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Ratings

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Waarborgfonds Sociale Woningbouw

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Waarborgfonds Sociale Woningbouw

Major Rating Factors

Issuer Credit Rating
AAA/Stable/--

Strengths:

- An almost certain likelihood of extraordinary support from the Netherlands through a backstop agreement with the central government and local authorities.
- Recently established and enhanced mechanisms to the guarantee system will further ensure sufficient buffers in WSW's operations.
- Continued strong demand, in combination with central government support packages implemented to aid financially vulnerable tenants throughout the COVID-19 pandemic, suupport the financial strength of the Dutch social housing sector.

Weaknesses:

- Some ambiguity surrounding the classification of activities that are vital to general economic interest of the housing associations.
- The outcome of the ongoing legal procedures remains uncertain and a negative court ruling would require WSW to make further provisions.

Outlook

The stable outlook reflects that on the Netherlands and our expectations that recently established and enhanced mechanisms to WSW's guarantee system will ensure sufficient buffers in WSW's operations. The outlook further reflects our assumption that WSW's importance or relationship with the Dutch government will not weaken.

Downside scenario

We could lower the ratings by one or several notches if we observe delay in the support from WSW's members and the government, potentially leading us to revise our view on WSW's role for or link to the central government. Significant further losses or systematic stress in the Dutch social housing sector could also put pressure on our ratings if WSW's callable capital appears insufficient, and no additional support from the state is forthcoming. A downgrade or outlook revision could also result from a similar rating action on the sovereign.

Rationale

We believe there is an almost certain likelihood that the Dutch government would provide timely and sufficient extraordinary support to WSW in the event of financial distress. Support manifests itself in the long-standing backstop agreement between WSW and the state. As a result, we equalize our rating on WSW with our long-term rating on the Netherlands (unsolicited AAA/Stable/A-1+).

Our opinion of an 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 the funding costs of social housing associations low and access to loan funding as strong. Furthermore, WSW is a not-for-profit private foundation that guarnatees loans provided by lenders to Dutch social housing associations; and
- 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, it could have a detrimental effect on the reputation and market access of entities similar to WSW, and their access to public-sector funding in general.

Following the revised Housing Act implemented in 2015, WSW received its first ever guarantee claim in 2018 related to two housing associations, Woningstichting Geertuidenberg (WSG) and Stichting Humanitas Huisvesting (SHH). The guarantee resolution procedures related to these entities provided clarity and predictability for WSW's operations. As part of the resolution process, it was agreed that WSW could choose which loans to take over and service from the two entities. To limit the pressure on liquidity, WSW prioritized picking loan contracts with maturities spread out over time, up to 30-40 years.

In response to the restructuring of the two housing associations and the transfer of annual payment obligations to WSW, management at WSW decided to increase the minimal capital requirement to 0.65% of outstanding guaranteed debt from 0.25%. However, since management forecasts a decrease in risk capital due to annual cash outflows from the guarantee claims, WSW will need capital injections to maintain the required risk capital level. These contributions will come from the participating housing associations.

Furthermore, WSW has taken additional steps to enhance the resilience and financial strength of the guarantee system, partly by building upon the strategic programme, which has been developed together with key stakeholders. In addition, WSW continues to expand the joint assessment framework which was implemented in 2019 (see further explanation below). The aim with the framework is to assess and monitor the housing associations in a more efficient way to reduce the administrative burden on the housing associations. To strengthen monitoring of the sector, WSW has implemented newly established financial ratios to evaluate the financial strength of the participants. As a part of assessing the credit quality of the sector, WSW puts all housing associations into one of three risk categories ranging from high to low risk. As of year-end 2020, the number of participants in the high risk category had decreased to two, from five one year before. In addition, the overall credit quality of the sector also improved.

