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Research Update:

Dutch Social Housing Guarantee Fund WSW Outlook Revised To Negative; 'AAA' Rating Affirmed

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Overview

- Waarborgfonds Sociale Woningbouw (WSW) will likely post a significant loss after fulfilling its obligations as the guarantor for Humanitas and WSG, two failing Dutch housing associations.
- We therefore see an increasing possibility that support agreements for WSW could be tested in the next few years.
- We are therefore revising our outlook on WSW to negative from stable and affirming our 'AAA' rating.
- The negative outlook indicates a one-in-three likelihood that we could lower the ratings in the next 24 months by one or more notches if we observe delays in support from WSW's members and the government, leading us to conclude that WSW's role for or link with the central government has weakened.

Rating Action

On July 20, 2018, S&P Global Ratings revised its outlook on Dutch social housing guarantee fund Waarborgfonds Sociale Woningbouw (WSW) to negative from stable. The 'AAA' long-term issuer credit rating on WSW was affirmed.

Rationale

The outlook revision stems from our view that the back-stop agreement supporting our rating on WSW could be tested in the next few years. We expect two failing housing associations, Humanitas Housing Foundation (SHH) and Woningstichting Geertruidenberg (WSG) to significantly reduce WSW's internal capital, since WSW is the guarantor for these entities' borrowings. WSW is therefore expected to honor its guarantee to the creditors of SHH and WSG, and take over the repayment of remaining loans. Currently, we understand that the resulting loss could total up to €350 million, compared with WSW's risk capital of €530 million at year-end 2016, the most recent available annual accounts. This is the first time since WSW was established in 1983 that it would be making a significant loss. There is an increasing probability that WSW will call on its members for additional capital, hence increasing the probability that it could ultimately seek government support.

We understand that the losses indirectly result from the implementation of the Housing Act in 2015, under which the resolution authority can provide financial aid only to housing association activities that are considered necessary services of general economic interest. The resolution is not on saving the entity as a whole. As a result, the likelihood that guarantees provided by WSW are called has increased.

Our current assessment of WSW's creditworthiness incorporates the three-tier structure supporting WSW. As a first step, WSW can use its risk-free capital to meet guarantee obligations. Second, WSW has access to callable capital of up to 3.85% of its members' outstanding debt, equivalent to estimated callable capital of €3.1 billion as of 2017. Third, WSW has unlimited access to interest-free loans from the central government and municipalities in equal parts.

The last tier, in particular, is a key factor behind our view of an almost certain likelihood of WSW receiving extraordinary support from the state. The Dutch central government and municipalities, as back-stop guarantors, are obliged to provide interest-free loans to WSW if its capital falls below 0.25% of guaranteed debt. As of year-end 2017, we estimate that the guaranteed debt totaled about €80 billion, implying that WSW could call on its members for additional capital should its own capital fall below €200 million. Since we do not believe the financial issues facing the two failing entities are systematic, we consider that WSW's members will be able to meet the potential capital call in the next few years. If any housing associations are unable to do so in the short term, WSW can request an interest-free loan to cover the shortfall from the central government and municipalities, which is repayable only after all members fulfill the capital call in full. Under the terms of the backstop agreement, there can be at most a 75-day delay between a request to the central government and municipalities for capital, and the funds becoming available. However, we understand from the government that these funds will be made available in a timely manner. So far, these three layers of support have not been fully tested.

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

- Critical public policy role for the government, based on our view that its main purpose is to indirectly provide a key public service by keeping the funding costs of social housing associations at a minimum. WSW is a not-for-profit private foundation that guarantees loans provided by lenders to Dutch social housing associations; and
- Integral link with the Dutch government. We view WSW as having a special public status, given the government's ultimate responsibility for ensuring that WSW can meet its obligations. While we believe a default of WSW would not necessarily impair market access for the Dutch government, it could have a detrimental effect on the reputation and market access of entities similar to WSW, and their access to public-sector funding in general.

Outlook

The negative outlook reflects our view that the three-tier support structure for WSW could be tested if WSW's capital reserves decrease further over the next 24 months.

We could lower the ratings by one or several notches if we observe delays in support from WSW's members and the government, leading us to conclude that WSW's role for or link with the central government has weakened. Significant further losses or systematic stress in the Dutch social housing sector could also weigh on our ratings if WSW's callable capital appears no longer sufficient, and no additional support from the state was forthcoming.

We could revise the outlook to stable if WSW managed to rebuild its loss-absorbing capacity in a timely manner, through internal capital or additional support from its members or related governments.

Related Criteria

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

Related Research

- The Netherlands Ratings Affirmed At 'AAA/A-1+'; Outlook Stable, May 18, 2018

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Waarborgfonds Sociale Woningbouw Issuer Credit Rating	AAA/Negative/--	AAA/Stable/--

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