

CREDIT OPINION

30 July 2020

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

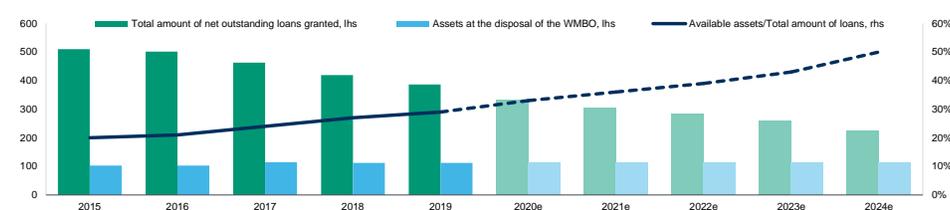
Summary

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 explicit guarantee or a backstop agreement.

The rapid and widening spread of the coronavirus pandemic and the associated deterioration in the global economic outlook (see our publication [Global economy is limping back to life, but the recovery will be long and bumpy](#), 22 June 2020), are creating a severe and extensive credit shock across many sectors. However, the impact of the pandemic will be limited for WMBO as its investment-revenues are positive and there are no indications that the government grants will decrease.

Exhibit 1

Outstanding guarantees are expected to decline in 2020-24 period



Source: WMBO, Moody's Investors Service

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, 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
- » 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 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 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.

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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Detailed credit considerations

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.

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 €23.1 million market value at 31 December 2019. WMBO maintains a risk-averse approach to its investments, which consist primarily of highly-rated bonds and achieved a return, including changes in value, of 2.49% in 2019, compared to 0.37% in 2018. At the year-end 2019, the portfolio consisted of 39% Aaa, 28% Aa and 33% A rated bonds. We expect the return to further decrease in 2020, following the sudden market shock caused by the coronavirus outbreak.

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. In 2018, €2 million was invested in the ASR Hypotheekfonds. This fund invests in Dutch home mortgages provided by ASR. A relatively high return is offset by a slower liquidation process. The share in the total portfolio at the end of 2019 was more than 9%. Assets are funded through an equity guarantee deposit (€9.98 million) from the Dutch Ministry of Education and retained earnings (€12.3 million as at 31 December 2019).

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 2019, MBO institutions received grants totalling approximately €4.6 billion, a similar level compared to the previous year. This amount would have provided WMBO with access to approximately €90 million of capital in 2019. WMBO's forecasts suggest that the level of callable capital will remain almost unchanged during the next five years as government support for the sector through grant allocation is expected to remain stable at 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 €41 million in 2019, down from €48 million in 2018, compared to WMBO's cash and investments position of €23.1 million and callable capital of €92 million.

WMBO has no outstanding debt. Outstanding guarantees totalled €386 million in 2019. 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 2019, this ratio stood at 2.73x (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. In 2019, €210,000 disagio was charged, following the issuance of new guarantee of €42 million to one institution. The second revenue source is interest and returns from WMBO's capital reserve which totalled €313,000 in 2019, slightly down from €355,000 the year earlier.

WMBO has a track record of reporting stable operating expenses. The Stichting reported a profit of €151,000 for 2019 (loss of €85,000 in 2018) driven mainly by the agio from the new guarantee. WMBO expect a profit also in 2020 due to an increased fee income from newly guaranteed loans. 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. Moody's will monitor developments.

Concentration of guarantees and small size of organisation

Guarantees issued by WMBO are spread unevenly across MBO institutions. The six institutions (out of 24 in total) with the largest amount of loans guaranteed account for approximately 73% of WMBO's guarantee exposure as of 31 December 2019. 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.

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

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.

Ratings

Exhibit 2

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

Source: Moody's Investors Service

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