MOODY'S
INVESTORS SERVICE

CREDIT ANALYSIS

Waarborgfonds Sociale Woningbouw

Hilversum, Netherlands

Table of Contents:

Analyst Contacts:

LONDON	44.20.7772.5454
Thomas Amenta *Senior Vice President* thomas.amenta@moodys.com	44.20.7772.5302
Sarah Kieling *Analyst* sarah.kieling@moodys.com	44.20.7772.8774
David Rubinoff *Managing Director-Sub Sovereigns* david.rubinoff@moodys.com	44.20.7772.1398

This Credit Analysis provides an in-depth discussion of credit rating(s) for Waarborgfonds Sociale Woningbouw and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Summary Rating Rationale

The Aaa issuer rating of Waarborgfonds Sociale Woningbouw (WSW), with stable outlook, reflects the high importance of social housing in the Netherlands and WSW's particular role as financial guarantor to this system. The rating also reflects:

» WSW's strong links with the Dutch state and the sound principles underlying its procedures;

» The stringent membership criteria, WSW's active role in monitoring members' financial performance and its multi-layered measures to call additional capital as required to bolster its satisfactory liquidity position;

The rating also incorporates a very high likelihood of extraordinary support from the central government of the Netherlands (Aaa, stable outlook) that reflects WSW's government-defined mandate, the importance assigned by the government to the smooth functioning of the sector and the government's intention to prevent liquidity shortages of WSW at all times.

National Peer Comparisons

WSW is rated at the highest end of the range narrow range of Aaa to Aa1 of strong guarantee funds in the Netherlands. The stability of its clients in the social housing sector, the monitoring of housing associations by both the regulator and WSW, and the availability of multiple capital sources in case a call on its guarantee were ever to occur make it particularly robust.

Rating Outlook

The outlook on WSW's issuer rating is stable.

What Could Change the Rating - Down

A weakening of WSW's support system, a dilution of the importance of social housing in the Netherlands and/or an alteration in the risk profile of its housing associations members could exert downward pressure on the rating. In addition, if the trend of increasing individual exposures were to continue, this might hamper the benefit of WSW's liquidity buffer. Furthermore, it is highly likely that a downgrade in the sovereign rating would result in a downgrade for WSW's issuer rating given the strong linkages and supportive structure discussed.

Issuer Overview

Founded in 1983 by the NWR, the Netherlands' national housing council, and the NCIV, the country's umbrella organisation for HAs, WSW guarantees payment of interest and principal on loans taken out by domestic HAs for activities carried out in the field of social housing. The guarantee arrangement enables local HAs to borrow at a lower cost, with the saving ultimately being passed to tenants via lowest-cost rents.

WSW is a not-for-profit entity and debt with its guarantee carries a BIS risk weighting of 0% in the Netherlands and several other jurisdictions.

Social housing plays a prominent role in the Netherlands, making up roughly a third of the housing stock in the Netherlands and more than half of housing units in large cities such as Amsterdam and Rotterdam. In contrast to other countries where social housing is often concentrated in suburbs, most neighbourhoods in the Netherlands are more diversified; and single family houses account for almost 50% of the social housing stock.[1] Tenants include substantial middle-income and some higher income residents, as well as lower income populations usually associated with this sector.

For a number of years, social housing in the Netherlands and the roles and responsibilities of housing associations have been undergoing significant political consultation and reform. Recurrent themes are to draw additional investment by 'sweating' what many view as rich balance sheets of the HAs, and to use this investment for urban renewal and social benefits through in 'place shaping'. Recent decisions affirming the general approach to social housing removes a major uncertainty regarding state aid under EU regulations.

Key Rating Considerations

Institutional Framework

Strong support system ensures ability to fulfill guarantees

An HA must be a member of WSW to benefit from its guarantee. At the end of 2010, 398 of the Netherlands' 414 HAs (96%) were members of WSW.

WSW's three options for dealing with calls on its guarantees in the event of one or more member HAs experiencing financial distress, are described below.

[1] Social Housing in Europe, LSE London, July 2009.

