DYNAMIC CREDIT

January 2021

Dutch Housing Market Update 2020 Q4

Contents

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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.

"Much has been written about the potential COVID-19 impact on the housing market, but the most notable observation looking back at 2020 is that there has hardly been an impact: house prices have continued to increase, lack of supply of houses has persisted and credit performance has been very strong. One topic that we investigate in this edition is migration between the large cities and the rest of the country and changes in immigration from abroad"

Jasper Koops,
Head of Portfolio Management

1. Executive Summary

Consumer confidence: In Q4, consumer confidence rose to a value of 103 in December. With a 3-point difference, consumer confidence has not yet returned to its pre-COVID-19 level. Approximately 45% of the respondents think that now is an unfavorable time to move, which is higher than last quarter.

Supply and demand developments: The decrease in supply and the increase in demand caused the Dutch housing market to tighten further.

Migration dynamics and COVID-19: A net outflow from the largest cities is not visible, despite an expected move from big cities towards municipalities as COVID-19 would increase the desire for more space. A sharp decrease in immigration in the largest cities has been observed.

House prices: The Dutch House Price Index increased 2.0% over 2020-Q4 and 8.8% YoY. Properties transferred increased by 7.4% QoQ and 11.9% YoY.

Interest rate developments: Interest rates fell on average by 9 basis points in the fourth quarter. The same drop was observed for buy-to-let interest rates.

Spreads: For both owner-occupied and buy-to-let mortgages spreads decreased as the decrease in mortgage rates was larger than the decrease in swap rates.

Payment holidays: Repayment can take place over the remaining maturity of the loan without becoming ineligible for interest rate deductibility. This measure has been extended to payment holidays granted until July 2021. The number of payment holidays on mortgage loans increased by 3,000 in Q4 2020 to a total of 25,000.

NHG guarantees: The NHG market share decreased compared to last year. As of January 2021, the NHG limit increased again from EUR 310,000 to EUR 325,000. The number of loss declarations decreased with more than 75% in 2020-Q3 compared to 2019-Q3.

Property transfer tax: Transfer taxes have been amended on January 1st: exemption for first-time buyers up to 35, 2% for subsequent time buyers and to 8% for other buyers. As of April, a further requirement for exemption is a maximum purchase price of EUR 400,000.

RMBS activity: Activity in the Dutch RMBS market has not recovered from the COVID-19 outbreak in the fourth quarter. Just as in the third quarter, only one deal was priced. In addition, two buy-to-let deals were distributed.

Government measures: The government introduced a fourth package of government support measures. Instead of the planned downscaling, the fourth package requires an additional expenditure of EUR 7.6 billion.

2. Dutch Housing Market Update

Consumer confidence

Vereniging Eigen Huis ("VEH") measures consumer confidence in the housing market monthly. They base this metric 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. The dip in consumer confidence of June 2020 was followed by six months of consecutive increases. In the fourth quarter, the indicator rose to a value higher than 100 and ended at a value of 103 in December. With a 3-point difference, consumer confidence has not yet returned to its pre-COVID-19 level. It is noteworthy that the second wave and the corresponding lockdown measures have not had a downward effect on the indicator so far.

Consumer confidence increased in the fourth quarter to 103, but is still below pre-COVID-19 level

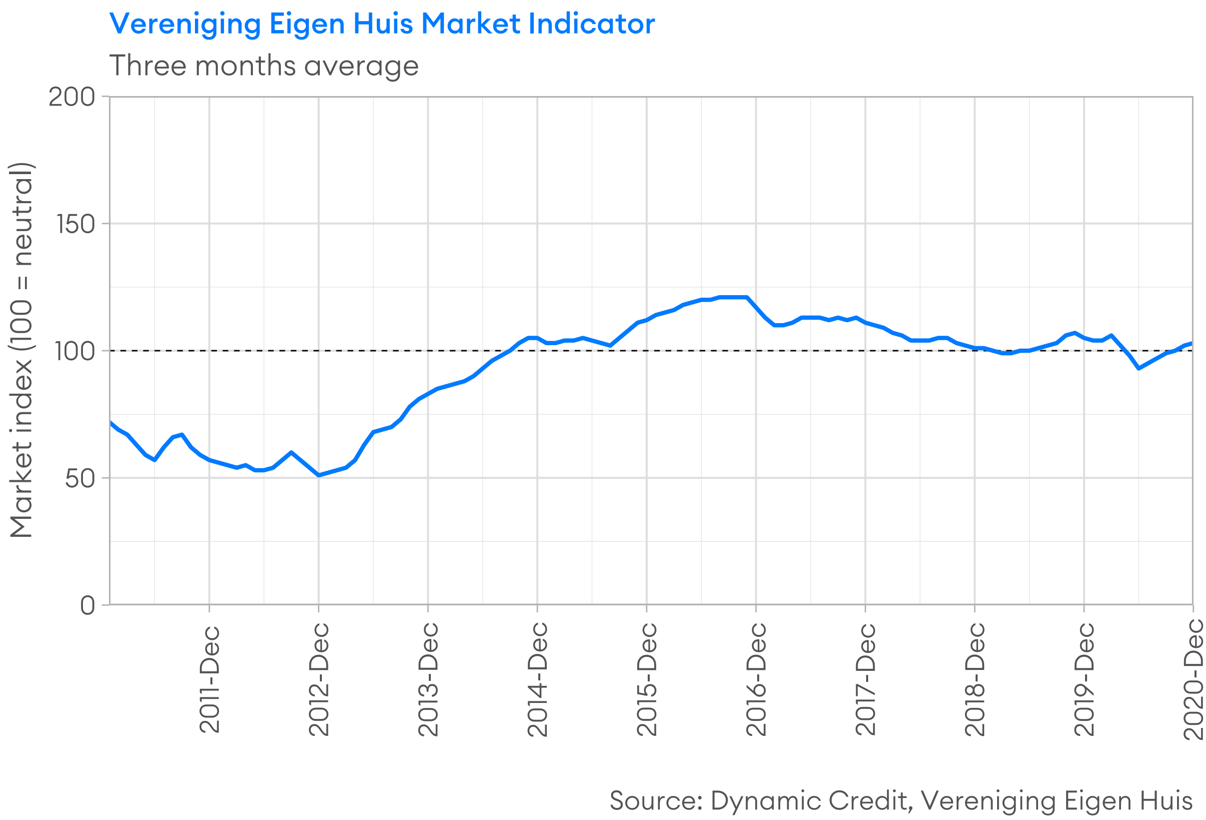


Figure 1: Vereniging Eigen Huis Market Indicator. As of December 2020.

The most recent poll shows that few respondents foresee an increase in mortgage rates or a fall in house prices, in contrast to the responses shortly after the outbreak of COVID-19 in the Netherlands in March 2020. For the same reasons, they are concerned about the availability and affordability of owner-occupied homes. Approximately 45% of the respondents think that now is an unfavorable time to move. In September 2020 this was only 37%.

Supply and demand developments

The Dutch Association of Real Estate Agents ("NVM") uses an indicator they refer to as the "Krapte Indicator" (which translates into "Tightness Indicator") to capture the supply and demand dynamics of the Dutch housing market. This indicator divides the supply of houses by the number of transactions to indicate the "tightness" of the housing market. NVM classifies the housing market as a seller's market when the value of the indicator is lower than 5. In the most recent market update of the fourth quarter the value of the indicator is 1.9[1], compared to a value of 2.8[2] in the same quarter a year earlier. This indicates that the housing market has tightened even more in the past year. As the outcome of this indicator does not show if this is due to a decrease in supply and/or an increase in transactions, or demand, we analyze the supply and demand volume separately (Figure 2).

The decrease in supply and the increase in demand have tightened the market even further

Supply

Supply is indicated by the percentage of housing properties for sale compared to the total owner-occupied housing stock. Last year was the eighth consecutive year that the supply decreased. Back in 2012, the supply increased for the last time to a value of 5.5%. In the past years, the choice for potential homebuyers in the Netherlands decreased by 80% to only 1.3% of the total housing market in 2020. In the province Noord-Holland the freedom of choice has decreased even further since 2012 by almost 83%. The drop in supply over the past eight years was greatest in Flevoland (-85%), Friesland and Gelderland (both -84%), and lowest in Zeeland (-66%) and Limburg (-71%). In the past year, the supply in the Netherlands has further decreased by more than 19%. Whereas the decline was initially strongest in the Randstad, the sharpest decline can now be seen in the northeast of the Netherlands. There, the decrease ranges from 26% to 32%, while in the Randstad provinces this is only 11% to 13%.

Demand

Demand is indicated by the percentage of owner-occupied properties sold within a particular year compared to the total owner-occupied housing stock. After two years of declining sales volumes, the number of sales increased in 2020 to 5.2% of the total housing stock. In 2013, when the house price index reached its lowest point in recent years, the percentage of sales was only 2.6%. At the sales volumes in 2020, an owner-occupied property is sold on average every 19-20 years compared to every 38-39 years in 2013. The demand in 2020 was strongest in Noord-Holland (5.6%) and Flevoland (5.8%), while the relative number of transactions in Limburg (4.6%) and Friesland (4.7%) was among the lowest.

Altogether, both the decrease in supply and the increase in demand cause the Dutch housing market to tighten further and make it even more of a sellers' market than it already was.

