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Research Update:

Metropolitan Housing Trust Long-Term Rating Lowered To 'A+' Following Downgrade Of The United Kingdom; Outlook Stable

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Research Update:

Metropolitan Housing Trust Long-Term Rating Lowered To 'A+' Following Downgrade Of The United Kingdom; Outlook Stable

Overview

- On June 27, 2016, we lowered our unsolicited long-term sovereign credit rating on the United Kingdom to 'AA' from 'AAA'.
- Our continued assessment of a moderately high likelihood of Metropolitan Housing Trust (Metropolitan) receiving extraordinary support from the U.K. government is now neutral for our rating on Metropolitan. Prior to our downgrade of the U.K., we had factored in a one-notch uplift for extraordinary government support.
- Consequently, we are lowering our long-term rating on Metropolitan to 'A+' from 'AA-'.
- The stable outlook reflects our base-case expectation that Metropolitan will continue to show a very strong enterprise profile and a strong financial profile over the next two years, with continued government support.

Rating Action

On July 4, 2016, S&P Global Ratings lowered its long-term issuer credit rating on U.K.-based Metropolitan Housing Trust Association to 'A+' from 'AA-'. The outlook is stable.

At the same time, we lowered to 'A+' from 'AA-' our long-term issue rating on Metropolitan Funding PLC's £250 million senior secured debt. Metropolitan Funding PLC was set up for the sole purpose of issuing bonds and lending the proceeds to Metropolitan, and we view it as a core subsidiary of the Metropolitan housing group.

Rationale

We are lowering our rating on Metropolitan following our downgrade of the U.K. (see "Ratings On The United Kingdom Lowered To 'AA' On Brexit Vote; Outlook Remains Negative On Continued Uncertainty," published June 27, 2016, on RatingsDirect).

The 'A+' rating on Metropolitan reflects our continued assessment of its stand-alone credit profile at 'a+'. We now also acknowledge that the moderately high likelihood of Metropolitan receiving extraordinary support from the U.K. government, working through the Homes and Communities Agency, has a neutral impact on the ratings. Previously, we had factored in a one-notch uplift.

In accordance with our criteria for government-related entities, we base our view of the likelihood of extraordinary government support on our assessment of Metropolitan's important role for the U.K. government and its public-policy mandate, as well as its strong link with the U.K. government. The U.K. government has a track

record of providing extraordinary support to the sector in the event of financial distress.

Liquidity

Outlook

The stable outlook reflects our base-case expectation that Metropolitan will continue to show a very strong enterprise profile and a strong financial profile over the next two years.

We might consider a negative rating action on Metropolitan if its financial performance and liquidity position were to deteriorate such that we would reassess its financial profile.

We could raise our rating on Metropolitan if adjusted EBITDA exceeded 40% of revenues on a sustainable basis, with rent losses from void properties at less than 2%. In this scenario, management would fully carry out its business plan, which envisages building on recent improvements and restarting the development plan following the turnaround period.

Related Criteria And Research

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- Criteria - Governments - General: Methodology For Rating Public And Nonprofit Social Housing Providers - December 17, 2014
- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating - October 01, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Ratings On The United Kingdom Lowered To 'AA' On Brexit Vote; Outlook Remains Negative On Continued Uncertainty - June 27, 2016
- U.K. Social Landlord Metropolitan Housing Trust Assigned 'AA-' Rating; Outlook Stable - September 15, 2015

Ratings List

| | Rating | |
|---------------------------------|--------------|---------------|
| | To | From |
| Metropolitan Housing Trust Ltd. | | |
| Issuer Credit Rating | | |
| Foreign and Local Currency | A+/Stable/-- | AA-/Stable/-- |

Ratings List Continued...

Senior Secured

| | | |
|----------------|----|-----|
| Local Currency | A+ | AA- |
|----------------|----|-----|

Metropolitan Funding PLC

Senior Secured

| | | |
|----------------|----|-----|
| Local Currency | A+ | AA- |
|----------------|----|-----|

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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