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Fitch Assigns AXA Bank Europe SCF's First Obligations Foncieres Expected 'AAA' Ratings

Ratings
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Link to Fitch Ratings' Report: AXA Bank Europe SCF - Obligations Foncieres

Fitch Ratings-London-08 October 2010: Fitch Ratings has assigned AXA Bank Europe Societe de Credit Foncier's (ABE SCF) Series 1 Obligations Foncieres (OFs, the French legislative covered bonds) an expected 'AAA' rating. The bonds will have a benchmark size and a maturity of up to ten years. The final ratings are contingent on the receipt of final documents conforming to information already received.

At the same time, Fitch assigned ABE SCF a Long-term Issuer Default Rating (IDR) of 'A+' with a Negative Outlook and a Support Rating of '1'. The ratings of ABE SCF are based on potential support in case of need from AXA Belgium (Insurer Financial Strength 'AA-' with a Negative Outlook) given ABE SCF's strong integration with and strategic importance to AXA's activities in Belgium.

The expected rating of the OFs is based on ABE SCF's Long-term IDR of 'A+' and a Discontinuity Factor (D-Factor) of 17.0%, the combination of which enables the OFs to be rated as high as 'AA+' on a probability of default (PD) basis, provided that the overcollateralisation (OC) between the cover assets and the covered bonds is sufficient to sustain the corresponding stress scenario. The agency also modelled expected recoveries from the cover pool in case of a default of the covered bonds in a 'AAA' stress scenario. Fitch found the OC of 13.1%, which the issuer is expected to maintain, to be sufficient for its cash-flow model to sustain a 'AA+' level of stress. It also provides outstanding recoveries on the covered bonds in a 'AAA' scenario, justifying a one-notch uplift from the PD rating, under Fitch covered bonds rating criteria.

ABE SCF is a fully-owned French subsidiary of Belgium-based AXA Bank Europe (ABE), which in turn is 100%-owned by AXA Holdings Belgium. AXA Holdings Belgium is the holding company of AXA's operating companies in Belgium, notably AXA Belgium. ABE SCF is licensed as a Societe de Credit Foncier authorised to issue OFs and is supervised by the French bank regulator. It was established in September 2010 as a refinancing vehicle for the mortgage business of ABE in Belgium.

The programme's D-Factor is mainly influenced by the satisfactory segregation of the cover assets under the French SCF law from the bankruptcy estate of ABE and by the solution to overcome liquidity gaps. For OFs issued with a hard-bullet maturity, ABE will fund a pre-maturity reserve covering principal payments due by the SCF for the following nine months if the SCF's rating is below 'F1+'. It may also issue OFs in the form of soft-bullet bonds with an extendible period of 12 months. Fitch views the extendible maturity as more protective than the Pre-Maturity reserve feature, leading to a D-Factor of 14.8% instead of 17.0%. However, were the SCF to issue hard-and soft-bullet bonds, it would apply a weakest-link approach and assign the higher D-Factor to the programme. Therefore, the expected rating has been based on a D-Factor of 17.0%.

The D-Factor further reflects the feasibility of the transition to an alternative manager following a default of ABE and the supervision from the French banking authorities.

The covered bonds will be secured by all the SCF's assets. The cover pool will initially consist of the senior RMBS notes issued by Royal Street NV/SA, a Belgian securitisation vehicle, through its compartment RS-2. They are backed by residential mortgage loans originated by ABE in Belgium and are expected to be rated 'AAAsf'. Fitch has assumed that the notes would not default in a 'AAA' scenario. However, a downgrade of the RMBS notes may lead to a downgrade of the OFs.

The RS-2 notes will start to amortise after five years, over a period of 30 years. This can create a wide maturity mismatch, depending on the covered bonds' maturity. Fitch has simulated the cost of refinancing the cover pool when modelling the OC supporting the assigned rating. The agency assumed that nine months would be necessary to refinance the cover pool in a stressed situation. Interest mismatches in the programme are minimal, as all cover assets bear a floating rate of interest and the fixed-rate OFs will be swapped into a floating rate.

The level of OC supporting the expected 'AAA' rating is 13.1%. This percentage will be affected, among other things, by the profile of the cover assets versus covered bonds, which will change over time. All else being equal, the covered bonds can remain rated 'AAA' as long as the issuer is rated at least 'BBB+'.

A presale report is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com.

Applicable criteria, 'Covered Bonds Rating Criteria', dated 13 August 2010, and 'Assessment of Liquidity Risks in Covered Bonds', dated 16 August 2010, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Covered Bonds Rating Criteria
Assessment of Liquidity Risks in Covered Bonds
Assessment of Liquidity Risks in Covered Bonds – Spread Assumption Addendum
Counterparty Criteria for Structured Finance Transactions
Counterparty Criteria for Structured Finance Transactions: Derivative Addendum - Amended
EMEA Residential Mortgage Loss Criteria
EMEA Residential Mortgage Loss Criteria Addendum - Belgium
EMEA Structured Finance Snapshot: July 2010 (Multimedia)