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Societe de Financement Local (SFIL)

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Societe de Financement Local (SFIL)

Major Rating Factors

Issuer Credit Rating
AA/Stable/A-1+

Strengths:	Weaknesses:
• Integral link with the French government as a 100% public-owned financial institution. • Critical role as the first lender to French local and regional governments (LRGs) and public hospitals. • Critical mission for the French government's economic policy as the main liquidity provider of refinancing for export credit.	• Concentrated portfolio within the export credit market. • Structurally low profitability from LRG lending.

Outlook

The stable outlook on Societe de Financement Local (SFIL) mirrors S&P Global Ratings' stable outlook on France. We believe that SFIL will retain its almost certain likelihood of government support in the event of financial distress. We therefore expect the ratings on SFIL to move in line with those on the sovereign.

Downside scenario

We could lower our ratings on SFIL following a similar rating action on France. We could also lower the rating on SFIL if the central government were to change SFIL's full public status or revised the importance that it gives to SFIL's dual mandates. Furthermore, if we considered that the channel of extraordinary government support to SFIL shifted from direct to indirect--through Caisse des Dépôts et Consignations (CDC)--we may also consider a negative rating action.

Upside scenario

Conversely, we could raise the rating if France's credit quality were to improve and the likelihood of support for SFIL remained almost certain.

Rationale

We equalize our ratings on SFIL with those on France (unsolicited: AA/Stable/A-1+). This is because, based on our view of SFIL's critical role for and integral link with the French government, we consider that there is an almost certain likelihood that the government would provide timely and sufficient extraordinary support to SFIL in the event of financial distress. We also continue to view SFIL's subsidiary, French covered bond issuer Caisse Française de Financement Local (CAFFIL), as a core entity of the SFIL group.

Our opinion of an almost certain likelihood of government support for SFIL hinges on its:

- Integral link with the French government as a 100% public-owned financial institution benefiting from the state's strong commitment of support and tight state supervision; and
- Critical role for France as the first lender to French LRGs and public hospitals and the main liquidity provider of refinancing for export credit guaranteed by the central government. We expect this role to be further reinforced by the COVID-19-related recovery plan and the need for green investments over the coming decade. We believe French LRGs will be key to channel those investments as they account for more than 60% of total civil public investments. In addition, France's president has announced a large investment plan for public hospitals and we believe that SFIL could play a key role in it.

We believe the government's commitment to the bank remains intact despite the reshuffled shareholder structure. On Sept. 30, 2020, the French government finalized the transfer of a majority stake in SFIL's capital to CDC. The latter became the reference shareholder with more than a 99.99% stake, while the French state retained one ordinary share. Therefore, SFIL retains its status as a development bank that is 100% publicly owned. SFIL's integral link with France is strongly underpinned by the government's full involvement in its supervision, management, and strategic decisions. We understand that the governance mechanism in the shareholders' agreement, which gives the state the right to appoint a censor, results in the French government having de facto veto rights on SFIL's main strategic decisions.

We expect direct extraordinary support from the central government to SFIL in case of need. Although the state is not legally and ultimately responsible for SFIL's solvency like for state public agencies (Etablissements Publics d'Etat), it has expressed its very strong commitment toward SFIL in a letter of support. That means the French state is committed to providing sufficient liquidity and capital support for SFIL to operate on an ongoing basis, comply with regulatory requirements, and meet its financial obligations.

Business description

SFIL plays a key role in France's economic strategy as the first lender to LRGs and public hospitals. SFIL was created in 2013 to provide the French LRG sector with stable and continued access to long-term funding and remains to date the first lender to the sector, accounting for about 24% of new loans to French LRGs in 2020. SFIL's first mission, therefore, is to refinance new loan production generated by its partner La Banque Postale (LBP) for French LRGs, and a lower volume for public health institutions. The European Commission (EC) has recognized SFIL as a development bank, considering the EC's acknowledgment of a structural market failure in the financing of LRGs in France. Financial access for LRGs is key, given that they account for more than 60% of total civil public investments in France. These investments are crucial for the maintenance and development of infrastructure in France and the support of the national economy, especially throughout and post the COVID-19-related slump.

SFIL supports the government in promoting exports. In 2015, as part of the restructuring of its export promotion policy, the French government assigned SFIL a second mission of refinancing large export credits guaranteed by the central government. This mission has also been validated by the EC, which extended SFIL's mandate validity up to year-end 2027, recognizing that it responds to market failures and confirming that private players do not provide these services to a sufficient extent. We believe the extension of SFIL's activity has reinforced its critical role for the government in resolving failures in the financial market. This export refinancing activity benefits from a full guarantee from the French state through its official export credit agency Bpi Assurance Export. SFIL remains one of the main liquidity providers of export credit refinancing in France, with a market share of about 41% over 2016-2020. In 2020, export refinancing activity suffered from the still ongoing COVID-19 pandemic and the ensuing global recession. The impact of the pandemic also affected SFIL's cost of risk, especially its exposures to the naval and cruise industry, which made up 70% of export credits at year-end 2020. We expect export financing activity to rebound in 2021 in line with the world economy.

SFIL also plays a key role in the government's sustainable development initiatives. We see SFIL as well positioned to benefit from the market's sharp interest in environmental, social, and governance (ESG) initiatives. SFIL's missions make ESG factors an integral part of both its internal and external strategy. Since 2019, SFIL has issued four sustainable bonds and in November 2020 it published an allocation report from its first green bond, issued in 2019. The green bond proceeds are channeled into 156 green loans that are distributed to French LRGs through LBP to finance projects in renewable energy, sustainable water management, waste management, urban and local transport, and residential building energy efficiency. We believe that SFIL's commitment to a green and socially responsible transition of the national economy strengthens our view of the critical role it has in France, since funding a sustainable future is a key strategic initiative of the central government.

SFIL has a sound financial profile. Typical for banks with a large balance sheet comprising very-low-risk assets, SFIL displays a very high common equity tier 1 ratio (29.4% at year-end 2020) compared with typical commercial banks. Given its development bank status, SFIL benefits from relaxed regulatory requirements on leverage under the amended capital requirements regulation at the European level.

SFIL's margin elasticity to low interest rates is limited. We recognize that SFIL bases its business model on its continued capacity to access funding at very low costs, given the structurally low asset margins. SFIL is entirely wholesale funded, in line with other public-sector-focused peers, and we view the ongoing support SFIL receives from its public shareholders through LBP and CDC as mitigating funding risks. SFIL's liquidity is supported by its ability to use its portfolio of assets originating from the public sector as collateral for the lending facility from the European Central Bank.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- France 'AA/A-1+' Ratings Affirmed; Outlook Stable, April 1, 2021
- Local Government Debt 2021: French LRG Debt Could Surpass €155 Billion Within A Year, March 25, 2021
- Local Government Debt 2021: The Pandemic Takes More Of The Shine Off Large Developed Regions' Credit Quality, March 25, 2021
- Local Government Debt 2021: Infrastructure Needs Will Boost Borrowing In Developed Markets, March 25, 2021
- Local Government Debt 2021: Global Borrowing To Hit $2.25 Trillion, March 25, 2021

Ratings Detail (As Of April 30, 2021)*	
SFIL	
Issuer Credit Rating	AA/Stable/A-1+

Ratings Detail (As Of April 30, 2021)*(cont.)	
Commercial Paper	
Local Currency	A-1+
Senior Unsecured	AA
Issuer Credit Ratings History	
25-Oct-2016	AA/Stable/A-1+
14-Oct-2014	AA/Negative/A-1+
12-Nov-2013	AA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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