Action Logement Services

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	AA
Short-Term IDR	F1+

Local Currency

Long-Term IDR	AA

Outlook

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Financial Data

Action Logement Services

	31 Dec 17	31 Dec 18
Interest income (EURm)	191.8	172.5
Net operating result (EURm)	-1,269	-1,056
Loans (EURm)	16,159	16,004
Total assets (EURm)	20,312	20,923
Capital (EURm)	13,086	13,522
Interest income/loans (%)	1.2	1.1
Net interest income/ earning assets (%)	0.8	0.7
Loan impairment charge/loans (%)	-0.3	0.1
Loans/capital (%)	123.3	118.2

Source: Fitch Ratings

Related Research

Action Logement Groupe (September 2019)

Action Logement Immobilier (September 2019)

Analysts

Nicolas Miloikovitch, CFA
+33 1 44 29 91 89
nicolas.miloikovitch@fitchratings.com

Christophe Parisot
+33 1 44 29 91 34
christophe.parisot@fitchratings.com

Key Rating Drivers

Ratings Equalised with Sovereign: Fitch rates Action Logement Services (ALS) under its *Government-Related Entities Rating Criteria*, which takes into account the strength of links between ALS and its sponsor – the French state – and the incentive for the latter to prevent a default by ALS. The application of these criteria leads to the equalisation of ALS' ratings with those of the sovereign (AA/Stable).

Financial Arm of Action Logement: ALS is the financial arm of the Action Logement Groupe, whose main role is to provide affordable housing to French employees and which benefits from a dedicated income source granted by the French parliament: the mandatory social contribution for construction efforts from private employers (PEEC). ALS' role is to collect this quasi-tax and use it to i) grant loans or subsidies to social housing providers or ii) provide loans or services directly to employees.

ALS also participates in the funding of several public policies related to housing.

Strong State Control: The relations between ALS and the state are also defined in the five-year agreement signed on 16 January 2018 and covering 2018-2022. This agreement notably defines how ALS can use the proceeds from the PEEC. The state also exercises its control through three representatives with veto right on the board. ALS is subject to controls by the National Court of Auditors, ANCOLS and ACPR, the French banking regulator.

Very Strong Revenue Framework: The PEEC, a 0.45% levy on the payroll of every French private company with at least 50 employees, is ALS' main source of income. It is a quasi-tax income granted to ALS by the French parliament to fund its needs. It is a dynamic income source directly correlated to the total payroll in France. Historically, every time the state has modified the taxable basis, its net impact on ALS has been neutral thanks to dedicated subsidies from the state.

Strong Socio-Political Implications of Default: This reflects the importance of ALS for the social housing sector in France, as it is the second-largest lender to the sector after Caisse des Depots et Consignations (CDC; AA/Stable), with about 8% of the sector's debt stock. Fitch considers that ALS' importance will increase in the medium term with the Voluntary Investment Plan (VIP) announced in early 2019.

Very Strong Financial Implications of Default: Fitch considers ALS a proxy funding vehicle for the state as it carries out activities that could be performed directly by the state or a public agency, and it benefits from a quasi-tax income to fund its operations. ALS gives the state some flexibility as its budget and debt are not consolidated into the state budget.

Rating Sensitivities

Sovereign Rating Action: Any rating action on the sovereign will be reflected in ALS' ratings.

Weaker Links with the State: A significantly weaker assessment of strength of linkage or incentive to support factors, leading to a score below 45 points under our *Government-Related Entities Rating Criteria*, could lead to a downgrade.

Rating History

Date	Long-Term Foreign-Currency IDR	Long-Term Local-Currency IDR
23 Sept 2019	AA	AA

Profile and Overview

Action Logement is an entity managed by the “social partners” (representatives of employers and trade unions) in charge of the PEEC and of using its proceeds to help private sector employees find affordable dwellings through direct subsidies and loans and by promoting the construction of social dwellings.