The ambition to increase the robustness of the guarantee system primarily stems from the revised Housing Act implemented in 2015. Rather than providing financial backing to housing association entities, the government will, under the new law, only provide support to activities considered vital to the general economic interests. As a result of the amendment, WSG was only granted partial resolution support in the restructuring process. This decision implied that the residual support had to come from WSW since it guarantees the loans of the housing association, resulting in the first ever guarantee call in the history of WSW. At the same time, SHH did not receive an support from the central government. In light of these developments, WSW lodged an appeal against the central government, against the decisions to refuse full or partial resolution grants. Although no court date is currently set for the appeal, WSW expects that the legal proceedings will be concluded within two years. It expects a positive outcome and has made provisions accordingly. At the same time, WSW has communicated that additional provisions must be made if the case is lost. However, we believe the current guarantee structure is sufficiently robust to accommodate this.

The COVID-19 pandemic has had no material impact on the Dutch social housing sector. This was partly due to support packages from the Dutch government alleviating the pressure on financially vulnerable citizens by providing income compensation, which mitigated the risk of rent losses and limited the pressure on housing associations' cash flows. In addition, the underlying demand for social housing in the Netherlands remains high, fueled by a shortage of affordable housing in many areas of the country. Consequently, operations income remains stable, with no material impact from the pandemic.

A key component underpinning the strength of the guarantee system is WSW's own investment portfolio The objective is to sustain the capital, striving for inflation compensation, by investing in high-rated bonds.. The portfolio is managed in line with conservative financial policies, demonstrated by strict regulations on which assets the organization can invest in along with maximum holding caps based on asset risk. The maximum holding per issuer is 10%, except for sovereign debt issued by Eurozone countries. As of mid-2021, the portfolio composition is divided between 'AAA'-rated bonds (42%) and 'AA'-rated bonds (58%). Furthermore, the portfolio duration is about 5.2 years.

WSW continues to engage in vertical supervision in collaboration with the Dutch Authority for Housing Associations. The framework is structured to uphold uniform and transparent oversight of the housing associations to ensure satisfactory sector standards. The agreement signed with the Authority in 2018 specifies that WSW should be concerned primarily with the business model of the housing associations, whereas the Authority should oversee their governance. The arrangement increases the strength of the risk framework by ensuring that the supervision process is more robust and that communication between WSW and the Authority is efficient.

Our current assessment of WSW's creditworthiness incorporates three layers of support to withstand potential guarantee claims from the participating housing associations. The first line of support comprises WSW's own risk capital, which is intended to cover any guarantee claims under normal circumstances. The next layer constitutes the participants' committed capital. Each housing association is obliged to pay up to 2.6% of the value of outstanding guaranteed debt if WSW's capital is insufficient to pay guarantee claims. As of December 2020, this amounted to about €2 billion. In addition, WSW has introduced the option to call on 0.25% of the total guaranteed debt on an annual basis, as a measure to maintain the required level of risk capital. As a last resort, WSW has a backstop agreement with the central government and local authorities. This support materializes if the risk capital falls below 0.25% of guaranteed debt, in which case WSW recieves unlimited access to interest free loans. Under the terms of the backstop agreement, there can be at most a 75-day delay between a request to the central government and municipalities for capital, and the funds becoming available. However, we understand from the government that these funds will be made available in a timely manner. WSW's decision to increase the minimal risk capital to 0.65% reduces the risk of WSW's risk capital falling below 0.25% and triggering the backstop agreement.

The final tier of support is a key component behind our view of an almost certain likelihood of WSW receiving extraordinary support from the state and the local authorities. We do not consider the financial issues experienced by the two restructuring housing associations SHH and WSG as structural and we believe that WSW's risk capital and participant contributions will be enough to cover any potential guarantee calls in the next few years.

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- The Netherlands 'AAA/A-1+' Ratings Affirmed; Outlook Stable, May 17, 2021
- Sovereign Risk Indicators, Apr 12, 2021

Ratings Detail (As Of July 2, 2021)*	
Waarborgfonds Sociale Woningbouw	
Issuer Credit Rating	AAA/Stable/--
Issuer Credit Ratings History	
25-Jul-2019	AAA/Stable/--
20-Jul-2018	AAA/Negative/--
03-Dec-2015	AAA/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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