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Research Update:

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

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Overview

- We equalize the rating on Dutch social housing guarantee fund Waarborgfonds Sociale Woningbouw (WSW) 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.
- We are therefore affirming our 'AAA' long-term issuer credit rating on WSW.
- The stable outlook reflects that on The Netherlands.

Rating Action

On July 4, 2017, 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

We equalize the long-term rating on WSW 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. We do not believe such support could be reduced, given the long-standing backstop agreement between WSW and the Dutch central and local governments.

Our opinion of the 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 funding costs of housing associations at a minimum. WSW is a not-for-profit private foundation, established in 1983, which guarantees loans provided by lenders to Dutch social housing associations.
- 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 itself, it could have a detrimental impact on the reputation and market access for other similar entities, and hence the access to funding of public sectors in general.

The Dutch housing associations have been in a period of substantial policy and regulatory changes since the introduction of the Housing Act that came into effect on July 1, 2015. One key change is the clearer definition of what kind of housing activities are considered "social," and that housing associations are in the process of separating the non-social activities either legally or administratively. WSW only

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grants guarantees to social housing activities, and housing associations would need to refinance legacy funding associated with non-social activities without the WSW guarantee.

We believe the refocus of housing associations' activities to public policy supports the critical role that WSW plays. In 2016, WSW guaranteed about €3.6 billion of new loans. Housing associations repaid €5.2 billion of principal, leading to a reduction in guaranteed debt. This confirms the trend of decreased guaranteed loan obligations. We believe such a decline is temporary given the uncertainties stemming from the ongoing changes to regulations and policies. Still, demand for social housing remains strong, ultimately fueling housing associations' demand for WSW's services.

From 2016, the Dutch state's policy toward supporting the social housing sector is focused on the activity of social housing, rather than supporting individual housing associations. The new insolvency regime for housing associations will allow orderly default. Should WSW have to step in to honor the guarantee it has extended to the entity, WSW lays a claim on all deployed assets of the defaulted housing association.

The change in insolvency regime marginally increased the likelihood that the guarantee issued by WSW would be called. To reduce the contingent liability this poses to the state, WSW focuses its strategy on strengthening its capacity to cover such guarantee with its own funds and claims on the securities pledged.

WSW reached an agreement in 2016 with the Minister for Housing and the Central Government Sector on several changes in the guarantee system, such that WSW calculates the risk appetite in the system and the introduction of differentiated premiums for participants. Before, the premium was a fixed fee as a percent of the remaining outstanding principal amount. Today, there are four different classes based on the various risk profiles, which we consider to be positive to WSW's own capital position. WSW is supervised by the Authority Housing Association (AW) together with housing associations. We expect WSW to have a close co-operation with AW, in particular on financial risk matters of housing associations, where WSW has significant experience and expertise.

Last year WSW posted a high €16.5 million in guarantee fees and a surplus of €12.6 million, compared to €8.5 million in 2015. WSW's revenues comprise fees paid by participating housing associations and returns on the investments that it holds. The fees and investments help maintain WSW's capital base and support the level of risk capital. Over the past few years, both fee and investment incomes have risen. At the same time, despite increasing expenditures, net profits have continued to support the capital base.

WSW invests exclusively in euro bonds. The maximum holding per issuer is 10%, except for the sovereign debt of eurozone countries. Fixed-income securities with an 'A' rating may not constitute more than 10% of the portfolio. If this percentage is exceeded as the result of a downgrade, the portfolio is rebalanced so that the limit remains. As of December 2016, the securities portfolio was composed of 55% of 'AA' rated securities and 45% of 'AAA' rated securities. WSW's investment portfolio is managed externally by an asset manager. In 2016, WSW's risk capital (free cash available to service obligations) amounted to €543 million. Since WSW invests exclusively in readily marketable securities, they can be liquidated at a very short notice.

Our assessment of WSW's creditworthiness incorporates the very strong three-tier security structure available to WSW in terms of its access to liquid funds in times of need. As a first step, WSW's risk free capital can be used to meet guarantee obligations. Secondly, WSW has access to callable capital of up to €3.1 billion from the members. Finally, unlimited access to interest free loans from the central government and municipalities in equal parts.

The last step in particular is a key factor behind our assessment of the almost certain likelihood of extraordinary support from the state. 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. Under the terms of the agreement, there can be at most a 75-day delay between a request and the funds becoming available by the central government and municipalities. 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 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 its provision of 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 19, 2017

Ratings List

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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