DYNAMIC CREDIT

April 2019

Contents

Dutch Mortgage Market 2019 Q1 Update

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In this quarterly report we discuss developments in the Dutch housing market and the broader economy. As Dynamic Credit has expanded into the consumer buy-to-let space we have also expanded the scope of this quarterly report to include relevant updates on the rental sector and buy-to-let spread developments.

As always, we welcome the opportunity to discuss the housing market or investing in Dutch owner-occupied or buy-to-let mortgage loans with you.

"To make investing in NHG mortgage loans more attractive, the European Commission has proposed to allow insurers under Solvency II to take guarantees (such as NHG) into account resulting in significantly lower capital requirements under the standardized approach. A benefit to all investors: after many quarters of spread decreases, the first quarter of 2019 experienced average spread increases of 24 basis points for owner-occupied mortgage loans."

Jasper Koops,
Portfolio Manager

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1. Executive Summary

Swap rates decreased significantly: mortgage spreads, especially for the longer fixed rate periods, became much more attractive during the quarter as mortgage rates largely remained flat, but benefited from large swap decreases. Spreads improved by 24 basis points on average across major fixed rate periods and risk classes during the quarter.

ECB rates to stay low. It was announced that rates will stay low at least through 2019 and thus not only through the summer of 2019 as previously indicated. Furthermore, a new round of cheap bank loans (TLTRO-III) was launched as the GDP growth forecast for the euro zone was lowered.

NHG mortgages to be treated more favorably for insurers. The European Commission proposed a revision of regulation which would mean that insurers can take guarantees into account when calculating capital requirements. If NHG loans meet the requirements, this will substantially lower the required amount of capital that insurers needs to hold.

House price increases slowing down in Amsterdam: Dutch house prices increased 1.7% during 2019-Q1, slightly more than in the previous quarter (1.5%). Prices in Drenthe (+2.8% QoQ) increased the fastest whereas prices in Amsterdam remained largely flat (+0.2% QoQ).

Decreasing number of property transfers: approximately 47,000 houses were transferred in 2019-Q1 in the Netherlands, a decrease of 9% compared to 2018-Q1.

Confidence decreasing for the 8th consecutive month: the decrease in 2019-Q1 meant that consumer confidence went from +9 in December 2018 and reached a below-neutral level of -4 in March 2019.

Lower unemployment: the number of unemployed people in the labor force decreased to 307k in March 2019 as the unemployment rate decreased to 3.3%.

2. Market Update

The following sections provide an update on the macroeconomic outlook and housing market developments.

Macroeconomic update

The most recent economic updates of the Central Bureau of Statistics ("CBS") on key economic indicators indicated a slow-down in GDP growth as it retraced from 2.4% YoY in 2018-Q3 to 2.2% YoY in 2018-Q4 (published with one quarter delay, Figure 1).

- The Netherlands had the highest inflation in the euro zone as energy, food and beverages are becoming more expensive -

In March 2019, Dutch HICP ("Harmonised Index Consumer Prices") increased 2.9% YoY, significantly higher than in the euro zone (1.4%) as energy prices were up 16.7% YoY. CBS report that this gap was largely due to an increase of the lower VAT rate and an increase in energy taxes in the Netherlands.

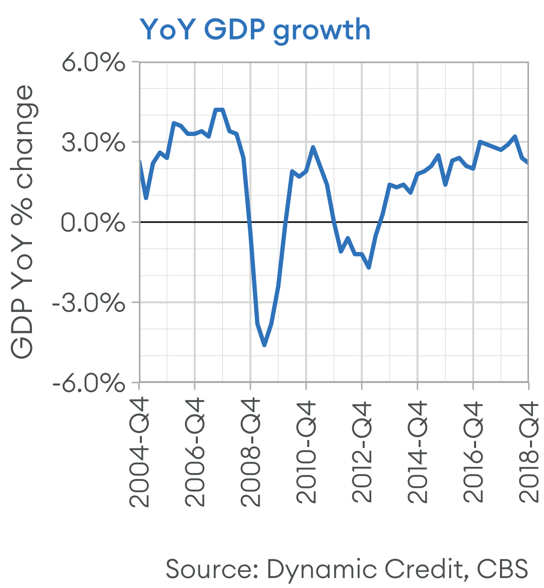

Figure 1: Dutch GDP growth. As of 2018-Q4

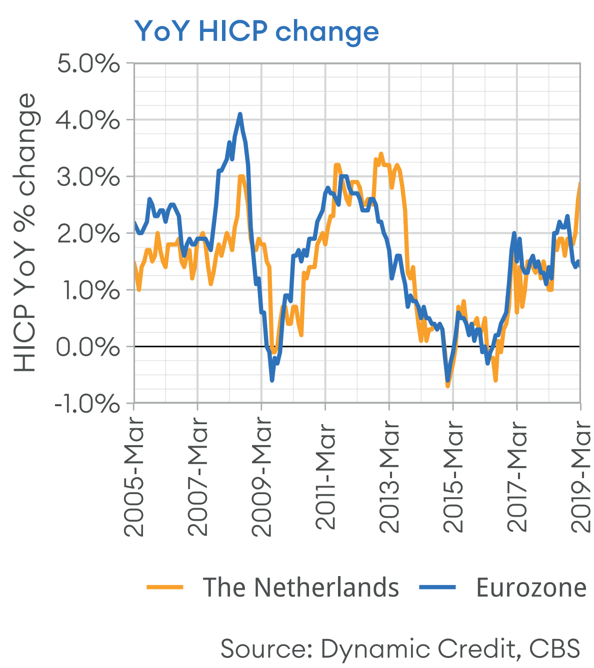

Figure 2: HICP change. As of March 2019

- Inflation driven by increase of lower VAT rate and increase in energy taxes -

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Dutch **consumer confidence** decreased from +9 in December 2018 to -4 in March 2019, indicating that there are slightly more pessimist than optimists (Figure 3). The decrease in consumer confidence was driven by a decrease in the economic climate from +17 in December 2018 to -3 in March 2019 as consumers were less positive about the past as well as coming 12 months. Furthermore, the *'favorable time for large purchases'* category, decreased from +12 in December 2018 to 0 in March 2019.

- Dutch consumer confidence decreased for the 8th straight month as it reached a negative level -

The number of unemployed people in the labor force decreased to 307 thousand, thus being below the pre-crisis level for the first time. The number of unemployed people in the labor force decreased by 7 thousand per month on average while the employed labor force increased by 16 thousand per month on average during 2019-Q1. The decrease in unemployment was mostly driven by a decrease in unemployment of people aged 45-74. The number of 45-74 year old unemployed people in the labor force decreased from 132 thousand to 117 thousand during 2019-Q1. In comparison, this number stood at 255 thousand in March 2015.

The **unemployment rate** decreased sharply during the quarter as it went from 3.6% in December 2018 to 3.3% in March 2019. The November 2018 number of 3.5% was already lower than the lowest pre-crisis record level recorded at the onset of the 2008 crisis and the 3.3% number for March 2019 thus marks a further decrease.

- Number of unemployed lower than the pre-crisis level for the first time -

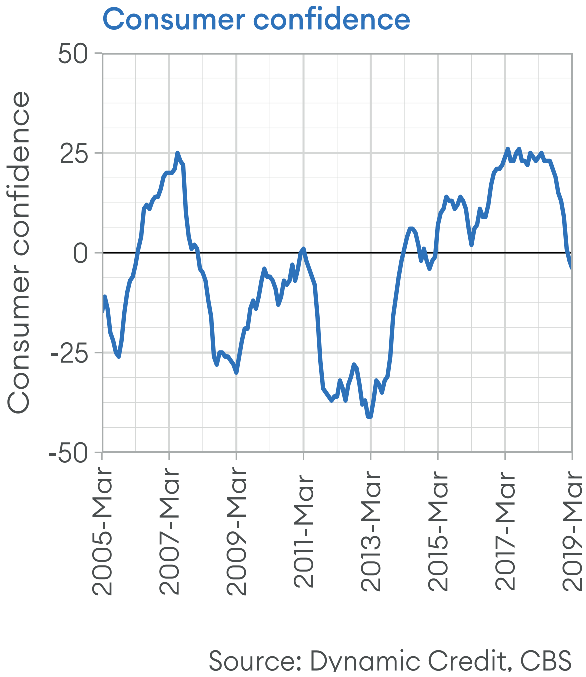


Figure 3: As of March 2019.

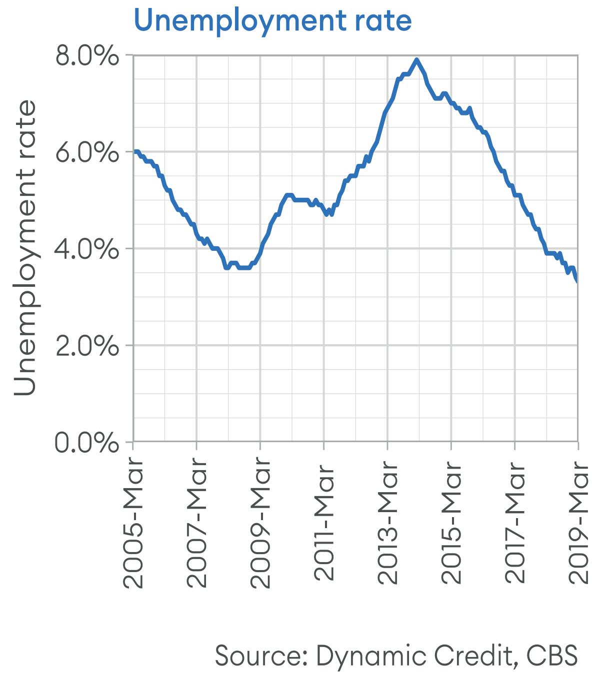


Figure 4: As of March 2019.

Dutch housing market update

Vereniging Eigen Huis[1] ("VEH") measures consumer confidence in the housing market every month. They do that based on questions about interest rates, prices, and the general market. Over the past 3 months, the indicator has decreased from 101 in in December to 99 in March 2019 (Figure 5). In comparison, the index was at 110 in March 2018. The indicator can take values ranging from 0 to 200, 100 indicating a neutral value. A higher value indicates a more positive sentiment.

