MOODY'S
PUBLIC SECTOR EUROPE

CREDIT OPINION
29 November 2019

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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.*


Contacts

Gjorgji Josifov +420.2.2410.6431
*AVP-Analyst*
gjorgji.josifov@moodys.com

Massimo Visconti +39.02.9148.1124
*VP-Sr Credit Officer/Manager*
massimo.visconti@moodys.com


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# Waarborgfonds Sociale Woningbouw (the Netherlands)

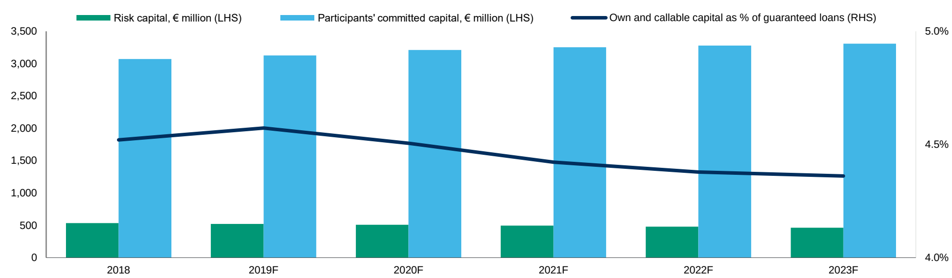
Update to credit analysis

## 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 backstop agreement that prevents WSW from facing liquidity shortages, as well as a high degree of oversight exercised by the government and its public policy mandate to support investment in housing corporations. The rating also takes into account the first call ever on a WSW guarantee in 2019, and a higher likelihood of calls on guarantees and use of WSW's risk capital, because of changes in the resolution framework for distressed housing corporations.


Exhibit 1

**WSW's guarantee structure developments**




F = forecast.
*Source: WSW and Moody's Investors Service*

## Credit strengths

» Backstop agreement with the Dutch central and local governments

» Government policy interest and strong oversight because of WSW's role in supporting social housing through guarantees

» Robust risk management framework and multitiered structure, which minimise immediate exposures and systemic risks

» Legislation de-risking housing corporations and limiting non-core activities

## Credit challenges

» Use of risk capital for the first time and changes in the resolution framework make calls on guarantee and use of risk capital more likely

## 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 would result in significant downward 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)**

| | 2018 | 2019F | 2020F | 2021F | 2022F | 2023F |
|---|---|---|---|---|---|---|
| Guaranteed Loan Obligations | 79,800 | 79,800 | 82,600 | 84,800 | 85,900 | 86,600 |
| Capital (Own Source) | 535 | 522 | 508 | 494 | 478 | 464 |
| Committed Capital from Participants (Callable) | 3,072 | 3,127 | 3,212 | 3,253 | 3,280 | 3,307 |
| Total Capital | 3,607 | 3,649 | 3,721 | 3,750 | 3,761 | 3,776 |
| Total Capital / Guaranteed Loan Obligations (%) | 4.5% | 4.6% | 4.5% | 4.4% | 4.4% | 4.4% |
| Callable Capital Level (at which backstop providers are required to make interest free loans - 0.25% of guaranteed debt) | 199 | 199 | 207 | 212 | 215 | 217 |
| Callable Capital Level ( 0.65% of guaranteed debt as of 2019) | 199 | 519 | 537 | 551 | 558 | 563 |

F = forecast.
*Source: WSW and Moody's Investors Service*

## Profile

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 via lower rents. As of December 2018, 306 out of 316 (98%) housing corporations in the Netherlands had WSW guarantees on €79.8 billion of loans, down from €81.1 billion in 2017.

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

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 Netherlands, without assigning a Baseline Credit Assessment, as described by our Government-Related Issuers rating methodology, published in June 2018.

**Backstop agreement with the Dutch central government 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, 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 were 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 €535 million (as of the end of December 2018, inclusive of a provision for the resolution of problem cases, Humanitas and WSG) risk capital and its ability to call on capital from its members. Furthermore, WSW has access to a KBL facility, which is a repurchase agreement for €423 million accessible within three hours.

**Government policy interest and strong oversight because of WSW's role in supporting social housing through guarantees**

For a number of years, social housing in the Netherlands and the roles and responsibilities of HAs have been undergoing significant political consultation and reform. The agreement reached in 2015 has strengthened the government oversight of WSW and reaffirmed the fact that the social housing sector continues to be 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 to have 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 being 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 for 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.

**Robust risk management framework and multitiered structure minimise immediate exposures and systemic risks**

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 before exercising its option for liquidity support under the backstop agreement. The first layer of security is WSW's own-source capital, which was €535 million as of December 2018 (with 99.97% invested in highly rated, liquid debt securities), 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. WSW was able to cover 7.5% of its debt service commitment of €7.1 billion for 2018 or 0.67% of its total guarantee portfolio via own-source capital.