Stage One – WSW's own source capital, sufficient to cover immediate exposures of individual housing associations

WSW has over €482 million of own-source capital with €465 million invested in highly rated, liquid debt securities and an additional €3 million in cash and €16 million of other assets to cover one-off or repeated non-payments by a member. In this event, WSW would make the payment to the lending institution and write down the amount as a liability. A part of the WSW guarantee agreement requires HAs to make a reverse mortgage pledge to WSW, which is invoked if WSW has to intervene. This pledge allows WSW to realign its balance sheet by taking ownership of pledged properties and eventually to recoup its outlay sales of these assets. Before taking these steps, WSW would (but is not obliged to) inform the Central Fund for Social Housing (Centraal Fonds voor de Volkshuisvesting or CFV), a government entity which supervises the entire sector; both entities would then intervene in the management of the non-paying HA to resolve the issues that caused the inability to service debt. The HA could then also be restructured. WSW is able to cover 5.0% of its maximum debt service commitment of approximately €9.6 billion for 2011 or 0.6% of its total guarantee portfolio via own-source capital.

Stage Two – Callable capital from members can cover systematic risks

Were failures to be more widespread, and in WSW's judgement potentially greater than it can meet whilst maintaining its 0.25% internal capital limit, WSW can call capital from its member housing associations, which are required to make available 3.85% of the outstanding debt of their WSW-guaranteed loans and capital would be provided on a joint-and-limited basis. WSW may act on its projections and in its best judgment; and it need not wait until a shortfall actually occurs. Housing associations note their potential capital contribution to WSW in proportion to their share of the total guaranteed loans as a contingent liability on their balance sheets. WSW had direct access to €3.3 billion of participant HAs' callable capital as of year-end 2010. WSW notes that its participants held €4.1 billion of financial assets in 2010. Moody's anticipates that requests for capital from members would have to be met from these amounts, asset sales or additional borrowing.

Counting the access to callable capital in addition to its own capital, WSW could cover 39.1% of its maximum debt service commitment for 2011, or 4.4% of its total guarantee portfolio.

Stage Three – Capital injection from "backstop" providers

If for any reason the first two lines of resources do not prove, or were not anticipated, to be adequate to meet WSW's commitments, WSW would invoke additional capital calls from its contractual "backstop" agreements with local and central government. These contributions would be made on a 50/50 joint-and-unlimited basis by the municipalities (in proportion to the amount of loans guaranteed by WSW within their respective jurisdictions) and by the central government. Under these contracts, WSW can demand unlimited support to ensure that (i) its reserve to guaranteed loans ratio returns to 0.25%, and that (ii) all participants' loan obligations are covered. According to the agreement, these loans have to be provided no later than on the 15th day of the second month following the month in which the capital falls short of guidelines (theoretically up to a maximum of 75 days).

CFV – Partner in supporting distressed HA's

In addition to WSW's multiple lines of financial support, it would not be alone in addressing the needs of distressed housing associations. The CFV maintains a reserve specifically designated for the provision of funds to HAs that find themselves in financial distress. As of year-end 2010, this amounted to €62.4 million[2], substantially lower than the roughly €100 million in previous years[3]. The

[2] Annual report 2010 of the Central Fund, p. 102. Additionally, another €6.7 million could be added from the CFV's reserve for projects ("reservering projectsteun"). Also, the CFV retains the right to collect funds from member HAs.

decrease is due to the subsidies the CFV provided to one HA in distress during 2010. To date, the CFV has provided support for the restructuring of 18 HAs and support for specific projects in two cases (see Appendix I). Whilst the reserve amount is not dedicated to WSW's guarantee responsibilities, it is likely that some or all of this funding would be mobilised to the particular circumstances that could trigger the WSW guarantee.

The percentage of financial support is shown in the following table:

FIGURE 1

Intervention Stage	Source of Funds	Amount (€m)	2011 Maximum Debt Service Commitment (€)	Cumulative % Coverage	Guaranteed Loan Portfolio (€)	Cumulative % Coverage
1	WSW Capital	482		5.0		0.6
2	Callable Capital from Members	3,284	9.6 billion	39.1	85.3 billion	4.4
3	Backstop Providers Capital Injection	Unlimited		100		100

WSW notes that, since its establishment in 1983, there has never been a call on its guarantee by a borrower, a call by WSW to its participants to renew its capital base nor a call by WSW to the local-government or central-government backstoppers.

Potential for Delays Mitigated by Reserve and Strong Government Interest in Sector

Moody's has factored in some limited possibility that the mechanics of a call against all members and then to the backstoppers might not be timely. However, in our rating of WSW, the potential for delays has been mitigated by a) the time afforded by the internal capital buffer, which so long as individual exposures would not overwhelm it in a brief period, would allow the mechanics to play out during a complicated distress scenario and b) statements by the government that the national interest of the HA sector would motivate it to provide timely payment if other aspects of support run into difficulties (see section Extraordinary Support below).