- Confidence in the housing market is negative for the first time in more than 4 years -

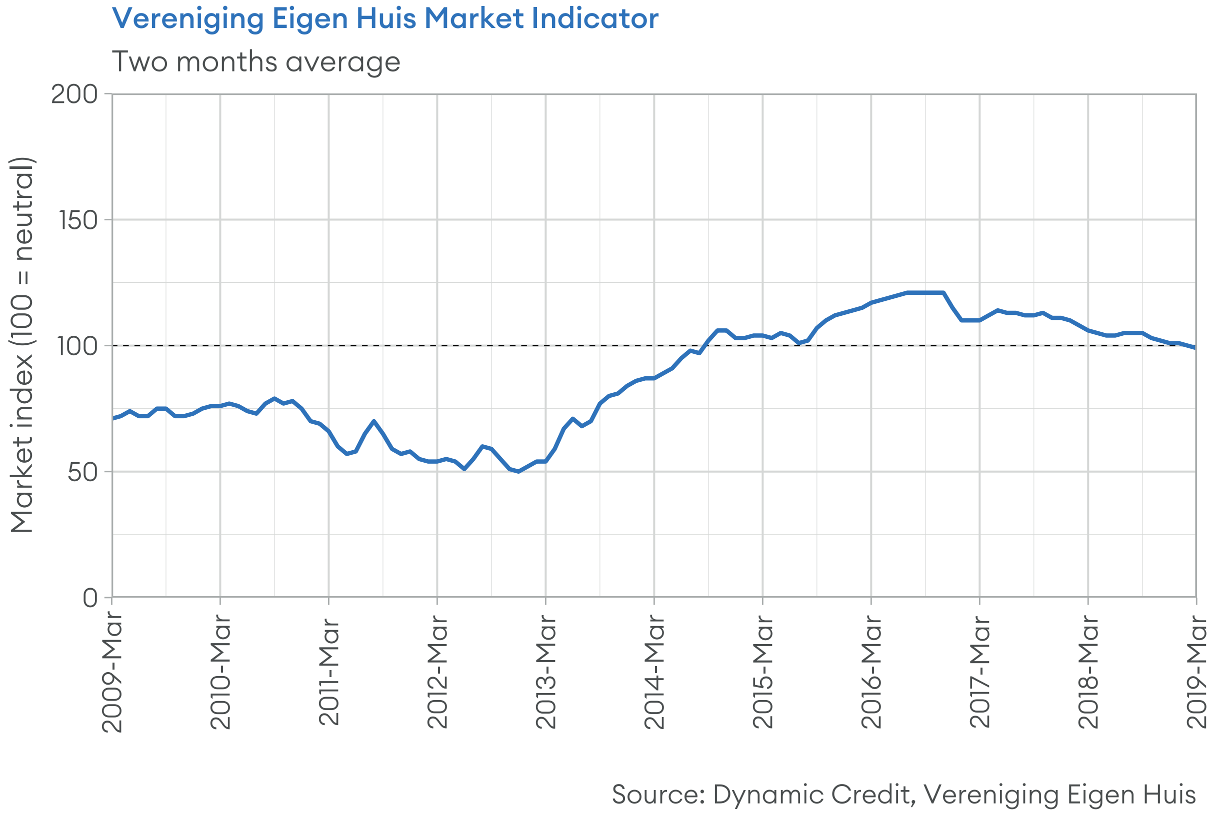


Figure 5: Vereniging Eigen Huis Market Indicator. As of March 2019

The percentage of respondents who believe that it is a good situation to buy a property decreased for the first time in 10 quarters as it went from 61% to 56%.

- Renters less positive about the current market situation than home buyers -

When we compare renters and buyers we observe that renters are less optimistic about the current market situation then buyers. The Vereniging Eigen Huis Markt Indicator for renters was 88 whereas the indicator for buyers was 99 at the end of 2019-Q1.

1 Eigen Huis Market Indicator 2019-Q1

House prices and property sales

The CBS house price index increased 1.7% over the first quarter of 2019 and 7.9% YoY. This compares to house price increases of 1.5% QoQ and 9.0% YoY in 2018-Q4. Close to 47,000 properties were sold during 2019-Q1, a 16.1% QoQ and 9.0% YoY decrease (see Table 1 for regional differences).

- The number of property transactions continued to decrease -

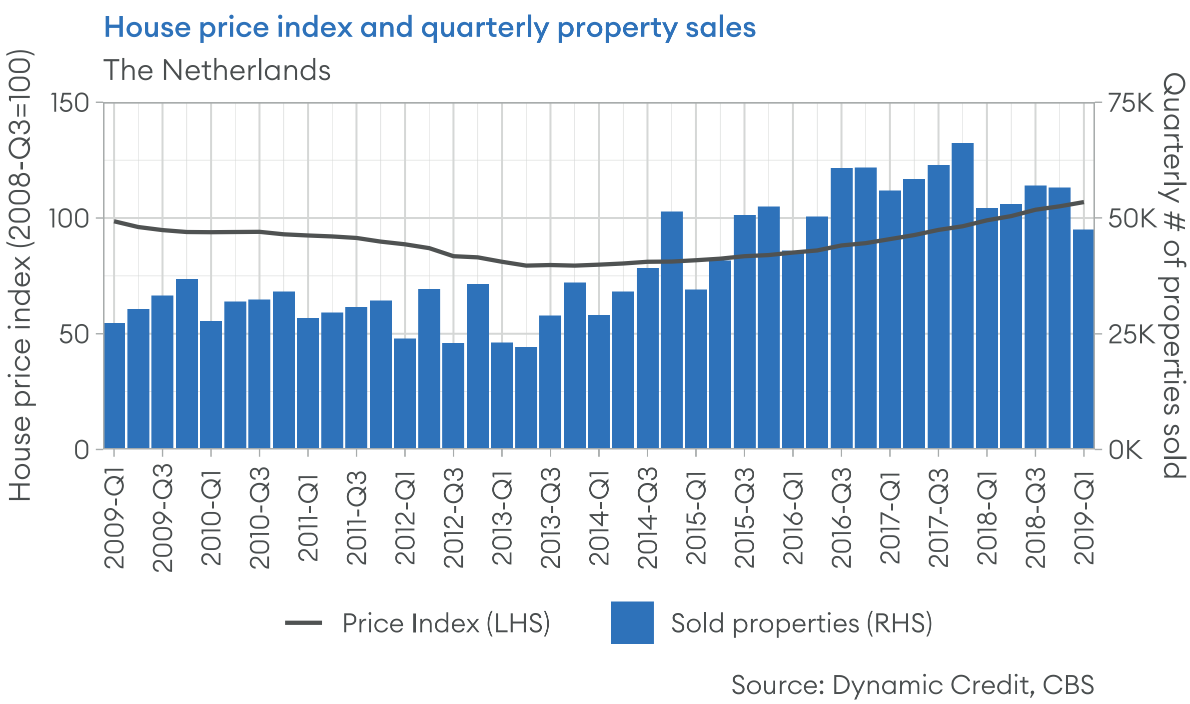


Figure 6: House Price Index of the Netherlands (2008-Q3=100) and monthly property sales.

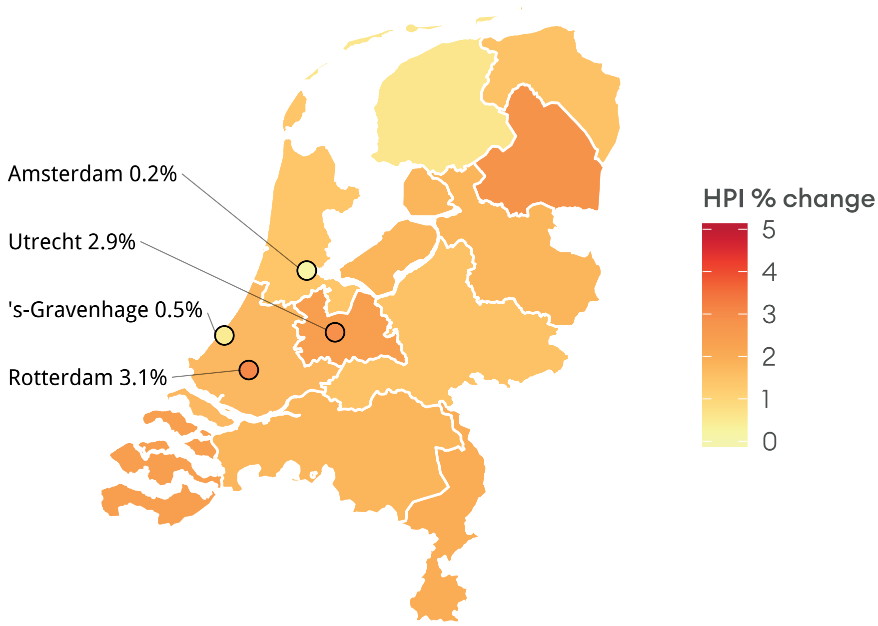
Regional differences

We mentioned in our last quarterly report (2018-Q4), that price divergence between the big cities and the rest of the country had stopped. There was also not divergence in 2019-Q1, as ‘s-Gravenhage and Amsterdam had lower QoQ house price increases than the national average. Most noteworthy, Amsterdam prices only increased 0.2% QoQ in 2019-Q1. This was the lowest QoQ increase since prices started increasing in 2014-Q1, after the crisis low. On a provincial level, Drenthe stood out with QoQ increases of 2.8% whereas prices in Friesland only increased 0.6% QoQ (Table 1).

- Prices in Amsterdam and The Hague remained largely flat during 2019-Q1 -

Figure 9 shows that prices in almost all provinces are now above the pre-crisis high of 2008-Q3. Only prices in Friesland, Drenthe, Gelderland, and Noord-Brabrant remain slightly (1-3%) below the 2008-Q3 level. Prices in Noord-Holland are 19.4% higher than the pre-crisis high.

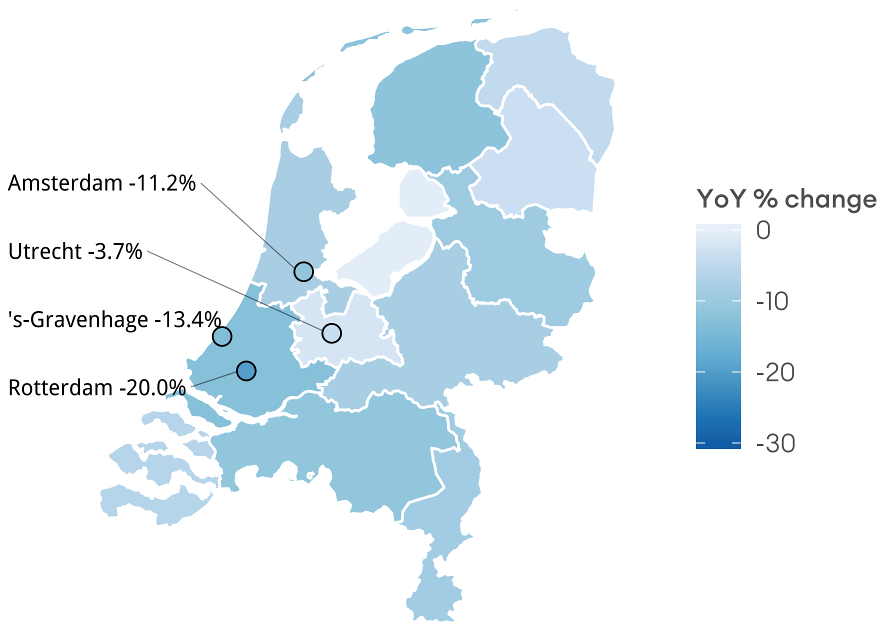
House Price Index QoQ change



Source: Dynamic Credit, CBS

Figure 7: Dutch House Price Index QoQ % change. 2019-Q1.

Number of sold properties YoY change



Source: Dynamic Credit, CBS

Figure 8: Sold properties YoY % change. 2019-Q1 .

