FCT Bpifrance SME 2020-1 (Correction)

SME ABS

Ratings

Series	Rating	Notional (EUR m)	Notional (% assets)	CE (% assets)	Coupon	Final maturity
Class A	(P) AAA_{SF}	1,551.7	77.5	22.7	0.15%	25 May 2039
Class B	NR	450.5	22.5	-	0.25%	25 May 2039
Residual Units	NR	0.1				25 May 2039
Rated notes	1,551.7					

Scope's quantitative analysis is based on the portfolio dated 31 October 2020 and the prospectus provided by the originator. Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for the SF Rating Definitions.

Transaction details

Purpose	Liquidity/Funding
Issuer	Bpifrance Financement
Originator	Bpifrance Financement
Servicer	Bpifrance Financement
Closing date	25 November 2020
Payment frequency	Quarterly: 25 February, 25 May, 25 August, 25 November

The transaction is a true-sale securitisation of a EUR 2bn revolving portfolio of loans granted to SMEs in France by Bpifrance Financement. The entity is also the seller and servicer of the transaction. BNP Paribas Securities Services is the issuer account bank as well as the paying agent.

Rating rationale (summary)

The rating reflects: i) the legal and financial structure of the transaction; ii) the ability of the originator and servicer, Bpifrance Financement, as well as the presence of a guarantee operated by the servicer and funded by the French state; and iii) the counterparty exposure to BNP Paribas Securities Services as account bank and paying agent.

The class A notes benefit from 22.7% of credit enhancement at closing, as well as protection against losses from the portfolio provided by excess asset interest of at least 0.85% annually. The rated notes are expected to amortise over a weighted average life of 1.7 years from the end of the revolving period. After the revolving period, the class A will benefit from sequential amortisation.

Furthermore, interest and principal priorities of payment are interconnected, ensuring liquidity support beyond the reserve fund for the payment of interest to the class A notes. The latter also benefits from a mechanism linked to portfolio defaults, which traps excess spread to ensure sufficient collateralisation.

The risk of portfolio performance deterioration is mitigated by early-amortisation triggers. Asset- and portfolio-level covenants limit qualitative changes to the portfolio's composition.

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Related Methodologies

General Structured Finance Rating Methodology December 2019

Methodology for Counterparty Risk in Structured Finance, July 2020

SME ABS Rating Methodology, May 2020

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The performance of the assets benefits from the large, resilient and diversified French economy, along with the consistent and proven track record of Bpifrance Financement, a state-owned bank with considerable experience in domestic SME lending.

The rating also factors in the transaction's counterparty risk. In addition to Bpifrance Financement acting as servicer, BNP Paribas Securities Services will act as account bank and paying agent, while the dedicated account will be held by BNP Paribas. Counterparty risk is mitigated by the credit quality of the counterparties and mechanisms in the structure such as replacement triggers upon a deterioration of BNP Paribas' credit quality. Scope has assessed the credit quality of BNP Paribas[1], while public information was used for Bpifrance Financement, taking into consideration the institutional role of the bank as well as its shareholders, along with the available public credit ratings.

Rating drivers and mitigants

Positive rating drivers

Credit enhancement. Class A benefits from 22.7% of credit enhancement resulting from subordination as well as a EUR 4.2m cash reserve. This high level of protection limits the sensitivity of the class A rating to default and recovery rates stresses.

Guarantee fund and cash collateral. The loans benefit from two sources of credit risk mitigation: i) a partial guarantee mechanism funded by state resources; and ii) fixed cash collateral representing 5% of the initial loan amount. These elements drive the AAA recovery rate assumption (55%).

No interest rate risk. Floating-rate loans are ineligible for the portfolio while the issued notes pay fixed-interest coupons. This eliminates interest rate risk.

Fast amortisation. The class A benefits from a short weighted average life (1.7 years) after the end of the revolving period, driven by the linear and fast amortisation of the loans.

Negative rating drivers and mitigants

Macro-economic environment. The French economy has been severely impacted by the pandemic and further deterioration could put SMEs in the pool under substantial pressure. The risk this poses to the rating is mitigated by Scope's sensitivity analysis, which shows that the class A is resilient to a 100% stress on the mean default rate.

Revolving portfolio. The portfolio's characteristics and credit quality may migrate during the replenishment period, i.e. one year and a half after the closing date. This risk is mitigated by the originator's expertise and the adequate single-asset, portfolio and performance covenants in the structure.

No back-up servicer. No back-up servicer was appointed at the closing of the transaction. Operational risk arising from servicer default is mitigated by Bpifrance Financement's partial ownership by the French state.

Indirect link to guarantor creditworthiness. The rating is closely tied to the credit quality of the French state as Bpifrance Financement's ultimate guarantor and partial shareholder. The risk to the rating is mitigated by Scope's sensitivity analysis, which shows that the class A is resilient to a hypothetical scenario in which the state cannot honour its guarantee on the loans.

Upside rating-change drivers

Downside rating-change drivers

Worse-than-expected asset performance exemplified by a higher-than-expected default rate upon asset default would negatively impact the ratings.

[1] Editor's note: The original rating report was replaced on 19 November 2020.

