquid collateral registered in the cover pool.

Figure 1: Covered bond rating building blocks



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Related research

Scope affirms Compagnie de Financement Foncier's French covered bonds at AAA/Stable, Oct 2024

Scope affirms the A+/Stable issuer ratings on Crédit Foncier and Compagnie de Financement Foncier, June 2024

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Stable Outlook

Scope's Stable Outlook reflects the issuer rating and its stable Outlook, governance support factors and the cover pool. Governance and cover pools support allow for a cushion against a downgrade of five notches. Consequently, the rating may be downgraded upon: i) an issuer rating downgrade by more than five notches; ii) a deterioration in Scope's view on governance support factors relevant to the issuer and France covered bonds in general and on the interplay between complexity and transparency, and/or iii) the inability of the cover pool to provide an additional uplift in case the issuer rating is downgraded by three notches.

Changes since the last performance update

As of 20 June 2024, we have last affirmed CieFF's issuer rating at A+ with a Stable outlook. The issuer rating and outlook on CieFF are aligned with its direct parent CFF and its ultimate parent BPCE S.A.'s issuer rating and outlook. This alignment reflects Scope's view of its strategic importance to the group in optimising funding costs and preserving access to a diversified investor base and the benefits from intra-group solidarity mechanisms. As a result, Scope expects CieFF to benefit from full group support in case of need.

Over the last 12 months the mortgage loan balance decreased by 6% while the public sector assets increased by 15%. This underpins the group's decision to use CieFF as the funding vehicle for its public sector lending. In addition, CieFF has added legacy portfolios of residential and small to medium sized loans benefiting from a sovereign guarantee. This has scaled up the number of loans to 53,258 from 8,239 earlier. At the same time the number of guarantors only increased to 4,824 which compares to 3,537 twelve months ago. The added legacy portfolio does also add to the cover pool's NPL increase which stands at 2.1% from 1.3% one year ago. This risk is mitigated by strong expected recoveries and high voluntary overcollateralisation.

Maturity mismatches and markets risks remain low reflecting the programmes size and stickiness as well as CieFF's prudent hedging strategy.

Rating drivers and mitigants

Positive rating drivers	Negative rating drivers and mitigants
• Strong legal covered bond framework • Strong resolution regime and systemic importance	

Upside rating-change drivers	Downside rating-change drivers
• The ratings are on the highest level achievable • Additional issuer downgrade cushion could further arise from a rating upgrade of the issuer	• The rating may be downgraded upon an issuer downgrade by more than five notches • The rating may also be downgraded upon a deterioration of our assessment related to the programme's governance support factors and the interplay between complexity and transparency by together more than five notches. • The rating may also be subject to a downgrade if the cover pool is unable to provide an additional uplift in case the issuer rating is downgraded by more than two notches or our governance analysis deteriorates to five notches

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The issuer

CieFF is a wholly owned subsidiary of Crédit Foncier de France (CFF)

CieFF is a wholly owned subsidiary of Crédit Foncier de France (CFF) and reflects the credit quality of CFF's parent, BPCE S.A. CFF and CieFF have the status of affiliates within Groupe BPCE and therefore benefit from the intra-group solidarity mechanism under French law.

Within Groupe BPCE, CFF has been operating as a leading specialist in property financing, real estate services and public entity financing. Following a strategic review in 2018, CFF no longer originates loans but continues to manage its portfolio and, more importantly, refinances the group through covered bonds issued by its subsidiary CieFF.

CieFF's role is to fund public sector lending on behalf of Groupe BPCE and continue refinancing the existing mortgage assets in its cover pool. CieFF is one of the largest covered bond issuers in the world. CieFF is wholly owned by CFF and licensed as a specialist credit institution and 'société de crédit foncier'.