Area	Type	HPI (2008-Q3=100)	QoQ Price %	YoY Price %	# Sold in quarter	QoQ Sold %	YoY Sold %
The Netherlands	Country	106.9	1.7	7.9	47,431	-16.1	-9.0
Zuid-Holland	Province	111.7	1.7	8.9	9,787	-14.9	-12.9
Friesland	Province	97.9	0.6	6.7	1,675	-25.2	-12.2
Noord-Brabant	Province	99.3	1.8	6.8	7,073	-19.0	-11.4
Overijssel	Province	102.1	1.8	7.4	2,996	-23.1	-9.6
Limburg	Province	102.0	2.0	7.4	2,900	-19.7	-9.0
Gelderland	Province	99.7	1.5	7.0	5,512	-17.9	-8.2
Noord-Holland	Province	119.4	1.4	8.4	7,850	-10.4	-8.0
Zeeland	Province	101.7	2.4	8.4	1,237	-22.2	-6.1
Groningen	Province	101.3	1.5	6.8	1,564	-15.3	-4.5
Drenthe	Province	99.1	2.8	9.3	1,579	-13.9	-3.4
Utrecht	Province	111.1	2.4	8.1	3,890	-10.2	-2.2
Flevoland	Province	112.2	1.8	11.0	1,368	-7.1	-0.6
Rotterdam	Municipality	134.6	3.1	12.1	1,496	-9.3	-20.0
's-Gravenhage	Municipality	122.6	0.5	9.7	1,486	-15.2	-13.4
Amsterdam	Municipality	144.3	0.2	9.2	2,243	-3.5	-11.2
Utrecht	Municipality	133.1	2.9	11.2	1,104	2.2	-3.7

Table 1: House prices and number of property sales changes in Dutch provinces and major municipalities 2019-Q1. Source: CBS.

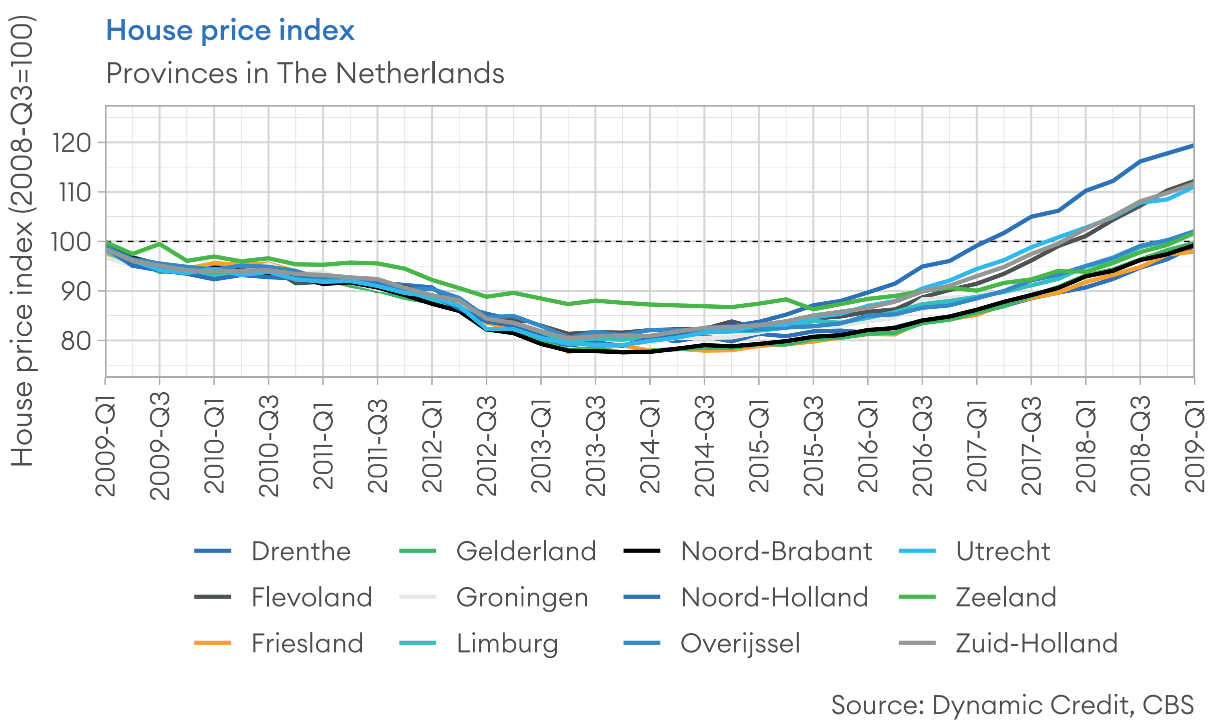


Figure 9: House price index of provinces in the Netherlands (2008-Q3=100). The data is indexed as of 2008-Q3 because this marks the pre-crisis high.

3. Owner-Occupied Mortgages

Interest rate developments

Across all major risk classes and all major fixed rate periods, the top six most competitive rates decreased from the end of 2018-Q4 to the end of 2019-Q1 by 5 bps on average. The relatively popular 100% LTV classes generally had larger decreases than other LTV classes meaning that the spread pick-up for high LTV vs low LTV continued to decrease. Rates for a 10-year fixed rate period decreased by 11 bps on average during the quarter, the most of the 4 major fixed rate periods. The 5-, 20-, and 30-year fixed rate periods decreased by 1, 6, and 2 basis points respectively across risk classes on average. For an overview of the evolution of mortgage rates, see Figure 10 below.

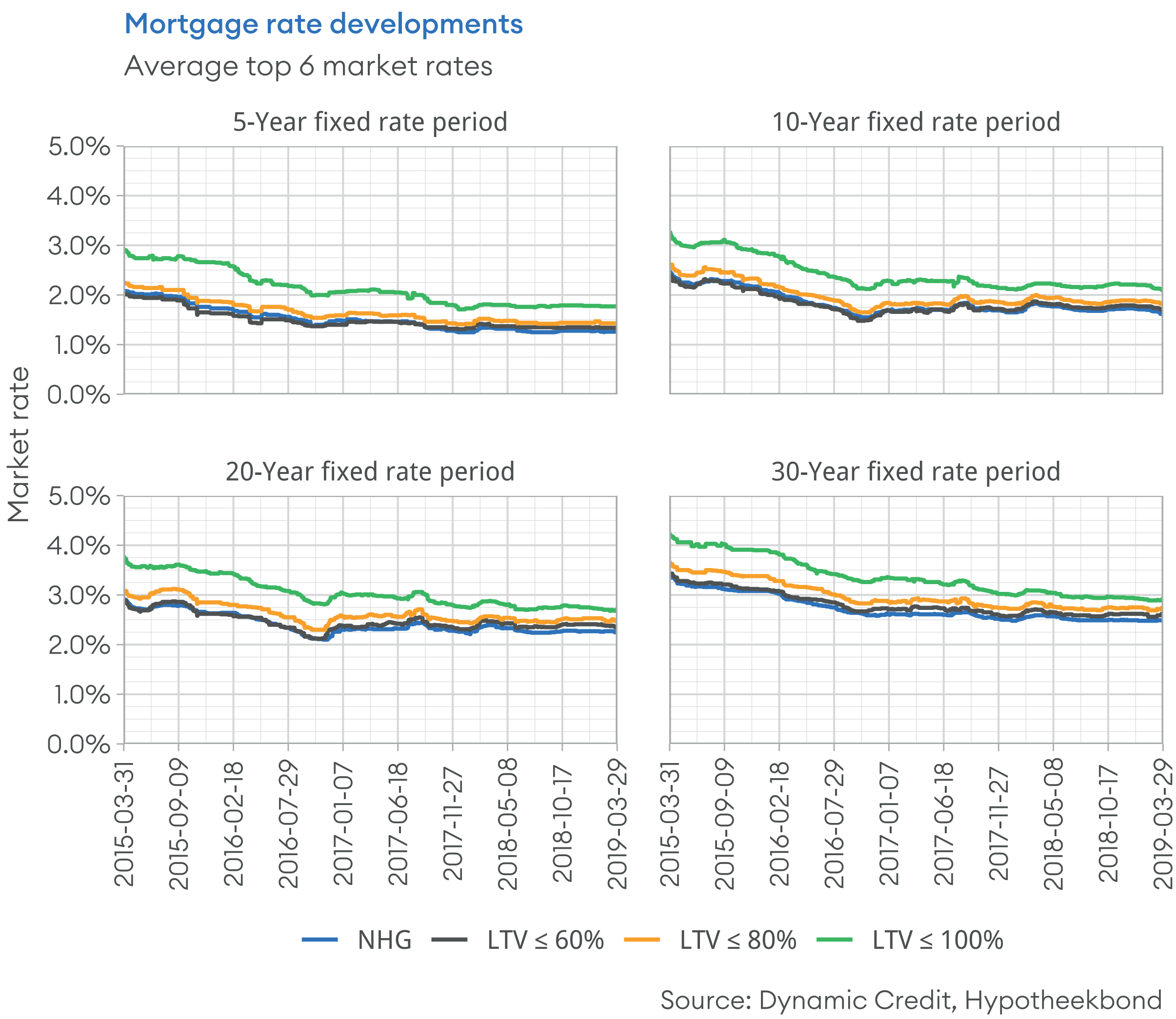


Figure 10: Average top-6 mortgage rates (excluding action rates) for mortgage loans with different fixed rate periods for four risk classes.

For a breakdown of the rates (compared to swap rates), see Figure A5 to Figure A8 in the Appendix.

Spread developments[1]

The table and graphs below show spreads over swaps for the 5-, 10-, 20- and 30-year fixed rate periods for NHG and various non-NHG mortgage loans. For a more detailed view of the rate decomposition and spread evolution throughout time, please see Figure A1 to A8 in the Appendix.

The information in the table/graphs 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**	**2018-03-31**	**2018-12-31**	**2019-03-31**	**QoQ**	**YoY**
5-year	NHG	1.12%	1.21%	1.36%	0.15%	0.24%
	60% LTV (non-NHG)	1.16%	1.28%	1.44%	0.16%	0.28%
	80% LTV (non-NHG)	1.27%	1.37%	1.53%	0.15%	0.26%
	100% LTV (non-NHG)	1.59%	1.72%	1.87%	0.15%	0.28%
10-year	NHG	1.11%	1.18%	1.37%	0.19%	0.26%
	60% LTV (non-NHG)	1.15%	1.24%	1.44%	0.20%	0.29%
	80% LTV (non-NHG)	1.27%	1.34%	1.57%	0.23%	0.30%
	100% LTV (non-NHG)	1.55%	1.67%	1.86%	0.18%	0.31%
20-year	NHG	1.30%	1.29%	1.61%	0.32%	0.31%
	60% LTV (non-NHG)	1.37%	1.44%	1.71%	0.27%	0.33%
	80% LTV (non-NHG)	1.48%	1.56%	1.85%	0.29%	0.38%
	100% LTV (non-NHG)	1.80%	1.79%	2.07%	0.28%	0.27%
30-year	NHG	1.42%	1.43%	1.77%	0.35%	0.35%
	60% LTV (non-NHG)	1.53%	1.56%	1.92%	0.36%	0.39%
	80% LTV (non-NHG)	1.68%	1.70%	2.05%	0.34%	0.36%
	100% LTV (non-NHG)	1.94%	1.90%	2.20%	0.30%	0.26%

Table 2: Spread of the average top-6 mortgage rates (excluding action rates) over duration matched swap rates for four risk classes. Source: Dynamic Credit, Hypotheekbond

- Spreads becoming more attractive as swap rates decreased significantly -

Key observations

- The average QoQ increase in spread, across all major risk classes and all major fixed rate periods (Table 2) was 24 bps. The moves in spreads result from small decreases in mortgage rates and significant decreases in swap rates on average.
- For the 10-, 20- and 30-year fixed rate periods, there was a reduction in the spread differential between the 100% LTV (non-NHG) segment and the 60% and 80% LTV (non-NHG) segments.

