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Fitch Affirms AXA Bank Europe SCF's Outstanding Obligations Foncieres at 'AAA' Ratings

24 Aug 2011 7:41 AM (EDT)

Fitch Ratings-London-24 August 2011: Fitch Ratings has affirmed AXA Bank Europe Societe de Credit Foncier's (ABE SCF; 'A+'/Stable) outstanding EUR1.25bn Obligations Foncieres (OF) at 'AAA'.

The affirmation follows a review of the Discontinuity Factor (D-Factor) in light of the recent reassessment of the legal framework under which ABE SCF operates and the implementation of Fitch's Covered Bonds Counterparty Criteria published in March 2011 at www.fitchratings.com.

The OF's rating is based on ABE SCF's Long-term IDR of 'A+' and an updated D-Factor of 15.1%, the combination of which continues to enable the OF to be rated as high as 'AA+' on a probability of default (PD) basis, and 'AAA' when factoring recoveries from the cover pool given a default under the covered bonds. This is provided that the overcollateralisation (OC) between the cover assets and the covered bonds is sufficient to sustain the corresponding stress scenarios. All else being equal, ABE SCF's OF rating can be maintained at 'AAA' as long as ABE SCF's IDR is at least 'BBB+'. Both the rating of the covered bonds on a PD basis and the covered bonds' rating are unaffected following the review.

The D-Factor has been updated to 15.1% from 14.8% to reflect (i) the positive review of the role of the French prudential authority (see "Fitch: Limited Positive Impact of Legislative Framework for French Contractual Covered Bonds", dated 1 April 2011 at www.fitchratings.com); (ii) the complexity any derivative adds to the alternative manager's responsibilities after issuer insolvency. However, this is mitigated by the fact that ABE SCF has concluded a swap with an external counterparty, BNP Paribas ('AA-'/'F1+'). The agency believes that external derivative counterparties would leave covered bond investors less vulnerable upon an assumed issuer default compared to programmes where the hedging counterparties belong to the same banking group as the issuer. In addition, Fitch is of the opinion that the task of replacing a swap counterparty may be easier in the case of ABE SCF, which constitutes a separate cover assets owning entity, compared with covered bonds issued under an integrated template. The market standard nature of the liability swap would also facilitate replacement, in the agency's view; (iii) the potential liquidity constraint that could follow the default of the swap counterparty.

Fitch understands that under the SCF legislation, termination costs due to the swap counterparty rank pari passu to payments due on the OF. In Fitch's opinion, a replacement trigger at the loss of 'BBB+'/'F2' instead of 'BBB-'/'F3' would constitute a mitigant against such potential liquidity constraints when the hedging counterparties are external. As the replacement language in the programme only requires replacement of the swap counterparty upon a loss of 'BBB-'/'F3', the agency has accounted for such additional liquidity risk in the programme's D-Factor (see "Lehman Court Settlement Leaves Legal Conflict for Structured Finance Derivatives; Criteria Amended", dated 14 March 2011 at www.fitchratings.com). However, Fitch notes that the risk of large termination payments being due to the defaulted swap counterparty by the SCF is currently remote, as for this to occur the issuer banking group and the external swap counterparty would both have to be insolvent at the same time. Should both parties be downgraded below 'A'/'F1', in the absence of further mitigants, the OF's rating may be negatively affected.

As far as protection against short term payment interruption risk is concerned, no D-Factor adjustment is warranted for this programme. This is because the RMBS notes constituting ABE SCF's cover pool already benefit from adequate reserves and there is perfect matching between the payment dates of the notes and those of the privileged liabilities.

ABE SCF is a fully-owned French subsidiary of Belgium-based AXA Bank Europe. The cover pool consists of 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 rated 'AAAsf'.

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Additional information is available on www.fitchratings.com.

Applicable criteria, 'Covered Bonds Rating Criteria', dated 12 August 2011, 'Covered Bonds Counterparty Criteria', dated 14 March 2011, Counterparty Criteria for Structured Finance Transactions, dated 14 March 2011, Counterparty Criteria for Structured Finance Transactions: Derivative Addendum - Amended, dated 14 March 2011, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Covered Bonds Rating Criteria
Covered Bonds Counterparty Criteria
Counterparty Criteria for Structured Finance Transactions
Counterparty Criteria for Structured Finance Transactions: Derivative Addendum