CREDIT OPINION
20 August 2024

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 to credit analysis

Summary

The credit profile of bLEND Funding plc (bLEND, A2 stable), a debt aggregator for the housing association sector in the UK, is supported by the strong credit quality of the participants within its pool programme, the structural enhancement provided by a one-year liquidity reserve for each issuance, predictable cash flows and the expertise of its management team.

For each issuance undertaken by bLEND, the pool participants - UK housing associations - are solely accountable for repaying their portion of that specific issuance. The liquidity reserve is maintained separately for all participants, who are not required to cover funding deficits or replenish the liquidity reserves on behalf of others. Noteholders are secured on a pari-passu basis on the entirety of bLEND's assets and a cross-default mechanism is in place in the event of a default on any debt by bLEND. This implies that noteholders are exposed to the credit quality of the entire pool of participants.

Credit strengths

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

» Liquidity reserve as a structural enhancement

» Strong management of the pool

Credit challenges

» Somewhat limited reserves

Rating outlook

The stable outlook reflects our expectation that the weighted-average credit quality of the pool participants will remain at the current level and that bLEND will maintain stringent management practices.

Factors that could lead to an upgrade

Upward pressure on the ratings could result from an improvement in the credit quality of the underlying pool participants or a change in the pool composition that leads to a stronger borrowing pool.

Factors that could lead to a downgrade

Downward pressure on the ratings could result from a deterioration in the credit quality of the underlying pool participants, a change in the pool composition that leads to a weaker borrowing pool or a weakening in bLEND's management and monitoring of the pool participants.

Detailed credit considerations

Strong credit quality of participating housing associations and supportive institutional framework

The credit quality of bLEND reflects the creditworthiness of the participating UK housing associations within its pool programme.

Our ratings for entities in the sector range from A1 to Baa2. UK housing associations benefit from a strong regulatory framework that ensures consistent monitoring and oversight. The operating environment remains supportive, with a very high demand for social housing and government support through capital grants. After a one-year ceiling on social rent increases below inflation rates in fiscal 2024 (year ending 31 March 2024), the sector has returned to rent increases tied to September Consumer Price Inflation (CPI) plus one percentage point in fiscal 2025 in England, amounting to 7.7%. In Wales, the allowable increase stood at 6.7%. This will be favourable considering that CPI was 2.0% in June 2024. In addition, participants in bLEND's pool typically display characteristics enhancing their resilience, such as limited reliance on outright sales and a predominant focus outside of London, thereby incurring lower fire safety expenditures.

Housing associations benefit from our assessment that there is a strong likelihood that the UK government would act in a timely manner to prevent a default, given the sector's political, economic and social importance. Extraordinary support is predominantly exercised through sector regulators, whose wide-ranging powers to address financial distress include facilitating mergers. However, this process can be protracted and is dependent on housing associations' willingness to agree to mergers, which is more challenging in a weakened operating environment with high expenditure pressures and elevated borrowing costs.

bLEND's loans are secured through a fixed charge over the borrowers' assets, while noteholders are secured by a first floating charge on all of bLEND's assets, primarily consisting of the loan contracts with pool participants. We view the potential credit uplift from such security as limited, due to the complexities involved in secured creditors accessing assets or cash flows. However, despite these complexities, the regulator is proactive in managing situations of financial distress, as demonstrated by the successful and timely facilitation of mergers or takeovers before any payment defaults.

Liquidity reserve as a structural enhancement

bLEND's credit quality benefits from the structural enhancement provided by the presence of a liquidity reserve fund, which is held in trust. This reserve equates to a full year's worth of interest payments for each borrower. The structure does not include step-up provisions, implying that there is no requirement for borrowers to contribute towards replenishing another borrower's liquidity reserve in the event of a drawdown triggered by missed interest payments. The initial funding for this liquidity reserve is derived from a retention of a portion of the loan proceeds before the first disbursement of funds.

The schedule for interest payments on the underlying loans is set one month before the due date for coupon payments on bLEND's notes. This provides a buffer period for the borrower to address a missed payment or to enable bLEND to access the respective borrower's liquidity reserve to cover the shortfall, thus mitigating the immediate risk of default.

Moreover, the contractual maturity of the underlying loans aligns with the Expected Maturity Date of the Notes, which is set two years prior to the Legal or Final Maturity Date of the Notes. This arrangement theoretically provides additional time for the borrower to arrange refinancing before a default situation arises on the notes. However, in practical terms, should a borrower default at the Expected Maturity Date, the requirement to make interest payments continues until the Legal Maturity Date, while the liquidity reserve would only cover one year's worth of interest payments before a potential note default occurs.

Strong management of the pool

bLEND is a wholly-owned subsidiary of The Housing Finance Corporation (THFC). The two entities share their board of directors, governance codes and the Audit and Risk Committee. The provision of management services to bLEND is facilitated through THFC's dedicated management services subsidiary. THFC has extensive experience in providing finance to the housing association sector, lending to 155 housing associations as of March 2024.

bLEND demonstrates a rigorous management approach to the pool. This is evidenced by its stringent due diligence and ongoing monitoring process. This ensures the strong credit quality of borrowers at the point of entry and throughout their participation in the pool. Monitoring of the portfolio is the responsibility of the Credit Committee, a sub-committee of the board.

Somewhat limited reserves

The 12-month liquidity reserve is individually allocated to each borrower and is not fungible. This constrains bLEND's flexibility in the event of payment defaults. bLEND has progressively built up its own reserves, which would be sufficient to maintain interest payments on the notes beyond the initial 12-month period covered by the borrower-specific reserves, especially in situations where payment defaults are isolated to a single borrower. However, bLEND's reserves would not be adequate to offset payment defaults by multiple borrowers over a prolonged period. As of the end of fiscal 2024, bLEND's reserves stood at £6.7 million.

ESG considerations

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

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 aligns with those faced by the UK housing association sector and are as follows:

Environmental considerations have a limited impact on bLEND's credit profile. The sector is predominantly characterised by low to moderate environmental risks, with the most significant of these pertaining to the decarbonisation of housing stock, which requires substantial capital expenditure.

Social considerations have a material impact on bLEND's credit profile. The sector faces substantial social risks due to affordability challenges and socially-driven policy agendas affecting social rent, benefits and the allocation of capital grants, as well as demographic trends influencing demand.

Governance considerations have a material impact on bLEND's credit profile. bLEND's extensive experience within the sector and its robust management of the pool, including the processes for vetting applicants and ongoing monitoring of credit quality, are reflected in its ratings.

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 Environmental, Social and Governance Risks.

Rating methodology and scorecard factors

The assigned rating is in line with the scorecard-indicated outcome. For details of our rating approach, please refer to Public Sector Pool Programs and Financings Methodology, 8 August 2024.

Exhibit 1
Scorecard as of August 2024

	Sub Factor		Scorecard-Indicated Outcome	Numerical Equivalent		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	32	-->	A	7.2	x	10%	=	0.72
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	34.60%	-->	Aa	2.88	x	5%	=	0.14
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%**		**6.69**
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**					**5.69**

Source: bLEND and Moody's Ratings

Ratings

Exhibit 2

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

Source: Moody's Ratings

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CLIENT SERVICES

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