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PUBLIC SECTOR EUROPE

CREDIT OPINION
4 August 2017

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RATINGS

Waarborgfonds Sociale Woningbouw	
Domicile	Netherlands
Long Term Rating	Aaa
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Waarborgfonds Sociale Woningbouw

Update of Key Credit Drivers

Summary Rating Rationale

The Aaa issuer rating for Waarborgfonds Sociale Woningbouw (WSW) reflects WSW's strong linkages with the Government of the Netherlands (Aaa, stable) which include the central and local government backstop agreements which prevent WSW from suffering liquidity shortages, oversight exercised by the Dutch central government, and public policy mandate to support investment in Dutch housing corporations (HCs).

Credit Strengths

» Backstop agreement with the Dutch central and local governments to prevent liquidity shortages

» Government oversight of both WSW and the wider housing corporation sector by the Authority Housing Corporations (AHC)

» A multi-tiered structure including risk capital and callable capital would be utilised before calling on government liquidity support

Credit Challenges

» Guarantee (including government backstop) has never been tested

» Changes to Dutch social housing framework and policy generating uncertainty in the sector

Rating Outlook

The outlook is stable.

Factors that Could Lead to a Downgrade

» A downgrade in the sovereign rating

» The withdrawal of the backstop guarantee would result in significant downward pressure

» A shift in government policy resulting in weaker support or oversight of WSW

Issuer Profile

WSW is a not-for-profit entity, founded in 1983. WSW guarantees payment of interest and principal on loans taken out by Dutch housing corporations for social housing activities. Social housing plays a prominent role in the Netherlands making up roughly a third of the housing stock. The guarantee arrangement enables housing corporations to borrow at a lower cost, with the savings ultimately passed on to tenants via lower rents.

WSW's rating is on a par with the rating assigned to Waarborgfonds Eigen Woningen (WEW), a guarantee fund for the Dutch private housing sector. WSW and WEW are rated one notch above Stichting Waarborgfonds WMBO (WMBO), a guarantee fund for Dutch adult and vocational education institutions. WSW and WEW benefit from explicit backstop agreements with the Dutch central and municipal governments whereas WMBO does not benefit from an explicit backstop agreement.

Detailed Rating Considerations

Moody's considers WSW to be a government-related issuer. The WSW's credit strength is inextricably linked to that of the Government of the Netherlands due to its clear public policy mandate, direct oversight by the government, and backstop agreement provided by the central government. As such, its rating is derived primarily from the strength of the Government of the Netherlands (Aaa, stable) without assigning a Baseline Credit Assessment (BCA) as is described in Moody's rating methodology for government-related issuers entitled "Government-Related Issuers", published in October 2014.

BACKSTOP AGREEMENT WITH THE DUTCH CENTRAL AND LOCAL GOVERNMENTS TO PREVENT LIQUIDITY SHORTAGES

WSW benefits from a contractual backstop agreement with the Dutch central and local governments to prevent liquidity shortages at all times, the primary driver for its credit quality. If needed, these contributions would be made on a 50/50 basis by the municipalities (in proportion to the amount of loans guaranteed by WSW within their respective jurisdictions) and by the central government. If a municipality were unable to unwilling to pay its share, the central government would provide 100% of funding required.

WSW would call on its backstop agreements only in the unlikely event that its risk capital and callable capital (see below) are inadequate to meet its commitments. Under the terms of the backstop agreement, WSW can demand unlimited support to ensure that (i) its reserve to guaranteed loans ratio returns to 0.25%, and (ii) all participants' loan obligations are covered. At year end 2016, WSW's risk capital covered 0.65% of its guaranteed loans, more than double the amount which would trigger the backstop agreement.

The government monitors its exposure and WSW's financial health through annual five-year cash flow forecasts, which are a condition of the backstop agreement. Detailed forecasts facilitate forward-looking oversight of WSW's financial position.

The backstop agreement includes a clearly delineated timeline for liquidity support. 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, it could take up to 75 days before the funds are transferred to WSW. We believe that this risk is mitigated by WSW's €531 million (as of December 2016) risk capital and its ability to call on capital from its members. Furthermore, WSW has access to facilities of almost €1 billion through two banks, BNG and KBL. The KBL facility is a repurchase agreement for €450 million accessible within three hours.

GOVERNMENT OVERSIGHT INCLUDING MONITORING OF WSW AND HOUSING CORPORATIONS BY THE AUTHORITY HOUSING CORPORATIONS

Government oversight of WSW has strengthened over the last year, supporting the view that the social housing sector continues to be a key pillar of the Dutch welfare state. WSW is now formally monitored by the recently-created Authority Housing Corporations (AHC), a government entity. Under legislation which took effect in July 2015, WSW's recently strengthened risk management framework will be part of a governmental decree. Significant policy changes have to be approved by the government, and it has the authority to dismiss the entire Supervisory Board of WSW and appoint new board members in cases of non-compliance or mismanagement. The AHC published in July 2017 a report on WSW's governance and management, including recommendations on the board's structure which are being taken up by WSW, highlighting the strong oversight of the government. The report's findings do not affect Moody's view of WSW's financial viability.

