DYNAM/C CREDIT

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Contents

Dutch Housing Market Update 2020 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 support borrowers experiencing temporary financial hardship because of COVID-19, payment holidays have been introduced across the market. The use of such payment holidays has been very limited with on average just 0.60% of the outstanding balance of Dutch prime RMBS being granted such payment holiday. Furthermore, while the lockdown measures were in place, demand for Dutch mortgage loans increased with around 40%-50% in March and April due to frontloading of requests and an increase of requests for refinancing as mortgage rates were increasing."

Jasper Koops,
Head of Portfolio Management

DYNAM/C

1. Executive Summary

Payment holidays: mortgage providers supported borrowers in temporary financial distress caused by COVID-19 by not initiating foreclosures and granting payment holidays. On average, only 0.6% of Dutch mortgages were granted payment holidays, a very limited amount compared to other European countries.

Government measures: the Dutch government supported the economy by introducing new measures and expanding existing measures. Some were focussed on supporting the granting of credit and lending while others were focussed on employment and business continuity.

Consumer confidence: as a result of consumer expectations for increasing interest rates and decreasing house prices, the Vereniging Eigen Huis measure for consumer confidence in the housing market reached a level of 93, the lowest since June 2014.

House prices: Dutch house prices increased by 2.0% QoQ and 7.5% YoY during 2020-Q2. Transaction prices increased by 8.8% YoY and 52% of houses were sold above asking price. It is expected that house prices will decline towards the end of 2020 and in 2021.

NHG guarantees: 49,041 NHG loans with a total balance of EUR 9.6 billion were offered in 2020-Q2. The NHG market share decreased by 3.7 percentage points YoY to a share of 25.8% in terms of mortgage loan balance.

Offer volumes: in March and April offer volumes peaked with levels being 40-50% higher than in January. This was mainly due to an increase in refinancing.

Interest rates: across all major risk classes and all major fixed rate periods, the top-six most competitive rates increased on average by 17 basis points QoQ. The increase was larger in the higher LTV segments.

Spreads: over the last quarter swap rates have decreased which, in combination with an increase in mortgage rates, has resulted in an increase of mortgage spreads. The average spread increase across all major fixed rate periods and all major risk classes was 35 basis points.

RMBS activity: in April there was an abrupt standstill of activity in the Dutch RMBS market following the COVID-19 outbreak; during 2020-Q2 only one deal was priced.

Rental market: the average rental price per square meter in The Netherlands increased 2.4% YoY, the smallest increase since 2015-Q1. Some major cities witnessed decreases in rental prices.

Consumption: household consumption has declined extremely with declines of 17.3% YoY and 12.8% YoY in April and May respectively.

2. Market Update

COVID-19 related measures

The following sections provide an overview of the measures that were introduced during the COVID-19 pandemic that are relevant to the developments of the Dutch housing market.

Statement of no foreclosures

Early April the Dutch Homeowners Association, Dutch Association of Insurers, Netherlands Bankers' Association ("NVB") and Stichting Waarborgfonds Eigen Woning signed a collective statement with the aim of supporting borrowers during the COVID-19 pandemic. This statement was widely accepted by Dutch mortgage providers and states that mortgage providers should make an effort to support borrowers in financial distress to the best of their abilities.

An important part of this statement is that no forced sales would be initiated until the 1st of July 2020. The agreement stated that foreclosure would only be initiated if this was the only possible solution and was agreed upon with the homeowner, with the possibility of exceptions in case of criminal activities such as fraud or the use of the property as a drug lab. This no-foreclosure statement has not been extended after the 1st of July 2020. As the statement was only in effect for less than three months and it is not expected that this statement has prevented foreclosures of COVID-19 related payment issues.

The agreement of no forced foreclosures has not been extended past the 1st of July

Payment holidays

Additionally, mortgage providers supported borrowers in temporary financial distress caused by COVID-19, by granting payment holidays. Such payment holidays, typically spanning an initial period of three months with a possible extension, allow borrowers to defer both principal and interest payments. As of the end of June, over 19 thousand mortgage payment holidays have been provided by banks alone, according to the NVB[1] .

The possibility for payment holidays was also introduced in other European countries, with slight differences in the implementation[2]. For example, in the Netherlands, granting of a payment holiday is subject to several strict conditions on the borrower and proof of financial hardship due to COVID-19 has to be evidenced. In contrast, in the UK, borrowers are not obliged to provide proof that their income has been affected by COVID-19 when applying for a payment holiday[3].