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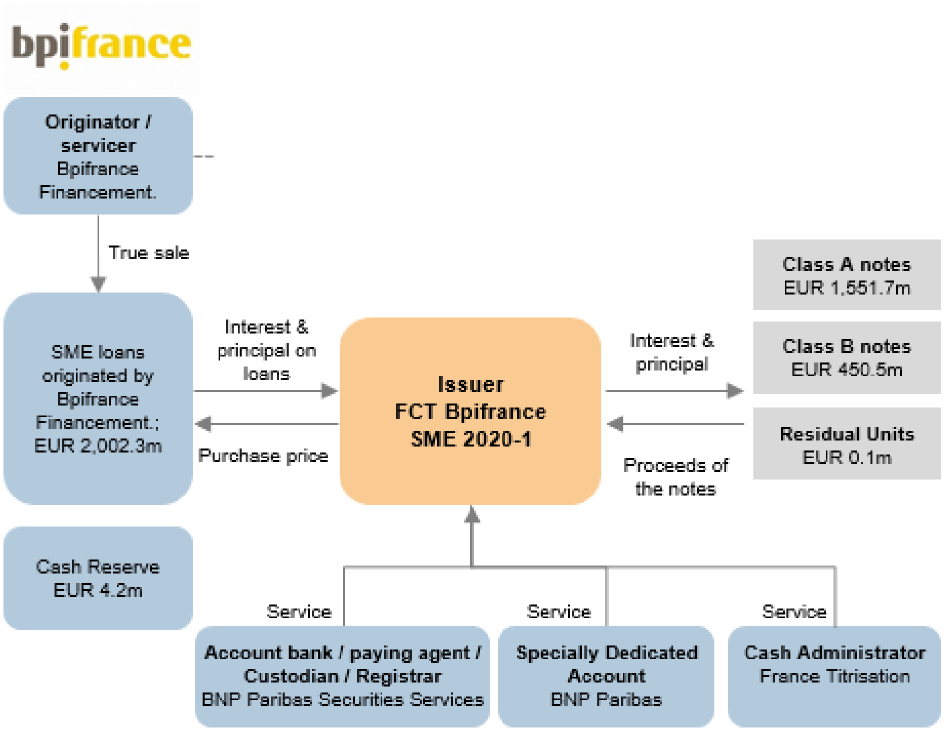
1. Transaction summary

Figure 1: Simplified transaction diagram



Source: Transaction documents and Scope Ratings.

The transaction consists of the securitisation of a EUR 2.002bn portfolio of fully amortising loans which Bpifrance Financement originated and granted to French SMEs. The transaction features a 1.5-year replenishment period, subject to performance and asset-eligibility covenants.

The structure comprises two classes of notes (A and B) and residual units which finance the EUR 2.002bn securitised portfolio. Bpifrance Financement, the originator, has funded a EUR 4.2m reserve fund, whose level is initially set at 0.27% of the outstanding class A notes balance. The fixed-rate notes will follow fully sequential amortisation. All note classes benefit from the interconnected principal and interest priorities of payment. The reserve fund provides liquidity and credit enhancement for classes A and B and will be floored at EUR 3.5m until class A notes have been fully redeemed. Credit enhancement for the rated notes is provided via subordination and the reserve fund. The notes pay quarterly and have legal maturity on 25 May 2039.

2. Asset analysis

2.1. Securitised assets

The portfolio to be securitised consists exclusively of 'Prêts Croissance' and 'Prêts Croissance International' – medium- and long-term loans for which a part of the potential losses is secured by a dedicated guarantee fund, typically ranging from 50% for the most recent loans, up to 80% for the more seasoned ones. After application of the eligibility criteria and random selection, the securitisation portfolio represents a reasonable share (7%) of the mid- and long-term loan book of Bpifrance Financement (c. EUR 27bn).

The current portfolio has 33 months of seasoning with a weighted average remaining time to maturity of over 4.3 years. Portfolio replenishments will reduce the seasoning and potentially increase the remaining time to maturity. The loans in the initial portfolio were originated between 2014 and 2020, with 75% originated from 2017 onwards. Loans transferred to the portfolio have at least one instalment paid and a maximum maturity of seven years after the transaction closing date. All loans amortise linearly after a deferred principal redemption period of 2 years.

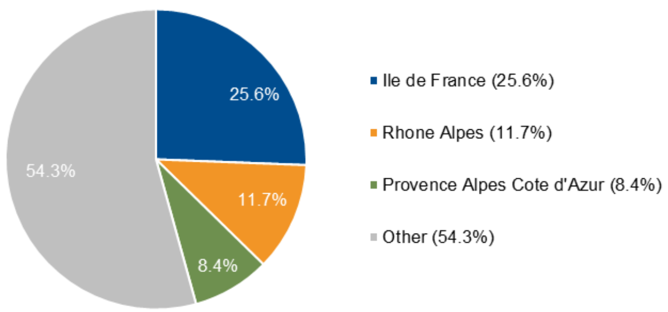
2.1.1. Granular portfolio with no relevant concentrations

We did not adjust our portfolio's credit assumptions, estimated using vintage data, for extra obligor, sector or regional concentrations. This is because the portfolio is granular and well-diversified across sectors and regions, and these characteristics are unlikely to change significantly over the replenishment period as the current portfolio's structure resembles that of Bpifrance Financement's loan book.

Figure 2: Portfolio granularity

Granularity	Restriction
Effective obligors	986
Effective regions	10.0
Effective industries	5.9

Figure 3: Regional distribution of the initial portfolio (three largest regions)



2.2. Post-replenishment portfolio

Initial portfolio will change via replenishments

The closing portfolio will change via monthly replenishments during the one-and-a-half-year revolving period, i.e. from the closing date until 25 May 2022. The maximum replenishment amount on each replenishment date is the difference between the initial EUR 2,002m portfolio balance and the outstanding balance.

Our analysis accounted for the risks inherent to revolving transactions, namely portfolio deterioration and changes to portfolio characteristics, all within the covenanted limits on both portfolio and asset levels. We believe the risk of deviation beyond these limits is covered by standard stresses applied in our analysis.

Our assumptions regarding the post-replenishment portfolio consider the contractual amortisation of the initial portfolio and the addition of new unseasoned loans. Subsequent portfolio replenishments were assumed to be the most adverse possible and we considered the minimum average yield for the new loans added to the portfolio, the minimum seasoning and the maximum remaining term.

