Mortgage Market Index – Netherlands 1H19
Home Prices Set to Slow after Steep Growth

At a Glance

Performance measure	Current value		2H18	Last year
3 months+ arrears (%)	0.13	⬆	0.12	0.13
1-2 months arrears (%)	0.12	⬆	0.11	0.12
Realised period loss (%)	0.02	-	0.02	0.03
Constant prepayment rate (%)	8.5	⬇	9.1	8.2
Home price index annual change (%)	6.9	⬇	9.0	8.8
12M property transactions (000)	213.4	⬇	218.4	232.6

Fitch Ratings data, Kadaster

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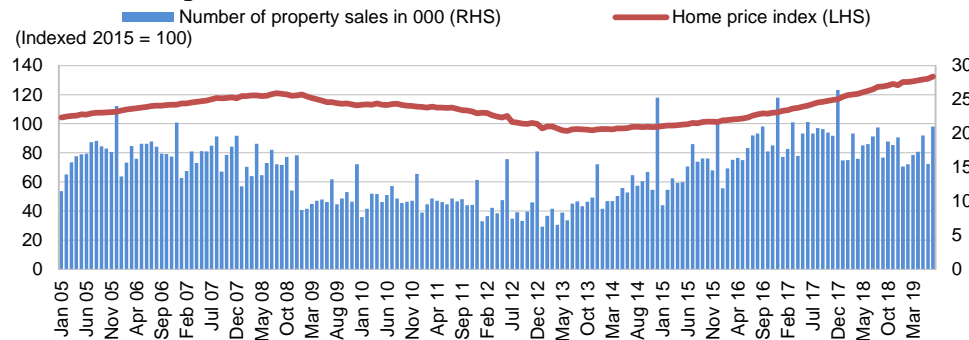bernhard.straeter@fitchratings.com

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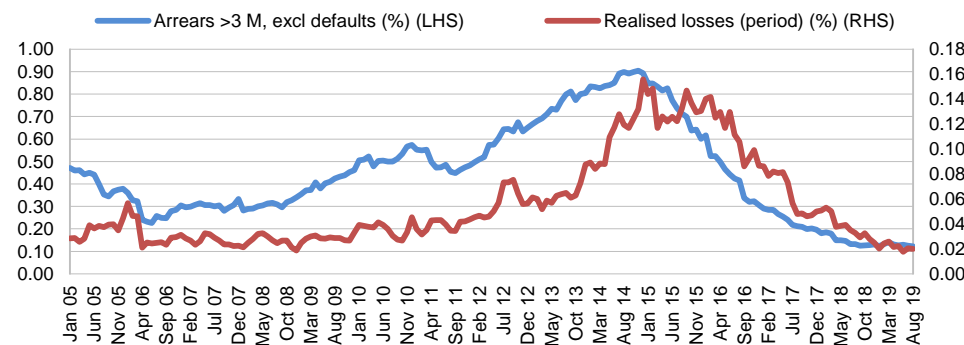+44 20 3530 1794
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Dutch Housing Market Performance Measures

Source: Fitch Ratings, CBS

### Performance Measures

Source: Fitch Ratings

■ **Property Sales Volumes Decline:** The total number of property sales fell to 99,937 in 1H19, down 4.9% from the same period in 2018.

■ **Home Price Growth Continues:** Home prices continued their strong growth at 6.9% over the first six months of 2019, according to Kadaster. The increase in prices has stabilised in recent months. Equally, housing supply is stabilising at low levels according to recent NVM data.

■ **Stabilising Arrears and Losses:** Loans more than three months in arrears as a percentage of the current RMBS portfolio balance remain very low, supported by a resolution friendly market environment and proactive servicing.
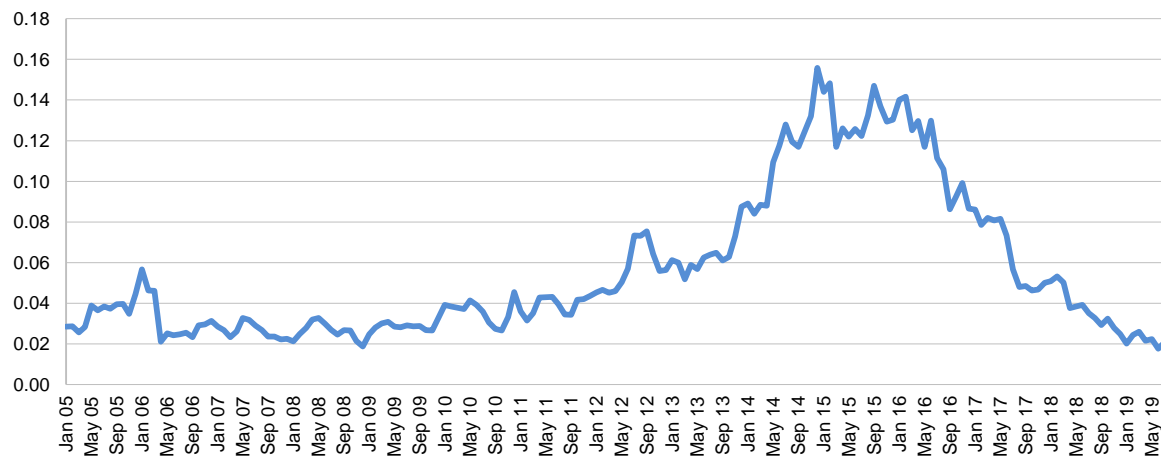
■ **Decrease in Prepayments:** The constant prepayment rate has slightly fallen compared to six months ago, but remains within the range of the last two years. Remortgaging activity and partial redemptions in the continuing low-rate environment will support future prepayment levels.

Arrears Ratios

Legend: Arrears >1 M, excl defaults (%) — Arrears >2 M, excl defaults (%) — Arrears >3 M, excl defaults (%)
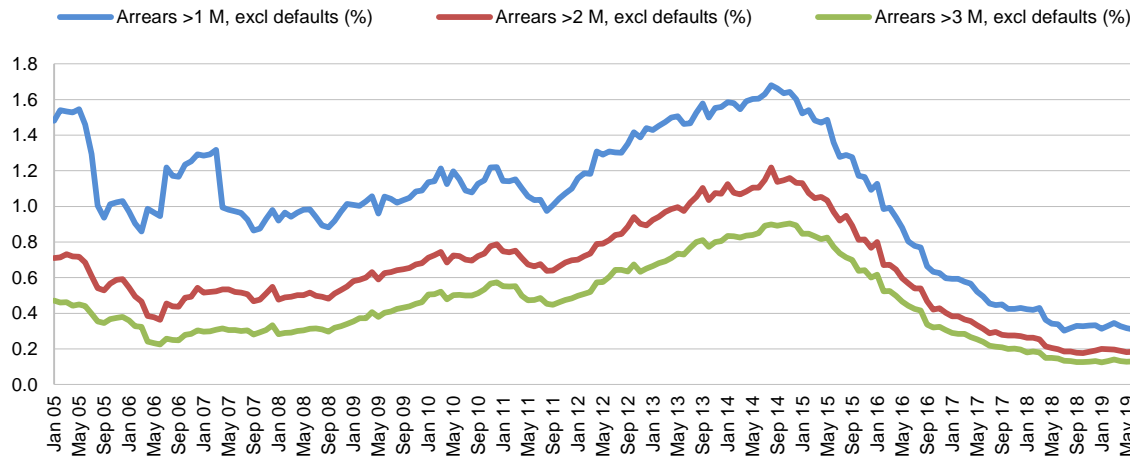
Source: Fitch Ratings