One in six mortgages (17.3%) in the UK was granted a payment holiday, compared to 0.6% of Dutch mortgages overall and only 0.11% of the mortgages managed by Dynamic Credit.

1 NVB - Corona Monitor
2 Rabobank - Mortgage moratoriums in Europe: an overview
3 UK Finance - Lenders commit to ongoing support for mortgage borrowers

The different conditions for payment holidays, combined with other socioeconomic factors, have led to large differences in the amount of payment holidays among European countries. Additionally, there is also large variation in the percentage among different mortgage pools in the same country. See Table 1 for a comparison of payment holiday rates between different European countries and the portfolios managed by Dynamic Credit.

	Dynamic Credit	Netherlands	Portugal	Spain	UK	Ireland
Prime	0.11%	0.6%	11.0%	1.9%	17.4%	7.0%
BTL	0.00%	3.4%	N.A.	N.A.	15.1%	6.8%
Non-Conforming	N.A.	2.1%	N.A.	N.A.	26.1%	N.A.

Table 1: Share of balance with payment holiday end of April and May for European RMBS transactions and Dynamic Credit portfolios. Source: Dynamic Credit, Rabobank

At the moment there are no uniform guidelines on the repayment schedule of missed payments; these will likely be decided on an individual borrower basis. It was announced on 24 April 2020 by the Dutch Government, that such repayments may be spread out over the remaining maturity or split into a separate loan, without borrowers losing their interest rate deductibility.

Income assessment guidelines

Due to the extra uncertainty introduced by the COVID-19 pandemic, it is important that mortgage providers are able to correctly assess borrowers' incomes. In May, the NVB published guidelines to aid banks in this process.

The NVB guidelines were at first meant to be in place until 30 June, but have been extended to 30 September. When deemed necessary, this date will be extended even further.

The most important aim of these guidelines is to use current data when assessing borrower incomes. For example, the guidelines suggest banks to only use employer statements and salary information no older than 8 weeks.

Other guidelines state that every borrower is asked about the impact of COVID-19 on their income, that any secondary income or savings buffer should be taken into account and that banks should not in advance exclude entire sectors or industries in the assessment of income stability.

Measures taken by the Dutch government

The Dutch government has taken extensive measures to support the Dutch economy. As a result of these measures, in combination with lower tax revenues, the Netherlands is expected to have a budget deficit of around 8.7% of GDP in 2020. See below an overview of the taken measures:

- **Guarantee schemes:** expansion of the existing scheme of government guarantees with the aim to improve access to credit for SMEs ("BMKB-C")[1]. This measure will be in place until the 1st of April 2021.
- **Loan guarantees:** expansion of the scheme with government guarantees of up to 90% on the loans provided by banks to medium- and larger-sized business loans provided by banks ("GO-C")[2].
- **Corona Bridging Loans ("COL")[3]:** which is an emergency loan for innovative entrepreneurs and SMEs who do not have a bank loan facility and are facing financial difficulties as a result of COVID-19.

1 RVO - Verruiming BMKB in verband met coronacrisis
2 RVO - Corona GO-C
3 ROM - Corona overbruggingslening

Employment and business continuity related measures:

- **Reimbursement Fixed Costs ("TVL")[1]:** offers SMEs from specific sectors a reimbursement of up to EUR 50 thousand to help cover part of their fixed costs. To be eligible, the business needs to have a loss of turnover due to COVID-19 of at least 30%.
- **Temporary bridging measure for employment opportunities ("NOW")[2]:** consists of an arrangement in which companies can temporarily receive funding of up to 90% of employment expenses. A company qualifies for this measure if it has experienced a revenue decline of at least 20% for a period of at least four months. The company is then obliged to pay out wages during the period in which support is received and is not allowed to lay off employees for business related reasons.
- **Temporary bridging measure for self-employed professionals ("TOZO")[3]:** supports entrepreneurs, including the self-employed, in income and business credit. The income support allows the qualified individual to receive a maximum of EUR 1,500 per month for a maximum of four months. A prerequisite for qualifying for this measure is that the COVID-19 crisis has led to a decrease in income to below the subsistence minimum level.
- **Temporary bridging measure flexible workforce ("TOFA")[4]:** subsidy that is meant to support workers on flexible employment contracts that have experienced a loss of income of at least 50% due to the COVID-19 crisis. The measure awards an allowance of EUR 550 per month over March, April and May 2020.
- **Deferral in the payment of taxes[5]:** aims at supporting entrepreneurs, including the self-employed, facing COVID-19 related financial distress. Allows deferral of payment of taxes for a period of three months. Requests can be submitted until at least the 1st of October 2020.

