

RatingsDirect®

Waarborgfonds Sociale Woningbouw

Primary Credit Analyst:

Liesl Saldanha, London (44) 20-7176-3571; liesl.saldanha@standardandpoors.com

Secondary Contact:

Hugo C Foxwood, London (44) 20-7176-3781; hugo.foxwood@standardandpoors.com

Analytical Group Contact:

International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com

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Waarborgfonds Sociale Woningbouw

Major Rating Factors

Strengths:

- Our view of "almost certain" likelihood that the State of the Netherlands and the Dutch municipalities would provide timely and sufficient extraordinary support in times of financial need.
- Very strong ongoing government support for the social housing sector, via the Central Fund in the first instance
- The agreement between the Dutch central government and municipalities to provide interest free loans to WSW, should capital fall below 0.25% of guaranteed obligations.

Issuer Credit Rating

AAA/Negative/--

Weaknesses:

- Recent changes in the executive team and the renewed focus on operational and risk management require time to bed down.
- Increased stress on housing association cash flows can potentially weaken their credit quality, increasing the likelihood of the WSW guarantee being called.

Rationale

The long-term rating on Waarborgfonds Sociale Woningbouw (WSW) is equalized with that on the State of The Netherlands (AAA/Negative/A-1+), reflecting Standard & Poor's Ratings Services' 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.

In accordance with our criteria for government-related entities (GREs), our view of "almost certain" likelihood of extraordinary government support is based on our assessment of WSW's:

- "Critical" role 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. We also believe that this role could not be readily undertaken by another private entity.
- "Integral" link with the Dutch government, demonstrated by its policy and agreement to provide financial support and our view that WSW, in providing an indirect public service, has a special public status. We are also guided by the fact that WSW is required to submit its strategy and budgets to the government annually, which results in indirect oversight by the government. We expect this to continue in the long term.

Besides the likelihood of extraordinary support in times of stress, the rating also reflects the very strong support provided by the Dutch system, including the role played by the Central Fund, to provide the support required by

housing associations going through significant stress. This helps mitigate likely calls on WSW, to honor its guarantee.

Further, the very strong three-tier security structure available to WSW in terms of its access to liquid funds in times of need also informs our view. First, it benefits from WSW's own risk capital of about €481 million, then second, its access to callable committed capital from the associations of about €3.3 billion. Finally, 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 percent of guaranteed debt, providing a small buffer of about €218.5 million (based on the level of outstanding debt at December 2012).

The rating on WSW is also supported by the strong operational performance and continued strong demand for its services, with about €9.5 billion of new business written in 2012: higher than the €7.9 billion written last year. However, new demands on housing associations' cash flows, coupled with a continued subdued housing market, may mean that housing associations curb development ambitions, reducing the demand for WSW guaranteed loans in the next year or so.

Second, while the new Housing Act has been passed, the date for implementation has not been announced as yet. Until then the temporary Housing Act that was enforced from January 2011 will remain in place. The Central fund continues to support the sector and protect the financial viability of housing associations in general. However, recent announcements mean that its functions are likely to be split into two with financial viability being the remit of a government ministry.

Liquidity

WSW has access to risk capital (free cash available to service obligations) of about €481 million to use to honor any guarantee obligation that may arise. It is equivalent to 5.1% of debt service (€9.35 billion). However, WSW also has access to callable capital of up to €3.3 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 76-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 such that WSW receives the funds it needs.

Outlook

The negative outlook reflects that on the long-term sovereign credit rating on the State of the Netherlands, and reflects the potential for a more negative macroeconomic scenario than we expect. This is connected to possible pressures on the Dutch financial sector and the broader Dutch economy caused by its exposure to other eurozone economies via financial and trade channels. The sovereign credit rating on The Netherlands remains the upper limit for the rating on WSW. If we revised the outlook on The Netherlands to stable we would likely revise the outlook on WSW to stable.

