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Research Update:

French Consumer Finance Bank My Money Bank Assigned 'BBB-/A-3' Ratings; Outlook Stable

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Overview

- French consumer finance bank My Money Bank (MMB) has strong capitalization, an experienced management team largely inherited from GE Capital, and good expertise in the various niche segments in which it operates, but a lack of business diversification and a reliance on wholesale funding.
- We are assigning our 'BBB-' long-term and 'A-3' short-term issuer credit ratings to MMB.
- The ratings assignment takes into account the acquisition--still to be finalized--of Banque Espirito Santo et de la Venetie S.A. (BESV), a small commercial bank operating in France, by MMB's nonoperating holding company Promontoria MMB.
- In the near term, we do not consider that this acquisition will result in any significant downside pressure on the issuer credit ratings.
- The stable outlook assumes the success of the integration of BESV, as well as MMB's business plan under its new ownership. The outlook also reflects our expectation of the rebalancing of MMB's funding profile and the bank's capacity to deliver resilient earnings through the cycle.

Rating Action

On July 23, 2018, S&P Global Ratings assigned its 'BBB-/A-3' long- and short-term issuer credit ratings to French consumer finance bank My Money Bank (MMB). The outlook is stable.

Rationale

With total assets of €4.6 billion at year-end 2017, MMB is a small consumer finance bank operating in mainland France and French overseas departments and territories. Since March 2017, MMB (formerly GE Money Bank, a subsidiary of GE Capital) has been fully owned by funds managed by Cerberus Capital Management L.P. (Cerberus), one of the world's leading private investment firms, but we view positively the continuity and experience of MMB's management team. MMB has a good franchise in the segments in which it operates, mainly French retail debt consolidation (largely secured refinancing mortgages) and auto loans and leases in overseas departments, but the business model features concentration risks. Risk-adjusted solvency will remain a strength for the rating, even after the finalization of the acquisition of Banque Espirito Santo et de la Venetie S.A. (BESV) by MMB's nonoperating holding company, Promontoria MMB. We project that our risk-adjusted capital (RAC) ratio will stand above 15% in 2018-2019. Loan losses are adequate, but asset-quality metrics compare negatively with peers' and growth is ambitious. We view the bank's funding as below average compared with larger and more diversified French banks, given its high reliance on wholesale funding and high, albeit reducing, asset encumbrance. That said, MMB has a sufficient liquidity buffer with a large share of undrawn credit lines.

The long-term rating on MMB reflects the 'bbb+' anchor that we typically use for French banks. We use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, our starting point in assigning an issuer credit rating to a bank. Our anchor for a commercial bank operating in France is 'bbb+', based on an economic risk score of '3' and an industry risk score of '3' on a scale of 1-10 ('1' is the lowest risk and '10' is the highest). Although almost one-third of MMB's business is conducted in French overseas territories, where structural credit risk could be higher than in mainland France, we do not adjust our economic risk score for this, but reflect it in our risk position assessment. The French regulator ACPR supervises the bank.

We consider MMB's business profile and competitive position as weaker than those of the largest and most diversified banks dominating the French banking sector. Our view reflects MMB's concentrated business operations in small niche segments, where it has good expertise in auto financing in French overseas departments and in refinancing mortgages in mainland France. Our assessment of MMB's business profile and competitive position also reflects our view of MMB as a small French specialist bank with a €4.6 billion balance sheet as of year-end 2017. This outweighs strengths such as MMB's high market shares in refinancing mortgages in mainland France and in auto financing in overseas France, and our assessment of the management team's good business and risk expertise. In the second quarter of 2018, MMB concluded the sale of its auto loans portfolio in mainland France. We take a positive view of this exit, as we consider this market as fragmented and highly competitive, and MMB suffered from a lack of scale and pricing power here. We note that the bank has had limited earnings volatility in the past, and, despite its narrow business model, has demonstrated resilience to cycles over the past decade. We also believe that MMB is structurally more vulnerable to adverse operating conditions in its markets than large domestic universal banks, and its origination of refinancing mortgages relies on several third-party brokers.

In June 2018, Promontoria MMB signed a sales and purchase agreement for the acquisition of BESV, a small commercial bank operating in France, from Novo Banco and Intesa Sanpaolo. With total assets of €1.1 billion as of year-end 2017, BESV largely focuses on commercial real estate, but also operates in smaller corporate business lines. We consider that the BESV acquisition adds limited diversification, as the combined entity will remain concentrated on historic business lines, with limited total assets.

We view MMB's capitalization as its main rating strength. The RAC ratio, our measure of a bank's capital, stood at a very strong 20.5% on Dec. 31, 2017. We project a gradual decline of the RAC ratio, albeit remaining above 15%, due to acquisition costs and dividend distributions. The bank's future capital management and growth strategy are critical to maintain the long-term rating in the investment-grade category.