We also assumed delinquencies of 4.0% of the portfolio by the end of the revolving period, i.e. assets that are neither performing nor provisioned with excess spread. This share corresponds to the early-amortisation trigger linked to the cumulative delinquency ratio and is assumed to default three months after the amortisation period begins, in line with the transaction's definition of default.

2.3. Impact of replenishment mechanisms

Replenishment covenants protect collateralisation of the rated notes

The replenishment mechanisms preserve the collateralisation of notes via non-defaulted assets and cash. The structure uses collected funds to acquire new assets every month. Portfolio defaults trigger the trapping of excess spread. The replenishment period ends on 25 May 2022 or earlier if triggered.

2.3.1. Early-amortisation triggers

Early-amortisation triggers protect against portfolio underperformance

We regard as adequate the transaction's protection against risks inherent to revolving transactions, namely a deterioration in portfolio quality or performance. The risk of adverse changes to portfolio characteristics is mitigated by portfolio and single-asset covenants over the replenishment period. Any reinvestment will be conditional upon i) compliance with the loan and portfolio eligibility criteria; and ii) representations and warranties made by the seller remaining valid. Early-amortisation triggers are summarised in Figure 4.

Figure 4: Normal redemption events related to the originator and assets

Trigger	Description
Event of default	The issuer defaults on a payment obligation.
Servicer	A servicer termination event has occurred and is continuing.
Fund	The fund has not purchased any SME loan receivable from Bpifrance Financement during a period of four consecutive months.
Dynamic delinquencies	Three-month rolling average of delinquencies (30+ days past due) exceed 4% of the outstanding portfolio balance.
Cumulative defaults	'180+ days past due' delinquencies and accelerated loans and loans that entered one of the legal proceedings referred in the transaction default definition over the securitised asset balance (initial portfolio plus replenishments) collectively exceed the following ratios in the respective period since closing date: 3.5% in the first nine months; 7.0% in the next nine months.
Principal deficiency ledger (PDL)	The principal deficiency ledger shows a debit on any monthly calculation date after the application of the relevant interest priority of payments.
Reserve fund	Reserve fund is not at the required level after application of the interest priority of payments.
Portfolio balance	Balance of performing assets is below 90% of the closing outstanding balance of the notes.

2.3.2. Portfolio- and asset-level covenants

Transaction covenants adequately limit the migration of portfolio characteristics over the replenishment period. Figure 5 and Figure 6 summarise the main asset-level and portfolio-level covenants, respectively.

Figure 5: Main loan level covenants

Asset covenants	Restriction
Borrower nature	Underlying borrowers have to be incorporated in France and cannot be subject to insolvency events or registered on public credit registry of adverse credit history.
Underlying probability of default	The ratings provided by the Banque de France are not equal to ‘7’, ‘8’, ‘9’ or ‘P’.
Loan size	Above EUR 10,000 and below EUR 8m
Maturity	Remaining term at cut-off is not less than six months but not up to seven years. Final instalment due date falls before October 2029.
Interest rate and margin	Loans bear fixed interest rate of at least 0.9%.
Payment	Loan receivables are amortising, payable in euro with a fixed final maturity and instalments due monthly or quarterly. No more than 10% of the initial principal amount can be repaid in the last instalment.
Guarantee rate	The guarantee rate provided by Bpifrance Financement on each loan is at least equal to 50%.
Overdue contracts	No arrears and no unpaid and outstanding instalments recorded
Industry exclusion	No loans from ‘hotel, gaming & leisure’ or ‘transportation: consumer’ can be added to the portfolio until May 2021.
Covid-19 payment holidays	While the portfolio includes loans which used to be subject to payment suspensions granted in March by Bpifrance Financement, no loan subject to such temporary suspension may be added to the pool. Loans that would already be securitised could be subject to a temporary suspension in the future.

Portfolio-level covenants ensure adequate granularity

Portfolio-level covenants ensure a minimum granularity of the portfolio and limit the potentially adverse impact on portfolio performance from loan restructurings. We note that the covenants are particularly restrictive towards industries (e.g. tourism & leisure sectors) that are likely to be more impacted by the Covid-19 crisis.

Figure 6: Principal portfolio-level covenants

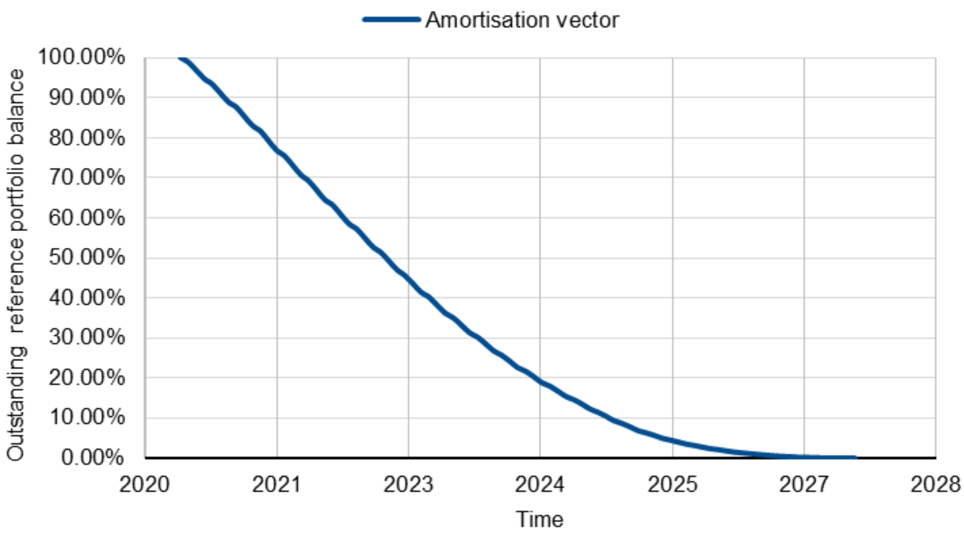
Portfolio covenants	Limit	Current portfolio as of 31 October 2020
Largest obligor	0.5%	0.40%
20 largest obligors	8.3%	6.93%
Beverage, food & tobacco[2]	25.0%	17.58%
Construction & building	15.0%	12.62%
Finance	15.0%	8.77%
Hotel, gaming & leisure	3.0%	0%
Transportation: consumer	3.0%	0%
Ile de France region	32.0%	25.61%
Rhone-Alpes region	20.0%	11.73%
Minimum weighted average interest rate	1.5%	2.05%
Share of fixed-rate loans	100%	100%
Weighted average seasoning (months)	24	33.2
Weighted average remaining term (months)	60	51.7

