



## Fitch Affirms Credit Mutuel-CIC Home Loan SFH's OFH 'AAA' Rating Ratings

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Fitch Ratings-London-21 June 2011: Fitch Ratings has affirmed Credit Mutuel-CIC Home Loan SFH's (CM-CIC HL SFH) EUR17.855bn outstanding Obligations de Financement de l'Habitat (OFH) at 'AAA'.

The rating action follows the conversion of CM-CIC Covered Bonds (CM-CIC CB) into CM-CIC HL SFH, reflecting the transformation of the existing contractual covered bonds into regulated OFH, as well as the agency's implementation of its Covered Bonds Counterparty Criteria published 14 March 2011 at [www.fitchratings.com](http://www.fitchratings.com).

CM-CIC HL SFH is a financial institution regulated by the Autorite de Controle Prudentiel (ACP, the French banking and insurance regulator) and licensed to issue OFH under a dedicated legislative framework. CM-CIC HL SFH is wholly-owned by Banque Federative du Credit Mutuel (BFCM, rated 'AA-/Stable/F1+').

Fitch's 'AAA' rating on the OFH is based on BFCM's Long-term Issuer Default Rating (IDR) as BFCM is the first recourse debtor and CM-CIC HL SFH's activity is restricted to extending secured advances to its parent company. The OFH's rating is also based on the updated Discontinuity Factor (D-Factor) of 21.4% (from 19.8%) assigned to CM-CIC HL SFH's OFH and the overcollateralisation (OC) taken into account by the agency, which compensates for identified credit and market risks in a 'AAA' scenario. The combination of these three elements enables the OFH to be rated 'AAA' on a probability of default (PD) basis.

The current ratio of outstanding OFH over the underlying cover pool, which consists of French residential loans, is 64.6% (nominal asset percentage; AP). The maximum AP observed over the last 12 months is 65.6%. This compares to a maximum AP supporting Fitch's 'AAA' rating scenario on a PD basis of 88.9%. The AP supporting a given rating will be affected, among other factors, by the profile of the cover assets relative to outstanding OFH, which can change over time, even in the absence of new issuances. Therefore it cannot be assumed that the current AP supporting the current rating will remain stable. All else equal, CM-CIC HL SFH's OH rating can be maintained at 'AAA' as long as BFCM's IDR is at least 'BBB+'.

The updated D-Factor takes into account the legal framework under which CM-CIC HL SFH operates. Notably, Fitch gave credit to the involvement of the French regulator (for further information, see "Fitch: Limited Positive Impact of Legislative Framework for French Contractual Covered Bonds", dated 01 April 2011 on [www.fitchratings.com](http://www.fitchratings.com)). The agency also applied its new Covered Bond Counterparty Criteria, published on 14 March 2011, taking into account the fact that, upon a downgrade of BFCM below 'AA-/F1+', BFCM has committed to become the swap counterparty in the OFH programme. The agency believes that internal derivative counterparties, even if subject to replacement provisions, leave covered bond investors more vulnerable to an issuer default compared to programmes with external derivative counterparties. Moreover, under the programme documentation, swap counterparties enjoy the same privilege as OFH-holders. This could impact the CM-CIC HL SFH's liquidity if material termination costs were due to BFCM. Also in line with the new criteria, upon a downgrade below 'A'/F1', BFCM will put in place a reserve with a 'A'/F1' rated credit institution and for the benefit of CM-CIC HL SFH for an amount sufficient to cover at least three months of interest payments on the OFH.

CM-CIC HL SFH's assets consist of loans advanced to BFCM (the secured liabilities), whose terms will match in amount, interest rate and maturity date those of the OFH. These loan advances are in turn secured by a portfolio of residential loans originated by banks of the BFCM group. The security is created under the provisions of articles L. 211-38 of the French Monetary Code. When enforced, the collateral portfolio will be automatically transferred to CM-CIC HL SFH, notably in the case of a bankruptcy of BFCM.

As at end of May 2011, the underlying cover pool's total outstanding balance was approximately EUR27.6bn, while the total OFH amounted to EUR17.8bn. The residential loan portfolio's weighted average (WA) original loan-to-value ratio (LTV) stands at 82.3%, with a WA current indexed LTV of 64%. The WA life of the underlying cover pool is 16 years, compared to 4.4 years for the outstanding OFH. Of the residential loans in the cover pool, 82.6% yield a fixed rate of interest, whereas the OFH were all issued at fixed rate. Interest rate swaps will be put in place if BFCM is downgraded below 'AA-/F1+', to hedge against discrepancies between the interest rate yielded by the residential loan pools and the OFH, and to ensure the residential loans will be at a floating rate if a refinancing is needed.

These hedging arrangements have already been taken into account in Fitch's analysis. However, given BFCM's current IDR, Fitch views the risk of a 'AA-/F1+' rated entity proceeding straight into default as remote, commensurate with a covered bonds rating between 'AA-' and 'AAA'. As noted in Fitch's counterparty criteria, the agency relies on the recourse to the issuer and expects the issuer to manage the interest rate risks of the covered bonds. The agency would apply its published high and low Euribor stresses if BFCM's IDR falls below 'AA-/F1+', resulting in a slightly

higher level of OC in line with the same rating stress if the intended swap is entered into.

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Applicable criteria, 'Covered Bonds Rating Criteria', dated 16 August, 2010, 'Assessment of Liquidity Risks in Covered Bonds', dated 16 August, 2010, 'EMEA Residential Mortgage Loss Criteria', dated 23 February 2010, 'EMEA Residential Mortgage Loss Criteria - Addendum France', dated 28 June 2010, 'Covered Bonds Counterparty Criteria', dated 14 March 2011 are available on Fitch's website at [www.fitchratings.com](http://www.fitchratings.com).

**Applicable Criteria and Related Research:**

Covered Bonds Rating Criteria  
Assessment of Liquidity Risks in Covered Bonds  
EMEA Residential Mortgage Loss Criteria  
EMEA Residential Mortgage Loss Model Criteria Addendum - France

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