In the face of continuing volatility in global financial markets and what have been gradual increases in payment exposures by individual HAs (due to consolidation in the sector and some tendency toward shortening maturities under guarantee), WSW has been working to assure the sufficiency of the buffer-reserve and to clarify the timing of payment protocols within its members and the government, were a call needed. Moody's will assess any improvements to the guarantees issued by WSW, which could limit exposure, the timing of the backstops and the payment protocols of members and the government for their impact on WSW's ability to meet its guarantees, particularly with application that might be extended to capital market debt.

Financial Position and Performance

Revenues have been restructured and may be more volatile

WSW has two sources of revenue, commissions and investment earnings on reserved capital. Results for 2010 were weaker than historically due to a loss in trading income of €13.5 million. However, interest income and commissions increased compared to 2009 and operating expenses were slightly reduced, allowing for a surplus of €6.7 million (compared to €23.6 million in 2009).

[3] For example, in 2005 and 2006 the value was €104 million and in 2008 and 2009 €101 million.

WSW's own-source capital reserve ("base capital") of €482.4 million is available to provide liquidity for general operating purposes.

Commissions ("discount fees") are charged to members as compensation for their guarantees. Fees are charged annually on amounts outstanding. Collections rose to €8.5 million in 2010, from €7 million in 2009, in line with the growth in newly granted guarantees.

Costs are well controlled, but responsibilities may add pressures

WSW's operating costs amounted to €8.9 million in 2010, down from €9.4 million in 2009. The decrease is mainly due to lower overhead costs, including substantially reduced project costs due to the completion of major projects in 2009. Fee income was almost sufficient to cover operating costs in 2010, following two years during which WSW had to resort to investment income to cover costs. Overall, costs have generally been well contained, particularly in relation to the level of guarantees outstanding. It is likely, however, that increased monitoring due to even marginal levels of financial distresses in the sector and undertaking of any broader role for WSW in the financing of social housing could place further pressures on costs.

The Dutch tax authorities have announced its decision to exempt WSW from corporate tax for the period 2002-2007. However, WSW is liable for corporation tax retroactive to 1 January 2008. This tax liability amounted to €4.1 million for 2008, but is currently being discussed with the tax authorities as WSW has formally objected to the authority's claim. Moody's anticipates that the final assessments, if they are material, will have to be compensated by adjustments to charges, so as to meet WSW's ongoing capacities to meet projections for increased guarantees.

FIGURE 2

Guaranteed Loan Portfolio and Capital statistics (€M)

	2009	2010	2011 (F)	2012 (F)	2013 (F)	2014 (F)	2015 (F)
Guaranteed Loan Obligations	75,800	85,300	87,600	89,300	91,500	95,300	99,100
Capital (Own Source)	476	482	503	526	552	581	614
Committed Capital from Participants (Callable)	2,918	3,284	3,373	3,438	3,523	3,669	3,814
Total Capital	3,394	3,766	3,876	3,964	4,075	4,250	4,428
Total Capital / Guaranteed Loan Obligations (%)	4.5%	4.4%	4.4%	4.4%	4.5%	4.5%	4.5%
Minimum Level of Capital Base (at which backstop providers are required to make interest free loans)	189.5	213.3	219.0	223.3	228.8	238.3	247.8

Debt & Liquidity

WSW's has no debt of its own. Total guaranteed obligations stood at €85.3 as of 2010 and are projected to reach €99.1 billion by 2015, an increase of about 16% compared to 2010.

HAs pledge as collateral to WSW those properties financed by the WSW-guaranteed loans. Housing associations remain liable for recovery of any shortfall after perfection of security