If failures were to be more widespread and potentially greater than WSW can meet, WSW can call capital from its member HAs. The requirement to hold a minimum of 0.25% capital against WSW guarantees (€199 million in 2018) was increased to 0.65% in 2019 resulting in higher callable capital level of €519 million. All members are required to make available capital equal to 3.85% of their WSW-guaranteed loans. WSW had direct access to €3.0 billion of participant HAs' callable capital as of year-end 2018. Counting the access to callable capital in addition to its own capital, WSW covered 50.8% of its maximum debt service commitment for 2018, or 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 government.

Exhibit 3

**Guarantee system funding**

**Data as of year-end 2018**

| Intervention Stage | Source of Funds | Amount (€ million) | Debt Service Commitment (€ billion) | Cumulative Coverage % | Guaranteed Loan Portfolio (€ billion) | Cumulative Coverage % |
|---|---|---|---|---|---|---|
| 1 | WSW Capital | 535 | | 7.5 | | 0.7 |
| 2 | Callable Capital from Participants | 3,072 | 7.1 | 43.3 | 79.8 | 4.5 |
| 3 | Backstop Providers Capital Injection | Unlimited | | 100 | | 100 |

*Sources: 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.

**Legislation de-risking housing corporations and limiting non-core activities**

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 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, and that the sector should have increased scrutiny of its activities, including the increased influence from municipalities and tenants. For WSW, the changes will result in a shift in the risk profile of its guaranteed debt, as housing corporations will no longer be able to use WSW's government-guaranteed debt for riskier commercial activities.

**Use of risk capital for the first time and changes in the resolution framework make calls on guarantees and use of risk capital more likely**

WSW used its risk capital for the first time in the first half of 2019 to facilitate the rescue of two housing corporations in distress. In addition to changes applicable to housing corporations, the Housing Act included changes to the resolution framework for housing corporations in financial difficulty. The government appointed WSW as the official arbiter of restructuring problem cases, and redefined the government's priorities and obligations for cases of distressed housing corporations. Before the legislation, the government would bail out an insolvent housing corporation, with the cost of the rescue collected from the sector in advance through a levy. This system resulted in the rescue of the legal entity, with no potential for bankruptcy. The government's view was that the lack of potential for bankruptcy led to a moral hazard risk.

Under the new legislation, the government will 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 change 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 (1) WSW has strong visibility into any problem cases through monitoring its members; (2) WSW negotiates resolutions directly with the government and has advance warning of potential claims; (3) 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 (4) 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.

Although the Housing Act has limited the amount of risk housing corporations can engage in, there are some legacy cases of distressed HAs likely to be resolved in 2019, which will result in the use of WSW's risk capital and calls on the guarantee for the first time. Over the medium term, the resolution of problem cases may result in a call for capital from its members, which is credit negative.

Humanitas Housing Foundation (Humanitas) merged with Woonbron housing corporation in July 2019, with WSW using €128 million of its risk capital to facilitate the merger. Humanitas' failure follows unsuccessful attempts to resolve its financial problems stemming from extensive borrowing, poor governance and challenges associated with its care provision dating back to 2010. WSW has worked with Humanitas for many years, attempting to resolve its issues as per its established process: in the first instance, through a recovery plan; then a restructuring plan; and finally, a request to the government for financial support if the recovery and restructuring plans are unsuccessful. The government and WSW agreed on the resolution plan, resulting in a call of the guarantee in July 2019, including the use of its risk capital for the first time. Risk capital is not likely to deplete to a level that would require the use of callable capital as a result of the Humanitas rescue.

Woonstichting Geertruidenberg (WSG) is another financially unsustainable housing corporation, which was rescued in H1 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. The exact size of this provision will be based on a possible outflow of funds equal to the loan servicing payments for the next four years. WSG's assets and liabilities will be split and merged with eight separate housing corporations. WSG's problems arose from extensive pre-recession land purchases, which resulted in losses and incomplete projects when the property market crashed in the Netherlands in 2009, in addition to unprofitable contracts for care activities. The government agreed to provide a subsidy of €312 million to rescue WSG, which will be collected through a levy on the sector.

Over the medium term (next five years), there is potential for WSW to need to call on its members to renew its capital because of obligations under guarantees, which have been called as a result of the new resolution process, to bring its risk capital back to the minimum of 0.65% of outstanding loans. WSW has negotiated and agreed on this increased minimum with the government and its members to maintain its risk capital at the current levels.

## Environmental, Social and Governance (ESG) considerations

### How ESG risk informs our credit analysis of WSW

Moody's takes into account the impact of the ESG factors when assessing subsovereign issuers' economic and financial strength. In the case of WSW, the materiality of environmental, social and governance 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 strategic role and the support coming 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

In assessing WSW's credit profile, we apply our Government-Related Issuers rating methodology, published in June 2018. Please see the Credit Policy page on moodys.com for a copy of this methodology.

## Ratings

Exhibit 4

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

*Source: Moody's Investors Service*

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