- Spread levels for the 100% LTMV 20 year fixed rate period increased to above 2% for the first time in 18 months -

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

Better treatment of NHG loans for insurers

In the Standard Model under the current Solvency II regulation, the Solvency Capital Requirement is, amongst others, based on an LGD assumption, which is determined by the value of the underlying property and the value of the mortgage loan. Roughly 40% of all owner-occupied Dutch mortgage loans are secured by a NHG guarantee[1] but the current LGD calculation does not take any NHG payouts, reducing the LGD, into consideration.

Under the revised delegated regulation, which still needs to be approved by the European Parliament and Council, the European Commission proposes an LGD calculation that takes a guarantee into account. If NHG loans meet the requirements, this will substantially lower the capital requirement for an insurer under the counterparty default risk submodule (Figure 11).

- Insurance companies will get lower capital requirements for NHG mortgages under revised delegated regulation -

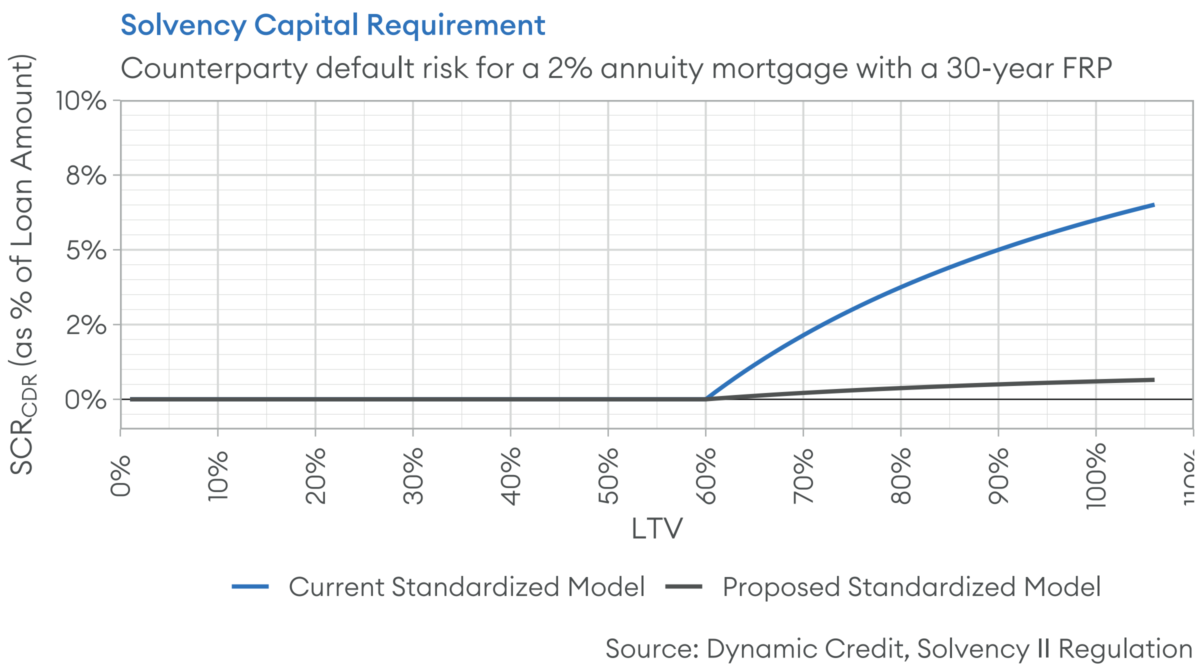


Figure 11: Counterparty Default Risk for a NHG mortgage under the Standard Model.

In case of approval, the new regulation is expected to be adopted by 1 January 2020 the latest.

In practice, most large insurers are using (partial) internal models for the calculation of their capital requirements. Hence, this revision will mainly be important for smaller insurers who rely on the standard model.

1 NHG, 2019

New NHG guarantees

Data from the Mortgage Data Network ("HDN") shows that over 2019-Q1, 38,980 NHG loans with a total balance of EUR 7.5 bn were offered through its network. This corresponds to an NHG market share of 31.8% in terms of mortgage loans balance. As can be seen in Figure 12 below, the proportion of NHG applications increased significantly as the NHG limit (without energy saving measures) was increased from € 265,000 to € 290,000 per 1 January 2019. An additional 6% can be borrowed for energy saving measures.

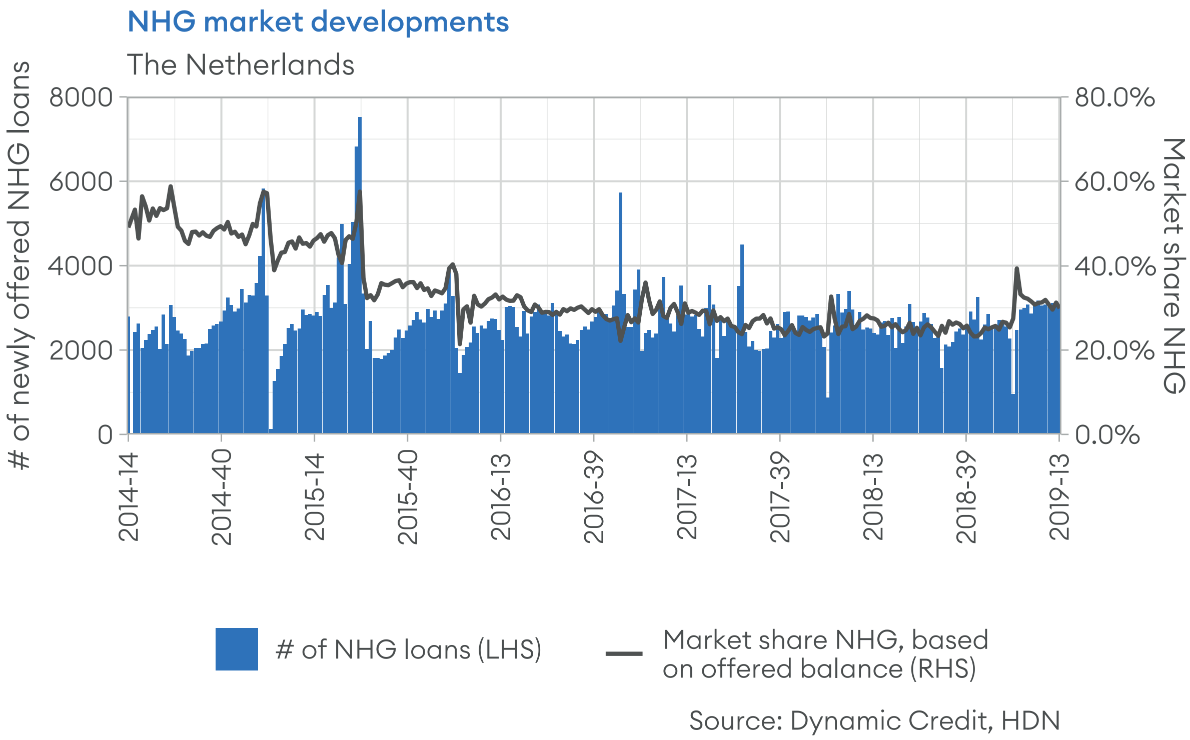


Figure 12: Number of new NHG guarantees and market share of NHG loans as a percentage of total originated balance through time. The y-axis refers to year and week number.

- Number of NHG claims submitted dropped by more than 50% in 2018 -

Loss declarations

The number of loss declarations submitted to WEW decreased from 2,124 in 2017 to 1,007 in 2018, a decrease of more than 50%. The number was the lowest since 2009-Q3. The NHG payout ratio of accepted declarations decreased from 94.0% in 2017 to 91.7% in 2018[1]. However, adjusting for loss declarations that were fully rejected and the 10% first loss for the lender, the average adjusted payout ratio decreased from 84.6% in 2017 to 83.2% in 2018.

1 NHG - Quarterly report Q4-2018, published with one quarter delay

4. Buy-to-let Mortgages

Dynamic Credit launches consumer buy-to-let program to boost private rent market, wins mandate from Brand New Day Bank

Dynamic Credit launched its consumer buy-to-let platform in the Netherlands[1,2], offering consumers mortgage loans for properties they want to buy and rent out. The program is also an opportunity for institutional investors funding these loans to enter a market with large potential for further growth. Brand New Day Bank has awarded Dynamic Credit a mandate funding these loans. The "Dynamic Verhuurhypotheek" facilitates the creation of more private rent properties in the Netherlands.

The Dynamic Credit Verhuurhypotheek offers mortgages with LTV up to 90% and borrowers can currently get fixed rate periods of up to 20 years. Rates and spread levels can be seen in the tables below.

Interest Rates

Fixed Rate Period	LTV ≤ 50%	LTV ≤ 60%	LTV ≤ 70%	LTV ≤ 80%	LTV ≤ 90%
Floating (1M Euribor)	2.95%	3.15%	3.20%	3.50%	3.70%
1-Year	2.75%	2.90%	2.90%	3.25%	3.45%
3-Year	2.90%	3.00%	3.00%	3.40%	3.60%
5-Year	2.90%	3.00%	3.00%	3.40%	3.60%
10-Year	3.20%	3.40%	3.40%	3.85%	4.05%
15-Year	3.50%	3.55%	3.60%	4.05%	4.25%
20-Year	3.60%	3.65%	3.70%	4.15%	4.35%

The interest date is: 2019-04-26

Table 3: Interest rates for Dynamic Credit Verhuurhypotheek. Source: Dynamic Credit

Interest Rate Spreads

Fixed Rate Period	LTV ≤ 50%	LTV ≤ 60%	LTV ≤ 70%	LTV ≤ 80%	LTV ≤ 90%
Floating (1M Euribor)	3.32%	3.52%	3.57%	3.87%	4.07%
1-Year	3.05%	3.20%	3.20%	3.55%	3.75%
3-Year	3.14%	3.24%	3.24%	3.64%	3.84%
5-Year	3.01%	3.11%	3.11%	3.51%	3.71%
10-Year	2.99%	3.20%	3.20%	3.66%	3.86%
15-Year	3.07%	3.12%	3.17%	3.64%	3.85%
20-Year	3.04%	3.09%	3.14%	3.62%	3.83%

The interest date is: 2019-04-26, the swap curve date is: 2019-04-25

Table 4: Interest rate spreads using duration matched swap rates for Dynamic Credit Verhuurhypotheek. Source: Dynamic Credit

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

Shortage in the Dutch housing market

The number of households in the Netherlands has increased from 7.5 million in 2012, to 7.7 million in 2015 and to 7.9 million in 2018. In addition to the small growth of the Dutch population, this increase is mainly due to a shift from families with children to single households (Figure 13). This increase leads to a higher demand for dwellings in the Netherlands. This increase in demand has not been matched by an increase in supply which in turn has resulted in a shortage on the housing market, specifically for younger generations and elderly people, searching for affordable housing in the non-regulated rental sector.

