

13 DEC 2021

## Fitch Affirms Action Logement Services at 'AA'; Outlook Negative

Fitch Ratings - Paris - 13 Dec 2021: Fitch Ratings has affirmed Action Logement Services' (ALS) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDR) at 'AA' with Negative Outlooks and Short-Term Foreign-Currency IDR at 'F1+'.

The affirmation reflects Fitch's unchanged view that the French state (AA/Negative) would provide timely support to ALS, if needed, as reflected by the equalisation of its ratings with the sovereign's under Fitch's Government-Related Entities (GRE) Rating Criteria. The Negative Outlook reflects that of the sovereign.

### KEY RATING DRIVERS

#### Status, Ownership and Control: 'Strong'

Our 'Strong' assessment reflects the state's involvement in every aspect of ALS's organisation. ALS is a limited company (société par action simplifiée), whose status was approved by a decree published on 19 December 2016. Action Logement Groupe (ALG, AA/Negative) is ALS's sole shareholder. In case of dissolution of ALS, which would need to be approved by a decree, its assets and liabilities would automatically revert to its sole shareholder. In turn, the dissolution of its sole shareholder ALG has to be decided by law, which will decide on the transfer of assets and liabilities.

The state's control over ALS includes three representatives on ALS's board, nominated by the Ministries of Budget, Economy and Housing. These three state representatives have a veto on any decision voted by the board if it is deemed to threaten ALS's financial stability.

ALS is regulated by the commercial code, the housing and construction code and the financial code. ALS is subject to controls by ACPR, the French banking regulator, by the National Court of Auditors, and by ANCOLS (the state agency monitoring the social-housing sector), which publishes an annual report on PEEC (participation des employeurs a l'effort de construction).

The relationship between ALS and the state is also defined in a five-year agreement to 2022 defining how ALS can use the proceeds from PEEC.

Fitch believes that ongoing discussions between the state and ALG and its two subsidiaries regarding a possible reform of the group's governance and/or operations are unlikely to negatively affect ALS's ratings.

#### Support Track Record: 'Very Strong'

Our assessment factors in the sound and predictable revenue framework ALS benefits from. PEEC is ALS's main source of income (the other is the repayment of loans granted to social-housing providers and individuals). It is a 0.45% levy on the payroll of every French private company with 50 employees or more. It is an income source directly correlated with the economic cycle in France.

PEEC is quasi-tax income granted to ALS by French parliament to fund its needs. Historically, every time the state modifies the taxable base (the PACTE law of May 2019 increased the PEEC threshold to 50 employees from 25 from 1 January 2020), its net impact on ALS has been neutral, due to the state's compensations.

In case of an economic downturn leading to reduced PEEC income for ALS and, potentially, financial stress, the state is committed to intervening as per article 10 of the five-year agreement. Fitch expects the state to amend the agreement either by increasing its own contribution to ALS or by reducing ALS's spending objectives.

Fitch sees no legal or regulatory restrictions on extraordinary support from the state, in case of need.

### **Socio-Political Implications of Default: 'Strong'**

Fitch believes that a default by ALS on its financial obligations would threaten its investment plan with significant political and economic consequences, reflecting its key role in the social-housing sector in France. ALS is the second-largest lender to the sector after Caisse des Depots et Consignations (CDC; AA/Negative), with about 5% of the sector's debt stock. ALS's financing is attractive for social-housing providers as the organisation has more leeway to set its lending rates than CDC and does not require a guarantee (in contrast to CDC). In exchange for a loan, ALS requires a "reservation right" on future dwellings from social-housing providers.

ALS also finances directly through subsidies from the ANRU (Agence Nationale pour la Rénovation urbaine: National Agency for Urban Renewal), the FNAP (Fonds National des Aides à la Pierre; National Fund for Construction) or the FNAL (Fonds National d'Aide au Logement; National Fund for Housing, in charge of paying housing benefits). The state regularly requests that ALS pays an exceptional contribution to FNAL (EUR500 million in 2020, EUR1 billion in 2021), which enables the state to reduce its own contribution to the FNAL.

ALS's importance and role as a key participant in the social-housing sector has been strengthened by its EUR25.4 billion investment plan for 2018-2022, in Fitch's view.