1 NVM - Marktinformatie koopwoningen
2 NVM - Analyse Woningmarkt 4th quarter 2019

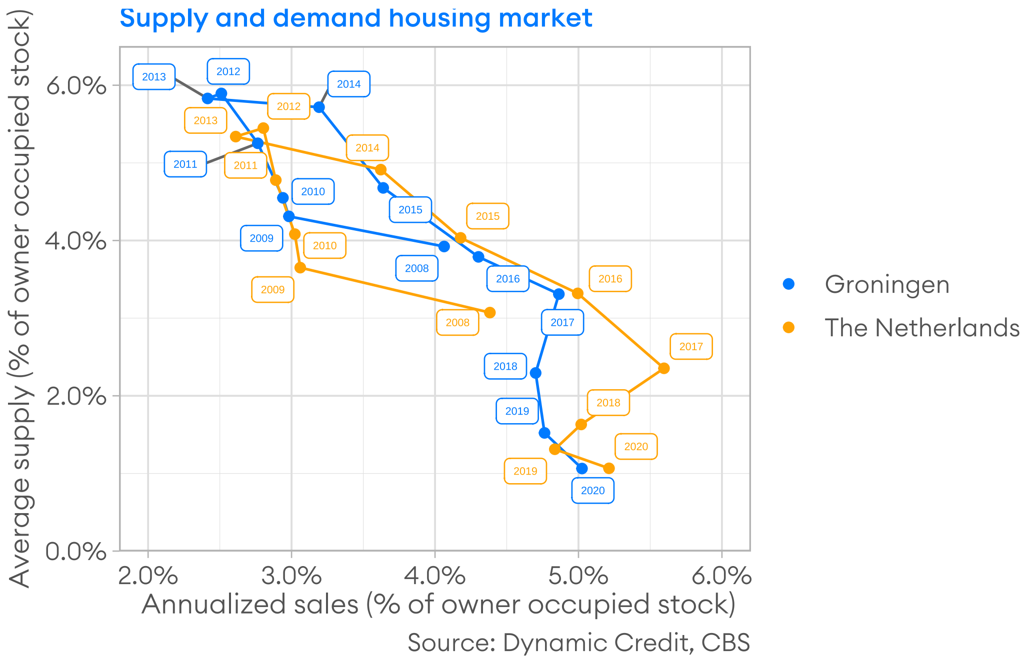


Figure 2: Housing market supply and demand in the Netherlands and Groningen over time.

Migration Dynamics and COVID-19

There has been much speculation about the consequences of COVID-19 on migration from the big cities to the countryside, as a large part of the labor force works from home more often. There is anecdotal evidence that many workers do not see themselves returning to the office on a fulltime basis when COVID-19 measures lift. As not every worker has (space for) a proper home office, and one could argue that a garden is valued higher, a logical consequence could be that more people will choose to move out of the largest cities to smaller municipalities, as dwellings there are generally more affordable and spacious.

Since the start of the COVID-19 pandemic, actuaries have estimated the number of excess deaths to indicate the impact of COVID-19 by calculating the number of expected deaths based on mortality tables and the impact of an aging population, taking historical trends into account. We have performed a similar analysis by calculating the excess or shortages of migration from and to the five largest municipalities and abroad, taking trends observed during the past years into account.

Net Outflow

In the next graph we show the monthly net outflow of people from the five largest municipalities, a good proxy for the five largest cities[1], to the rest of the country. We observe that this net outflow has fluctuated around the zero mark until 2015, after which we see a clear increasing trend. This means more people have left the largest cities for other municipalities in the country rather than the other way around. Note that if someone relocates from one of the largest cities to another of the largest municipalities it has no effect on this number.

1 Amsterdam, Eindhoven, the Hague, Rotterdam and Utrecht

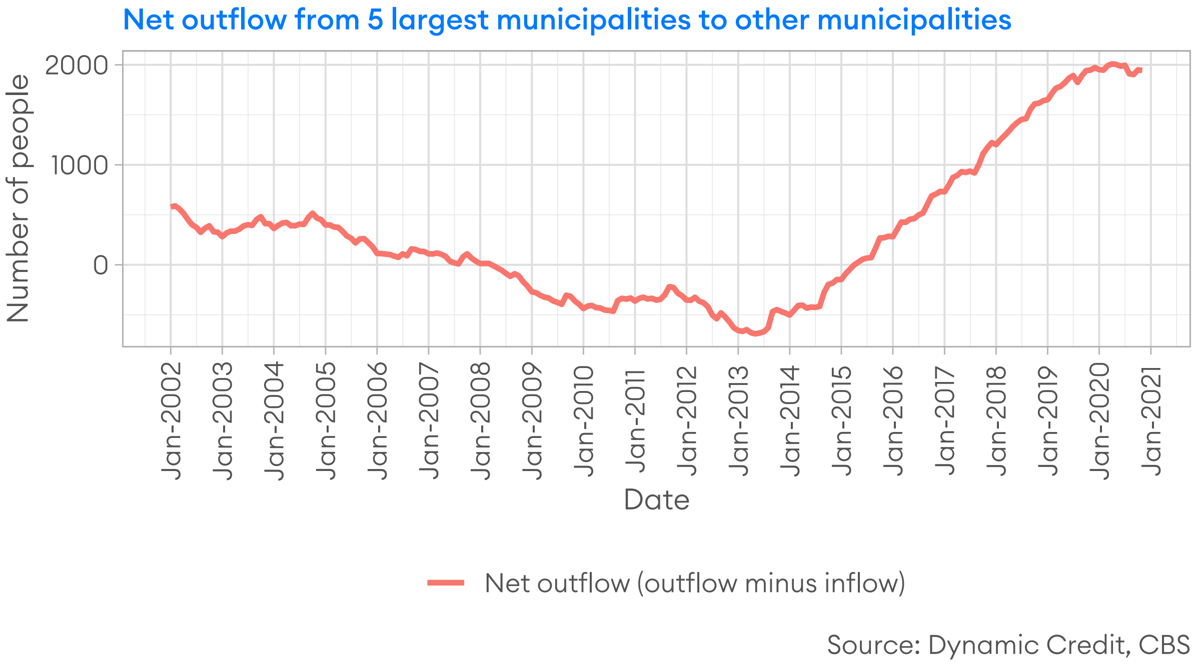


Figure 3: Net outflow from the 5 largest municipalities to different municipalities

After the start of the COVID-19 pandemic, this increasing trend seems to have flattened out around 2,000 people a month. This does not corroborate the claim that more people would move away from large cities. On the contrary, the net outflow from the five largest cities is around 8% lower than expected based on our model using historical trends. This deviation is mainly caused by an increased inflow from other municipalities to the five largest cities. The outflow to other municipalities is in line with historical trends. There could be a delay in the effect of the COVID-19 pandemic on this number, as buying houses is not done overnight[1].

Immigration and Emigration

Another driver of the population size is immigration and emigration. In Figure 4 we show the delta in percentage between the expected immigration versus actuals. We observe the largest drop in immigration, between 50-60%, in April and May versus expectations. For 2020 in total, immigration is 27.4% lower than expected based on historical trends. This is mainly driven by a sharp reduction of new expat-inflow and fewer international students arriving for studies in the summer. Emigration has remained remarkably stable, being only 3.9% lower than expected.

1 Rabobank - Corona of niet, stedelingen kopen vooral huizen in de stad

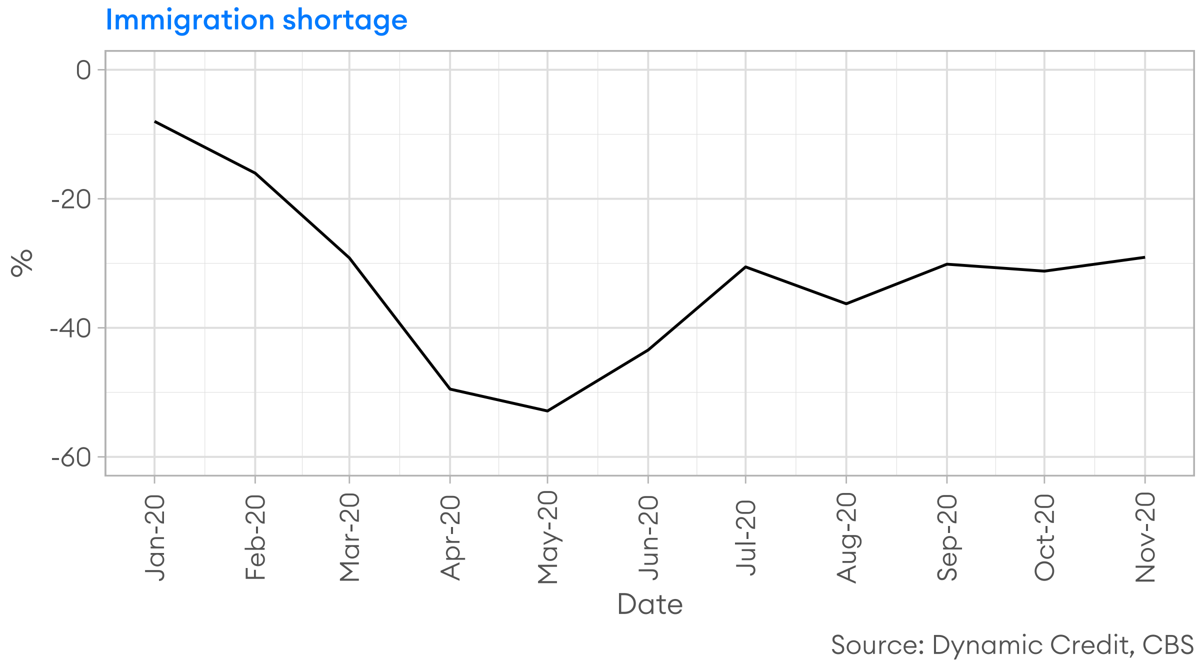


Figure 4: Immigration shortages

Overall, we see net outflow from the largest cities but more than expected inflow from other municipalities, partially filling up the gap left by the sharp decrease of immigration, potentially due to lower competition with expats on the housing market for Dutch residents wanting to move to a large city. This means that so far, an outflow from the largest cities is not visible. Meanwhile, immigration has reduced sharply while emigration has remained remarkably constant.