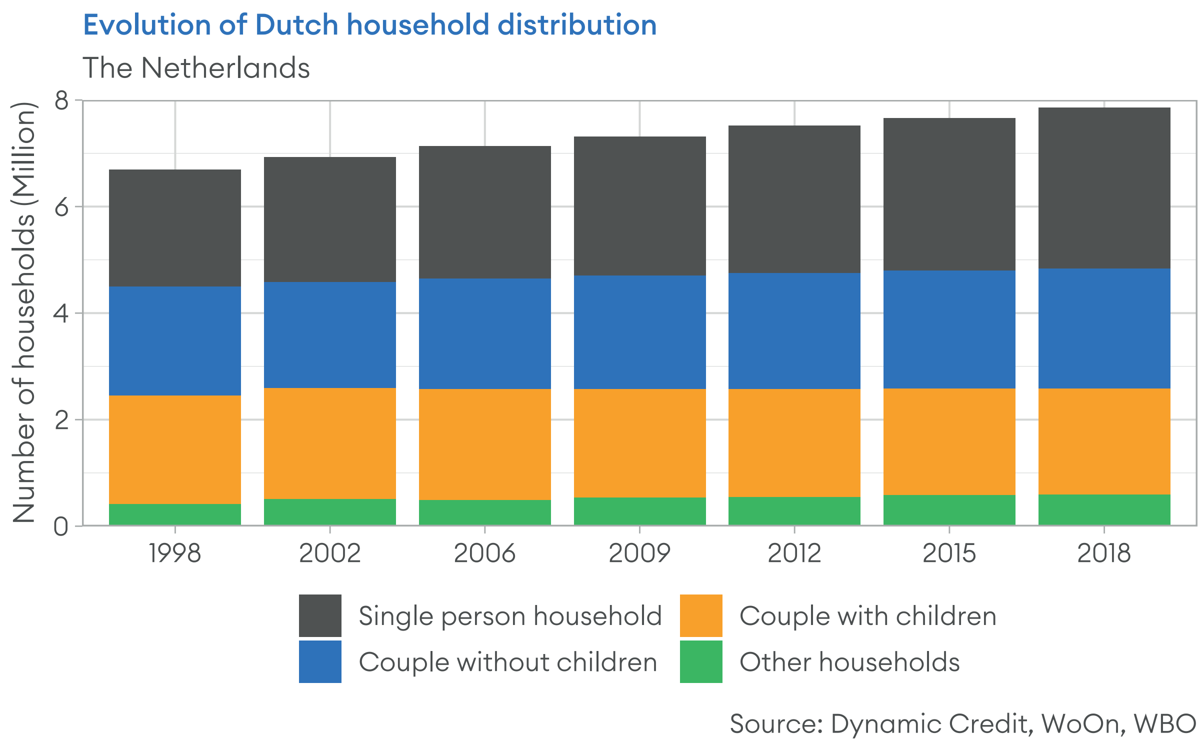


Figure 13: Evolution of Dutch household distribution.

Building new homes to solve or reduce the shortage in the housing market is effective when the supply of new construction homes increases faster than the demand does. In recent years the number of new construction homes already increased from 48,382 in 2015 to 66,322 in 2018. However, over the past few years, the time between sale and finalization of construction has been increasing in almost all Dutch provinces (Figure 14) due to a shortage in staffing at contractors, increasing costs for materials and lengthy processes for acquiring a building permit. Moreover, as mentioned in the 'Dynamic Credit Dutch Residential Mortgage Market Report 2018 Q4', the price level of new construction homes has increased, making them too expensive for the lower- and middle-income earners where shortages are the highest. This may be a cause of the decrease in sales of new construction homes and of the fact that on average it takes longer to achieve the presale threshold, the limit which needs to be reached before construction is started.

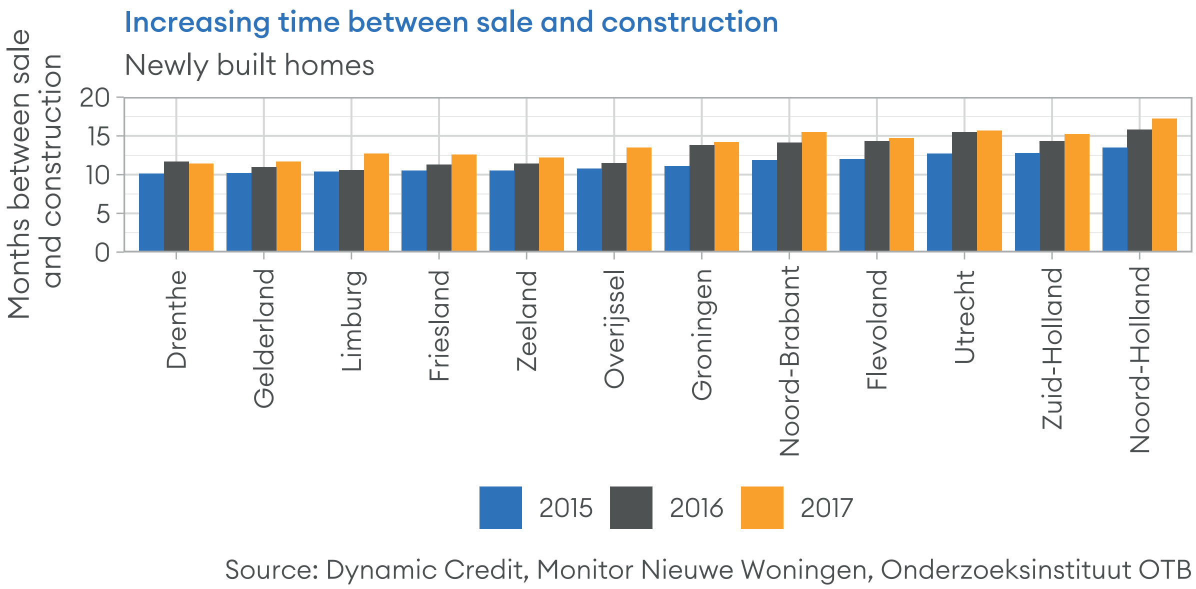


Figure 14: Newly built homes - time between sale and completed construction.

The strict income cap of around EUR 38,000 disqualifies a large share of the population from social housing. However, incomes slightly above this cap are most often also too low for a mortgage loan large enough to buy a house that meets the size and location requirements. Moreover, there are also people who would rather rent than buy or unwilling to wait until a social housing property becomes available. The buy-to-let market can increase the supply of non-regulated rental properties benefitting this segment. In the past few years, measures have been taken to make the non-regulated rental sector more attractive for investors, amongst others, awarding a higher score to recently built homes resulting in fewer houses being classified as social housing. These measures have led to an increase in non-regulated rental properties. In 2012, the non-regulated rental market was 12% of the total amount of supply of dwellings, while in 2017 this increased to almost 14%.

Recently, concerns have been raised about the influence of the increase of these investors on the affordability of housing and due to this, the Dutch minister of Internal Affairs initiated research to this effect. Minister Ollongren emphasized that it is important that the housing market remains accessible in the whole of the Netherlands. One possible measure which will be researched is the possibility of allowing for municipalities to cap the rent at initiation of the rental contract to a certain percentage of the value of the house, a so-called "emergency-button". The minister also indicates that "decent" investors should still be able to make a return to ensure that future investments are assured. The outcome of the research is expected to be presented during the summer of 2019.

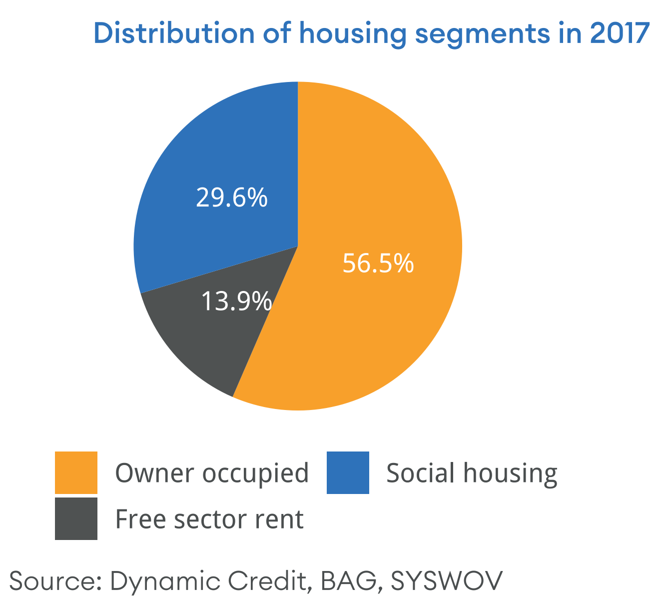


Figure 15: Housing segments.

Next to the previously mentioned measures, Dutch politicians also mentioned the following measures to resolve the shortage of housing within certain population classes:

- The allocation of social housing: these measures can include changing the income standards for the people who are able to apply for social housing or change the determination of the maximum rental price for social housing.
- Strict regulation regarding rental properties: issue legislative measures to regulate Airbnb and short stay rentals, such as making a permit obligatory and/or setting a maximum to the amount of days a property can be rented out.

The Dutch National Bank commented on the housing situation

Klaas Knot, president of De Nederlandsche Bank (DNB), commented on the the role of the free rental sector during the annual congress of real estate adviser Capital Value[1].

Klaas Knot argued that a sizeable free rent sector can add stability to the housing market[2]. He argues that a sizeable free rental sector can act as the pressure valve of the housing market. The free rental sector is essential for a healthy flow in the housing market. In the social housing sector, waiting lists are long and a large group of households wants to take the next step in their housing career. In that case, a free-sector rental home in the middle segment is obvious. This also applies to households who someday want to buy a home, but first want to save for it. The free rental sector ideally works as a pressure valve: if the tension in the social rental sector increases, or if owner-occupied housing becomes more and more expensive, some air can escape through the free rental sector.

Klaas Knot mentioned that in recent decades, the free rental sector has always been the poor neglected child in policy. The focus was too strong on policy in the social rental sector and the owner-occupied market. Fortunately, we have seen a slight increase in supply of free sector rent in recent years.

- Klaas Knot: “In recent years, the free rental sector has been the poor neglected child” -

1 www.fd.nl/economie-politiek/1289081/vrije-huursector-is-belangrijk-voor-gezonde-woningmarkt
2 www.dnb.nl/nieuws/nieuwsoverzicht-en-archief/Speeches2019/index.jsp

5. Funding Update

ABS comments 2019-Q1

Activity in the **Dutch RMBS market** was muted in 2019-Q1, as no new deals were issued. This was driven mainly by the uncertainties pertaining to the practical implementation of the new Simple, Transparent and Standardized ("STS") securitization regulations.