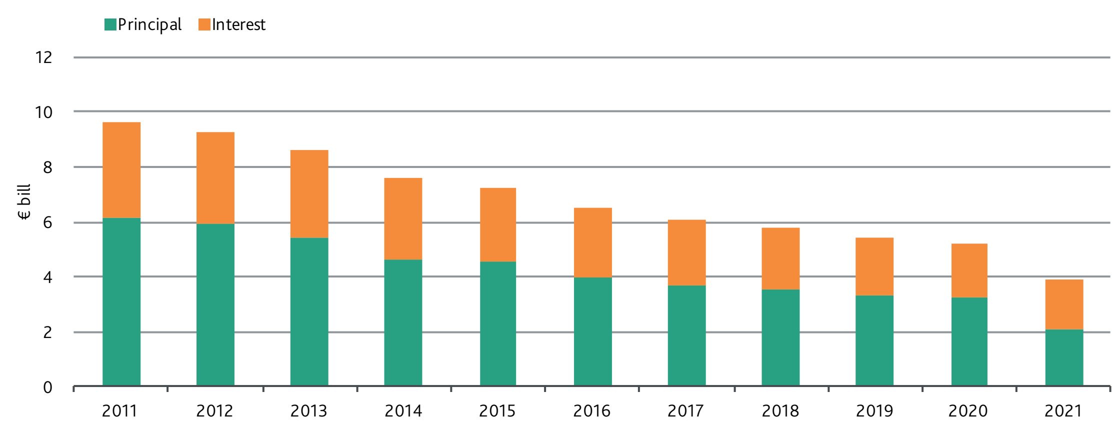
In the case of non-payment of debt service by a HA, WSW would have the right to step in under the loan and provide the same terms and conditions; and the loan would not be accelerated. In practice, this allows WSW to act as a stop-gap payment provider of interest until the finances of the HA are stabilised, which when achieved reduces the risk of WSW having to pay the full principal amount of any loan. In practice, this is supported by the dominant position of the sector banks which have the same ownership and interests as the backstoppers. The share of these banks in newly issued guarantees per year has increased to 92% in 2010 from 81% in 2007.

WSW monitors its members' cash-flow obligations for both interest and principal (repayments) in its estimates of reserves. The projection for WSW's aggregate exposures by year is shown in Figure 3 below. While the size of individual maturities has to date remained below WSW's base capital, Moody's notes that the trend of increasing exposure could hamper the benefit of WSW's cash reserve. In addition to guaranteeing long-term debt and in accordance with the backstoppers, WSW may provide and has provided guarantees on liquidity loans with a minimum maturity of two years to housing associations facing unforeseen liquidity needs. Such loans could be required, in amongst other cases, for meeting cash margin calls on hedges, refinancing non-guaranteed debt or potentially other contractual payments which WSW does not guarantee in the first instance. WSW imposes strict monitoring on housing associations using this facility.

In the current low-and-falling interest-rate environment, which may worsen with a recession, long-term stand-alone hedges could see sharp increases in their mark-to-market value to the provider, who could demand cash security against its exposure if direct property security has not been previously provided. WSW's total exposures could therefore increase independently of the sector's planned capital financing requirements.

While guarantee exposures to these liquidity loans are not likely to be significant when compared to the overall principal guaranteed by WSW, the shorter term maturities of the liquidity loans could add significantly to near-term concentration risks and therefore could increase pressure on the sufficiency of WSW's own-source capital. Whilst WSW monitors these exposures in its risk reviews of its members, such exposures are dynamic and their impact less predictable than standard long-term lending.

FIGURE 3
Total Exposure of Guaranteed Principal and Interest



Source: WSW

Asset quality of participant HAs

WSW's main source of risk is the quality of the housing-association loans it guarantees which amounted to €85.3 billion at the end of 2010. About 74% of the total exposure is concentrated in approximately 24% of all participant HAs. The concentration reflects the size of some of the largest and most active HAs, operating in and around the 'Randstad' conurbation, which encompasses the cities of Amsterdam, The Hague, Rotterdam and Utrecht. See *Appendix I* for a summary on WSW's monitoring of its members, government oversight of and reforms in the sector.

Governance and Management Factors

WSW publishes its annual financial statements in the first quarter of the following year and includes multi-year projections of resources and key contingent obligations. The accounts and the annual report are independently audited.

Internal control and supervision are carried out by i) the Supervisory Board, holding regular meetings throughout the year with the Executive Board, on top of the submission of quarterly reports, and ii) an internal control officer.

As agreed in the backstop agreements with the central government and municipalities, WSW must submit a five-year forecast of its cash flow (including amounts that may have to be provided to restore capital to prescribed levels of guarantee to contingent obligations) at least once a year. The forecasts must be updated every six months whenever the need for loans from the backstoppers has been identified.

Profit is retained and kept as reserves to strengthen capital. Investment guidelines are prudent with around 54% of the securities portfolio invested in Aaa-rated securities; with a lowest permitted rating of A1. Approximately 85% of the portfolio has a maturity of ten years or less. The funds are managed by a third party, within strict guidelines. Over the medium term, Moody's expects continuity in the prudent budget orientation and investment decisions seen in the past.

