

CREDIT OPINION

24 June 2022



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 after rating affirmation

Summary

The credit profile of [bLEND Funding plc](#) (bLEND, A2 stable) - a debt aggregator for the UK housing association sector - reflects the strong credit quality of the participants in bLEND's pool program, the structural enhancement of a one year liquidity reserve, consistent cash flows and the strong management experience and market expertise of the issuer's management team.

For each bLEND issuance, the pool participants - UK housing associations (HAs) - 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 participant. 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
- » Strong management of pool

Credit challenges

- » Somewhat limited reserves of the issuer

Rating outlook

bLEND Funding's rating outlook is stable, reflecting our expectation of the continued strong credit quality of pool participants and our view that bLEND will continue to exercise strong management of the pool.

Factors that could lead to an upgrade

One or a combination of the following could result in upward pressure on the ratings: 1) an improvement in the credit quality of the underlying pool participants; 2) a change in the pool composition that results in a stronger borrowing pool, (3) or a significant increase in the size and diversity of the pool.

Factors that could lead to a downgrade

One or a combination of the following could result in downward pressure on the ratings: 1) an erosion of the credit quality of the underlying pool participants; 2) a change in the pool composition that results in a weaker borrowing pool, and (3) a weakening in the management and monitoring of pool participants by the issuer.

Detailed credit considerations

bLEND's A2 rating was [affirmed](#) on 21st June 2022.

Strong credit quality of participating housing associations and supportive institutional framework

The credit quality of bLEND reflects the credit quality of the participants in the pool program, 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. 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's funding is secured by way of a fixed charge over the borrowers' assets, and Noteholders are secured by a first floating charge on the whole of bLEND's assets, which are primarily its loan contracts with pool participants. It should be noted that we consider security in the sector to have limited credit uplift due to the complexities involved in secured creditors gaining access to assets or cash flows. However, as detailed above, regulators in the sector are proactive in situations of financial distress and have been able to facilitate mergers or takeovers in a timely fashion, well in advance of missed payments on obligations.

Liquidity reserve as a structural enhancement

bLEND's credit quality benefits from the structural enhancement of a liquidity reserve fund, held in trust. The liquidity reserve is 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 liquidity reserve is funded by a retention from disbursement of the loan proceeds prior to the first advance of funds. Coupon payments on the underlying loans are 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 have a contractual maturity date of the Expected Maturity Date of the Notes, which are 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.

Strong management of pool

bLEND is a 100% subsidiary of The Housing Finance Corporation. The two entities share Boards, codes of governance and audit committees. The Housing Finance Corporation - through its management services subsidiary - provides management services to bLEND. The Housing Finance Corporation has considerable experience in the provision of finance to the housing association sector, lending to over 100 HAs. bLEND exercises robust management of the pool including ensuring the strong credit quality of borrowers entering, and participating in, the pool through its due diligence and monitoring processes.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Somewhat limited reserves of the Issuer

The 12 month liquidity reserve itself is borrower-specific and not fungible. This constrains bLEND's flexibility in the face of potential missed payments by borrowers. bLEND has built up its own reserves over time which would be sufficient to continue to service interest payments on the Notes beyond the 12 months covered, particularly if missed payments were limited to one borrower. However, it would not have sufficient capacity to compensate for missed payments by more than one borrower for a prolonged period.

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. Environmental risks are generally low to moderate for the sector, with the main risk related to the decarbonisation of housing stock which is likely to increase capital expenditure.

Social considerations are material to bLEND's credit profile. In particular, the sector is exposed to risks stemming from socially-driven policy agendas affecting social rents, benefits and capital grants, in addition to the impact of demographic trends on demand which are captured in Moody's assessment of the operating environment.

Governance considerations are material to bLEND's credit profile. bLEND's significant sector experience and its strong management of the pool - both in terms of vetting applicants and monitoring credit quality are reflected in its rating.

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

The assigned rating is the same as the scorecard-indicated outcome. For details of our rating approach, please refer to [Public Sector Pool Programs and Financings Methodology](#), 13 April 2020

Exhibit 1

bLEND Funding Plc 31 March 2021

	Sub Factor		Scorecard-Indicated Outcome	Numerical Equiv		Base Weight		Score
CREDIT STRENGTH AND DEFAULT TOLERANCE								
Credit Quality and Default Tolerance Score	A	-->	A	6.00	x	50%	=	3.00
DIVERSITY OF PORTFOLIO								
Number of Borrowers	29	-->	Baa	7.80	x	10%	=	0.78
Percentage of Loan Principal to Borrowers that Represent Less than 1% of the Pool	0.00%	-->	Ca	20.50	x	5%	=	1.03
Percentage of Loan Principal to the Top 5 Borrowers	38.40%	-->	Aa	4.02	x	5%	=	0.20
DEBT STRUCTURE								
Cash Flows	A	-->	A	6.00	x	20%	=	1.20
Counterparties	A	-->	A	6.00	x	10%	=	0.60
Preliminary Outcome before Notching Adjustments			A3			100%		6.81
NOTCHING ADJUSTMENTS								
Unusually Strong or Weak Management	1							1.00
Concentration of Pool Participants in a Volatile Sector	0							0.00
Total Notching Adjustments								1.00
Scorecard-Indicated Outcome*			A2					5.81

Source: bLEND, Moody's

Ratings

Exhibit 2

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

Source: Moody's Investors Service

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