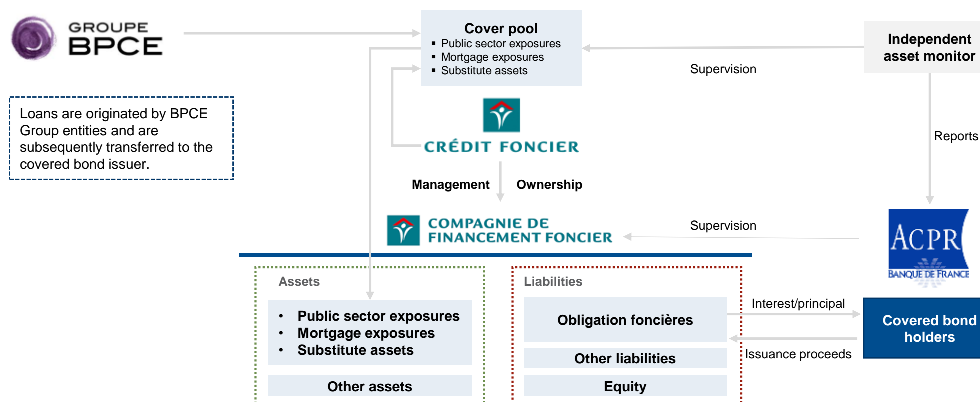
The purpose of a société de crédit foncier is defined in Article L.513-2 of the French Monetary and Financial Code, which is to grant or acquire collateralised loans (loans backed by first-ranked mortgages or real property collateral conferring at least an equivalent security, or exposures to public sector entities) and finance these loans through the issuance of obligations foncières (covered bonds).

Programme structure

Off-balance sheet structure: Collateral transferred to a separate legal entity

CieFF issues obligations foncières as a *société de crédit foncier* (SCF). The French covered bond framework permits issuers to operate as specialist banks. Most of CieFF's operations are provided by its parent, CFF and in addition by other service providers within Groupe BPCE. These activities are governed by service-level agreements. The issuer needs to maintain compliance with regulatory requirements and is independently supervised.

Figure 2: Issuance structure



Source: Scope Ratings

Governance credit support analysis

Governance credit support is the key rating driver for CieFF's French Sociétés de Crédit Foncier (SCF). It provides the maximum possible uplift of up to six notches. This uplift is based on our credit-positive view on i) the legal framework for SCF in France; ii) the French's resolution regime; and iii) the systemic relevance of covered bonds in France, including those of CieFF.

Together six notches from legal framework and resolution regime

Legal framework and structural support analysis

The French's covered bond framework is very strong, meeting our criteria for protecting investors and resulting in the highest credit differentiation of two notches.

The relevant legal framework is based on the French Monetary and Financial Code with the latest amendment in force since 8 July 2022. As a credit institution, CieFF is also governed by French general banking regulations.

Two notches reflecting strong legal framework

Segregation of cover pool upon insolvency

Cover assets are segregated in a duly licensed specialised credit institution with limited purpose. As such they can either be setup as SCF or SFH (Sociétés de Financement de l'Habitat). The latter is limited to mortgage collateral while SCF in addition allow for public sector collateral. CieFF issues SCF. Within the group, the special institutions are exclusively dedicated to the issuance of covered bonds and the management of the assets backing those issues. The covered bonds have a preferential claim on the respective assets (including overcollateralisation) up until the claims of the preferred creditors have been fully satisfied.

Ability to continue payments after issuer insolvency

The legal framework does explicitly exclude bankruptcy proceedings or liquidation of SCF or SFH because of bankruptcy proceedings or liquidation against its holding company (sponsor). Any of such events will trigger a transfer of all cover assets, including underlying securities and without any formalities from the sponsor to the covered bond issuer. In case of insolvency proceedings (for instance as a result of resolution) of the SCF or SFH all claims under the covered bonds must be paid on their due dates according to the initial terms and conditions.

The ability to continue payments after the issuer's insolvency does further benefit from ongoing general and specific risk management principles strengthening French covered bonds.

Asset eligibility and risk management principles

As required by French banking regulations, SCF and SFH must comply with general asset liability management rules. Controlling market risks lays with the responsibility of the specific controller. Imminent liquidity shortfalls are mitigated by the requirement to ensure that net outflows over the coming 180 days are always covered by cash or liquid assets.

In principle, liquidity shortfalls can be further mitigated by a legal (optional) maturity extension. CieFF's SCF covered bonds do however not benefit from any maturity extension as they are issued as hard-bullet according to their terms and conditions.

French SCF and SFH benefit from a legal minimum coverage ratio of 105% which compares eligible assets to privileged covered bonds. Eligible assets are hair-cut based on the quality of their guarantor (if any) and gives less credit to intragroup guarantees. The remaining weighted average life of the eligible assets used to reach the cover ratio should not exceed that of the privileged liabilities by more than 18 months.