Application of Joint-Default Analysis

As a reflection of the application of Moody's Joint Default Analysis Methodology for Government-Related Issuers, WSW's rating is composed of three principal inputs:

» A baseline credit assessment (BCA) of 1 on a scale of 1 to 21, where 1 represents the lowest credit risk;

» A very high likelihood of extraordinary support from the central government of the Netherlands (Aaa, stable), reflecting WSW's government-defined mandate, strong links to and oversight by the Dutch state, and the importance assigned by the government to the smooth functioning of the sector. The backstop agreements with the government and the relevant municipalities are aimed at "prevent[ing] the liquidity shortages of the Social Housing Guarantee Fund at all times" (as noted in the pre-ambles to the agreements);

» A high default dependence between WSW and the central government of the Netherlands, reflecting that a failure in this sector would likely be co-incident with a failure of the tight web of government policy itself.

Rating History

LT Issuer Rating

Date	Rating	Action	Currency
6 May 1998	Aaa	Assigned	

Appendix I: Housing Associations – Oversight and Reforms

To assess and monitor asset quality, WSW assigns an internal credit rating with a credit risk model which examines the housing market, the finances of individual HAs and their managerial quality. The model uses timely reports submitted by HAs through a standardised reporting platform. Annual reports are the minimum requirement, with at-risk institutions reporting more frequently, sometimes on a weekly basis. Poor performers can be denied guarantees for new borrowing.

WSW notes that the credit quality of the HA sector has improved over recent years. The sector is continuing to consolidate, with larger, more financially solid HAs with improved standards of management. The sector has not been immune to the financial crisis, but so far the impacts have been limited. WSW's credit monitoring saw the HAs requiring monitoring for significant but not critical risks rise to 48 in 2010 from 44 in 2009. WSW referred one HA for financial restructuring to the CFV during 2011. This allowed for the HA to receive a WSW facility for liquidity loans (see page 6) of up to €25 million in anticipation of the final restructuring by CFV. The CFV will provide necessary financial support according to the approved restructuring programme of the HA. In 2009, one member HA was distressed such that it would disqualify from receiving further WSW guarantees. It was referred to the CFV which provided subsidies of €39 million in March 2010 and required the HA to merge with another HA. All of WSW participants were considered creditworthy in 2010 and 2011.

In addition to WSW's risk assessment, the CFV has its own monitoring system for the complete HA sector. As part of this, the CFV undertakes an assessment of the sector twice a year, where it reviews each HA's performance in the previous year and forecasts for the following five years.

Sector Undergoing Changes due to Reform and State Aid Agreement

After ongoing discussions, the Dutch government and the European Commission agreed new rules for state aid which became effective in 2011. The new limit for state aid, under the definition of Services of General Economic Interest (SGEI), has been set at a rent-supplement threshold of €648 per month. Furthermore, housing associations have to allocate at least 90% of their properties that become vacant to households with an annual income of less than €33,000. Properties with a social function other than housing can also be guaranteed. Whilst there is a risk that housing companies may overextend (or may be asked to overextend) their resources, Moody's does not see the likely level of exposures as materially affecting the ability of WSW to meet its guarantees.

In 2010, the coalition government agreed the following three main changes to the sector which will be implemented in a new Housing Act next year:

1. A one-off increase in the property valuation (which serves as basis for rent setting) by 25bp
2. Rent increases for tenants with an annual income exceeding €43,000 by inflation + 5%
3. A new levy on the rental sector of €760 million per annum from 2014 of which €600 million are to be assumed by HAs

While the first two proposals are positive for the sector as they will increase revenue flexibility, there remain some uncertainties with regards to the identification of higher income earners and the impact of tenants in the 'doughnut hole' above the state aid threshold and below the threshold qualifying for rent increases above inflation. Overall, the proposals might require the HA sector to achieve further efficiency savings (some of which have already been dramatic) and/or postpone investments.

Moody's believes that, despite any current uncertainties in policy or economy, reforms for social housing will continue in a way typical of the Netherlands: with transparency, a due and (if needs be) deliberate pace, and with ultimate consensus and long-term stability as goals. Moody's view is that over the longer term any reforms are highly likely to preserve the sound regulatory and financial-assurance structures of the system.