2.4. Amortisation profile

Linear amortisation profile

The expected amortisation profile reflects the replenishment period as well as covenants regarding the maximum maturity, the weighted average remaining term, and the assets' amortisation scheme. Figure 7 shows the evolution of the portfolio during the revolving period, considered as part of our analysis of the portfolio at the start of the amortisation period. Loans are relatively standardised, following a linear amortisation scheme after two years of deferred principal amortisation.

Figure 7: Expected portfolio amortisation profile (0% prepayment, 0% defaults)



[2] Industry classifications are based on Moody's Industry Category

2.5. Portfolio modelling assumptions

Figure 8: Modelling inputs for expected portfolio at end of revolving period

	Portfolio
Point-in-time default rate	4.8%
Coefficient of variation	50.0%
Base case recovery rate	55.0%
AAA rating-conditional recovery rate[3]	55.0%
Constant prepayment rate, low	0.0%
Constant prepayment rate, high	5.0%

2.5.1. Default rate analysis on portfolio

We calibrated the portfolio point-in-time default rate and recovery assumptions based on 2009-19 quarterly vintage data. The data sample's definition of default is aligned with the transaction's (180 days past due); we only considered the first default of a single loan.

In a given quarter, a loan is considered defaulted if:

i) The borrower of the loan entered into a safeguard proceeding, accelerated financial safeguard proceeding, judicial reorganisation or judicial liquidation, or was subject to a partial transfer of the business.

ii) Bpifrance Financement had registered that at least one loan due from the borrower and managed through one of its information systems has been in arrears by more than 180 days. Loans that have cured in the periods following arrears are excluded from the vintage analysis.

iii) A partial or total write-off was granted to the borrower regarding any loan due from the borrower.

iv) The loan was accelerated.

2.5.2. Recovery rate

State guarantee fund is the primary source of recovery

Eligible loans are covered by a guarantee fund. In case of losses, a portion of the final loss will be covered by a compensation paid in cash by the 'Fonds de Garantie'. The guarantee rate represents a share of the total loan balance and may differ from one loan to another depending on its year of origination and the borrower's initial risk at the origination date. The ultimate guarantor is the French state, one of Bpifrance's shareholders, which funds the 'Fonds de Garantie', constituting a credit risk mitigation mechanism that allows Bpifrance to cover the cost of risk on loans meeting state policies' criteria.

All loans benefit from 5% cash collateral

Eligible loans are also secured by a cash collateral, called 'retenue de garantie', which for each loan initially equals 5% of the initial loan balance. The cash collateral is remunerated. As interest on the cash collateral is capitalised, the value of the cash collateral increases over time. In case of default, the retenue de garantie value of the cash collateral, including capitalised interest, is retained by Bpifrance Financement to cover losses. Recoveries provided by the cash collateral are added to the compensation

[3] Section 2.5.2 details why rating-conditional haircuts were not used as we typically do for SME ABS transactions. Section 6 presents the additional sensitivity scenarios we have tested with regards to the AAA recovery rate (reduced to 5% if we assume the French state, rated AA/Stable by Scope Ratings, cannot honour its guarantee).

of the guarantee fund. Otherwise, the value of the cash collateral, including capitalised interest, is refunded to the borrower.

We derived the base case recovery rate using both the vintage data and the credit risk mitigation mechanism observed on the securitised loans, namely i) a guarantee rate on each loan provided by Bpifrance Financement and funded by state resources; and ii) cash collateral representing 5% of the initial loan amount.

No rating-conditional recovery assumptions

Our portfolio modelling used fixed recovery rate assumptions derived from the minimum required guarantee rate on the securitised loans (50%), along with the 5% cash collateral for which we did not consider the increase over time with capitalised interest.

Considering the guaranteed source of recoveries, we did not apply any stress with haircuts based on the target rating of the rated notes and assumed the recovery rate to be constant across rating-conditional scenarios. Additionally, we estimate the recovery lag to be 12 months for 90% of expected recoveries, and 18 months for the remaining 10%.

Given that the rating of the ultimate guarantor, the French state (AA, Stable by Scope), is below the target rating, our sensitivity analysis includes a scenario in which the French state cannot honour its guarantee, coupled with worsening credit conditions in France that reduce the recovery rate to 5%.

2.5.3. Constant prepayment rate (CPR)

Class A notes tested against the most conservative CPR assumption of 0%

We tested the performance of the rated notes assuming 0% and 5% constant prepayment rates, as the notes generally benefit from prepayments under the strictly sequential amortisation.

3. Financial structure

3.1. Capital structure

Two classes of notes and residual units were issued. Issuance proceeds were used to purchase the initial portfolio of assets. Bpifrance Financement also funds a cash reserve and bears any upfront costs.

Both classes pay a quarterly fixed coupon of 0.15% for class A and 0.25% for class B. Unused excess spread is paid to subordinated items after the replenishment of the reserve fund and the clearance of the interest deficiency ledger and principal deficiency ledger (if applicable). The amortisation of the notes will not start until the end of the revolving period, which is a year and a half after the closing date, or earlier if triggered by events. The amortisation is strictly sequential between class A and class B, with the latter not receiving any principal until the class A notes are fully amortised.

