MOODY'S
INVESTORS SERVICE

Rating Action: Moody's takes action on UK sub-sovereigns

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Actions follow weakening of sovereign credit profile

London, 25 February 2013 -- Moody's Investors Service has today taken various rating actions on the following UK sub-sovereign entities: (1) Local Authorities and Transport for London; (2) English Housing Associations; and (3) English Universities. The actions follow the recent downgrade of the UK's government bond rating to Aa1 with a stable outlook. For more details, please refer to Moody's press release: http://www.moodys.com/research/Moodys-downgrades-UKs-government-bond-rating-to-Aa1-from-Aaa--PR_266844

These rating actions have resulted in a one-notch downgrade for 5 regional and local governments (RLGs, in this case Local Authorities), and the following government-related issuers (GRIs): Transport for London, 26 English Housing Associations and Keele University and De Montfort University.

Further to these downgrades, Moody's has assigned stable outlooks to the ratings of the 5 Local Authorities and Transport for London, while the ratings for Keele University and De Montfort University retain negative outlooks, and the ratings for all housing associations have been placed on review for further downgrade to reflect ongoing developments in the sector.

Moody's has maintained the Baa2 rating of Assettrust Housing Association and the A1 rating of Genesis Housing Association, but has placed both on review for downgrade. The University of Cambridge's Aaa rating with a stable outlook was affirmed.

Please click on the following link: http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_150521 to access the List of Affected Credit Ratings, which is an integral part of this Press Release and identifies each affected issuer.

For full details of analytical considerations leading to this action, please refer to Moody's dedicated Special Comment entitled "Key Drivers of Moody's Actions on UK Sub-Sovereign Ratings". http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_150518.

RATINGS RATIONALE

OVERALL RATIONALE FOR DOWNGRADE OF UK SUB-SOVEREIGNS

The downgrade of the UK's sovereign rating has direct implications for sub-sovereign entities given the economic, financial and institutional linkages between the sovereign and Local Authorities, Transport for London, English Housing Associations and English Universities.

-- ECONOMIC AND FINANCIAL: A downturn in the economic outlook in the UK has direct implications for UK sub-sovereign budgets through (1) slowing or declining transfers received from the central government, which make up a significant share of their revenue; (2) further potential austerity measures included in the government's next Comprehensive Spending Review (CSR).

--INSTITUTIONAL: The UK national government retains a high degree of control over the sub-sovereign sector via legislation and the different regulatory frameworks in place.

In addition, Moody's has reassessed the likelihood of extraordinary support coming from the sovereign, due to sector-specific developments in the English University and the English Housing Associations sectors.

Group-specific rationales for (1) Local Authorities and Transport for London; (2) English Housing Associations; and (3) English Universities are provided below.

1.) RATIONALE FOR DOWNGRADES OF LOCAL AUTHORITIES AND TRANSPORT FOR LONDON

Moody's decision to downgrade by one notch the ratings of five Local Authorities (LAs) and that of Transport for London (TfL) was driven by the marginal increase of the systemic risk for these sectors, following the downgrade of the sovereign to Aa1 from Aaa. This largely reflects the close institutional, operational and financial linkages between the central government and LAs and TfL. These ties are further detailed in Moody's Special Comment "Key Drivers of Moody's Actions on UK Sub-Sovereign Ratings".

-- WHAT COULD MOVE THE RATINGS UP/DOWN

An improvement in the UK government's credit profile, as reflected by an upgrade of the sovereign rating, could lead to an upgrade for the five rated LAs and TfL. A further weakening of the UK government's credit profile as reflected by a further downgrade of the sovereign rating would likely translate into a downgrade of the UK sub-sovereign issuers' ratings. At the same time, significant reductions in government expenditure following the upcoming CSR, leading to widening financing deficits and substantial increase in debt metrics, or a weakening of the relationship with the central government, including its funding agency the Public Works Loan Board (PWLB), would all result in negative pressure on the credit profiles of Moody's-rated LAs and TfL.

