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Appendix 9 Guarantee Fund for Social Housing and Central Social Housing Fund

The Guarantee Fund for Social Housing (WSW) was established in 1984 to provide security for Association loans. A second instrument, financed by contributions of member Associations, is the Central Social Housing Fund (CFV) to assist weaker Associations, thereby increasing confidence of financial markets. In this way Associations, through the CFV and WSW, co-operate to build a stronger, financially independent sector able to access the most favourable terms of private investment.

As mentioned above, housing associations and municipal housing agencies must finance their activities via the capital market. Further the government will not directly guarantee funds borrowed by associations. To reduce the cost of such funds, and thereby contain rents, associations try to obtain a guarantee in order to reduce the cost of capital finance.

The WSW was revised in 1989, to apply to all loans by registered social landlords and municipal housing agencies. However, Municipal Housing Companies and Non profit Institutions are not allowed to participate in the WSW. Alternative private sector loan arrangements, without the assistance of the WSW or local governments, may also be negotiated between Associations and private lenders. Yet, loans secured by the WSW attract interest at 1 percent below market rate with a fixed maximum rate (Vermaat, 1996).

In summary, the WSW guarantee comprises capital resources of the housing association; guarantee funds held by the WSW; and a 'catcher' role shared by central and local government. To date the guarantee fund has not been called upon. In 1997, the WSW was nominated AAA status by the credit rating agency Standard and Poor. This was obtained on this basis of current operational procedures, revenue, indemnities and the existence of government counter guarantees. This rating confirms WSW's security to external interests, broadens potential investors in social housing developments, and gives confidence to the sector (Bruinsma, 1997).

The primary security for investors is the financial continuity of individual associations and the housing sector as a whole (WSW, 1997). The Central Fund for Social Housing (CFV) is an important public instrument for improving the financial health of weaker associations through re-organisation, amalgamation, asset sales and rent policy (see details next subsection).

Loans and their corresponding guarantees are linked to a housing complex nominated by the association, which serves as collateral. The size and condition of the loan must correspond with the going concern value and economic life span of the nominated building. The WSW has the right to establish a mortgage on the nominated building. In the event of insufficient funds the two 'catchers' wish to be assured to the precise asset they are securing.

The next layer of security is provided by the guarantee capital of the WSW. This capital originates from a single lump payment by the central government of 70 million guilders, investments of the fund and the annual contributions of participating

associations. Currently, 660 members pay 850 guilders per year to participate. Active members are also required to set aside 3.75 per cent of their guaranteed loans that can be called upon in case of emergency.

A final, last resort security is provided by central and local government. In the case that the WSW guarantee capital falls below the minimum required, central and local government will provide interest free loans. Agreement to secure the fund is secured by civil contract.

Guarantee certificates are issued for new construction and improvements to existing dwellings owned by an association. Housing associations must be a member of WSW to apply for a certificate of guarantee and comply with strict financial continuity and solvency criteria. This criteria is based on amount of financial reserves, provisions for repairs, rental and subsidy income plus operating costs. To enable an assessment of current financial status and solvency, participants must re-register each year providing annual accounts, auditor's opinion, financial projections and other detailed financial information.

To obtain a guarantee housing associations submit a detailed project proposal with financial concepts and projections to the WSW. Depending on the complexity of the project and time taken to provide all required information, certificates are issued within six weeks and are only valid for 12 months. Certificates are issued on a strictly standard agreement, developed by the board of WSW and approved by the State.

The Central Housing Fund (CFV)

The Central Fund for Housing (Centraal Fonds voor de Volkshuisvesting, CFV) was established by the Dutch government in 1988 to improve the overall financial viability of Housing Associations. Through the proportionate contribution of members, funds and expertise are directed towards poorer Associations in a mutual effort improve their financial sustainability. A board comprised of national association experts manages CFV resources. Through efforts to reorganise and restructure, poorer Associations are given three years to regain financial health and, through the WSW guarantee, access to private funds (Priemus, 1992:10). If they are unable to restructure, they may be amalgamated with more viable Associations.

The CFV and WSW work closely together to form a safety net for weaker housing associations. If an association is refused a WSW guarantee to expand or improve stock and still wishes to obtain funding, it can apply to the Central Housing Fund for assistance. Assistance is in the form of financial aid to associations alongside an agreed re-organisation plan (CFV, 1997) Whilst the CFV is a public body; it is funded by a levy on housing associations. Each year the Minister determines the amount required and contributions are calculated (NWR, 1997:35). Since 1988 the CFV has provided 600 million guilders of support to weaker housing associations and has a remaining 225 guilders to allocate.

Those eligible for assistance must submit a reorganisation plan, which evaluates the reasons for their poor financial position and includes rectification measures. These may include co-operation or merger with a stronger housing association, asset sales, or rent increases. The re-organisation plan must include a rent policy, long-term

maintenance budget and calculation of actual business value. CFV support is made in instalments on the basis of demonstrated progress with their re-organisation plan.

Currently, municipalities assess the financial solvency of associations on an annual basis. Now and then a municipality may have ignored signs of financial problems. In such cases the CFV can demand that the municipality also assist by providing reorganisation funds.