FITCH DOWNGRADES 3 ENGLISH SOCIAL HOUSING REGISTERED PROVIDERS

Fitch Ratings-Barcelona/London-14 November 2014: Fitch Ratings has downgraded A2Dominion Housing Group Limited, Genesis Housing Association Limited and Great Places Housing Association Limited's Long-term foreign and local currency Issuer Default Ratings (IDRs) to 'A+' from 'AA-' with Stable Outlooks and Short-term IDRs to 'F1' from 'F1+'. Fitch has also downgraded GenFinance II PLC's and Great Places' Long-term local currency secured bonds and A2D Funding plc and A2D Funding II plc's Long-term local currency unsecured bonds to 'A+' from 'AA-'.

The downgrades reflect the agency's reassessment of the English social housing Registered Providers (RPs) standalone credit strength, which Fitch considers may weaken as the sector expands its non-social housing activities and increases its debt. However, this is compensated by the high level of direct and indirect public funding that is now included in the agency's assessment of the standalone profile, rather than in the rating uplift. As a result, Fitch has narrowed the uplift to one notch from two notches.

Fitch applies its public-sector entities criteria for the rating of RPs and adopts a bottom-up approach. The standalone assessment of each RP takes into account factors such as demand, operational efficiency, debt dynamics and management. It also incorporates public support factors, notably the strong predictability of the RPs' cash flow through government funding and capital grants. The one-notch uplift reflects the strong oversight of the regulator.

Fitch expects that the sector's aggregate debt will increase moderately in the medium term, as RPs seek to replace reduced levels of government grants with external sources of finance. This additional debt will add to the risks for the sector. If the debt increases more than expected, or if additional debt related risks materialise, Fitch will review the ratings.

At the same time, RPs are developing their non-social housing activities, including larger construction projects and sales and renting to the private sector, which is a further source of risk. Nevertheless, more developed risk controls, including more stringent testing of the business plans and the greater involvement of the board, should helpmoderate these risks. If there are signs that the risks are not being managed appropriately, Fitch will review the ratings.

The Stable Outlook reflects Fitch's view that developments over the past two years will not have a material negative impact on the sector despite the weakened operating environment and increased challenges faced by RPs in England.

KEY RATING DRIVERS

Fitch revised the outlook on the social housing sector in England to negative in May 2013 following developments that the agency viewed as potentially detrimental to RPs' credit profiles. Following decades of stability, the sector is facing pressure from welfare reform and universal credit, more exposure to business risks, with an expansion into non-social housing and increasing development activities.

Fitch considers the regulatory framework for English social housing has a robust legal basis and that the HCA will maintain sound control and tight monitoring of RPs. This is reflected in one-notch uplift to the standalone credit fundamentals of RPs.

A key factor will be whether the interests of creditors are protected, particularly financial creditors and bondholders. Cosmopolitan Housing Group's (CHG) merger with Sanctuary in March 2013 showed that at a moment of financial difficulty for CHG, the interests of tenants and taxpayers were protected. The positive outcome has underpinned investors' confidence in RPs' creditworthiness and the regulatory powers. Nevertheless, the independent report published on CHG provides recommendations for the sector and the regulator focusing on the responsibility of boards, risk management, and crisis situations.

The changes to the regulatory framework of the HCA, as indicated in the consultation paper published in May 2014 should be positive for the ratings. The proposed changes aim to ensure that social housing assets are not put at risk by weak risk management or diversification into commercial activities, and to protect the public value of the assets through ensuring the subsidies provided by taxpayers are used for the appropriate purposes. If the regulation fails to meet its aims and RPs become more vulnerable, the ratings may be reviewed.

A substantial amount of RPs' revenue still comes from the government through housing benefit, reflecting strong government indirect support. However, rental flows have changed as housing benefits are paid to the tenants and no longer directly to RPs. Risks that RPs would suffer from significantly higher levels of arrears have not materialised, although future rises in arrears are possible and are a key input in business plans.

Both the 2013 sector accounts and the latest quarterly accounts ending 30 June 2014 demonstrate that the sector as a whole remains financially robust. RPs performed strongly in FY13, continuing to grow their asset base and recording an aggregate surplus of GBP1.9bn. Although the sector has coped well with changes, risks remain in the expansion into non-social housing activities and in assuming more debt.

RATING SENSITIVITIES

Fitch will continue to monitor the following which may have an effect on the ratings:

- Widespread diversification into non-social housing activity and in private real estate market, through, in particular, increasing outright sales.
- Increased volatility in operating revenue as a result of higher exposure to development activities and a significant increase in gearing.
- The effects of continuing pressure on bank lending margins and risks associated with the finance market that could impact the sector.
- Sustained weaker operating performance of the RPs
- A lower level of state housing grants to fund development programmes.

Contact:
Primary Analyst
Christophe Parisot
Managing Director
+33 1 44 29 91 34
Fitch France S.A.S.
60, rue de Monceau
75008 Paris

Secondary Analyst
Maurycy Michalski
Associate Director
+48 22 330 67 01

Committee Chairperson
Vladimir Redkin

Senior Director
+7 495 956 9901

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com.

Applicable criteria, "Ratings of Public Sector Entities Outside the US" dated 4 March 2014 and "Revenue Supported Rating Criteria" dated 16 June 2014 are available on www.fitchratings.com.

Applicable Criteria and Related Research:
Rating of Public-Sector Entities - Outside the United States
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=738077
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012