ABN·AMRO

Dutch mortgage market
The New Landscape

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Main conclusions:

- Even though political uncertainty over housing market reforms remains present, the Dutch government has enacted various legislations that are reshaping the Dutch mortgage market substantially.

- The most important legislative change relates to the tax deductibility of mortgage interest payments. Per 1 January 2013, new mortgage loans have to fully amortise in order to benefit from tax deductibility. De facto, this change will create a marked difference between new and old mortgage loans.

- Old mortgage loans will be excluded from the new tax regime. These loans continue to benefit from a tax deductibility that is unconditional on the underlying mortgage loan product. The generous benefit can be grandfathered in case of refinancing or relocation.

- Grandfathered tax benefits on old mortgage loans could result in a structurally lower prepayment rate. In this respect, the year of origination (vintage) of the mortgage loan will be a very important element when considering prepayment expectations.

- Negative equity and the underwriting criteria at time of origination are also important to take into account. In this research note, mortgage vintages are classified into four ‘generations’. Each generation is likely to exhibit specific prepayment behaviour.

- Prepayment rates on mortgage loans originated between roughly 2002 and 2010 are likely to slow down. Mortgage borrowers in this generation are most affected by negative equity. This restricts both refinancing and relocation options. In the longer run, the loan product structure of this generation carries a substantial tax benefit. This could act as a disincentive for the borrower to refinance.

- Lower prepayments rates could potentially increase extension risks in Dutch RMBS transactions. The effects on Dutch covered bonds are limited, but cover pool compositions are unlikely to change quickly.

Introduction

The new Dutch government has set housing market reform as one of its key priorities. In fact, it has even appointed a special minister (Stef Blok, Liberals) to tackle this very important socio-economic issue. Broad-based reforms have already been announced to address extensive market distortions in both the rental and owner-occupied sectors of the housing market. In the owner-occupied segment, the reforms target underwriting criteria and the very generous tax benefit for mortgage loans. As extensively argued in our previous research, the very generous tax incentives are the main reason behind the high level of mortgage debt in the Netherlands. And this is incompatible with the current economic and financial environment of deleveraging. Various proposals and counter proposals for the mortgage market have been considered in recent months. Despite that political discussions on this topic are still ongoing, new mortgage market legislation has already been enacted. From this perspective, the new landscape for Dutch mortgage loans has now become visible[1]. This note will focus exclusively on the new regulatory regime for the Dutch mortgage market and its implications.

Starting this year, there will be marked differences between the old and new mortgage loans. We will start by addressing these differences. The first and most important change is that new mortgage loans will be subject to a less generous tax regime, while the unrestricted favourable tax treatment under the old system can be grandfathered under certain conditions. Unfortunately, this transition plan for old mortgage loans will even further complicate the already complex structures of Dutch mortgage loans. In the (very) long run however, the Dutch mortgage market will become much easier to understand. After discussing the transition regime in detail, the second regulatory change on underwriting criteria will be described. Thereafter, the note will focus on the consequences of the two legislative changes. These will include the expected effects on the housing market in general and, more importantly, on prepayment rates. In our view, the year of origination will be an important determinant in prepayment behaviour of mortgage loans going forward. Finally, we will conclude with the possible impact of the regime change on Dutch RMBS transactions and on the cover pools of covered bond programmes in the Netherlands.

[1] At the moment of publication, proposals on rental sector reform are facing stiff opposition in parliament and senate. In pushing through a complete package of housing market reform (affecting both owner-occupied and rental sector), it cannot be ruled out that the government will relax some requirements in the recently enacted legislation on the mortgage market.

Changes to the tax system

New mortgage loans

The most important legislative change was implemented on 1 January 2013. From this date onwards, new mortgage loans must (at least) fully amortise over time in order to benefit from tax deductibility of interest payments. In this new system, the tax benefit is not calculated on a virtual basis. Instead, the underlying mortgage loan product itself has to be amortising. Non-amortising mortgage structures, such as interest-only and bank savings mortgage loans do not qualify for tax deductibility.

