

Waarborgfonds Sociale Woningbouw

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This report does not constitute a rating action.

PRIMARY CONTACT

Carl Nynerod
Stockholm
46-8-4405919
carl.nynerod
@spglobal.com

SECONDARY CONTACT

Linus Bladlund
Stockholm
46-8-4405356
linus.bladlund
@spglobal.com

Credit Highlights

Overview

Key strengths

Solid support structure from the Dutch government via the backstop agreement.

Commitment from member associations to inject capital buffers to maintain risk capital at 0.65% of outstanding guarantees.

Strong creditworthiness among member associations.

Key risks

A negative outcome in ongoing court proceedings against the state would require WSW to make additional provisions to account for future cash outflows.

No explicit wording about the timeliness of support embedded in the backstop agreement.

WSW benefits from a key public policy status with strong contractual commitment from members to keep capitalization at a healthy level. Furthermore, the credit standings of Dutch public housing associations are strong and we maintain our view of an almost certain likelihood of extraordinary government support if needed. These strengths mitigate some lack of clarity about an ongoing litigation case with the government, and the fact that the wording of the backstop agreement lacks some details about timeliness.

Outlook

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

Downside scenario

We could lower the ratings by one or several notches if we observe a delay in support from WSW's members or the government, potentially leading us to revise our view on WSW's role in 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 strong. Furthermore, WSW is a not-for-profit private foundation that guarantees 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.

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 2021, this amounted to about €2.2 billion. The equivalent amount is readily available in a committed facility with one of the sector banks. In addition, WSW has introduced the option to call on 0.33% of the total guaranteed debt annually to maintain the required level of risk capital. In 2021, WSW called on the committed capital for the first time, resulting in a €50 million injection. As a last and third layer, 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 receives 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. Furthermore, WSW's decision to increase the minimal risk capital to 0.65% reduces the chances of WSW's risk capital falling below 0.25% and triggering the backstop agreement.

Since our last review there have been some clarifications to the wording of the backstop guarantee in terms of harmonizing the text with other related documents, amendments about repayment details for guaranteed loans, and more detail on how to divide the municipal sector's 50% share of the backstop guarantee in cases where a housing association has rental housing properties in more than one municipality. Furthermore, since our last review, the Ministry of Housing and Spatial Planning has initiated preparatory work to launch a €2 billion scheme aimed at pushing housing associations to invest more in sustainability projects, as well as setting an annual target of providing 100,000 new housing units to the market. If the public housing sector jointly agrees to this scheme, the plan is to abolish the "landlord levy" (tax imposed on housing associations) from 2023. WSW's view is that if the scheme were implemented it would most likely trigger increased demand for and larger volumes of WSW guarantees, although it would not lead to any major change in risk classifications.

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 general economic interests. As a result of the amendment in 2015, housing association Woningstichting Geertuidenberg (WSG) was in 2018 only granted partial resolution support in its restructuring process. Consequently, this decision implied that the residual support had to come from WSW, resulting in the first guarantee call in WSW's history. Housing association Stichting Humanitas Huisvesting (SHH) also did not receive support from the central government. In light of these developments, WSW lodged a legal appeal with the central government against the government's decision 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 in about one year. The outcome of the upcoming court case is uncertain, although WSW has made provisions as if the outcome is not in its favor. At the same time, WSW has communicated to its members that additional provisions of up to about €119 million--based on market values as of December 2021--must be made if the case is lost. Overall, we believe the current guarantee structure is sufficiently robust to accommodate any outcome.

On a positive note, the guarantee resolution procedures related to WSG and SHH have enhanced the clarity and predictability of 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 taking over loan contracts with maturities spread out over time, up to 30-40 years. Furthermore, 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% previously. However, because WSW's management forecasts a decrease in risk capital due to annual cash outflows from the guarantee claims, WSW will need capital injections from participating housing associations to maintain the required risk capital level. To date, all members of WSW have contributed their agreed pro-rata shares without any member having contested it.

WSW has also taken additional steps to enhance the resilience and financial strength of the guarantee system, partly by building upon the strategic program that has been developed with key stakeholders. In addition, WSW continues to expand the joint assessment framework, aimed at assessing and monitoring the housing associations in a more efficient way. In doing this, WSW engages in supervision in collaboration with the Dutch Authority for Housing Associations. 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 housing authorities is efficient. As a part of the monitoring, WSW puts all housing associations into one of three categories--low-, mid-, and high-risk. As of year-end 2021, there are two participants in the high-risk category, unchanged from 2020 but down from five in 2019. The mid-risk category decreased to 25 in 2021, from 30 in 2020 and 43 in 2019. This shows that the credit quality of the sector has improved over the last few years.

To date, the pandemic has had limited financial impact on the Dutch social housing sector. This is partly due to the government's support packages to alleviate pressure on financially vulnerable citizens by providing income compensation. This has 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. Consequently, the operations income remains stable with no material impact from the pandemic.

A key component underpinning the strength of the guarantee-system is WSW's risk capital. WSW's risk capital is invested in a risk-averse fixed income portfolio. The investment objective is to sustain its capital, striving for inflation compensation, by investing in highly 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 year-end 2021, the portfolio composition was divided between 'AAA' rated bonds (45%) and 'AA' rated bonds (55%). Furthermore, the portfolio duration was about 5.6 years.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Principles of Credit Ratings, Feb. 16, 2011

Related Research

- State of The Netherlands, Apr. 26, 2022

Ratings Detail (as of July 06, 2022)*

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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