

Ratings On Dexia Municipal Agency's Public-Sector Covered Bonds Remain On CreditWatch Negative After France Downgrade

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OVERVIEW

- On Dec. 15, 2011, we placed on CreditWatch negative our ratings on Dexia Municipal Agency's public-sector covered bond program and related series following our corresponding action on 15 eurozone members.
- On Jan. 13, 2012, we took several rating actions on 16 eurozone sovereigns, thereby resolving the Dec. 5 eurozone sovereign CreditWatch placements.
- Currently, the ratings on Dexia Municipal Agency's public-sector covered bond program and related series are on CreditWatch negative due to our reassessment of both credit and cash flow risks. The CreditWatch placement no longer reflects the CreditWatch placement of the rating on France, which we resolved on Jan. 13.
- We will continue to monitor the covered bond program and will resolve the CreditWatch placement once we have performed additional analysis.
- These ratings are based on our criteria for rating covered bonds. However, the methodologies and assumptions underlying these criteria are under review. The ratings on all outstanding covered bonds in this program may be affected as a result of this review.

FRANKFURT (Standard & Poor's) Jan. 31, 2012--Standard & Poor's Ratings Services today kept on CreditWatch negative its credit ratings on Dexia Municipal Agency's public-sector covered bond program and related series of covered bonds ("obligations foncières") issued under the program (see list below).

On Dec. 15, 2011, we placed on CreditWatch negative our ratings on Dexia Municipal Agency's covered bond program and related series following the CreditWatch negative placement of our ratings on 15 European Economic and Monetary Union (EMU or eurozone) members on Dec. 5 (see "Standard & Poor's Puts Ratings On Eurozone Sovereigns On CreditWatch With Negative Implications," published on Dec. 5, 2011, and "Ratings On Eight Covered Bond Programs Placed On CreditWatch Negative After Eurozone Sovereign CreditWatch Placements," published on Dec. 15, 2011).

On Jan. 13, 2012, we took several rating actions on 16 eurozone sovereigns, thereby resolving the Dec. 5 2011 CreditWatch placements (see "Standard & Poor's Takes Various Rating Actions On 16 Eurozone Sovereign Governments").

Following those actions, today's rating actions on Dexia Municipal Agency's public-sector covered bond program and related series reflect the changed sovereign ratings and the impact of the country-risk exposure on this program.

Under our criteria for rating nonsovereign issuers and structured finance transactions, including covered bonds, above the rating on the related sovereign in the eurozone ("EMU criteria"), we determine the maximum rating differential between sovereign and covered bond ratings based on the sovereign rating level and the covered bond program's country-risk exposure (see "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published on June 14, 2011). This assessment caps any potential further uplift typically available under our criteria for rating covered bonds (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009).

Under our EMU criteria, a covered bond program that has what we consider to be a "high" country-risk exposure would typically only achieve a one-notch uplift above the rating on the country in which the cover pool assets are located. A "low" country-risk exposure allows a maximum uplift of six notches above the investment-grade rating on the country in which the cover pool assets are located. If the sovereign's rating is in the speculative-grade category, the maximum uplift is five notches.

Under our EMU criteria, the composition of the collateral backing the "obligations foncieres" issued under Dexia Municipal Agency's public-sector covered bond program has led us to classify the program as having a "high" country-risk exposure.

As the maximum achievable ratings on the covered bond program and related series are one notch above the unsolicited long-term rating on the Republic of France (AA+/Negative/A-1+), this is commensurate with a 'AAA' rating level. The ratings on Dexia Municipal Agency's public-sector covered bond program and related series are now on Creditwatch negative to reflect credit and cash flow risks in the program, which we will reassess. The CreditWatch placement no longer reflects the CreditWatch placement of the rating on the sovereign, which we resolved on Jan. 13.

As we can now rate the covered bonds above the sovereign, we will use increased correlation assumptions in our credit analysis of the underlying cover assets. Furthermore, following the lowering of our short-term rating on Dexia Credit Local to 'A-2' on Oct. 6, 2011, and the subsequent failure to replace Dexia Credit Local as a hedging counterparty within a 60-day remedy period, some of the derivatives that are used to mitigate the interest and foreign exchange risk will not support our cash flow analysis under the current swap documentation (see "Dexia's Core Banks Downgraded To 'A-/A-2' On Funding Constraints; Put On Watch Developing On Possible Restructuring," published on Oct. 6, 2011).

We will review the program characteristics in accordance with our current covered bond counterparty criteria to determine the impact of this on the target credit enhancement level for the maximum achievable rating (see "Methodology & Assumptions: Applying The Derivative Counterparty Framework To Covered Bonds," published on Feb. 26, 2008). In the context of the restructuring of the Dexia group, we will also assess whether the issuer is willing and has the capacity to mitigate a negative impact of an increased target credit enhancement level on the covered bond ratings.

POTENTIAL EFFECTS OF PROPOSED CRITERIA CHANGES

We have taken today's rating actions on these covered bonds based on our criteria for rating covered bonds (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009). The assumptions and methodologies used in the credit and cash flow analysis are currently under review (see "Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds And CDOs," published on Aug. 5, 2010). The scope of our review of the analysis of public-sector assets may include our default rate stresses, correlation assumptions, recovery levels, model risk, concentration limits, and credit enhancement levels. Further, as part of our cash flow analysis, we used Standard & Poor's Covered Bond Monitor to calculate the target credit enhancement for the covered bonds. The assumptions and methodologies used in this cash flow analysis are also under review.

This review may result in further changes to the criteria. As a result, our future assumptions and methodologies may differ from our current criteria. The criteria change may affect the ratings on all outstanding covered bonds in this program. Until such time that we adopt new criteria for rating covered bonds, we will continue to rate and surveil these covered bonds using our existing criteria (see "Related Criteria And Research").

RELATED CRITERIA AND RESEARCH

- Standard & Poor's Takes Various Rating Actions On 16 Eurozone Sovereign Governments, Jan. 13, 2012
- Ratings On Eight Covered Bond Programs Placed On CreditWatch Negative After Eurozone Sovereign CreditWatch Placements, Dec. 15, 2011

- Standard & Poor's Puts Ratings On Eurozone Sovereigns On CreditWatch With Negative Implications, Dec. 5, 2011
- S&PCORRECT: Dexia Credit Local Long-Term Rating Lowered To 'BBB+'; Ratings Remain On CreditWatch Negative, Dec. 5, 2011
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011
- Dexia's Core Banks Downgraded To 'A-/A-2' On Funding Constraints; Put On Watch Developing On Possible Restructuring, Oct. 6, 2011
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds And CDOs, Aug. 5, 2010
- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2009
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Update To The Cash Flow Criteria For European RMBS Transactions, Jan. 6, 2009
- Methodology & Assumptions: Applying The Derivative Counterparty Framework To Covered Bonds, Feb. 26, 2008
- Cash Flow Criteria For European RMBS Transactions, Nov. 20, 2003
- Surviving Stress Scenarios: Assessing Asset Quality of Public Sector Covered Bond Collateral, Sept. 30, 2003
- Standard & Poor's Develops Criteria For Rating Obligations Foncières, May 5, 2000

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor's Web site at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

RATINGS LIST

Program/ Country:	To	Rating	From
Covered bond type			
Ratings Remaining On CreditWatch Negative			
Dexia Municipal Agency			
	AAA/Watch Neg		AAA/Watch Neg
France: Public-Sector Covered Bonds (Obligations Foncières)			

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