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Research Update:

Swan Housing Association Ltd. Long-Term Rating Lowered To 'A+' Following U.K. Downgrade; Outlook Negative

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Overview

- On June 27, 2016, we lowered our unsolicited long-term credit rating on the United Kingdom to 'AA' from 'AAA'.
- Consequently, we are lowering our long-term rating on Swan Housing Association Ltd. (Swan) to 'A+' from 'AA-'.
- We have reassessed Swan's stand-alone credit profile (SACP) to 'a', reflecting our view of Swan's vulnerability to any potential correction of the housing market in its area of operation.
- The negative outlook reflects the outlook on the U.K. sovereign.

Rating Action

On July 4, 2016, S&P Global Ratings lowered its long-term issuer credit rating on U.K.-based social housing provider Swan Housing Association Ltd. (Swan) to 'A+' from 'AA-'. The outlook is negative.

At the same time, we lowered our long-term issue rating on Swan Housing Capital's £250 million senior secured bond due 2048 to 'A+'. This includes the £100 million of bond proceeds retained by Swan.

Rationale

We are lowering our rating on Swan following our downgrade of the U.K. (see "Ratings On The United Kingdom Lowered To 'AA' On Brexit Vote; Outlook Remains Negative On Continued Uncertainty," published on June 27, 2016).

The 'A+' rating on Swan reflects our assessment of its SACP, which we have revised to 'a' from 'a+' owing to Swan's vulnerability to any correction of the housing market in London. In our view, Swan's size and relative exposure to development for sale activity compared with peers makes it more vulnerable to the risks that a lengthy Brexit process would pose for London's housing market. This change does not impact the final 'A+' rating. We also base our assessment on the moderately high likelihood of receiving extraordinary support from the U.K. government, working through the Homes and Communities Agency.

In accordance with our criteria for government-related entities (GREs), we base our view of the likelihood of extraordinary government support on our assessment of Swan's important role for the U.K. government and its public-policy mandate, and its strong link with the U.K. government. The U.K. government has a track record of providing extraordinary support to the sector in case of distress.

Outlook

The negative outlook reflects the outlook on the long-term sovereign credit rating on the U.K., and the subsequent application of our criteria for GREs. If the rating on the U.K. were lowered by one notch, then we would likely make the same changes to the rating on Swan, reflecting our opinion of the likelihood of extraordinary government support.

We could also lower the rating on Swan over the next two years, if the group's overall operating performance declines with voids or arrears worsening to more than 6% of net rent receivable. This would negatively impact our assessment of the group's enterprise profile, and would also likely change our view of the group's internal risk management processes.

We do not contemplate a realistic upside scenario for Swan's SACP at this time.

Related Criteria And Research

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- Criteria - Governments - General: Methodology For Rating Public And Nonprofit Social Housing Providers - December 17, 2014
- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating - October 01, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Ratings On The United Kingdom Lowered To 'AA' On Brexit Vote; Outlook Remains Negative On Continued Uncertainty - June 27, 2016
- U.K.-Based Social Landlord Swan Housing Association Ltd. 'AA-' Rating Affirmed; Outlook Stable - February 16, 2016

Ratings List

	Rating	
	To	From
Swan Housing Association Ltd		
Issuer Credit Rating		
Foreign and Local Currency	A+/Negative/--	AA-/Stable/--
Swan Housing Capital PLC		
Senior Secured		
Local Currency[1]	A+	AA-

[1] Dependent Participant(s): Deutsche Bank AG (London Branch), Swan Housing Association Ltd

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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