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Announcement: Moody's: Fewer Dutch "mortgage prisoners" owing to house price rises and low interest rates

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London, 19 April 2016 -- Fewer Dutch mortgage borrowers will be in negative equity as rising house prices lower loan-to-value (LTV) ratios, says Moody's Investors Service. Low interest rates will boost existing borrowers' affordability and motivate first-time buyers.

"Rising house prices, low interest rates and the solid economy will underpin the reduction in mortgage prisoners. Loan affordability will also improve in 2016, keeping arrears and losses low in the deals we rate", says Jeroen Heijdeman an Assistant Vice President and Analyst at Moody's.

"The number of borrowers who are trapped in their mortgages is nonetheless disparate across the country. Provinces like Flevoland and Noord-Brabant have more than twice the proportion of mortgage prisoners compared with Limburg, Zeeland and Groningen. While these borrowers do have options to resolve their debt burdens, they are limited and strict criteria apply", says Greg Davies, an Assistant Vice President at Moody's.

Moody's report, entitled "Fewer Mortgage Prisoners Will Stem From House Price Rises and Low Interest Rates", is available on www.moodys.com. The rating agency's report does not constitute a rating action.

Moody's analysis shows the proportion of borrowers with a high indexed LTV (above 102%) is set to fall to 24% in 2016 from 33% in 2015, based on an anticipated house price rise of up to 5%. Those in the most difficulty are borrowers with a high indexed LTV ratio and full interest-only mortgages, or those with high LTV ratios and insufficient income to refinance their mortgages.

Moody's defines "mortgage prisoners" as borrowers with loans in Dutch residential mortgage-backed securities that are unable to refinance on to a lower mortgage interest payment rate, or change their mortgage provider because they either have: (1) A LTV ratio above 102% and a full interest-only mortgage loan, i.e. no part of the loan has a linked (bank) savings or an investment policy; or (2) A high LTV ratio and current income which only allows for a new mortgage loan size below the current balance. Currently, the total exposure of these specific mortgage prisoners ranges 5.4%-12.6% on a weighted-average basis by region.

In 2016, Moody's expects a drop to 6.7% from 9.1% in the volume of loans that are full interest-only and have an indexed LTV greater than 102%, or those face affordability constraints. Dutch RMBS arrears will continue to decline and recovery rates are likely to improve in 2016, building on the fact that in 2015, delinquency rates in the Netherlands reduced compared with other European countries. Arrears of 60 days and above in prime Dutch RMBS decreased to 0.66% in December 2015 from 0.94% in December 2014. Severe arrears of 90+ days also decreased to 0.52% in December 2015 from 0.73% in December 2015. While the rating agency anticipates real GDP growth of 2.0% in 2016, it notes that the economy also faces risks in the longer term owing to high levels of household debt, high mortgage interest deductibility and an ageing population.

Moody's research subscribers can access these reports at: http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_1021196

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