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CREDIT OPINION
14 November 2019

Update

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RATINGS

bLEND Funding plc

Domicile	United Kingdom
Long Term Rating	A2
Type	Senior Secured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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bLEND Funding plc (United Kingdom)

Update following rating affirmation

Summary

The credit profile of bLEND Funding plc (bLEND, A2 stable) reflects the credit quality of the underlying pool participants and the structural enhancement to the pool. bLEND was established in 2018 by The Housing Finance Corporation Limited (THFC) as a debt aggregator for UK housing associations. The main drivers of bLEND's long-term senior secured debt rating are (1) our assessment of the strong credit quality of the four participating housing associations, (2) the respective borrowing levels of each participant, and (3) the liquidity reserve which provides bLEND with 12 months of interest payments sized for each participant, in the case of payment default by a borrower. The pool size is small with only four participating housing associations, which means that the rating on the entity is very sensitive to changes in the ratings and borrowing levels of underlying participants.

For each issuance by bLEND, the individual borrowers are only responsible for the repayment of their individual share of that issue, and the liquidity reserve is held on a several basis for each borrower. There is no provision obliging pool participants to make up the funding shortfall or refill the liquidity reserve in the event of a funding deficiency. All noteholders are secured on a pari-passu basis on all of bLEND's assets, and there is a cross-default mechanism in the event of default on any of bLEND's indebtedness, meaning noteholders are exposed to the credit quality of the entire pool.

Credit strengths

» Strong credit quality of participating housing associations and supportive institutional framework

» Liquidity reserve as structural enhancement

» Significant sector experience of management team, mitigating start-up risk

Credit challenges

» Limited reserves of the Issuer

» Start-up nature of organisation

» Concentration risk in pool

Rating outlook

bLEND Funding's rating outlook is stable, reflecting Moody's expectation of the continued strong financial performance of the four pool participants, their respective borrowing levels and the stable outlook on the housing association sector.

Factors that could lead to an upgrade

Upward pressure on the rating could result from one or a combination of the following: (1) an improvement in the credit quality of one or more of the underlying pool participants, (2) an addition of pool participants with stronger credit quality, and adjustments in the proportion of borrowing between pool participants that results in a stronger borrowing pool.

Factors that could lead to a downgrade

Downward pressure on the rating could result from one or a combination of the following: (1) an erosion of the credit quality of one or more of the underlying pool participants, (2) a different pool composition, including the addition or removal of pool participants, and adjustments in the proportion of borrowing between pool participants that results in a weaker borrowing pool.

Detailed credit considerations

On 13 November 2019, Moody's affirmed bLEND Funding's rating. The affirmation followed Moody's change in the Government of UK's outlook to negative from stable, Aa2 rating affirmed, on 8 November 2019.

Strong credit quality of participating housing associations and supportive institutional framework

The credit quality of bLEND reflects the credit quality of the pool participants, four UK housing associations.

Moody's ratings in the sector span from A1 to Baa2. UK housing associations operate within a strong regulatory framework with regular monitoring and oversight by the sector regulators. We consider the operating environment to be stable in the medium term with recent policy announcements on rent increases from 2020 and new capital grant availability reversing previous adverse policies in England. Housing associations also benefit from a strong level of extraordinary support, reflecting the wide-ranging powers of redress available to sector regulators in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. Recent history has shown that the UK government (Aa2 negative) is willing to support the sector, as social housing remains a politically and economically sensitive issue.

bLEND will be secured by way of a fixed charge over the borrowers' assets. It should be noted that we consider security in the sector to have limited credit uplift. In addition, on 5th July 2018, The Housing Administration (England and Wales) Rules 2018 came into effect, implementing the special administration regime in England for registered providers of social housing, introduced in The Housing and Planning Act 2016. If a housing administration order has been made over a housing association at risk of insolvency, creditors cannot appoint their own administrators or enforce their security, or influence the Housing Administrator's proposals during the administration period.

Liquidity reserve as a structural enhancement

bLEND's credit quality will benefit from the structural enhancement of a liquidity reserve fund, held in trust by bLEND. The liquidity reserve will be equivalent to one year's interest payments, sized for each borrower. There is no step-up provision for any borrower to replenish another borrower's liquidity reserve, if there is a need for bLEND to draw down on any of the individual liquidity reserves in the case of missed coupon payments on loans. The initial liquidity reserve will be funded by a retention from disbursement of the loan proceeds prior to the first advance of funds. Coupon payments on the underlying loans will be due one month in advance of coupon payments on the Notes, in order to provide sufficient time for the borrower to make good its missed payment, or for the Issuer to access the borrower's liquidity reserve.

