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Announcement: Moody's assigns Aaa to debt of SRAEC (SFEF) guaranteed by French government

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Company's purpose is to provide financing to France's banking system and restore stability

London, 04 November 2008 -- Moody's Investors Service has today assigned the highest possible credit rating, Aaa, to debt that will be issued by the Société de Refinancement des Activités des Etablissements de Crédit (SRAEC), which benefits from an explicit, first-demand, unconditional and irrevocable guarantee from the French government. SRAEC will soon be renamed Société de Financement de l'Economie Française (SFEF, for French Financing Corporation).

"The SRAEC is the refinancing company created by the French government in the context of the plan it unveiled on 13 October 2008 to restore stability and confidence in the country's banking system and facilitate the financing of the economy at large," explains Arnaud Marès, Senior Vice President in Moody's Sovereign Risk Group. SRAEC is owned jointly by the French government (34%) and seven French banks (9.43% stake each).

Moody's notes that the French government plan had stipulated inter alia the creation of (i) a government-owned agency that could purchase bank subordinated debt or preferred shares, and (ii) a refinancing entity that will issue debt to be guaranteed by the government and then on-lend (back-to-back) the proceeds to eligible credit institutions. SRAEC, soon to be known as SFEF, is the latter of these two entities.

In line with the terms of the action plan agreed by the eurozone's Heads of State, as published on 12 October 2008, the French government may guarantee the debt issued by SRAEC before 31 December 2009, with a maximum initial maturity of five years. The European Commission approved the operation of the scheme on 31 October.

"Moody's assigned a Aaa rating to the guaranteed debt issued by the new refinancing entity for two reasons," says Mr. Marès. "First, the government guarantee convincingly reflects the government's commitment to stand behind the debt issued by SRAEC with its approval; second, Moody's considers that the Aaa rating of the French government itself is not affected by the potential accumulation of contingent liabilities under the scheme."

"Moody's Aaa rating is underpinned primarily by the nature of the guarantee -- explicit, first-demand, unconditional and irrevocable -- that is granted by the French government to debt issued by SRAEC," says Mr. Marès. This guarantee must be confirmed independently by the French government for each individual issuance programme initiated by SRAEC. The guarantee covers capital, interest and all ancillary costs related to the securities issued. Moreover, the guarantee applies to each security issued until maturity, provided that the security has been issued within the terms of an issuance programme approved by the government. Moody's rating applies to all debt issued by SRAEC as part of a programme for which the government guarantee has been explicitly confirmed.

On 30 October, the French government granted its guarantee to SRAEC's initial issuance programme up to a principal amount of EUR25 billion (plus interest and all related ancillary costs). Moody's Aaa rating will apply to securities issued under this programme.

"Moody's Aaa rating also reflects the specific operational agreement between the government, the SRAEC and participating credit institutions (which must be established in France) to ensure timely payment to debt holders, even in the event that a credit institution defaulted on its own obligations to the refinancing entity," says Mr. Marès. According to this process, credit institutions that have borrowed from SRAEC are required to deposit the funds they owe to the refinancing entity in special accounts held at the Banque de France, pledged to the benefit of SRAEC, several days before each payment is due. Should a credit institution fail to make such deposits in advance, SRAEC can notify the government and call on the guarantee, leaving sufficient time for the government to transfer funds to SRAEC in time for the debt holder to be paid promptly. "Moody's believes that this process is sufficiently robust to ensure timely payments under any foreseeable circumstances," explains Mr. Marès.

"In addition, as explained by Moody's in a recent Special Comment entitled 'Banking Crisis: European Governments Take Calculated Risks With Public Finances -- But No Rating Impact Except for Iceland', the implementation of the guarantee scheme does not threaten the Aaa rating of the French government. The likelihood that a situation could unfold where a large-scale activation of the guarantee would materially impair the French government's balance sheet is sufficiently remote as not to weigh on its Aaa rating," concludes Mr. Marès.

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