At first glance, this change appears marginal. The former tax system (prior to 1 January 2013) did not constrain deductibility of interest payments on the basis of the characteristics of the underlying mortgage loan product. As was the case in the old tax system, the tax deductibility of new mortgages remains unlimited, i.e. the larger the mortgage loan, the higher the deductibility. Nevertheless, since interest payments automatically decline over time in amortising structures, the tax advantage also declines. From this perspective the change will have quite an impact. On the downside, housing affordability will decrease significantly. According to our calculations, the increase in net servicing costs over time is approximately 10-15% compared to the old regime. On the positive side, there is now a major incentive to repay principal during the life of the mortgage loan. This implies that LTV ratios for many new mortgage loans will now automatically decline over time. This was often not the case in old Dutch mortgage loans, which shared the main characteristic of a delayed bullet principal repayment at maturity. Another positive element is that the Dutch mortgage market will become more transparent and easier to understand over time. Only linear and annuity mortgage loans qualify for this new tax regime.

New NHG rules

The eligibility requirements for the mortgage guarantee system (NHG) have also been updated per 1 January 2013. The most important change is that the underlying mortgage loan must now fully amortise over time. In other words, only annuity and linear mortgages qualify for the NHG guarantee. Another change is the increase in the lump-sum contribution from the borrower, which increased from 70 to 85 bps of the total loan. Moreover, the maximum loan amount will decrease back to pre-stimulus levels. The maximum loan amount was already lowered to EUR 320,000 per 1 July 2012. Now, from 1 July 2013, this maximum will decrease further to EUR 290,000 and to EUR 265,000 one year after that. Due these changes, it is likely that the market share of NHG loans will gradually decrease from the current high levels.

Other mortgage product structures, such as interest-only and savings-linked mortgage loans are still allowed[2], but new loans of this type no longer qualify for any tax discounts. Due to this disincentive, the popularity of non-amortising mortgage loans will decrease significantly. This especially applies to all linked (bank)savings and insurance structures, which until recently were in fact the most popular mortgage loan product. It is not unlikely that those products will disappear from the offering of mortgage loan providers. In addition, interest-only mortgage loans are poised to lose significant market share. Despite the fact that these loans also no longer qualify for tax benefits, they could (in theory) still be used to lower servicing costs over time.

The cut-off date of this tax regime change for new mortgage loans was 1 January 2013. This date does not refer to the origination date of the loan, but instead to the date of (provisional) purchase of the underlying dwelling. Home-owners who bought their home by 31 December 2012 can still benefit from the old tax regime if their mortgage is originated before 1 January 2014. In other words, the 2013 mortgage vintages can still include loans which fall under the old tax regime. This conclusion particularly applies to mortgage loans originated in January and February 2013.

Old mortgage loans

All mortgage loans which are secured on a dwelling purchased before 1 January 2013 will continue to benefit from the former tax regime. The interest payments on those mortgage loans are fully deductible from taxable income, irrespective of the characteristics of the mortgage loan product. The deductibility only applies to mortgage loans secured on a primary residential dwelling and is limited to a 30-year term. Given this, it will take until at least 2042 before the last mortgage loan under the old tax regime will disappear from the Dutch mortgage market.

Existing mortgage borrowers will likely be subject to some change. Although important, we feel this change will have only marginal effects. Starting in 2014, the government intends to gradually reduce the maximum tax rate for deductibility of mortgage interest payments. Currently, the highest tax bracket (52%) determines the maximum benefit. This maximum percentage will be lowered to 38% in 2040. The conversion will take place at only 0.5% per annum. In our view, this change is too gradual to significantly influence financial behaviour. We do neither foresee an increase in foreclosure nor prepayment rates because of this scheduled decline in tax benefit. Moreover, the largest share of incomes is currently subject to a 42% marginal tax rate. Nothing will change for this income group in the next two decades.