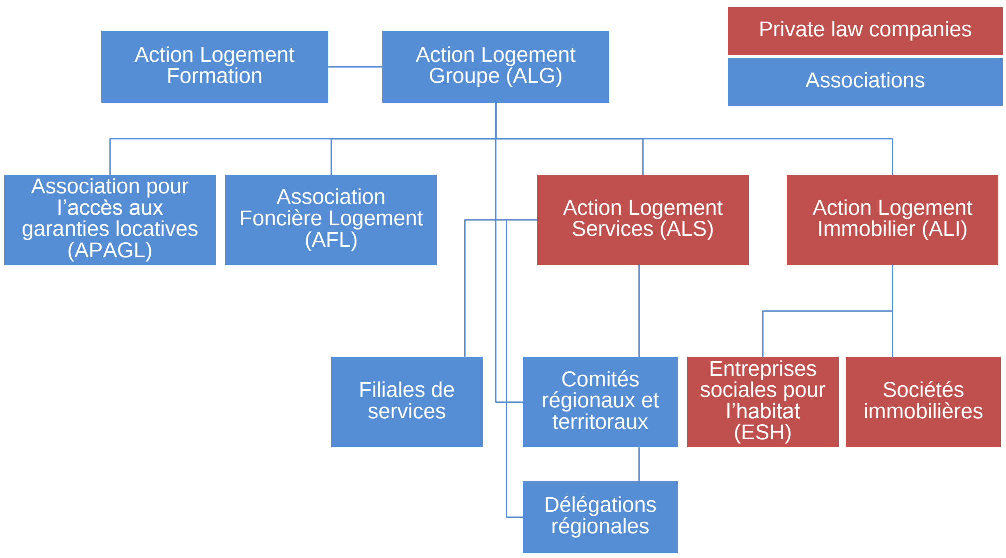
Action Logement was created by the law dated 11 July 1953, which created the PEEC, a contribution paid by companies representing 0.45% of their payroll. The rate and base of this tax is defined by the article L313-1 of the construction and housing code.

The PEEC was originally paid to one of the numerous regional collectors in France: their number decreased from 198 in 1990 to 20 just before the 2017 reform. On 1 January 2017 the group was reorganized with the creation of Action Logement Groupe (ALG), the holding entity of ALS, the entity in charge of collecting the PEEC and distributing the proceeds, and Action Logement Immobilier, the entity in charge of managing the group’s holdings in social housing providers.

There are two other entities in the group that were not affected by the reform: the APAGL (in charge of providing guarantees to landlords) and the Association Foncière Logement (AFL) (in charge of financing and building dwellings in designated urban areas). This reorganisation, by centralising the collection of the PEEC, aimed at simplifying the collection reducing costs and ending the competition that could exist between the different collectors.

AFL and APAGL are very small and do not represent any risk to the group.

Structure Diagram



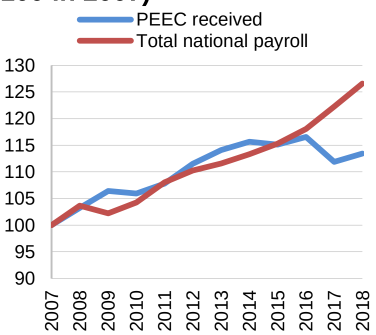
Source: Fitch Ratings

Related Criteria

Government-Related Entities Rating Criteria (October 2018)

Public Sector, Revenue-Supported Entities Rating Criteria (May 2019)

PEEC Growth (Rebased at 100 in 2007)



Source: Fitch Ratings

Key Rating Factors

Strength of Linkage

Status, Ownership and Control

Legal Status

ALS is a limited company ("société par action simplifié"), whose status have been approved by the decree #2016-1769 published on 19 December 2016 and with a 99-year duration. ALS is regulated by the commercial code, the housing and construction code and the monetary and financial code as it is a financial institution.