Towards the end of March, Obvion announced the first Dutch prime RMBS structured to comply with the new regulation and to obtain the STS label. **Storm 2019-1 BV** is secured by a provisional pool of EUR 1.1 billion seasoned prime mortgages, with the average indexed CLTV at 65.2%. Interest only loans account for 59.7% of the portfolio. The issuer intends to offer only the Class A notes and retain the remaining 4 tranches. Moreover, the deal features a fully revolving structure up to the first optional redemption date falling in March 2024. **Delft 2019 BV** was announced on the last day of March. It is a Dutch Non-conforming RMBS – the second one from Morgan Stanley's Delft platform, which securitizes legacy mortgage portfolios purchased by Morgan Stanley Principal Finance. The pre-crisis mortgage pool, originated by ELQ Hypotheken and Quion, has an average CLTV of 84.5%, consisting of 99.1% Interest-only loans. The transaction is tentatively sized at EUR 141.4 million and is set to offer rated Classes A to G to investors.

Covered bonds issuance by Dutch banks in the first quarter of 2019 picked up compared to the previous quarter and amounted to EUR 7.2 billion, including EUR 330million of private deals. The two biggest deals were done by ING Bank and Rabobank – EUR 2 billion each.

As can be seen below, spreads for covered bonds and RMBS decreased during 2019-Q1.

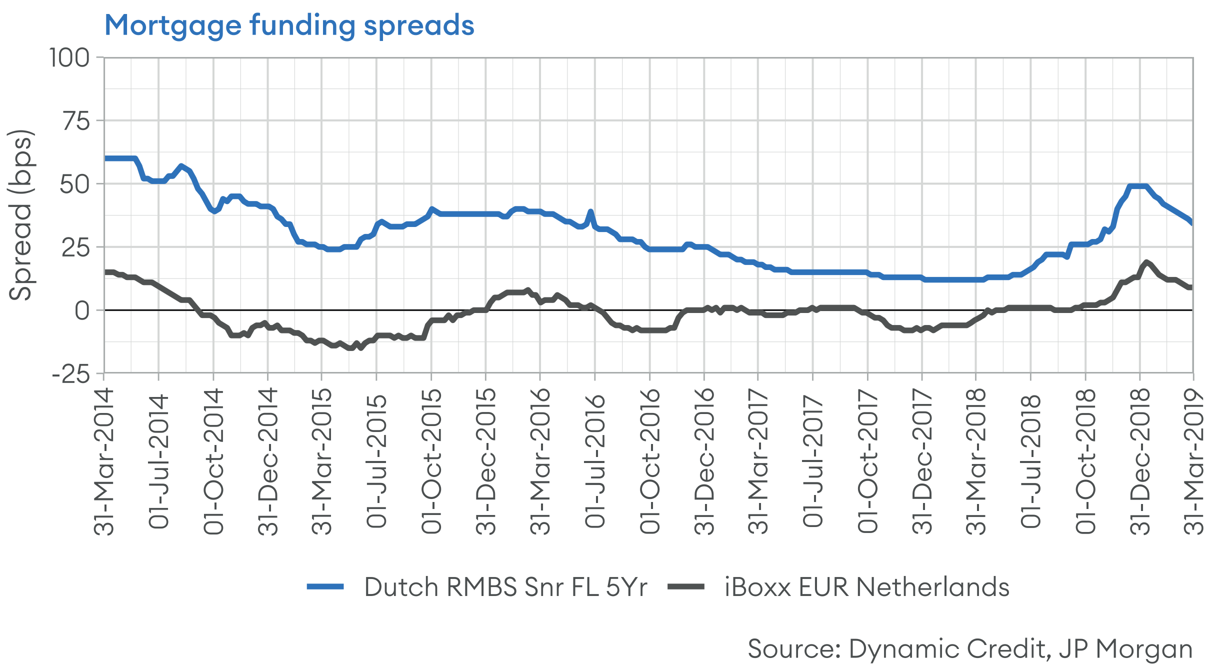


Figure 16: RMBS spread refers to indicative mid spread (DM) for representative generic RMBS bonds. iBoxx EUR Netherlands spread refers to spread versus mid swap rates. The data is as of 2019-Q1.

Developments in capital requirements for insurers

The effective freeze of activity in Dutch RMBS primary market in 2019-Q1 and consequent robust issuance of covered bonds (see previous page) seem both to be the results of the new Securitization Regulation coming to life the 1st of January, 2019. The regulation, introduced by the European Commission, includes the **STS securitization framework.**

- Uncertainties regarding practical implementation of "STS" securitization regulations as no Dutch RMBS deals were issued during 2019-Q1 -

The intention of the new regulation is to clarify due diligence obligations between ABS originators, underwriters, and investors. While compliance with the STS framework is not compulsory, both issuers and investors clearly have an incentive to structure and invest in STS-compliant securitizations. Uncertainties regarding the technical requirements for achieving the STS label upon introduction caused a delay in new issuance. As a result, the Dutch banks turned to covered bonds in 2019-Q1 to meet their financing needs.

However, as the first STS-compliant Dutch RMBS deal by Obvion was announced and paved the way, it is reasonable to expect the Dutch primary market issuance to pick up in the coming months. This should be met with a healthy demand, as under the new STS regime, the Solvency II capital requirement across the rating spectrum is lowered for STS compliant deals. The insurance investors will be required to hold significantly less capital coverage compared to non-STS compliant deals (moreover, also relative to pre-STS deals). The less capital the insurance companies need to hold for an investment, the higher their return on capital. This will make investing in Asset Backed Securities (including Dutch RMBS) more attractive and bring the treatment of securitizations more in line with other risk assets, such as covered bonds. In the table below, we display the improvement of Dutch AAA RMBS securitizations with a 2- and 5-year WAL.

				STS		Pre-STS	
Category	**Rating**	**Spread**	**WAL**	**Capital**	**RoC**	**Capital**	**RoC**
Dutch RMBS	AAA	26	2	2.0%	13.0%	4.2%	6.2%
Dutch RMBS	AAA	33	5	5.0%	6.6%	10.5%	3.1%

Table 5: Comparing insurance companies' projected return on capital for holding Dutch AAA RMBS notes under solvency II. Source: JP Morgan

Return on Capital ("RoC") is calculated as spread divided by capital. The RoC for the AAA with a 5-year WAL is: 0.26% / 2.0% = 13.0%.

6. News

ECB

On 7 March 2019, the Governing Council of the European Central Bank met. The meeting was held at a time with increasing concerns regarding growth in the euro zone as data from January 2019 had showed that the economy in the euro zone had increased at the slowest pace in 4 years during the last quarter of 2018.

The main takeaways from the announcements on 7 March 2019 were:

- The Governing Council decided to keep the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.40% respectively;
- The rates are expected to remain at the current level at least through the end of 2019. Previously, this level was expected at least through the summer of 2019. The decision thus indicates that rates will remain low for longer than previously expected;

- Rates will stay low "at least through 2019" -

- The GDP growth forecast for 2019 was sharply reduced from 1.7% to 1.1% with the 2020 number being lowered from 1.7% to 1.6%;
- The inflation estimate for 2019 was lowered from 1.8% to 1.2% with the 2020 estimate being lowered from 1.6% to 1.5%;
- A new series of quarterly targeted longer-term refinancing operations (TLTRO-III) was launched. The series will start in September and run until March 2021, each with a maturity of two years, to support bank lending in the euro zone. As indicated by its name, the TLTRO-III is the third stimulus of its kind from the ECB; and

- ECB to launch new round of cheap bank loans -

- Draghi mentioned that there had been a "sizeable moderation in economic expansion that will extend into the current year". Noteworthy developments include Italy (entered a technical recession at the end of 2018), Brexit talks that have not been finalized, and a potential economic slowdown in China which could hurt exports from the euro zone.

- GDP growth forecasts were lowered significantly -

Blackstone invests in rental properties in Amsterdam and Rotterdam[1]

The Dutch Financial Times "FD" reported that Blackstone had invested more than €200 million in rental properties. FD reported that it was noteworthy that a large international investor, such as Blackstone, built up their portfolio in the local market by buying from multiple private investors as opposed to via a large portfolio transaction with a housing association or an institutional counterparty. Blackstone made the purchases through a special vehicle which contains money from institutional parties, including pension companies.

Blackstone stated that the investment was made with a very long-term perspective and that they are mainly looking for stable tenants and high occupancy rates in their Dutch housing investments. They had specifically chosen Amsterdam and Rotterdam as it was argued that such locations would provide better protection for their investors' capital in the long run.

The Dutch company Haavens will manage the properties for Blackstone.

Swedish investor made largest ever transaction[2]

The Swedish real estate investor Heimstaden has bought 9544 Dutch rental properties from the British investor Round Hill Capital for € 1.4 billion. Round Hill Capital had previously been one of the largest foreign investors in the Dutch rental market after the crisis. They are thus expected to have profited massively from this investment in the past few years due to large price increases.

The transaction was the largest ever in the Netherlands in terms of the number of homes. Approximately 75% of the portfolio consists of social rental properties.

investment manager Christian Fladeland from Heimstaden said in the report that The Netherlands had been an obvious market for Heimstaden for quite some time. He said that the portfolio gives us the unique opportunity to acquire a major position in a very favorable housing market with a strong macroeconomic basis and a considerable shortage of apartments.

ABN AMRO sold 75% stake in Stater to Infosys[3]

ABN announced in a press release on 28 March 2019 that they had sold a majority stake in their administrative mortgage service provider, Stater, to Indian IT services firm Infosys for €127.5 million.

Christian Bornfeld, member of the executive board of ABN AMRO, said:
"While mortgages are a key product for ABN AMRO, providing administrative mortgage services is not a core activity. That's why we are very pleased with Infosys as Stater's new majority shareholder. ABN AMRO will keep a strategic interest of 25% and will continue to be an important client to Stater"

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1 www.fd.nl/ondernemen/1295556/woningdeal-blackstone-in-amsterdam-en-rotterdam-definitief

2 www.fd.nl/ondernemen/1294888/zweedse-partij-koopt-9544-nederlandse-huurwoningen-van-round-hill-voor-1-4-mrd

3 www.abnamro.com/en/newsroom/press-releases/2019/abn-amro-sells-majority-stake-in-stater-to-infosys.html

WoON 2018[1]