Tax deductibility of mortgage interest payments

Mortgage type	Old regime	New regime
Linear	ü	ü
Annuity	ü	ü
Bank savings	ü	û
Interest-only	ü	û
Savings	ü	û
Insurance	ü	û
Investment	ü	û

Source: ABN AMRO Fixed Income Research

Transitory regime

More interesting is what will happen with old mortgage loans if they expire, are (partially) paid down[3] and/or are refinanced. In the first two cases, the benefit under the old tax regime will disappear or decrease automatically. Refinancing an old mortgage loan will be more complex, since grandfathering existing tax benefits is possible. The bottom line is that the current mortgage loan structure, up to the relevant loan(part) amounts, can be grandfathered under various prepayment events.

Refinancing[4]

Typical Dutch mortgage loans have a legal term of 30 years. Mortgage interest rates are typically fixed, but often not over the entire duration of the loan. Instead, interest rates are usually fixed for a period of between 5 and 15 years. When the specified interest reset date is reached, the borrower faces, broadly speaking, two options. First, the borrower can accept a new interest rate (and interest rate term) and leave the loan itself untouched. Second, the borrower has the (free) option to refinance the loan. Full refinancing is also possible at an earlier stage, but this often involves a penalty fee[5]. When the borrower exercises the (free or paid) option to refinance the existing mortgage loan, he or she can also transfer the originator and/or loan product. The old tax regime is portable when an old mortgage loan is being refinanced. The grandfathering applies to the current mortgage structure (both to the mortgage loan product(s) and the specific loan amounts). A few examples on the next page illustrate this grandfathering.

[2] At the time of writing it is unclear whether an updated Mortgage Code of Conduct will require full amortisation of the mortgage loan. Currently, the Code caps the share of the interest-only loan amount at 50% of the total mortgage loan.

[3] An unscheduled partly repayment of principal is known as curtailment.

[4] In this publication, refinancing refers both to the technical prepayment events of reconsidering and refinancing.

[5] Curtailments up to 10% of the original mortgage loan value are often possible without a penalty fee.

Example 1

Mortgage details

Total	EUR 200,000
Part I – Interest-only	EUR 200,000
Origination date	3 May 2003
Legal maturity date	3 May 2033
Interest rate reset date	3 May 2013

On 3 May 2013, the borrower can continue his loan against a new interest rate, or he or she can refinance the full loan without a penalty fee. The borrower can transfer his tax benefit, up to EUR 200,000, to a new interest-only mortgage loan, even with a different originator. The old tax system applicable to this mortgage loan structure is portable until the benefit expires on 3 May 2033 at the latest.

Example 2

Mortgage details

Total	EUR 250,000
Part I – Interest-only	EUR 125,000
Part II – Bank savings	EUR 125,000
Origination date	25 September 2009
Legal maturity date	25 September 2039
Interest rate reset date	25 September 2014

In this specific example, the borrower can refinance the exact current mortgage structure without losing tax benefits. The borrower can do this without penalty on 25 September 2014. The new (refinanced) mortgage loan can total up to EUR 125,000 in an interest-only product and up to EUR 125,000 in a bank savings mortgage loan. The old tax system applicable to this mortgage loan structure is portable until 25 September 2039 at the latest

Switches to different mortgage loan products are generally not allowed when grandfathering the old tax benefits. In the case of example 2, the borrower cannot refinance his EUR 125,000 bank savings mortgage loan part and his EUR 125,000 interest-only part through one new EUR 250,000 full interest-only mortgage (or vice versa) without losing the full tax deductibility on interest payments.

There is, however, a temporary opportunity to convert interest-only loans into bank savings mortgages. Borrowers with an interest-only mortgage loan with a legal maturity beyond 1 April 2033 are allowed to implement such a switch before 1 April 2013. This enables the borrowers to accumulate capital for principal repayment in a tax efficient manner[6].