Both, SCF and SFH benefit from strong eligibility standards not only determining the eligibility of certain cover assets but also their limits. Mortgage assets do only qualify for covered bond funding with their loan to value share that does not exceed 60% for commercial and 80% for residential mortgage loans. In the case of guaranteed loans, the limit stands at 80% of the portion guaranteed. For SCF eligible exposures are also exposures to or guaranteed by central governments, central

banks, public sector entities, regional governments or local authorities in the Union or third countries compliant with Art. 129 (1) (a) and (b) CRR. In addition, substitute assets must not exceed 15% of outstanding covered bonds.

Programme enhancements remain available

Programme enhancements remain available as all other creditors of the SCF and SFH rank junior to covered bonds; available overcollateralisation (OC) on the balance sheet remains fully available for covered bond holders upon the issuer's insolvency (or the parent's) and must be at least 5% above the level of outstanding covered bonds. Derivative counterparties rank pari passu with covered bonds and will not accelerate upon the issuer's insolvency.

Covered bond oversight

In addition to general banking supervision by the French banking regulator, several external monitoring requirements are in place. An independent trustee (*contrôleur spécifique*) supervises statutory or contractual maintenance requirements. Failure to comply must be flagged to the regulator. Trustees are liable for any misconduct and are independent from both the issuer and the sponsor bank.

Resolution regime and systemic importance analysis

Four notches reflecting highest likelihood that covered bonds are maintained as a going-concern funding instrument

CieFF's SCF benefit from an additional four-notch uplift that reflects i) the covered bonds' exemption from bail-in; ii) the high likelihood that the covered bonds remain with a resolved and restructured issuer and that the programme remains actively managed as going concern funding instrument; iii) the very high systemic relevance of SCF in France as well as CieFF's systemic relevance as part of the BPCE support system and one of the largest covered bond issuers globally; and iv) the strong and proactive stakeholder community.

Availability of statutory provisions

French covered bonds are defined in line with statutory provisions according to the European Commission's Directive (2014/59/EU). It was transposed into French law under Ordinance No 2015-1024 of 20 August 2015. It provides the national resolution authority (Autorité de Contrôle Prudentiel et de Résolution [ACPR]) with a toolkit to establish uniform rules and procedures for the resolution of relevant credit institutions. Given its designation as a systematically important bank, CieFF as part of Groupe BPCE is jointly supervised by the European Central Bank and the ACPR.

Strength of statutory provisions

The national transposition of Article 55 of the BRRD into Article L613-55-1 of the Code monétaire et financier exempts secured liabilities such as covered bonds from bail-in. It also quotes that this relates to hedging instruments forming an integral part of the covered bond programme. The exemption is limited to the extent of the value of the security.

Systemic importance of issuer

We believe regulators would preserve CieFF's SCF in the case of a hypothetical failure. This reflects the group's systemic importance. Groupe BPCE is the second largest cooperative banking group in France. Considering its status as a globally systemically important institution (G-SIB) BPCE must ensure to maintain an additional capital buffer of 1.0%. The bank ranks amongst the 29 most systemically important banks globally. It's balanced refinancing and capital structure allows for a bail-in to keep the issuer supporting the covered bonds on a going concern basis. The bank's relevance to the local market is also underpinned by its strong domestic retail and commercial banking franchise.

Systemic relevance of covered bonds

The share of outstanding French covered bonds ranks among the highest worldwide and covered bonds are used by all larger banks. Based on available data, public sector and mortgage covered

bonds are a significant wholesale refinancing instrument for French issuers. End of 2023, French covered bonds accounted for EUR468.5bn. In 2023 and for the first time France was largest issuer globally, followed by Denmark (EUR463.3bn) and Germany (EUR393.6bn). France ranked third in 2022 and fourth in 2021. The amount of outstanding French covered bonds increased steadily over the last years while the total number of issuers remained relatively stable at 18. Most of the growth however goes back to mortgage collateralised covered bonds accounting for 74% by total. The sum of public sector or mixed programmes stagnated over the last decade but remains on a high and relevant nominal level. The relevance of covered bonds in France is also underpinned by its share to GDP, which stood at 18% end 2023.

The market has a strong footprint with both international as well as domestic investors which is highlighting the well-functioning covered bond market.

Proactive stakeholder community

French stakeholders have demonstrated regularly that they are strongly interested in a functioning covered bond market and are willing to support an orderly resolution of problems in case of a distressed issuer. Even before the BRRD came into force, we have seen recapitalizations and refinancing operations in France which where both, government and/or market led. We observed resolutions with distressed issuers becoming merged and that market stakeholders have remained supportive. The market benefits from an active stakeholder community. Amongst others, the French Banking Federation (FBF) brings together a wide range of stakeholders and has been deeply involved into the national transposition of the covered bond directive. It further benefits from active supervision and a strong investor base.