3.2. Reserve fund

Fully funded reserve fund provides 0.27% credit enhancement

The structure features a fully funded cash reserve fund provided by Bpifrance Financement, with an initial balance of EUR 4.2m, or 0.27% of the outstanding notes amount. The required reserve amount on any payment date before the full redemption of class A is EUR 3.5m. This reserve fund provides liquidity support for all note classes and can cover losses at transaction maturity.

On the final maturity date, the reserve fund can also be used to cover shortfalls in the collections available to pay the outstanding principal amount. The reserve fund cannot be used to fund replenishments and does not amortise until the class A notes are redeemed in full.

The reserve fund could cover fees and class A interest for up to three quarterly payment periods, considering the expected operating costs associated with the fund.

3.3. Priority of payments

The interconnected priorities of payment are the main protection against payment interruption

The priorities of payment protect class A noteholders by providing liquidity for timely interest payments and trapping excess spread to cover principal losses from defaults.

The structure is simple. An apparent complication consists of the separate interest and principal waterfalls and separate deficiency ledger mechanisms. This is addressed by the priorities of payment being well interconnected and behaving like a combined waterfall. Principal collections can therefore cover interest-related cash shortfalls, and excess spread can restore collateralisation should an asset default result in a principal shortfall. The latter is ensured via a principal deficiency ledger (PDL).

Figure 9: Priorities of payments and available funds

	Interest priority of payment	Principal priority of payment
Available funds	1) Interest collections from assets (including penalty interest) 2) Interest earned on issuer accounts 3) Cash drawn from the cash reserve to cover up to item 3 in the interest waterfall	1) Principal collections from the assets; 2) In relation to non-defaulted receivables: a) prepayments b) insurance payments; c) rescission and indemnification payments; 3) Recoveries (principal) 4) Amounts allocated to clear the PDL (cash diverted from the interest priority of payments under item 4); and
Replenishment period	**Quarterly payment dates**: 1) Taxes and fund operating expenses 2) Class A interest and interest arrears 3) Reserve fund replenishment 4) Allocation to clear PDL (credit to PDL) 5) Class B interest and interest arrears 6) Payment to the seller of unpaid balance of the interest component of the purchase price 7) Subordinated items	**Quarterly payment dates:** 1) Principal lent to the first two items of the interest waterfall to the extent it is not paid after the application of the latter 2) Payment of the principal component of the purchase price of the additional loans purchased by the fund 3) Following the occurrence of an optional partial redemption event[4], repayment of class A based on the optional partial redemption amount[5]
Amortisation period	**Quarterly payment dates:** 1) Taxes and fund operating expenses 2) Class A interest and interest arrears 3) Reserve fund replenishment 4) Allocation to clear PDL (credit to PDL) 5) Class B interest and interest arrears 6) Payment to the seller of unpaid balance of the interest component of the purchase price 7) Subordinated items	1) Principal lent to the first two items of the interest waterfall to the extent it is not paid after the application of the latter 2) Class A principal and principal arrears repayment (until redeemed in full) 3) Class B principal and principal arrears repayment 4) Subordinated items
Post-enforcement	The post-enforcement priority of payments is triggered by an accelerated redemption event or liquidation of the fund. 1) Taxes and fund operating expenses 2) Class A interest and interest arrears 3) Reserve fund replenishment as long as the fund is not liquidated 4) Full redemption of class A notes 5) Class B interest 6) Payment to the seller of unpaid balance of the interest component of the purchase price 7) Class B principal (in full) 8) Subordinated items	

[4] Optional partial redemption event occurs if the balance of performing assets is below 90% of the closing portfolio balance and the management company elects to redeem the class A notes to avoid a normal redemption event on the next payment date.
[5] Should be calculated and agreed between the management company (France Titrisation) and Bpifrance Financement.

3.4. Matched interest rates

Interest type and payment frequency accommodate well with the liabilities

Interest rate risk is naturally hedged through the fixed-rate nature of both assets and liabilities.

We expect repayments and replenishments to reduce available excess spread due to the covenant on replenishment interest. Our analysis considered the minimum spread of the portfolio assets, at 1.5%, to be the amount available during the notes' expected life. This results in excess spread of 0.35%, which represents a significant stress compared to the 1.80% excess spread available at closing. All calculations of excess spread assume stressed senior costs of 1%.

3.5. Accounts

The issuer has a treasury account held by BNP Paribas Securities Services, which holds collections from the assets as well as the reserve fund.

The transaction also features an account held by BNP Paribas whose purpose is to hold all instalments paid by the borrowers, which are directly credited. Any remuneration, fees, or debit interest due to the dedicated account bank, along with any rejection not debited from the account, will be debited from a separate account opened by the servicer with BNP Paribas.

The transaction is thus exposed to BNP Paribas and its subsidiary (see Counterparty Risk section), though we take comfort from the bank's public ratings and replacement trigger. The negative carry introduced by the negative interest on this account is covered by credit enhancement.

3.6 Repurchase option on defaulted loans

Bpifrance Financement has the option to repurchase loans that have defaulted during the last collection period. The repurchase price is equal to the outstanding principal balance of the loan at default.

We did not considered this element in our cash flow modelling.

3.7 Set-off reserve

Bpifrance Financement has made available a set-off reserve deposit to specifically cover potential set-off risk on the 5% cash collateral held by the seller on each originated loan. The reserve is not funded at closing and the aggregate outstanding balance of the borrowers' cash collateral amount will only be transferred upon occurrence of a trigger event, namely i) the rating of EPIC Bpifrance falling under a certain level (A, Fitch & A3, Moody's); or ii) the occurrence of a servicer termination event.