Refinancing old mortgage loans through new linear or amortising mortgage products is always allowed. In this case, the new tax regime is directly applicable. For example, the borrower in Example 1 could refinance his full mortgage loan into a linear product structure. With this mortgage loan as well, the borrower can deduct interest payments from taxable income. However, as the interest payments decline over time in this structure, the tax benefit will also decrease. Given this, it is doubtful that many if any borrowers will switch from a very tax-friendly regime to a less tax-friendly product. Moreover, borrowers cannot switch back from amortising or linear mortgage products to non-amortising structures without losing the full tax benefit. Therefore, for mortgage borrowers benefiting from the old tax regime, there will be a rather strong tax disincentive to refinance old mortgage loans.

Relocation

The grandfathering of the old tax regime also applies in case of relocation. Most (but not all) Dutch mortgage loans can be refinanced without a penalty fee if the borrower moves into a new house. In this case as well, the tax benefits on the old mortgage structure can be transferred to a new mortgage loan. Any additional loan amount will be subject to the new tax regime and has to fully amortise in order to benefit from tax deductibility of this loan part. The example in the box on the right of this page illustrates the grandfathering process in the case of relocation. The bottom line is that if the borrower relocates, tax benefits on the current mortgage product structure, up to the current loan amounts, are also grandfathered into the new mortgage loan.

Example 3

Mortgage details old dwelling (prepaid)

Total	EUR 250,000
Part I – Interest-only	EUR 125,000
Part II – Bank savings	EUR 125,000
Origination date	25 September 2009
Legal maturity date	25 September 2039
Interest rate reset date	25 September 2014

Mortgage details new dwelling

Total	EUR 400,000
Part I – Interest-only	EUR 125,000
Part II – Bank savings	EUR 125,000
Part III – Annuity	EUR 150,000
Origination date	8 February 2013
Legal maturity date	8 February 2043
Interest rate reset date	8 February 2023

In this example, the borrower from Example 2 moves to a new dwelling on 8 February 2013. The new mortgage loan equals EUR 400,000. While technically the old mortgage will be completely prepaid, the tax benefits on this loan can be transferred to the mortgage loan for the new dwelling. Like the refinancing examples above, the grandfathering applies to the mortgage product structure and is limited to the amounts in the old loan. In this example, the borrower enjoys full tax deductibility of interest payments in loan part I and II. These tax benefits remain constant over time (to 2039 at the latest). The borrower also enjoys tax deducibility of the interest payments in the annuity loan part III, although this tax benefit decreases over time.

New underwriting legislation

Another important change in the Dutch mortgage market involves a new act on underwriting criteria. This legislation, which went into effect on 1 January 2013, overrides the latest version of the Mortgage Code of Conduct regarding specific criteria. These changes further tighten the mortgage lending criteria.

[6] The tax subsidy for this specific group of mortgage borrowers does not change in this switch. The tax benefit on interest-only and bank-savings mortgage loans is equal.

LTV cap

There is now a strict legislative LTV cap in place. Per 1 January 2013, the maximum mortgage loan amount is set at 105% of the market value of the secured property. Prior to this date, the LTV cap was 106% (and even higher further in the past). Over the coming years, the maximum LTV ratio will decrease by 1% per annum, to 100% in 2018. The leeway for higher mortgage loans is thus severely restricted, except in the case of negative equity loans (see box).

Negative equity

Due to the large share of non-amortising mortgage products originated over the last decades and a continuous decline in house prices in recent years, the problem of negative equity has grown in the Netherlands (about 700,000 households are affected). Negative equity is increasingly creating a gridlock in the market, since most affected homeowners are not willing or able to take a loss if they relocate. The new government is addressing this problem by making two exceptions to the legislation if negative equity is involved:

1) Interest payments on new mortgage loans to finance negative equity are tax deductible for a period of 10 years.
2) The LTV caps in the new legislation on underwriting criteria explicitly exclude negative equity loans. In other words, any loan(part) involved in the refinancing of negative equity carried over from a former dwelling is not taken into account in the LTV calculations. From a risk perspective, it remains questionable whether loan providers classify a negative equity loan as a mortgage or as a (unsecured) consumer credit loan.