2.) RATINGS RATIONALE FOR ENGLISH HOUSING ASSOCIATIONS

Moody's decision to downgrade the ratings of 26 of the English Housing Associations (HAs) by one notch was driven by a reassessment of the potential provision of extraordinary support from the regulator, and ultimately the government, should any HA experience acute liquidity stress. This largely reflects a somewhat weaker regulatory framework, particularly in light of an evolving situation concerning an HA in financial distress (for further information, please see Moody's Special Comment "Key Drivers of Moody's Actions on UK Sub-Sovereign Ratings"). All ratings in the sector have been placed on review for further downgrade as Moody's continues to refine its view on the likelihood of extraordinary support.

Moody's decision to maintain the Baa2 rating of Assettrust Housing Association was driven by this entity's reduced dependence on government support. However, Moody's has placed Assettrust's rating on review for downgrade, in line with the rest of the sector.

Moody's decision to maintain the A1 issuer rating of Genesis Housing Association (GEN) reflects the rating agency's assessment that GEN's standalone credit has strengthened, due to (1) its improving cash flows, with plans to eliminate its historical reliance on sales to cover interest costs; (2) a reduced risk from hedging; (3) improved liquidity; and (4) stronger controls and budget planning. In addition, Moody's has placed GEN's rating on review for downgrade, in line with the rest of the sector.

-- WHAT COULD MOVE THE RATINGS UP/DOWN

An improvement in the UK government's credit profile, as reflected by an upgrade of the sovereign, would exert upward rating pressure on the ratings of HAs. Conversely, a further weakening of the UK government's credit profile, as reflected by a further downgrade of the sovereign rating, would likely translate into a downgrade of HAs. In addition, unmanageable reductions in welfare expenditure arising from the upcoming CSR, or increased implementation risks associated with the introduction of universal credit would result in negative pressure on the credit profile.

Additionally, a downward revision of Moody's assessment of the likelihood of timely government support being provided to an HA experiencing acute liquidity stress, would also exert downward pressure on the ratings.

During the review period, Moody's will assess the likelihood of extraordinary support that might be available for English HAs in case of need. If Moody's concludes that there are support inefficiencies, the rating agency would likely further lower its assessment of liquidity support for the sector and hence limit the uplift currently provided by such support; this could potentially prompt Moody's to downgrade some entities by multiple notches.

3.) RATINGS RATIONALE FOR ENGLISH UNIVERSITIES

Moody's decision to downgrade the ratings of Keele University and De Montfort University was driven by a reassessment of the levels of access to extraordinary support. Although the sector's regulatory framework and oversight remain strong, the regulator has marginally weaker formal powers than in other sectors. In addition, Moody's maintained the negative outlook on the ratings of these two entities, reflecting the ongoing uncertainty in the sector with respect to the full impact of the funding reform and strength of domestic and international student numbers.

Moody's decision to affirm the University of Cambridge's Aaa rating with a stable outlook reflects the institution's extraordinarily strong market position, higher revenue diversification, its significant liquid assets, strong governance structure and low debt levels. Given the University of Cambridge's strong credit profile, the stable outlook on the Aaa rating reflects Moody's assessment that this entity is not exposed to the risks from increasing competition in the higher education sector to the same degree as its rated peers.

--WHAT COULD MOVE THE RATINGS UP/DOWN

An improvement in the UK government's credit profile, as reflected by an upgrade of the sovereign, would exert upward pressure on the ratings of Keele University and De Montfort University. In addition, increased certainty with respect to future student numbers, both domestic and international, coupled with a solid and stable financial performance going forward, could stabilise the outlooks for these two universities.

A further weakening of the UK government's credit profile, as reflected by a further downgrade of the sovereign rating, would likely translate into a downgrade of Keele University and De Montfort University. In addition, reductions in government expenditure on higher education following the next CSR, a further dilution in regulatory support, or a worsening in student numbers would all result in negative pressure being exerted on the universities' credit profiles.

While considered unlikely for the University of Cambridge, a sustained deterioration in the value of its endowment funds or significant increase in borrowing outpacing revenue and resource growth could exert downward pressure on the rating.

PRINCIPAL METHODOLOGIES

The principal methodology used in rating Local Authorities was Regional and Local Governments published in January 2013.

The principal methodology used in rating Transport for London was Government-Related Issuers: Methodology Update published in July 2010.

The principal methodologies used in rating English Housing Associations were English Housing Associations published in September 2010, and Government-Related Issuers: Methodology Update published in July 2010.

The principal methodologies used in rating English Universities were Methodology for Rating Public Universities published in August 2007, and Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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