DYNAMIC CREDIT

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Contents

Dutch Housing Market Update 2021 Q2

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Dynamic Credit originates and manages tailored portfolios of Dutch residential and consumer BTL mortgage loans for institutional investors in an easy, cost-efficient and transparent way. As always, we welcome the opportunity to discuss the housing market or investing in Dutch mortgages.

"To the surprise of many economists, house prices keep breaking records across developed economies. In this edition we show how Dutch house price forecasts have been revised upwards since the outbreak of the COVID-19 pandemic and analyze how increasing house prices, in combination with tax changes, income growth and interest rates have affected affordability of Dutch housing since 2008."

Jasper Koops,
Head of Portfolio Management

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1. Executive Summary

Consumer confidence: consumer confidence declined slightly in the second quarter from 106 to 104. Most notably, the number of people who see now as a bad time to buy a house increased sharply from 45% to 60% of those surveyed.

Transfer tax: the increased pace of house price increases suggests that it was not buyers but the sellers benefiting from the reduced transfer tax in the form of higher prices.

Tightening housing market: the housing market tightened even further, with more outbidding and shorter sale periods.

Affordability: despite steep nominal house prices in housing is still more affordable than in 2008 due to decreased interest rates and higher incomes.

Upgreening housing market: at the current pace of upgreening, the complete housing stock of most provinces will have an A label by 2055.

House prices: the Dutch House Price Index increased 4.4% QoQ and 13.0% YoY, the largest increase in 20 years. Properties transferred decreased significantly by 20.8% QoQ.

Forecasts: future house price expectations have been adjusted upwards to 11% in 2021 and with approximately 5% in 2022.

NHG guarantees: the NHG market share decreased compared to last year. The number of loss declarations decreased with more than 70% in 2021-Q1 YoY.

Interest rate developments: interest rates remained almost flat in the second quarter on average for both owner-occupied and buy-to-let.

Spreads: for both owner-occupied and buy-to-let mortgages spreads declined as swap rates have increased.

Mortgage arrears: Fitch reports an increase of arrears in excess of 3 month of 6 bps compared to last year, while the Dutch National Credit Register ("BKR") reports a lower amount of borrowers in arrears.

RMBS activity: activity in the Dutch RMBS market is already higher in 2021 compared to 2020. In Q2, two RMBS deals and one BTL deal were priced.

Rental prices: the average rental price for non-regulated rent has declined by 2% YoY, caused by a decreasing immigration flow from expats.

Purchase restrictions BTL: purchase restrictions for BTL investors will enter into force in January 2022. The expected impact will be relatively limited but uncertain.

Housing shortage subsidy: minister of the Interior and Kingdom Relations Ollongren explained that additional funds of EUR 10 to 17 billion are needed from the government to reach the target of 900.000 houses until 2030.

Government measures: the government continued existing support programs and introduced a new program for SME.

2. Dutch Housing Market Update

Consumer confidence

Vereniging Eigen Huis ("VEH") measures consumer confidence in the housing market every month based on questions about interest rates, prices, and the general housing market. The indicator can take values ranging from 0 to 200, 100 indicating a neutral value and a higher value indicates more positive sentiment.

After the dip in the second quarter of 2020, an upward trend was observed in the second half of 2020 and the beginning of 2021.[1] In the second quarter of this year, however, a small decrease from 106 to 104 is observed. The decline was seen in most consumer groups but was strongest among tenants and potential first-time buyers (compared to homeowners).

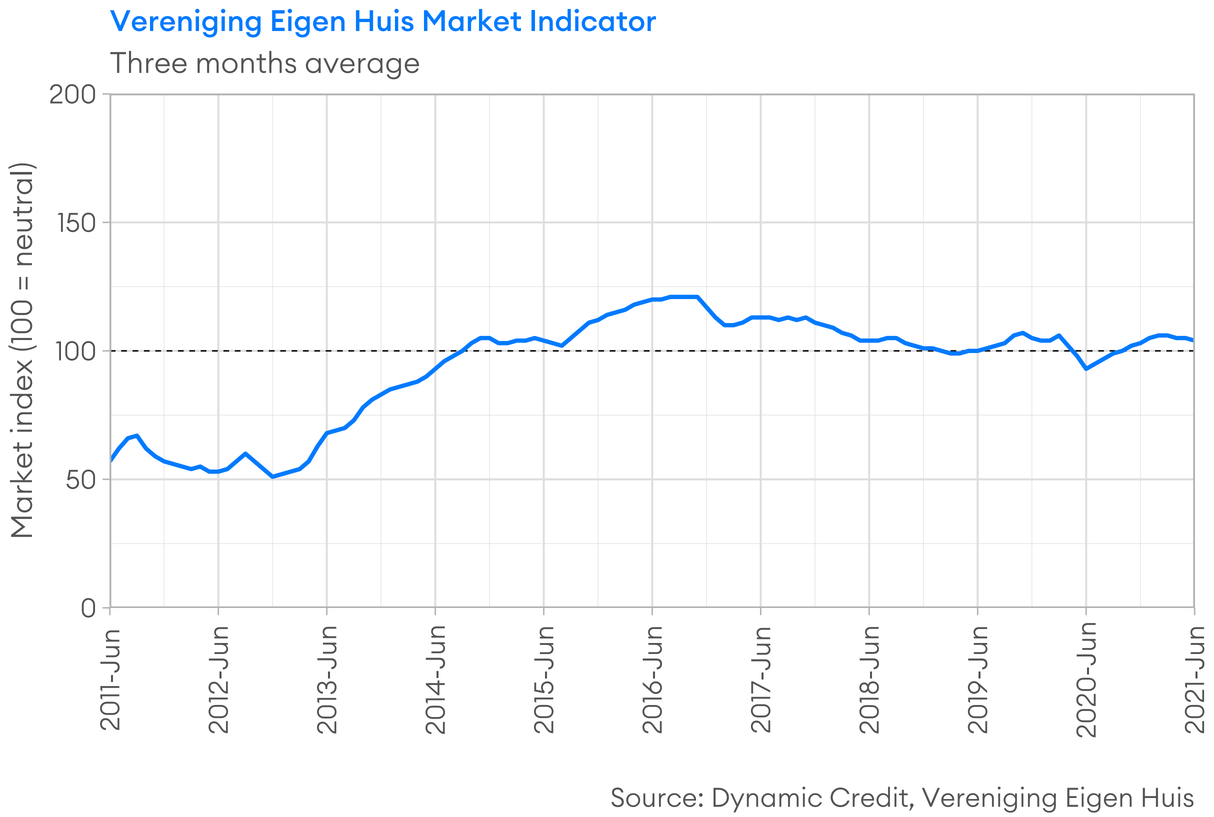


Figure 1: Vereniging Eigen Huis Market Indicator. As of June 2021.

The most recent poll that was published by VEH covering the second quarter of 2021, shows that there are multiple reasons that drive the small decline in consumer confidence. Approximately 57% of the respondents expect that the general buying situation will worsen in the coming year, compared to 48% last quarter. This is driven by the declining supply of homes. In addition, the percentage of respondents that expect that mortgage interest rates will show a slight or even strong increase is growing. In the previous quarter, only 25% of respondents expected this, compared to 37% who currently expect it. When asked whether now is a good time to buy a house, only 12% of the respondents are positive and no less than 60% is negative compared to 15% positive and 45% negative in the previous quarter.

1 VEH marktindicator

Effects of the new Transfer Tax Policy

With the aim to make purchasing a house for first-time buyers more affordable, the Dutch government lowered the transfer tax from 2% to 0% (one-off) for everyone under the age of 35 purchasing a house for own use per January 1, 2021. Per the April 1, 2021 a cap of EUR 400,000 applies to the 0% transfer tax rate in addition to the age limit. The tax rate for non-primary-residence buyers, such as investors, has increased to 8%.

In relation to the one-off tax discount, the Dutch Council of State (Raad van State), was of the opinion that this measure would not contribute to an effective solution of the housing market shortage because as long as the supply of housing does not keep up with demand, measures to further stimulate demand only have a limited effect. Furthermore they expected sellers of houses, rather than first-time buyers, to benefit in the form of higher house prices due to the transfer tax reduction.

In our 2020-Q4 edition we published some of the main effects we observed:

- A steep increase in the number of property transactions for buyers above the age of 35, attributed to the increase in transfer tax for BTL investors.
- No divergence between offer volumes for owner occupied mortgages were observed in the last months of 2020 between the age groups below and above the age of 35. The reason for this is that the transaction date of the property is leading, not the date of the mortgage offer.

Now, two quarters later, we can observe the registration of transactions in the land registry, as shown in Figure 2 below.[1] More specifically, for transactions of apartments we observe the following:

- In 2021-Q1 we observe two peaks in apartments purchases in the under 35 years of age group; one in January and one in March, the peak in January is due to the under 35 years of age group who postponed their transfer to 2021 to make use of the tax break. March was the last month in which the transfer tax for properties in excess of EUR 400.000 was 0% for buyers under 35 years, which is likely to have caused the second peak.
- The number of apartments sold to the over 35 years of age group stayed relatively low in 2021-Q1 as many BTL investors front-loaded their purchase and transfer to the end of 2020.

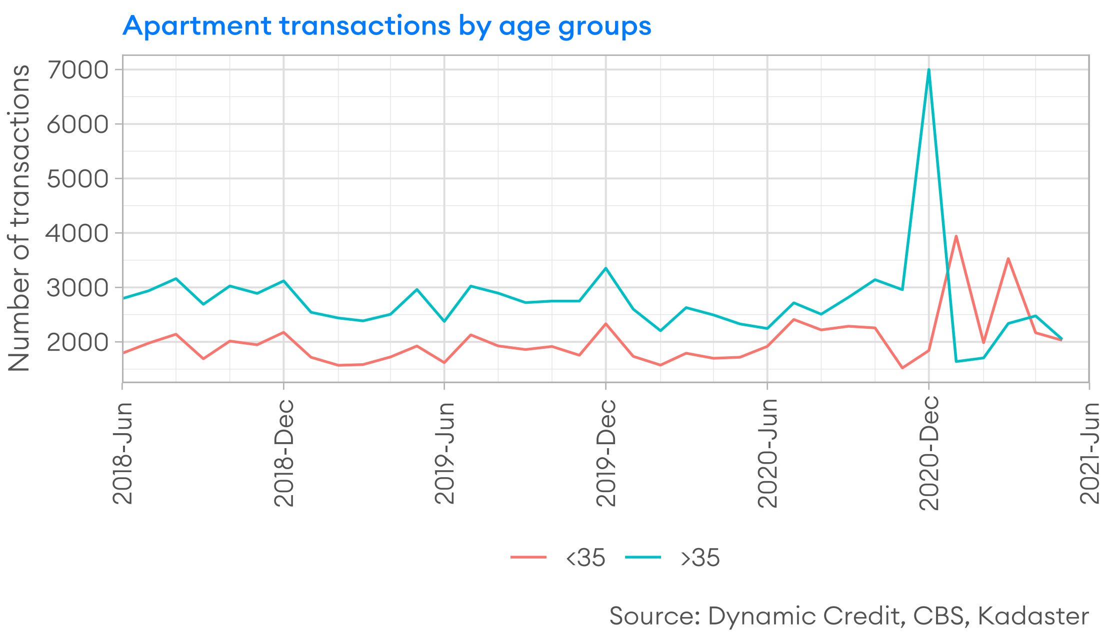


Figure 2: Apartment transaction by age groups for the period 2018Q2-2021Q2

1 Kadaster woningdashboard

Transaction prices

In Figure 3 we see the monthly YoY changes in transaction prices and the HPI. Usually these two are very similar, however now the transaction prices increased significantly more than the HPI: in March 2021 transaction prices were on average 24.7% higher YoY and the HPI increased by 11.3%.[1] The steeper increase in transaction prices indicates that relatively expensive properties were sold and the timing suggests this to be caused by buyers under the age of 35 in order to make use of the additional tax break for properties in excess of EUR 400,000 before the 1st of April. Furthermore, the overall pace of the house price growth increased: the QoQ change in 2020 was on average 2.1% per quarter. In the 2021-Q1, the average QoQ increase of HPI was 3.6%.