3.8 Covid-19 suspensions

A part of the reserve funded by the seller will be available for the issuer in case instalment suspensions are granted during the first 15 months of the transaction. While loans purchased by the fund at closing are not permitted to be under any payment moratorium related to a Covid-19 forbearance programme, such a suspension of instalments later in the transaction's life would trigger the use of the relevant part of the reserve, according to the amount of scheduled interest that will be delayed in that regard.

4. Originator and seller

Bpifrance S.A was set up in 2013 through the merger of OSEO, CDC Enterprises and FSI, a transaction orchestrated by the French government at the time. The bank operates as "a public group primarily aiming at financing and developing companies, acting in accordance with the public policies conducted by both the State and regional authorities"[6]. The company is jointly owned by the French state and the Caisse des Dépôts, thereby implicitly benefiting from strong state support.

Bpifrance Financement is the bank of the group, offering three distinct business lines for SMEs, namely i) own account-related investments, generally co-financing debt alongside third-parties; ii) state account-related guarantees; and iii) innovation financing. The latter two are mainly funded by public allocations. These business lines are managed within an integrated banking model (e.g. pooling of resources, branch networks, information systems) for shared customers and based on strictly hived-off financial resources

Bpifrance Financement's functions, systems, processes and staff are adequate

The bank's functions, systems, processes and staff allow for efficient lending. On 3 July 2020, we performed an operating review with Bpifrance Financement executives to gain a better understanding of the underwriting and servicing aspects relevant to the analysis of the transaction.

4.1. Sanctioning and underwriting

The bank's network is decentralised and adequately covers the French territory, with six distinct network divisions, each composed of several regional divisions (49 in total) in charge of loan origination.

Underwriting directives of Bpifrance Financement are relatively stringent, with various restrictions on amounts, exposures, maturities and counterparty quality. The internal risk management tool includes three underlying layers focusing on i) the credit risk associated with relevant risk counterparty; ii) a project rating assessing project coherence; and iii) a transactional rating determining expected recoveries based on the collateral.

Sanctioning power is delegated and segmented as every lending decision is subject to at least two validation levels. The underwriting process also ensures that the most sensitive cases are reviewed by a central credit committee (based in Paris); this takes place twice a week. In 2018, approximately 36% of decisions were taken centrally, which represents 69% of the originated volume.

The bank is a co-lender on the majority of its loan book, adding an additional decisional power to the underwriting process. Additionally, Bpifrance Financement regularly reviews the performance of its origination processes to ensure originated volumes stay within set targets.

4.2. Servicing and recovery

Adequate and proactive servicing and recovery processes

The bank's loan servicing and management of non-performing loans are adequate. The risk of outstanding performing loans is classified as either 'Full Performing' or 'Watch-list'. The latter applies to loans and counterparties displaying warning signals, thereby restricting the possibility to contract new loans or use any available drawdown on existing lines of credit. Loans become non-performing after payments become 90 days past due, which are then managed on a line-by-line basis.

The management of overdue debt starts with an automated reminder letter 12 days after the initial due date, generated by Bpifrance Financement's proprietary information system. Until 120 days past due, after which a formal notice is sent, contracts can be

[6] Article 1 of Act No. 2012-1559 dated 31 December 2012 on the creation of Bpifrance

terminated, with the full amount becoming payable. In addition to commercial renegotiations or modifications of the initial loan terms as allowed by specific contract conditions, financial restructuring might be applied to counterparties in proven financial difficulty.

A number of specific credit committees manage and monitor non-performing loans, meeting 1-2 times a week at regional and national levels. Delinquency managers fill in litigation cases that can be subject to up to four validation levels.

Bpifrance Financement's recovery strategy is pro-active and aimed at finding a joint solution and avoiding immediate repossession of the leased object. Once a solution is agreed, restructured deals are monitored.

The bank's servicing, provisioning and recovery strategies are consistent with its business model, which focuses on the efficient handling of high volumes and aims to help defaulted obligors to resume making regular payments.

5. Quantitative analysis

We have assigned a AAA$_{SF}$ rating to the class A notes based on our cash flow analysis. This result is driven by the transaction's credit enhancement mechanisms (sequential-amortisation trigger) and resilience to default, interest and prepayment stresses. The class A itself also shows resilience to any deterioration in recovery rates.

We used our large homogenous portfolio approximation approach (inverse Gaussian) to model the highly granular collateral pool, in accordance with our methodology. Key assumptions derived were then applied to the cash flow analysis of the transaction over the amortisation period. We modelled the transaction on the whole portfolio level, based on the composition of the portfolio.

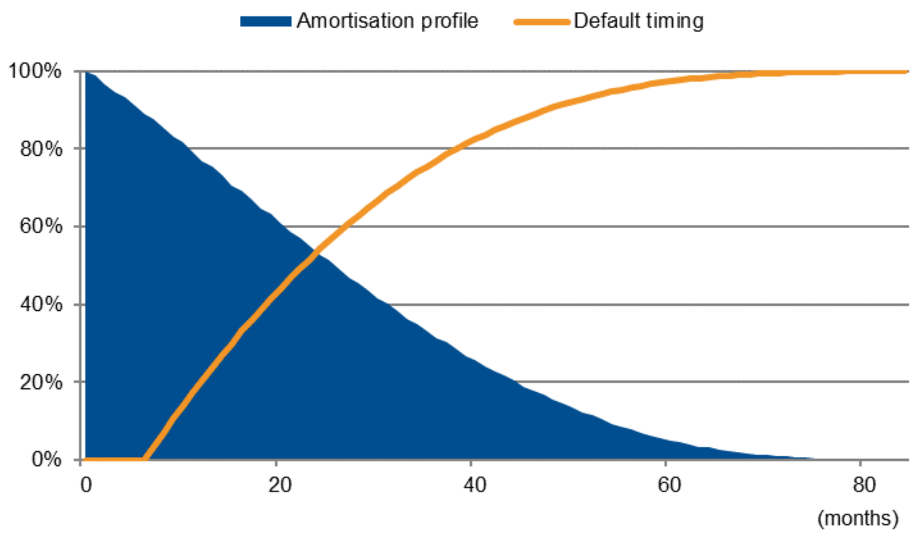
We did not apply long-term adjustments to the default rate and coefficient of variation, given the historically stable economic expansion in France.