ALG is the sole shareholder of ALS as stated in article 7 of its status. ALG cannot reduce its participation in ALS.

ALS is also subject to the provisions of law #2014-856, chapter 1, dedicated to Solidarity and Social Economy, which include that it must remain a not-for-profit activity, must be governed democratically and cannot pay dividends.

ALS can be dissolved like any limited liability company. Its assets and liabilities would be automatically transferred to its sole shareholder according to article 19 of its status. However, the dissolution must be approved by a decree.

Governance

ALS is managed by the social partners. Its board has 10 social partner members: five representatives of the employers' organisations (four from MEDEF and one from CPME) and five representatives from trade unions, one each from the main employee trade unions –CFDT, CFE-CGC, CFTC, CGT and FO. The board is chaired by Joel Cheritel (MEDEF). Three state representatives also sit on the board, nominated by the Ministry of Housing, the Ministry of Budget and the Ministry of Economy. They have the right to veto the decisions of the board if they consider them to threaten the financial stability of the group (art. L313-18-6 of the housing and construction code).

Control

A committee made up of eight representatives from the group, eight from the social housing sector and eight from LRGs, all nominated by the state, issues opinions on the use of the proceeds from the PEEC.

ALG and its subsidiaries are subject to controls from the National Court of Auditors and ANCOLS (the agency that monitors the social housing sector), which publishes an annual report on the use of the proceeds from the PEEC.

Relations with the state are defined in the five-year convention negotiated and signed by ALG on 16 January 2018 and covering 2018-2022. If the state and ALG fail to agree a new convention before 1 January 2023, the current convention remains valid. Each year ALG submits to the state and ANCOLS a report on the sustainability of its commitments under the convention.

The current convention commits ALG to invest EUR15 billion over five years. ALG and the state also signed on 25 April 2019 a VIP that amends the convention. Under this VIP, ALG commits to increase its investments by EUR9 billion in 2019-2022. This brings ALG's total investment commitments to EUR23 billion by 2022. As ALS is the group's financial arm, it will bear most of the EUR23 billion of investments.

Article 12 of the convention also sets a ceiling for the group's operating costs, which have to decrease by 10% over five years. It also includes a series of financial and economic metrics, which are checked quarterly.

Track Record of Support

The very strong assessment of this attribute factors in the sound and predictable revenue framework from which ALS benefits. The PEEC is ALS' main source of income (the other is the repayment of loans granted to social housing providers and individuals). The PEAEC (PEEC paid by farmers), and the PSEEC (supplementary contribution paid by companies) are two other smaller contributions ALS benefits from.

ALS is in charge of collecting the PEEC. It is a dynamic income source directly correlated to the total payroll in France. As a result, it is also correlated to the economic cycle.

Fitch considers the PEEC quasi-tax income granted to ALS by the French parliament to fund its needs. Historically, every time the state has modified the taxable basis (the PACTE law of May 2019 increased the threshold from 20 to 50 employees, reducing the taxable base PEEC), its net impact on ALS has been broadly neutral thanks to dedicated subsidies from the state.

If economic downturn leads to less PEEC income for ALS and potential financial stress, the state is committed to intervene under article 10 of the five-year convention. Fitch expects the state to amend the convention either by increasing its own contribution to ALS or by reducing ALS' spending objectives.

Fitch considers there are no legal or regulatory restrictions to extraordinary support from the state in case of need. Fitch does not consider that EU state aid regulation would limit the state's ability to provide ALS with timely support.