Cover pool analysis

CieFF's covered bond ratings are governance supported. Hence cover pool support is currently not needed. Cover pool support could provide additional rating stability in case of an issuer downgrade.

CPC assessment

Our assessment on the interplay between complexity and transparency translates into a CPC category of 'Low'. The assessment on the interplay between complexity and transparency could add up to three additional notches above the issuer rating enhanced by governance support. Consequently, the combined credit support could allow to maintain the covered bond rating at the highest level under a hypothetical issuer downgrade by up to five notches, assuming OC does not become a constraining factor.

The CPC category of 'low'-risk stems from the ongoing availability of detailed, regular, current and forward-looking transparency on key credit and market risk factors; information on lending products; ability to assess the issuers underwriting and credit risk procedures; high visibility on origination and issuance strategy and full access to all relevant counterparty risk information.

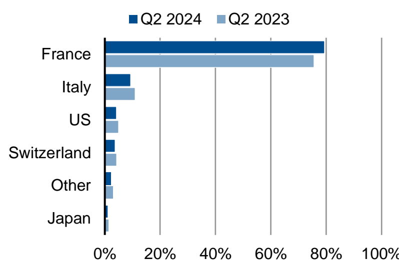
Cover pool composition

CieFF's covered bond programme is secured by a mixed cover pool comprising public-sector loans (50.1% up from 43.1% one year ago), mortgage exposures (39.9% down from 44.8%); and substitute assets (8.9% from 8.3%). The shift towards public sector (PS) loans reflects the strategical decision within the group, to use CieFF as the main refinancing source for public sector assets.

Asset risk analysis public sector

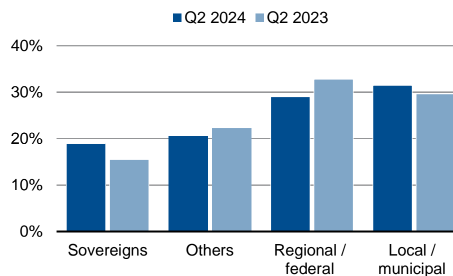
Following the strategic changes at group level, the relative share of the public sector sub-pool and the domestic focus of the pool continue to increase. The public sector pool mainly comprises domestic sub-sovereign and lower-tier public sector exposures. As of June 2024, international exposures stood at 20.6% of the public sector pool, down from 24.4%. Following the bank's strategy, these will amortise and are not expected to be replenished upon maturity.

Figure 3: PS Country distribution



Source: Scope Ratings, CieFF

Figure 4: PS debtor type distribution



Source: Scope Ratings, CieFF

For the public sector pool, we derived a default distribution by using name-by-name credit assessments and consolidating the exposures into risk-representing entities, reflecting the obligor's final guarantor. We also used a correlation framework to incorporate the impact of geographical and debtor concentrations. The annual average default probability stands at 12 bp together with a coefficient of variation of 121%.

For each exposure, we applied stressed recovery rate assumptions of between 40% and 75% based on obligor type. This resulted into a weighted average recovery rate of 65.0% under the most stressful scenario.

Cover pool characteristics

Reporting date	Jun 2024	June 2023
Balance (EUR bn)	61.9	58.4
Residential (%)	38.9	44.0
Commercial (%)	1.0	0.8
Public Sector (%)	50.1	46.1
Substitute (%)	10.0	9.1

Pool general information

Reporting date	Jun 2024	June 2023
Asset WAL (in years)	7.3	7.8
Bond WAL (in years)	6.4	6.9
90dpd arrears (%)	2.1	0.9

Interest rate type (%) (hedged)

Reporting date	Jun 2024	June 2023
Floating	50.9	51.9
Fixed	49.1	48.1

Repayment type (%)

Reporting date	Jun 2024	June 2023
Annuity / Linear	89.7	88.4
Interest-only	10.3	11.6

Public sector general information

Reporting date	Jun 2024	June 2023
No. of loans	53,258	8,239
Avg. loan (EUR '000s)	582	3,255
Top 10 borrowers (%)	9.1	11.0

Public sector debtor type (%)