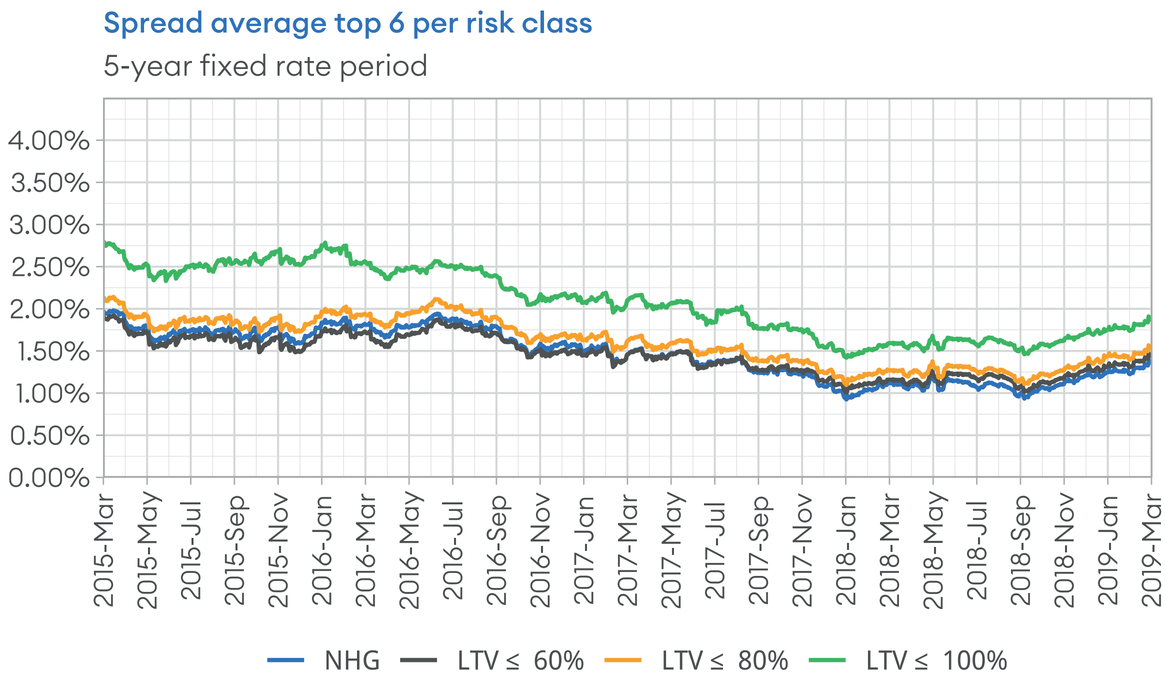
WoON, a big congress which is held every 3 years, was held on 4 April 2019 in The Hague. The congress included presentation by Minister Ollongren[2], Kadaster[3], and professors, amongst others. Furthermore, ABF Research, Vesteda, Amvest, and Greystar presented research regarding middle-rent[4]. CBS also published an article[5] with some of the most interesting take-aways. The main report, 'Space for Living' from WoOn 2018 was produced by ABF Research[6].

The main take-aways from WoOn 2018 were:

- Rental prices increased by 4% between 2018 and 2015, while the net income of tenants increased by 5%. Resulting in a small decrease of 0.2 percentage points in the part of income used on rent. The net housing ratio decrease was 0.7 percentage points for home owners.
- Young renters and owners (starters) have a higher housing ratio.
- The least prosperous households spend the highest proportion of their income on housing.
- The number of households increased between 2012 and 2018 by approximately EUR 345,000. This was mainly due to an increase in single households and elderly people.
- 30% of middle class tenants live in free rental houses, meaning a majority still lives in the regulated social housing sector.
- The demand for rental apartments is stable as current owners of properties are not likely to move to a rental apartment but starters demanding rental apartments increased.
- The increased focus on sustainability lead to an increase in green labels between 2015 and 2018.

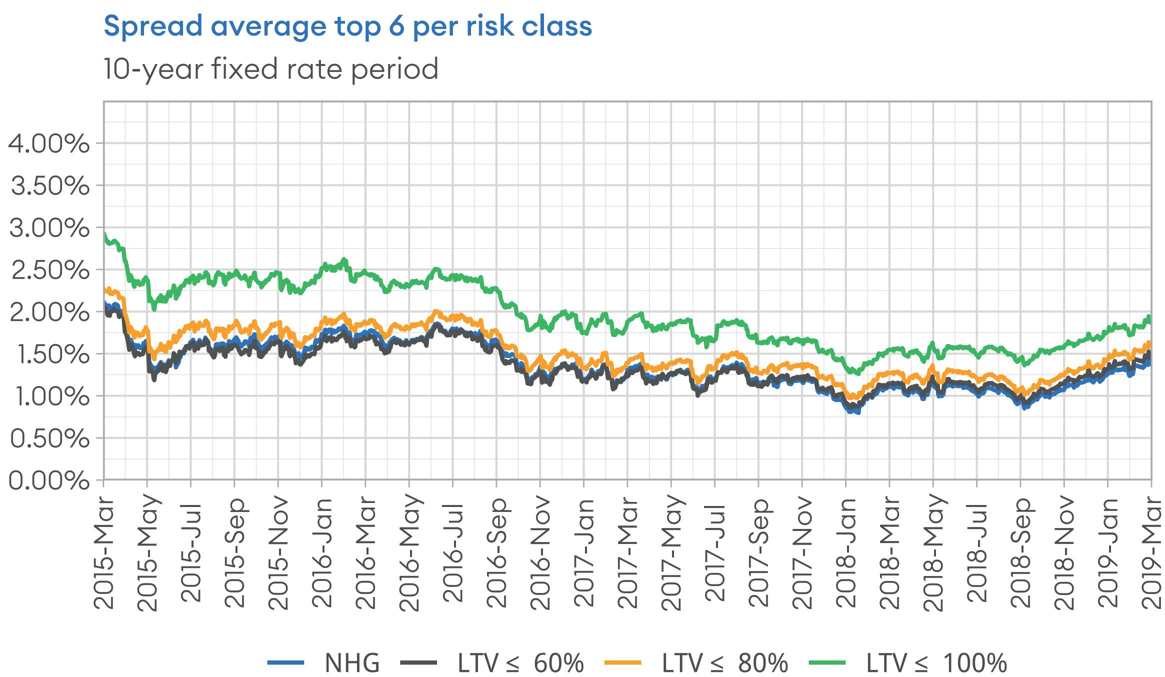
1 Woon Congress 2019 Presentations
2 Speech by Minister Ollongren at the WoOn congress
3 Kadaster presentation at WoOn 2019
4 Opportunities for Middle rent presentation
5 www.cbs.nl/nl-nl/nieuws/2019/14/woonlasten-ten-opzichte-inkomen-niet-verder-gestegen
6 WoOn main presentation - Space for living

Appendix



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.



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.

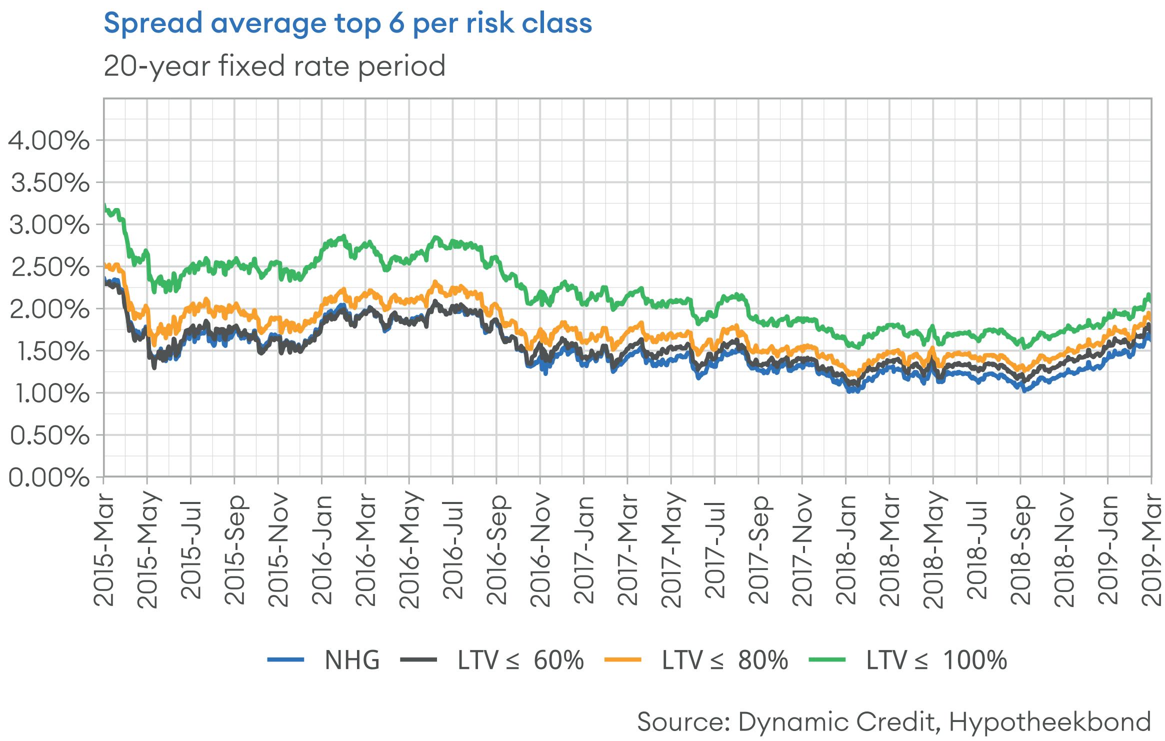


Figure A3: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 20-year fixed rate period for four risk classes.