Incentive to support

Socio-Political Implications of a Default

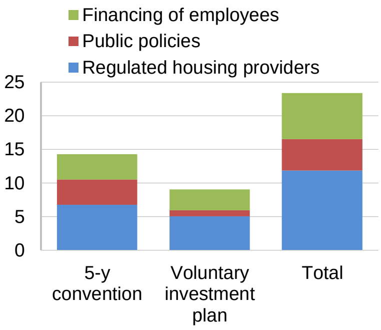
Strategic Importance

The strong assessment of this factor reflects the importance of ALS for the social housing sector in France. ALS is the second-largest lender to the sector after CDC, with about 8% of the sector's debt stock. ALS' financing is attractive for social housing providers as ALS has more leeway to set its lending rates than CDC and it does not require a guarantee (unlike CDC, for which a guarantee is a regulatory requirement). In exchange for a loan, ALS requires from social housing providers a "reservation right" on future dwellings.

ALS also directly finances through subsidies some state agencies such as the Agence Nationale pour la Rénovation urbaine (National Agency for Urban Renewal) and the Fonds National des Aides à la Pierre (National Fund for Housing).

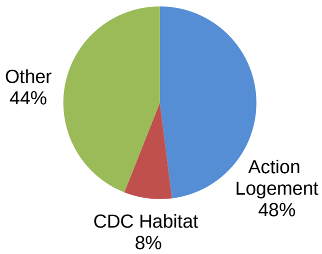
Fitch considers that ALS' importance will increase in the medium term with the VIP announced in early 2019: under this plan, ALS is committed to invest an extra EUR9 billion in loans and subsidies, bringing its total spending commitments for 2018-2022 to EUR23 billion. ALS will consolidate its role as a key actor for the social housing sector at a time when the sector is changing fast, and will also confirm its direct importance for the state by financing national public policies.

Spending Commitments (EURbn)



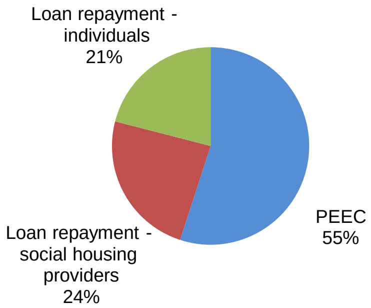
Source: Fitch Ratings

Loan Book Exposure To Social Housing Providers in 2018



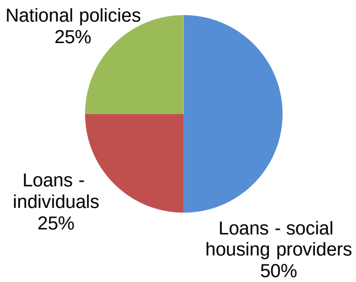
Source: Fitch Ratings

Income Split in 2018



Source: Fitch Ratings

Expense Split in 2018



Source: Fitch Ratings

Low Reliance on Financial Markets

The assessment for this factor is capped at 'Strong' as ALS has historically not been dependent on external financing to fund its activities.

Socio-Political Implications of a Default

A default by the second-largest lender to the social housing sector would significantly reduce the investment capacity of the sector, with large political implications as housing is a very political topic.

A default could also threaten the group's own development plan, trigger some guarantees to be called and lead to the broader deterioration of the credit quality of the Action Logement group.

Financial Implications of a Default

A Proxy Funding Vehicle

Fitch considers ALS a proxy-funding vehicle for the state as it is a collector of a quasi-national tax directly financing some national policies. Fitch understands that outsourcing the financing of some public policies to ALS brings the state some flexibility as ALS' budget and debt are not consolidated into the state budget.

Financial Implications of a Default

Fitch also considers that a default by ALS could have a major impact on the social housing sector as whole by raising the cost of funding. Fitch therefore believes the state has every interest in preventing a default by ALS.

Overall Assessment

The assessment of the four rating factors results in a score of 45 out of a possible 60. Therefore, Fitch equalises the ratings of ALS with those of the sovereign (AA/Stable/F1+).

Operations

Financial Performance

ALS published its first consolidated financial statements in 2019, covering only 2017 and 2018.

ALS' main income sources are the proceeds from the PEEC and the loan repayments from regulated housing providers and individuals. Companies can choose to pay the PEEC directly to ALS or pay it in the form of a 20-year interest-free loan. Eighty-one percent of companies choose to pay it directly as a subsidy to ALS as this is easier.

