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CREDIT OPINION
29 September 2021

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RATINGS

Waarborgfonds Sociale Woningbouw

Domicile	Hilversum, 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

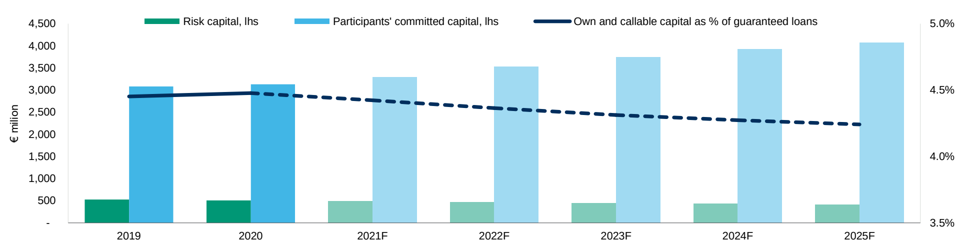
Update to credit analysis

Summary

The credit profile of Waarborgfonds Sociale Woningbouw (WSW, Aaa stable) reflects its very strong links with the Government of Netherlands (Aaa stable), which are derived from the backstop agreement that prevents WSW from liquidity shortages, as well as a high degree of oversight exercised by the government. The rating also takes into account the first call ever on a WSW guarantee in 2019, and a higher likelihood of calls on guarantees because of changes in the resolution framework.

The coronavirus pandemic is creating a severe and extensive credit shock across many sectors. However, the impact of the pandemic on WSW has been limited because of the proactive role of the central government to mitigate financial risks.

Exhibit 1
WSW's guarantee structure developments



F = Forecast
Sources: WSW and Moody's Investors Service

Credit strengths

» Backstop agreement with the Dutch central and local governments

» Strong policy interest and oversight by the Dutch government

» Continued strong demand for WSW's services despite the coronavirus crisis

» Robust risk management framework and multitiered guarantee structure

» Legislative changes that enhance the resilience of the guarantee system

Credit challenges

» Use of risk capital for the first time; problem case has tested the resolution framework

Rating outlook

The rating outlook is stable, reflecting the stable outlook of the Government of Netherlands. The stable outlook also reflects our expectation that WSW's clear public policy mandate and the backstop agreement provided by the central government will remain unchanged.

Factors that could lead to a downgrade

» A downgrade of the sovereign rating

» The withdrawal of a backstop guarantee, which would result in significant liquidity pressure

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

Key indicators

Exhibit 2

Waarborgfonds Sociale Woningbouw

Guaranteed loan portfolio and capital statistics (in € millions)

	2019	2020	2021F	2022F	2023F	2024F	2025F
Guaranteed Loan Obligations	81,000	81,300	85,600	91,700	97,400	102,100	105,900
Capital (Own Source)	527	510	491	472	450	432	414
Committed Capital from Participants (Callable)	3,080	3,130	3,296	3,530	3,750	3,931	4,077
Total Capital	3,607	3,640	3,786	4,002	4,200	4,363	4,492
Total Capital / Guaranteed Loan Obligations (%)	4.5%	4.5%	4.4%	4.4%	4.3%	4.3%	4.2%
Callable Capital Level (at which backstop providers are required to make interest free loans - 0.25% of guaranteed debt)	203	203	214	229	244	255	265
Callable Capital Level (0.65% of guaranteed debt as of 2019)	527	528	556	596	633	664	688

F = Forecast

Source: WSW and Moody's Investors Service

Profile

Waarborgfonds Sociale Woningbouw (WSW) is a not-for-profit entity, founded in 1983. WSW guarantees the payment of interest and principal on loans taken by Dutch housing associations (HAs) for activities carried out in the field of social housing. Social housing plays a prominent role in the Netherlands, making up roughly one-third of the housing stock. A guarantee arrangement enables housing corporations to borrow at a lower cost, with the savings ultimately passed on to tenants through lower rents.

WSW's rating is on par with the rating assigned to Stichting Waarborgfonds Eigen Woningen (WEW, Aaa stable), a guarantee fund for the Dutch private housing sector. WSW and WEW are rated one notch above Stichting Waarborgfonds MBO (WMBO, Aa1 stable), 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 credit considerations

Baseline Credit Assessment

Backstop agreement with the Dutch central government and local governments

WSW benefits from a contractual backstop agreement with the Dutch central and local governments to prevent liquidity shortages at all times, which is the primary driver for its credit quality. If necessary, 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 the central government. If a municipality was unable or unwilling to pay its share, the central government would provide 100% of the funding required.

WSW would call on its backstop agreement only in the unlikely event that its risk capital and callable capital are inadequate to meet its commitments. Under the terms of the backstop agreement, WSW can demand interest-free loans if its capital falls below 0.25% of guaranteed debt, such that all participants' loan obligations are covered. In addition, WSW has access to callable capital if the minimal risk capital level falls to 0.65% of guaranteed debt. Since its inception in 1983, there has never been a call on the backstop agreement.

