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Self-employed borrowers in Dutch RMBS

Focus on ABS

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- The Netherlands has a relatively high share of self-employed workers, of which quite a few are currently hit hard by the Covid-19 crisis.
- In response, the Dutch government has introduced various measures aimed at supporting the self-employed, including an income assistance programme.
- Nonetheless, credit risks are rising and Dutch RMBS transactions are also exposed to self-employed borrowers, though they generally comprise a relatively small part of the underlying collateral.
- Several safeguards are in place in transaction structures to protect investors from losses and NHG guarantees provide an additional mitigating factor, including for the self-employed.
- In the short term, credit risks seem manageable, though the impact will be mainly dependent on how long the Covid-19 situation is going to last.

1.4 million self-employed in the Netherlands

According to Netherlands Statistics (CBS), self-employed workers that don't employ staff ("ZZP'ers") comprised 12.3% of the total Dutch working population, totalling some 1.1 million in 2019.¹ Furthermore, there are also self-employed workers who are themselves employing staff (entrepreneurs). They make up nearly 4% of the total working population (~344k). Taking both together, the self-employed comprise some 16% of the Dutch labour market.

The representation of the self-employed in the Dutch housing and mortgage market is hard to find, but according to *Van Bruggen Adviesgroep*, around 1 in 3 mortgage applications feature a self-employed borrower. Regardless of the actual number, their share has likely grown over the past few years, in line with their greater share in the working population in general. Overall, the self-employed are a non-negligible group in both the labour and housing market.

Covid-19 response measures

A variety of measures have been taken to support self-employed workers during the current Covid-19 crisis. The most important is the so-called *Tozo* programme, which is temporary welfare assistance ("bijstand") for the self-employed. Under this facility, benefits up to ~€1500 net per month for families and ~€1050 for singles are paid out.²

These payments are a gift, unless the loss in income was overstated, resulting in welfare payments that were too high.

As part of the measures, the normal eligibility conditions for welfare assistance have been relaxed for this group. Most importantly, it is not means-tested (both wealth and income of the spouse are ignored). The income assistance will be in place until at least 1 June and can be applied retroactively from 1 March onward.

Local municipalities are in charge of the execution of the programme and they may choose to provide an advance payment to those imminently affected.

Nonetheless, there are several requirements in place for the programme. In order to be eligible, one needs to be self-employed, a resident in the Netherlands, be included in the Dutch register of companies ("KvK"), the company must have been founded before 17 March and one must be working at least for 23.5 hours per week (1225 hours per year) in normal circumstances.

In addition to the welfare assistance, there is also the possibility for a bridge loan under the program to boost working capital for a maximum amount of €10,517, at an interest rate of only 2%. Finally, taxes for the self-employed have been suspended for an initial period of 3 months with the possibility of extension.³ All in all, the measures should provide immediate liquidity relief for those affected most, though a fall in the level of income likely won't be fully prevented.

Mortgage moratoriums

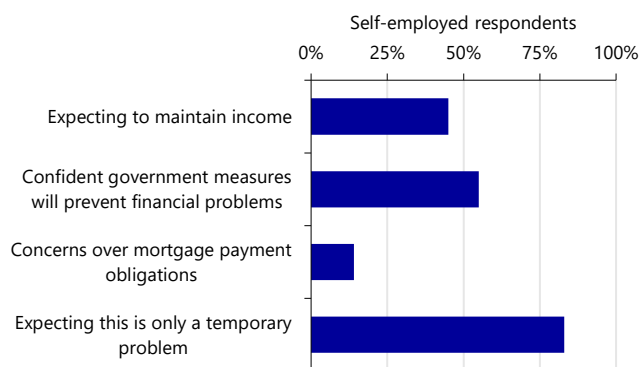
In addition to these measures taken by the government, several mortgage lenders have also introduced the option of payment holidays for mortgage loans. Unlike some other [European countries](#), there is currently no official policy or national coordination in place in the Netherlands.

Nonetheless, most lenders (if not all) allow for a suspension of interest & principal, typically for a maximum period of three months. Conditions do often apply, however. For example, it mostly applies to borrowers which are affected by the Covid-19 situation, for which government measures are not available or insufficient to cover their mortgage payments, and/or for those with insufficient financial reserves.