Realised Losses (Period)

Source: Fitch Ratings

Recent Developments – Late-Stage Arrears

Late-stage arrears have stabilised at low levels. As of end-2Q19, three-month-plus arrears were 13bp of the current Dutch RMBS portfolio balance, the same as end-2Q18. The one-month-plus arrears have been very tight over the same period. The arrears across some older transactions have declined while others have repaid and rolled off the index. New transactions continue to perform well. Rate resets in this low interest rate environment are reducing monthly mortgage payments, improving affordability and preventing borrowers from becoming delinquent.

Annualised period losses in Dutch RMBS have fallen since 3Q14. For almost a year, annualised period losses have been below 5bp, with the values of around 2bp being the lowest in a decade. The inclusion of non-conforming transactions in the overall index resulted in an increase in period losses to 4Q15, which has been overcome by their improved performance over time and subsequent roll-off from the index.

Long-Term Trends

Arrears levels remain among the lowest in Europe. Fitch Ratings expects further improvements to be limited, as lower interest rates factor in borrowers' debt capacity for new originations.
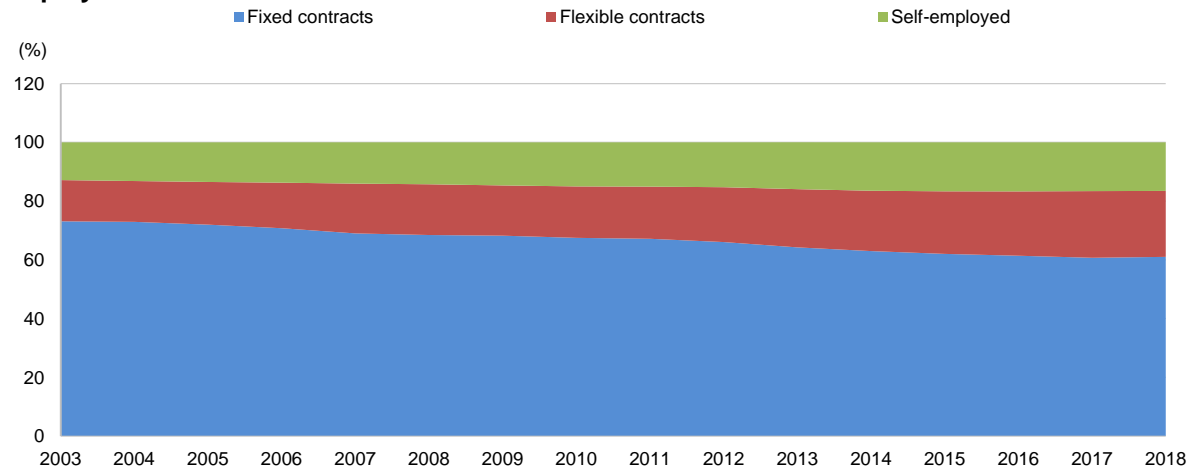
The Dutch housing market started to recover in 2014, leading to a stabilisation of losses across portfolios. While seasoned mortgage loans with higher OLTVs profit from strong price increases, newer mortgage loans tend to have lower LTVs and better affordability measures on average. Absent unexpected economic shocks, loss levels should therefore be manageable in the medium term.

Capital Ratio and New NHG Mortgages

Capital ratio (total liabilities over AUM) (RHS) — New NHG guaranteed mortgages (LHS)
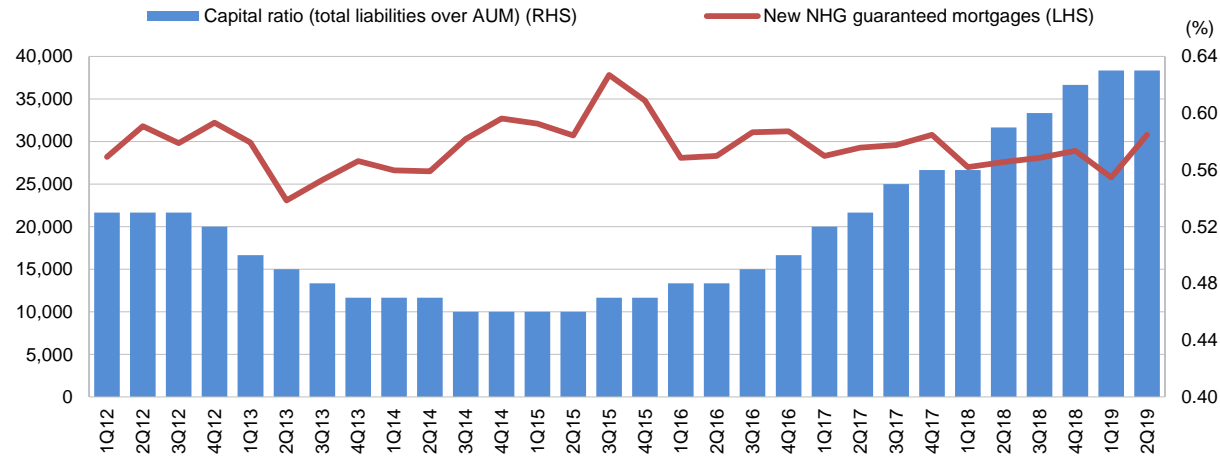
Source: Fitch Ratings, WEW

Employment Status

Fixed contracts — Flexible contracts — Self-employed

Source: Fitch Ratings, CBS

New NHG Guarantees Down, Increase to Follow?

Despite the recent reduction in the guarantee price and the increase in the loan limit (to EUR290,000), the uptake of new guarantees has been lower than the purchase of new and existing houses in 1Q19, according to NHG data. NHG aims to improve access to mortgage funding for flexible contractors as their share in the Dutch workforce is increasing. A number of mortgage lenders are starting a trial run with NHG where contractors can more easily obtain NHG loans. The guarantor is also working on developing a credit-scoring tool that would support NHG lending. Fitch understands the system considers, among other factors, current income, past income, education, contract type, and labour market perspectives. As a result, Fitch expects increasing NHG shares in RMBS pools. This will be supported by the further increase in the maximum guaranteed amount to EUR310,000 and the further fee cut to 70bp from 90bp of the loan amount. These come into effect in early 2020.