An alternative downside scenario might result from a weakening of government support for WSW. This might arise following a change in the current legal agreements around the provision of minimum funding requirements or our assessment that interest-free loans will be made available on a timely basis for WSW. This could lead us to revise our opinion of the likelihood of timely and sufficient extraordinary support in times of stress, which could lead us to lower

the rating. We do not consider this likely at this time, however.

Government Support And Application Of GRE Methodology

In accordance with our criteria for GREs (see "Related Criteria And Research"), our view of a "almost certain" likelihood of timely and sufficient extraordinary government support in times of stress is based on our assessment of WSW's "critical" role and "integral" link to the Dutch government. We have also had discussions with the Ministry of the Interior and Kingdom Relations, which has informed our judgment.

In our opinion, WSW plays a critical role in providing a key service that cannot be easily provided by another private sector entity unless it has similar agreements signed with government. WSW aims to keep funding costs to a minimum for housing associations that are key to delivering the housing policy mandate for the Dutch government. Although WSW is an independent foundation, it has a long history of working closely with the Central Fund, the Ministry of Finance, and the Ministry of the Interior and Kingdom Relations, which is responsible for social housing in The Netherlands.

Further, the central government and municipalities have agreed to provide interest free loans to WSW if its capital falls, or is forecast to fall, below 0.25% of guaranteed loans on the balance sheet. We also believe that a default by this GRE could negatively affect the public sector banks and the housing sector in general. It could affect the public sector banks as their largest exposure is to this sector and should WSW default, the risk weighting on all these loans would need to be reviewed and could potentially lead to increased capital requirements.

Additionally, a default by one housing association could potentially raise the cost of funding for the sector and therefore reduce the amount of investment that housing associations find affordable, ultimately negatively impacting some public policy goals of the government. In our discussions with representatives of the Ministry of the Interior and Kingdom Relations, the government asserted the importance of WSW's role and re-iterated its intention to support the organization, if and when required, on a timely basis.

Despite being an independent private foundation, our view of the integral link between WSW and the Dutch government is driven by an extremely strong backstop agreement, which demonstrates the intention of the government and municipalities to provide timely support in all circumstances. As a result, although the government does not have any representation on WSW's board, it is able to exercise control over WSW's operations by requiring that certain information be provided on a regular basis, and providing approvals for certain resolutions taken by the executive board. WSW is required to provide annual budget and cash flow forecasts to the central government. Further executive board resolutions relating to amendments to WSW's constitution, adoptions of the investment policy, or resolutions regarding the setting of discount fee rates must be approved by the central government and the association of Dutch municipalities.

The Framework Of Support For WSW Is A Key Rating Strength

Public housing in The Netherlands is an important public policy tool and has been so for generations. The government

designed-framework provides specific ongoing support to all housing associations using two important organizations: the Central Fund and WSW, working closely with the Ministry of the Interior and Kingdom Relations. (The government recently announced that part of the Central Fund would be designated as the financial authority, will be part of a ministry and will look after financial viability. All other responsibilities will continue to belong to the Central Fund and will remain outside the remit of any ministry).

The three-tier security support structure of WSW

To ensure it can honor its obligations, WSW can fall back on three different levels of support. First, WSW has its own risk capital of €480.9 million (at December 2012). Risk capital is calculated as the value of investments at the lower of cost or market price plus cash, less creditors, accruals and deferred income and long-term liabilities. Second, if risk capital is insufficient and additional capital is required, WSW can call on the associations to contribute additional capital, up to the level that the participating associations have committed to pay, which is up to 3.85% of their current outstanding debt. WSW is expected to call for the additional capital to be paid if the fund's own capital falls to less than 0.25% of the total guaranteed capital. Thus, in theory, about €3.3 billion can be made available, if required, based on guaranteed obligations as at December 2012. However, we believe this amount would take time to gather.