House prices and property sales

The Dutch House Price Index ("HPI") increased 2.0% over 2020-Q4 and 8.8% YoY. This compares to house price increases of 1.4% QoQ and 6.2% YoY in 2019-Q4. Close to 67,000 properties were transferred during 2020-Q4, a 7.4% QoQ increase and an 11.9% YoY increase (see Figure 5 and Table 1 on the following pages for more details regarding regional differences).

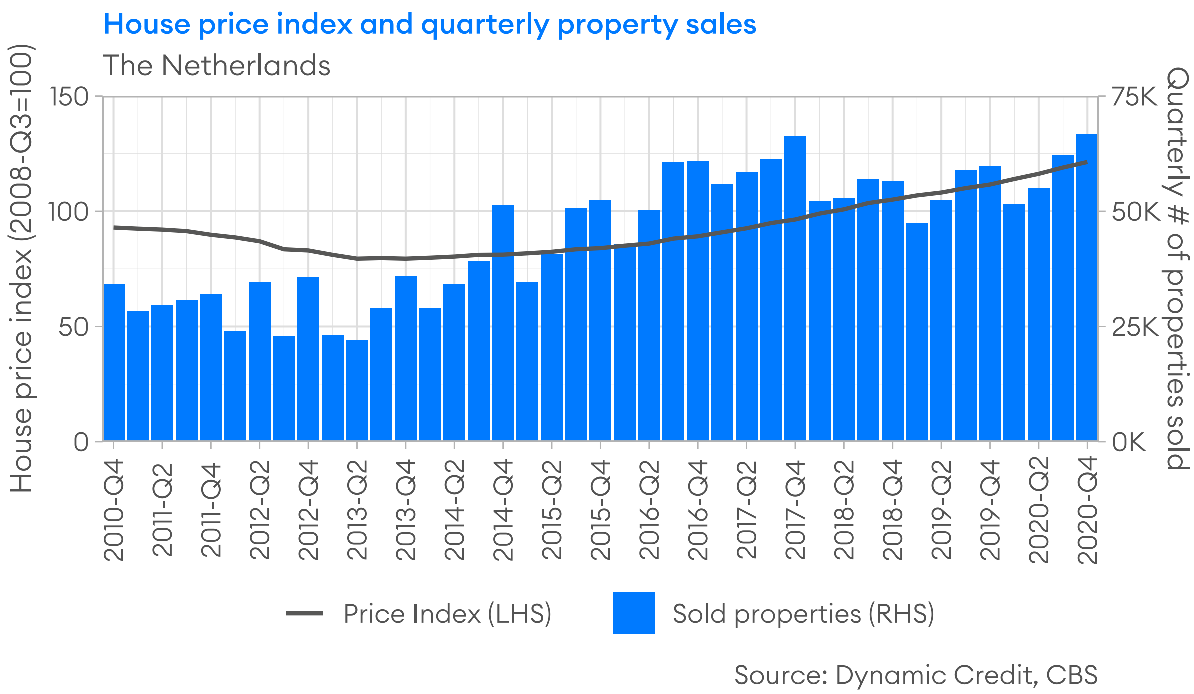


Figure 5: House Price Index of the Netherlands (2008-Q3=100) and monthly property sales. HPI until December 2020.

Transaction prices

Supplementary to the CBS data, the Dutch real estate association ("NVM") has access to real-time data on transaction prices. It should be noted, however, that the average transaction prices may not be representative for price developments of the entire housing stock.

The NVM reports an 11.6% YoY increase in the average transaction price during 2020-Q4. This is roughly equal to the figure reported in the previous quarter. On average, properties have been sold within 29 days, 7 days shorter than a year ago. Supply has not been this tight in 20 years' time, with slightly less than 27 thousand properties for sale.

Area	Type	HPI (2008-Q3=100)	CPI adjusted HPI (2008-Q3=100)	YoY Price %	QoQ Price %	# Sold in quarter	YoY Sold %	QoQ Sold %
The Netherlands	Country	146.4	121.4	8.8	2.0	66,803	11.9	7.4
Friesland	Province	142.1	113.1	9.1	2.3	2559	12.1	11.5
Groningen	Province	145.0	119.6	10.4	2.2	2295	15.8	12.7
Zeeland	Province	134.6	117.6	10.8	3.4	1965	21.5	18.2
Drenthe	Province	140.1	114.2	10.3	2.9	2123	11.0	11.2
Overijssel	Province	141.2	116.9	9.7	2.1	4333	11.8	5.1
Flevoland	Province	157.9	132.2	12.1	3.6	1828	5.8	5.8
Zuid-Holland	Province	150.5	127.1	8.6	2.0	13471	9.2	6.3
Gelderland	Province	142.7	113.9	9.5	2.6	7559	7.1	7.1
Utrecht	Province	141.2	116.9	9.7	2.1	4333	11.8	5.1
Limburg	Province	139.3	115.6	8.3	1.7	4223	14.4	5.2
Noord-Holland	Province	154.7	133.0	7.2	1.3	10980	14.7	8.0
Noord-Brabant	Province	139.8	112.2	8.8	2.1	10416	15.2	7.8
Utrecht	Municipality	168.1	153.5	10.2	1.4	1395	8.1	1.4
Amsterdam	Municipality	161.8	154.1	3.5	-1.2	3098	16.7	8.1
's-Gravenhage	Municipality	162.1	140.0	7.7	2.4	2296	28.6	20.8
Rotterdam	Municipality	168.8	153.9	10.7	2.6	2134	16.2	9.8

Table 1: House prices and number of property sales changes in Dutch provinces and major municipalities 2020-Q4 Source: CBS.

Expected housing prices developments

A further increase in housing prices of 5.5% in 2021 is expected by Rabobank[1], due to housing shortages and more lenient borrowing norms. Over 50% of this increase can be attributed to an overflow of transactions that were initiated in 2020. At the same time, transaction volumes are expected to decrease with about 7.0% to 220.000 transactions in 2021 and 210.000 transactions in 2022.

ING expects a further decrease in the number of newly constructed properties in 2021[2]. The number of newly constructed properties is expected to decrease from about 69.000 in 2020 to 65.000 in 2021. The main reason for this is the decrease in issued construction permits in 2019 as a result of the nitrogen emission problems that were brought to light. While the number of issued construction permits has rebounded in 2020, it is not expected that this will immediately lead to an increase in the construction numbers due to an average lag of approximately 1.5 years between issuance of a permit and the completion of a new property.

1 Rabobank Verdere huizenprijsstijgingen verwacht door krapte, beleggers en ruimere leennormen
2 Banken.nl - ING verwacht daling aantal nieuwbouwwoningen in 2021

Origination and offer volumes

As of January 1st, 2021, home buyers up to the age of 35 are exempt from property transfer tax once. At the same time, the tax rate for non-primary-residence buyers, such as investors, has been raised to 8%. Following the announcement of this measure on 15 September (Prinsjesdag 2020), no divergence was witnessed between offer volumes of applicants above and below the age of 35 in the last months of 2020 (see Figure 6). However, in November and December a drop in transactions of apartments of buyers up to the age of 35 was visible, largely due to those buyers postponing the transfer date to 2021 to benefit from the transfer tax exemption. Furthermore, property transaction data shows a steep increase in the number of transferred properties towards the end of the year, with the month of December seeing a 109% increase compared to the same month a year earlier. This increase is mainly driven by BTL buyers above 35 frontloading their apartment purchase to 2020, to prevent paying the increased transfer tax (Figure 7).

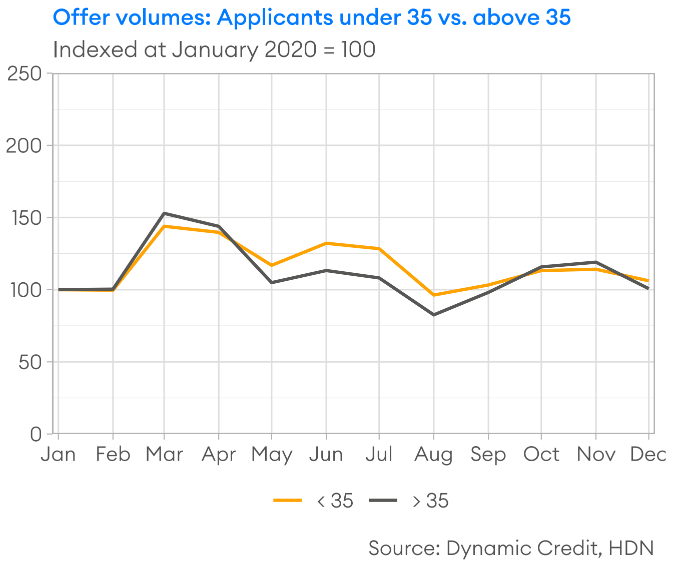


Figure 6: Indexed offer volume in The Netherlands: Applicants up to 35 versus above 35 (January 2020 = 100).

