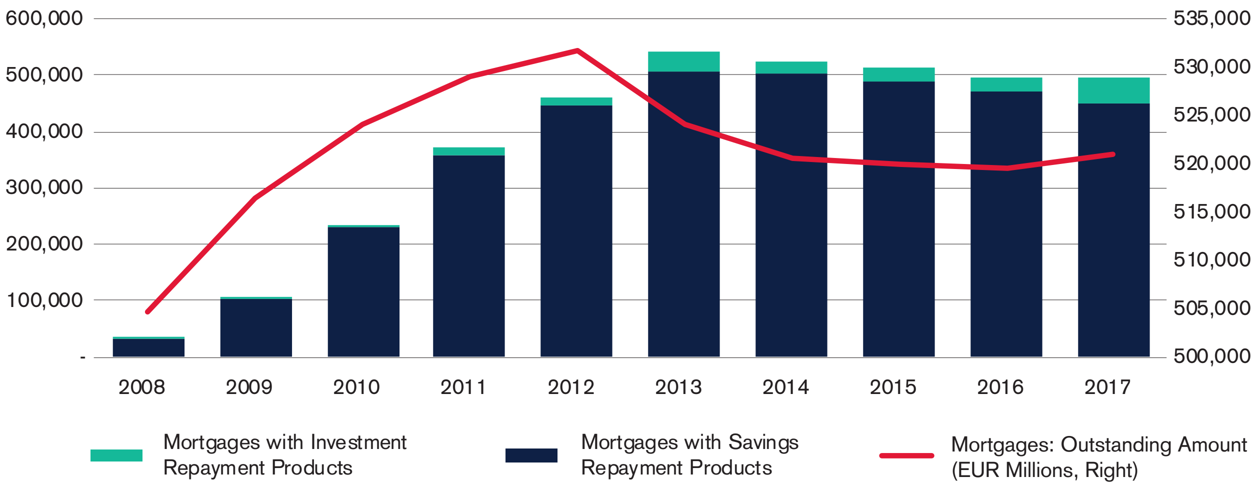
Dutch Mortgages

DBRS Illustrative Insights newsletter, delivering some of the most important and interesting charts commenting on the global economy through easy-to-read infographics, one at a time.

This week, we highlight the theme of **Dutch mortgages**.



Source: De Nederlandsche Bank.

The Dutch residential mortgage market has historically been characterised by a range of relatively complex mortgage products compared with other European countries. Tax incentives resulted in innovative loan structures being used to maximise the tax deductibility of mortgage interest payments.

However, tax and regulatory changes in recent years have caused a shift in the market. Loan structures that share common characteristics of repaying principal at maturity, in a balloon payment, and a high loan-to-value (LTV) ratio are becoming less common. Regulations have been pushing maximum LTV levels down to lower and lower levels with a 100% limit now in place. Starting in 2013, LTV ratio limits have been lowered by 1% per year to their current limit.

Alongside a migration of product types away from high LTV ratios, interest-only payments and a reduction in loans with additional repayment vehicles (such as bank savings, investment products and insurance) have been observed. As shown in the chart above, using data from De Nederlandsche Bank, a steady decline in savings and investment mortgage repayment vehicles have been occurring since 2013.

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In 2013, it became mandatory for new mortgage originations to be repaid in full within 30 years — such that tax remains deductible against mortgage interest (although grandfathering is still available for refinancing or porting). The number of mortgages with savings repayment products outstanding has fallen by 11% since 2013, and investment-linked products, which were less common than savings loans, fell but resurged in 2017. However, overall, these products combined have fallen by 8%.

The rate of tax deductibility is also being tapered for taxpayers in the highest income tax bucket, decreasing over time. This was recently accelerated to speed up the adjustment process. This means that borrowers are faced with fewer incentives to utilise the legacy-style high LTV ratios and interest-only mortgages, encouraging the market to move toward greater concentrations of amortising loan parts.

The result of all of this has been a general slow adjustment within the Dutch market, as can be seen in the declining outstanding mortgage balances. These initially declined by 1%, then subsequently by smaller amounts, but 2017 was the first time in four years that outstanding mortgage balances grew.