These two measures could remove some of the obstacles when negative equity is involved in a mortgage transaction. However, we doubt whether these measures will stimulate the market in the short run given the ongoing problem of overleveraging.

Debt-service to income ratios

The new legislation also sets caps on the mortgage debt level in relation to income. More specifically, detailed tables in the annex of the act set maximums on mortgage debt servicing costs as a percentage of gross income. Besides income, the cap is also dependent on whether the borrower has reached retirement age or not and on the specific mortgage interest rate. The maximum for debt service payments varies from 18.5% to 46.5% of gross income. As a quick rule of thumb, the maximum debt-to-income ratio is now roughly 4.5 for a mortgage borrower with a median income. The applicable gross income in the denominator of the ratio is the average income of the last three years. Some leeway is possible in the income calculations on an explanatory basis. From this perspective, a young borrower with good career prospects might still be granted a higher mortgage loan than his or her current income would strictly allow. The loan provider must thoroughly explain this exception.

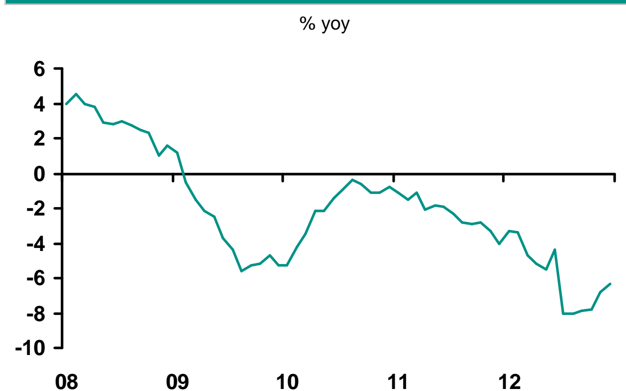
The Mortgage Code of Conduct, a private-sector alignment of underwriting criteria, still exists and will be updated in the future. It is likely that the underwriting criteria in this Code will be aligned with the new act.

Consequences

Housing market

The regime change in interest tax deductibility and the further tightening of mortgage lending standards will lead to a decrease in affordability of owner-occupied housing. First-time buyers will be significantly impacted. According to our calculations, their net servicing costs will increase by 10-15% over the full term of the mortgage loan compared to the situation before 1 January 2013.

House prices



Sources: Land Registry, CBS, ABN AMRO Fixed Income Research

Still, the new tax and underwriting regimes were not implemented unexpectedly. A large part of the recent price declines in the residential real estate market were already the result of anticipation of this new mortgage lending environment. And in our forecasts for the Dutch housing market, we already anticipated most of the changes. Consequently, we have not adjusted our forecasts of further price declines this year. We still foresee a stabilisation of activity and prices in 2014.

Some modest improvement was already visible in the last months of 2012. In our view, these developments were false signals. There was a sharp increase in transactions in December 2012 but we suspect that the lion's share of this rise consisted of front-loading purchases. All transactions settled in 2012 can still benefit from the old tax regime on mortgage interest payments. The outlook for both prices and transactions in the first half of this year remains negative. On the back of an expected return to modest economic growth for the Dutch economy, and the fact that the reforms have removed a large part of the uncertainty over the housing and mortgage market, a stabilisation of prices and activity is foreseen in 2014.

Prepayments

The change in the tax system, including the grandfathering of old mortgage loans, will also have pronounced effects on the prepayment behaviour of mortgage borrowers. In our view, the year of origination, technically known as the vintage, will be very important when considering prepayment expectations. The vintages can be roughly divided into four mortgage generations, which could all exhibit different prepayment behaviour[7]. We distinguish between old mortgage generations A, B and C, and the new mortgage generation D.