Reporting date	Jun 2024	June 2023
Sovereign	18.9	15.5
Of which guaranteed	*54.1*	*14.1*
Regional authorities	29.0	32.8
Of which guaranteed	*18.7*	*19.1*
Local authorities	31.5	29.6
Of which guaranteed	*11.4*	*12.4*
Other	20.6	22.1

Public sector asset location (%)

Reporting date	Jun 2024	June 2023
France	79.4	75.6
Italy	9.3	10.9
United States	4.2	5.0
Switzerland	3.7	4.3
Japan	1.1	1.5
Poland	0.9	1.1
Canada	0.7	0.9
Others	0.7	0.7

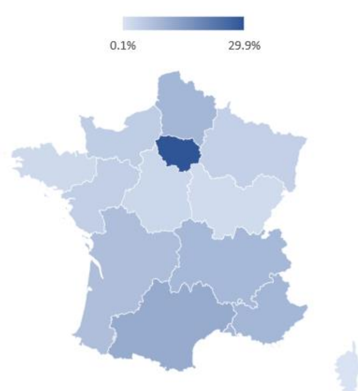
Asset risk analysis mortgage assets

As of June 2024, the mortgage pool is highly granular with around 325,000 loans, which are well diversified across France. Most of the mortgage loans are private, residential owner-occupied fixed-for-live loans. Only 2.5% account for commercial loans of which 70% are secured by domestic office property.

Year on year, the mortgage pool's balance decreased by 6%, reflecting the strategic shift to fund most of Group BPCE's mortgage loans outside CFF. This is also reflected in a decreasing remaining life and drop in loan-to-value (LTV).

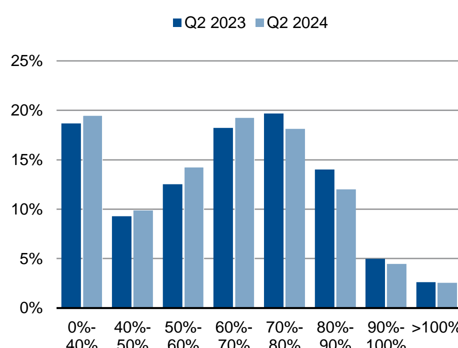
Around 54% of the mortgage loans benefit from a French government guarantee via *Société de Gestion des Financements et de la Garantie de l'Accession Sociale à la propriété* (SGFGAS). Another 10% are secured by receivables of loans originated by other financial institutions and governed under article L.211-38 of *code monétaire et financier*. The remaining 36% are directly secured by their respective mortgage lien (typically first ranking) provided either as or mortgage of which 2pp account for property in Belgium and the Netherlands.

Figure 5: Mortgage regional distribution



Source: Scope Ratings, CieFF

Figure 6: Mortgage LTV distribution (whole loan)



Source: Scope Ratings, CieFF

Mortgage general information

Reporting date	Jun 2024	June 2023
No. of loans ('000s)	324.9	339.4
Avg. loan (EUR '000s)	76.0	77.3
Top 10 borrowers (%)	0.5	0.5
LTV (indexed) (%)	60.7	61.6
Guaranteed	73.3	72.5
Mortgage	26.7	27.5

Mortgage property type (%)

Reporting date	Jun 2024	June 2023
Owner occupied	70.1	69.5
Buy-to-let	23.9	25.0
Office	1.8	1.2
Retail	0.5	0.5
Others	3.7	3.8

Mortgage asset location (%)

Reporting date	Jun 2024	June 2023
France	98.1	98.1
Belgium	1.9	1.9
Netherlands	0.1	0.1

The credit quality of the mortgage sub pool remains strong. Our mortgage credit risk analysis takes into account default and recovery vintage data provided by the issuer. The analysed data includes the credit performance of annual origination vintages during 2000-2022, a timeframe which contains several periods of economic stress. We assumed an unchanged annual average default probability of 15 bp. This reflects the pool's high seasoning and its limited inflow of newly (riskier) underwritten mortgages.

Our stressed recovery analysis takes into account the underlying mortgage collateral. While we acknowledge the very strong state guarantee under the SGFGAS, its proceeds may be well stressed at levels above the sovereign rating (AA / Negative). Consequently, under high stress levels commensurate with AAA ratings, we look-through to the underlying mortgage collateral. While the bank does not benefit from a direct mortgage lien for all loans yet, it does have the right to enter a mortgage if required. Consequently, stressed recovery rates are 70%. This is reflecting the total portfolio's indexed loan-to-value-value of 60.7% as well as our assumptions on market value decline (MVD) in France. We have established our MVD assumptions for residential properties by taking historical house price growth into account.