Profitability in 2018 and 2019 will remain heavily influenced by large non-recurring strategic charges. These include cost-reduction expenses and IT investments that should result in a lower cost-to-income ratio at 65% in 2019 (compared with 89% as of 2017). As a result, we project marginal net income for 2018, whereas accounting for the BESV acquisition will affect 2019 results. Core earnings should improve over time, as the bank overcomes the period of strategic restructuring, cost savings, and rebalances its funding toward cheaper sources. Although satisfactory, profitability remains below what we observe at other entities emanating from the former GE Capital, such as Cembra Money Bank in Switzerland and Moneta Money Bank a.s. in the Czech Republic.

Overall, MMB's risk profile compares slightly unfavorably with other auto captive finance companies and consumer finance lenders, considering its ambitious growth strategy, as well as its asset-quality metrics and geographic presence in overseas France. For instance, we view refinancing mortgages as riskier than prime mortgages. Furthermore, MMB's loan portfolio is more geographically concentrated and shows weaker average risk metrics (for example, a nonperforming loan ratio of 7% as of December 2017), in spite of the bank's business mix. We expect that the BESV integration will not materially weaken the risk profile, given the comprehensive review of the acquired portfolio and the absence of goodwill, but we remain vigilant of unexpected events, as well as execution risks associated with the business plan. We expect that the bank will maintain sound underwriting standards, which should translate into a cost of risk of about 30-50 basis points in 2018-2019.

MMB's funding profile is likely to remain reliant on access to institutional and bank investors, asset-backed securities, and its ability to attract retail deposits at market-leading prices. Since Cerberus became owner, MMB has had to modify its funding structure. It has fully repaid the funding from its previous shareholder GE Capital and replaced it with customer deposits, asset-backed securities, and warehouse lending. As of Dec. 31, 2017, total deposits formed 28% of the total funding base. Although MMB plans to increase this share, we consider that the deposits are likely to be less sticky than the average deposits of French universal banks that benefit from a long-standing franchise in retail deposits.

BESV's funding profile is also reliant on collected deposits, and we consider that the acquisition has had a neutral impact on our assessment. MMB's stable funding ratio stood 82.75% as of year-end 2017, evidence of a reliance on some shorter-term resources compared with corresponding liabilities. Asset encumbrance was still high at 50% as of June 2018, down from 60% as of year-end 2017. Management plans to reduce secured funding and increase the deposit base in the coming years, which we view as critical to keep the rating at the current level.

The liquidity position is adequate, as we consider that liquid assets and committed funding lines cover MMB's short-term wholesale funding needs. At year-end 2017, broad liquid assets covered short-term wholesale funding needs by only 0.55x, and we project that our liquidity ratio will increase as longer deposits replace short-term wholesale funding. We therefore believe that MMB's liquidity buffer allows it to do without market funding for more than 12 months.

We view MMB as having low systemic importance in France. Therefore, we do not believe that it will have to issue any type of bailinable debt in the future. The long-term rating will continue to reflect the bank's stand-alone creditworthiness.

Outlook

The stable outlook reflects our view that over our two-year rating horizon, MMB will successfully integrate BESV and execute the rest of its strategic plan, notably achieving cost efficiencies, reducing asset encumbrance, and gradually converging toward a 9% return on equity and 50% cost-to-income ratio by end-2021. We believe this is ambitious, but possible. A key factor underpinning the stable outlook is the maintenance of very strong solvability, as well as resilient asset-quality metrics.

Downside scenario

We may lower the rating if, contrary to our base-case expectations, the bank's solvability weakened, with a projected RAC ratio below our 15% threshold. This could happen following a capital-dilutive acquisition, or if asset quality deteriorated. Furthermore, a failure to improve the funding structure and to reach profitability consistent with an 9% return on equity by 2021 could also lead to a downgrade, as it would indicate difficulties in turning around the business model.

Upside scenario

An upgrade is unlikely in the next two years, since MMB's business model is still undergoing substantial changes and restructuring. In addition, our rating assumes the success of some ongoing initiatives. However, over the longer term, an upgrade could result if we assessed that the bank was outperforming its peer group, particularly in demonstrating superior profitability thanks to high risk-adjusted margins, competitive funding, and cautious growth of its loan portfolio.

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Stable/A-3
SACP	bbb-
Anchor	bbb+
Business Position	Weak (-2)
Capital and Earnings	Very Strong (+2)
Risk Position	Moderate (-1)
Funding and Liquidity	Below Average and Adequate (-1)
Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	0

SACP--Stand-alone credit profile.

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Banking Industry Country Risk Assessment: France, July 11, 2018

Ratings List

New Ratings

My Money Bank	
Issuer Credit Rating	BBB-/Stable/A-3