NHG Claim Severities Decrease Further

In 1H19, only 223 borrowers made claims to the Stichting Waarborgfonds Eigen Woningen (WEW), reducing lenders' losses to an average of EUR14,000 per borrower. Both the number of claims and the average lender's losses are significantly lower than in 1H18, when they were 652 and EUR18,615, respectively. These lower figures mainly result from home price appreciation. The NHG maximum guaranteed liability increased slightly to EUR208 billion (1Q19) from 205 billion (4Q18). Due to low losses, the capital ratios increased to 0.63% from 0.62% over the same period.
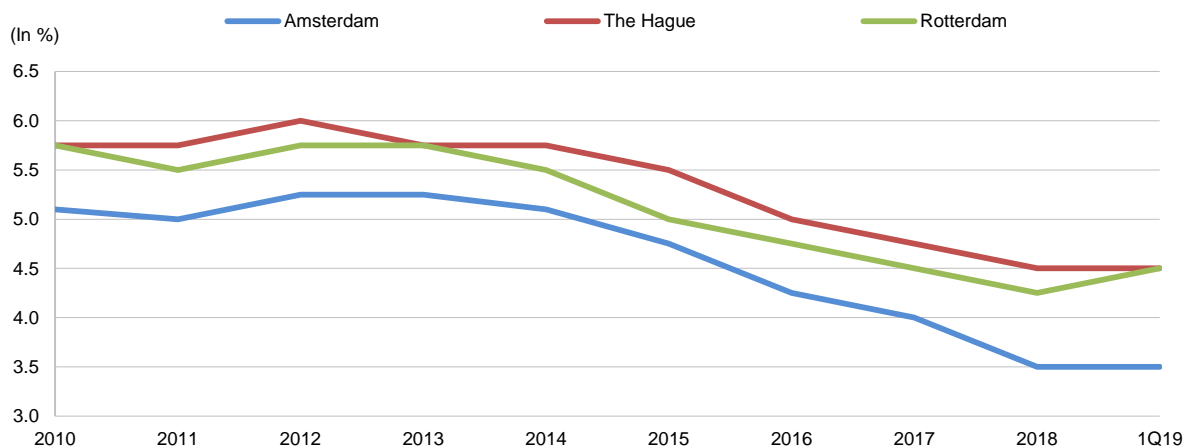
BKR Registrations Regarding Mortgage Debt
Number of registeredd persons
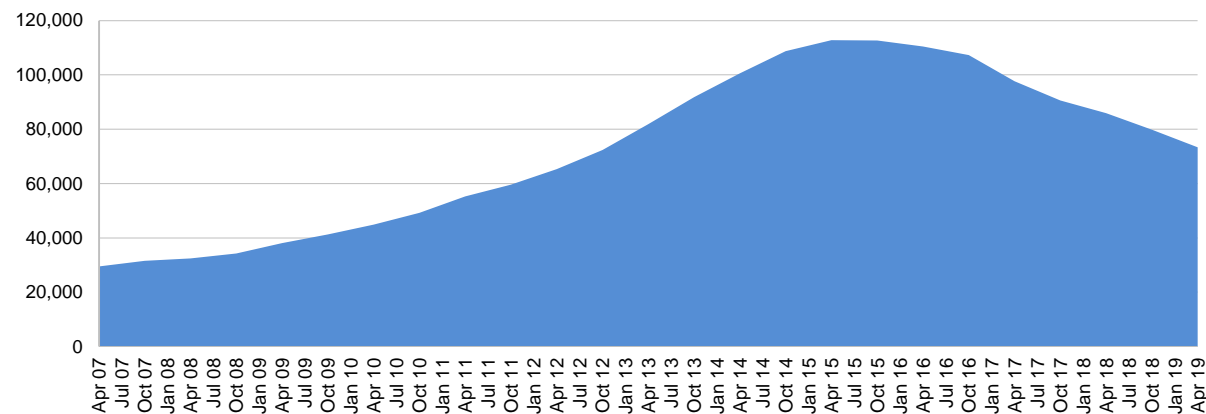
Source: Fitch Ratings, BKR

Residential Prime Gross Yields

(In %)

Legend: Amsterdam — The Hague — Rotterdam

Source: Fitch Ratings, savills

Prefunding Increasingly Popular Among Non-Banks RMBS Issuers

Non-traditional lenders have few er financing options than banks or insurance companies and therefore rely on w arehouse financing and RMBS issuance. As the mortgage production per period is low er than for large banks, these sellers prefund new mortgage originations to make RMBS issuance more economical. Candidate loans for prefunding are usually identified among agreed in principle loans, Therefore, the prefunding periods are usually limited to the first payment date only.

On the back of increasing use of prefunding in RMBS, Fitch expects few er, but higher volume RMBS issuance in the Netherlands.

BKR Registrations Down

The number of people w ith a BKR registration (behind on payments for at least three months) has declined further by approximately 10% to 73.000 since May 2018. Based on the limited access to mortgage lending for such borrow ers, this w ould slightly increase the potential number of mortgage borrow ers.

Rental Yields in the Netherlands

Rental grow th could not keep up w ith recent price increases, w hich has resulted in low er yields. The yield spread betw een Amsterdam compared to Rotterdam and The Hague has remained relatively constant.

Private Sales Compared to Auctions
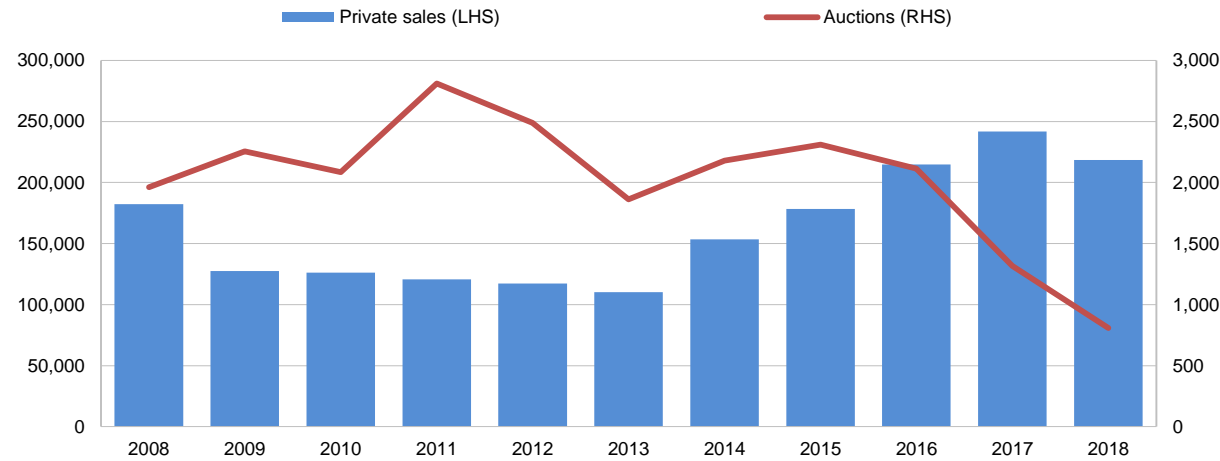
Source: Fitch Ratings, Land registry (Kadaster)