1 RVO - TVL
2 Rijksoverheid - Overzicht financiele regelingen: NOW
3 Rijksoverheid - Overzicht financiele regelingen: TOZO
4 UWV - TOFA
5 Rijksoverheid - Overzicht financiele regelingen: belastingmaatregelen

Dutch housing market update

Vereniging Eigen Huis ("VEH") measures consumer confidence in the housing market every month. They do that based on questions about interest rates, prices, and the general housing market. As expected, COVID-19 had a negative impact on consumer confidence, leading to a decrease of the indicator to 93 in June 2020, the lowest point since June 2014. The indicator can take values ranging from 0 to 200, 100 indicating a neutral value. A higher value indicates more positive sentiment.

Consumer confidence indicator reaches lowest level since June 2014

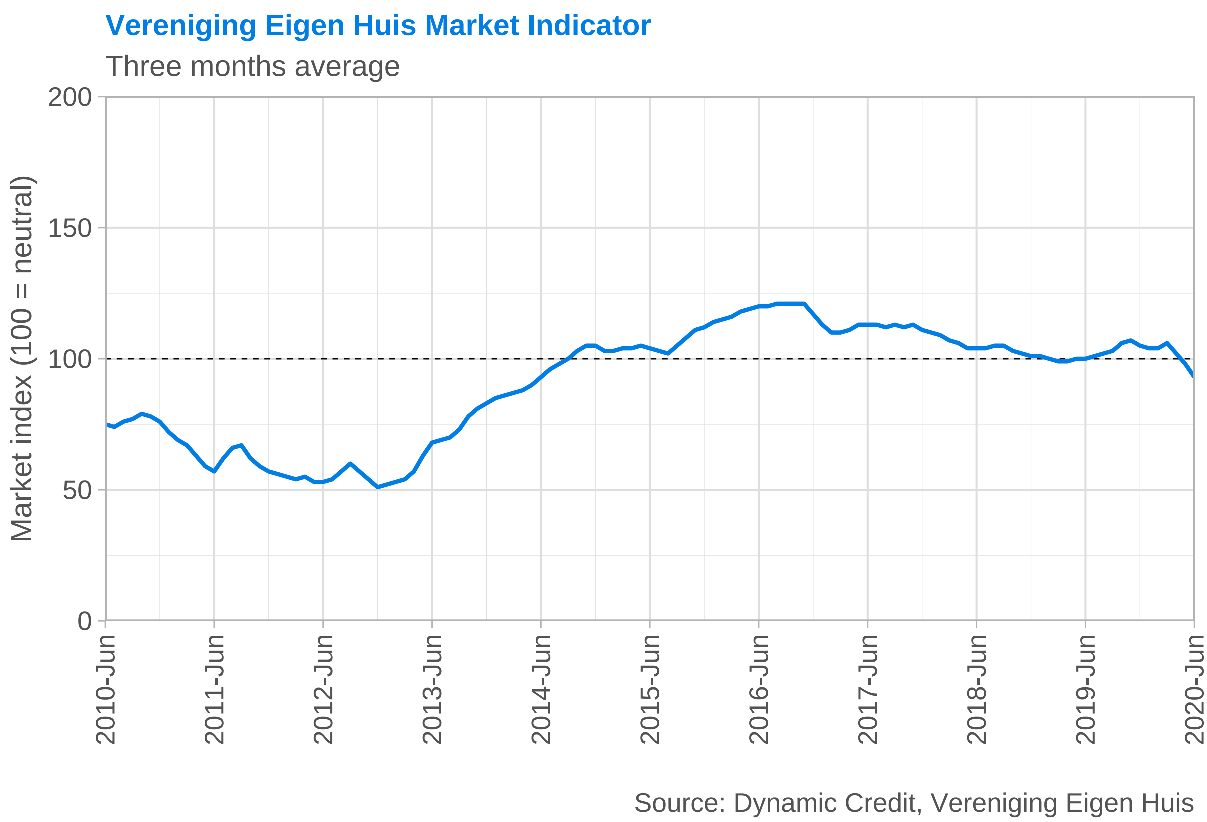


Figure 1: Vereniging Eigen Huis Market Indicator. As of June 2020.

Consumer confidence is decreasing due to the consistent expectations that interest rates will increase and house prices will decrease. Even though interest rates are currently still steadily low, 44% of consumers expect them to increase in the coming year. Next to that, 20% of consumers expect the house prices to decrease. As the market indicator has a predictive value for the coming six months, this could mean that the negative impact of the corona crisis on the housing market will be visible in half a year. It is however also mentioned that there are indications that consumer confidence has reached its lowest point and is slightly recovering[1].

