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Research Update:

'AA+' Rating On Waarborgfonds Sociale Woningbouw Affirmed; Outlook Remains Positive

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Research Update:

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Overview

- We are affirming our 'AA+' 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 positive outlook reflects that on The Netherlands. We could raise the ratings on The Netherlands within the next 24 months if medium-term economic growth prospects improve beyond our current expectations, resulting in further budgetary consolidation and declining net government debt to below 60% of GDP.

Rating Action

On July 31, 2015, Standard & Poor's Ratings Services affirmed its 'AA+' long-term issuer credit rating on Dutch social housing guarantee fund Waarborgfonds Sociale Woningbouw (WSW). The outlook is positive.

Rationale

The long-term rating on 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, given the government's ultimate responsibility for ensuring WSW can meet its obligations.

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. Although recent reforms have led to some changes in the regulation and funding of the social housing sector, which in turn may create some transition risk, we believe this risk is unlikely to be material.

Our assessment is also 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 has its own risk capital of about €500 million, and it also has access to callable committed capital from the associations of about €3.3 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 that this figure is currently 0.57%.

The rating on WSW is also supported by its operating performance, which has generally been strong. In the financial year ending Dec. 31, 2014, WSW posted a healthy surplus of €27.6 million, reversing the €14.6 million deficit it had posted in 2013. (The deficit that year was largely due to paper losses on its investment portfolio, which soon recovered, and a provision for its liability to pay backdated corporation tax, estimated at €10.7 million.) On a cash flow basis, WSW's operating performance remained stable, rising to €18.9 million in 2014 from €17.7 million in 2013.

We understand that reforms to the sector will require housing associations to refinance debt that is associated with their commercial activities, and this refinancing will not be eligible for WSW guarantees. This is therefore likely to reduce the volume of debt guaranteed by WSW. At the same time, new demands on housing associations' cash flows, such as the recently imposed levies, are likely to continue to reduce housing associations' appetite for capital investment, and hence the demand for WSW's guarantees. Although this may in time constrain the income that WSW will generate from guarantee fees, we note that other reforms are giving increased responsibility to WSW, and strengthening its link with government, which we view as a net positive from a credit standpoint.

Liquidity

WSW has access to risk capital (free cash available to service obligations) estimated at about €500 million, to meet guarantee obligations that may arise. 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 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 positive outlook reflects that on The Netherlands. We could raise the ratings on the State of The Netherlands within the next 24 months if medium-term economic growth prospects improve beyond our current expectations, resulting in further budgetary consolidation and declining net government debt to below 60% of GDP--even excluding the proceeds from the planned sale of the government's stake in ABN AMRO.

We could revise the outlook to stable if, all other things being equal, we observe that economic growth prospects are weakening, or if the government's budgetary

position fails to improve significantly. Alternatively, we could lower the rating as a result of 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.

If we raised the rating on The Netherlands, we would likely also raise the rating on WSW, as long as we continued to believe that the entity plays a critical role and has an integral link with the Dutch government.

Related Criteria And Research

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015

Related Research

- Outlook On The Netherlands Revised To Positive On Economic Growth, Budgetary Consolidation; 'AA+/A-1+' Ratings Affirmed, May 22, 2015
- Waarborgfonds Sociale Woningbouw, Sept. 11, 2014

Ratings List

	Ratings	
	To	From
Waarborgfonds Sociale Woningbouw		
Issuer credit rating		
Foreign and Local Currency	AA+/Positive/--	AA+/Positive/--

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