French private residential security value haircuts

Region	Base MVD	Stressed MVD	Firesale discount	Sale costs	Stressed SVH
France	5%	35%	20%	10%	52.5%

MVD: market value decline / SVH: security value haircut

We kept our fire-sale discounts for France unchanged at 20%. The fire-sale discount is applied to properties sold under non-standard market or distressed conditions. In our recovery analysis we do further size for sale costs of 10% (by stressed property value).

Asset risk analysis substitute assets

The substitute assets mainly account for short term intra-group debt obligations. We have not included the substitute assets into our cover pool analysis due to their volatile level of support. Therefore, we consider only the credit risk (and cash flows) of the primary collateral.

Cash flow risk analysis

Supporting overcollateralisation at legal minimum as the rating is solely based on governance support

The overcollateralisation (OC) supporting the rating is floored at the legal minimum OC of 5%. This is because the rating does not rely on cover pool support and can reach highest ratings based on governance support only.

Cover pool support does provide additional rating stability to CieFF's covered bonds. Our cash flow analysis shows that if the rating of CieFF would be downgraded to BBB-, the maintained nominal overcollateralisation of 17.5% as of June 2024 would still be sufficient to support the highest achievable rating on the covered bonds.

The issuer has a prudent strategy to mitigate market risk. CieFF actively uses derivatives to limit or eliminate foreign currency or interest rate risk. The programme benefits from well-matched profiles as reflected by the bond's weighted average remaining life of 6.4 years in comparison to the remaining life of the cover assets with 7.3 years (6.3 years taking the issuer's expected prepayments into account). While this does limit maturity mismatches, the programme is not immune against asset sales under a stressed environment.

Asset-liability mismatches*

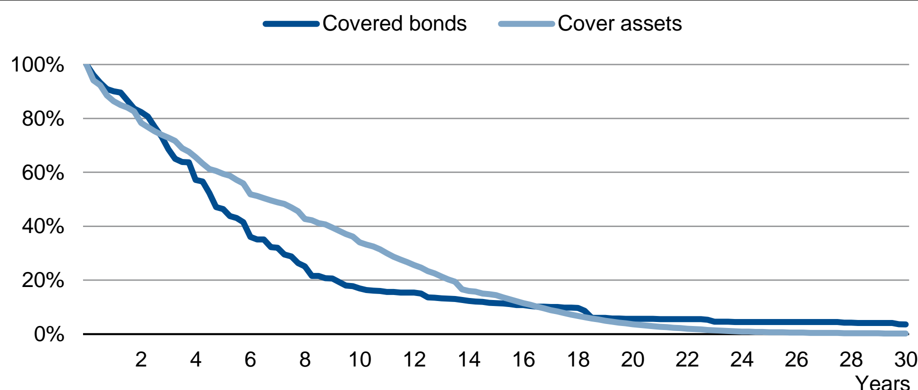
	Assets	Liabilities
EUR (%)	100	100
Fixed (%)	49.1	58.9
Floating (%)	50.9	41.1
WAL (years)	7.3	6.4

*hedged

Our analysis shows, that the programme is most sensitive to a combination of low prepayments (1%) and rising interest rates. This is driven by stressed asset sales that come with high discounts due to the fixed rate mortgage loans in combination with a high interest rate environment.

In the event of recourse to the cover pool and where available asset cash flows are not sufficient to pay the bond's (extended) maturing liability, we have assumed stressed asset sales used to cure liquidity shortfalls. As such, rising interest scenarios will increase the haircut on the fixed loans. We have applied a weighted average 256bp refinancing spread for the public sector loans and 205bps for the mortgage loans.

Figure 7: Amortisation profile



Source: Scope Ratings, CieFF

Servicing fees are 25bp for the French mortgage loans and 10bps for the public sector exposure. Default timing was assumed to follow the scheduled amortisation profile with a recovery lag of 24 months for mortgage loans and 48 months for public sector loans.

