Rating Action: Bradford & Bingley plc

Moody's downgrades Bradford and Bingley's debt ratings to Baa1; Prime-2 confirmed; LT ratings remain under review for possible downgrade

London, 04 July 2008 -- Moody's Investors Service has today downgraded the long-term bank deposit rating and the senior debt rating of Bradford & Bingley plc (Bradford & Bingley) to Baa1 from A3. The bank's subordinated debt has been downgraded to Baa2, and the non-cumulative preference shares of its subsidiary Bradford & Bingley Capital Funding L.P. have been downgraded to Baa3. The bank financial strength rating (BFSR) was confirmed at C-, however Moody's believes that the bank is now more weakly placed within this rating category, and so has lowered the baseline credit assessment to Baa2 from Baa1. All these ratings remain on review for further downgrade. The short term debt-, deposit and commercial paper ratings were confirmed at Prime-2.

Moody's said that the downgrade reflects:

(i) the substantial deterioration in the bank's asset quality so far in 2008 as well as the expectation that this will weaken further during the rest of the year;

(ii) the continuing obligation until 2009 to acquire mortgages from GMAC RFC ("GMAC", unrated) of up to GBP 350 million per quarter; these mortgages have displayed a significantly faster deterioration of asset quality than the own-originated loan portfolio of Bradford & Bingley;

(iii) the weakening position of unsecured creditors in view of approximately 50% of assets being pledged to secured creditors; furthermore, the asset quality of the uncollateralised assets has weakened much more notably year-to-date than the overall relatively stronger performance of both the assets in the cover pool of Bradford & Bingley's covered bonds as well as those in its Master Trust, Aire Valley;

(iv) further write downs, albeit significantly lower, in addition to the approx. GBP 300 million of writedowns taken so far on the bank's structured securities portfolio; according to Moody's assessment Bradford & Bingley may have to take further writedowns in the low to mid-double digit million pound range.

Moody's commented that the proposed GBP 400 million proposed rights issue and capital injection is critical in the face of reported provisioning requirements and writedowns year-to date, helping to restore Bradford & Bingley's capital base and financial flexibility. However, Moody's anticipates further deterioration of some of its main asset classes over the next quarters and this is expected to continue to weaken Bradford & Bingley's overall financial flexibility despite the proposed capital injection. The new rating actions assume the execution of the rights issue; should there be a clear commitment and swift execution of the rights issue over the course of the next few weeks, the ratings are most likely to be confirmed at the current level with a negative outlook, reflecting the risk of further asset quality deterioration.

The liquidity and funding position of the bank remains under some pressure given the difficult market conditions but the secured facilities that the bank now has in place, together with the introduction of the Bank of England's Special Liquidity Scheme places the bank in a stronger position than previously. Moody's also notes the strong performance of the bank in generating incremental retail deposit funding over recent reporting periods.

As detailed in our June 3 rating action arrears in Bradford & Bingley's acquired portfolio of mortgages from GMAC have been higher than anticipated with arrears having increased from 3.29% to 5.04% in only the first four months of 2008 to end of April; furthermore, Bradford & Bingley has a commitment to purchase mortgages from GMAC of up to GBP 350 million every quarter until the end of 2009 at underwriting standards that were agreed in 2006 and may no longer adequately reflect the condition of the current housing market in the UK. Although Moody's notes that it does not expect B&B to acquire loans at the maximum amount due to GMAC not originating enough volume of the requisite quality, further purchases are likely to result in a further drain on asset quality. Importantly the performance of the bank's own originated portfolio, both buy-to-let and self-certification loans, has continued to worsen, although not at the same rate as the acquired portfolio. Total arrears including the bank's own originated loans increased from 2.10% to 2.79% during the same period in 2008, significantly higher than that of any other rated peer in the UK, reflecting the specialised nature of the bank's loan portfolio.

The Baa1 debt and deposit rating reflects a one-notch uplift from the bank's stand-alone Baseline Credit Assessment of Baa2 to reflect the likelihood of systemic support for the bank in line with its peers such as

Alliance & Leicester (rated A1) that also receive a one-notch uplift.

In addition to increasing its support likelihood for Bradford & Bingley to moderate from weak given its meaningful, but far from dominant position within the UK banking system - thereby aligning it with some of its closest peers - Moody's further commented that it regarded the likelihood of support being made available to banks such as Bradford and Bingley, if requested, as very high in the short term. This is due to the extreme short-term systemic pressures on the banking system in the UK and has been evidenced by various actions (such as the extraordinary support provided to Northern Rock to prevent that bank's default), as well as in the pronouncements made by the tripartite authorities over the past year regarding systemic support. In Moody's view, this provides a lower risk to short-term creditors of Bradford & Bingley, which is the key rationale in the confirmation of the Prime-2 rating irrespective of the success of the rights issue or any other performance-related issues that may affect the long-term debt- and deposit ratings.

However, looking beyond the current circumstances Moody's does not expect that the same high level of support will remain permanently available to the bank. In addition there are indications that future measures aimed at facilitating the resolution of a failing bank may not necessarily provide support which benefits all creditors. While these measures may also help to improve the overall financial strength of the UK banking system, they do not provide much justification for assuming that a higher level of extraordinary support would be forthcoming for all UK banks in the future after the current credit crisis has ended.

Commenting on the downgrade of the subordinated debt and hybrid instruments by one notch to Baa2/Baa3 respectively, Moody's further noted that in the event of the BFSR being downgraded to the D range the notching of the hybrids could be widened in line with Moody's guidelines for rating banks' junior securities.

The last rating action on B&B took place on June 3, 2008 when the long-term bank deposit and senior unsecured ratings were downgraded by one notch to A3, and the all ratings were placed on review for possible downgrade.

The following ratings were downgraded:

Bradford & Bingley plc

Long-term bank deposits -- to Baa1 from A3

Senior unsecured debt -- to Baa1 from A3

Subordinated debt -- to Baa2 from Baa1

Junior subordinated debt -- to Baa2 from Baa1

Bradford & Bingley Capital Funding LP

Preferred securities -- to Baa3 from Baa2

The following ratings were confirmed:

Bradford & Bingley plc

Bank financial strength rating -- at C-

Short-term bank deposits -- at Prime-2

Short-term debt -- at Prime-2

Commercial paper -- at Prime-2

Bradford & Bingley plc, which is headquartered in Bingley, Yorkshire, England, had assets of GBP52 billion (EUR70.5 billion) at end-2007.

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