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Research Update:

France's RCI Banque Ratings Lowered To 'BBB-/A-3' From 'BBB/A-2' Following Downgrade Of Renault; Outlook Is Stable

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Overview

- Given that RCI is a car finance captive, its fortunes depend on its parent, Renault, which we downgraded today.
- We are lowering our ratings on RCI Banque to 'BBB-/A-3' from 'BBB/A-2'; the outlook is stable.
- We are widening the rating differential between Renault and RCI, as we believe the bank is a fundamentally healthy institution that has already received and will continue to receive, in our view, systemic support from authorities.
- The outlook is stable, reflecting that on Renault.

Rating Action

On June 19, 2009, Standard & Poor's Ratings Services lowered its ratings on RCI Banque to 'BBB-/A-3' from 'BBB/A-2'. The outlook is stable.

Rationale

RCI's one-notch downgrade reflects today's rating action on its sole parent and business provider, French carmaker Renault S.A. (BB/Stable/B; see "French Carmaker Renault Downgraded To 'BB/B' On Bleak Auto Demand In 2010; Outlook Stable"), which we downgraded by two notches.

We have been rating RCI one notch above the long-term rating on Renault for some time based on our view of: the bank's stronger and more resilient financial profile, independent refinancing strategy, regulated banking status, and insolvency laws that do not require bankruptcy proceedings to extend from the parent to the subsidiary (see the criteria article, "Regulation Benefits Ratings On European Automakers' Captive Finance Subsidiaries," published May 18, 2006).

We decided today to widen the rating differential between the two companies to two notches. This action reflects our opinion that RCI is a healthy bank with moderate systemic importance in France, as a large bond issuer and pivotal entity supporting the domestic automotive sector--where it financed the sale of more than 32% of new Renault cars in France in 2008. Our action also takes into account our view that French authorities are supportive to the banking system. RCI, like peer Banque PSA Finance (BPF; BBB/Negative/A-2), has already benefited from material systemic support since October 2008 and the beginning of the capital markets dislocation, in the form of liquidity provision from French authorities. We expect the bank to receive additional systemic support if needed. This should allow, in our view, a stabilization of the bank's creditworthiness in the investment-grade category even if conditions on the wholesale and auto markets remain depressed longer that we currently anticipate. Therefore, we consider RCI as a government-related entity (GRE) under our methodology, allowing us to widen the gap with the parent to more than one notch.

We expect RCI's intrinsic financial profile to remain satisfactory amid turbulent times. Despite lower financings and rising loan losses in a recessionary context, we expect the bank to remain solidly in the black in 2009 and 2010, even if a double-digit decline in core earnings in absolute terms cannot be ruled out in either year. Specifically, we believe the bank will continue to be a material contributor to parent Renault. The bank's liquidity position is adequate, although RCI's wholesale-funding nature is a rating weakness. The bank tapped the nonguaranteed bond market three times in May and June 2009 with two bond issues and a tap issue for a total of €1.5 billion, preserving its ability to prefund liabilities for a more than six-month period, assuming no roll-over of debt outstanding and while continuing to produce loans. In addition, we view RCI's capitalization as adequate under our risk-adjusted capital framework for financial institutions, with a 6.9% ratio at year-end 2008 (see article: "Methodology And Assumptions: Risk-Adjusted Capital Framework For Financial Institutions," published April 21, 2009.)

Outlook

The stable outlook reflects that on the parent. A downgrade of the parent would put pressure on the ratings on RCI without automatically entailing a parallel downgrade. In that case, we would reassess the bank's creditworthiness, and determine whether systemic support goes beyond what we have seen so far and is sufficiently high--and sustainable--to maintain the bank in the investment-grade category. The key metrics we follow to assess the resilience of the bank's stand-alone credit profile will remain risk-adjusted profitability, capital, and liquidity position, which we do not expect to fall materially below their current levels.

Related Research

- "Regulation Benefits Ratings On European Automakers' Captive Finance Subsidiaries," May 18, 2006
- "Methodology And Assumptions: Risk-Adjusted Capital Framework For Financial Institutions," April 21, 2009

Ratings List

Downgraded

	To	From
RCI Banque		
DIAC S.A.		

Counterparty Credit Rating	BBB-/Stable/A-3	BBB/Negative/A-2
Certificate Of Deposit	BBB-/A-3	BBB/A-2

NB: This list does not include all ratings affected.

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