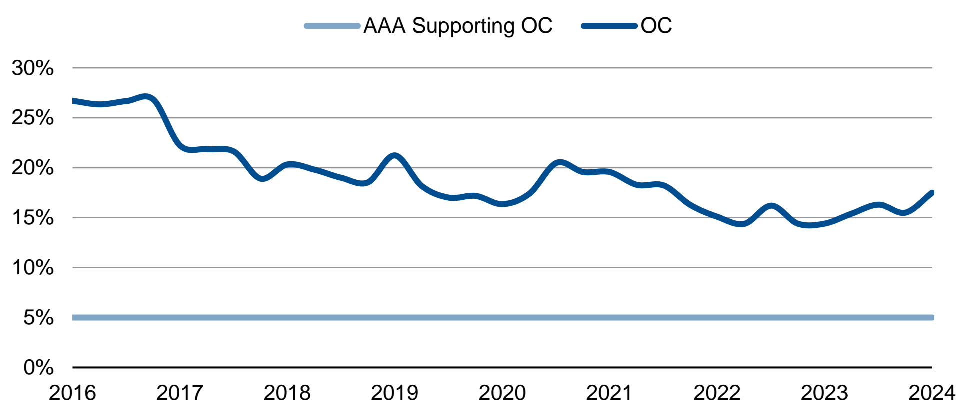
We complemented our base case cash flow results with additional analysis, testing sensitivities to prepayments, higher credit losses, frontloaded defaults and spread compression. None of such calculation resulted into an adjustment of our rating supporting overcollateralisation.

Availability of overcollateralisation

Supportive level of available overcollateralisation fully taken into account

The current rating of CieFF allows us to account for the provided OC. We are not aware that any change to the programme may alter its risk profile or reduce the available OC to levels that would no longer support the current rating uplift.

Figure 8: Available OC versus current rating-supporting level



Source: Scope Ratings, CieFF

Other risk considerations

Counterparty exposure does not limit the rating

The rated bonds are exposed to CieFF and CFF's roles as originator, servicer, account provider and paying agent. No documented replacement mechanisms would automatically shield the covered bonds from a credit deterioration of, for instance, the counterparties providing bank accounts. However, in such a scenario, the strong alignment of interests between the bank and the covered bondholders would prevent negative impacts before a regulator intervenes. As part of its risk management process, the bank regularly monitors its accounts to ensure that any required remedial action is taken at an early stage.

CieFF actively uses derivatives to limit or eliminate market risk (currency and interest rate risk). Macro-hedging swaps are entered into when acquiring loan portfolios, while micro-hedging swaps are used for single transactions. CFF acts as counterparty on the swaps hedging the loan portfolios sold to CieFF and on most of the vanilla swaps hedging the covered bonds. Major international banks act as counterparties on the swaps hedging the rest of the transactions. We take comfort from the fact that the derivative counterparties have high credit quality and are deemed resolvable. All counterparties have concluded on one-sided collateral agreements with CieFF that require them to post collateral depending on their debt position and rating triggers. Such are in line with Scope's counterparty methodology.

Country risk is not a key rating driver

Country risk is not not a key risk factor that constrains the covered bond rating. France is currently rated AA/Negative. We have no evidence that transfer risk (e.g. risk of capital controls), convertibility risk (e.g. risk of eurozone exit), the risk of an institutional meltdown are pertinent risk factors for France.

Country or macroeconomic risks are included in the determination of the issuer rating (operating environment), our governance support analysis (legal and resolution regime) and certain parameter used in our quantitative cover pool analysis (e.g. liquidity spread) as well as structural enhancements of the secured loan (dynamic OC).

Governance factors are key to CieFF's covered bonds

Governance factors are key for the analysis of French covered bonds as such drive our legal and resolution regime analysis. In our quantitative analysis performed for the covered bonds issued by CieFF we however have not directly included ESG aspects.

We acknowledge, that CieFF has issued its first inaugural Social (Social Housing & Healthcare) covered bond in October 2023 over EUR 500m. Its social covered bond is issued out of Groupe BPCE Sustainable Development Bond Programme. The bond's proceeds finance or refinance eligible loans for social housing and healthcare assets. While we do not expect to see a relevant spread improvement, this initiative widens the issuer's funding outreach and attracts investors focused on ESG.

Sensitivity analysis

Five notches buffer against an issuer downgrade

CieFF's covered bond ratings do benefit from a buffer against an issuer downgrade of up to five notches. Assuming the issuer's willingness to support the highest ratings as well as a stable covered bond programme risk profile, a five-notch downgrade would increase the rating-supporting OC requirement to 9.0%.

As a consequence, the rating may be downgraded upon: i) an issuer rating downgrade by more than five notches; ii) a deterioration in Scope's view on governance support factors relevant to the issuer and French covered bonds in general and on the interplay between complexity and transparency, and/or iii) the inability of the cover pool to provide an additional uplift in case the issuer rating is downgraded.