Proceeds from the PEEC are broadly correlated with the growth of the total national payroll. It decreased by 4% in 2017 due to the cut in a compensation transfer from the state dating from 2001. The cut took place in the context of the reorganization of the group, with some economies of scale expected. Fitch does not expect the proceeds from the PEEC to significantly deviate from the growth in the total national payroll.

ALS' main expense items are the financing, through loans and subsidies, of social housing providers (to build new dwellings), individuals and national policies. The Action Logement group is large, with Action Logement Immobilier France's biggest social housing provider with about a million social dwellings under management. In 2018, ALS generated positive net income of EUR0.5 billion, up from EUR0.2 billion in 2017. The five-year agreement with the state amended by the VIP in early 2019 partly financed by external debt means that Fitch expects ALS to post some net losses in the next few years before returning to profitability.

Good-Quality Assets

Loans to social housing providers and individuals make up 76% of ALS' total assets. Loans to social housing providers represent 57% of its assets. With a non-performing loans ratio of 1%, ALS' loan book is of good quality.

Generally speaking Fitch considers the French social-housing sector low risk, as explained in our recent report *What Investors Want to Know: French Social Housing Providers*. There is some concentration on the subsidiaries of Action Logement Immobilier, ALS' sister company, but the risk is low as Fitch has assigned Action Logement Immobilier the same ratings as ALS.

Similarly, loans to individuals (19% of total assets) are also of good quality, with a non-performing loans ratio limited to 3%, leading to a blended non-performing loans rate of 1.6%.

Fitch therefore considers overall on-balance-sheet risk to be limited thanks to a well-performing loan portfolio resulting from a well-defined credit risk assessment process consisting of quantitative and qualitative analyses.

Fitch does not expect ALS' loan book quality to materially deteriorate following the VIP and the expected increase in loans granted.

Loans extended to social housing providers are indexed to the "Livret A", a French regulated savings account whose rate is set by the state (0.75% since 2015).

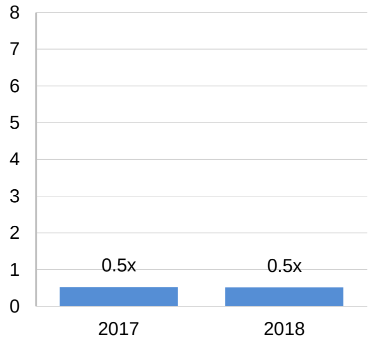
Debt, Liquidity and Contingent Liabilities

ALS has very low leverage as it has almost never used external financing to fund its activities. However, this is likely to change as ALS plans on issuing debt over the next five years to fund the VIP. The debt-to-tangible equity ratio could deteriorate to over 2x.

ALS does not rely on short-term funding to finance its operations, limiting liquidity risk. Fitch does not expect this to change in the medium term. ALS manages its liquidity carefully, with most of it invested in low-risk interest-bearing accounts and term deposits.

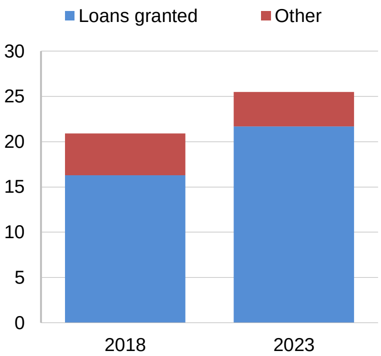
ALS therefore has very strong regulatory capital and liquidity ratios, with a common equity Tier 1 ratio above 80% at end-2018 (against a threshold of 10.5%) and a liquidity ratio of 923% (threshold of 100%). ALS expects the common equity Tier 1 ratio to deteriorate to 32% by 2023, but remain well above the regulatory limit.