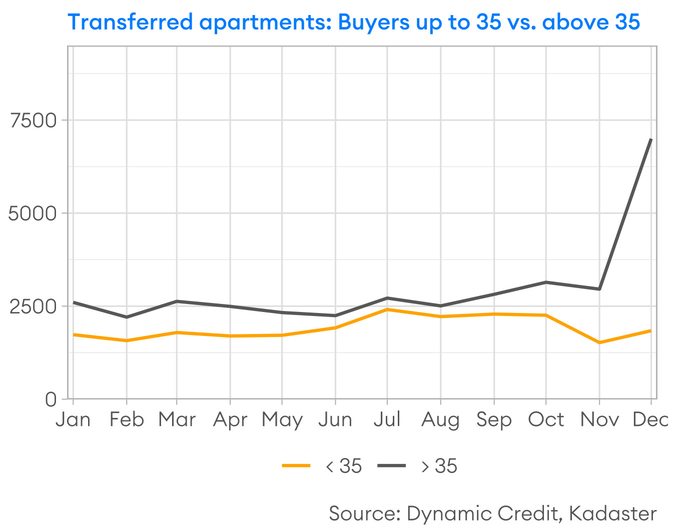


Figure 7: Number of transferred apartments in The Netherlands: Buyers up to 35 versus above 35.

Increased voluntary prepayments by young borrowers

Voluntary prepayments by borrowers under the age of 35 were up significantly in 2020-Q2 compared to 2019-Q2[1]. However, the overall market does not see higher prepayment rates. While 2020-Q2 does show an increase in disposable savings of EUR 12.4 bn, 11bn of these savings were used as extra deposits to current- and saving accounts.

Fixed rate period segmentation has stabilized

Fixed rate period segmentation has remained stable in 2020-Q4, with the 20-years fixed rate period as most popular, as can be seen in Figure 8 below.

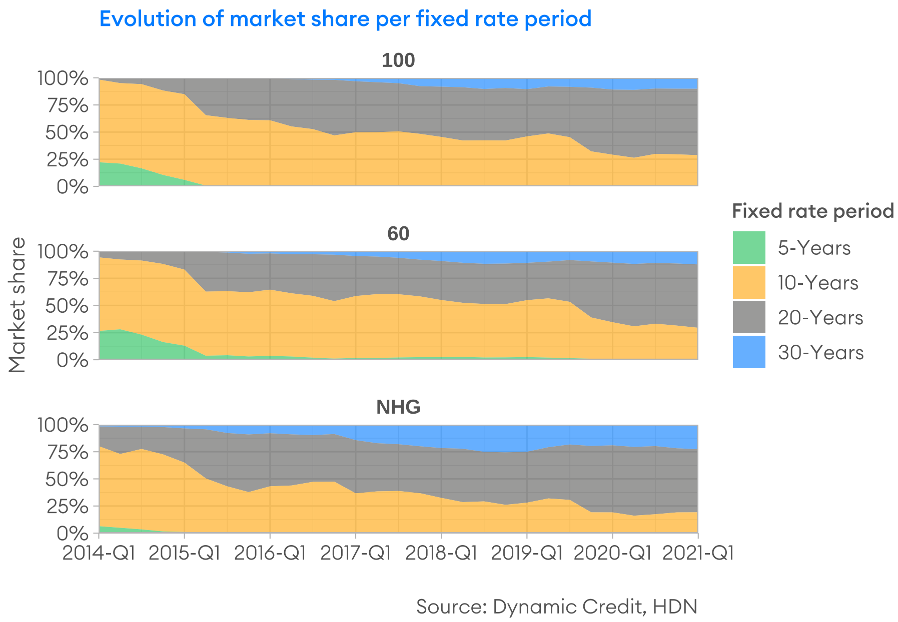


Figure 8: Evolution of market share per fixed rate period.

1 De Nederlandse Bank - Ondanks hogere besparingen stijgen vrijwillige aflossingen van huishoudens niet

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 by 9 basis points from the end of 2020-Q3 to the end of 2020-Q4. NHG rates decreased an average of 7 basis points across major fixed rate periods, while the 60%, 80%, and 100% LTV segments saw average rate decreases of 11, 10, and 7 basis points respectively.

Rates fell in 2020-Q4 with the largest decreases in the 60-80% LTV and long fixed-rate period segments

For an overview of the evolution of mortgage rates, see Table 2 below.

Mortgage rate development for average of top 6 mortgage rates						
Fixed rate period	Risk class	2019-12-31	2020-09-30	2020-12-31	QoQ	YoY
5-year	NHG	0.95%	0.92%	0.90%	-0.02%	-0.04%
	60% LTV (non-NHG)	1.05%	1.10%	1.02%	-0.08%	-0.02%
	80% LTV (non-NHG)	1.14%	1.19%	1.13%	-0.06%	-0.01%
	100% LTV (non-NHG)	1.43%	1.49%	1.46%	-0.03%	0.03%
10-year	NHG	1.06%	1.05%	1.00%	-0.05%	-0.06%
	60% LTV (non-NHG)	1.15%	1.22%	1.11%	-0.11%	-0.04%
	80% LTV (non-NHG)	1.27%	1.35%	1.26%	-0.09%	0.00%
	100% LTV (non-NHG)	1.55%	1.66%	1.58%	-0.08%	0.03%
20-year	NHG	1.49%	1.37%	1.26%	-0.11%	-0.24%
	60% LTV (non-NHG)	1.61%	1.61%	1.49%	-0.12%	-0.12%
	80% LTV (non-NHG)	1.73%	1.75%	1.62%	-0.13%	-0.11%
	100% LTV (non-NHG)	1.96%	2.05%	1.95%	-0.10%	-0.01%
30-year	NHG	1.90%	1.70%	1.59%	-0.11%	-0.31%
	60% LTV (non-NHG)	2.01%	1.93%	1.80%	-0.13%	-0.21%
	80% LTV (non-NHG)	2.06%	2.04%	1.90%	-0.14%	-0.16%
	100% LTV (non-NHG)	2.28%	2.30%	2.22%	-0.08%	-0.06%

Table 2: Average top-6 mortgage rates (excluding action rates) for mortgage loans with different fixed rate periods for four risk classes.

Spread developments[1]

Throughout 2020-Q4, mortgage spreads have decreased across all major fixed rate periods as the decrease in mortgage rates was larger than the decrease in swap rates. The average spread decrease across major fixed rate periods and risk classes was 7 basis points, in line with the minor spread decrease of 4 basis points in 2020-Q3. Changes among fixed rate periods varied compared to the end of the previous quarter, with 20- and 30-year fixed rates seeing the biggest decreases (11 bp) and 5-year fixed rates seeing on average the smallest decreases (3 bp). Despite the decrease, spreads in 2020-Q4 were roughly equal to end of 2020-Q2 levels.

For an overview of the evolution of mortgage spreads, see Table 3 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	2019-12-31	2020-09-30	2020-12-31	QoQ	YoY
5-year	NHG	1.17%	1.41%	1.41%	0.00%	0.24%
	60% LTV (non-NHG)	1.28%	1.59%	1.53%	-0.06%	0.25%
	80% LTV (non-NHG)	1.37%	1.68%	1.64%	-0.04%	0.27%
	100% LTV (non-NHG)	1.66%	1.98%	1.96%	-0.02%	0.30%
10-year	NHG	1.06%	1.41%	1.38%	-0.03%	0.32%
	60% LTV (non-NHG)	1.15%	1.58%	1.49%	-0.09%	0.34%
	80% LTV (non-NHG)	1.27%	1.71%	1.65%	-0.07%	0.38%
	100% LTV (non-NHG)	1.56%	2.02%	1.97%	-0.05%	0.41%
20-year	NHG	1.21%	1.54%	1.43%	-0.10%	0.22%
	60% LTV (non-NHG)	1.33%	1.78%	1.67%	-0.11%	0.34%
	80% LTV (non-NHG)	1.45%	1.93%	1.80%	-0.12%	0.36%
	100% LTV (non-NHG)	1.69%	2.23%	2.14%	-0.09%	0.46%
30-year	NHG	1.55%	1.83%	1.73%	-0.10%	0.18%
	60% LTV (non-NHG)	1.66%	2.06%	1.94%	-0.12%	0.28%
	80% LTV (non-NHG)	1.71%	2.18%	2.05%	-0.13%	0.33%
	100% LTV (non-NHG)	1.94%	2.44%	2.37%	-0.07%	0.43%

Table 3: 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.

Payment holidays

Financial institutions introduced payment holidays at the start of the COVID-19 pandemic, to give borrowers with temporary financial distress some financial leeway by deferring interest and principal payments for three to six months. Normally, Dutch fiscal legislation requires missed principal payments to be repaid in the year following the arrears to remain eligible for interest rate deductibility. However, an exception is made for the repayment of payment holidays of at most six months when granted before October 2020. Repayment can take place over the remaining maturity of the loan without becoming ineligible for interest rate deductibility.

Fiscal measures related to payment holidays extended to payment holidays granted before July 2021

The exception has been extended on 28 August 2020 to payment holidays granted before January 2021, for up to twelve months. Due to the second lockdown, this measure has been further extended to payment holidays granted before July 2021[1].

Data from the Dutch Banking Association ("NVB") shows that the number of payment holidays on mortgage loans increased by 3,000 in Q4 2020. This brings the total number of payment holidays granted by banks alone between 1 March 2020 and 18 December 2020 to 37,000 (of which 25,000 mortgage loans)[2].

