

Rating Action: Moody's Ratings affirms Credit Logement's Aa3 issuer rating; outlook stable

17 December 2024

Paris, December 17, 2024 – Moody's Ratings (Moody's) today affirmed the Aa3 long-term issuer rating of Credit Logement (CL). Concurrently we affirmed CL's subordinated debt rating of A1. The outlook remains stable.

RATINGS RATIONALE

CL's Aa3 long-term issuer rating reflects its dominant role and market position in the housing loan guarantee business in France. Thanks to its strong value proposition for the large French banks active in housing loans, who are also its shareholders, CL's market share of total home loan guarantees outstanding in France exceeds 50%. The soundness of the French home loan market as well as the importance of home loan guarantees in this market also underpins CL's creditworthiness.

The high quality of CL's insured portfolio is underpinned by its conservative underwriting and sound risk management and its efficient collection policy. The performance of the assets guaranteed by CL is materially better than the market's average because of higher underwriting standards than those applied by banks.

CL has solid buffers to absorb a material deterioration, if any, in the performance of home loans. As of year-end 2023, CL's regulatory capital, including the Mutual Guarantee Fund (MFG), the shareholder's equity and subordinated instruments totaled €9 billion, representing 2.1% of the guarantee portfolio. As of the same date, total available on balance-sheet resources represented around six times the life-time expected losses on this portfolio.

Net profit generated in 2023 was 13% down on 2022 as a result of lower commission income reflecting the substantial slowdown in new housing loan production in France in 2023 due to higher interest rates. We expect CL's net profit to remain broadly stable despite this pressure thanks to the positive impact of higher interest rates on the investment portfolio and contained operating expenses.

CL's investment portfolio is of high quality. Despite the diversification benefits provided by exposures to sovereign and sub-sovereign counterparties and banks outside France, a large share of the investment portfolio is comprised of deposits with French banks, notably with CL's shareholders. Concentration risk stemming from these deposits are mitigated by (1) a dynamic collateral posting mechanism by the banks based on their creditworthiness and the tenor of the exposures and (2) CL's ability to reduce them rapidly and without material losses in case of need. In addition, since 2014, the MGF can absorb the losses coming from the investment portfolio. We also expect support from the shareholders if one of them were to fail due to CL's systemic importance for the French banks.

The outlook is stable, reflecting our expectation that the French home loan market as well as CL's guarantee portfolio will remain sound over the outlook horizon and that CL will maintain a strong financial profile, including ample buffers that would help it withstand a potential deterioration in this market, if any.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of CL's long-term issuer rating could occur following further reduction of risks in its guaranteed loan portfolio, or a material improvement in its loss-absorption capacity.

A downgrade of CL's long-term issuer rating could occur (1) in case of severe deterioration of the French housing market's performance or in CL's guaranteed home-loan portfolio, or (2) if its loss-absorption capacity were to reduce, or (3) if the quality and diversification of the investment portfolio were to deteriorate significantly.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Mortgage Insurers published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/416493>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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