The third and final tier of support for WSW is provided by the two backstop agreements--one, signed between the central government and WSW, and the second signed by the municipalities and WSW. If WSW's capital remains less than 0.25% of total guaranteed obligations after the participants' committed capital contributions have been called, the central government and municipalities are contractually bound to contribute equally to provide interest-free loans to WSW to meet this capital requirement. The backstop guarantee remains in place until it is terminated by the government and such termination would only affect new loans after that decision (and after a specified termination period).

While we believe that this support from the central government and municipalities is likely to be timely, due to the technicalities of the legal agreement there could be several days (up to 76) between the request and before the loan must be provided. Nonetheless, we believe that there is an almost certain likelihood that the Government and Municipalities will ensure that WSW has sufficient cash to meet any calls on its guarantee obligations on time.

The supporting role of the central housing fund

The Central Fund, set up by the Dutch government in 1988, provides assistance to any housing association in financial difficulty and whose difficulties stem from structural rather than liquidity issues. Assistance may be via interest-free loans or lump-sum payments to help associations implement reorganization plans.

The Central Fund is itself funded by mandatory fees paid by housing associations. It is responsible for the financial supervision of the housing sector and individual housing associations. We now understand that when the Housing Act is implemented, the Central Fund will have wider powers to ensure the financial stability of these associations but this function will be undertaken by the Financial Authority, which will part of a Ministry. Details of this restructure are yet to be finalized. The financial monitoring is intended to provide a warning system for the Ministry of the Interior and Kingdom Relations, which has the power to act on the advice of the Central Fund in cases of financial distress, including the ability to replace board members and appoint interim managers to a troubled association.

As of June 2013, two associations are currently being restructured and are ultimately controlled by the Central Fund.

Creditworthiness of Dutch municipalities

The statutory and institutional framework that regulates the interaction between the central government and municipalities results in high credit quality for Dutch municipalities. We consider that the local government sector in The Netherlands benefits from the stable and supportive financial and legal framework that has been established by the central government. This is likely to be reflected in high-investment-grade ratings for most of the sector.

Dutch municipalities have a wide range of responsibilities under the Social Support Act that came into force in 2007. The roles and responsibilities and the interaction with the central government is currently being reassessed. We still believe, however, that there will be adequate financing and sufficient support provided to municipalities to fulfill their obligations and to provide interest-free loans when required by WSW.

Furthermore, associations are expected to inform related municipalities about the types of activities they engage in on a yearly basis. In the event of conflicts that arise within the municipality, a minister can intercede to resolve the conflict.

Business Description

Created in 1983 by the Federation of Dutch Housing Associations, WSW is a not-for-profit private foundation set up to guarantee the debt of Dutch social housing providers taken to fund social housing projects. From 1994, its guarantees have been extended to cover many of the housing association liabilities previously guaranteed directly by both central and local governments and referred to as "indemnified loans". WSW currently guarantees the loan obligations of 98% of Dutch housing associations (379 of a total of 386 associations as at December 2012) and the value of its guaranteed portfolio stands at €87.4 billion at December 2012 (€86.3 billion in 2011); a figure that is forecast to increase to about €91.7 billion by 2017. Loans guaranteed to the association who have outstanding debt of over €1 billion, account for 34% of the outstanding debt or €29.8 billion at December 2012. This concentration does not cause any immediate concern, but merits close monitoring.

Business Performance

In 2012, WSW guaranteed about €9.5 billion of loans of which €7.2 billion related to fixed-interest loans and 2.3 billion to floating-rate loans. Over 2013, WSW's exposure is limited to annual interest payments of €3.6 billion and a further €5.75 billion of principal repayments.

WSW depends on the ability of housing associations to service their own debt otherwise it risks being called upon to honor its obligations. We understand that recent announcements about the landlord levy and the restructuring levy negatively impacts housing association cash flows and in turn may affect the volume of WSW's new business in the short term. This could also increase the likelihood of a call on WSW's guarantee.