Debt/Tangible Equity (x)



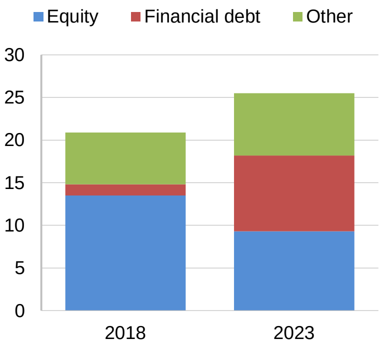
Source: Fitch Ratings

Assets



Source: Fitch Ratings

Liabilities



Source: Fitch Ratings

Appendix A

Action Logement Services (No Accounts Available Before 2017)

(EUR 000)	2017	2018
Profit and loss		
Interest revenue	191,799.0	172,534.0
Interest expenditure	-25,652.0	-27,841.0
Net interest income	166,147.0	144,693.0
Net fees and commissions	-	-
Other operating income	456,658.0	372,714.0
Personal expenses	-179,843.0	-204,221.0
Other operating expenses	-1,711,925.0	-1,370,005.0
Net gains and losses on securities and trading	-	-
Net operating income/(loss)	-1,268,963.0	-1,056,819.0
Provisions	41,677.0	-13,378.0
Operating profit (loss) after provisions	-1,227,286.0	-1,070,197.0
Other non-operating revenues/expenses	-620.0	-3.0
Contributions from state budgets	1,480,457.0	1,507,280.0
Profit (loss) before tax	252,551.0	437,080.0
Taxation	9.0	-589.0
Net profit (loss)	252,560.0	436,491.0
Balance sheet		
Assets		
Cash and cash equivalents	-	-
Liquid securities	-	-
Deposits with banks	3,640,659.0	4,039,983.0
Loans	16,158,603.0	16,004,418.0
Other earning assets	1,335.0	1,127.0
Long-term investments	-	-
Fixed assets	428,178.0	437,619.0
Intangible	6,596.0	7,230.0
Other long-term assets	76,517.0	432,941.0
Total assets	20,311,888.0	20,923,318.0
Liabilities and equity		
Customer deposits	-	-
Deposits from banks	-	-
Short-term borrowing	-	-
Other short-term liabilities	-	-
Debt maturing after one year	1,422,605.0	1,295,655.0
Other long-term funding	-	-
Other provisions and reserves	-	-
Other long-term liabilities	5,783,638.0	6,085,567.0
Equity	20,000.0	20,000.0
Reserves	13,085,645.0	13,522,096.0
Total liabilities and equity	20,311,888.0	20,923,318.0
Memo		
Guarantees and other contingent liabilities	-	-

Source: Fitch Ratings, ALS

Appendix B

Action Logement Services

	2017	2018
Ratios		
Performance		
Interest revenue on loans/loans (%)	1.2	1.1
Interest expense/borrowings and deposits (%)	1.8	2.1
Net Interest income/earning assets (%)	0.8	0.7
Net operating income/net interest income and other operating revenue (%)	-203.7	-204.3
Net operating income/equity and reserves (%)	-9.7	-7.8
Net operating income/total assets (%)	-6.2	-5.1
Credit		
Growth of total assets (%)	-	3
Growth of loans (%)	-	-1
Impaired loans/total loans (%)	-	-
Reserves for impaired loans/impaired loans (%)	-	-
Loan impairment charges/loans (%)	-0.3	0.1
Liquidity and funding		
Long term debt/total equity and reserves (%)	10.9	9.6
Liquid assets/total assets (%)	-	-
Total deposits and debt/total assets (%)	7	6.2
Liquid assets/short-term deposits and borrowing (%)	-	-
Capitalisation		
Equity and reserves/total assets (%)	64.5	64.7
Net profit/total equity and reserves (%)	1.9	3.2
Loans/equity and reserves (%)	123.3	118.2
Regulatory capital adequacy ratio (%)	-	-

n.a.: Not available
Source: Fitch Ratings, ALS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.