Home Price Growth vs. Number of Sales
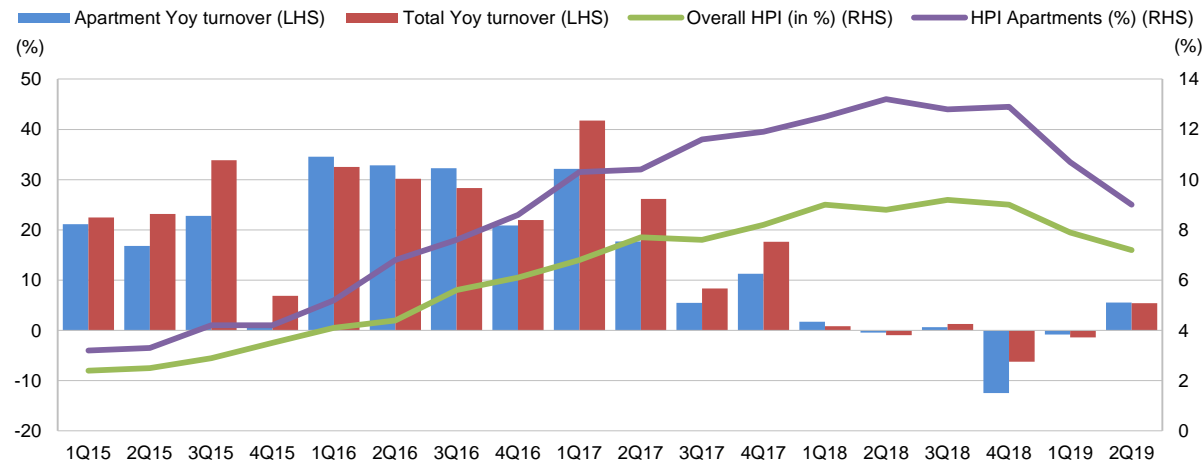
Source: Fitch Ratings, Land registry, CBS

Recent Developments – Property Sales

There was a slight decline of 0.8% yoy in the number of property sales in 2Q19, compared to more pronounced declines in previous periods. At a regional level, the figures vary between slight increases and decreases, with the exception of Friesland, which has shown an 11.0% increase. Of the larger cities, only Rotterdam has shown a steep decline in 2Q19 with a drop of 12.3%.

The fall in auctions since 2016 is partly explained by the record private sales in recent years. In contrast to auctions, property sales figures include non-default-related sales, which form the majority of sales. The inverse relationship between the two reflects the relative ease of private sales before auctioning distressed mortgage collateral.

Outlook

Fitch expects the number of auctions to reduce further in 2H19 given the macro-economic environment. Not a single province recorded an increase in auctions in 2018.

In contrast to the last few years, the HPI increase has slowed, on the overall market as well as for apartments. A steeper reduction in HPI growth for apartments – based on lower demand at pricier levels – meant that the gap between the overall HPI and the HPI for apartments narrowed again in 1H19.

After a material negative total turnover change in 4Q18, the indicator turned slightly positive in 2Q19. This trend should stabilise home prices, but overall demand could still be affected by the significant house appreciation experienced over the past three years.

Weighted Average Mortgage Rates and Gross New Loan Balances

Legend:
- Gross new mortgage loans of MFI's (RHS)
- Mortgage rates of MFI's - existing (LHS)
- Mortgage rates of MFI's - new (LHS)
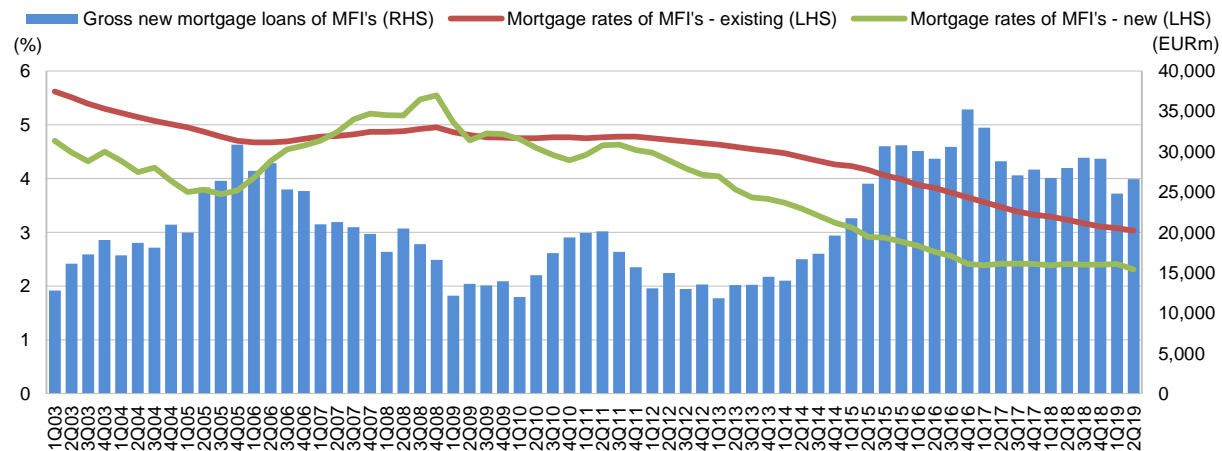
Source: Fitch Ratings, DNB

Mortgage Turnover Development

Monthly mortgage turnover
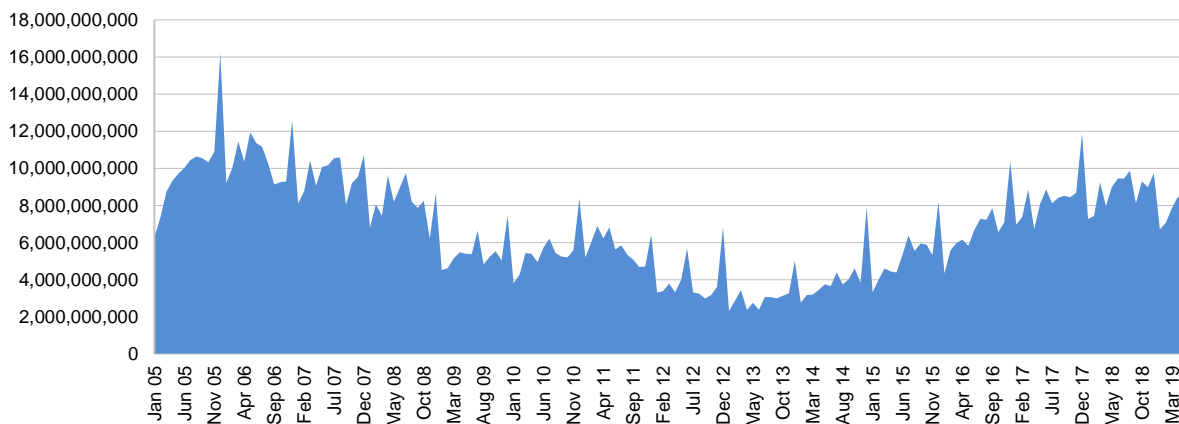
Source: Fitch Ratings, Kadaster

Recent Developments – Mortgage Rates

New mortgage rates have shown a small drop to about 2.3% in 2Q19, after more than a year of stable figures. Existing mortgage rates decreased slightly to 3.03% in 2Q19 from 3.23% a year earlier.

