

CREDIT OPINION

2 August 2022

Update



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RATINGS

Stichting Waarborgfonds MBO

Domicile	Netherlands
Long Term Rating	Aa1
Type	LT Issuer Rating - Dom 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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Stichting Waarborgfonds MBO (Netherlands)

Update to credit analysis

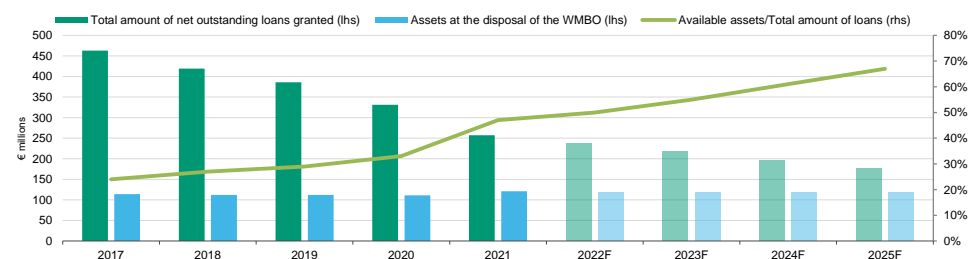
Summary

The credit profile of [Stichting Waarborgfonds MBO](#) (WMBO, Aa1 stable) reflects WMBO's strong links with the [Government of the Netherlands](#) (Aaa stable) and state's oversight of the adult and vocational education (MBO) sector. The rating also reflects clear public policy mandate and government's support the stability and efficient financing of the sector and its importance to the overall economic policy in the Netherlands. The sound principles on which WMBO and the sector are run and tight monitoring of member institutions' financial performance also underpin the rating.

The rating also takes into account WMBO's lack of government explicit guarantee or a backstop agreement.

Exhibit 1

Outstanding guarantees will continue to decline in 2022-2025 period



F = Forecast.

Source: WMBO, Moody's Investors Service

Credit strengths

- » Strong institutional framework ensures ability to fulfill guarantees
- » Sufficient liquidity reserves to meet guarantee payments in addition to callable capital
- » Stable operating performance, however some volatility in revenues from guarantees

Credit challenges

- » No backstop or guarantee from the Dutch government, however problem case has tested resolution framework
- » Concentration of guarantees and small size of organisation

Rating outlook

The stable outlook reflects the currently stable operating and policy environment, which is unlikely to undergo material change in the next year, and the stable outlook on the sovereign rating.

Factors that could lead to an upgrade

An upgrade could occur if the Dutch government decided to provide an explicit guarantee to WMBO to prevent liquidity shortages.

Factors that could lead to a downgrade

A downgrade of the sovereign rating would result in a downgrade of WMBO's rating. Moreover, a material deterioration of WMBO's financial performance (or in the risk assessment preceding a guarantee approval) and a weakening in the level of oversight and government support in the MBO sector could also exert downward pressure on the rating.

Profile

Founded in 1997 by the Netherlands' Minister of Education, Culture and Science and the Minister for Agriculture, MBO guarantees the payment of interest and principal on loans taken out by domestic MBO institutions for premises. The guarantee arrangement enables MBO institutions to borrow at a lower cost. Guaranteed loans must meet certain criteria including a minimum period of 10 years, a straight-line repayment profile, and fixed interest rates. WMBO does not have any plans to guarantee variable-rate debt, thus mitigating its exposure to fluctuations in interest rates.

WMBO is a not-for-profit entity. Membership in the WMBO is compulsory for all Dutch MBO institutions. As of 2021, there were below 60 MBO institutions in the Netherlands, offering vocational training mainly in economics, technology and social services/healthcare as well as offering introductory courses for immigrants. The government's duty to provide education, including adult and vocational education, whilst stated in general terms, is enshrined in the constitution and elevates the political profile of the sector.

WMBO is rated at the lower end of the narrow range for Dutch guarantee funds, whose ratings span from Aaa to Aa1. While we believe government support for WMBO is high, its rating reflects the lack of explicit backstop agreement with the central government to provide liquidity support, as is the case for its peers [Stichting Waarborgfonds Eigen Woningen](#) (NHG, Aaa stable) and [Waarborgfonds Sociale Woningbouw](#) (WSW, Aaa stable). We believe, however, that in practice there is a strong incentive and a high probability of government support being mobilised in a stress scenario.

