



RATING ACTION COMMENTARY

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

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Fitch Ratings - Paris - 16 Dec 2020: Fitch Ratings has affirmed Action Logement Services (ALS) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDR) at 'AA' with Negative Outlooks. A full list of ratings is detailed below.

Fitch rates ALS under its Government-Related Entities (GRE) Rating Criteria, which take into account the strength of linkage between ALS and its sponsor - the French state - as well as the incentive for the latter to prevent a default by ALS. The application of this criteria leads to the equalisation of ALS's ratings with those of the sovereign (AA/Negative).

ALS is the financial arm of the Action Logement Group (ALG), an association managed by representatives of employers and employees tasked with providing affordable housing to workers. It is the entity in charge of collecting PEEC (participation des employeurs a l'effort de construction) contributions paid by private companies and providing loans and grants to individuals and social housing providers.

KEY RATING DRIVERS

Status, Ownership and Control: 'Strong'

The '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. ALG 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.

The state's control over ALS includes three representatives on its board, nominated by the Ministries of Budget, Economy and Housing. These three state representatives have a veto right on any decision voted by the board if it is deemed to threaten the group'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 ANCOLS (the state agency in charge of monitoring the social housing sector), which publishes an annual report on PEEC.

The relationship between ALS and the state is also defined in a five-year agreement signed on 18 January 2018. This agreement defines how ALS may use the proceeds from PEEC.

Fitch believes that discussions between the state and ALG and its two subsidiaries will start in early 2021 with a possible reform of the group's governance and/or operations as an outcome. Fitch believes such a reform is unlikely to negatively impact ALS's ratings.

Support Track Record and Expectations: 'Very Strong'

The assessment of this attribute 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 more than 50 employees. It is an income source directly correlated with the total payroll and hence 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 basis (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 state's compensations.

In case of an economic downturn leading to reduced PEEC income for ALS and potential financial stress, the state is committed to intervene as per 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'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 considers that a default by ALS on its financial obligation would threaten its investment plan with significant political and economic consequences, reflecting ALS's 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 8% of the sector's debt stock. ALS's financing is attractive for social housing providers as it has more leeway to set its lending rates than CDC and does not require a guarantee (in contrast with CDC). In exchange for a loan, ALS requires a "reservation right" on future dwellings from social housing providers.

ALS also finances directly through subsidies some state policies such as the ANRU (Agence Nationale pour la Rénovation urbaine: National Agency for Urban Renewal) or the FNAP (Fonds National des Aides à la Pierre; National Fund for Housing). Fitch expects ALS's importance to increase in the medium term with the investment plan 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. We expect ALS to reinforce its role as a key participant in the social housing sector at a time when the sector is rapidly changing by financing national public policies.

Financial Implications of Default: 'Very Strong'

Fitch views ALS a proxy funding vehicle for the state as it is a recipient of a quasi-national tax for financing some national policies. Fitch views the outsourcing of financing of some public policies to ALS 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 note issued in 2019 with a maturity in 2034.

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 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

ALS generated net income of EUR0.4 billion in 2019, down from EUR0.5 billion in 2018. The quality of its loan portfolio remains strong with loans to social housing providers and individuals making up 70% of ALS's total assets in 2019, down from 76% in 2018 as ALS issued a EUR1 billion bond to finance the investment plan, to be disbursed from 2020 onward. Fitch does not expect the pandemic and economic crisis to have a material impact on ALS's financial profile. In terms of credit risk, Fitch considers the social housing sector as anti-cyclical as it has broadly been unaffected by the slowdown in economic activity.

DERIVATION SUMMARY

Fitch classifies ALS as a GRE of the French state and equalises its ratings with those of the sovereign's. ALS scores 45 points out of a maximum 60 under Fitch's GRE criteria, reflecting Fitch's view that the French state would provide ALS with timely extraordinary support in case of need.

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' 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.

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.

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.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

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

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.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
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ENTITY/DEBT	RATING			PRIOR
Action Logement Services	LT IDR	AA Rating Outlook Negative	Affirmed	AA Rating Outlook Negative
●	ST IDR	F1+	Affirmed	F1+
●	LC LT IDR	AA Rating Outlook Negative	Affirmed	AA Rating Outlook Negative
● senior	LT	AA	Affirmed	AA

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APPLICABLE CRITERIA

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 27 Mar 2020\) \(including rating assumption sensitivity\)](#)

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

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