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## Research Update:

# Netherlands-Based Waarborgfonds Sociale Woningbouw Rating Affirmed At 'AAA'; Outlook Remains Stable

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## Research Update:

# Netherlands-Based Waarborgfonds Sociale Woningbouw Rating Affirmed At 'AAA'; Outlook Remains Stable

## Overview

- We are affirming our 'AAA' long-term issuer credit rating on Dutch social housing guarantee fund Waarborgfonds Sociale Woningbouw (WSW).
- The rating is equalized with that on The Netherlands, reflecting our opinion that there is an almost certain likelihood that WSW would receive timely and sufficient extraordinary support from the Dutch government.
- The stable outlook reflects that on The Netherlands.

## Rating Action

On July 15, 2016, S&P Global Ratings affirmed its 'AAA' long-term issuer credit rating on Dutch social housing guarantee fund Waarborgfonds Sociale Woningbouw (WSW). The outlook is stable.

## Rationale

The long-term rating on Waarborgfonds Sociale Woningbouw (WSW) is equalized with that on the State of The Netherlands, reflecting our view of an almost certain likelihood that the government would provide timely and sufficient extraordinary support to WSW in the event of financial distress.

WSW is a not-for-profit private foundation that guarantees loans provided by lenders to Dutch social housing associations. This helps keep the cost of funding low for housing associations, enabling them to invest more in social housing provision.

Our opinion of the almost certain likelihood of support reflects our assessment of WSW's:

- Critical role for the government, based on our view that its main purpose is to indirectly provide a key public service by keeping funding costs of housing associations at a minimum; and
- Integral link with the Dutch government. We view WSW as having a special public status; the government's ultimate responsibility for ensuring WSW can meet its obligations also supports our assessment.

Besides the likelihood of extraordinary support in times of stress, the rating also reflects the very strong support provided by the Dutch system for housing associations going through significant stress. We consider WSW's additional responsibility in the restructuring of struggling housing associations to have strengthened its role for the government.

Our assessment is informed by the very strong three-tier security structure available to WSW in terms of its access to liquid funds in times of need. WSW had its own risk capital of about €516 million as of the financial year ending in 2015, and it also has access to callable committed capital from the associations of about €3.2 billion. In addition, the Dutch central government and municipalities, as backstop guarantors, are obliged to provide interest-free loans to WSW if its capital falls below 0.25% of guaranteed debt. We estimate this figure was 0.62% in 2015.

The rating on WSW is also supported by its strong operational performance. WSW's revenues comprise fees paid by participating housing associations and returns on the investments that it holds. WSW posted a record €16 million in guarantee fees in the financial year ending December 2015. We acknowledge that its investment income can be volatile, but this does not affect our view of the intrinsic creditworthiness of WSW. As a result, WSW showed a surplus of €8.5 million in the financial year ending December 2015, compared with €27.6 million in 2014.

We understand that, following the Housing Act that came into effect on July 1, 2015, housing associations will have to separate their social and commercial activities into different entities. In the future, WSW's guarantees will strictly extend to the loans raised by the social housing entity. Although this development will likely reduce WSW's total amount of guarantees, we view these activities as more stable and anti-cyclical in nature, and therefore a net positive from a credit standpoint.

## **Liquidity**

We estimate WSW's risk capital (free cash available to service obligations) at €516 million in financial year 2015 (about €500 million in 2014), which can be used to meet guarantee obligations that may arise. WSW also has access to callable capital of up to €3.2 billion and unlimited access to interest free loans from the central government and municipalities in equal parts. Under the terms of the agreement, there can be at most a 75-day delay between a request being made and the central government and municipalities making these funds available. However, we understand from the government that these funds will be made available in a timely manner to ensure that WSW receives the funds it needs.

## **Outlook**

The stable outlook reflects that on The Netherlands. We expect The Netherlands' economy to continue to grow, while maintaining a strong external position and improving budgetary metrics. We anticipate The Netherlands will withstand potential financial and economic shocks, for example stemming from the slowdown in global economic growth, while maintaining current policy trajectory and prudence.

We would lower the rating on WSW if we were to downgrade The Netherlands. Alternatively, we could lower the rating if we were to change our assessment of the likelihood of timely and sufficient extraordinary support from the government. This could happen if the government changes its stance regarding offering backstop

guarantees to WSW on a timely basis. We consider such a scenario unlikely at this stage.

## Related Criteria And Research

### Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

### Related Research

- Research Update: State of The Netherlands 'AAA/A-1+' Ratings Affirmed; Outlook Stable, May 20, 2016
- Research Update: Dutch Guarantee Fund WSW Upgraded To 'AAA' After Similar Action On The Netherlands; Outlook Stable, Dec. 3, 2015

## Ratings List

	Rating	
	To	From
Waarborgfonds Sociale Woningbouw		
Issuer Credit Rating		
Foreign and Local Currency	AAA/Stable/--	AAA/Stable/--

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