Mortgage generation A (<2002)

All mortgage loans originated before roughly 2002 are likely to remain in positive equity territory, even when accounting for further house price declines. As a result, this mortgage generation will probably exhibit relatively normal prepayment behaviour on balance. On the positive side, a general preference for deleveraging might induce slightly higher curtailment prepayments going forward. In cases of significant wealth (which are subject to low investment returns and a general wealth tax) it could pay off to reduce the debt burden beyond the amortisation schedule of the mortgage loan. This effect will likely be more significant for interest-only loans, since these could be perceived by the borrower as an unwanted financial burden. However, on the negative side, prepayments on this generation of mortgage loans could also turn out to be structurally lower. The current mortgage product structure carries a positive tax value through the regime of grandfathering. Although refinancing should not be problematic given positive equity, it remains questionable whether other banks will be willing to originate non-amortising mortgage structures without a mark-up on the interest rate. Ignoring all other loan elements, non-amortising loan structures will carry a higher credit risk compared to (new) amortising mortgage loans. From this perspective, there might be an incentive not to prepay the old mortgage loan and carry it until maturity in order to enjoy maximum tax benefits.

Mortgage generation B (2002-2010)

The consequences on prepayment rates for the mortgage loans originated between approximately 2002 and 2010 are probably the largest. It is likely that most borrowers from this period currently or will shortly hold negative equity. The problem is even worse for this mortgage generation, since 90-95% of the loans originated in this period are non-amortising. Moreover, a significant share, likely well above 50%, is in the form of interest-only loan products. If the borrower has significant wealth, he or she might make various curtailment prepayments in order to remove negative equity. Other forms of prepayments are likely to remain unpopular. Relocation is often neither preferred nor possible since it would result in a significant loss on the house. Also refinancing at the interest reset date is much more difficult to implement when there is negative equity. Although the government has implemented two incentives to carry over negative equity in a tax-friendly way, it remains questionable whether these measures will indeed change borrower behaviour. In the short run, the prepayment rates on interest-only mortgage loans might increase because borrowers have still the opportunity to switch into a bank savings structure by 1 April 2013. However, from this date onwards we expect the prepayment rate of this mortgage generation to slow down significantly. In the longer run, borrowers will also likely consider the current mortgage product structure as a positive tax asset. It is likely that the structure, and in fact most likely the current mortgage loans themselves, will be carried as far as possible into the future.

Mortgage generation C (2010-2013)

Most mortgage loans originated between 2010 and this year are also likely facing a negative equity situation. Still, these mortgages are less risky than generation B because the share of interest-only loans is constrained to 50% LTV[8]. In other words, borrowers in this generation automatically accumulate capital for at least half of the principal of the loan. There is also less pressure on this generation to increase curtailment payments. Borrowers in generation C are already accumulating capital and are less sensitive to negative equity fears. The prepayments associated with refinancing and relocation are likely to remain low in the short to medium term, since negative equity could be a big hurdle for both borrower and mortgage provider. Just as in the previous generations, this mortgage loan structure carries a tax advantage, which could benefit borrowers in the long run. This could imply that prepayment rates associated refinancing will remain lower for longer. Please note that all mortgage loans originated in 2013 that are still compatible with the old tax regime are also classified as generation C.

Mortgage generation D (> 2013)

This generation will consist of all new mortgage loans provided under the new tax regime from 1 January 2013. The largest share of this generation will be annuity products. New loans originated from this year onwards will be generally less risky compared to the previous generations. The automatic decline in LTV is a very positive factor, which also considerably limits negative equity holdings in residential real estate. Curtailments in this type of mortgage loan are less likely. There are hardly

[7] Changes in mortgage interest rates have always been the key driver of prepayment behaviour. For the sake of simplicity, we assume that prepayments on all four mortgage generations are equally affected if interest rates change *(ceteris paribus).*

[8] This is the result of the stricter Mortgage Code of Conduct that was adopted in 2010.

any constraints on prepayments for refinancing and/or relocation purposes, since tax benefits will not change. Negative equity could occur, but is will likely be modest compared to earlier generations.

