

CREDIT OPINION

19 October 2022

Update



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RATINGS

Waarborgfonds Sociale Woningbouw

Domicile	Huizen, 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 (Netherlands)

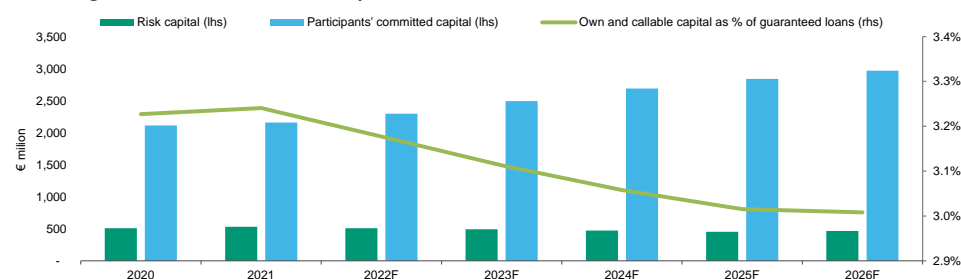
Update to credit analysis

Summary

The credit profile of [Waarborgfonds Sociale Woningbouw](#) (WSW, Aaa stable) reflects its critical public policy role as financial guarantor of Dutch social housing system, its very strong links with the [Government of Netherlands](#) (Aaa stable), derived from the backstop agreement that prevents WSW from liquidity shortages. It also takes into account WSW's three layers of security to bolster its satisfactory liquidity position as well as a high degree of oversight. It is constrained by uncertainty stemming from the legal appeal against the government's decision to refuse a full or partial resolution grants for two member associations, which would require WSW to make additional provisions for future payments.

Exhibit 1

WSW's guarantee structure developments



F = Forecast

Source: WSW and Moody's Investors Service

Credit strengths

- » Government-defined mandate to guarantee debt issued by Dutch housing associations
- » Strong linkages with the Dutch government
- » Continued strong demand for WSW's guarantees
- » Robust risk management framework and multitiered guarantee structure
- » Established monitoring procedures and resilience of the guarantee system

Credit challenges

- » Potential exposure to greater risk due to new calls on guarantees and negative outcome of ongoing legal proceedings

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 (€ million)							
	2020	2021	2022F	2023F	2024F	2025F	2026F
Guaranteed Loan Obligations	81,300	83,000	88,400	95,900	103,500	109,300	114,200
Capital (Own Source)	510	532	510	492	474	454	466
Committed Capital from Participants (Callable)	2,114	2,158	2,298	2,493	2,691	2,842	2,969
Total Capital	2,624	2,690	2,808	2,985	3,165	3,296	3,435
Total Capital / Guaranteed Loan Obligations (%)	3.2%	3.2%	3.2%	3.1%	3.1%	3.0%	3.0%
Callable Capital Level (at which backstop providers are required to make interest free loans - 0.25% of guaranteed debt)	203	208	221	240	259	273	286
Callable Capital Level (0.65% of guaranteed debt as of 2019)	528	540	575	623	673	710	742

F = Forecast

Note: Capital (Own Source) is based on Dec. 2021, including the expected outflow due to the debt servicing under the terms of the guarantee. Forecast does not take into account the annual capital levy which will ensure the minimal capital level of 0.65% of guaranteed debt.

Source: WSW and Moody's Investors Service

Profile

Waarborgfonds Sociale Woningbouw (WSW) is a not-for-profit entity, founded in 1983 to ensure that housing associations (HAs) in the Netherlands are able to borrow at advantageous rates to finance development of the national stock of affordable housing. WSW guarantees the payment of interest and principal on loans taken by 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 multi-stage support system has been developed to make sure that WSW can fulfil guarantee obligations were several member HAs to face problems at the same time. Were an HA to fall behind with its payments under a loan, WSW would step in under the same terms and conditions and the loan would not be accelerated. WSW maintains adequate internal capital, and has a strong call on the capital of its members, who represent 98% of the social housing system. Additionally WSW has contractual backstop agreements from the central and local governments to assure that it can meet any obligations, failing its first lines of resources.

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.

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Detailed credit considerations

Baseline Credit Assessment

Government-defined mandate to guarantee debt issued by Dutch housing associations

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 ultimately 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. However, WSW's decision to increase the minimal risk capital level to 0.65% reduces the chances of capitalisation falls below 0.25%, which will trigger the backstop agreement. Since its inception in 1983, there has never been a call on the backstop agreement.

The backstop arrangement, agreed by contract provides the final underpinning of WSW's financial strength and strengthen its ties with central government. 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.