### **Financial Implications of Default: 'Very Strong'**

Fitch views ALS a proxy funding vehicle for the state as its financing conditions are close to those of other large state operators in France. This reflects ALS's close assimilation with the state as a recipient of a quasi-national tax to fund certain national policies. The outsourcing of financing of some public policies to ALS also allows the state some financial flexibility, as ALS's budget and debt are not consolidated into the state's accounts.

ALS is present on capital markets through its EUR6.2 billion EMTN programme that was set up to

finance its investment plan and through its inaugural EUR1 billion unsecured notes issued in 2019 with a maturity in 2034, and two EUR1 billion unsecured notes issued in 2021 and maturing in 2031 and 2041.

Fitch believes that a default by ALS would have a major impact on the social-housing sector as a whole by raising the cost of funding, with an indirect impact on the cost of funding for the state and other GREs. Fitch therefore believes the state has every interest in preventing a default by ALS.

## **Operating Performance**

In 2020, ALS reported a net loss of EUR1.9 billion, versus a net profit of EUR0.4 billion in 2019. This reflects the strong increase in ALS's investment plan, and a 165% increase in subsidies paid out (EUR0.9 billion to social-housing providers, EUR0.7 billion for state policies, and EUR0.6 billion to households), in line with its multi-year commitments agreed with the state. ALS should continue to see a deep net loss in 2021, driven by its investment plan, before it sees a gradual recovery. Its financial position after 2022 will depend on its next multi-year agreement to be negotiated with the state.

The quality of its loan portfolio remains strong with loans to social-housing providers and individuals making up 74% of ALS's total assets in 2020, up from 70% in 2019. Fitch views the social-housing sector as anti-cyclical and fairly low risk. Similarly, loans to households have proven resilient during the pandemic with an unchanged level of non-performing loans compared with 2019's.

## **Derivation Summary**

Fitch classifies ALS directly as a GRE of the French state, without taking into consideration the holding company ALG as it does not have any operational activities, and equalises its ratings with those of the sovereign. ALS scores 45 points under Fitch's GRE Criteria, reflecting Fitch's view that the French state would provide ALS with timely extraordinary support, in case of need.

## **Issuer Profile**

ALS is the financial arm of ALG, the latter an association managed by representatives of employers and employees tasked with providing affordable housing to workers. ALS is in charge of collecting PEEC contributions paid by private companies and providing loans and grants to individuals and social-housing providers.

## **Rating Sensitivities**

### **Factors that could, individually or collectively, lead to negative rating action/downgrade:**

A downgrade of the sovereign's ratings will be reflected in ALS's ratings. A significantly weaker assessment of strength of linkage or incentive to support, leading to a score below 45 points under our GRE Rating Criteria, could lead to a downgrade, which Fitch views unlikely at present.

### **Factors that could, individually or collectively, lead to positive rating action/upgrade:**

The Outlooks could be revised to Stable if the sovereign's Outlook is revised to Stable.

## **ESG Considerations**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

## **Public Ratings with Credit Linkage to other ratings**

The ratings of ALS are credit-linked to those of France.

## **Best/Worst Case Rating Scenario**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **References for Substantially Material Source Cited as Key Driver Rating**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **Fitch Ratings Analysts**

### **Nicolas Miloikovitch, CFA**

Associate Director

Primary Rating Analyst

+33 1 44 29 91 89

Fitch Ratings Ireland Ltd 28 avenue Victor Hugo Paris 75116

### **Ekaterina Kozlova**

Senior Analyst

Secondary Rating Analyst

+33 1 44 29 92 74

### **Maurycy Michalski**

Director

Committee Chairperson

+48 22 330 6701

## Media Contacts





### Athos Larkou

London







+44 20 3530 1549

athos.larkou@thefitchgroup.com

## Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Action Logement Services	LT IDR	AA 	Affirmed	AA 
	ST IDR	F1+	Affirmed	F1+
	LC LT IDR	AA 	Affirmed	AA 
	LC ST IDR	F1+	New Rating	
• senior unsecured	LT	AA	Affirmed	AA

## RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

## Applicable Criteria

[Government-Related Entities Rating Criteria \(pub.30 Sep 2020\)](#)

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub.01 Sep 2021\) \(including rating assumption sensitivity\)](#)

## Additional Disclosures

### Solicitation Status

## Endorsement Status

Action Logement Services    EU Issued, UK Endorsed

## Disclaimer

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE OR ANCILLARY SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF PERMISSIBLE SERVICE(S) FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) OR ANCILLARY SERVICE(S) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

## Copyright

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located,

the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

## **Endorsement policy**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.