The table below summarises the expected effects on prepayment rates as a result of the new tax regime.

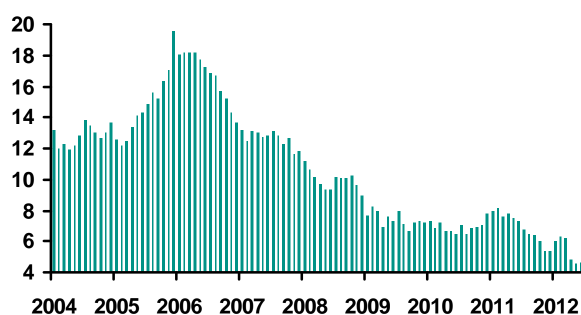
Stylised prepayment effects

	Mortgage generation			
	A	B	C	D
Vintage (±)	< 2002	2002-2010	2010-2013	>2013
Prepayments				
Curtailment	+	++	-	-
Refinancing	-	--	-	+
Relocation	o	--	o	o
Total	o	-	-	o
Indexed LTV	<100	>>100	>100	±100
Credit quality	+	--	o	++

Source: ABN AMRO Fixed Income Research

Constant prepayment rates

Prime Dutch mortgage loans in RMBS transactions, %



Source: Moody's

The outlook for overall prepayment rates is much harder to assess. Since 2006, the Dutch mortgage market has witnessed a steady decrease in the (constant) prepayment rate. A trough was likely reached in Q3 2012. The lower prepayment rate is mainly the result of very low activity on the housing market, overall uncertainty regarding the future tax system and the increasing problem of negative equity, which significantly constrained refinancing options. According to anecdotic evidence, there was a clear pick-up in prepayments in Q4 2012. In our view, this was the result of 'last minute' originations in order to benefit from the old tax regime. Switches from interest-only product structures to bank savings products are still allowed until 1 April 2013. Until that time, prepayment rates could remain higher. In contrast, we expect an overall decrease in prepayment rates from 1 April 2013, although curtailment prepayments could pick up slightly. As described above, the outlook for prepayment rates is highly dependent on the year of origination of the mortgage loan. Vintages will be more important to consider, not only with respect to the overall credit quality, but also for prepayment behaviour.

Effects on RMBS

Most Dutch RMBS structures will be affected by the regime change in the Dutch housing market. Vintages and seasoning were already important determinants in the credit quality of RMBS transactions[9]. Going forward, these aspects will only increase in importance. RMBS transactions with exposures to mortgages in generation B (2002-2010) will carry more risks than mortgage loans of generation C (2010-2013). New transactions involving only new mortgage loans (generation D, >2013) will be of a better quality, since the share of annuity and linear mortgage loans will likely increase substantially in these securitisations deals. Of course prepayment effects are also important to consider. Individual RMBS securitisations are assuming a specific constant prepayment rate (CPR) at origination. Some realised CPRs are already on the low side relative to expectations, implying that extension risks have grown. If the future prepayment rates for mortgages originated in generations B and C are even lower in the long run, extension risks in some RMBS transactions might increase. Please note that under normal conditions, the issuer is likely to call the securitisation tranches on the first call date, irrespective of CPR developments.

Effects on covered bonds

Dutch covered bond programmes will also be affected by the regime change in the mortgage market. However, the effects will be much more limited compared to RMBS because the cover pools are dynamic and not (directly) subject to extension risks. On the downside, the adjustment from the old to the new mortgage regime will likely take longer to emerge in covered bond cover pools. It will be quite some time before the old mortgage loans with a lower credit quality (especially those of generations B and, to a lesser extent, C) disappear from the cover pools. And from a funding perspective, banks could have a tendency to place the higher quality amortising loans (generation D) in RMBS instead of covered bonds.

[9] Dutch master issuer RMBS structures are not considered in this research document.

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