The 2015 legislation formalises the oversight of WSW as well as its role as the primary facilitator of restructuring cases in the social housing sector. Changes to the institutional framework also include abolishing The Central Fund for Social Housing (Centraal Fonds voor de Volkshuisvesting or CFV) which had acted a supervisor for the wider social housing sector, a responsibility which now sits with the AHC. The AHC will perform detailed risk analysis at the entity level for the sector.

In addition to the scrutiny provided by the AHC, the WSW monitors the financial health of member housing corporations. WSW assigns internal credit ratings utilising its credit risk model which assesses numerous factors including the housing market, the finances of individual HCs, their managerial quality and compliance with WSW's risk policy and requirements. WSW's credit assessment of housing corporations is used internally to manage its risk, although over the last couple years, the organisation has also been focused on increased transparency and engagement with its members.

ROBUST RISK MANAGMENT FRAMEWORK AND MULTI-TIERED STRUCTURE MINIMISE LIKELIHOOD OF CALLING ON GOVERNMENT LIQUIDITY SUPPORT

WSW manages its risk exposure with an intention to call on the government backstop only in a worst-case scenario, and has several layers of security it can employ prior to exercising its option for liquidity support under the backstop agreement. The first layer of security is €531 million in own-source capital (as of December 2016). Of this, the vast majority is invested in highly rated, liquid securities. WSW's investment objective is to preserve capital and to offset the impact of inflation.

The second layer of financial security is its ability to call capital from its members if its risk capital diminishes to less than 0.25% (€206 million in 2016) of outstanding guarantees. Members are required to make available funds equal to 3.85% of their outstanding WSW-guaranteed loans, held as contingent liabilities on their balance sheets. As of 31 December 2016, 3.85% of outstanding guaranteed loans equaled €3.1 billion of callable capital.

The final layer of security and source of funds is the ability to call on its government backstop, in the event of a severe stress scenario.

WSW adopted a new risk management framework in 2013 which includes detailed risk appetite parameters, including a cap of €3.5 billion on guaranteed loans for any one housing corporation. The newly-defined limit will mitigate concentration risk and, by WSW's calculations, result in a 99% likelihood that the WSW would be capable of funding calls on its guarantees without resorting to liquidity support from the central government.

GUARANTEE (INCLUDING GOVERNMENT BACKSTOP) HAS NEVER BEEN TESTED

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 or central government backstop agreements. The WSW guarantee structure has never been tested, although several corporations have experienced financial distress. We believe this track record reflects the strong intervention and restructuring capabilities of the government and the WSW which have stepped in for several entities experiencing financial distress.

WSW has no outstanding debt. Total guaranteed obligations were €82.2 billion in 2016, down from €83.8billion in 2015. WSW expects a further weakening in the demand for loan guarantees over the next few years which will result in a decrease in guaranteed loan obligations. This is partly due to cash flow pressures with the introduction of a new landlord levy by the government, as well as a broad tempering of risk appetite in the sector following recent legislative changes.

CHANGES TO THE DUTCH SOCIAL HOUSING REGULATORY FRAMEWORK AND POLICY GENERATING UNCERTAINTY IN THE SECTOR

The Dutch government has taken proactive steps to de-risk the sector following high profile failures in the market, including the financial collapse of Vestia in 2012 which had to obtain an emergency €1.6 billion government-backed loan to meet a margin call on its derivatives portfolio. The Housing Act has resulted in further changes to the risk profile of housing corporations whose debt is guaranteed by the WSW. Changes affecting housing corporations include a streamlining of regulatory responsibility for the sector, restrictions on use of derivatives, a strict separation of commercial activities, and strengthened influence from municipalities over housing corporations' strategies.

The current political climate is driven by a view that Dutch housing corporations' strategies should be focused on core activities rather than riskier commercial business streams, and that the sector should have increased scrutiny of its activities, including increased influence from municipalities and tenants.

For the WSW, the changes will result in a shift in the risk profile for its guaranteed debt, as housing corporations will no longer be able to use WSW government-guaranteed debt for riskier commercial activities. In addition, the legislation incorporates increased responsibility for the WSW as the official arbiter in restructuring cases and formalises its role as risk assessor for housing corporations, although regulatory responsibility ultimately lies with the AHC.

The WSW and the AHC are working to harmonise their risk assessment criteria and approach, ahead of implementation of the revised regulatory framework in 2019. While there is some uncertainty around the regulatory approach during this period of transition, the AHC will continue its risk-based assessment and retains powers to intervene in poorly performing HCs.

Ratings

Exhibit 1

Category	Moody's Rating
WAARBORGFONDS SOCIALE WONINGBOUW	
Outlook	Stable
Issuer Rating	Aaa

Source: Moody's Investors Service

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