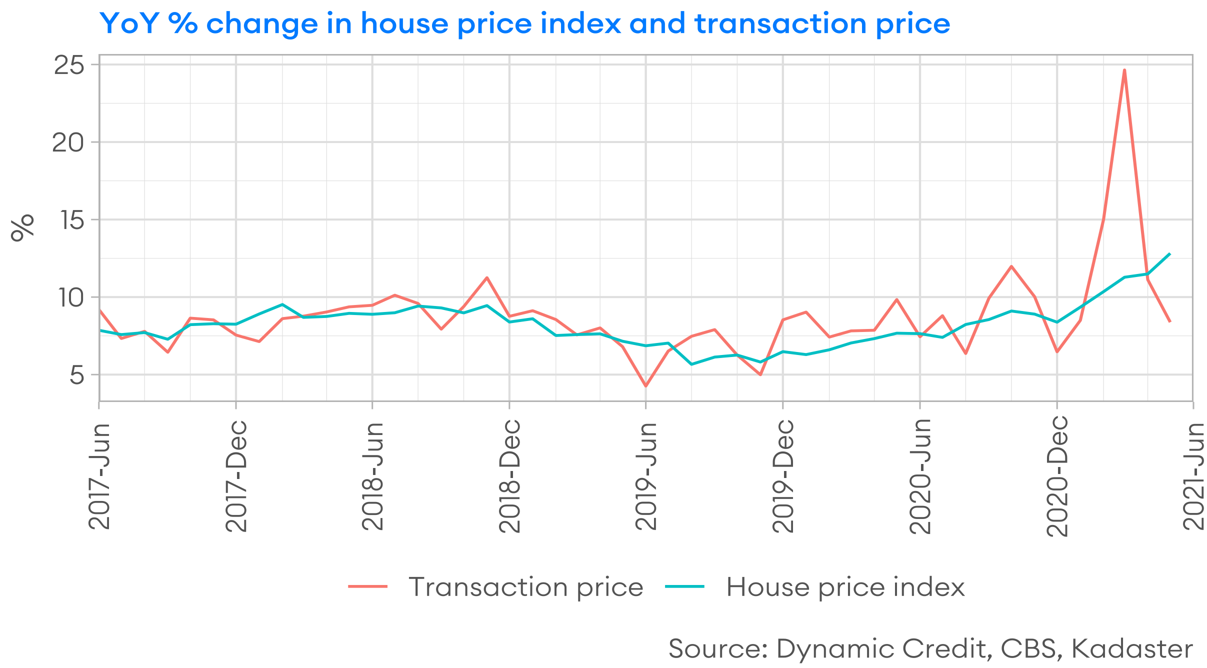


Figure 3: YoY% change is Dutch House Price Index and transaction price

Conclusion

The goal of the new transfer tax policy was to make purchasing a house for first-time buyer more affordable. The increased pace of house price growth suggests that it was not buyers but sellers benefiting from the reduced transfer tax in the form of higher prices. Furthermore, transactions in the segment above EUR 400,000 were related to buyers who did not need a lower transfer tax to increase affordability. Whether the share of first-time buyers will be at higher levels going forward remains to be seen, as temporary distortions due to changes in regulation will subside.

1 CBS data

The housing market has tightened further

The NVM reported its tightness indicator at a level of 1.4 for 2021-Q2, an all-time low. This number indicates that home buyers can choose from 1.4 houses on average. Last year, home buyers still had the option to choose between 2.6 houses on average. Also, there were only 15,500 houses for sale mid 2021-Q2. This is a decrease of 12% QoQ and a decrease of 53% YoY, which makes it the lowest number of houses for sale since measurement started in 1995.[1]

Outbidding becomes more popular

When comparing the transaction prices of sold properties in 2020 to their last known asking prices, 50% of the properties were sold for more than the asking price. Only 38% of the properties were sold below their last known asking price and 12% was sold at the asking price.[2] The percentage of properties selling for a higher price than the asking price has been increasing steadily over the past couple of years as shown in Figure 4. This is one of the indicators of a further tightening housing market. Note that realtors could strategically set the asking price relatively low to stimulate bidding among buyers, but there is no indication that the use of this strategy has increased over the past years.[3]

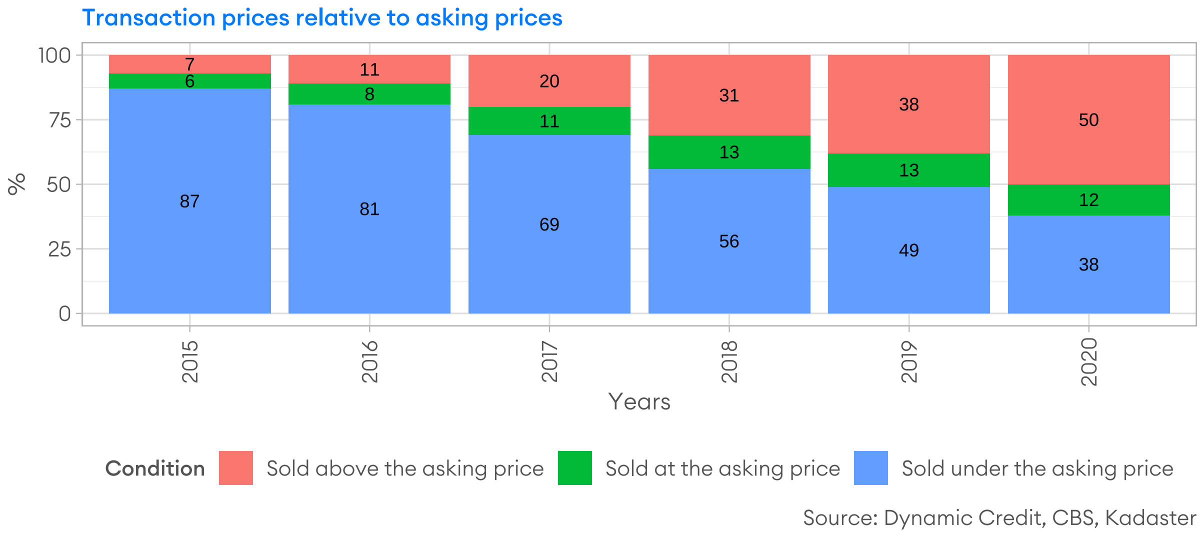


Figure 4: Transaction price relative to asking price over the period 2015-2020

1 NVM woningmarkt Q2

2 Spanning tussen vraag en aanbod woningmarkt verder toegenomen in 2020

3 Makelaars bespelen huizenmarkt met (te) lage vraagprijs

Decreasing time on market

The increasing tightness of the housing market has led to a decrease in the time a property is on the market. The time between listing and signing the purchase agreement was on average 24 days in the second quarter of 2021. This is a decrease of 4 days compared to last quarter.[1]

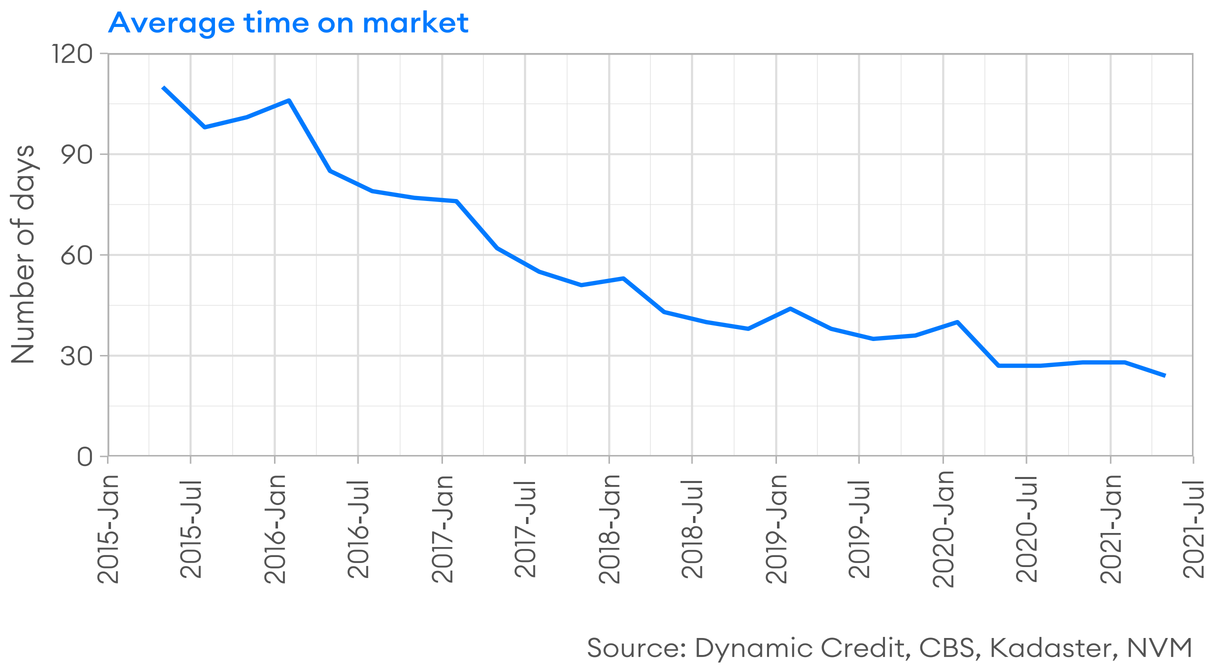


Figure 5: Average time a house is on the market for the period 2015-2021Q2

1 NVM marktinformatie

Affordability

The discussion about affordability has focused on the steep nominal house price growth. Although that has impacted affordability, it does not tell the full story. In this article we explore the other components that affect affordability such as changes in income, interest rates and tax regulation. These components will be combined in an affordability index.

The affordability index shows the relative affordability of an average house in the Netherlands for a single borrower, falling under a collective labor agreement ("CAO"), with an income in the highest income tax bracket versus the base year (2008). The borrower is assumed to take out a 100% LTV mortgage loan for the purpose of calculating the debt service payments. Affordability is calculated by dividing the income growth index by the debt service payment index. An increase in the index of x% means that income has increased x% relative to the debt service payments, resulting in more affordable housing.

The affordability index uses the following factors as inputs to the debt serviced and income calculations:[1]

House price

- **Nominal house price index:** the index has bottomed out in 2013 after the previous peak in 2008. In May 2021 the index was 32.6% higher than in December 2008.

Interest rates

- **Average interest rate (10 year fixed / 100% LTV):** the average interest rate decreased from 5.49% in 2008 to 1.65% in June 2021.

Fiscal treatment

- **Marginal tax rate:** the highest bracket decreased from 52% in 2008 to 49.5% in 2021.
- **Taxable income from imputed rents ("eigenwoningforfait"):** has varied between 0.40% and 0.75% of the value under the Valuation of Immovable Property Act ("WOZ Waarde").
- **Interest deductibility:** the maximum deductibility of interest decreased from 49.5% in 2018 to 43% in 2021. Before 2018 this percentage was capped at the highest applicable marginal tax rate.
- **Interest deductibility interest only:** for interest paid on new mortgage loans up to 2013.

Changes income

- average change of hourly wages falling under collective labor agreements. Around 4.5 million employees fall under such agreements. Between 2007 and 2021 these average hourly wages increased in total around 29%.

1 Factors not taken into account include: potential reduction of wealth tax ("Box 3") due to having a mortgage loan not being eligible for interest rate deduction, changes in the general tax credit ("algemene heffingskorting") and maximum borrowing constraints.

Results

In the analysis we focus on two cases: (i) a borrower with a 0% interest-only loan and (ii) a borrower with a 50% interest-only loan. The non-interest-only part of the loan is assumed to be an annuity.

For both cases affordability is still better than in 2008 and the affordability for loans with an IO part has generally been better than fully repaying mortgage loans, as shown in Figure 6.

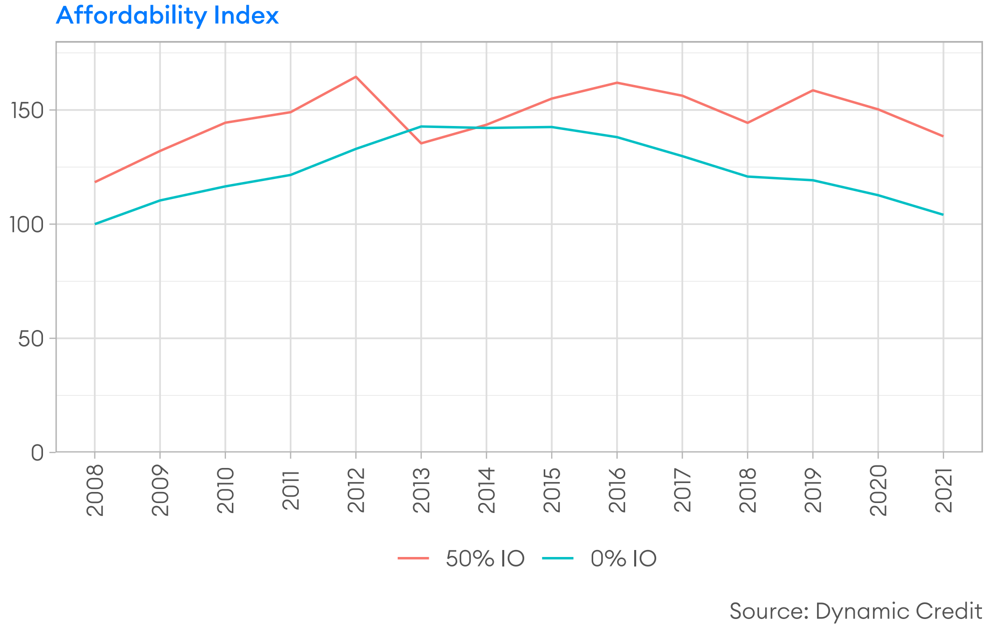


Figure 6: affordability index from 2008 up to June 2021. Source: Dynamic Credit

Case (i): the period 2009-2013 experienced the steepest increase in affordability, driven by decreasing house prices and interest rates, and income growth (Figure 7). Interest rates have continued to decrease in the most years thereafter, but in combination with strong growth in house prices it has resulted in a net negative impact on affordability.