Bespoke cash flow model to analyse this transaction

We calculated the probability-weighted loss for the rated notes using our cash flow model combined with the portfolio default distribution (inverse Gaussian). The cash flow tool also produced the expected weighted average life for the rated notes.

We considered a front-loaded default-timing term structure. Back-loaded default scenarios are not as severe owing to the fast amortisation of the portfolio. The cumulative default-timing assumptions are shown on Figure 10 and represent the assumed default timings for the portfolio when the replenishment period ends. These assumptions imply a front-loading of delinquencies, starting on the first month of the life of the transaction. The defaults are classified as 180+ days past due, in line with definitions in the documentation.

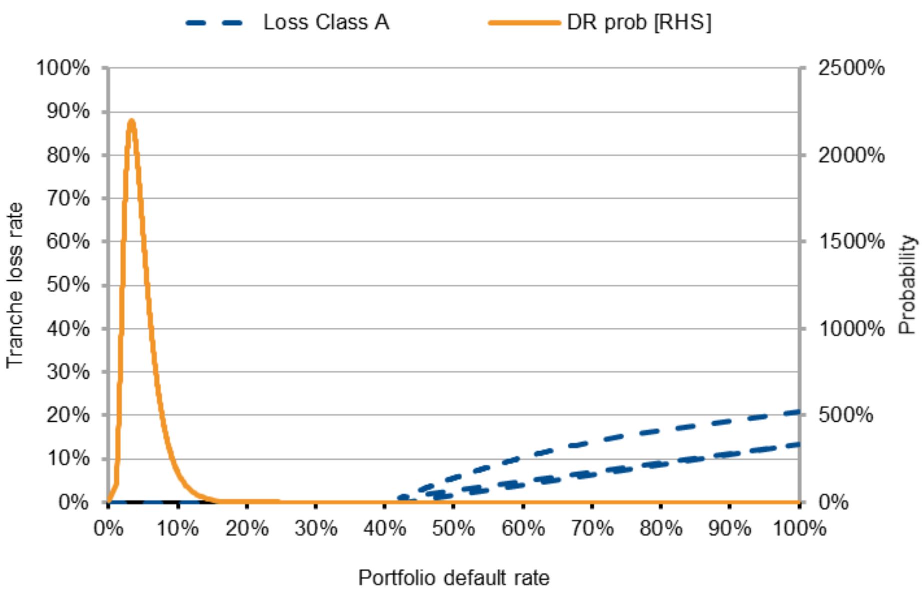
Figure 10: Default-timing assumption for the portfolio



Front-loaded default timing considered

Figure 11 shows the losses of the class A notes at all portfolio default rates. The chart shows how credit enhancement and excess spread protect the rated notes as well as recovery proceeds in case of default.

Figure 11: Cash flow model results for base case mean DR and CoV; AAA RR



Note: The probabilities displayed on right-hand axis have to be considered in the context of the probability density calculation.

6. Rating stability

We tested the resilience of the rating against deviations of the main input parameters: the portfolio mean default rate and the portfolio recovery rate. This analysis has the sole purpose of illustrating the sensitivity of the rating to input assumptions and is not indicative of expected or likely scenarios.

We tested how the respective model-implied rating for the class A changes when the portfolio's expected default rate is increased by 100% and the portfolio's expected recovery rate is reduced by 50%. We also tested sensitivity to two scenarios relating to a hypothetical inability of the French state to honour the guarantee: i) a decrease in the recovery rate from 55% to 5%; and ii) the aforementioned recovery rate decrease combined with a 100% increase in the default rate and a 50% decrease in the coefficient of variation.

Class A, rated AAA_{SF}:

- sensitivity to probability of default, zero notches
- sensitivity to recovery rates, zero notches
- sensitivity to the first scenario relating to the French state, zero notches
- sensitivity to the second scenario relating to the French state, zero notches

7. Sovereign risk

Sovereign risk does not limit the transaction's ratings despite the adverse impact of the Covid-19 crisis on the French economy

The French economy has been severely impacted by the Covid-19 crisis given that its containment measures have been more severe than in other European countries such as Germany. After a steep drop in output in Q2 and a sharp rebound in Q3, real growth in the 12 months to September 2020 was -7.1%, mostly driven by shrinking private consumption (-2.9pp contribution). Labour markets have also been hit, with the number of unemployed reaching 2.7m and the unemployment rate up sharply by 1.9pp to 9.0% in Q3. The French government anticipates a contraction in real GDP of 11% this year, including the expected adverse impact of new restrictions in November.

The government's forceful fiscal support packages have helped to mitigate the impact of Covid-19 on the economy. Measures include the short-time work scheme, direct financial support for microenterprises, self-employed, and low-income households, direct financial support for the hardest-hit sectors, and liquidity support for companies via postponements of social security and tax payments. For 2020, total fiscal outlays dedicated to the emergency response to Covid-19 amount to almost EUR 70bn (3% of 2019 GDP), which come on top of public guarantees worth EUR 327bn (13% of 2019 GDP). These measures have helped to preserve crucial employment relationships, supported disposable incomes and mitigated the overall impact of the Covid-19 shock to the country's growth potential. Still, the short-term economic outlook is subject to downside risks with the recent re-imposition of lockdowns. Unemployment and corporate bankruptcies are likely to rise in the coming months with potentially adverse impacts on France's growth potential.