WSW's revenue comprises fees paid by participating housing associations and returns from the investments that it holds. The fees and investments help maintain WSW's capital base and support the level of risk capital. Investment income, however, is quite volatile and we expect to continue to see this in the short term. Expenditure levels remain

broadly stable and net profits continue to support the capital base, which we consider to be positive. From 2008, WSW has been liable for corporation tax. While returns have now been filed with the relevant authorities, it remains to be seen what the final tax liability will actually be. For the moment, we understand that it is about €13.9 million (between 2008 and 2011) and is treated as a contingent liability in our analysis.

Table 1

Waarborgfonds Sociale Woningbouw Financial Statistics, 2004-2016f									
(Mil. €)	2016f	2015f	2014f	2013f	2012	2011	2010	2009	2008
Profit and loss account									
Contributions from participants	17.2	16.0	15.0	13.7	12.5	10.3	9.2	7.0	6.0
Results on investments	23.5	23.0	22.0	21.0	30.5	13.6	6.4	26.0	32.0
Expenditures	14.7	14.0	14.0	13.6	13.3	9.1	8.9	9.4	9.0
Result for the year	26.0	25.0	23.0	21.1	29.7	14.8	6.7	23.6	29.0
Balance sheet									
Long term investments	602.0	576.0	551.0	528.0	502.9	477.7	465.0	462.0	440.0
Current assets and cash	20.0	20.0	20.0	20.0	25.2	568.8	16.0	13.0	12.0
Fixed assets	2.0	2.0	2.0	2.0	1.5	1.7	2.0	1.0	1.0
Current liabilities and Financial leases	2.0	2.0	2.0	2.0	2.7	551.0	1.0	0.0	1.0
Capital	622.0	596.0	571.0	548.0	526.9	497.2	482.0	476.0	452.0

f--Forecast. Numbers are rounded. Source: WSW.

Risk Management

WSW is in the process of overhauling its risk management and internal control systems. It sees itself responsible for managing risks in the security structure. Therefore risk assessment, monitoring and management of risk is at the core of its function.

Credit risk assessment is a crucial part of WSW's activity. Insufficient monitoring can result in unexpected calls for WSW to honor its obligations. As a significant number of loans have bullet maturities, if there were an unexpected default the amount required to honor an obligation could be quite large. WSW focuses on cash flow analysis and applies various stress tests that inform WSW's judgment on likely calls on the guarantees provided. In 2012, WSW started and still continues to revise the way it manages and monitors risk. Key to the assessment is a thorough understanding of all business and financial risks of housing associations. As a result of these assessments, each association has an internal risk rating/class ranked on a scale from 1 to 22, one representing the strongest credit. Any credit with risk classed between 14 and 22 will be more stringently monitored by a special risk management office that was set up in 2012. Presently, eight entities fall into this category and their performance is monitored closely by this office.

WSW pays stringent attention to investment risk to protect the value of its risk capital, which must be available to honor its obligations at short notice. It pursues a conservative investment policy where at least 95% of the investments must be invested in bonds. WSW therefore invests solely in fixed-income securities and at December 2012 at least 70% were held in 'AAA' rated paper and about 25% was invested in 'AA' rated paper.

Finally, operational risk management is crucial to ensure that WSW is able to process all the data, monitor its portfolio, and process claims in a timely manner. It invests significant amounts in its business processes and monitors these closely.

Management And Governance

The Supervisory Board is responsible for supervising the work and policies pursued by the Executive Board, of which risk management forms the core. The supervisory board comprises five members. Two (including the chairman) continue to be nominated by AEDES--the trade association for Dutch housing associations--and one member has been appointed by the Participants Council. The other two are publicly recruited, thus ensuring a wide range of skills on the board. The close connection between WSW and housing associations is maintained via its links to AEDES. Further, the board encourages its executive to maintain close links with the Ministry of the Interior and Kingdom Relations, the associations of Netherlands municipalities, and the Central Fund.