Income assessment guidelines

The guidelines issued by the NVB to assess income of borrowers during the COVID-19 pandemic are extended again until 1 April 2021[3]. The guidelines require the income documents to be no older than 8 weeks at the moment the binding offer is issued. In the case of self-employed borrowers and freelancers, the income is assessed more thoroughly. These borrowers have to elaborate on the impact of COVID-19 on their income and financial buffers are taken into account.

1 Rijksoverheid - Forse uitbreiding steun- en herstelpakket
2 Nederlandse Vereniging van Banken - Corona Monitor
3 Nederlandse Vereniging van Banken - Uitgangspunten voor vaststellen inkomen bij hypotheek aanvraag

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 formalized 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 2020-Q4, almost 39 thousand NHG loans with a total balance of EUR 7.7 bn were offered through its network (7.8 bn in 2019-Q4). This corresponds to an NHG market share of 22.3% in terms of mortgage loans balance (24.4% in 2019-Q4). As can be seen in Figure 9 below, the NHG share generally increases in January, coinciding with the NHG limit increase. As per January 2021, the NHG limit has been increased again from EUR 310,000 to EUR 325,000.

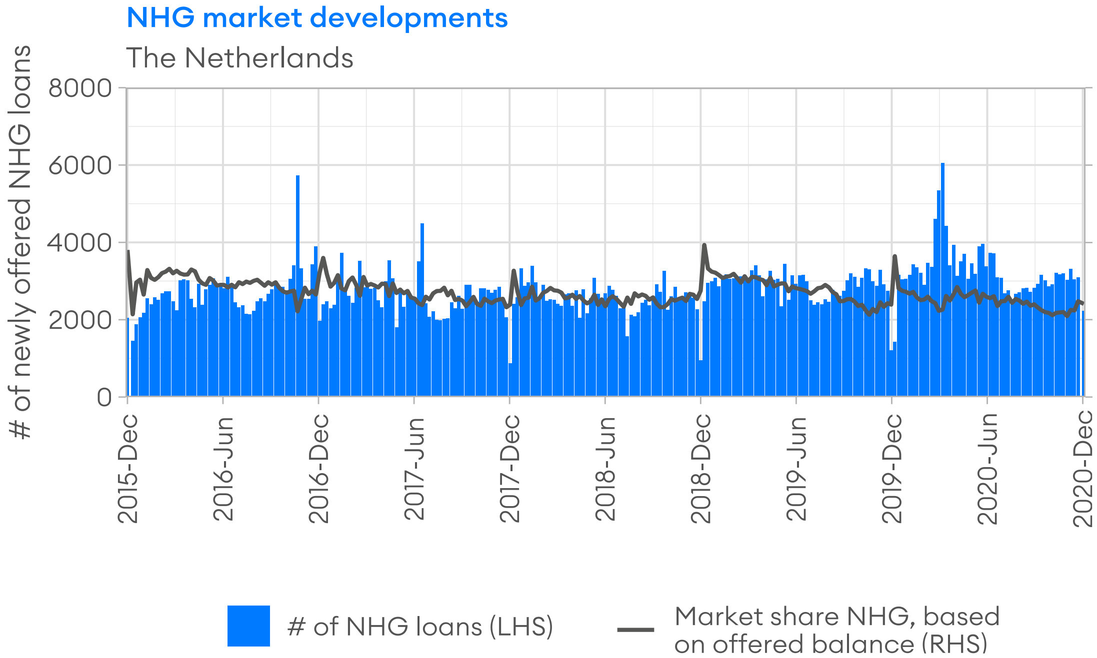


Figure 9: Number of new NHG guarantees and market share of NHG loans as a percentage of total originated balance through time. The x-axis refers to year and month.

Loss declarations[1]

The number of loss declarations submitted to WEW decreased with more than 75% from 92 in 2019-Q3 to 21 in 2020-Q3. The low amount of submitted loss declarations is attributed by WEW to the still increasing house prices. The overall number of loss declarations up to and including 2020-Q3 decreased by 66% opposed to the same period in 2019 (106 in 2020 opposed to 313 in 2019).

Even though the mortgage statement regarding foreclosures expired on 1 July 2020, the number of foreclosures has been minimal. The strong credit performance can be attributed to both the offering of payment holidays and strong government measures to mitigate loss of income.

1 NHG - Kwartaalcijferst 2020-Q3

4. Buy-to-let Mortgages

Dynamic Credit launched its consumer buy-to-let platform in the Netherlands[12] 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 4 below, the average rates decreased. Changes among fixed rate periods varied compared to the end of the previous quarter, with 50%-LTV rates seeing the biggest decreases (12 bp) and 80%-LTV rates seeing on average the smallest rate decrease (8 bp). Like mortgage rates, spreads have decreased across all major fixed rate periods with on average 7 basis points. It should be noted that Dynamic Credit is the only active lender in the high LTV (>80%) segments.

Market rate and spread development for consumer buy-to-let rates

		BTL rates			Spreads		
Fixed rate period	LTV	2020-09-30	2020-12-31	QoQ	2020-09-30	2020-12-31	QoQ
1-year	50%	2.47%	2.32%	-0.15%	2.99%	2.87%	-0.12%
	60%	2.53%	2.42%	-0.11%	3.05%	2.97%	-0.08%
	70%	2.57%	2.47%	-0.10%	3.09%	3.02%	-0.07%
	80%	3.00%	2.92%	-0.08%	3.52%	3.47%	-0.05%
	90%	3.55%	3.45%	-0.10%	4.07%	4.00%	-0.07%
5-year	50%	2.46%	2.34%	-0.12%	2.95%	2.84%	-0.11%
	60%	2.53%	2.44%	-0.09%	3.02%	2.94%	-0.08%
	70%	2.56%	2.47%	-0.09%	3.05%	2.98%	-0.07%
	80%	3.03%	2.96%	-0.07%	3.52%	3.47%	-0.05%
	90%	3.60%	3.50%	-0.10%	4.10%	4.01%	-0.09%
10-year	50%	2.54%	2.43%	-0.11%	2.91%	2.82%	-0.09%
	60%	2.61%	2.53%	-0.08%	2.98%	2.92%	-0.06%
	70%	2.67%	2.57%	-0.10%	3.04%	2.97%	-0.07%
	80%	3.13%	3.06%	-0.07%	3.51%	3.46%	-0.05%
	90%	3.75%	3.65%	-0.10%	4.14%	4.06%	-0.08%
20-year	50%	2.83%	2.73%	-0.10%	3.03%	2.94%	-0.09%
	60%	2.88%	2.83%	-0.05%	3.08%	3.04%	-0.04%
	70%	2.94%	2.89%	-0.05%	3.14%	3.11%	-0.03%
	80%	3.39%	3.28%	-0.11%	3.60%	3.51%	-0.09%
	90%	3.90%	3.80%	-0.10%	4.13%	4.05%	-0.08%

Table 4: 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

Property transfer tax

Following our coverage for the third quarter, the division in transfer taxes has been definitively implemented on January 1st 2021. Under the new regime, three categories are defined which are mainly defined by the buyer type:

- Buyers under 35 years old (starters and other home buyers) are exempt from transfer tax once.
- Home buyers that are ineligible for the tax exemption will pay a 2% rate.
- Other buyers (such as BTL investors, second home buyers, parents buying for their children, etc.) will pay an 8% rate

From April 2021 onwards, a further requirement for exemption is that the purchase price of the property doesn't exceed EUR 400,000. This creates a situation where the transfer tax on a house with a cost price equal to the threshold will be EUR 0, while a house costing one euro more will incur a tax of EUR 8,000. This has resulted in critique from the Dutch homeowners' association ("VEH"), saying a hard cutoff will put significant price pressure on houses in that segment. The alternative, taxing the purchase price in excess of the threshold, doesn't seem to be under consideration.

Rent regulation

Following the global pandemic, left-wing parties have been urging the Minister of Housing to freeze rents (as covered in our 2020-Q2 report). The minister alternatively proposed to cap the increase of non-regulated rent at inflation plus 2.5%. This was still perceived as too aggressive by some parties, with member of parliament Nijboer (of the PvdA political party) proposing to cap non-regulated rent at inflation plus 1%. This is the same cap as for regulated rent/social housing (ignoring existing renters that have become ineligible for social housing due to their increased income or "scheefwoners"). The proposal is planned for discussion in the Lower House of Parliament by the end of January.

5. Funding Update

RMBS

The activity in the Dutch RMBS market has not recovered from the COVID-19 outbreak in the fourth quarter. Just as in the third quarter, only one deal was priced. The total yearly distributed Dutch RMBS issuance for 2020 is EUR 3.5 billion, compared to EUR 6.0 billion in 2019. The total yearly retained issuance for 2020 is EUR 4.5 billion, which is slightly more than the total amount of 2019 (EUR 4.3 billion).

Activity in the RMBS market remained muted throughout 2020

The only distributed Dutch RMBS deal in 2020-Q4 was Tulp Mortgage Funding B.V. 2020-1 sponsored by Tulpenhuis 1 B.V. and sized at EUR 228 million. The deal is STS compliant. The Class A notes were priced at 3m Euribor +0.65% and are AAA rated. Class B and C have decreasing credit ratings and cor-responding higher spreads, ranging from 90 bps to 105 bps. The pool has 7 months WA seasoning and a WA current loan to value of 89.4%. The per-centage of Interest-only mortgages is 15.3%.

