Helaba

Focus on: Covered Bonds
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Agence France Locale to enter the Covered Bond Market



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According to a press release dated Thursday, 2 April 2026, Agence France Locale is entering the covered bond market. This move has been made possible by the acquisition of an existing Société de Crédit Foncier. The final completion of the transaction, which could take place during the second half of 2026, is subject to customary conditions precedent and regulatory approvals.

Acquisition of an existing issuing bank speeds up the process

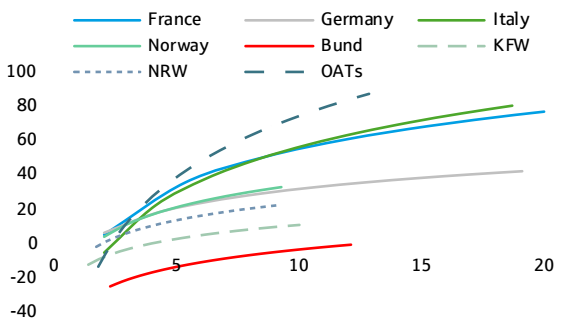
Our more experienced readers will recall GE SCF, which, as a subsidiary of the then **GE Money Bank**, issued a five-year Obligation Foncier in July 2009. As part of Cerberus' acquisition of GE Money Bank, all operational activities were taken over and continued under the name My Money Bank. The bank now belongs to Groupe CCF and is associated with the two covered bond issuers, MMB SCF and CCF SFH. Unrelated to the takeovers and rebranding of GE Money Bank, GE SCF continues to exist today as part of the General Electric Group (GE Capital) as **a** fully licensed but no longer operational **legal entity**.

Agency exploits funding advantage of covered bonds

Agence France Locale is now making use of the very existence of this licensed shell: **rather than applying for a new SCF licence and overcoming the regulatory hurdles of setting up a new entity, it is taking over an existing institution**.

French government bonds in the context of European covered bonds

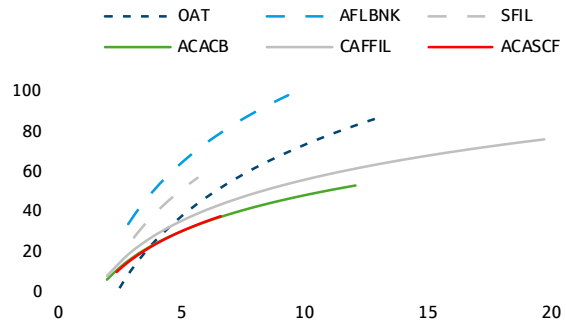
Y-axis: Z-spread, X-axis: Modified duration



Sources: Bloomberg, Helaba Research

French covered bonds with a clear funding advantage over agencies

Y-axis: Z-spread, X-axis: Modified duration



Sources: Bloomberg, Helaba Research

Agence France Locale clarifies the background to the takeover:

"Since 2024, the AFL's refinancing costs on the bond market – and, more generally, those of French public-sector issuers – have risen significantly following the downgrade of France's sovereign rating, which has weighed on financing conditions. Against this backdrop, AFL has decided to diversify its refinancing instruments in order to strengthen its competitiveness in the financial markets and further enhance the company's sustainability for the benefit of its local authority shareholders."

Ultimately, Agence France Locale's business policy decision is an **accurate reflection** of **the situation in the bond market**, which takes some getting used to: although French agencies enjoy the 0% risk weighting – which is important for bank investors – thanks to state guarantee mechanisms (we will discuss the specific basis for Agence France Locale in the next paragraph), However, the basis for the risk weighting – proximity to the state – currently acts more as a brake than a tailwind in bond market pricing.

State guarantee as the previous funding basis

To date, Agence France Locale has relied primarily on senior unsecured bonds for its refinancing and, when issuing large-volume benchmark issues, has utilised its status as a state-affiliated issuer (Sovereign, Supranational and Agency – SSA).

Its status as an agency is based on the guarantee enshrined in its articles of association: each member municipality of Agence France Locale acts as a guarantor for the liabilities of AFL SNC (the operating entity). This guarantee is legally structured as a "first demand" guarantee. Should AFL therefore be unable to meet its payment obligations, the members are liable in proportion to their share of the outstanding loan volume. This creates a close link between the creditworthiness of French municipalities as a whole and the refinancing entity. Consequently, Agence France Locale debt securities therefore enjoy a risk weight of 0%.

Cover Assets: Municipal Joint Financing and Eligible Assets

AFL acts purely as a lender to the public sector in France. Its business model is a "closed loop":

- Membership: Only French local authorities (regions, departments, municipalities and their associations) that hold shares in the parent company (AFL Société Territoriale) are permitted to take out loans.
- Financing: AFL raises funds on the international capital market (to date in the form of senior unsecured agency bonds) and passes these on to its members as investment loans on favourable terms.
- Risk profile: There is no retail banking, no project financing and no high-risk investment banking. The risk is limited to the creditworthiness of the French local government sector.

Following the acquisition of GE SCF, Agence France Locale will in future be able to use a large proportion of its receivables as cover for covered bonds. In accordance with legal requirements (Art. L.513-3 et seq.), the following are exclusively eligible as cover for French Obligations Foncières:

- Original cover assets: in the case of Agence France Locale, loans to French local authorities or loans fully guaranteed by them.
- Substitute cover: highly liquid substitute assets (such as government bonds) held in the pool to ensure liquidity.

As Agence France Locale's lending business more or less fully meets the collateral requirements for the covered bond business, the question arises as to the basis on which Agence France Locale will decide in future which loans it will retain on its balance sheet (refinanced by senior bonds) and which it will transfer to the new SCF subsidiary in order to issue covered bonds against them.

A word on regulation

In fact, SFIL and its covered bond subsidiary CAFFIL (formerly Dexia Municipal Agency SCF) already exist as **an existing model of similar nature and quality**. In our opinion, the difference lies mainly in the construction of the warranty. Agence France Locale is guaranteed by its members, SFIL is only supported by state guarantees in certain business areas. As a result, there is currently only a 0% risk weight for Agence France Locale. However, we assume that this risk weight will not extend to the new covered bonds and that the current standard weight of 10% will therefore have to be applied.

With regard to classification under the LCR ratio, the two bond categories – agency bonds and covered bonds – are somewhat closer together: both are categorised as Level 1 provided certain size requirements are met; however, covered bonds are subject to a specific haircut of 7%, which does not apply to agency bonds.

Essence

In many recent presentations and meetings, we have used the phrase that, particularly in fiscally strained countries, covered bonds **are establishing** themselves as a distinct asset class. The regulatory disadvantage compared to agency bonds is more than offset by **rating stability and more predictable issuance expectations**, meaning that covered bonds trade at substantially higher prices than quasi-sovereign securities in both the primary and secondary markets. On this basis, Agence France Locale's business policy decision is economically consistent; we feel vindicated in our characterisation of their emergence as a distinct asset class. We also see confirmation of the view of covered bonds as a 'bad-weather product', which we discuss in our recently published paper **'Covered Bonds in visual flight rules mode'**.



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