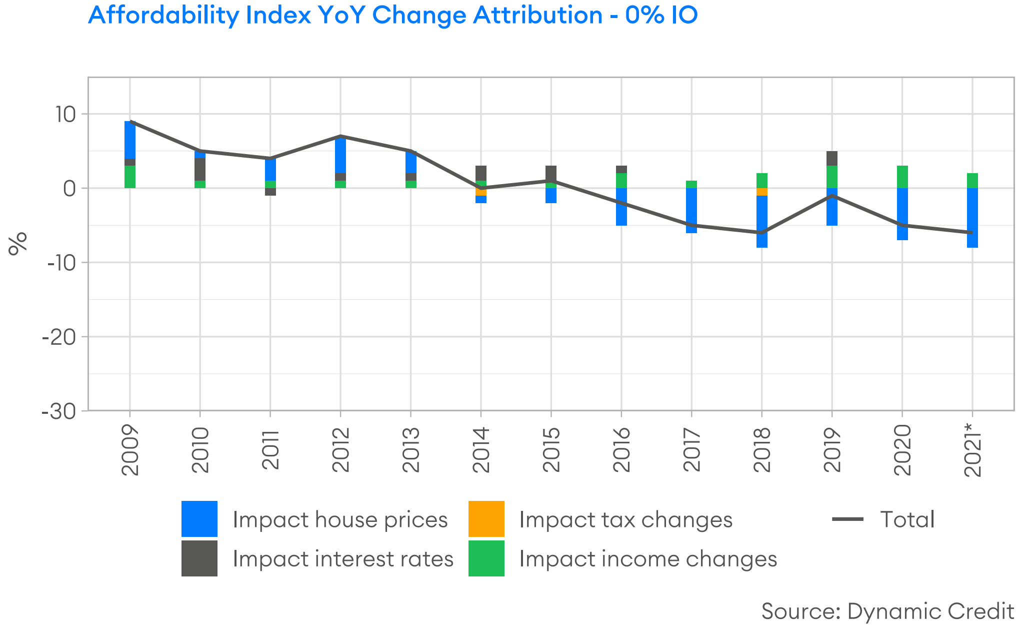


Figure 7: components affecting affordability in case of 0% IO for the period 2008 up to May 2021.

Case (ii): the difference versus case (i) is that the changes in house prices have less impact on affordability than in case (i) as shown in Figure 8 because of the lack of principal payments on the IO loan part. Moreover, the regime change in 2013 made interest-only loans ineligible for interest deduction which had a large negative impact on affordability.

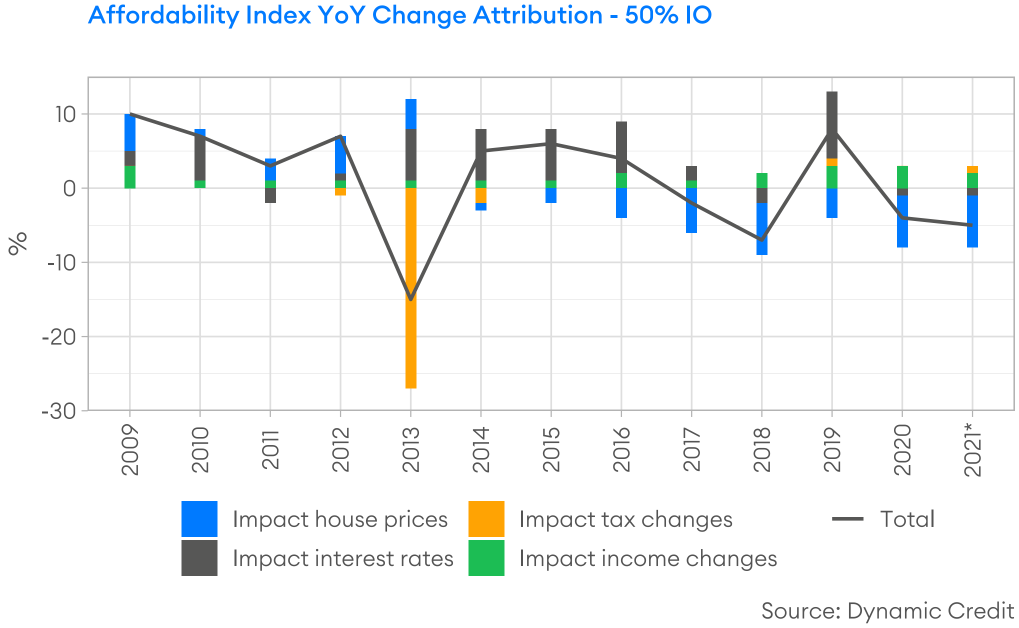


Figure 8: components affecting affordability in case of 50% IO for the period 2008 up to May 2021.

The following scenarios would let the index reach 2008 levels, keeping all else equal:

	Case (i): 0% IO	Case (ii): 50% IO
House price change; or	+2.8%	+15.9%
Interest rate (vs 1.7%); or	+0.5% point	+0.8% point
Income change	-2.7%	-13.8%

Table 1: different scenario's that would bring back affordability to their 2008 levels.

The most notable observation in the table above is the divergence between the affordability of both cases. Despite the abolishment of interest rate deductibility of new interest-only loans in 2013, the combination of decreasing interest rates and increasing house prices still make these more affordable than in 2008, with interest rate deductibility. Interest-only mortgages have become more popular recently and the increase in relative affordability versus a fully repaying loan is a likely reason for this.

Despite that nominal house prices are around 33% above the peak of 2008, affordability is still better due to income increases and lower interest rates. That does not mean however that housing is affordable, but it does put the nominal house price growth into perspective.

Desktop valuations

The EBA Guidelines on Loan Origination and Monitoring ("the Guidelines"), applicable to newly originated (mortgage) loans and further advances, came into force on 30 June 2021. Previously, depending on the loan characteristics, several lenders allowed borrowers to submit a valuation report provided by an automated valuation model ("AVM") rather than a traditional valuation whereby a valuer would physically inspect the property. Under the new Guidelines, the use of such AVMs is no longer permitted due to the lack of involvement of a valuer.

In 2020 Vereniging Eigen Huis ("VEH") already expressed its concerns that consumers would not benefit from this requirement as they would have to make use of a more expensive traditional valuation. To still allow a cheaper alternative to a full valuation report within the rules of the Guidelines, several parties started to develop so-called hybrid- or desktop valuations. In these valuations AVMs are used, but these are checked by a valuer who bears final responsibility. This resulted in the following two initiatives:

- **Calcasa desktop valuation:** an initiative of ING together with Calcasa and Taxatheek. In this valuation Calcasa will produce the automated model valuation and a valuer of Taxatheek checks the value without visiting the property.[1]
- **NRVT desktop valuation:** In response, the branch organizations of valuers introduced their own desktop valuation which is supported by the Nederlands Register Vastgoed Taxateurs ("NRVT"). This valuation prescribes a valuer to determine the value using two automated model valuations, without visiting the property.[2]

Both parties have raised concerns about the other's version of the desktop valuation. The NRVT desktop valuation would be expensive due to the (according to the Dutch Banking Association ("NVB")) unnecessarily strict requirements. The Calcasa desktop valuation would - according to VBO, branch organization for real estate and valuation agents - not be compliant with the Guidelines and would still be in test phase.[3] The dispute resulted in a court proceeding being started by Calcasa against branch organization VBO to rectify misleading information presented by VBO to its members in a news letter regarding the Calcasa desktop valuation.[4] The court ruled in favor of Calcasa and VBO had to rectify its statements.[5]

Per 1 July 2021 the terms and conditions of Nationale Hypotheek Garantie ("NHG") allow both desktop valuations to be used for mortgage loans up to 90% of the market value.

1 Calcasa, ING en Taxatheek bieden eerste desktop taxatie aan
2 Taxateurs introduceren Bureauwaardering; een hybride taxatievorm
3 Based on conclusion of VEH in a letter to the Dutch government
4 Calcasa en vbo vechten ruzie over nieuwe taxatieproduct uit voor rechter
5 Rechter: taxatuersvereniging moet uitspraken rectificeren

Upgreening statistics Dutch Housing Market

Upgreening the Dutch housing market is a hot topic. Last quarter we highlighted changes in the energy label application process that significantly increased the costs. The valuation and data company Calcasa[1] investigated developments for energy labels in the Dutch housing market in their 2021-Q1 report. In this article, we highlight some of the most important observations.

The total housing stock in the Netherlands, as reported by Calcasa, is close to 7.7 million, which is slightly lower than the 8 million as reported by CBS.[2] Approximately 4.6 million homes currently have a definitive energy label, representing about 60% of the housing stock. This means that a large portion (40%) of the housing stock still does not have an energy label. Since 2015, a definitive energy label is mandatory when selling or letting a residence. However, this obligation is not always honored. By the end of the first quarter of 2021, approximately 91% of sold residences had a definitive energy label.

As reported in our last quarterly report, the methodology for determining the energy label has changed. This mainly resulted in a different assessment of solar panels and the costs for application increased significantly, from EUR 7.50 to EUR 200 - 300 on average. The announcement of the costs increase at the end of 2020 has caused the coverage of energy labels to jump from 50% to almost 60%. However, the price increase is expected to have a negative effect on the increase in coverage in the coming years.

If we look at the current distribution of the energy labels, close to 30% of the energy labels are A labels while in 2015 this was not even 10%. In addition, the share of B labels increased while it decreased especially for D and E labels. It is remarkable that the share of G labels has remained relatively constant which could indicate that it is more difficult and costly for old homes to improve energy efficiency. Since the energy label has been introduced, approximately one million homes have gone up at least one step. While the average energy label was D ten years ago, the average label is now between B and C.

Regional differences

When looking at the differences between provinces, it is not so surprising that Flevoland is the province that has by far the highest percentage of A labels as the housing stock is much younger compared to other provinces. In this province the percentage of A labels increased with 23% to a total of 43% in the past five years. This is the largest increase in this time frame for all provinces. The lowest shares of A labels are found in Limburg (20%) and Zuid-Holland (22%), the other provinces range from 25% to 29%. After Flevoland, Utrecht (14%) and Noord-Holland (13%) showed the largest increase in A labels in the past 5 years.

The 10 largest cities in the Netherlands show different energy label distributions. It is noteworthy that the distribution of Amsterdam is more or less in line with the national distribution (28% has an A label). Not surprisingly and in line with the findings for Flevoland, Almere is the frontrunner with 58% A labels, while the city Utrecht also has a relatively high share of A labels (40%). Rotterdam, stands out due to the low number of A labels (20%), while The Hague mainly stands out because of the high percentage of low energy labels. On average 25% of the energy labels in The Hague are E, F or G, which is high when compared with the national average of 16%.

Altogether, Calcasa expects that at the current pace, it will take up to 2055 before the complete housing stock of most provinces has an A label. The recent increase in costs for an energy label make it less attractive for consumers to apply for a new energy label after energy savings measures have been taken. Going forward, upgreening of the housing stock may be reflected in the energy label data in a lesser extent.

1 Calcasa WOX quarterly 2021Q1
2 CBS data

House prices and property sales

The Dutch House Price index (HPI) increased with 4.4% over 2021-Q2 and with 13.0% YoY, the largest YoY increase in 20 years. This compares to a QoQ increase of 3.6% and a YoY increase of 10.3% in 2021-Q1. The number of properties transferred in 2021-Q2 was close to 53,000, which is a 20.8% decrease QoQ and a 3.9% decrease YoY. For more detailed information, see Table 2 and Figures 9 and 10-13 on the following pages.