The gross volume of new mortgage loans granted by Monetary Financial Institutions (MFI, in the chart on the left) was EUR26.6 billion in 2Q19, compared with EUR28.0 billion in 2Q18. Fitch expects national lending activity to continue the slight downward trend, as higher purchase prices and therefore higher mortgage amounts may deter both first time buyers and remortgage activity. The reducing mortgage turnover shown in the next section corroborates this view.

Low Mortgage Turnover

Total mortgage turnover increased in 2Q19 compared to 1Q19, yet the shortage of newly built houses led to a lower turnover in 1H19 than in 2H18. If this trend continues, it could lead to lower prepayment rates, as currently observed, once the current drivers for prepayments such as the lower tax incentives for debt and higher repayment capacity after refinancing at lower rates have burnt out.

Affordability vs. Real Home Price Index

Legend: CBS HPI (real, reb.) (LHS) — Real disp. income (rebased) (LHS) — HP to income ratio (RHS)
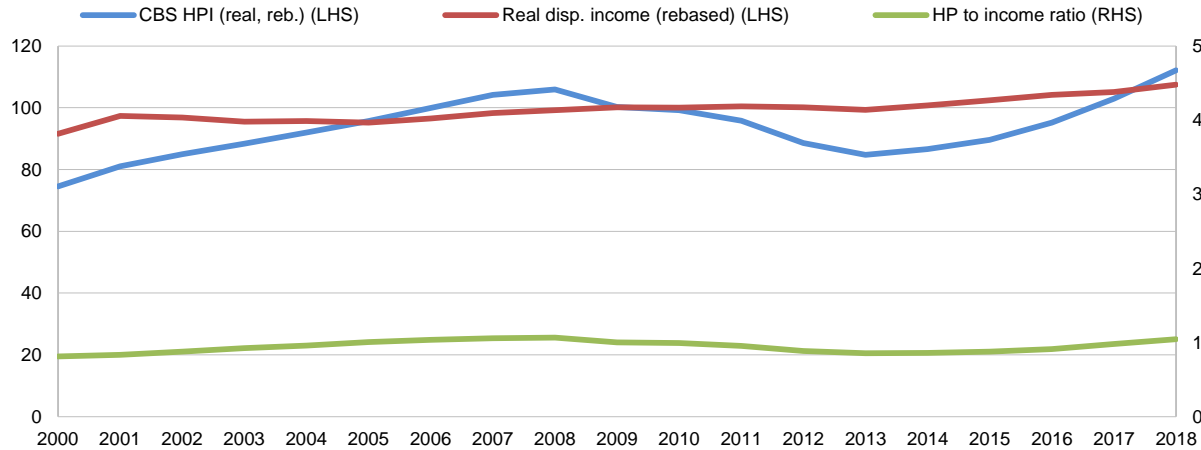
Source: Fitch Ratings, CBS

Real GDP Growth
(%)
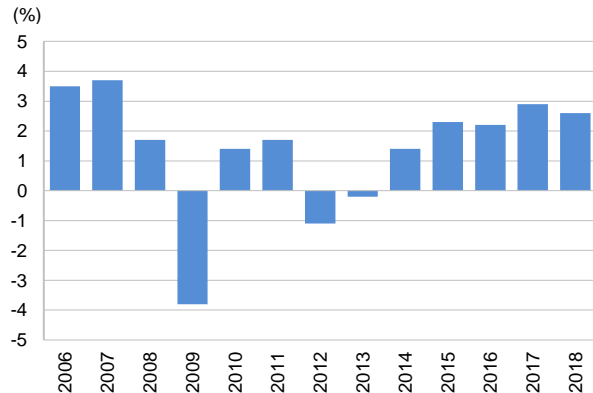
Source: Fitch Ratings, IMF

Unemployment

Legend: Long-term (12m+) — Very long-term (24m+) — Youth (<25y) — Average
(%)
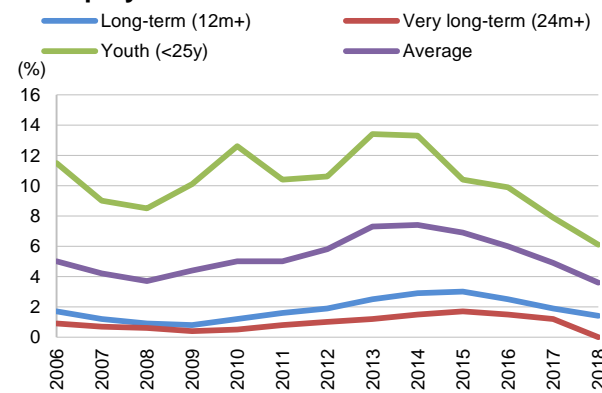
Source: Fitch Ratings, Eurostat

Recent Developments – Loan-to-Values

Fitch expects housing shortage to persist in the short term. As fewer affordable properties are available, home price growth outpaces income growth and homebuyers have to provide more equity. The higher NHG limit therefore does not necessarily benefit those groups that cannot afford to buy a property. As a result, options for first-time buyers are more limited. Fitch expects LTVs for most newly originated mortgages to remain above 90%.

Economic Fundamentals Remaining Robust

Labour market dynamics remain strong, with unemployment falling to 3.4% in 2Q19 from 3.8% in 4Q18. Youth unemployment fell significantly to 6.5% from 7.2% at end-2018.

Long-Term Trends

Low mortgage rates, alongside rising employment and positive real GDP growth continue to support the housing market in 2019. Fitch expects property price growth to slow to 7% a year in 2019, significantly above its pre-crisis peak of 3Q08. Fitch expects the number of dwellings to increase in the medium term, lowering the pressure of housing shortages. However, in the shorter term, tight construction labour availability may offset the efforts exerted by local and state governments. Meanwhile house price growth is likely to continue. We also expect affordability to remain broadly unchanged for the near future, with first-time buyers' affordability under pressure, especially in the Randstad area.