Detailed credit considerations

Moody's considers WMBO to be a government-related issuer. The WMBO's credit strength is inextricably linked to that of the Government of the Netherlands due to its clear public policy mandate, strong oversight by the central government, and 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 is described in Moody's rating methodology for government related issuers entitled "[Government-Related Issuers](#)", published in February 2020.

Strong institutional framework ensures ability to fulfill guarantees

WMBO benefits from a robust institutional framework including strong and regular government oversight of its members by the Education Executive Agency (Dienst Uitvoering Onderwijs or DUO), a department within the Ministry of Education. The DUO is responsible for ensuring that the allocation of government funds is "legitimate, rightful and effective for its purposes". It uses a scoring system that assesses solvency, liquidity and profitability of all MBO institutions. In addition to the oversight by the DUO, WMBO also regularly monitors the performance of MBO institutions.

There is strong political consensus for supporting education in the Netherlands, underpinned by a constitutional obligation requiring the government to establish and maintain consideration of education. The MBO sector plays an important role in delivering on the government's obligations to support education and its objective to maintain a highly-skilled workforce.

The WMBO has a clear process for its interactions with the government in the event of financial difficulty of one of its members. If a MBO institution misses payments under a loan, WMBO will step in under the same terms and conditions. In this event, WMBO

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would make the payment to the lending institution and take as security for its continuing obligation a floating charge on the properties of the MBO. Before doing this, WMBO would inform the Minister of Education; and in practice both entities would intervene in the management of the non-paying MBO institution to resolve the issues that caused the missed payment. As a result of this process, the MBO could be restructured, or its assets and liabilities be transferred to another healthier institution. If an MBO institution does not comply with obligations as set in the membership agreement, WMBO has to inform the Minister of Education within 30 days, and the institution may be restructured if its creditworthiness is considered to be insufficient.

Moody's believes sector-wide failures are highly unlikely given the role of the Dutch government in directly funding, regulating and supporting the sector for any events in distress:

- » All MBO institutions are regulated and overwhelmingly funded by the Dutch Ministry of Education, Culture and Science; this raises the national profile of sector and encourages intervention for an individual institution;
- » The provisions of the Constitution requiring the government to establish and maintain consideration of education in practice raises the profile of the sector.

Sufficient liquidity reserves to meet guarantee payments in addition to callable capital

WMBO has two options for dealing with a call on its guarantee in the event of one or more member MBO institution experiencing financial distress – (1) own-source capital, and (2) callable capital from members. As of 2021, WMBO had about €23.1 million of own-source capital to cover one-off or repeated non-payments by a member of which €23 million was invested in debt securities and €0.1 million in cash and other assets. WMBO is able to fully cover the debt service commitment of approximately €22 million for 2022 (WMBO projection) via own-source capital, or 8.8% of its total net guarantee portfolio outstanding at the end of the last year.