Use of moratoriums seems to be limited

A recent [survey](#) amongst 1,176 members of the Dutch homeowners association VEH indicates that self-employed homeowners are largely expecting to be able to continue servicing their mortgage loans. Out of all the respondents, only 4% believe they could face troubles at some stage paying their mortgage. For the self-employed, however, this is substantially higher at 14%, but even this is still relatively limited in the grand scheme of things.

Figure 1: Survey responses self-employed homeowners



Source: VEH

Finally, just 1% of all the respondents say they expect to make use of the moratorium option offered by lenders, whilst 9% indicated that they “maybe” could make use of a payment holiday.

Exposures to self-employed in Dutch RMBS transactions

The exposure to self-employed borrowers in Dutch RMBS transactions is relatively limited. For Prime RMBS deals the self-employed comprise, on average, around 8.3% of the

outstanding balance. However, there are differences across shelves and transactions. For example, Venn Partner’s Cartesian shelf features relatively higher exposures (12.9%-24.0%), whilst for Argenta’s Green Apple deals it is below 5%. The full list of outstanding transactions can be found in the Appendix.⁴

Credit and liquidity risk mitigations in Dutch RMBS

The self-employed could already feature inherently more credit risk than other borrowers, given their more uncertain incomes and limited social security to fall back on. As Covid-19 currently affects the incomes of many self-employed workers, credit risks are rising, though this is coming from a low base. This is irrespective of any potential impact of the Covid-19 situation on the housing market (see this [Q&A](#)), i.e. the loss-given default.

Dutch RMBS transactions feature various forms of liquidity and credit protection for investors, however. In addition to the standard subordination, reserve accounts are available, typically equal to 1% and 2% of the principal balance (at closing). Furthermore, indirect credit enhancement comes in the form of excess spread, either guaranteed (usually 35-50 bps) or variable. Finally, in case of enforcement, principal flows are typically also available to cover interest shortfalls.

Last, but not least, loans benefiting from a NHG guarantee are mostly covered in terms of credit risks. NHG also offers guarantees to self-employed borrowers, provided of course that they meet the requirements.

Conclusion

The relatively limited share of self-employed borrowers, the structural credit protection mechanisms and the announced government measures will likely result in a limited impact on outstanding Dutch RMBS transactions in the short-term.

At this stage, we also regard (short-term) liquidity risks as a result of payment holidays to be low given a likely limited take-up rate amongst borrowers, the government support and the provisions in place in the RMBS structures.

Nonetheless, we also note that the current situation is highly uncertain. The extent of the final damage in pools will be highly dependent on how long the current situation will last, and how fast the economy will recover once Covid-19 is under control.

Appendix

Table 1: Self-employed borrower exposures for Dutch Prime RMBS transactions (non-retained)

<i>Deal name</i>	<i>Launch date</i>	<i>FORD</i>	<i>Seller</i>	<i>Share self-employed (% of balance)</i>	<i>Share NHG (loan level, % of balance)</i>
Arena NHG 2014-2	24/11/2014	17/04/2020	Delta Lloyd/NN	2.6	100.0
Arena NHG 2016-1	07/06/2016	17/06/2021	Delta Lloyd/NN	3.6	100.0
Cartesian 2	05/07/2017	18/11/2022	Venn Partners	17.1	0.0
Cartesian 3	16/07/2018	18/11/2023	Venn Partners	12.9	0.0
Cartesian 4	05/07/2019	17/04/2023	Venn Partners	14.0	0.0
Cartesian Blue	10/04/2019	17/04/2023	Venn Partners	24.0	1.5
DCDML 2016-1	20/10/2016	28/10/2021	Dynamic Credit/Elan Hypotheken	2.2	0.0
DMPL 12	28/05/2014	26/05/2020	Achmea	3.1	0.3
DRMP 1	19/05/2015	26/04/2020	Achmea	4.7	47.5
DRMP 2	04/11/2016	26/12/2022	Achmea	5.4	57.8
Dutch MBS 19	23/11/2018	25/11/2023	NIBC	9.2	30.8
EDML 2017-1	16/08/2017	28/10/2022	Goldman Sachs	0.5	0.0
EDML 2018-1	08/03/2018	28/10/2022	Goldman Sachs	5.3	0.0
EDML 2018-2	29/11/2018	28/10/2021	Goldman Sachs	7.4	0.0
EDML 2019-1	02/12/2019	28/10/2024	Goldman Sachs	7.2	0.0
Green Apple 2017-1 NHG	28/09/2017	18/03/2024	Argenta Spaarbank	3.9	100.0
Green Apple 2018-1 NHG	29/05/2018	17/01/2025	Argenta Spaarbank	4.0	100.0
Green Apple 2019-1 NHG	18/06/2019	17/01/2026	Argenta Spaarbank	3.8	100.0
Hypenn 4	01/10/2015	17/07/2020	NN Bank	11.6	24.0
Hypenn 5	07/04/2016	17/04/2021	NN Bank	3.1	99.7
Hypenn 6	02/12/2016	17/12/2022	NN Bank	11.9	3.3
Lowlands 5	18/05/2018	18/05/2023	De Volksbank (SNS)	1.9	35.7
Orange Lion 2013-10	03/07/2013	N.A.	ING	17.8	21.9
Orange Lion 2015-11	03/06/2015	25/07/2022	ING	9.4	26.7
Pearl 1	15/09/2006	18/09/2026	De Volksbank (SNS)	4.3	100.0
Saecure 16	31/10/2018	30/10/2023	Aegon	4.8	5.0
Saecure 18	05/07/2019	28/07/2025	Aegon	0.1	100.0