A sovereign downgrade of France will not mechanically constrain the rating of the covered bonds. A deterioration of the macroeconomic environment as well as the impact of a sovereign downgrade on the credit quality of e.g. domestic sub-sovereign exposures may impact relevant qualitative and quantitative rating factors such as the rating anchor (issuer rating) as well as risk factors assessed in the cover pool support analysis. Assuming cover pool support becomes the rating driver maintenance of the current rating hinges on the ongoing availability of sufficient overcollateralisation to buffer for increased risks. Currently provided overcollateralisation would allow to buffer for such increased risks.

Summary of covered bond characteristics

Reporting date	30 June 2024	30 Sep 2023
Issuer name	Compagnie de Financement Foncier S.A.	
Country	France	
Covered bond name	Obligations foncières (French covered bonds)	
Covered bond legal framework	French legal covered bond framework	
Cover pool type	Mixed assets	
Composition	Residential = 38.9%	Residential = 44.0%
	Commercial = 1.0%	Commercial = 0.8%
	Public sector = 50.1%	Public sector = 46.1%
	Substitute/other assets = 10.0%	Substitute/other assets = 9.1%
Issuer rating	A+/Stable	A+/Stable
Current covered bond rating	AAA/Stable	AAA/Stable
Covered bond maturity type	Hard bullet	Hard bullet
Cover pool currencies	EUR (100% hedged)	EUR (100% hedged)
Covered bond currencies	EUR (100% hedged)	EUR (100% hedged)
Governance cover pool support	6	6
Maximum additional uplift from cover pool complexity category	3	3
Maximum achievable covered bond uplift	9	9
Potential covered bond rating buffer	5	5
Cover pool (EUR bn)	61.9	58.4
thereof, substitute assets (EUR bn)	5.5	4.8
Covered bonds (EUR bn)	52.7	50.6
Overcollateralisation: current/legal minimum	17.5% / 5.0%	15.4% / 5.0%
Overcollateralisation to support current rating	Minimum legal oc	Minimum legal oc
Overcollateralisation upon a one-notch issuer downgrade	Minimum legal oc	Minimum legal oc
Weighted average life of assets	7.3 years	8.0 years
Weighted average life of liabilities	6.4 years	6.9 years
Number of loans (public sector/mortgages)	53,258 / 324,884	8,710 / 339,705
Average loan size (tsd EUR) (public sector/mortgages)	582 / 76.5	3,091 / 77.0
Top 10 exposures (public sector/mortgages)	9.1% / 0.5%	10.5% / 0.5%
Interest rate type – assets (public sector and mortgages) (prior hedging)	Fixed = 85.0%	Fixed: 84.9%
	Floating = 15.0%	Floating: 15.1%
Interest rate type – liabilities (after hedging)	Fixed = 58.9%	Fixed: 66.0%
	Floating = 41.1%	Floating: 34.0%
Weighted average indexed whole-loan LTV ratio (mortgage)	60.7%	61.6%
Geographic split (top three) (public sector/mortgages)	France: 79.4% / 98.0%	France: 75.7% / 98.0%
	Italy: 9.3% / 0.0%	Italy: 10.9% / 0.0%
	US: 4.2% / 0.0%	US: 5.0% / 0.0%
Default measure (public sector/mortgages)	Non-Parametric / Inverse Gaussian	Non-Parametric / Inverse Gaussian
Weighted average term default rate (public sector/mortgages)	2.3% / 2.2%	2.3% / 2.2%
Weighted average coefficient of variation (public sector/mortgages)	117.3% / 150.0%	117.3% / 150.0%
Weighted average recovery assumption (D0; D9)[1] (public sector/mortgages)	100%; 65% / 95.0%; 70%	100%; 65% / 95.0%; 70%
Total share of loans > three months in arrears (NPL)	2.1%	1.3%
Interest rate stresses (max/min)	9.0% / -1.0%	10.0% / -1.0%
FX stresses (max/min; currency-dependent)	na	na
Max liquidity premium (public sector/mortgages)	256 bps / 205 bps	289 bps / 300 bps
Average servicing fee (public sector/mortgages)	10 bps / 25 bps	10 bps / 25 bps

Source: Scope Ratings

[1] D0 and D9 denote the stresses commensurate with the rating distance between our credit view on the issuer and the covered bond ratings.

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