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CREDIT OPINION
30 October 2023

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 following outlook change to stable from negative

Summary

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

For each issuance by bLEND, the pool participants - UK housing associations - are solely accountable for repaying their individual portion of that issue and the liquidity reserve is maintained separately for each participant. There is no requirement for pool participants to compensate for a funding deficit or replenish the liquidity reserve in the event of a funding shortfall. All noteholders are secured on a pari-passu basis on all of bLEND's assets and a cross-default mechanism is in place in case of default on any of bLEND's debt. This means that 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 a structural enhancement

» Strong management of the pool

Credit challenges

» Somewhat limited reserves

Rating outlook

The stable outlook reflects our view that the credit quality of the underlying participants of the pool will improve as a result of the expected gradual reduction in inflation and associated cost pressures as well as the proactive actions taken by housing associations to mitigate the adverse effects of the weaker operating environment.

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 results in a stronger borrowing pool.

Factors that could lead to a downgrade

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

Detailed credit considerations

On 25 October 2023, Moody's changed the outlook to stable from negative and affirmed the ratings for bLEND. The change in outlook followed Moody's change in outlook of the Government of the United Kingdom's Aa3 rating to stable from negative on 20 October 2023.

Strong credit quality of participating housing associations and supportive institutional framework

The credit quality of bLEND reflects the credit quality of the participating UK housing associations in the pool programme.

Our ratings in the sector range from A1 to Baa2. UK housing associations operate within a strong regulatory framework, with consistent monitoring and oversight. Although the operating environment remains supportive, it has been weakened by the government's intervention on social rent, which introduced a 7% cap on social rent increases for one year starting April 2023. This policy change adds volatility to the sector and negatively affects financial performance, as it replaces the current rent standard of Consumer Price Inflation (CPI) plus 1% until March 2025.

Despite these challenges, we anticipate that the gradual decline in inflation will support the credit profile of housing associations. Furthermore, most housing associations have proactively taken measures to counteract the adverse effects of the challenging operating environment, such as scaling back development programmes. As a result, they have moderated their debt growth and reduced their vulnerability to interest rate fluctuations.

Housing associations benefit from a strong level of extraordinary support factored into their ratings. The regulator has extensive powers to intervene in cases of financial distress, including facilitating mergers or a transfer of engagements. The UK government has demonstrated its willingness to support the sector, as housing remains a politically and economically sensitive issue.

bLEND's funding is secured through a fixed charge over 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 security in the sector as having limited credit uplift due to the complexities associated with secured creditors accessing assets or cash flows. However, as detailed above, the regulator is proactive in addressing situations of financial distress and has successfully facilitated mergers or takeovers in a timely manner, well before any missed payments on obligations.

Liquidity reserve as a structural enhancement

bLEND's credit quality benefits from the structural enhancement provided by a liquidity reserve fund, which is held in trust. This reserve equates to a full year's worth of interest payments, individually sized for each borrower. There are no step-up provisions, meaning no borrower is obligated to replenish another borrower's liquidity reserve in the event that bLEND needs to draw down from any of the individual reserves due to missed interest payments on loans. The funding for the liquidity reserve is derived from a retention of loan proceeds prior to the first advance of funds. The schedule for the interest payments on the underlying loans is set one month in advance of the due date for coupon payments on bLEND's notes, thereby providing a buffer period for the borrower to rectify a missed payment or for bLEND to tap into the borrower's liquidity reserve.

Additionally, the contractual maturity of the underlying loans aligns with the Expected Maturity Date of the Notes, which is set two years before the Legal or Final Maturity Date of the Notes. This arrangement theoretically provides additional time for the borrower to secure refinancing prior to a default on the notes. However, in practical terms, if a borrower defaults at the Expected Maturity Date, the obligation to make interest payments would continue up until the Legal Maturity Date. The liquidity reserve would only provide for one year's worth of interest payments before a note default.

Strong management of the pool

bLEND is a wholly-owned subsidiary of The Housing Finance Corporation. The two entities share the board of directors, governance codes and audit committees. The provision of management services to bLEND is facilitated by The Housing Finance Corporation via its dedicated management services subsidiary. The Housing Finance Corporation has extensive experience in the provision of finance to the housing association sector, lending to over 150 housing associations. bLEND, on its part, demonstrates a rigorous management approach to the pool. This is evidenced by its stringent due diligence and monitoring processes, which ensure the strong credit quality of borrowers entering and participating in the pool.

Somewhat limited reserves

The 12-month liquidity reserve is specific to each borrower and not fungible. This limits bLEND's flexibility in the event of payment defaults by borrowers. bLEND has progressively accumulated its own reserves, which would be sufficient to maintain interest payments on the notes beyond the 12 months, especially if payment defaults were confined to a single borrower. Nevertheless, bLEND's capacity would not be sufficient to offset payment defaults by multiple borrowers over an extended duration. As of the end of fiscal 2023, bLEND's own reserves amounted to £5.8 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 generally experiences low to moderate environmental risks, with the primary risk being the decarbonisation of housing stock, which leads to increased 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 capital grants, as well as demographic trends influencing demand.

Governance considerations have a material impact on bLEND's credit profile. bLEND's extensive sector experience and robust management of the pool, including 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 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, 13 April 2020.

Exhibit 1

Scorecard as of October 2023

	SubFactor		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	31	-->	A	7.35	x	10%	=	0.74
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	36.20%	-->	Aa	3.36	x	5%	=	0.17
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%**		**6.73**
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**					**5.73**

Source: bLEND, Moody's Investors Service

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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