VEH expects the decrease of consumer confidence to have a negative impact on the housing market within six months, if consumer confidence does not recover

1 Vereniging Eigen Huis - Eigen Huis Market Indicator

House prices and property sales

The Dutch House Price Index ("HPI") increased by 2.0% QoQ and 7.5% YoY during 2020-Q2. This compares to house price increases of 2.1% QoQ and 6.2% YoY in 2020-Q1. Close to 55 thousand properties were transferred during 2020-Q2, a 6.5% QoQ increase and a 4.9% YoY increase (See Table 2 for more details regarding the regional differences).

It should be noted that the HPI of existing residential homes is based on a complete registration of sales of dwellings by the Dutch Land Registry Office (Kadaster) and the (WOZ) value of all dwellings in the Netherlands. The index is thus a lagging indicator as it often takes several months before a property which has been put on the market shows up in the Kadaster data. It is therefore likely that the impact of COVID-19 is not yet visible in the data.

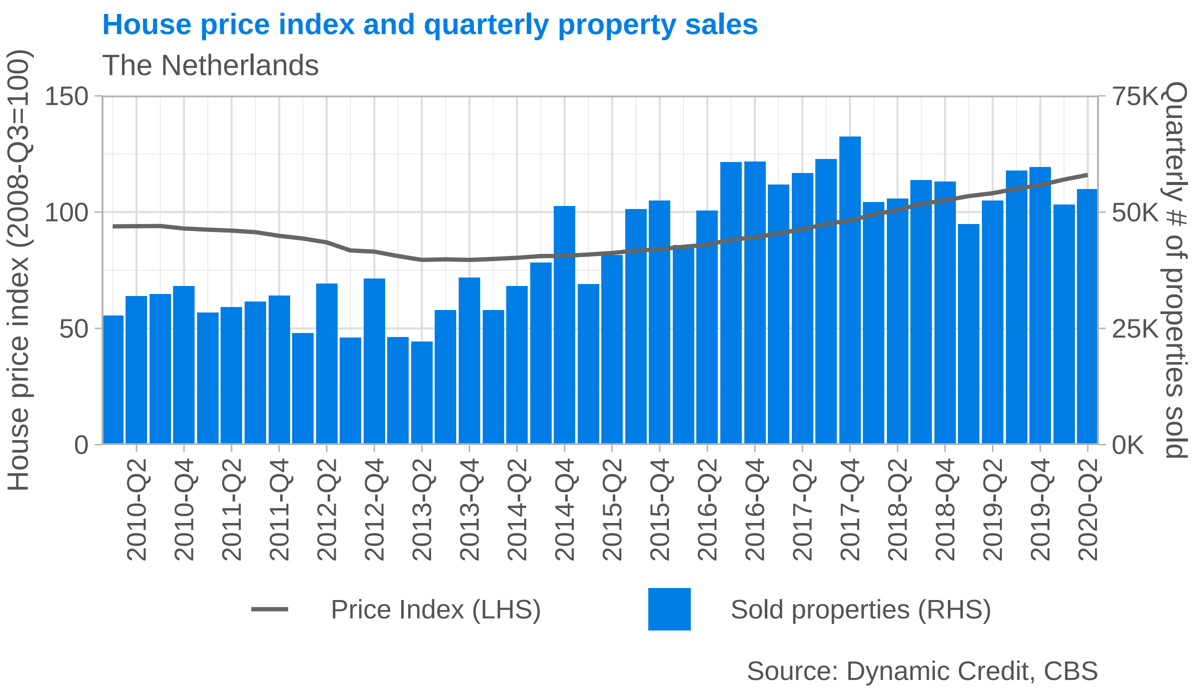


Figure 2: House Price Index of the Netherlands (2008-Q3=100) and monthly property sales. HPI until May 2020.

Transaction prices

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

The NVM reports[1] an 8.8% YoY increase in the average transaction price during 2020-Q2. They note that brokers signal a higher demand for larger houses and houses with an extra office room, balcony or garden as many expect that working from home is there to stay to a certain extent after COVID-19.

Additionally, they report that 52% of houses were sold above the asking price, which is a higher percentage than ever before.