Company Annual Statistics

Waarborgfonds Sociale Woningbouw	2010	2009	2008	2007	2006
Summary Balance Sheet (EUR 000's)					
Cash & Bank	2,817	544	903	8,703	27,125
Securities	464,718	462,306	439,872	403,798	371,396
Fixed assets	2,108	1,144	1,109	1,662	1,379
Other assets	13,605	12,178	11,216	10,097	9,503
Total assets	**483,248**	**476,171**	**453,100**	**424,260**	**409,403**
Financial lease	38	0	0	0	0
Other liabilities	790	497	1,022	975	1,975
Total liabilities	828	497	1,022	975	1,975
Equity	482,421	475,719	452,078	423,285	407,428
Total capital funds	**482,421**	**475,719**	**452,078**	**423,285**	**407,428**
Total liabilities & capital funds	**483,248**	**476,216**	**453,100**	**424,260**	**409,403**
Contingent liabilities (Guarantees)	**85,300,000**	**75,800,000**	**71,700,000**	**64,900,000**	**59,700,000**
Summary Income Statement (EUR 000's)					
+Interest income	19,940	19,300	18,913	17,566	17,328
=Net interest income	19,940	19,300	18,913	17,566	17,328
+Trading income	-13,521	6,740	12,950	-8,203	-16,082
+Fees & commissions	8,544	6,982	5,915	13,751	21,542
+Other operating income	626	0	0	0	0
=Operating income	15,590	33,022	37,778	23,114	22,788
-Personnel expenses	4,989	4,898	4,345	3,947	3,880
-Other operating expenses	3,900	4,483	4,640	3,423	3,023
= Operating funds flow	6,701	23,641	28,793	15,744	15,885
=Preprovision income (PPI)	6,701	23,641	28,793	15,744	15,885
-Loan loss provisions (LLP)	0	0	0	0	0
+Extraordinary profit / loss	0	0	0	113	969
=Pretax income	6,701	23,641	28,793	15,857	16,854
-Taxes	0	0	0	0	0
=Net income	6,701	23,641	28,793	15,857	16,854
Growth Rates (%)					
Liquid assets	1.01	5.01	6.85	3.51	3.63
Total assets	1.49	5.09	6.80	3.63	3.82
Equity	1.41	5.23	6.80	3.89	4.32
Operating Income	-52.79	-12.59	63.44	1.43	-41.46
Operating Expenses	-5.25	4.41	21.91	6.77	-1.82
Preprovision Income	-71.65	-17.89	82.88	-0.89	-50.20
Net Income	-71.65	-17.89	81.58	-5.92	-40.23

Waarborgfonds Sociale Woningbouw	2010	2009	2008	2007	2006
Income Statement in % Average Assets					
Operating income	3.25	7.11	8.61	5.55	5.67
Operating expenses	1.85	2.02	2.05	1.77	1.72
Preprovision income	1.40	5.09	6.56	3.78	3.95
Loan loss provision	0.00	0.00	0.00	0.00	0.00
Net income	1.40	5.09	6.56	3.80	4.19
Liquidity, Funding & Balance Sheet Composition					
Avg. liquid assets % avg. total assets	96.97	97.24	97.25	97.28	97.43
Breakdown of Operating Income in %					
Net interest income % operating income	127.91	58.45	50.06	76.00	76.04
Trading income % operating income	-86.73	20.41	34.28	-35.49	-70.57
Fees & commissions % operating income	54.81	21.14	15.66	59.49	94.53
Other operating income % operating income	4.02	0.00	0.00	0.00	0.00
Profitability					
Net interest margin (%)	4.30	4.28	4.48	4.53	4.61
Return on equity (period end) (%)	1.39	4.97	6.37	3.75	4.14
Return on average assets (%)	1.40	5.09	6.56	3.80	4.19
LLP % preprovision income	0.00	0.00	0.00	0.00	0.00
Efficiency					
Cost/income ratio (operating expenses % operating income)	57.01	28.41	23.78	31.89	30.29
Operating expenses % average assets	1.85	2.02	2.05	1.77	1.72
Operating expenses % net interest income	44.58	48.61	47.51	41.96	39.84
Capital Adequacy					
Equity % total assets	99.83	99.91	99.77	99.77	99.52
Internal capital growth (%)	1.41	5.23	6.80	3.89	4.32
Capital/Guarantees (%)	0.57	0.63	0.63	0.65	0.68

Moody's Related Research

Analyses:

- Stichting Waarborgfonds Eigen Woningen, December 2011 (138080)
- Stichting Waarborgfonds BVE, November 2010 (129209)
- The Netherlands, November 2011 (137328)

Rating Methodology:

- Government-Related Issuers: Methodology Update, July 2010 (126031)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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Authors
Thomas Amenta
Sarah Kieling

Production Specialist
Wendy Kroeker

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