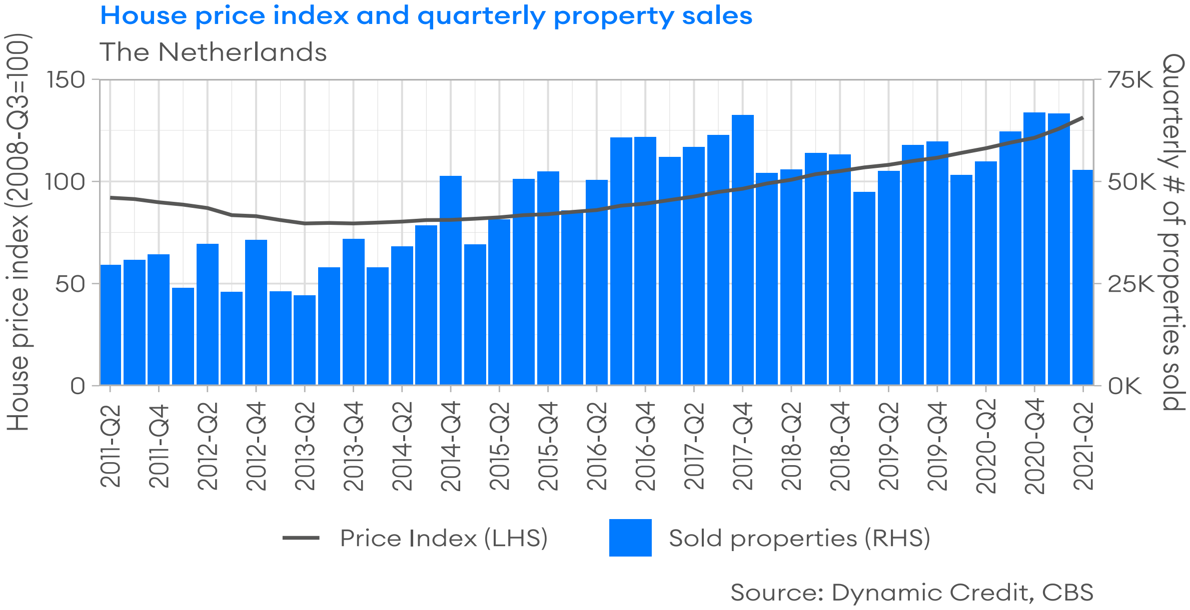


Figure 9: House Price Index of the Netherlands (2008-Q3=100) and monthly property sales. HPI until June 2021.

Expected house price and property sales developments

Future house price expectations have been adjusted upwards by Rabobank, ABN AMRO and DNB. On average, they predict that the house prices will increase with more than 11% in 2021 and with approximately 5% in 2022. This is a relatively large upward adjustment compared to their predictions a quarter ago. At that time, they expected an increase of 7.75% in the HPI in 2021 and a 3.25% increase in 2022. DNB forecasts a 3.5% increase for 2023.

The decreasing number of property sales will be partially due to the lack of newly built houses according to ABN AMRO. Also an increasing unemployment rate will further decrease the number of property sales. They expect a 10% decrease in the number of property sales in 2021 and a 5% decrease in 2022.[1] Rabobank expects only a 0.6% decrease in property sales in 2021 followed by a 7.1% decrease in 2022.

ABN AMRO states that the low interest rate is the main driver of the increasing house prices. Also, both ABN AMRO and Rabobank mention the price increasing effect of the new transfer tax policy as a reason for the increasing house price. Additionally, the more favorable macro-economical developments will have a positive impact on house prices. DNB adds that earnings of individuals have increased more than expected.[2] Finally, the Rabobank and ABN AMRO argue that fear of missing out (FOMO) increases the temperature on an already heated housing market. The idea is that when people think the housing market is only going to become more heated, they should buy a house as soon as possible to avoid missing out.[3]

1 ABN AMRO Woningmarktmonitor

2 DNB Economische ontwikkelingen en vooruitzichtend June 2021

3 Rabobobank: Dubbele groeicijfers huizenprijzen in 2021 verwacht voor bijna alle Nederlandse regio's

House price index and the forecasts

As with forecasts of many economic indicators, also house price forecasts have been proven to be unreliable: rather than a decrease in house prices due to COVID-19, house prices have only increased at a faster pace. As a result, economists have frequently revised their house price forecasts upwards. In Figure 1 we show the average predictions of the Dutch HPI by ABN AMRO, Rabobank and DNB made in different quarters versus the realized HPI.

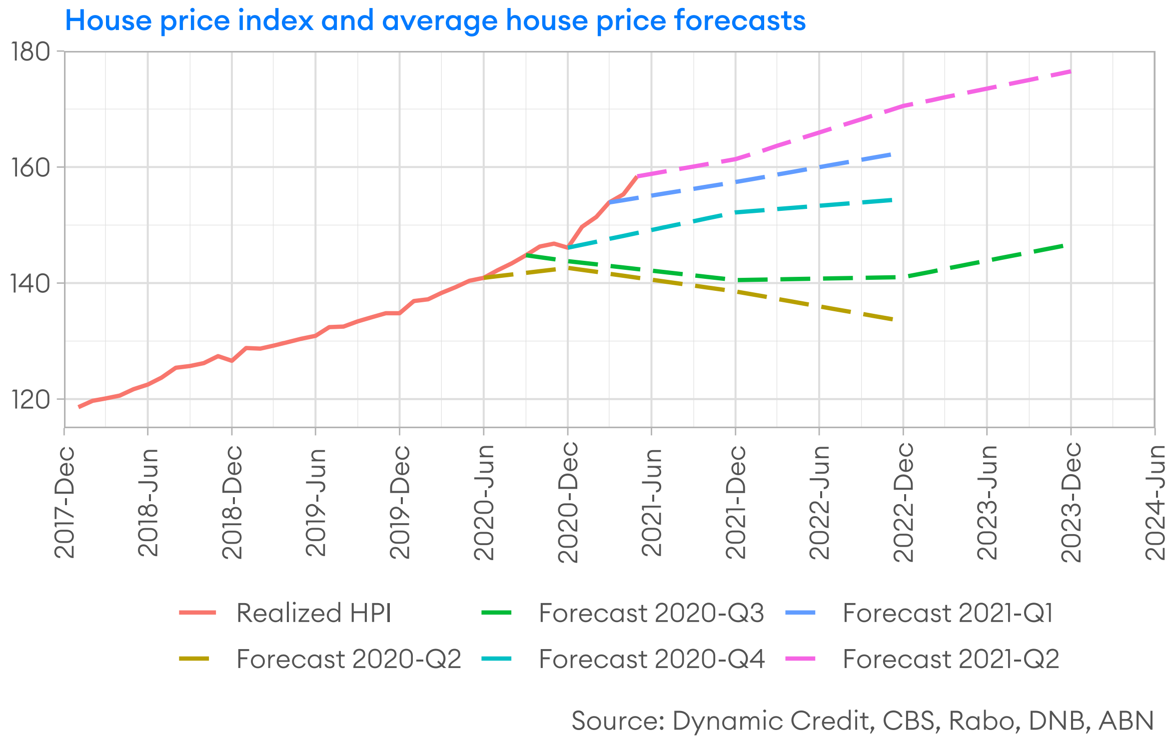
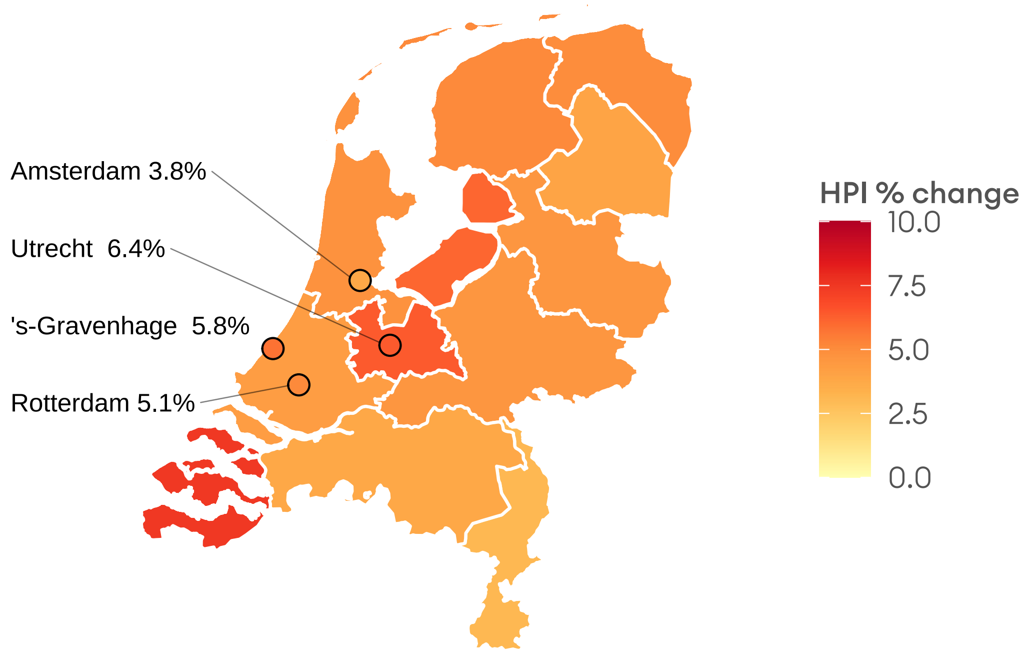


Figure 10: House price index and average house price forecasts made in different quarters

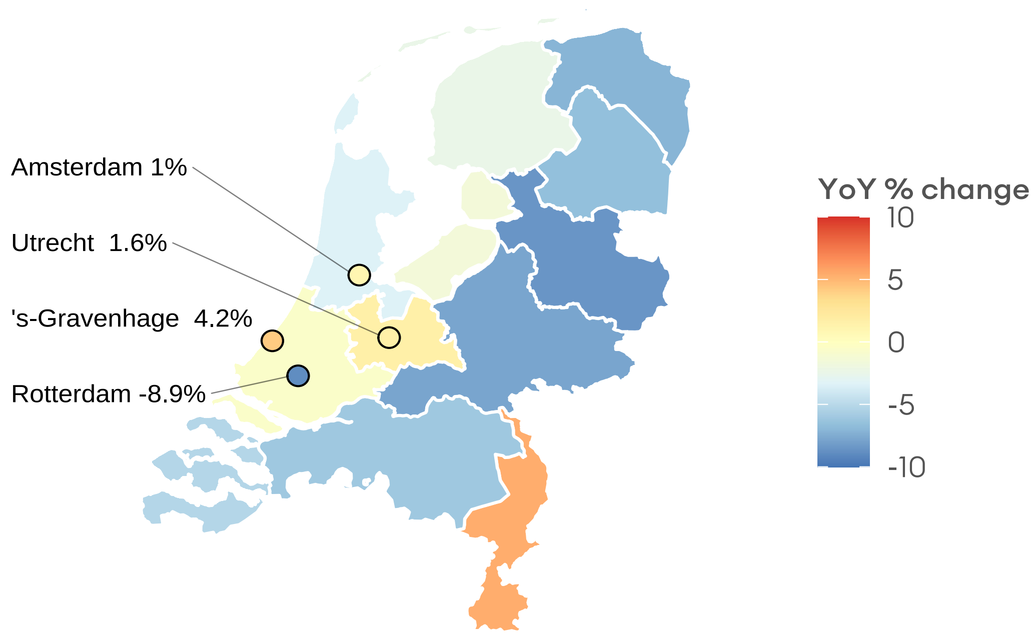
House Price Index QoQ change



Source: Dynamic Credit, CBS

Figure 11: Dutch House Price Index QoQ % change. 2021-Q2.

Number of sold properties YoY change



Source: Dynamic Credit, CBS

Figure 12: Sold properties YoY % change. 2021-Q2 .

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Area	Type	HPI (2008-Q3=100)	CPI adjusted HPI (2008-Q3=100)	YoY Price %	QoQ Price %	# Sold in quarter	YoY Sold %	QoQ Sold %
Nederland	Country	131.3	108.1	13.0	4.4	52,787	-20.8	-3.9
Friesland	Province	122.9	101.2	15.5	5.1	2,067	-10.9	-2.4
Groningen	Province	130.7	107.6	14.9	5.0	1,700	-6.0	-7.1
Zeeland	Province	128.1	105.5	15.9	7.5	1,345	-13.4	-5.2
Drenthe	Province	124.8	102.7	15.3	4.0	1,688	-13.0	-6.6
Overijssel	Province	127.1	104.6	13.8	4.6	3,466	-15.5	-8.5
Flevoland	Province	145.4	119.7	16.8	6.1	1,482	-17.7	-1.5
Zuid-Holland	Province	136.4	112.3	12.1	4.3	10,956	-17.5	-0.6
Gelderland	Province	124.0	102.1	14.3	4.6	6,085	-21.1	-7.8
Utrecht	Province	136.0	112.0	13.1	4.4	3,962	-30.6	-4.9
Limburg	Province	124.1	102.1	11.7	3.1	3,657	-6.6	5.4
Noord-Holland	Province	144.5	118.9	12.2	4.8	8,196	-31.8	-3.4
Noord-Brabant	Province	120.9	99.5	12.2	3.8	8,183	-21.7	-6.1
Utrecht	Municipality	168.6	138.8	14.0	6.4	1,002	-37.2	1.6
Amsterdam	Municipality	166.2	136.8	7.5	3.8	2,215	-45.0	1.0
's-Gravenhage	Municipality	152.2	125.3	13.2	5.8	1,603	-12.5	4.2
Rotterdam	Municipality	164.8	135.7	12.9	5.1	1,428	-26.5	-8.9

Table 2: House prices and number of property sales changes in Dutch provinces and major municipalities 2021-Q2 Source: CBS.

