

## CREDIT OPINION

20 July 2018

 Rate this Research

### 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 \(Aaa, stable\)](#), strong oversight of its member institutions by the government, and clear public policy mandate to support investment in the Adult and Vocational Education institution (MBO) sector. The rating also takes into account WMBO's lack of government backstop agreement, and challenges in 2018 and 2019 associated with the rescue of an MBO institution in distress.

## Credit strengths

- » Strong institutional framework and political support for further education
- » Sufficient liquidity reserves to meet guarantee payments in addition to callable capital
- » Broadly stable operating performance

## Credit challenges

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

## Rating outlook

The outlook is stable.

## Factors that could lead to an upgrade

- » 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
- » A material deterioration of WMBO's financial performance or in the risk assessment preceding a guarantee approval
- » 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 rates of interest. 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 2016, there were 66 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.

## 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, oversight of by the central government, and likely support from the central government the event of financial distress. As such, its rating is derived primarily from the strength of the Government of the Netherlands (Aaa, stable) 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 June 2018.

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 peers [Stichting Waarborgfonds Eigen Woningen \(WEW\)](#) and [Waarborgfonds Sociale Woningbouw \(WSW\)](#). We believe, however, that in practice there is a strong incentive and a high probability of government support being mobilised in a stress scenario.

### Strong institutional framework and political support for further education

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. Moreover, the sector is of economic importance as it educates nearly 500,000 students and has nearly 54,000 employees (as of 2016).

The WMBO has a clear process for its interactions with the government in the event of financial difficulty of one of its members. If an MBO institution falls behind on the repayment of a guaranteed loan, WMBO would inform the Minister of Education and make the payment to the lending institution. Simultaneously, WMBO would take a floating charge on the properties of the MBO in financial distress, as security against the loan obligation. All parties would then convene to seek a long-term solution to the MBO's financial distress. In practice, the MBO could be restructured or its assets and liabilities could 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.

Additionally, in May 2016 an amendment to its bylaws was made establishing the Committee of Representatives (CoR) of its members. The intention of the CoR is to anticipate and discuss issues affecting the sector in an effort to approve the service offered by the CoR.

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

WMBO has two main sources of funds that it can resort to in order to meet its guarantee obligations, liquid assets and callable capital. Net of a small amount of liabilities, WMBO holds cash and investments which amounted to €22.4 million at 31 December 2017.

WMBO maintains a risk-averse approach to its investments, which consist primarily of highly-rated bonds and achieved a return of 2.24% in 2017.

In 2017, in order to broaden its investment and earn additional return, WMBO agreed a new investment charter which allows investments in new asset classes such as Dutch mortgage funds and loans to Dutch local governments, subject to conditions including that the investment must be rated A or higher. Assets are funded through an equity guarantee deposit (€9.98 million) from the Dutch Ministry of Education and retained earnings (€12.4 million as at 31 December 2017).

WMBO's credit quality is also supported by its ability to access callable capital from its members. Should WMBO's equity fall below €9.98 million (the level of the guarantee deposit), all MBO members are required to make available to WMBO up to 2% of the government grants received in the year the shortfall occurs. In 2017, MBO institutions received grants totalling approximately €4.6 billion, a modest increase from a year earlier. This amount would have provided WMBO with access to approximately €92 million of capital in 2017. WMBO's forecasts suggest that the level of callable capital will remain almost unchanged during the next three years as government support for the sector through grant allocation is expected to remain stable around €4.5 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 to €51 million in 2017, down from €54 million in 2016, compared to WMBO's cash and investments position of €22.4 million and callable capital of €92 million.

WMBO has no outstanding debt. Outstanding guarantees totalled €464 million in 2017. There is no legislation limiting 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 2017, this ratio stood at 2.23x (inclusive of callable capital of €92 million).

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 DUO and MBO Raad.

**Broadly stable operating performance**

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. As there were no new guarantees in 2017, WMBO had no disagio income for 2017, compared with fee income of €105,000 in 2016. The second revenue source is interest and returns from WMBO's capital reserve which totalled €377,000 in 2017, down slightly from €406,000 the year earlier.

WMBO has a track record of reporting stable operating expenses. The Stichting reported a small loss of €7,000 for 2017 driven by the lack of fee income and lower income from its capital reserve investment returns. The loss is a departure from the trend of operating surpluses over the last five years, but is not material given the €12.4 million of accumulated surplus on the balance sheet. Moreover, WMBO expects to return to a profit from 2018 due to increased fee income from new guaranteed loans, with an expectation of breaking even in the subsequent two years (2019 and 2020).

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, problem case will test resolution framework

WMBO does not benefit from a backstop agreement from the central government as other guarantee funds (WEW, 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 will be tested in 2018 and 2019 as it negotiates a rescue for Edudelta College (Edudelta). Edudelta ran into financial difficulty as a result of declining population and demand in its area of operation, inefficiencies in its structure with a campus spread across four locations, and reduced government grants. As of July 2018, forecasts for Edudelta show that it is not financially viable in the long-term, although it has cash to meet its debt servicing requirements over the next year and has not defaulted on its loans of €5.4 million (as of 31 December 2017), which are guaranteed by WMBO.

WMBO is actively engaged in the resolution of Edudelta. It expects the institution to sell its assets to repay its loans; asset sales are expected to complete in 2019. While the lender has the option to accelerate repayment of its loans, it is unlikely to do so because of reputational risk in the sector. There has been no call on the guarantee as a result of Edudelta's financial difficulty, and WMBO does not expect a call on the guarantee. Moody's will monitor developments.

Additionally, the central government has shifted its focus for entities in distress, and its priority is to rescue the service rather than the institution. As such, it is providing funding of €2.5 million to ensure continuity for Edudelta's staff and students, but will not rescue the College. The legal entity of Edudelta will remain as a shell company, using assets sales proceeds to service the debt. This shift is credit negative for WMBO, but we believe this risk is manageable given WMBO's close monitoring of the sector, its risk capital, the ability to call on its members to renew its capital, and the political consensus supporting further education in the Netherlands.

### Concentration of guarantees and small size of organisation

Guarantees issued by WMBO are spread unevenly across MBO institutions. The four institutions with the largest amount of loans guaranteed account for approximately 56% of WMBO's guarantee exposure as of 31 December 2017. 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 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. These tasks are, however, outsourced to Exté Management Support B.V. because WMBO has no employees.

## Rating methodology

### Government-Related Issuers, June 2018

#### Ratings

Exhibit 1

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

Source: Moody's Investors Service

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