Mortgage Lenders Market Share Development

Legend: Banks — Top 3 Banks — Regiepartij[a] — Insurers — Others — Foreign lenders
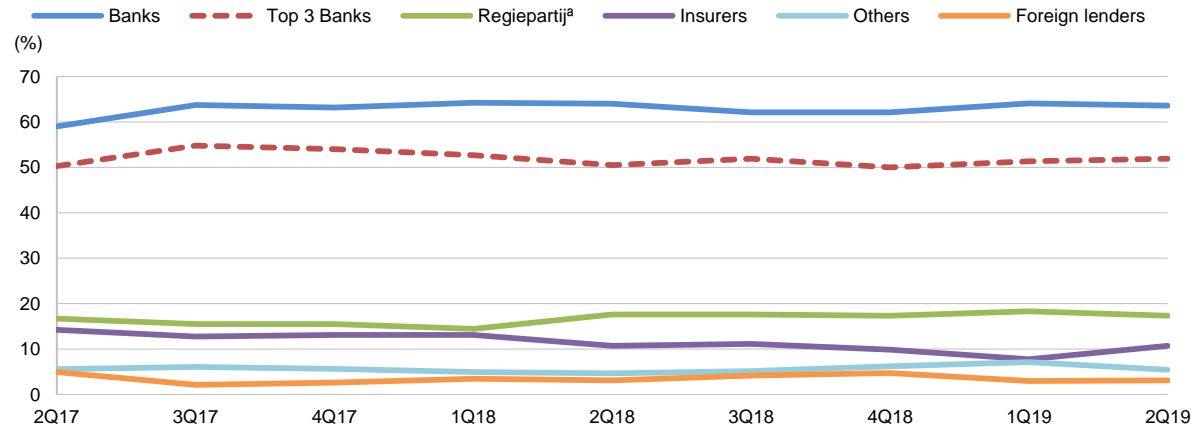
[a] Mortgage broker through which institutional investors can invest in the Dutch mortgage market
Source: Fitch Ratings, IG&H

Year-On-Year Change in Private Sales

Legend: Gelderland (LHS) — Noord-Brabant (LHS) — Noord-Holland (LHS) — Utrecht (LHS) — Zuid-Holland (LHS) — Auctions (RHS)

Source: Fitch Ratings, Kadaster

Recent Developments – Mortgage Lenders

The top three Dutch banks' (Rabobank, ABN AMRO and ING Bank) share of mortgage lending has been stable over the past six months. The entry of new players has not materially affected the overall market share of these banks (51%).

In 2Q19, the market share of so-called "regiepartijen" decreased again slightly, which mostly affected the insurance companies as they saw their market share increase during this period.

Foreign lenders do not seem to be able to increase their presence significantly, as their share remains low and is even falling slightly.

Recent Developments – Private Sales by Region

The five most populated provinces show a decreasing trend for private property sales over the past couple of years. Utrecht and Noord-Holland, in particular, showed strong growth in 2014. While Utrecht, Noord-Holland and Zuid-Holland have lost some of their momentum since 2014, the provinces of Gelderland and Noord-Brabant have shown more stable growth since 2013. However, the negative sales trend since 2018, which continued during 1H19, reflects a slowdown after several years of continuing growth, with affordability constraints playing a role as detailed in previous sections.

Dutch RMBS Performance by Vintage (Cont.)

3m+ Arrears by Vintage Year

Legend: 2010, 2011, 2012, 2013, 2014, 2015, 2016, ≥2017

(In %)
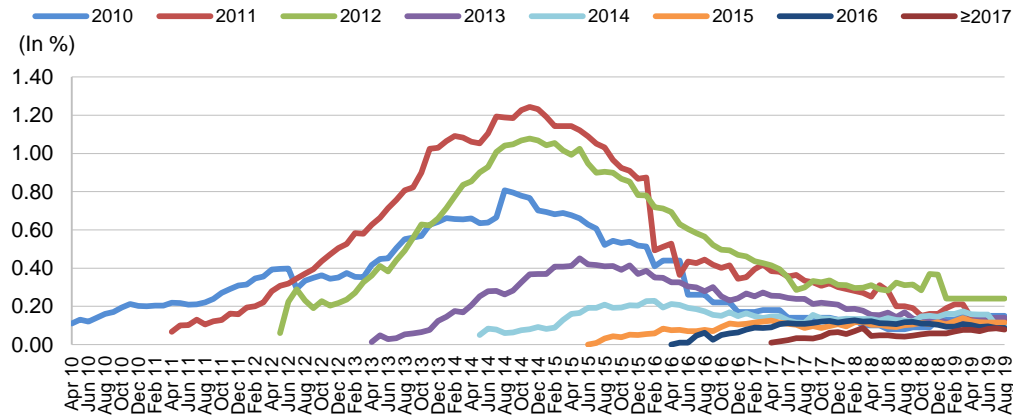
Source: Fitch Ratings

Period Losses by Vintage Year

Legend: 2012, 2013, 2014, 2015, 2016, ≥2017

(In %)
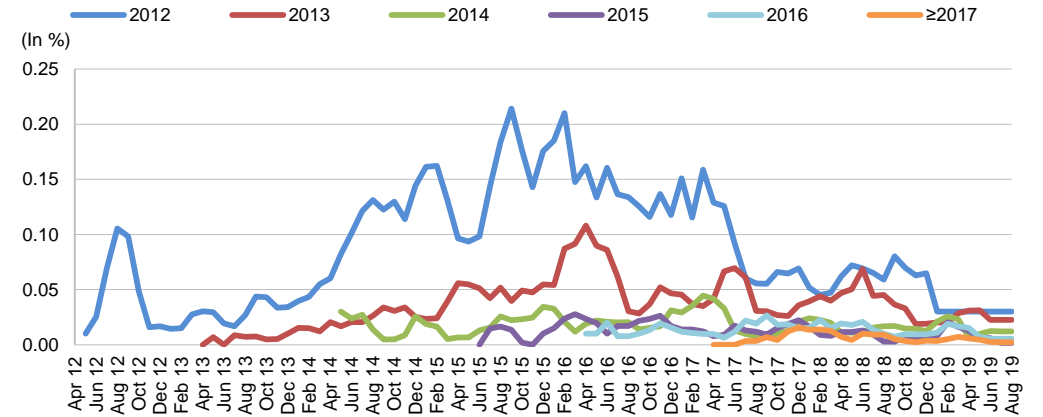
Source: Fitch Ratings

Cumulative Losses by Vintage Year

Legend: 2014, 2015, 2016, ≥2017

(in %)
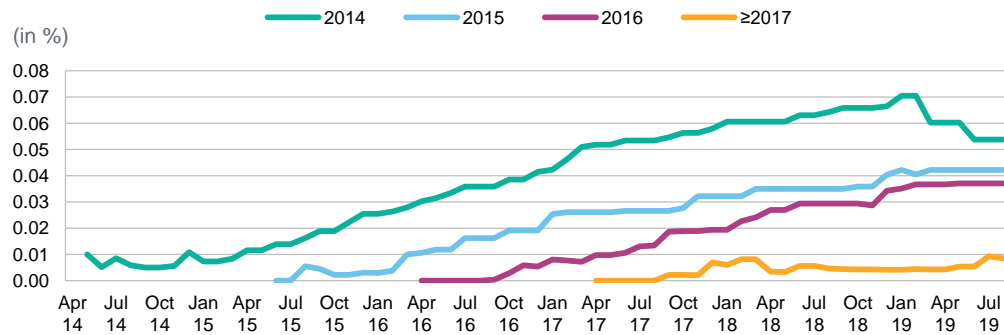
Source: Fitch Ratings; Decreases in the index result from removals of retired transactions.