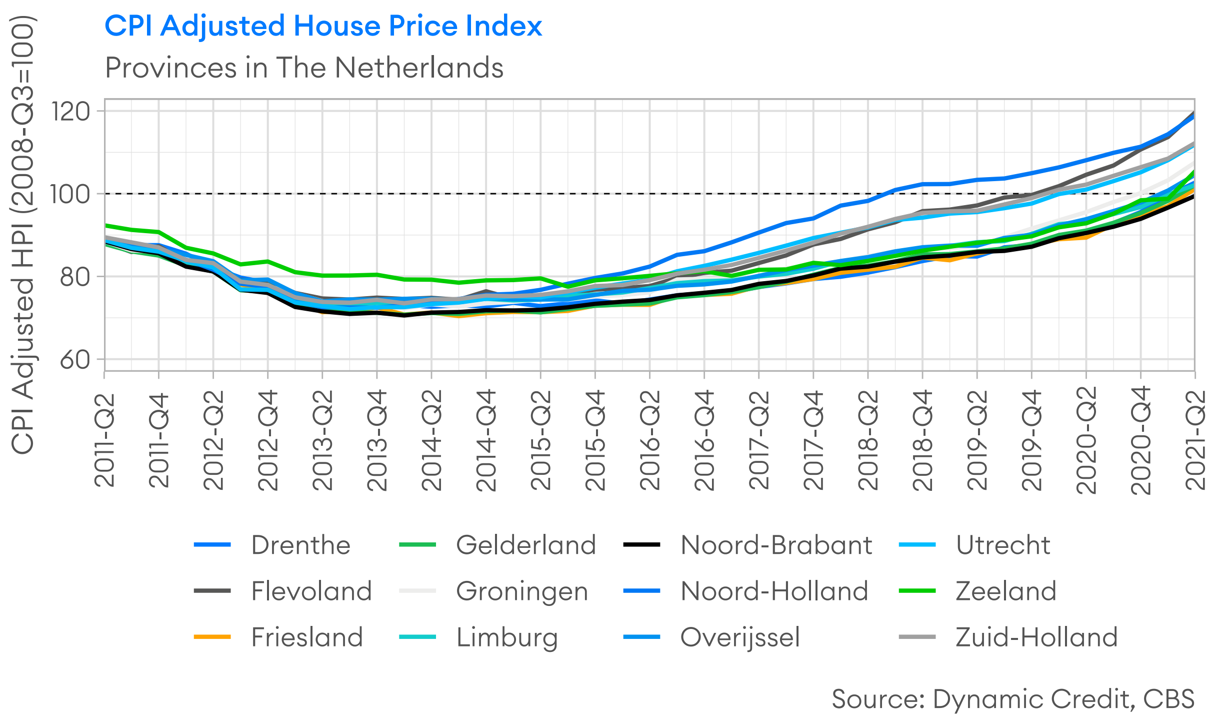


Figure 13: CPI Adjusted House price index of provinces in the Netherlands (2008-Q3=100). The data is indexed as of 2008-Q3 because this marks the pre-crisis high for the unadjusted House Price Index.

NHG

Stichting Waarborgfonds Eigen Woningen ("WEW"), a central, privatized entity, has been responsible for the administration and granting of the Nationale Hypotheek Garantie ("NHG Guarantee"). The NHG Guarantee covers the outstanding principal, accrued unpaid interest and disposal costs of mortgage loans. Irrespective of scheduled repayments or prepayments made on a mortgage loan, the NHG Guarantee is reduced on a monthly basis by an amount which is equal to the principal repayment part of the monthly instalment as if such mortgage loan were to be repaid on a thirty year annuity basis. Financial support from the Dutch government is formalised in a backstop agreement, under which the State is responsible for providing interest-free loans in case of need.

New NHG guarantees

Data from the Mortgage Data Network ("HDN") shows that over 2021-Q2, almost 36.5 thousand NHG loans with a total balance of EUR 7 bn were offered through its network (9.6 bn in 2020-Q2). This corresponds to an NHG market share of 18.2% in terms of mortgage loans balance (25.8% in 2020-Q2).

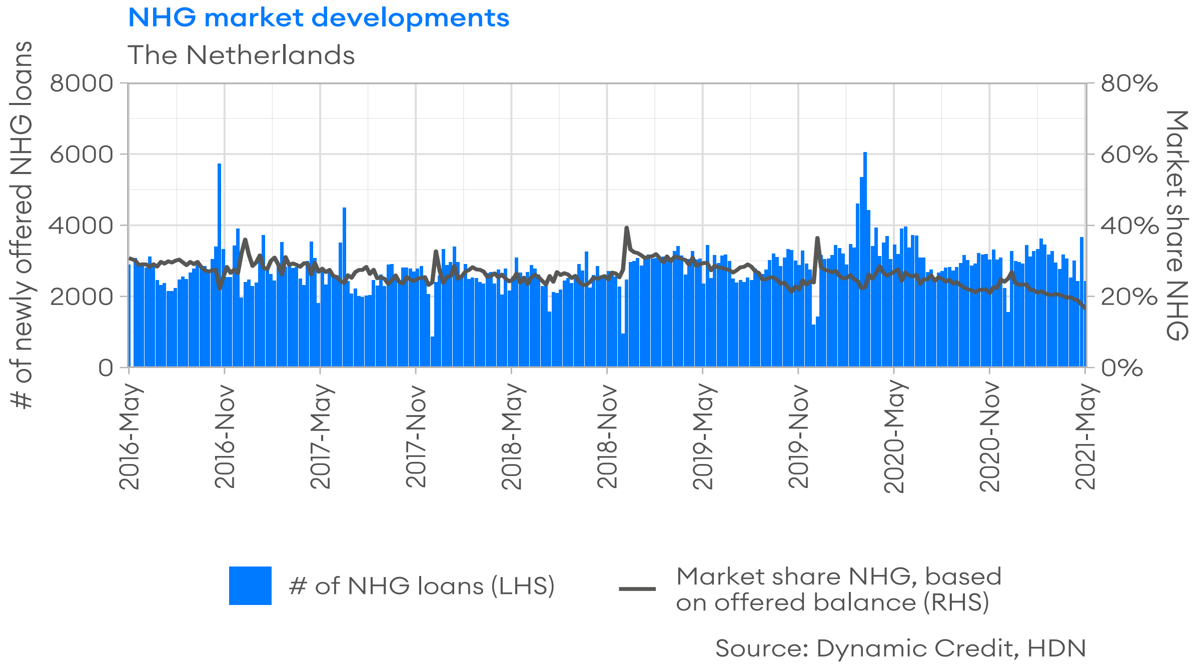


Figure 14: Number of new NHG guarantees and market share of NHG loans as a percentage of total originated balance through time. The x-axis refers to year and month.

Loss declarations[1]

The number of loss declarations submitted to WEW decreased with more than 70% from 58 in 2020-Q1 to 17 in 2021-Q1. The low amount of loss declarations submitted, is attributed by WEW to the still increasing house prices. The NHG pay-out ratio of processed declarations decreased to 76.4% in 2021-Q1 (was 96.3% in 2020-Q1). The average paid out loss declaration amounted to EUR 7,000 in 2021-Q1 versus EUR 11,000 in 2020-Q1.

1 NHG kwartaalcijfers 2021-Q1

3. Owner-Occupied Mortgages

Interest rate developments

Across all major risk classes and fixed rate periods, the top six most competitive rates fell on average 1 basis point from the end of 2021-Q1 to the end of 2021-Q2. NHG rates increased by on average 1 basis points across major fixed rate periods while the 60%, 80%, and 100% LTV segments saw average rate decreases of 1, 1, and 3 basis points respectively.

Rates fell slightly in 2021-Q2 with the largest decreases in the high LTV segments.

For an overview of the evolution of mortgage rates, see Table 3 below.

Mortgage rate development for average of top 6 mortgage rates						
Fixed rate period	Risk class	2020-06-30	2021-03-31	2021-06-30	QoQ	YoY
5-year	NHG	0.98%	0.75%	0.75%	0.00%	-0.23%
	60% LTV (non-NHG)	1.12%	0.96%	0.92%	-0.04%	-0.20%
	80% LTV (non-NHG)	1.22%	1.03%	1.00%	-0.03%	-0.22%
	100% LTV (non-NHG)	1.54%	1.34%	1.33%	-0.02%	-0.21%
10-year	NHG	1.11%	0.89%	0.89%	0.00%	-0.22%
	60% LTV (non-NHG)	1.29%	1.03%	0.99%	-0.03%	-0.29%
	80% LTV (non-NHG)	1.41%	1.16%	1.14%	-0.02%	-0.27%
	100% LTV (non-NHG)	1.74%	1.43%	1.41%	-0.02%	-0.32%
20-year	NHG	1.50%	1.18%	1.22%	0.04%	-0.28%
	60% LTV (non-NHG)	1.68%	1.35%	1.41%	0.06%	-0.27%
	80% LTV (non-NHG)	1.80%	1.48%	1.51%	0.03%	-0.30%
	100% LTV (non-NHG)	2.16%	1.78%	1.75%	-0.03%	-0.41%
30-year	NHG	1.79%	1.45%	1.43%	-0.01%	-0.36%
	60% LTV (non-NHG)	1.98%	1.63%	1.62%	-0.01%	-0.36%
	80% LTV (non-NHG)	2.06%	1.73%	1.71%	-0.02%	-0.35%
	100% LTV (non-NHG)	2.40%	2.04%	1.99%	-0.05%	-0.41%

Table 3: Average top-6 mortgage rates (excluding action rates) for mortgage loans with different fixed rate periods for four risk classes.

Spread developments[1]

Throughout 2021-Q2 mortgage spreads have decreased across all major fixed rate periods as swap rates increased. The average spread decrease across major fixed rate periods and risk classes was 7 basis points. In the second quarter there were non-parallel changes on the spread curve, with 5-year fixed rates seeing the biggest decreases (10 bps) and 20-year fixed rates seeing on average the smallest decreases (2 bps). The decrease has reverted spreads back to 2020-Q1 levels.

Mortgage spreads decreased in 2021-Q2 by an average of 7 bps

For an overview of the evolution of mortgage spreads, see Table 4 below.

The information in the table below and the graphs in the Appendix can be interpreted as a representative gross spread for newly originated Dutch residential mortgage loans over time.

Spread development for average of top 6 mortgage rates						
Fixed rate period	**Risk class**	**2020-06-30**	**2021-03-31**	**2021-06-30**	**QoQ**	**YoY**
5-year	NHG	1.43%	1.16%	1.08%	-0.08%	-0.34%
	60% LTV (non-NHG)	1.57%	1.37%	1.25%	-0.12%	-0.31%
	80% LTV (non-NHG)	1.67%	1.44%	1.33%	-0.11%	-0.34%
	100% LTV (non-NHG)	1.99%	1.76%	1.66%	-0.09%	-0.33%
10-year	NHG	1.44%	1.02%	0.96%	-0.06%	-0.48%
	60% LTV (non-NHG)	1.62%	1.16%	1.07%	-0.09%	-0.55%
	80% LTV (non-NHG)	1.75%	1.30%	1.22%	-0.08%	-0.53%
	100% LTV (non-NHG)	2.07%	1.58%	1.50%	-0.08%	-0.58%
20-year	NHG	1.65%	1.00%	1.00%	0.00%	-0.65%
	60% LTV (non-NHG)	1.83%	1.18%	1.19%	0.01%	-0.64%
	80% LTV (non-NHG)	1.96%	1.31%	1.30%	-0.01%	-0.66%
	100% LTV (non-NHG)	2.33%	1.63%	1.55%	-0.08%	-0.78%
30-year	NHG	1.90%	1.20%	1.14%	-0.06%	-0.75%
	60% LTV (non-NHG)	2.09%	1.39%	1.34%	-0.05%	-0.75%
	80% LTV (non-NHG)	2.17%	1.50%	1.43%	-0.06%	-0.74%
	100% LTV (non-NHG)	2.52%	1.82%	1.73%	-0.09%	-0.79%

Table 4: Spread of the average top-6 mortgage rates (excluding action rates) over duration matched swap rates for four risk classes. Source: Dynamic Credit, Hypotheekbond.

1 The EUSWxV3 swap is used, which uses quarterly resets and the floating leg is 3-month EURIBOR.

Mortgage Arrears

Fitch Ratings[1] reports that the share of Dutch RMBS portfolios with arrears of more than three months stands close to 20 bps at the end of 2020. This is an increase of 6 bps compared to the end of 2019, which saw the lowest arrears levels in fifteen years. Annualized period losses stand at approximately 1 bps. Fitch Ratings expects that arrears will more than double in the next six months to 40-80 bps by the end of the year before improving again in 2022-H2. The two main drivers behind the temporary increase in arrears are the rollback of government support programs and lower incomes earned by self-employed individuals. The economic effect of the COVID-19 pandemic were less severe than expected and in combination with more accelerated vaccine rollout, arrears levels are expected to be in the lower end of the indicated range. Compared to the 2014-Q3 peak, arrears are expected to top out at much lower levels this time due to tightened underwriting standards and the low interest rate environment.