According to the terms of the backstop agreement, theoretically, it could take up to 75 days before the requested funds to restore WSW's capitalisation become available. We believe that this risk is mitigated by WSW's €532 million (year-end 2021, 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 by using the callable capital facility from its members.

Strong linkages with the Dutch government

The Housing Act passed in 2015 has strengthened the linkages between WSW and the central government 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 for 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 focuses on assessing financial risk and the AHC leads on assessing the risks associated with governance. However, information is shared between the two organisations.

Continued strong demand for WSW's guarantees

Demand for social housing in the Netherlands remains strong as nearly a third of the housing stock is owned by housing associations, which ultimately fuels housing corporations' demand for WSW's guarantees. As of December 2021, 276 or 98% housing corporations in the Netherlands had WSW guarantees on €83 billion of loans, up from €81.3 billion in 2020. Total guaranteed obligations are projected to reach €114 billion by 2026, an increase of about 38% compared to 2021.

The pandemic has had a limited impact on WSW's credit profile and social housing sector in the Netherlands as the government has introduced several measures including financial compensation to vulnerable citizens mitigating the risk of rent losses and limiting the restrictions on HAs' cash flows.

Robust risk management framework and multitiered guarantee structure

WSW 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 reserve, which was €532 million as of December 2021. The reserve was backed by a securities portfolio of €496 million, invested exclusively in highly rated, with the remainder invested in cash. Approximately 45% of the securities portfolio was invested in Aaa-rated securities; with a lowest rating of Aa3 and average maturity of the portfolio of 5.6 years. The funds are managed within strict guidelines.

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, valued at €318.4 billion at year-end 2021, 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 2021, WSW was able to cover 0.64% of its total guarantee portfolio through own-source capital.

In the event that WSW's capital is insufficient to pay guarantee claims, WSW can request the injection of capital funds from its member HAs. 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 with a sector bank wherein WSW has drawing rights), with additional option to call up to 0.33% of the total guaranteed debt annually to maintain adequate risk capital. At the end of 2021, the members' committed capital was about €2.2 billion, which in addition to its own capital, is well above the risk capital requirement, covering 3.2% of WSW's total guaranteed loans.

In 2021, WSW called on the committed capital from its member HAs for the first time, injecting €50 million to supplement its risk capital to the minimum level of 0.65% of guaranteed debt.

If, for any reason, the first two lines of resources do not prove to be adequate, WSW can demand unlimited support from the backstop entities in order to ensure that (i) capital-to-loan guarantee ratio returns to 0.25%, and (ii) all participants' loan obligations are covered.

Established monitoring procedures and resilience of the guarantee system

WSW's main source of risk is the quality of the HAs loans it guarantees. About 31% of the total exposure is concentrated in approximately 5% of all participating HAs. The concentration reflects the size of some of the largest and most active HAs, operating in and around Amsterdam, The Hague, Rotterdam and Utrecht. However, the number of HAs in the high-risk category remained one in 2021 compared with six in 2018.

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.

To assess and monitor asset quality risk, WSW uses a credit risk model which examines the overall market and the financial position of individual HA. The revised Housing Act along with the recent introduction of the strategic programme and integrated package of measures have further strengthened the guarantee system allowing WSW to focus on preventing guarantee claims and ensuring that the risk capital and capital committed from the member HAs is sufficiently robust. WSW notes that the overall credit quality of the HA sector is adequate and has continued to improve. WSW's credit monitoring saw the total number of high-medium risk score HAs decreased to 15 in 2021 from 19 in 2020.

The Authority for Housing Corporations and WSW have introduced a joint assessment framework in 2019, which was updated in 2021, helping WSW to 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.

Potential exposure to greater risk due to new calls on guarantees and negative outcome of ongoing legal proceedings

Following the implementation of the Housing Act, the government through WSW no longer provides financial backing of the legal entity as a whole and instead supports only core activities of HAs, with any residual loss potentially leading to calls on the guarantee. As a result, in 2018, the request for resolution support was (partially) rejected by the central government and that resulted in the call on the guarantee for the first time in WSW's history.

WSW has lodged an appeal against the decision of the central government to refuse full (SHH) and partial (WSG) resolution grants with the legal proceedings expected to be concluded in 2023. Despite the uncertain outcome of the appeal, WSW has made a provision of €119 million in case the court ruling is not in favor of WSW.

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 current guarantee system has the potential to accommodate any outcome. In addition, 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.

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 3

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

Source: Moody's Investors Service

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