

CREDIT OPINION

23 October 2020

Update

 Rate this Research

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.

Contacts

Zoe Jankel +44.20.7772.1031
 VP-Senior Analyst
zoe.jankel@moodys.com

Csaba Szontagh +44.20.7772.8738
 Associate Analyst
csaba.szontagh@moodys.com

Sebastien Hay +34.91.768.8222
 Senior Vice President/Manager
sebastien.hay@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

bLEND Funding plc (United Kingdom)

Update following affirmation of A2 stable

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 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.

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

Rating outlook

bLEND Funding's rating outlook is stable, reflecting Moody's expectation of the continued strong financial performance of the 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 21 October 2020, Moody's affirmed bLEND's rating and stable outlook. The affirmation followed Moody's downgrade of the Government of the United Kingdom's rating to Aa3 from Aa2 and the change in outlook to stable from negative on 16 October 2020.

Strong credit quality of participating housing associations and supportive institutional framework

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

Moody's ratings in the sector span from A1 to Baa1. 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](#) (Aa3 stable) 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

bLEND is a 100% subsidiary of The Housing Finance Corporation. The two entities will share Boards, codes of governance and audit committees. The Housing Finance Corporation - through its management services subsidiary - will provide management services

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.moody's.com for the most updated credit rating action information and rating history.

to BLEND. The Housing Finance Corporation has considerable experience in the provision of finance to the housing association sector. It was established 32 years ago and currently provides finance to 145 separate housing association groups, and, amongst other programmes, runs the Affordable Housing Finance scheme as the 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 is 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.

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 UK 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](#), April 2020

Ratings

Exhibit 1

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

Source: Moody's Investors Service

© 2020 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S INVESTORS SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454