Pandemic impact

Fitch Ratings states it believes the COVID-19 pandemic will disturb the housing market in the near future through the aforementioned wind-down of government support measures. Compared to other countries, however, the take-up of payment holidays has been limited. Only 0.7% of mortgages received such relief, with most payment holidays granted in 2020-H1. Fitch Ratings believes support measures are expected to have delayed the unemployment peak and rising arrears until the end of 2021 and the start of 2022.

BKR registrations

As previously mentioned in our 2021-Q1 report, and in contrast to the RMBS arrears, the Dutch National Credit Register (“BKR”)[2][3] reports that in 2020 the number of people with mortgage arrears of more than three months has decreased to just over 39,000 at the end of the year from just over 49,000 a year earlier. Over the past five years the number has decreased linearly by about 60% in total from approximately 90,000 at the end of 2015. Fitch Ratings remarks the decreasing trend seems not to have been influenced by the COVID-19 pandemic. The trend has continued in line with continuing low arrears and loss levels due to the government support measures. The decrease in BKR registrations slightly increases the potential number of mortgage borrowers that now qualify for a mortgage, as registered lenders have limited access to mortgage lending.

Problematic household debts

According to Statistics Netherlands[4] (“CBS”), the number of households with registered problematic debts has decreased to 7.6% in October 2020 (latest available figures) from 7.9% at the beginning of the same year. The biggest increases in problematic debts were seen for households with a self-employed individual or someone with a flexible contract. It should be noted problematic debts are a lagging indicator as it takes some time before debts are marked as such. Furthermore, not all household debt is officially registered. Debts to family and acquaintances are not visible in this statistic. A 2018 paper by CBS[5] shows over 75% of households with problematic debts rent, with just under 25% of households living in an owner-occupied property.

1 Mortgage Market Index: Netherlands - May 2021
2 BKR Hypotheekbarometer: betalingsachterstanden op hypotheken dalen
3 Hypotheekbaromether pdf
4 Aantal huishoudens met problematische schulden niet toegenomen
5 Schuldenproblematiek in beeld

4. Funding Update

RMBS

In the second quarter of 2021, two RMBS deals were priced. The total distributed Dutch RMBS issuance of the second quarter is EUR 2.4 billion. This makes the total of 2021 EUR 3.7 billion, which is already more than the year 2020 (EUR 3.5 billion). The retained issuance in the second quarter amounted to EUR 100 million, making the total of 2021 EUR 1.7 billion. The spread of Dutch RMBS senior AAA paper tightened from 21 bps on the 23rd of April to 17 bps on the 16th of July.

The total distributed Dutch RMBS issuance of 2021 is already more than the year 2020

The first priced deal was by Cartesian Residential Mortgages S.A. series 6 and the seller was Venn Partners, with BNP Paribas, Citi, and SMBC Nikko as joint lead managers. The deal is STS compliant. The total deal amounted to EUR 388 million with EUR 355 million class A notes. The rest of the notes ranged from class B to S. All notes were prices at 3m Euribor. The spread of the class A notes is 65 bps and of the class B and C notes is respectively 90 bps and 120 bps. The deal was sold above par which lead to a discount margin of 28. The current loan to value is 90.9% and the pool has a seasoning of six months.

The second priced deal was Green Apple BV series 2021-I and was sponsored by Argenta Spaarbank and ABN AMRO and SG are joint leads. The deal is STS compliant. The deal amounted to EUR 745 million and the underlying provisional pool consists of: EUR 650 million class A notes with a spread of 70, EUR 95 million class B notes and EUR 10 million class C notes. However, the deal was sold above par which lead to a discount margin of 13 bps. The deal was priced at 3m Euribor. The pool has a current loan to value of 65.7% and 38% of the pool is interest only.

BTL

In the second quarter of 2021, only one BTL deal was priced. The deal was by Domi BV series 2021-1 and the seller was Domivest BV via joint arrangers and lead managers Barclays, BNP Paribas and Macquarie Bank. The deal is STS compliant. The deal amounted to EUR 370 million and was priced at 3m Euribor. All mortgages are secured on residential properties and all mortgages have been granted to professional landlords. The spreads range from 63 bps for class A notes to 180 bps for class D notes. The pool has a seasoning of three months and a current loan to value of 72.2%.

Covered Bonds

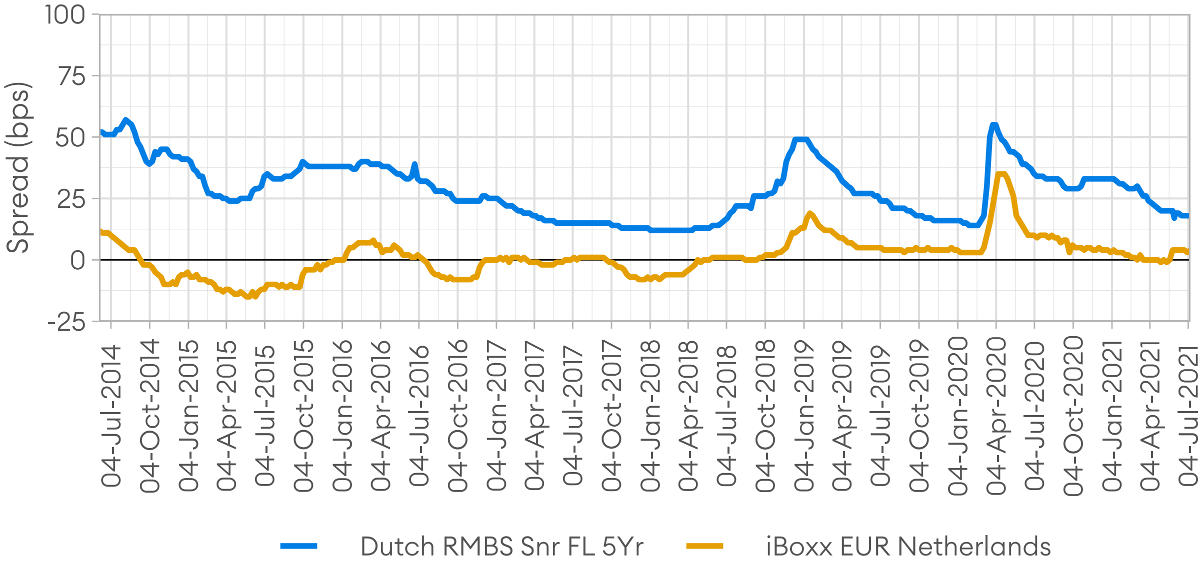
In the second quarter of 2021, EUR 500 million was issued, for a total of EUR 1.7 billion in 2021. The spread (iBoxx EUR Netherlands) increased from 0 bps on the 23rd of April to 4 bps on the 16th of July.

Whole loan transactions

NIBC Bank N.V. acquired the loan portfolio of financial services provider Finqus B.V. The purchase agreement was signed on 16 July 2021. The actual transfer is expected to take place during the second half of this year subject to approval by the regulators, De Nederlandsche Bank ("DNB") and the Authority for the Consumer & Market ("ACM").

Finqus' portfolio consists of loans from more than 17,000 customers with a total volume of ca. EUR 1.5 billion. Since 2018, Finqus has been managing the mortgages and consumer loans of customers who took out their loans with DSB Bank in the past. DSB Bank went bankrupt in 2009 after a bank run.

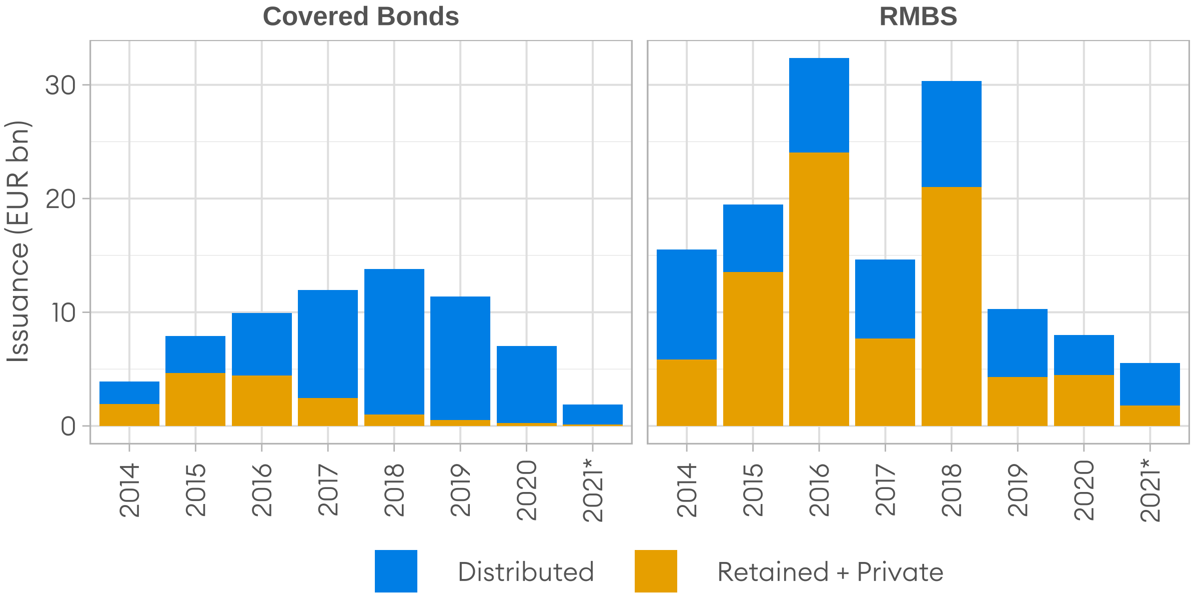
Mortgage funding spreads



Source: Dynamic Credit, JP Morgan

Figure 15: RMBS spread refers to indicative mid spread (DM) for representative generic RMBS bonds. iBoxx EUR Netherlands spread refers to spread versus mid swap rates. The data is as of 2021-Q2.

Mortgage funding issuance



* Data up to Q2
Source: Dynamic Credit, JP Morgan

Figure 16: Issuance of Dutch RMBS and covered bonds. The data is as of 2021-Q2.

Dutch RMBS market: Priced Dutch prime RMBS and BTL deals

One new Dutch prime RMBS and one BTL deal were priced during 2021-Q2

Date	Issuer	Series	Seller	Class	uro Amoun	Life	FXFL	Spread	Benchmark	M	SP	F	DBR	Retained	Comments
20-May-21	Domi BV	2021-1	Domivest BV	A	313	3	FL	63	3 Mo. Euri	Aaa	AAA			N	BTL; EUR 370mm; WA
				B	16	5	FL	100	3 Mo. Euri	Aa1	AA+			N	CLTV 72.2%; WA
				C	9	5	FL	120	3 Mo. Euri	Aa3	AA			N	Seasoning 3m; IO
				D	10	5	FL	180	3 Mo. Euri	Baa2	BBB			N	Loans 43.7%; Obligors
				E	4	5	FL	650	3 Mo. Euribor					N	1,177;
				X1	14		FL							N	
				X2	7		FL							N	
28-May-21	Cartesian Residential Mortgages S.A.	6	Venn Partners	A	355	4	FL	65	3 Mo. Euribor			AAA	AAA	N	RMBS; EUR 388mm;
				B	12	4	FL	90	3 Mo. Euribor			AA+	AA	N	WA CLTV 90.9%; WA
				C	9	4	FL	120	3 Mo. Euribor			A-	AH	N	Seasoning 6m; IO
				D	13	4	FX							Y	Loans 39.7%; Self-
				S	4		FX							Y	Employed 8.4%;
2-Jun-21	Green Apple BV	2021-I	Argenta Spaarbank	A	650	5	FL	70	3 Mo. Euri	Aaa			AAA	N	RMBS; EUR 745mm;
				B	95	7	FX							Y	WA CLTV 65.7%; IO
				C	10		FX							Y	Loans 38%; WA

Table 5: Priced Dutch RMBS en BTL Deals in 2021-Q2. Source: Dynamic Credit, JP Morgan

5. Buy-to-let Mortgages

Rental market

Online rental property broker Pararius reports[1] that over the second quarter of 2021 the housing market has again shown strong performance. The rental market however has been lagging and rental prices have decreased YoY for the fourth subsequent quarter (by 2%). The rental prices of furnished houses have decreased most (-6% YoY, renters now pay EUR 18.13 per square meter) compared to upholstered (-0.5% YoY, renters now pay EUR 15.66 per square meter) or shell houses (-1.2% YoY, renters now pay EUR 12.30 per square meter).

Four of the five largest cities of The Netherlands have experienced decreasing rents. In Amsterdam new renters now pay EUR 21.53 per square meter on average (-6.8% YoY). In Rotterdam prices decreased to EUR 15.58 (-4.6% YoY), almost EUR 6 per square meter less than in Amsterdam. Only in Utrecht rental prices remained on a similar level.