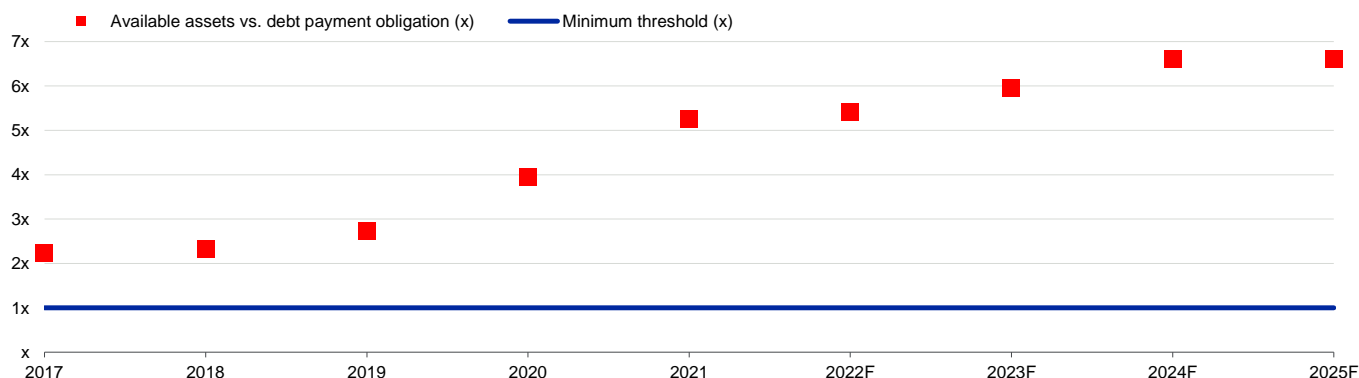
At year-end 2021, the investment portfolio consisted of 34% Aaa, 28% Aa and 28% A rated bonds, with the remainder invested in Baa or not rated bonds. In order to broaden its investment and earn additional return, WMBO invests in new asset classes such as Dutch mortgage funds and loans to Dutch local governments. The share of these investments, including the investments in ASR Hypotheekfondsen, in the total portfolio was 9% at the end of 2021. Assets are funded through an equity guarantee deposit (€9.98 million) from the Dutch Ministry of Education and retained earnings (€12.5 million as at 31 December 2021).

WMBO had direct access to €98 million of MBO institutions' callable capital as of year-end 2021. In the event that WBVE's own-source capital fell below the initial central government's deposit of €9.98 million, WMBO could request the injection of capital funds from its members of up to 2% of the central government grant made available to the MBO institution in the year in question. Total central government grant to the MBO institutions amounted to €4.9 billion in 2021, which is higher level compared to the previous year (€4.4 billion). MBO's forecasts suggest that the level of callable capital will slightly decrease to €96 million, as government support is expected to decline between 2022 and 2025, with an allocation of €4.8 billion per annum.

Callable capital must be made available to WMBO within 30 days of the request. We believe that WMBO's liquid assets are sufficient to meet loan obligations during this 30-day period, particularly as WMBO's guarantees are on amortising loans. Interest and principal payments for all guaranteed loans amounted will continue to decline from 2022 onwards and is projected to be around €18 million in 2025, down from €51 million in 2017. This drop is driven by the fall of the total residual debt of guaranteed loans, which will gradually decline from €237 million in 2022 to €177 in 2025 compared to €463 million in 2017. The projected decline of the outstanding guarantees is attributable to: (1) merger of MBO institutions, (2) early and regular repayment of guaranteed loans, (3) shift from banks to treasury activities in the context of growing interest of MBO institutions to hold a current account facility with the Treasury.

The legislation does not limit the total value of loans that WMBO could guarantee. However, WMBO's policy is to ensure that the total capital-to-debt service ratio does not fall below 1.0x. At year end 2021, this ratio improved to 5.2x (inclusive of callable capital of €98 million) from 3.9x in 2020.

Exhibit 2

Capital-to-debt ratio expected well beyond critical threshold

Source: WMBO, Moody's Investors Service

WMBO only provides guarantees to institutions that it considers creditworthy after reviewing multiple criteria including past and forecasted operating performance. In the last couple of years, engagement with issuers prior to approving a guarantee has increased, a credit positive. This shift is in response to a need in the sector for financial expertise whilst arranging borrowing with lenders in a challenging lending environment. The relationship is maintained once lending is secured; WMBO's board meets with selected institutions every year to discuss developments at these institutions and developments in the sector in general.

WMBO also utilises information through MBO Raad (Association of MBO institutions). MBO Raad has its own ranking of institutions and WMBO has regular discussions with this association.

Stable operating performance, but some volatility in revenues from guarantees

WMBO has two sources of revenue. The first is an upfront fee ("disagio"), which it charges for each guarantee. The fee amounts to 0.5% of the nominal amount of the loan and the WMBO can alter its fee if costs increase by more than forecasted. In 2021, due to lower borrowing activity only €2 thousand disagio was charged down from €148 thousand in 2020. The second revenue source is interest and returns from WMBO's capital reserve which totalled €224 thousand in 2021 (€265 thousand in 2020 and €313 thousand the year earlier).