The government monitors WSW's exposure and financial health through annual five-year cash flow forecasts, which are conditions in the backstop agreement. Detailed forecasts facilitate a 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 €520 million (as of the end of December 2020, inclusive of a provision for the resolution of problem cases, Stichting Humanitas Huisvesting [SHH] and Woningstichting Geertruidenberg [WSG]) risk capital and its ability to call on capital from its members. Furthermore, WSW has access to a bank facility of €423.5 million under which cash amounting to 95% of the market value of the investment portfolio is made immediately available in the event of a claim.

Strong policy interest and oversight by the Dutch government

The Housing Act passed in 2015 has strengthened the government oversight of WSW and reaffirmed the fact that the social housing sector remains a key pillar of the Dutch welfare state. The legislation took previous changes to the sector a step further and limited social housing to those in need, and had landlords (which are mainly HAs) contribute to the cost of social housing through an increased levy on the sector.

Under measures introduced as part of the Housing Act, WSW is now formally monitored by the Authority Housing Corporations (AHC), a government entity, with its risk management framework a 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 case of noncompliance or mismanagement.

The Housing Act established the AHC as the government body responsible for regulating and monitoring risk in the social housing sector, both at the entity and sector levels. In addition, WSW monitors the financial health of member housing corporations. Because most of the sector is effectively monitored by both organisations, WSW and the AHC have worked together to establish a consistent risk assessment framework to ease the regulatory burden on housing corporations. Under the new framework, WSW will lead on assessing financial risk and the AHC will lead on assessing the risks associated with governance. However, information will be shared between the two organisations.

WSW has strengthened its oversight of housing corporations, which had a guarantee in the last three years, with an aim to manage its risk more effectively and to be more transparent and engaged with its members. It assigns internal credit ratings using its credit risk model, which assesses numerous factors, including the housing market, the finances of individual housing corporations, and their managerial quality and compliance with WSW's risk policy and requirements.

Continued strong demand for WSW's services despite the coronavirus crisis

Demand for social housing in the Netherlands remains strong, despite the weak economic conditions driven by the coronavirus pandemic. The fact that nearly a third of the housing stock is owned by housing associations ultimately fuels housing corporations' demand for WSW's guarantees. As of December 2020, 282 or 98% housing corporations in the Netherlands had WSW guarantees on €81.3 billion of loans, up from €80 billion in 2019. Loans guaranteed to the top 14 HAs amounted to €26.5 billion in 2020, representing 32.7% of total guaranteed loans. However, the number of HAs in the high-risk category decreased to one in 2020 from six in 2018.

We do not expect the pandemic to have a material impact on WSW's credit profile and social housing sector in the Netherlands as the government has introduced several measures to mitigate the negative effects of the crisis. These measures include a rule, according to which, tenants who have lost their incomes and therefore cannot afford to pay rent cannot be evicted. In addition, an emergency law has been enacted that allows tenants to extend temporary lease contracts. The government has also financially supported employers to help minimise job losses and furthermore, provided financial compensation to vulnerable citizens, limiting the restrictions on HAs' cash flows.

Robust risk management framework and multitiered guarantee structure

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 to employ before exercising its option for liquidity support under the backstop agreement. The first layer of security is WSW's own-source capital, which was €520 million as of December 2020 (99.98% invested in highly rated, liquid debt securities, with the remainder in cash), to cover one-off or repeated nonpayments 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 recoup the outlay sales of these assets. As of year-end 2020, WSW was able to cover 0.63% of its total guarantee portfolio through own-source capital.

If failures were to be more widespread and potentially greater than what WSW can meet, WSW can call capital from its member HAs. In 2019, WSW had reached an agreement with key stakeholders to increase the requirement to hold a minimum of 0.65% capital against WSW guarantees from the previous 0.25%, resulting in a higher callable capital level of €521 million, which further enhanced the resilience of the guarantee system. All members are obliged to make available capital equal to 2.6% of the nominal value of their outstanding WSW-guaranteed loans (through a specific credit facility in a sector bank wherein WSW has drawing rights) if WSW's capital is not sufficient to pay guarantee claims, with the addition of a percentage set between 0 and 0.25% on the total number of guarantees to be paid annually. WSW had direct access to €3.1 billion of participant HAs' callable capital as of year-end 2020. Counting the access to callable capital in addition to its own capital, WSW covered 4.5% of its total guarantee portfolio.

If, for any reason, the first two lines of resources do not prove to be adequate to meet WSW's commitments, WSW would invoke additional capital calls from its contractual backstop agreements with the local and central governments.