BTL

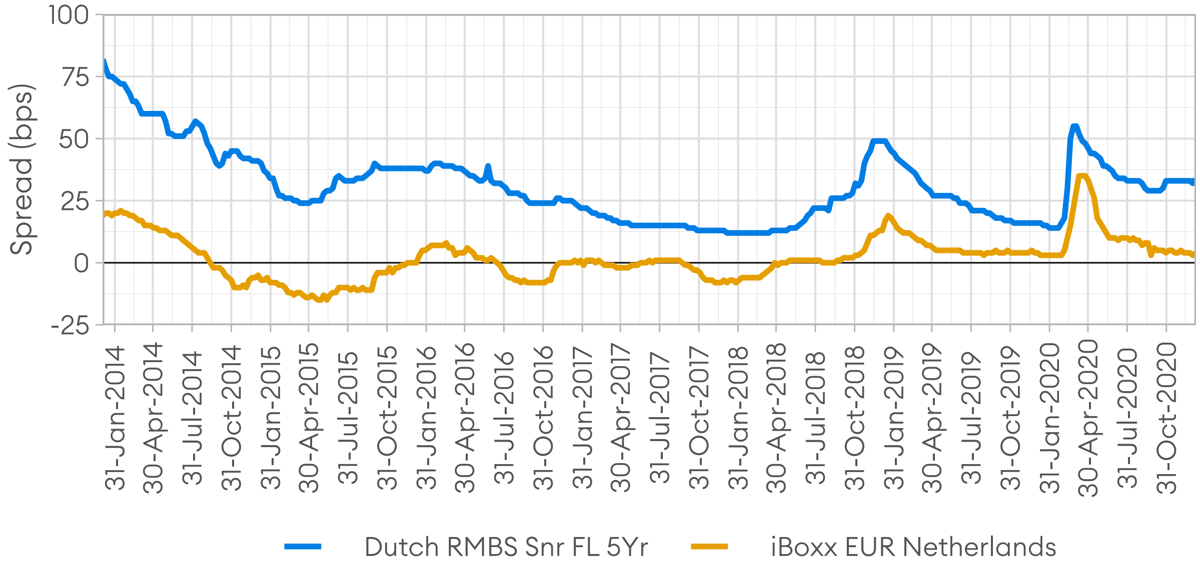
In the fourth quarter, two BTL deals were distributed. The first distributed deal was Domi 2020-2 in October, originated by Domivest BV and sized at EUR 259 million. The Class A notes were priced at 3m Euribor +0.88% and are AAA rated. Class B until F have decreasing credit ratings and corresponding higher spreads, ranging from 150 bps to 700 bps. The pool has 5.25 months WA seasoning and a WA current loan to value of 68.9%. The per-centage of Interest-only mortgages is 86.2%.

The second deal was Jubilee Place 2020-1 issued in November, originated by Multiple Dutch Lenders (Tulp Group, DMS and Casarion) and sized at EUR 198 million.The Class A notes were priced at 3m Euribor +1.00% and are AAA rated. Class B until E have decreasing credit ratings and corresponding higher spreads, ranging from 130 bps to 210 bps. The pool has 4.2 months WA seasoning and a WA current loan to value of 71.94%. The percentage of Interest-only mortgages is 16.22%.

Covered Bonds

Issuance by Dutch banks in 2020 amounted to EUR 6.8 billion. This is a significant decrease compared to the EUR 10.9 billion of 2019. Dutch covered bond benchmark came down to 3 bps by the end of December, 2 bps tighter than at the end of 2020-Q3 levels.

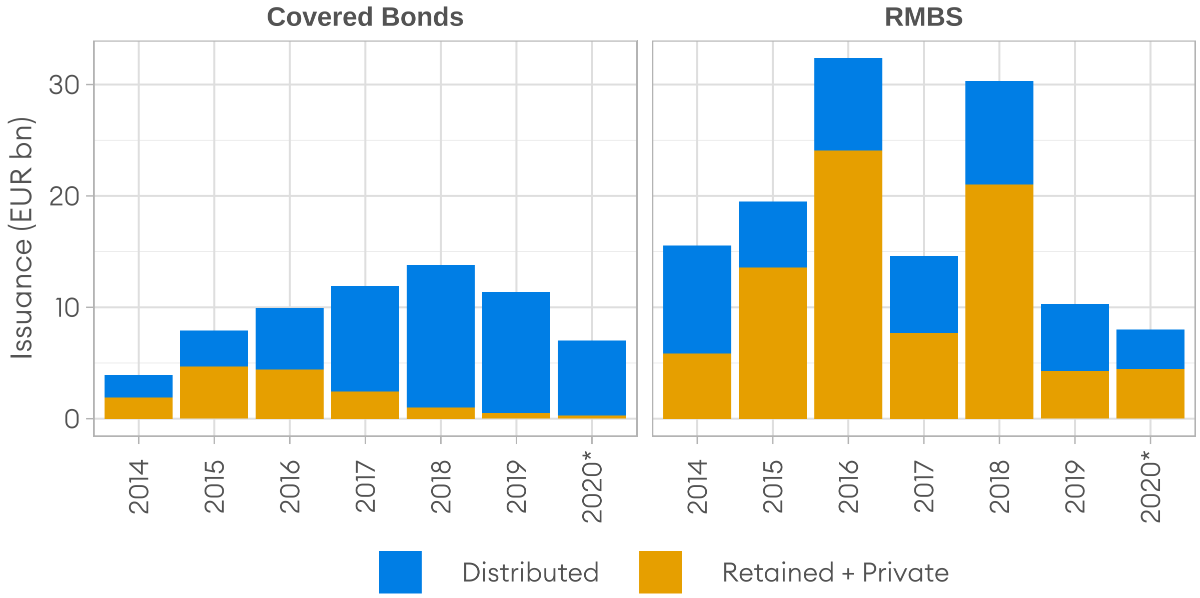
Mortgage funding spreads



Source: Dynamic Credit, JP Morgan

Figure 10: 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 2020-Q4.

Mortgage funding issuance



* Data up to Q4
Source: Dynamic Credit, JP Morgan

Figure 11: Issuance of Dutch RMBS and covered bonds. The data is as of 2020-Q4.

Dutch RMBS market: Priced Dutch prime RMBS en BTL deals

One new Dutch prime RMBS and one BTL deal were priced during 2020-Q4

Date	Issuer	Series	Seller	Class	Euro Amount	Life	FXFL	Coupon	Spread	Benchmark	M	SP	F	DBR	Retained	Comments
2020-10-16	Domi BV	2020-2	Domivest BV	A	228	3.22	FL		88	3 Mo. Euribor	Aaa	AAA			N	Buy-to-let; EUR 318mm; WA CLTV 68.9%; WA Seasoning 5.25m; IO Loans 86.2%; Obligors 1,288;
				B	14	5.14	FL		150	3 Mo. Euribor	Aa2	AA+			N	
				C	6	5.14	FL		180	3 Mo. Euribor	A2	AA			N	
				D	4	5.14	FL		240	3 Mo. Euribor	Baa3	A+			N	
				E	4	5.14	FL		400	3 Mo. Euribor	Ba1	BBB-			N	
				F	3	5	FL		700	3 Mo. Euribor					N	
2020-11-19	Jubilee Place BV	2020-1	Multiple Dutch Lenders (Tulp Group, DMS and Casarion)	A	173.21	3.63	FL		100	3 Mo. Euribor	Aaa	AAA			N	Buy-to-let; EUR 200mm; 535 Obligors; WA CLTV 71.94%; WA Seasoning 4.2m; IO Loans 16.22%;
				B	10.92	4.92	FL		130	4 Mo. Euribor	Aa3	AA+			N	
				C	6.95	4.92	FL		150	5 Mo. Euribor	A1	AA-			N	
				D	4.47	4.92	FL		180	6 Mo. Euribor	Baa2	A-			N	
				E	2.98	4.92	FL		210	7 Mo. Euribor	Ba2	BB			N	
2020-10-30	Tulip Mortgage Funding BV	2020-1	Tulpenhuis 1 BV	A	206	3.53	FL		65	3 Mo. Euribor			AAA	AAA	N	RMBS; EUR 224mm; WA CLTV 89.4%; WA Seasoning 7m; IO Loans 15.3%;
				B	6.2	3.92	FL		90	3 Mo. Euribor			AA	AAL	N	
				C	4.7	3.92	FL		105	3 Mo. Euribor			A-	AL	N	
				Z1, Z2	10.69										Y	

Table 5: Priced Dutch RMBS en BTL Deals in 2020-Q4. Source: Dynamic Credit, JP Morgan

DYNAMIC

6. News

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

Macroeconomic update[1]

In the Euro area real GDP rose by 12.5% in the third quarter, which is substantially more than the 8.4% predicted by the ECB staff projections in September 2020. However, the 2020-Q3 level is still 4.4% below the 2019-Q4 level. The increasing levels of COVID-19 cases and the subsequent lockdown measures that were announced across Europe are expected to lead to another contraction in GDP in the fourth quarter of 2020. This prediction is supported by mobility indicators and a drop in the Purchasing Managers' Index (PMI) in November. Although lockdown measures remain in place at the beginning of 2021, economic activity is projected to rebound throughout 2021, as measures will be lifted, and a ramp up in vaccinations contribute to a boost in confidence. The monetary and fiscal policy measures, including the 'Next Generation EU' support package, will support incomes and reduce job losses and bankruptcies.

The Eurosystem staff expect inflation, measured as the Harmonised Index of Consumer Prices (HICP), to bounce back from 0.2% in 2020 to 1.0% in 2021. The increase in inflation will be mainly driven by a recovery of energy prices, as a recovery of economic activity will lead to more demand.