The decrease in the largest cities over the last year can be attributed to fewer expats coming to the Netherlands since the outbreak of the COVID-19 pandemic. This has caused a drop in demand, especially for higher end houses, that led to a higher vacancy rate which in turn has led to decreasing prices. Furthermore, supply increased due to former Airbnb properties entering the market. However, the expat rental market is gaining momentum again as the number of visits to the international version of the broker website has been higher than ever. The number of inquiries for information and viewings is now double that of last year.

Most middle sized cities have also experienced price decreases[2]. There are a few exceptions, Almere, Lelystand and Amersfoort which are well connected to the large cities but are priced more attractively. Especially high quality properties are appreciated.

Regulation

On the 6th of July a legislative proposal in relation to the purchase restrictions for BTL investors “opkoopbescherming” was approved by the Dutch Senate and will enter into force per the 1st of January 2022. The legislation will not be positive for the Dutch BTL sector, but we expect the impact to be relatively limited, although the impact is hard to quantify.

The legislation does not automatically require every BTL investor to get a permit but allows municipalities to require such permits in certain areas for lower and middle priced houses (to be defined by the municipality) if the owner wants to rent out the property within four years after purchase. The legislation does not apply to properties already rented out when legislation comes into place, when the property is rented out to first or second degree family or when the dwelling is part of a commercial building.

So far (only) nine municipalities (covering 23% of the population) have indicated to be interested in this measure. These municipalities include Amsterdam, Rotterdam and Haarlem.

1 Rental prices in the Dutch unregulated sector drop further

2 Amstelveen (-7,9%), Dordrecht (-6,6%), Haarlem (-5,3%), Den Bosch (-3,8%), Delft (-3,2%), Breda (-3,1%), Deventer (-2,4%), Leeuwarden (-2,5%) and Groningen (-1,8%)

DNB

During these times of further restriction and regulation of the Dutch rental market, the Dutch Central Bank ("DNB") has again made[1] the point that a healthy private rental sector is important for a resilient economy. Compared to our neighbors, the Netherlands has 9% private rent versus 50% in Germany. Combined with a housing shortage in the lower end of the owner-occupied market, this makes the housing shortage especially tough for starters. DNB suggests to build more houses (especially rental properties) and to further dismantle the advantageous fiscal treatment of owner-occupied real estate (versus other assets). Subsidizing owner-occupied real estate further increases the wealth gap that now exists (and will expand) between property owners and tenants.

OECD

The OECD reiterates the points of DNB in the OECD Economic Survey of the Netherlands 2021[2]. In addition they suggest to increase the private rental sector by reducing the regulated rental market. A suggestion is made to investigate the effect of housing associations on market dynamics due to their government support.

1 Het aanbod vrije huurwoningen stijgt, maar is nog beperkt
2 Economic Survey of the Netherlands

Rate and spread development

Dynamic Credit launched its consumer buy-to-let platform in the Netherlands[1,2] in 2019. Besides the unique feature of offering borrowers an LTV of 90%, the product also sets itself apart by offering a 30-year fixed rate period.

As can be seen in Table 6 below, the average rates increased slightly (3 bps). Changes among fixed rate periods varied only slightly compared to the end of the previous quarter, with only the 20-year fixed rates seeing big rate increases up to 13 bps. Buy-to-let spreads have decreased with on average 2 basis points (owner-occupied: 7 basis points). It should be noted that Dynamic Credit is the only active lender in the high LTV (>85%) segment.

Market rate and spread development for consumer buy-to-let rates							
		BTL rates			Spreads		
Fixed rate period	LTV	2021-03-31	2021-06-30	QoQ	2021-03-31	2021-06-30	QoQ
1-year	50%	2.20%	2.21%	0.01%	2.74%	2.73%	-0.01%
	60%	2.29%	2.30%	0.01%	2.84%	2.82%	-0.02%
	70%	2.33%	2.34%	0.01%	2.88%	2.86%	-0.02%
	80%	2.72%	2.72%	0.00%	3.27%	3.24%	-0.03%
	90%	3.40%	3.40%	0.00%	3.95%	3.92%	-0.03%
5-year	50%	2.27%	2.28%	0.01%	2.69%	2.62%	-0.07%
	60%	2.36%	2.37%	0.01%	2.78%	2.71%	-0.07%
	70%	2.39%	2.40%	0.01%	2.81%	2.74%	-0.07%
	80%	2.90%	2.90%	0.00%	3.32%	3.24%	-0.08%
	90%	3.45%	3.45%	0.00%	3.87%	3.80%	-0.07%
10-year	50%	2.33%	2.34%	0.01%	2.49%	2.44%	-0.05%
	60%	2.42%	2.43%	0.01%	2.58%	2.53%	-0.05%
	70%	2.47%	2.48%	0.01%	2.63%	2.58%	-0.05%
	80%	2.98%	2.99%	0.01%	3.15%	3.10%	-0.05%
	90%	3.60%	3.60%	0.00%	3.78%	3.72%	-0.06%
20-year	50%	2.67%	2.77%	0.10%	2.54%	2.60%	0.06%
	60%	2.76%	2.87%	0.11%	2.63%	2.71%	0.08%
	70%	2.82%	2.92%	0.10%	2.70%	2.76%	0.06%
	80%	3.20%	3.33%	0.13%	3.09%	3.18%	0.09%
	90%	3.75%	3.75%	0.00%	3.66%	3.62%	-0.04%

Table 6: Interest rate and spread development for consumer buy-to-let rates in the Netherlands.
Source: Dynamic Credit, Hypotheekbond.

1 dynamiccredit.com/dutch-consumer-buy-to-let
2 dynamiccredit.nl/verhuurhypotheek

6. News

The following sections provide an update on the (macro)economic environment.

Macroeconomic update[1]

In the first quarter, real GDP declined by 0.3% according to Eurostat, which is broadly in line with the expectations of March. This despite containment measures being more stringent than expected and most probably due to learning effects gained last year. Overall, real GDP was still 5.1% below the level of 2019-Q4.

As the roll-out of vaccinations is taking place at an increased pace, unwinding of containment measures are expected to continue for the second half of 2021. This should lead to a rebound from the second quarter onwards, although the threat of newly emerging COVID-19 variants remains a risk. Conditional on the positive view, euro area activity is expected to grow in the remainder of the year, mainly driven by a substantial increase in consumption and easing of supply bottlenecks.

The expectation is that the pre-crisis level of real GDP will be exceeded from 2022-Q1 onwards, which is one quarter earlier than expected in the March projections. In addition, the growth outlook for 2021 and 2022 is revised upward. This is mainly driven by progress on vaccinations and additional fiscal measures (both the Next Generation EU program and fiscal policy packages in the US).

The inflation expectation for 2021 is higher compared to the previous projections, with an average of 1.9% and an expected peak at 2.6% in the fourth quarter. The increase in headline inflation can be attributed to reversal of the German VAT rate cut, rebound in energy inflation and increasing costs related to supply disruptions. It is expected that inflation will decline in the following years to 1.5% in 2022 and 1.4% in 2023.

Monetary policy[2]

In July, the Governing Council of the ECB announced a new symmetric inflation target of 2% over the medium term. Key interest rates are expected to stay at their current or even lower levels until inflation reaches 2% at the end of the projection horizon and durably for the rest of the projection horizon. This new target may allow inflation to be moderately above the 2% for some time. Now, the medium-term outlook for inflation remains well below the 2% target and the accommodative monetary policy stance will be maintained. Therefore, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively.

Purchases under the pandemic emergency purchase program ("PEPP") will continue over the third quarter, but at a significantly higher pace compared to the first months of 2021. The program, with a total size of EUR 1,850 billion, will continue until at least March 2022, or any other period until it judges the COVID-19 pandemic to be over.

The net monthly purchases of EUR 20 billion under the asset purchase program ("APP") will continue as long it is deemed necessary to support the accommodative impact of its policy rates, and it is planned to end before the key ECB interest rates will be raised.

1 Eurosystem staff macroeconomic projections for the euro area, June 2021
2 ECB: Monetary policy decisions,22 July 2021

Household Consumption[1]

After thirteen months of negative consumer spending numbers, Statistics Netherlands ("CBS") reported a YoY growth of 9.7% in April. This was even the highest growth after World War II. In May, consumer spending was slightly lower compared to April, with an increase of 8.8% YoY. The large YoY growth in April and May can logically be explained by the low base due to the consequences of the outbreak of the COVID-19 pandemic in 2020.

Household spending increased significantly in April and May

As the closure of stores in the first lockdown led to a significant drop in consumer spending, the spending on durable goods in May increased by 19.5% compared to last year. Especially spending on clothing and footwear was up, while spending on passenger cars also increased. Energy consumption, among which are natural gas, electricity and fuel, increased by almost 11%, which is driven by consumers that were house-bound to a lesser extent.

Also spending on services attributed to the growth in May, with a 6.9% increase on services such as telephone and internet subscriptions, restaurants and sports games. The relaxation of some COVID-19 measures in May ensured that amusement parks, libraries and gyms were allowed to receive visitors again. Also, the catering industry was allowed to open the terraces until later in the evening, which made it possible for people to dine in restaurants again. Spending on food, drinks and tobacco did not materially change compared to a year before, as these products were still available to consumers during the first lockdown period.

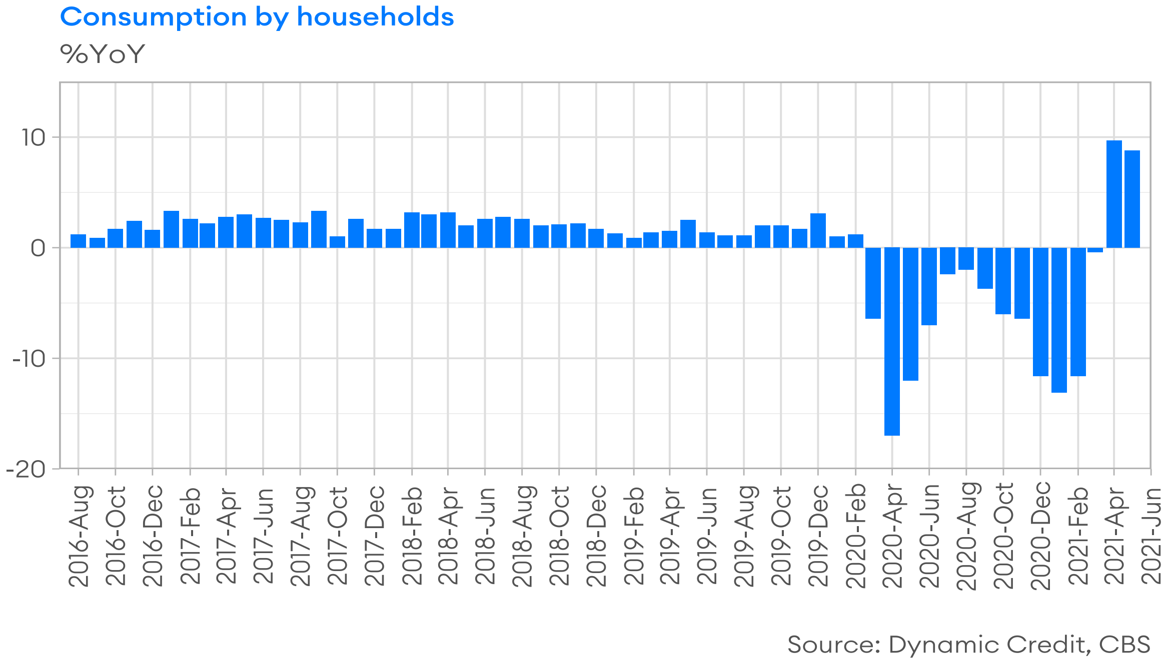


Figure 17: YoY change in consumption by Household in The Netherlands as of May 2021.

1 CBS: Household consumption nearly 9 percent up in May

Dutch GDP estimates[1]

In the first quarter of 2021 the gross domestic product dropped by 0.8% (GDP is published with a 1.5-month lag by the Central Bureau of Statistics and the 2021 Q2 number has not been published at the time of writing), while the YoY decline was 2.4%. The overall state of the economy was similar to 2020-Q4, with some sectors even more hindered by the measures regarding the COVID-19 pandemic. Therefore, the 2021-Q1 contraction was mainly attributable to a decline in household consumption. On the other hand, higher investments and an increased trade balance had a moderating effect.

Unemployment[2]

In the second quarter the number of unemployed dropped by almost 9% to a total of 297,000. This is equivalent to 3.2% of the labor force. On average, unemployment declined by 10,000 per month. The amount of unemployed is still slightly higher than it was in March 2020, when the total number of unemployed was 273,000. However, it is very close to the old level for the first time.