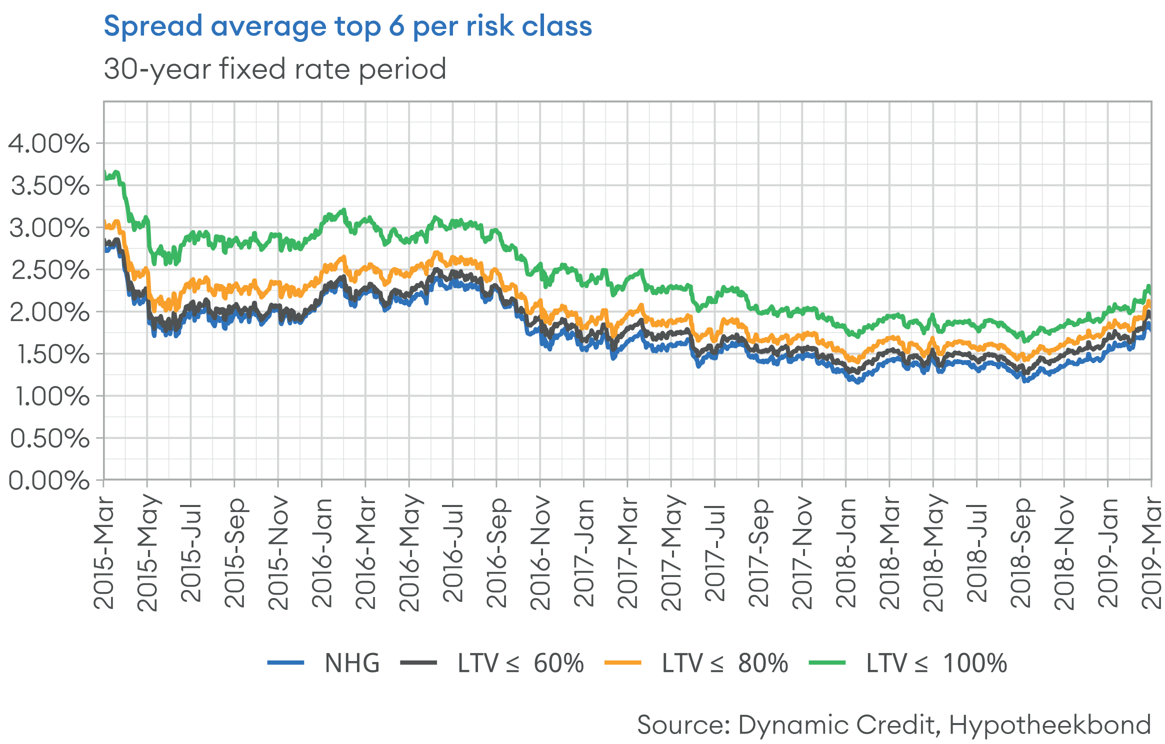
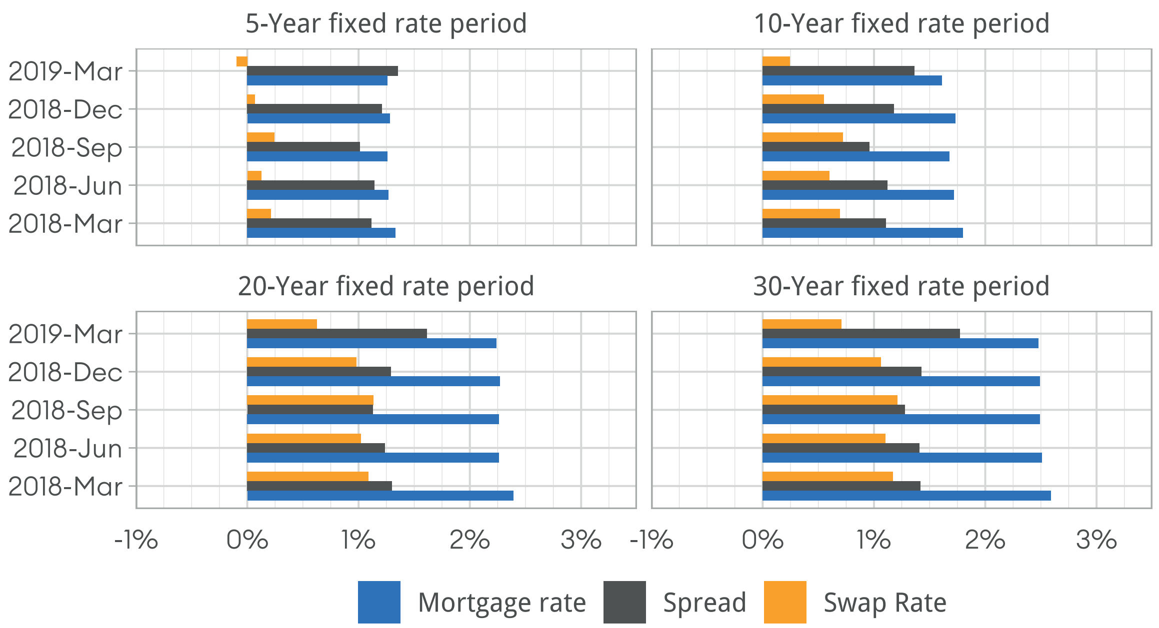


Figure A4: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 30-year fixed rate period for four risk classes.

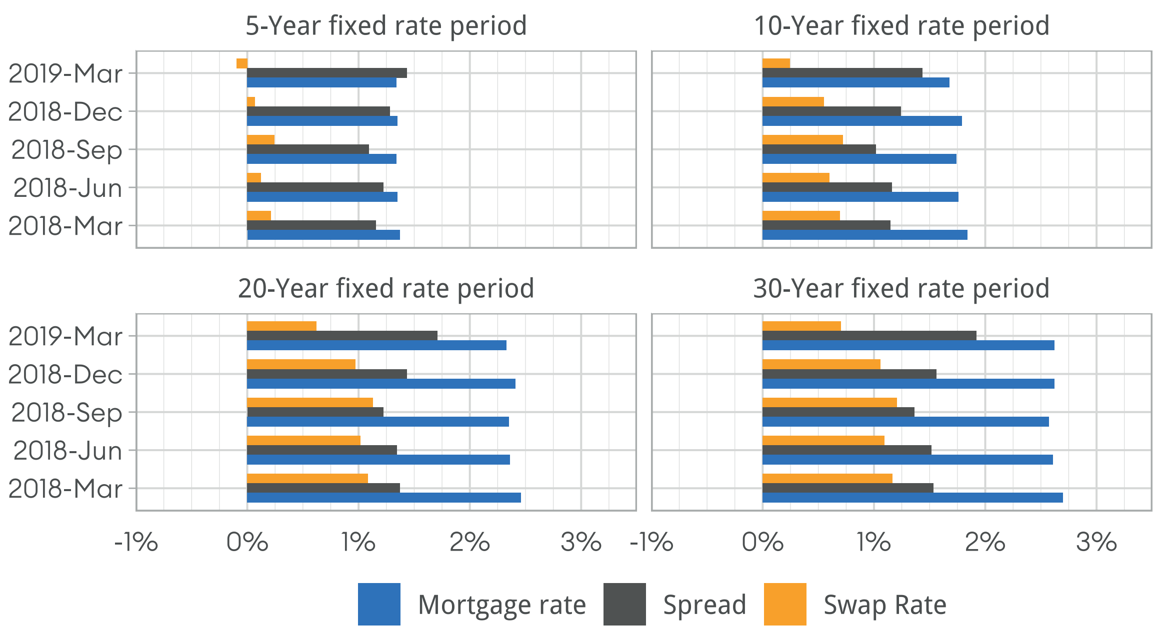
Mortgage rate decomposition for NHG mortgage loans



Source: Dynamic Credit, Hypotheekbond

Figure A5: Mortgage rate decomposition of the average top-6 price leaders (excluding action rates) for NHG mortgage loans with different fixed rate periods. End of month data has been used.

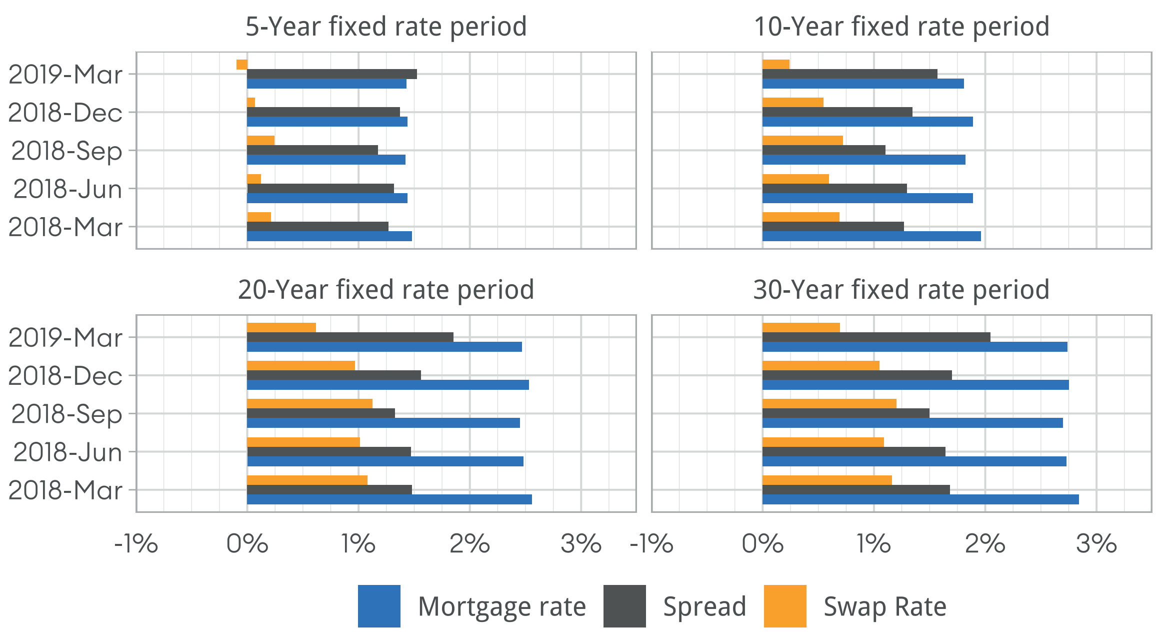
Mortgage rate decomposition for 60% LTV mortgage loans



Source: Dynamic Credit, Hypotheekbond

Figure A6: Mortgage rate decomposition of the average top-6 price leaders (excluding action rates) for 60% LTV mortgage loans with different fixed rate periods. End of month data has been used.

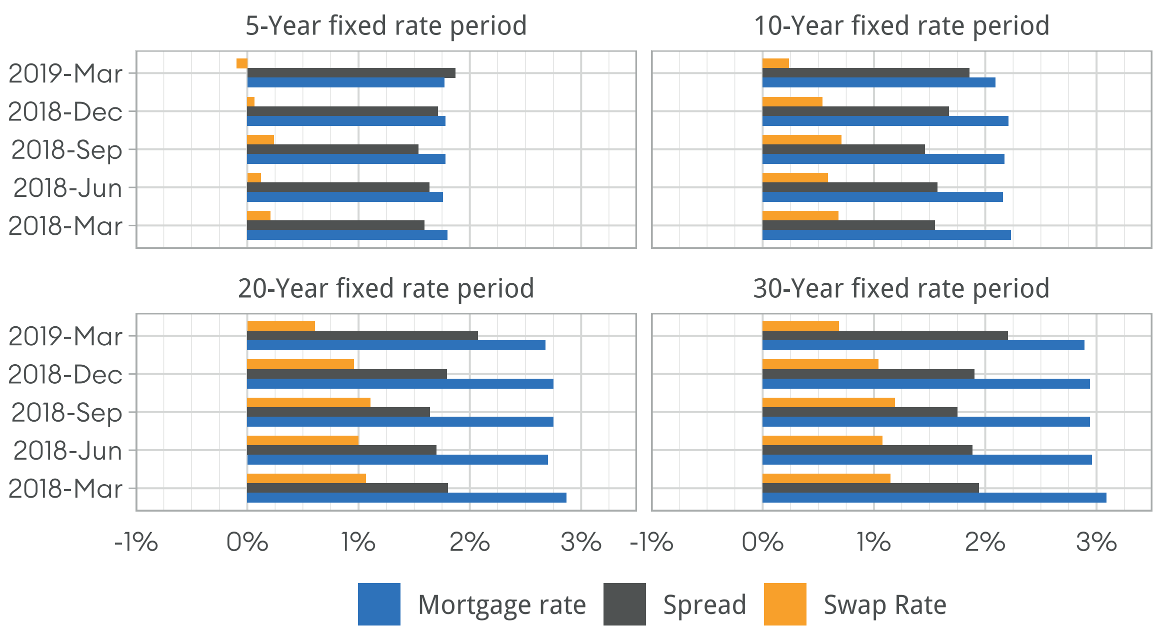
Mortgage rate decomposition for 80% LTV mortgage loans



Source: Dynamic Credit, Hypotheekbond

Figure A7: Mortgage rate decomposition of the average top-6 price leaders (excluding action rates) for 80% LTV mortgage loans with different fixed rate periods. End of month data has been used.

Mortgage rate decomposition for 100% LTV mortgage loans



Source: Dynamic Credit, Hypotheekbond

Figure A8: Mortgage rate decomposition of the average top-6 price leaders (excluding action rates) for 100% LTV mortgage loans with different fixed rate periods. End of month data has been used.

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