Monetary policy[2]

With the aim to preserve favorable financing conditions over the pandemic period, the Governing Council announced several recalibrations of its monetary policy instruments in December. This included increasing the size of the pandemic emergency purchase programme ("PEPP") by EUR 500 billion to a total size of EUR 1,850 billion. In addition, the time horizon for net purchases under the PEPP was extended to March 2022 and the period for reinvestments of maturing securities under the PEPP was extended until the end of 2023.

Pandemic Emergency Purchase Programme (PEPP) increased by EUR 500 billion to a total size of EUR 1,850 billion.

For banks, the Governing Council adjusted the conditions of the third series of the targeted longer-term refinancing operations (or TLTRO III). The period over which more favorable terms apply is extended by twelve months, to June 2022, and the total amount that counterparties can borrow in TLTRO III operations increased from 50% to 55% of the eligible loans stock. These measures have the goal to sustain the current level of bank lending. The Governing Council also decided to offer four additional pandemic emergency longer-term refinancing operations (PELTROs) in 2021, which will provide liquidity support to the euro financial system and contribute to smooth functioning of money markets.

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. The rates were last changed in September 2019. The Governing Council expects no increases until inflation hits the "close to, but below, 2%" level.

1 Eurosystem staff macroeconomic projections for the euro area, December 2020
2 ECB: Monetary policy decisions, 10 December 2020 and 21 January 2021

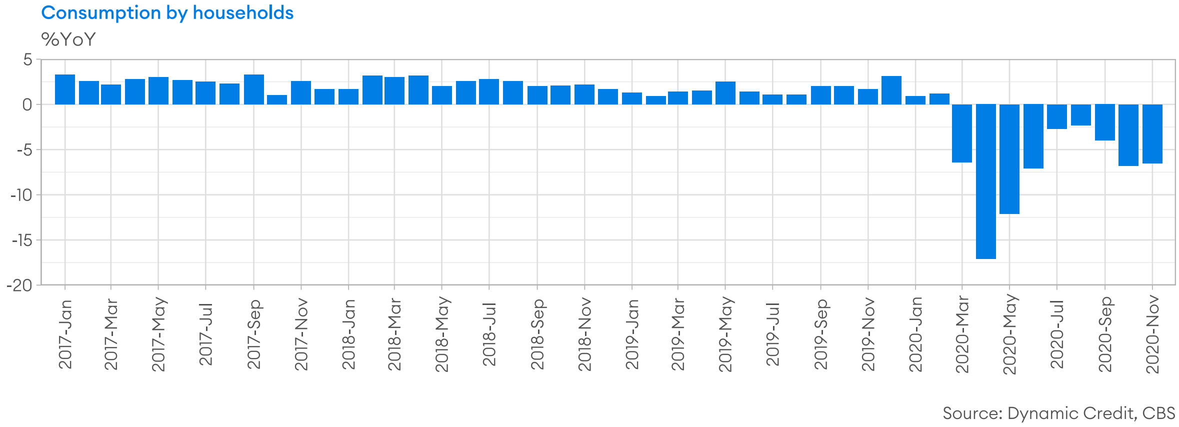


Figure 12: YoY change in consumption by Household in The Netherlands. As of November 2020.

Consumption[1]

Domestic household consumption remains lower compared to last year. In October consumption declined by 6.8%, while in November the consumption of households in the Netherlands was 6.5% lower compared to the same month in 2019. Since the low of April (-17.1%), the decline became smaller towards August. However, after that point the difference compared to previous year has increased again.

Consumption in November still 6.5% lower than previous year.

Like in previous months, the drop in consumer spending is mainly driven by substantially lower spending on services (-14.1%), such as restaurants, hairdressers, cinemas, and museums. Spending on services accounts for over half of total domestic consumer expenditure. The drop was more substantial in November than in October, as the affected sectors had to be closed for (most of) the month. In addition, spending on energy decreased, driven by milder temperatures and less traveling.

On the other hand, spending on durable goods, such as electrical appliances and home furniture, increased compared to a year earlier by 6.0%. Spending on transport equipment and clothing was, however, lower. Consumers also spent 4.9% more on food, beverages and tobacco.

Dutch GDP estimates[2]

In the third quarter economic growth was 7.8% QoQ (GDP is published with a 1.5-month lag by the Central Bureau of Statistics and the Q4 number has not been published at the time of writing), while the YoY decline was 2.5%. More than half of the QoQ growth can be attributed to increases in household consumption. This is mainly due to fewer restrictions that applied in the third quarter, compared to the second quarter where GDP shrank with 8.5%. In addition, public consumption, the trade balance and investments also had a positive effect in Q3.

1 CBS - Household spending 6.5 percent down in November
2 CBS - Economic growth of 7.8 percent in Q3 2020

(Lack of) bankruptcies[1]

The effects of COVID-19 on the economy are huge, as already indicated by a substantial lower GDP and lower household consumption levels. However, this is not yet reflected in an increase in bankruptcies. The measures taken by the government and lenders play a major role in this.

The number of bankruptcy filings in 2020, excluding sole proprietorships, was only 2,703, a decrease of 16% compared to a year earlier. This is the lowest level in 20 years. The decline can be seen in almost every sector. The decrease in absolute bankruptcies is greatest in the trade, specialized business services and financial services sector, while in relative terms the decrease was the greatest in the care (-40%) and information & communication (-37%) sectors.

Lowest level of bankruptcy filings in 20 years.

Unemployment[2]

In the period between March and August 2020, unemployment rose with approximately 150 thousand from a level of 273 thousand to a level of 426 thousand. At that point, the highest level was reached for 2020. In the fourth quarter, the number of unemployed decreased by approximately 45 thousand to 368 thousand. This corresponds with 3.9% of the total labor force, where it was 4.6% at its peak in August. However, this is far from the 2.9% of unemployed observed in March 2020.

While the number of unemployed has decreased for four consecutive months, the number of unemployment benefits (WW) increased in December with 3% to a total of 286 thousand. An explanation for this increase is that some sectors are seasonally sensitive, such as the construction and agriculture sector. Two other sectors were WW benefits rose were the temporary employment and accommodation & food sector. An explanation for the increase in these sectors can mainly be sought in the measures taken to contain COVID-19.

When comparing the number of WW benefits with a year earlier, the WW benefits increased by 28%. Although the increase was seen in each age category, it was most substantial among young people (younger than 25 years). With an increase of 114%, no other age category has been hit equally hard.

1 CBS - Fewer bankruptcies in 2020
2 CBS - Unemployment further down in December

COVID-19 related measures

Driven by the second lockdown and the potential impact of more infectious variants of the COVID-19 virus on the duration and severity of government measures that are taken, the government introduced a fourth package of government support measures for Q1 and Q2 2021. Instead of the planned downscaling, the fourth package requires an additional expenditure of EUR 7.6 billion[1].

Fourth package of government support requires an additional expenditure of EUR 7.6 billion

The new package consists of the following support measures:

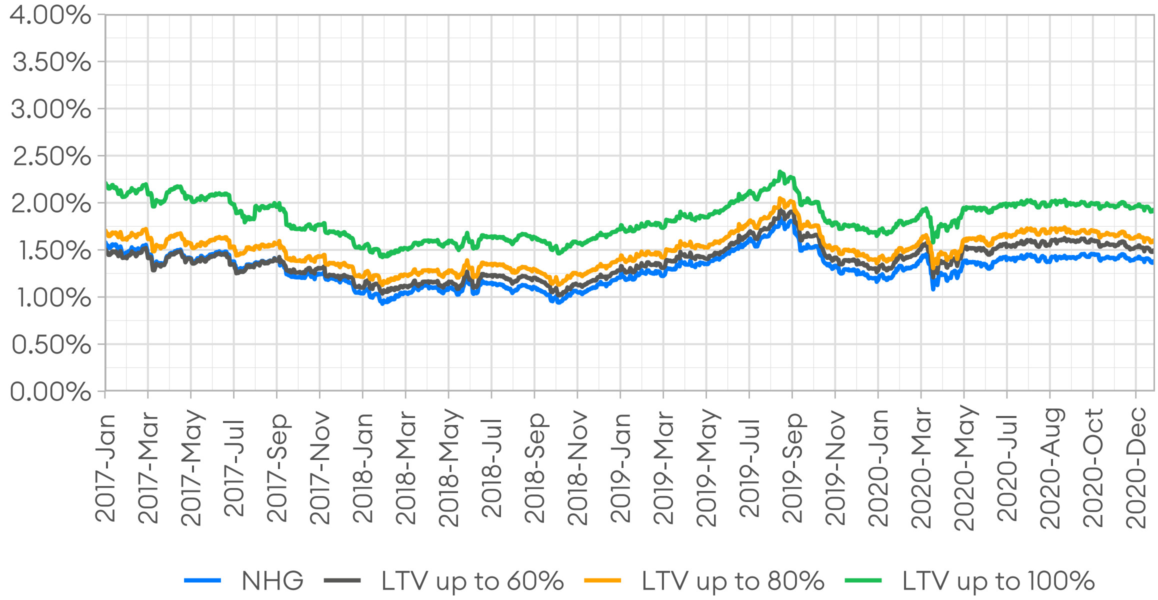
- **Reimbursement fixed costs ("TVL"):** the fixed costs compensation for companies with a decrease in turnover of at least 30% will be increased from 80% to 85% of the fixed costs. The compensation is no longer limited to SMEs and varies between EUR 1,500 and EUR 330,000 (or EUR 400,000 for non-SME's).
- **Reimbursement retail industry:** for retail companies with unsold stock, the fixed costs percentage of TVL can be increased with 21%, up to a maximum of EUR 200,000.
- **Reimbursement for starting businesses:** the government is working on a support measure for businesses that started in January 2020 up to and including June 2020, comparable to the TVL. The reference period to determine whether they can apply for the TVL will be the third quarter of 2020. Businesses that started in the first quarter of 2020 can apply for the regular TVL, but in the second quarter of 2021 an application is only possible for the compensation for starters.
- **Temporary bridging measure for employment opportunities ("NOW"):** the government will increase the funding of employment expenses from 80% to 85% .
- **Temporary bridging measure for self-employed ("TOZO"):** the income support of up to EUR 1,500 a month (net) and the favorable loan terms for businesses to obtain capital remain in place. The government refrains from requiring evidence of lack of equity in private.
- **Guarantee fund for the events sector:** the government is working on a guarantee fund for the event sector, to enable organizations to start planning events for the upcoming summer (or when it is considered safe).
- **Deferral in the payment of taxes:** requests for (the extension of) deferral of business taxes can be submitted until July 2021. For companies that already got an extension last year, the extension will be processed automatically.