Note: As of the most recent date for which data was available.
Source: Rabobank, ConceptABS, Bloomberg, investor reports

Table 2: Self-employed borrower exposures for Dutch Prime RMBS transactions (non-retained) continued

<i>Deal name</i>	<i>Launch date</i>	<i>FORD</i>	<i>Seller</i>	<i>Share self-employed (% of balance)</i>	<i>Share NHG (loan level, % of balance)</i>
Storm 2014-1	19/02/2014	22/06/2020	Obvion	5.9	26.2
Storm 2015-1	12/03/2015	22/06/2021	Obvion	7.6	21.2
Storm 2015-2	04/09/2015	22/09/2021	Obvion	9.6	27.4
Storm 2016-1	22/01/2016	22/01/2021	Obvion	9.8	28.2
Storm 2016-2	08/09/2016	22/08/2021	Obvion	11.9	25.9
Green Storm 2016	08/06/2016	22/07/2022	Obvion	11.3	45.4
Purple Storm 2016	06/07/2016	N.A.	Obvion	9.8	28.6
Storm 2017-1	13/01/2017	22/01/2022	Obvion	10.4	23.2
Storm 2017-2	23/06/2017	22/05/2022	Obvion	9.9	23.5
Green Storm 2017	19/05/2017	22/04/2022	Obvion	10.4	25.4
Storm 2018-1	12/01/2018	22/01/2023	Obvion	9.6	22.7
Storm 2018-2	06/09/2018	22/09/2023	Obvion	9.9	9.7
FORDless Storm 2018	15/02/2018	N.A.	Obvion	10.0	17.2
Green Storm 2018	18/05/2018	22/05/2023	Obvion	13.0	15.8
Storm 2019-1	04/04/2019	17/04/2023	Obvion	12.5	4.0
Green Storm 2019	02/07/2019	17/04/2023	Obvion	14.1	14.3
Storm 2020-1	10/01/2020	17/04/2023	Obvion	12.0	13.4
Strong 2016-1	13/12/2016	22/12/2023	Obvion	4.5	100.0
Strong 2018-1	11/12/2018	22/09/2025	Obvion	4.4	100.0
Tulp 2019-1	07/11/2019	18/10/2024	Tulp Hypotheken	6.7	0.4

Note: As of the most recent date for which data was available.
Source: Rabobank, ConceptABS, Bloomberg, investor reports

¹ In the European context, the Netherlands has a larger share of self-employed relative to the EU-28 average, also compared to Germany (5.4%) and France (7.1%).

² Any other income is subtracted from these amounts. The checks for eligibility are relatively loose at application, but beneficiaries have to sign a statement that their income is severely affected by the Covid-19 crisis.

³ Additionally, punitive interest rates for late(r) payment of taxes has been lowered to near zero, fines have been scrapped and preliminary tax statements can be adjusted to reflect a change in income.

⁴ Legacy transactions from the E-MAC, EMF and Eurosail shelves have not been included given a lack of data on the share of self-employed. The same applies to several of the BTL/mixed RMBS transactions from the Domi and Dutch Property Finance shelves.

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