Constant Prepayment Rates by Vintage Year

Legend: 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | ≥2017

(In %)
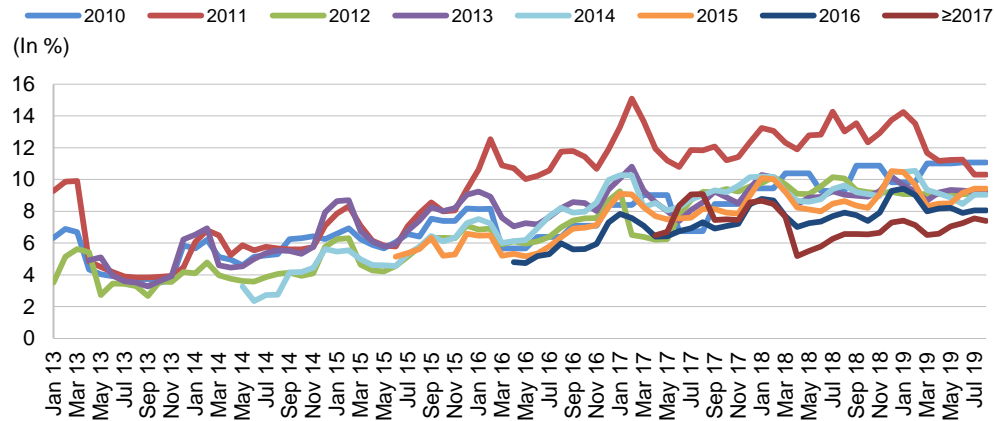
Source: Fitch Ratings

Principal Payment Rate by Vintage Year

Legend: 2012 | 2013 | 2014 | 2015 | 2016

(In %)
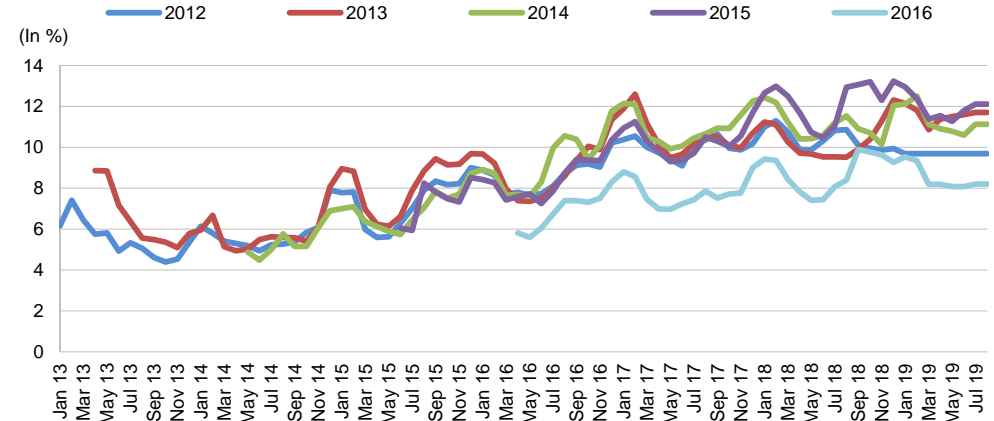
Source: Fitch Ratings

Dutch RMBS Performance by Originator

WA Interest Rate

Legend: CMIS Nederland B.V. | Obvion N.V. | ING Bank N.V. | de Volksbank N.V. | Nationale-Nederlanden Bank N.V.

(In % p.a.)
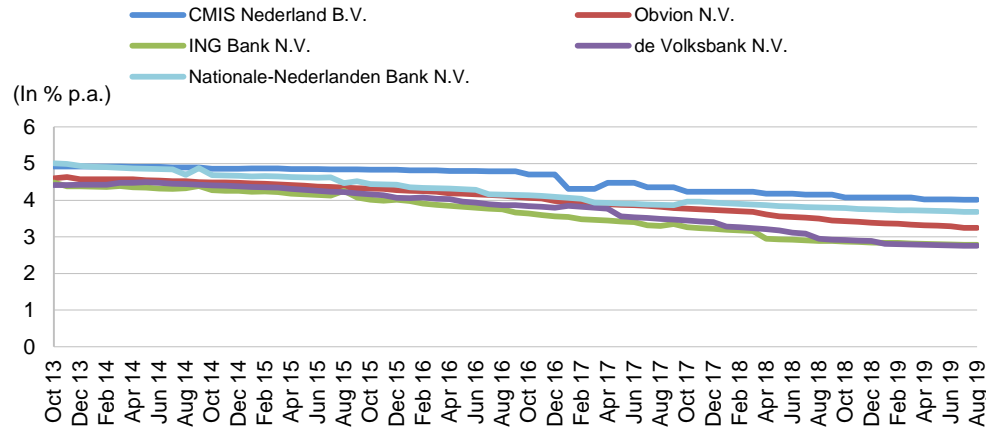
Source: Fitch Ratings

FitchRatings

3m+ Arrears by Originator

- de Volksbank N.V.
- CMIS Nederland B.V.
- Obvion N.V.
- ING Bank N.V.
- Nationale-Nederlanden Bank N.V.

(In %)

Source: Fitch Ratings
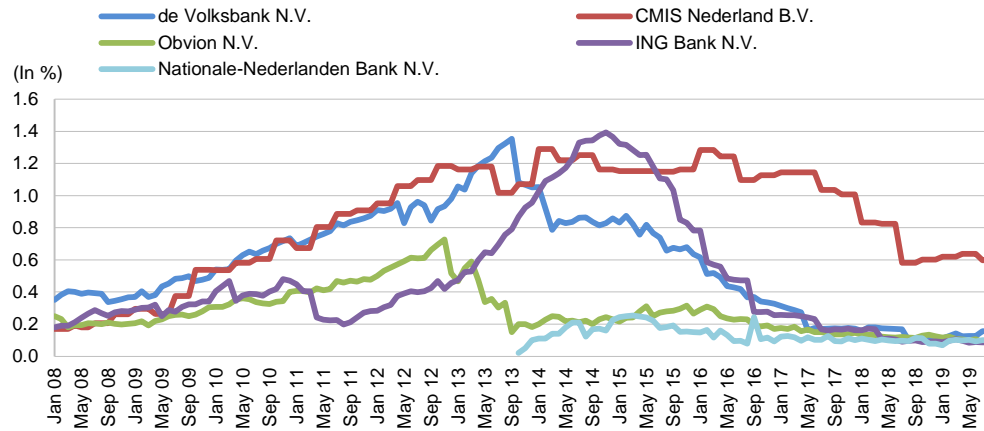
Realised Losses (Period) by Originator

- CMIS Nederland B.V.
- Obvion N.V.
- ING Bank N.V.
- de Volksbank N.V.
- Nationale-Nederlanden Bank N.V.