Exhibit 3

Guarantee system funding

Data as of year-end 2020

Intervention Stage	Source of Funds	Amount (€ million)	Debt Service Commitment (€ billion)	Cumulative Coverage %	Guaranteed Loan Portfolio (€ billion)	Cumulative Coverage %
1	WSW Capital	520		8.3		0.6
2	Callable Capital from Participants	3,130	6.3	57.9	81.3	4.5
3	Backstop Providers Capital Injection	Unlimited		100		100

Source: WSW and Moody's Investors Service

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

Legislative changes enhance the resilience of the guarantee system

The Housing Act has resulted in credit-positive changes to the risk profile of housing corporations, whose debt is guaranteed by WSW. Changes affecting housing corporations include the streamlining of regulatory responsibilities for the sector, restrictions on the use of derivatives, a separation of commercial activities and the strengthened influence of 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. For WSW, the changes will result in a shift in the risk profile of its guaranteed debt, as housing corporations are no longer able to use WSW's government-guaranteed debt for riskier commercial activities.

To further strengthen the guarantee system, in 2019, WSW worked with its key stakeholders, including the participants' council, the Ministry of Interior and Kingdom Relations (BZK), the Association of Dutch Municipalities (VNG) and the Federation of Social Housing Corporations (Aedes), resulting in a strategic programme and integrated package of measures.

In addition, since January 2019, the Authority for Housing Corporations and WSW have introduced a joint assessment framework, which will help WSW apply more effective and efficient ways to monitor participating housing corporations. Newly introduced financial ratios and valuation criteria will evaluate the financial position and credit risk of the HAs.

Use of risk capital for the first time, however problem case has tested the resolution framework

In 2019, WSW used its risk capital for the first time since it was established to facilitate the rescue of two housing corporations, SHH and WSG. The government and WSW agreed on the resolution plan, resulting in a call of the guarantee including the use of its risk capital for the first time. Since then, WSW's annual cash outflows have increased and the provision of €21.3 million was formed to serve the guarantee obligations on the loans of SHH and WSG. However, the use of WSW's risk capital was sufficient to cover all obligations not requiring the use of callable capital.

Following the implementation of the Housing Act, the government can provide financial support only for social housing assets deemed necessary by the local government to meet housing needs, with any residual loss potentially leading to calls on the guarantee. The system will no longer save the legal entity as a whole. This new provision is likely to lead to more calls on WSW guarantees, with WSW responsible for debt servicing on guaranteed loans. Although calls on the guarantees are credit negative, we view the risk as manageable because WSW has strong visibility into any problem cases through monitoring its members; WSW negotiates resolutions directly with the government and has advance warning of potential claims; losses are covered by the sector under either approach, either through a levy charged by the government or through callable capital exercised by WSW; and WSW is responsible for debt servicing only under the terms of the guarantee, with creditors not allowed to accelerate their loans under the agreement in cases of insolvency, thus limiting the potential for material cash outflows.

In July 2019, WSW reached an agreement with Stichting Woonbron housing corporation, to transfer SHH's assets and some of its liabilities, with WSW using €128 million of its risk capital to facilitate the merger. SHH did not receive any resolution support by the government in the restructuring process.

WSG is another financially unsustainable housing corporation, which was rescued in the first half of 2019, with WSW making a provision of €146.7 million for a guarantee claim presented to WSW to service the loans still held by WSG. WSG's assets and liabilities are split and merged with eight separate housing corporations. The government agreed to provide a partial resolution support amounting to €312 million.

Both SHH and WSG have appealed against the State resolution decisions and according to WSW's expectations, the legal proceedings should be concluded by 2022 and will likely weaken the value of the guarantee obligations.

ESG considerations

How ESG risk informs our credit analysis of WSW

We take into account the impact of the environmental, social and governance (ESG) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of WSW, the materiality of ESG considerations to its credit profile are as follows:

Environmental considerations are not material to WSW's credit profile. In line with the rest of the Netherlands, its main environmental risk exposures relate to flood risk. Flood risk is managed by region and national authorities, and therefore, the financial burden of adapting to increased flood risk will not fall on WSW.

Social considerations are not material to WSW's credit profile. WSW is exposed to risks stemming from socially driven policy agendas and is also affected by the impact of demographic trends. Nevertheless these risks are not material for the rating, given WSW's strategic role and the support coming from the Dutch central government. We expect the pandemic to weaken the social housing sector in the Netherlands, but also WSW to be able to mitigate the weakness so that its credit profile is not materially affected. The main impact will likely be manifested through operational challenges, including staffing shortfalls and redeployment, and eventual increases in guarantee calls in 2021-22 because of higher unemployment. Nevertheless, these risks are not material for the rating, given WSW's strategic role and the support from the Dutch central government.

Governance considerations are material to WSW's credit profile. The governance framework is intrinsically intertwined with the supporting government, which exerts strong oversight and heavily influences the definition of its strategy.

Further details are provided in the “Detailed credit considerations” section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks.

Rating methodology and scorecard factors

We consider WSW a government-related issuer. WSW's credit strength is inextricably linked to that of the Government of Netherlands because of the company's clear public policy mandate, direct oversight by the government and the backstop agreement provided by the central government. As such, its rating is derived primarily from the strength of the Government of the Netherlands without assigning a Baseline Credit Assessment (BCA), as described in our Government-Related Issuers rating methodology, published in February 2020.

Ratings

Exhibit 4

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

Source: Moody's Investors Service

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