Longer term, the government's recovery plan, France Relance, will support growth with over EUR 100bn (4.1% of 2019 GDP) in spending geared around three key pillars: i) ecological transition; ii) economic revival and competitiveness; and iii) social and territorial cohesion. With most spending focused on the supply-side and large investments planned over 2021-22, the government expects the plan to create over 160,000 jobs and support potential growth. Official projections see the economy rebounding by 8.0% in 2021 – more optimistic than forecasts by the IMF (6.0%) and Scope's baseline of 7.0%. The successful implementation of the recovery plan and continued progress regarding structural reforms will be central to the country's medium-term growth trajectory.

The announced fiscal packages will lead to a structural deterioration in France's fiscal fundamentals, with a primary deficit expected to rise to around 9% of GDP in 2020 and remain above pre-crisis levels through 2024. This, coupled with the sharp contraction in GDP in 2020, will drive the public debt-to-GDP ratio towards 120%.

We expect public debt to remain above pre-crisis levels over the next five years, with upside risks given France's weak record of fiscal consolidation and potentially more adverse growth outcomes. The ECB's very accommodative policies mitigate these risks somewhat: France's 10-year government bond yield stood at -0.26% as of 9 November, versus 0.12% at year-end 2019. Still, the deterioration in France's fiscal metrics and an increasing debt trajectory constitute the main challenges to its AA/Stable rating.

8. Counterparty risk

The counterparty risk of the transaction supports the highest ratings. No counterparty exposures are excessive, i.e. if counterparty risk crystallises, a downgrade is limited to six notches.

8.1. Operational risk from servicer

Servicer disruption unlikely

Operational risk from Bpifrance Financement as servicer is mitigated via the bank's links to the sovereign and its importance to public policies. Our view also accounts for the bank's high public ratings.

8.2. Commingling risk from account bank and paying agent

Commingling risk is not material for the rated notes

Commingling risk is mitigated through i) appropriate replacement triggers for the account bank and the dedicated account bank; ii) the high initial credit rating of BNP Paribas SA, rated AA- by Scope; iii) the presence of a dedicated account (compte d'affectation spéciale).

The high credit quality of the account bank and paying agent, BNP Paribas Securities Services[7], makes the risk of commingling losses sufficiently remote as to be immaterial for the rated notes.

All instalments collected in respect of the loan receivables purchased by the issuer will be credited to the dedicated account pursuant to the terms of the account's agreement. This is a standard feature of French securitisations. Under the agreement, the dedicated account will be subject to a dedicated account mechanism ('affectation special'). In accordance with article L. 214-173 of the French Monetary and Financial Code, the servicer's creditors are not entitled to payments whose amounts exceed the sums credited to the dedicated account, even if the servicer becomes subject to an insolvency proceeding. The issuer will have the exclusive benefit of the sums credited to the dedicated account.

8.3. Set-off risk from originator

Set-off risk from the originator is covered

Set-off risk from the originator is limited to cash collateral amounts in the context of this transaction (mitigated by the set-off reserve). Bpifrance Financement is not a deposit-taking financial institution, and the borrowers' claims against the lender generally cannot be set off, except when pursuant to a mandatory rule of law. Additionally, according to eligibility criteria, SME loan agreements cannot provide borrowers the right of set-off between their payable sums and those payable to them by the seller.

9. Legal structure

9.1. Legal framework

The notes and transaction documents are governed by French law. The securitisation framework benefits from the French securitisation law, which addresses bankruptcy-remoteness and true-sale questions.

[7] Considering the AA- Scope rating on BNP Paribas SA

The issuer of the securitisation, FCT Bpifrance SME 2020-1, is a bankruptcy-remote French securitisation fund (‘Fonds Commun de Titrisation’ or ‘FCT’) established by the management company (France Titrisation).

Pursuant to article L.214-175-III of the French Monetary and Financial Code, the provisions of Book VI of the French Commercial Code (which govern insolvency proceedings in France) are not applicable to the issuer. This issuer is therefore a bankruptcy-remote vehicle (the FCT does not have a legal personality; the management company acts in the name of and on behalf of the issuer.)

Pursuant to article L. 214-169-V of the French Monetary and Financial Code, the transfer of the receivables and their ancillary rights shall be made by way of a ‘deed of transfer’ (‘acte de cession’) that satisfies the requirements of article L. 214-169-IV and article D. 214-227 of the French Monetary and Financial Code. This is a standard process for the sale of the loans.

9.2. Asset renegotiations

The servicer may renegotiate certain loan agreements related to non-defaulted loans, provided that a certain number of thresholds are met regarding the interest, the interest type, the final maturity date, and deferred amortisation, among others.

9.3. Use of legal and tax opinions

We reviewed the legal opinions produced for the issuer. These provide comfort on the issuer’s legal structure and supports our general legal analytical assumptions.

10. Monitoring

Scope analysts are available to discuss all the details surrounding the rating analysis

We will monitor this transaction based on performance reports from the cash manager as well as other available information. The ratings will be monitored continuously and reviewed at least once a year, or earlier if warranted by events.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed, and the ongoing monitoring of the transaction.

11. Applied methodology and data adequacy

For the analysis of this transaction we applied our SME ABS Rating Methodology and Methodology for Counterparty Risk in Structured Finance, both available on our website, www.scoperatings.com.

Bpifinance Financement provided us with default and recovery data, segmented by quarterly vintage of origination, referring to a ‘180 days past due’ default definition. The default rate data covers the 2009-19 period and is generally very granular.

I. Vintage data provided by originator

Bpifrance Financement provided ‘180 days past due’ delinquency, recovery and cure performance data. This information formed the basis of the calibration of point-in-time default rates, coefficient of variation. We have slightly adjusted the default vintage to derive the mean default rate assumptions, considering i) only the first default of a loan in case the loan reperforms before defaulting again; ii) the outstanding amount of all loans related to an obligor are defaulted in case the latter only defaults on one loan; and iii) only loans that have not cured in the periods following the event of default.

Vintage data is granular and representative for the portfolio.

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