After almost a year of relatively stable provided unemployed benefits, the number of provided benefits dropped with more than 15% in the quarter. The number of receivers of unemployment benefits dropped to 238,000, which is lower than it was before the start of the COVID-19 pandemic. It is noteworthy to highlight that the number of unemployment benefits paid to young people up to 27 years, dropped by more than 60% compared to June 2020. This could be partially explained by the limited built-up of rights of unemployment benefits among the young.

Housing market shortage[3]

To reach the target of building 900,000 houses until 2030, Minister of the Interior and Kingdom Relations Ollongren explained in a letter to the House of Representatives that additional funds are needed from the government. The amount needed ranges from EUR 10 to 17 billion, depending on choices made with respect to affordability and infrastructure. In case the funds are not made available, this causes 345,000 houses will never be built, which is almost 40% of the target. Reason for the amount needed is that the public investments required for construction often exceed the potential revenues from the sale of land or cost recovery from private parties.

1 CBS: Economic contraction 0.8 percent in Q1 2021
2 CBS: Unemployment in June dips below 300 thousand
3 Ollongren: zonder miljarden overheidssteun halen we de woningbouwopgave niet

Government support measures[1]

In the second quarter, the prospects for economic recovery and control COVID-19 improved. However, there are still a lot of uncertainties facing both consumers and employers. Therefore, extension of measures are announced by the government. Some of the developments are listed below:

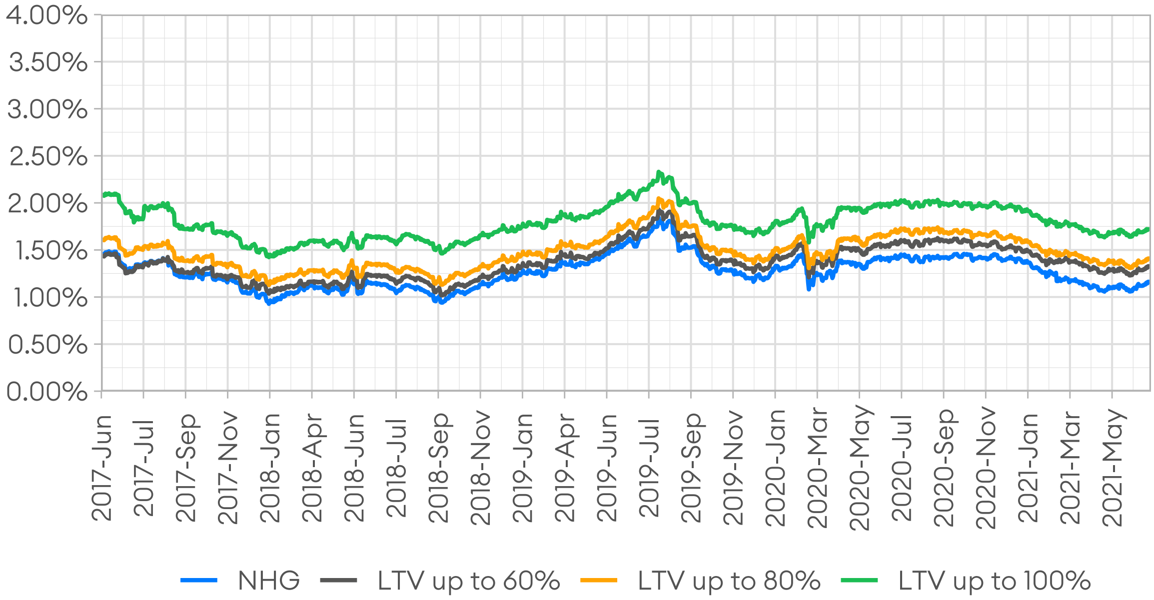
- **Temporary bridging measure for employment opportunities ("NOW"):** the government announced that the NOW program will be extended until the 1st of October (NOW4). As all companies are now able to operate again, the maximum drop in revenue that can be filed is revised downward to 80%. The threshold to apply for the program remains at 20%. The expected amount of the program to be granted is EUR 6 billion.
- **Temporary Support Necessary Costs ("TONK"):** This measure is for people who can no longer pay necessary costs such as housing costs due to a decline in income (COVID-19 related). The current budget is EUR 260 million and the end date is extended until 30 September.
- **Time Out Arrangement ("TOA"):** The government made EUR 200 million available for SME companies that were hit by the COVID-19 crisis. These companies can apply for a loan of maximum EUR 100,000 with favorable terms and can be used to restart, expand, or adjust the business activities. An important condition is that the company is healthy at its core.

1 Rijksoverheid - Nieuwsberichten over Coronavirus: financiële regelingen

Appendix

Spread average top 6 per risk class

5-year fixed rate period

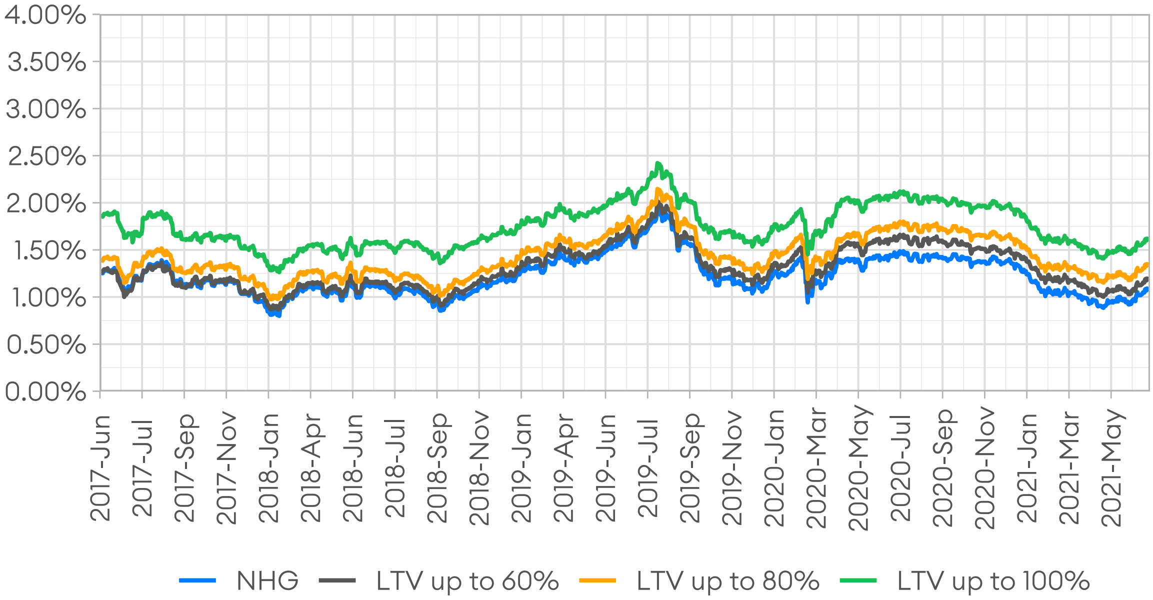


Source: Dynamic Credit, Hypotheekbond

Figure A1: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 5-year fixed rate period for four risk classes. Up to and including 26/7/2021.

Spread average top 6 per risk class

10-year fixed rate period



Source: Dynamic Credit, Hypotheekbond

Figure A2: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 10-year fixed rate period for four risk classes. Up to and including 26/7/2021..

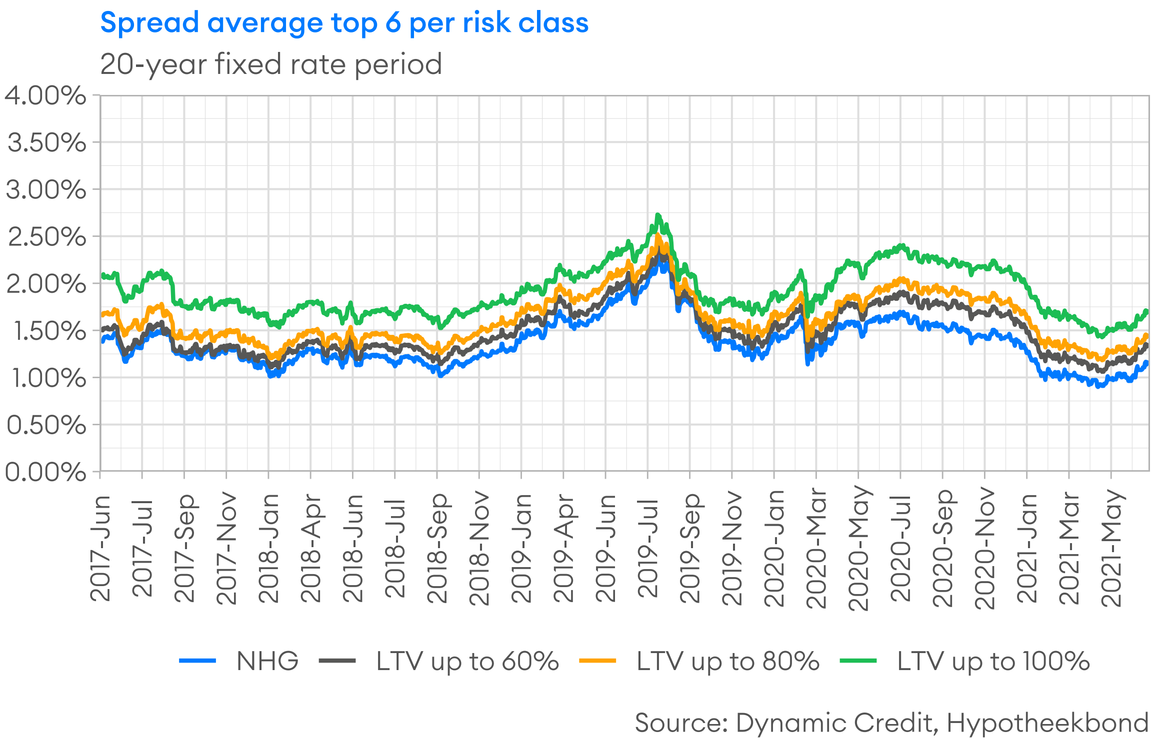


Figure A3: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 20-year fixed rate period for four risk classes. Up to and including 26/7/2021..

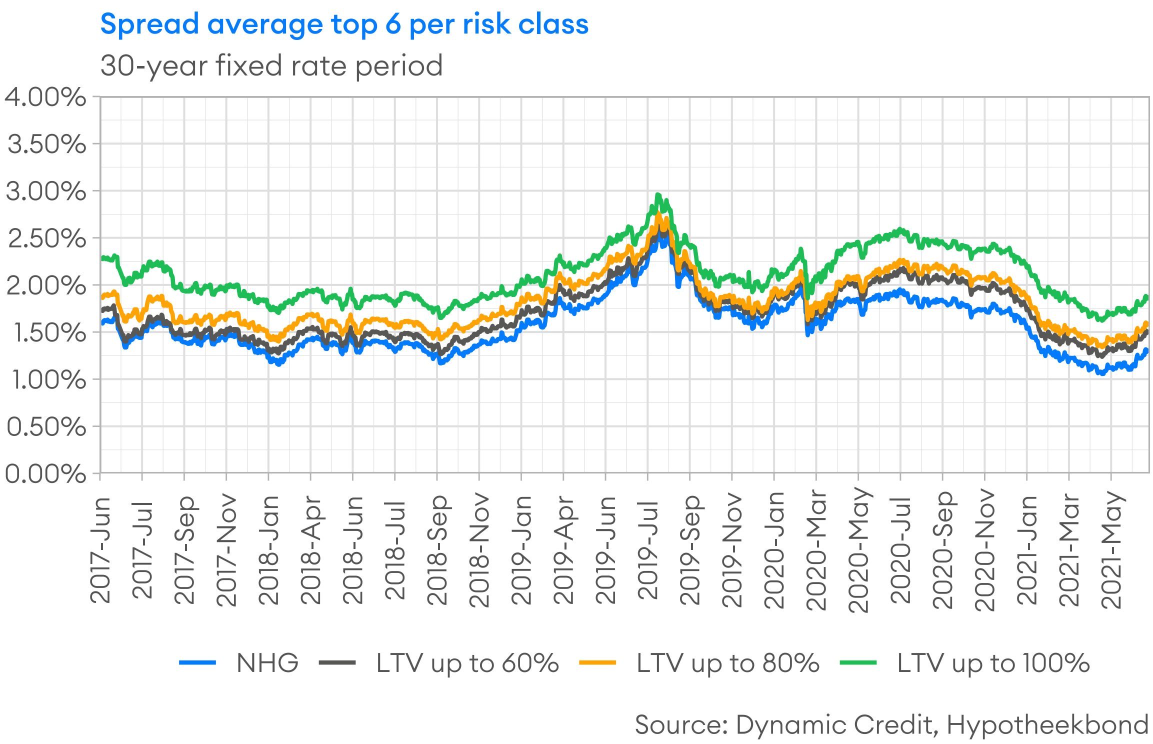


Figure A4: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 30-year fixed rate period for four risk classes. Up to and including 26/7/2021..

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