

## CREDIT OPINION

20 August 2024

Update



Send Your Feedback

### 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

Giulia Calcabrini +44.20.7772.5620  
Analyst  
giulia.calcabrini@moodys.com

Maylis Chapellier +44.20.7772.1429  
AVP-Analyst  
maylis.chapellier@moodys.com

James Boachie-Yiadom +44.20.7772.5298  
Ratings Associate  
james.boachieyiadom@moodys.com

Sebastien Hay +34.91.768.8222  
Associate Managing Director  
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 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.

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.

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
<b>CREDIT STRENGTH AND DEFAULT TOLERANCE</b>								
Credit Quality and Default Tolerance Score	A	-->	A	6.00	x	50%	=	3.00
<b>DIVERSITY OF PORTFOLIO</b>								
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
<b>DEBT STRUCTURE</b>								
Cash Flows	A	-->	A	6.00	x	20%	=	1.20
Counterparties	A	-->	A	6.00	x	10%	=	0.60
<b>Preliminary Outcome before Notching Adjustments</b>			<b>A3</b>			<b>100%</b>		<b>6.69</b>
<b>NOTCHING ADJUSTMENTS</b>								
Unusually Strong or Weak Management	1							1.00
Concentration of Pool Participants in a Volatile Sector	0							0.00
Total Notching Adjustments								1.00
<b>Scorecard-Indicated Outcome</b>			<b>A2</b>					<b>5.69</b>

Source: bLEND and Moody's Ratings

## Ratings

Exhibit 2

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

Source: Moody's Ratings

© 2024 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 CREDIT RATINGS AFFILIATES ARE THEIR 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 OR OTHERWISE MADE AVAILABLE BY MOODY'S (COLLECTIVELY, "MATERIALS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S 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 APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S 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 MATERIALS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S MATERIALS 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 MATERIALS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS 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 OR OTHERWISE MAKES AVAILABLE ITS MATERIALS 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 MATERIALS 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 MATERIALS 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. FOR CLARITY, NO INFORMATION CONTAINED HEREIN MAY BE USED TO DEVELOP, IMPROVE, TRAIN OR RETRAIN ANY SOFTWARE PROGRAM OR DATABASE, INCLUDING, BUT NOT LIMITED TO, FOR ANY ARTIFICIAL INTELLIGENCE, MACHINE LEARNING OR NATURAL LANGUAGE PROCESSING SOFTWARE, ALGORITHM, METHODOLOGY AND/OR MODEL.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS 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 credit rating process or in preparing its Materials.

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. 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, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody's.com](http://www.moody's.com) under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Moody's SF Japan K.K., Moody's Local AR Agente de Calificación de Riesgo S.A., Moody's Local BR Agência de Classificação de Risco LTDA, Moody's Local MX S.A. de C.V., I.C.V., Moody's Local PE Clasificadora de Riesgo S.A., and Moody's Local PA Clasificadora de Riesgo S.A. (collectively, the "Moody's Non-NRSRO CRAs") are all indirectly wholly-owned credit rating agency subsidiaries of MCO. None of the Moody's Non-NRSRO CRAs is a Nationally Recognized Statistical Rating Organization.

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 657AFSL 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 India only: Moody's credit ratings, Assessments, other opinions and Materials are not intended to be and shall not be relied upon or used by any users located in India in relation to securities listed or proposed to be listed on Indian stock exchanges.

Additional terms with respect to Second Party Opinions (as defined in Moody's Investors Service Rating Symbols and Definitions): Please note that a Second Party Opinion ("SPO") is not a "credit rating". The issuance of SPOs is not a regulated activity in many jurisdictions, including Singapore. JAPAN: In Japan, development and provision of SPOs fall under the category of "Ancillary Businesses", not "Credit Rating Business", and are not subject to the regulations applicable to "Credit Rating Business" under the Financial Instruments and Exchange Act of Japan and its relevant regulation. PRC: Any SPO: (1) does not constitute a PRC Green Bond Assessment as defined under any relevant PRC laws or regulations; (2) cannot be included in any registration statement, offering circular, prospectus or any other documents submitted to the PRC regulatory authorities or otherwise used to satisfy any PRC regulatory disclosure requirement; and (3) cannot be used within the PRC for any regulatory purpose or for any other purpose which is not permitted under relevant PRC laws or regulations. For the purposes of this disclaimer, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.

CLIENT SERVICES

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