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Swan Housing Capital's Secured Bond Assigned 'AA-' Rating

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- We are assigning our 'AA-' senior secured debt rating to the £250 million bond due 2048 issued by Swan Housing Capital PLC, a wholly-owned subsidiary of U.K. housing association Swan Housing Association Ltd. (Swan). This includes £100 million of bond proceeds retained by Swan.
- The rating reflects the issuer credit rating on Swan, to whom the proceeds will be onlent at the outset.

LONDON (Standard & Poor's) March 4, 2015--Standard & Poor's Ratings Services today assigned its 'AA-' rating to the £250 million senior secured bond due 2048 issued by Swan Housing Capital PLC (the issuer), a special-purpose vehicle and subsidiary of U.K. housing association Swan Housing Association Ltd. (Swan).

The 'AA-' rating on the bond reflects the rating on Swan (AA-/Stable/--) and therefore any change in the rating on Swan is likely to affect the rating on the bond. In the first instance, Swan will be the only borrower but over time, other entities that are registered providers and part of the Swan group may become additional borrowers. Our current assumption is that members of the group would act supportively to one another, and so we believe it is unlikely that we would view the additional borrowers as materially less creditworthy than Swan. However, if our assumption changes, we note that while Swan guarantees the timely payment of interest and fees due from future additional borrowers, it only guarantees the ultimate (but not timely) payment of principal. At some stage in the future, it is therefore possible that the rating on the bond (as it relates to the timely payment of principal) may be different to the rating on Swan, although we view this as highly unlikely at this point.

The proceeds of this bond issue will be onlent to Swan, which is a registered housing association and the asset-owning parent of the Swan group. The proceeds will be used largely to refinance the group's existing bank facilities.

The 'AA-' rating on Swan is based on its stand-alone credit profile (SACP), which we assess at 'a+'. It is also based on our opinion of a moderately high likelihood that the U.K. government (AAA/Stable/A-1+), working through the Homes and Communities Agency (HCA), would provide timely and sufficient extraordinary support in the event of financial distress.

Under our criteria for government-related entities (GRES), our view of a moderately high likelihood of extraordinary government support is based on our assessment of Swan's important role for the U.K. government and its public policy mandate, and its strong link with the government. The government's track record of providing strong credit support in certain circumstances reflects this link.

Swan's very strong enterprise profile is a rating strength. We note the very strong economic fundamentals in Swan's area of operations in East London and Essex; its experienced management team and consistent strategy; and its good operational performance with low voids and arrears. We see the social housing industry as low risk, globally. The rating also factors in Swan's strong financial profile. The group's debt position and financial performance are supported by forecast improving profitability, and Swan also exhibits very strong liquidity over the next 12 months. In addition, we view its financial policies as transparent and prudent.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Methodology For Rating Public And Nonprofit Social Housing Providers, Dec. 17, 2014
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Related Research

- Swan Housing Association Ltd., Feb. 20, 2015
- U.K. Social Landlord Swan Housing Association Assigned 'AA-' Rating; Outlook Stable, Feb. 18, 2015

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