There have been several changes to the executive team. Former CEO, Mr. Roland van der Post, has now left to be replaced by two executives, Mrs. Birgitte Van Hoesel-Snel, who joined the organization last year and who was a board member of a housing association and Mr. Erik Wilders, who will join in September 2013 and has worked as a director at the Dutch State Treasury Agency. Both will be responsible for operations and for the redefining the framework within which WSW operates, including management of operational and investment risk. With risk management at the core, the business model is defined in terms of the risk appetite of the supervisory board and its shareholders. In keeping with changes in the economic and credit environment, WSW has chosen to increase its focus on credit issues.

WSW's Capitalization And Collateral Support

WSW's capital comprises the investments that it holds and the cumulative sum of the net profits that it generates each year. Its profits are mainly driven by fees and net gains made by the investment portfolio. This is also referred to as risk capital and has generally been equal to about 0.60% of the guaranteed obligations over the past five years (see table 2). WSW holds its capital base in a mixture of cash, liquid government securities, and other liquid investments. It is restricted to investing in fixed-income instruments with a rating of at least 'AA' when the security is purchased. Currently, about 70% of the value of the pool is held in 'AAA' rated securities, and about 25% is held in 'AA' rated securities. While WSW's own capital remains low in absolute terms, we take comfort from WSW's ability to call capital from participants, which is equal to 3.85% of outstanding guaranteed debt and which associations make provisions for on their balance sheets, and most importantly from the backstop mechanism from Dutch municipalities and the central government.

At December 2012, WSW had risk capital of about €480.9 million and committed capital (callable from housing associations) of €3.3 billion to cover repayment commitments, as well as access to interest free loans from the government and municipalities in equal measure to ensure that it is able to meet its obligations (see table 2).

Besides the fees that WSW charges (approximately €12.5 million in 2012) and investment income, additional support is provided by the floating charge that WSW has over all property of the housing association for which it provides its

guarantees. The security is in the form of legal permission, granted by associations, to claim mortgage certificates if WSW needed them (a positive mortgage pledge on assets). Furthermore, associations also provide an undertaking not to pledge their own properties to other interested parties. In fact, the value of security that WSW holds far exceeds the value of the guaranteed obligations, standing at around €343.6 billion in 2011.

Therefore should there be a call on the obligations of WSW, in the first instance WSW will dip into its risk capital—which stands at about 0.5 billion. If this is not sufficient then WSW can call up the committed capital of its participants, which currently stands to about €3.3 billion and finally WSW also has in practice access to unlimited interest free loans in equal measure from municipalities and the central government. Besides this form structure, once WSW pays on an obligation, it has access to the collateral that has been pledged to WSW and in extremis, if the organization has not been able to repay the obligation to WSW, then WSW has the right and ability to sell that collateral and recover the payments made on behalf on the organization.

Table 2

Waarborgfonds Sociale Woningbouw Capitalization Structure, 2008-2017f										
	2017f	2016f	2015f	2014f	2013f	2012	2011	2010	2009	2008
Guaranteed loan obligations (Mil. €)	91,700	90,500	89,400	88,700	87,900	87,400	86,300	85,300	75,800	71,700
WSW risk capital (Mil. €)	546	533	520	507	494	481	486	482	476	452
Committed capital of participants (Mil. €)	3,473	3,427	3,384	3,358	3,324	3,300	3,200	3,284	2,918	2,760
Total capital (Mil. €)	4,019	3,960	3,904	3,865	3,818	3,781	3,686	3,766	3,369	3,212
Capital/ guaranteed loan obligations (%)	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total capital/guaranteed loan obligations (%)	4.4	4.4	4.4	4.4	4.3	4.3	4.3	4.4	4.4	4.5

f--Forecast.

Related Criteria And Research

- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings Detail (As Of July 29, 2013)

Waarborgfonds Sociale Woningbouw

Issuer Credit Rating AAA/Negative/--

Issuer Credit Ratings History

17-Jan-2012 AAA/Negative/--

07-Dec-2011 AAA/Watch Neg/--

02-Jun-1997 AAA/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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