1 Rijksoverheid - Forse uitbreiding steun- en herstelpakket

Appendix

Spread average top 6 per risk class

5-year fixed rate period

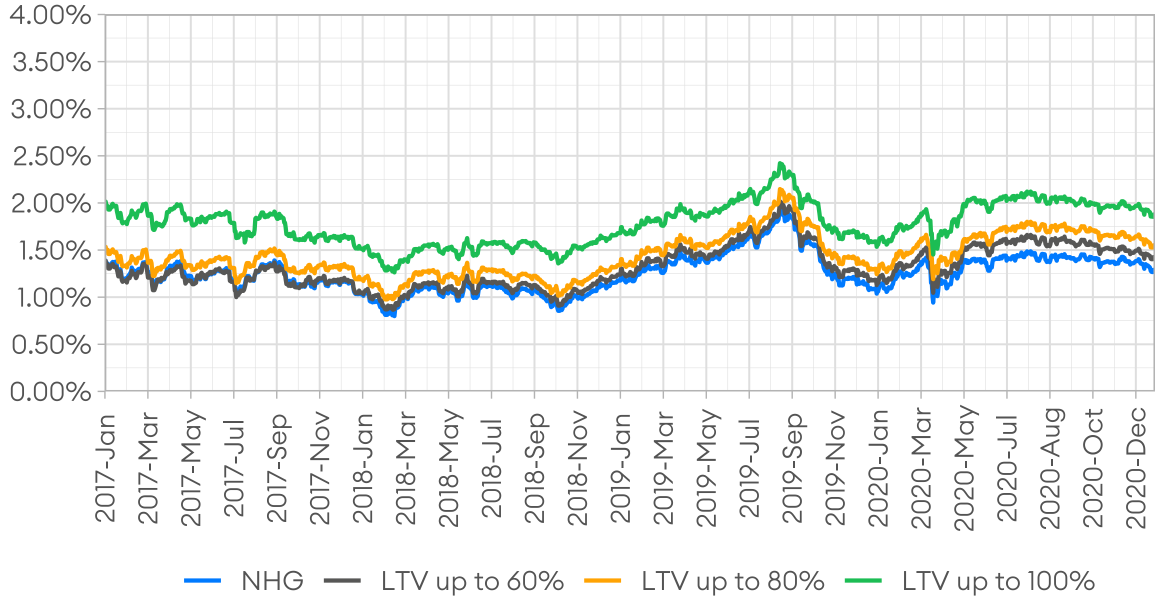


Source: Dynamic Credit, Hypotheekbond

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 27/1/2021.

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 27/1/2021.

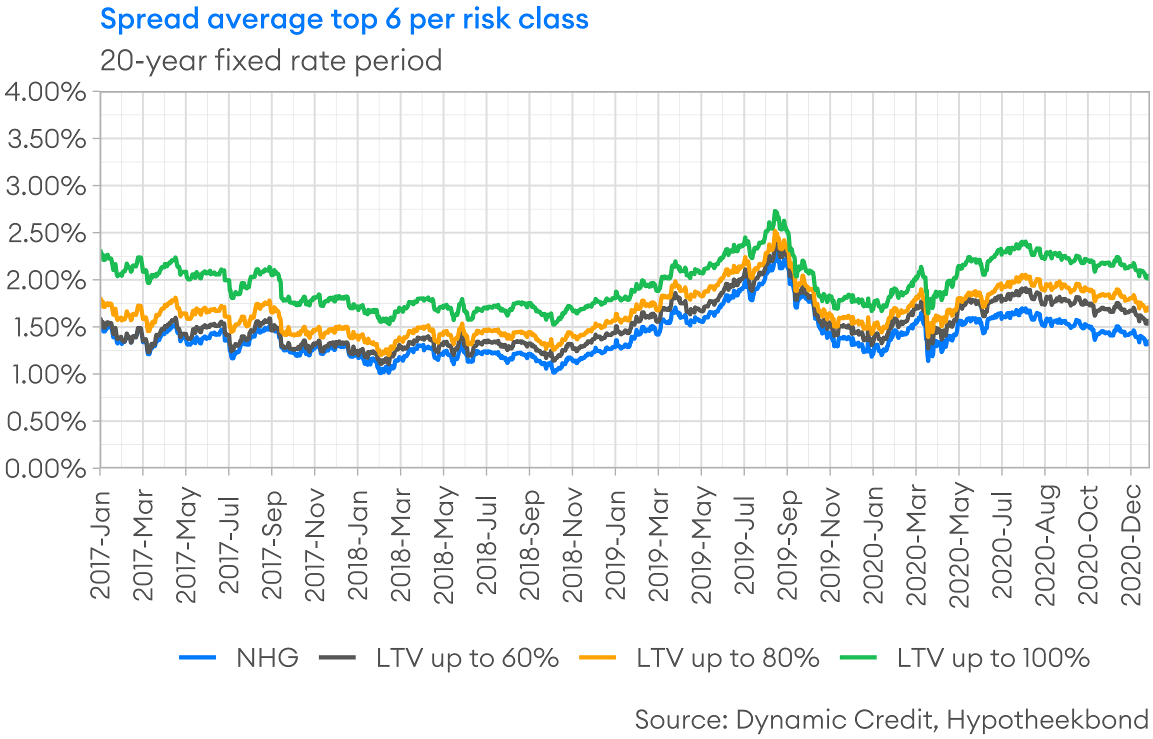


Figure A3: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 20-year fixed rate period for four risk classes. Up to and including 27/1/2021.

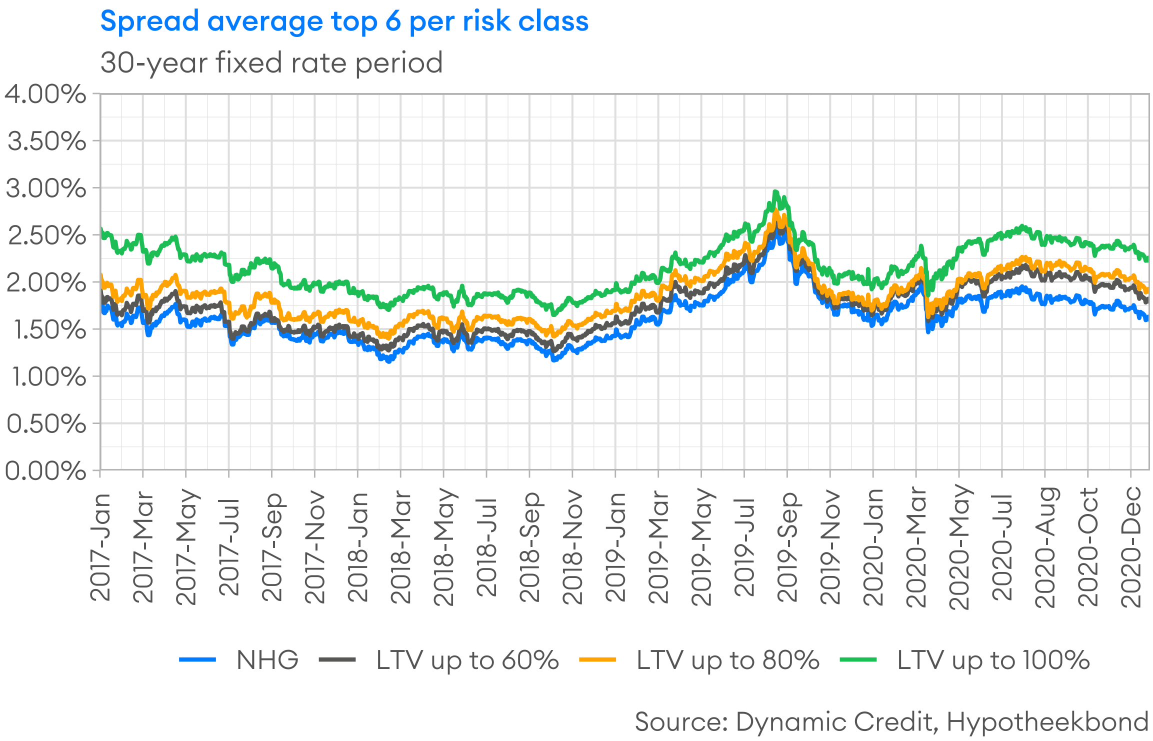


Figure A4: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 30-year fixed rate period for four risk classes. Up to and including 27/1/2021.

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