WMBO has responded to lower fee income in 2021 by further cutting some of its operating expenses. Despite this cut, funds from operations fell to €226 thousand in 2021 from €438 thousand in 2020. Overall, we note that WMBO has controlled its operating costs tightly so far.

WMBO reported a negative result of €78 thousand in 2021 (2020: €127 thousand) driven by the aforementioned lower level of guarantee fee. WMBO expects a negative results also in 2022-2025 as the revenues from guarantees and portfolio returns will be lower than the operating costs. WMBO has an element of revenue flexibility and can alter its fee charging if costs increase by more than forecasted, although it has no plans to increase the fee in the foreseeable future.

No backstop or guarantee from Dutch government, however problem case has tested resolution framework

WMBO does not benefit from a backstop agreement from the central government as other guarantee funds (NHG, WSW) do. However, since its establishment in 1997, there has never been a call on the guarantee, a call to its participants to renew the capital base nor any need to approach the central government for further assistance in capitalisation.

The WMBO guarantee applies only to scheduled interest and principal payments, thereby limiting WMBO's exposure. However, the debt of WMBO's counterparties, including amounts guaranteed by WMBO, can be accelerated. We anticipate that any rights to accelerate a guaranteed loan would likely not be exercised, as this would not tend to improve ultimate collection and may contribute to sector instability.

WMBO's ability to resolve cases of MBO institutions in distress was already tested in 2018 when AOC Edudelta, an institution guaranteed by WMBO, lost its status as educational institution and went into liquidation. WMBO issued a guarantee of €5 million and

actively engaged in the resolution of this institution. In 2019, the situation was resolved by selling out property of the institution, with a substantial surplus.

As a result, WMBO closely monitors the strength of guaranteed institutions. The sector is also experiencing some mergers among smaller entities, which will lead to strengthening of their financial positions, mitigating the risk for WMBO. There has been no call on the guarantee as a result of the institution's financial difficulty, and WMBO does not expect a call on the guarantee.

Concentration of guarantees and small size of organisation

Guarantees issued by WMBO are spread unevenly across MBO institutions. The five institutions (out of 16 in total) with the largest amount of loans guaranteed (above €202 million) account for approximately 79% of WMBO's guarantee exposure as of 31 December 2021. A simultaneous failure of several large guarantees could therefore deplete WMBO's liquidity reserve, though we believe the risk is minimal of simultaneous failure.

WMBO does not maintain any committed lines of liquidity to support its guarantee, although it anticipates having no difficulties with market access, due to its role as a government-created intermediary. Theoretically, this may leave WMBO exposed in the case that claims on its guarantee are higher than its current portfolio of cash and liquid securities, as its members are not contractually committed to consider any capital calls until 30 days following a declaration by WMBO of its necessity. However, Moody's anticipates that the Dutch government, due to its dominant funding and tight regulatory control of the sector would be highly likely to provide support in an unlikely case of distress for WMBO.

WMBO is managed by a three-person board, which is independent from MBO institutions and autonomous from the DUO (the government). Only the current board members may appoint successors. The board is also responsible for reviewing and approving all guarantees issued by WMBO.

ESG considerations

How environmental, social and governance risks inform our credit analysis of WMBO

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of WMBO the materiality of environmental, social and governance considerations to its credit profile are as follows:

Environmental considerations are not material to WMBO'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 WMBO.

Social considerations are not material to WMBO's credit profile. WMBO is exposed to risks stemming from socially and educationally driven policy agendas. We view the coronavirus outbreak as a social risk under our ESG framework. We expect the pandemic to have impacts on further education in the Netherlands, however we expect that WMBO will be able to mitigate these impacts so that credit profiles are not significantly affected. We expect the main impacts will include investment income deterioration, and increases in arrears in the short to medium-term due to deterioration in financial position of MBO organizations. Nevertheless these risks are not material for the rating, given WMBO strategic role and the support coming from the Dutch central government.

Governance considerations are material to WMBO'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

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Ratings

Exhibit 3

Category	Moody's Rating
STICHTING WAARBORGFONDS MBO	
Outlook	Stable
Issuer Rating - Dom Curr	Aa1

Source: Moody's Investors Service

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