In addition, underlying loans will have a contractual maturity date of the Expected Maturity Date of the Notes, which will be two years prior to the Legal or Final Maturity Date of the Notes, which in theory would enable more time for the borrower to re-finance before a default on the Notes. However, in practice if a borrower was in default at the Expected Maturity Date, then interest payments would continue to be due between the Expected Maturity Date and Legal Maturity Date and the liquidity reserve would only provide for one year's interest payments before a Note default.

Significant sector experience of management team

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

bLEND is a 100% subsidiary of The Housing Finance Corporation. The two entities will share Boards (with the exception of one nonexecutive director), codes of governance and audit committees. The Housing Finance Corporation - through its management services subsidiary - will provide management services to bLEND. The Housing Finance Corporation has considerable experience in the provision of finance to the housing association sector. It was established 31 years ago and currently provides finance to 145 separate housing association groups, and, amongst other programmes, runs the Affordable Housing Finance scheme as the exclusive delivery partner of the UK Government-backed Affordable Housing Guarantee Scheme which includes some £3.2 billion of issued debt. The Housing Finance Corporation is therefore well placed to operate, govern and manage the activities of bLEND.

Limited reserves of the Issuer

The issuer will be funded by an annual management fee to underlying borrowers, in addition to an arrangement fee on inception of the loan. However, it is not expected that the Issuer will build up a significant level of reserves itself and therefore would have a limited cash buffer - in addition to the liquidity reserve - in the case of payment defaults by underlying borrowers.

Start-up nature of the organisation

bLEND is confronted with the general risks of start-ups, including operations not gaining traction in the sector. However, this risk is mitigated by the experience of the management team. In addition, we consider that if bLEND was to be put in run-off very quickly after its inception (for example, if its business model turns out to be non-viable), it would be able to honour its commitments using loan proceeds, which will be matched with any debt issued.

Concentration risk in the pool

There are currently only four participants in the pool. This means that the pool is small and presents some concentration risk. In particular, the credit profiles of pool financings are sensitive to both the proportion of borrowing between pool participants and the ratings of individual pool participants. This sensitivity increases as the number of pool participants diminishes. This means that a change in borrowing amount and/or a change in rating for one participant has a significant probability of affecting the final rating of the pool.

ESG considerations

How environmental, social and governance risks inform our credit analysis of bLEND Funding plc

We take into account the impact of environmental, social and governance factors when assessing issuers' economic and financial strength. In the case of bLEND, the materiality of environmental, social and governance considerations to its credit profile are the same as those that face the UK housing association sector and are as follows:

Environmental considerations are not material to bLEND's credit profile. Social rented homes in the UK are generally more energy efficient than privately rented and owner-occupied homes; additionally housing associations continue to invest in new stock and improving the energy efficiency of existing stock. In line with the rest of the UK, its main environmental risk exposures relate to water shortage and flood risk. Flood risk is managed by county and national authorities, and therefore the financial burden of adapting to increased flood risk will not fall on housing associations.

Social considerations are material to housing associations' credit profiles, in line with the rest of the English housing association sector. In particular, the sector is exposed to risks stemming from socially driven policy agendas, and is also affected by the impact of demographic trends and customer relations on demand. Socially driven policy agendas can be credit positive or negative for the sector. The broad political support for social housing in the UK is reflected in our analysis of the operating environment in the main body of this report. On the other hand, central government's policy to increase the affordability for low-income social housing tenants led to a sector-wide rent cut initiated in FY2017, which was credit negative for the sector. Customer relations and product quality can also have an impact on housing associations. The Grenfell fire tragedy in June 2017 has encouraged higher health and safety standards, and led many housing associations to increase spending on the quality of their existing stock.

Governance considerations are material to housing associations' credit profiles. In general, management and governance in the sector are strong, with policies and practices that are well aligned to its business plan and development strategy. English and Welsh housing associations also benefit from a strong regulatory framework and close oversight by sector regulators, as detailed in the main body of this report.

Further details are provided in the “Detailed credit considerations” section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks.

Rating methodology and scorecard factors

Public Sector Pool Financings, July 2012 (143938)

Ratings

Exhibit 1

Category	Moody's Rating
BLEND FUNDING PLC	
Outlook	Stable
Senior Secured -Dom Curr	A2

Source: Moody's Investors Service

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