(In %)

Source: Fitch Ratings
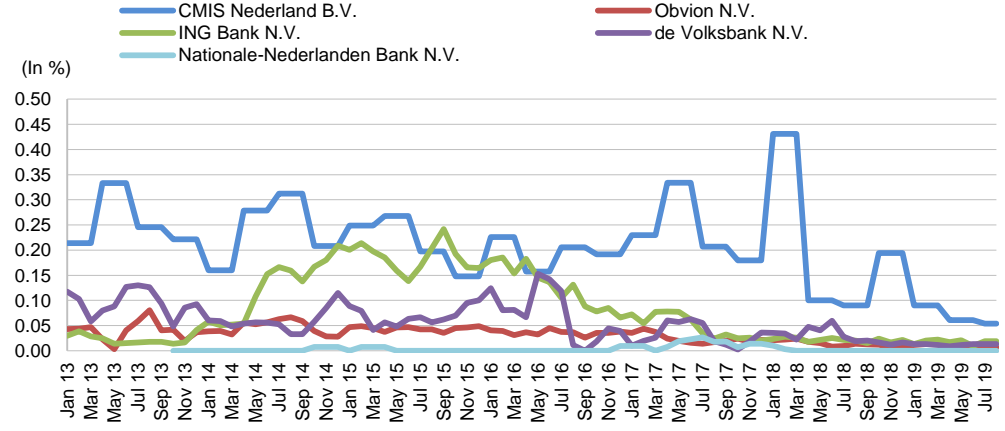
Principal Payment Rate by Originator

- de Volksbank N.V.
- CMIS Nederland B.V.
- Obvion N.V.
- ING Bank N.V.
- Nationale-Nederlanden Bank N.V.

(In %)

Source: Fitch Ratings
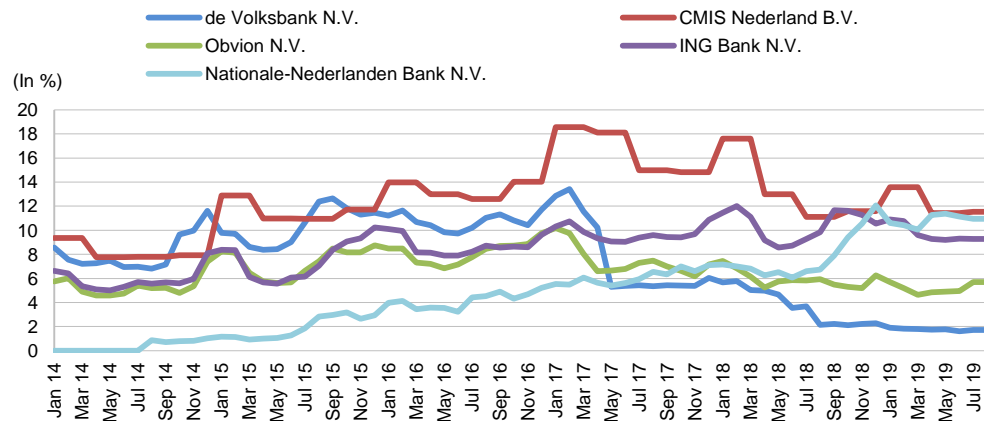
Constant Prepayment Rates by Originator

- de Volksbank N.V.
- CMIS Nederland B.V.
- Obvion N.V.
- ING Bank N.V.
- Nationale-Nederlanden Bank N.V.

(In %)

Source: Fitch Ratings
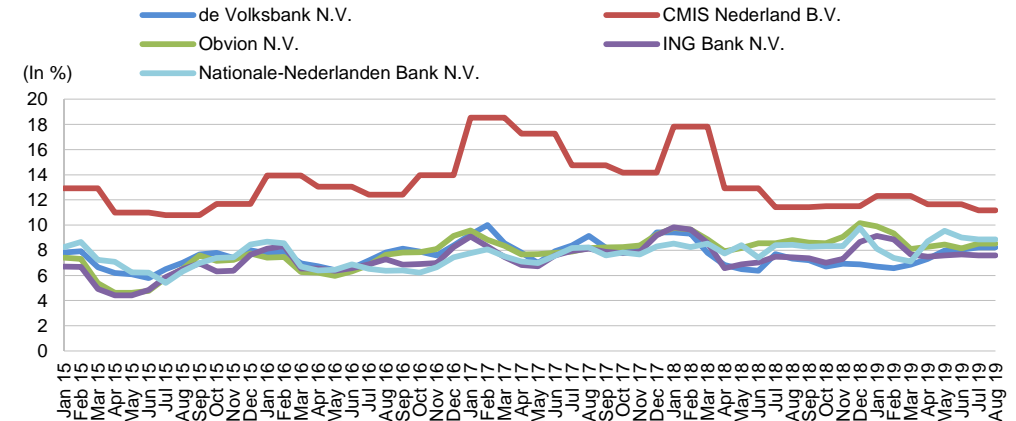
Definitions

- Annualisation factor = 365 / ([current reporting date] – [previous reporting date])

- Arrears = [balance of loans in arrears] / [closing collateral balance]

- Borrower principal rate (BPR)= 1 - (1 - ([prepayments] + [scheduled repayments] - [redraws] - [further advances]) / ([opening collateral balance] + [prefunding balance])) ^ annualisation rate

- Constant prepayment rate (CPR) = 1 - (1 - ([prepayments] - [redraws]) / ([opening collateral balance] + [prefunding balance])) ^ annualisation rate

- Period realised losses = 1 - (1 - [realised losses] / [opening collateral balance]) ^ annualisation rate

- Realised Losses (Cumulative) = [realised losses since closing] / collateral balance since closing + new loans purchased since closing]

- Principal payment rate (PPR) =1- (1 – ([opening collateral balance] + [opening prefunding balance] – [closing collateral balance] – [closing prefunding balance]) / ([opening collateral balance] + [opening prefunding balance])) ^ annualisation factor

Index Methodology

- The calculation methodology for all the indices included in this report is based on the following rules:

- Fitch-rated RMBS transactions are included in the index three months after their closing date.

- The index is calculated on a monthly basis. If a transaction reports less frequently, the reported value from the most recent reporting period is carried forward in periods where reporting is not available which might cause the index to change once the latest transaction reports have been included. No form of interpolation is applied.

- Data available up to 31 January 2019 has been included in the indices.

- The contributory values of individual transactions are weighted by their current collateral balance (including defaults) to arrive at the index except for cumulative performance measures where the original collateral balance is used instead.

- In Fitch' comparisons the NHG label only contains transactions of which the total collateral balances benefits from the NHG-guarantee.