1 NVM - Marktcijfers 2020-Q2

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	140.2	116.2521	7.5	2	54,923	6.5	4.6
Flevoland	Province	148.7	124.5	9.3	3.3	1,505	1.8	1.6
Groningen	Province	137.9	113.8	11	2.7	1,829	13.9	0.3
Noord-Holland	Province	149.7	128.7	6.3	2.3	8,486	1.1	0
Overijssel	Province	135.0	111.8	9	2.2	3,786	14.3	9.9
Drenthe	Province	132.7	108.2	8.8	2.1	1,808	9	7.4
Noord-Brabant	Province	134.3	107.8	7	2	8,719	10.4	10.8
Gelderland	Province	135.9	108.5	7.5	1.9	6,598	7.2	7.6
Zuid-Holland	Province	144.1	121.7	8.2	1.8	11,020	3.9	3.2
Zeeland	Province	126.6	110.6	7	1.7	1,419	-0.3	2.9
Utrecht	Province	143.0	120.3	7.4	1.7	4,167	3.6	1.8
Limburg	Province	133.9	111.1	7.3	1.3	3,469	10.8	6.1
Friesland	Province	133.7	106.4	6.1	1.1	2,117	11.5	-1.8
Utrecht	Municipality	161.9	147.9	8.9	2.8	986	-8.9	-9.2
Amsterdam	Municipality	162.4	154.7	5.3	2.4	2,194	-4.8	-7.4
's-Gravenhage	Municipality	155.7	134.5	7	2.2	1,539	-2.1	-1.8
Rotterdam	Municipality	160.2	146.0	7.8	2	1,567	1.4	3.8

Table 2: House prices and number of property sales changes in Dutch provinces and major municipalities 2020-Q2. Source: CBS.

Expectation of housing market developments

In a publication published in June, researchers from ABF predicted that housing shortages will increase to 5.1% in 2025. This does not necessarily imply that housing prices will stay increasing: economists from the Dutch Central Bank ("DNB")[1] state that house prices are more closely related with borrowing capacity than with housing shortage. They argue that the growth in house prices that in the past decade can be explained by lower capital market interest rates as well as positive developments in household incomes rather than the housing shortages. In the same line of reasoning, overall declines in household incomes caused by the COVID-19 crisis as well as increases in interest rates due to increased risk aversion might lead to a decrease in housing prices.

More elaborate future projections on the Dutch housing market have been released by Rabobank[2]. They project a decrease in demand for owner-occupied homes due to a sharp fall in employment in combination with an increased fear of loss of income. They project that house prices will slowly start to decline towards the end of 2020 and continue to decline during 2021: They expect house prices to increase by 5.6% over 2020 (due to the increase in the first half of the year) and transactions to decrease by 11% in 2020. For 2021 they expect that prices to decrease by 2.9% and transactions by 7.7%.

The explanation for these projections includes the increased risk for prospective first-time buyers of losing their job, who in turn defer the purchase of their first home. Next to this, non-first-time buyers are expected to change tactics by first waiting for their current home to be sold before bidding on a different home. Lastly, investors are expected to reduce their buy-to-let exposures, because of an expected decrease in housing demand from tourists as well as foreign-students seeking short-time residence in the Netherlands.

1 [DNB - Bulletin 2020-Q2]
2 [Rabobank - Declining home sales and falling house prices expected]

This June ING released the "Woonindex"[1], which is an indicator on housing market consumer confidence. During 2020-Q2 the indicator dropped 12 points to a level of 91, the largest drop to be observed. The historic low level of 82 was observed in 2013-Q1. Explanations for the decline include that owners of residential properties expect mortgage rates to increase, house prices to decrease and general employment conditions to deteriorate.

1 ING - Vertrouwen woningmarkt hard geraakt door coronacrisis

3. Owner-Occupied Mortgages

Interest rate developments

Across all major risk classes and fixed rate periods, the top six most competitive rates rebounded on average by 17 basis points from the end of 2020-Q1 to the end of 2020-Q2. Similar to 2020-Q1, higher LTV segments saw larger rate increases on average than their lower LTV counterparts: NHG rate increases averaged 12 basis points across major fixed rate periods while the 60%, 80%, and 100% LTV segments saw average rate increases of 17, 17, and 23 basis points respectively.

Rates rebounded in 2020-Q2 with the largest increases in the long fixed-rate periods

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	2019-06-30	2020-03-31	2020-06-30	QoQ	YoY
5-year	NHG	1.23%	0.90%	0.97%	0.07%	-0.26%
	60% LTV (non-NHG)	1.31%	1.03%	1.11%	0.08%	-0.20%
	80% LTV (non-NHG)	1.42%	1.13%	1.21%	0.09%	-0.21%
	100% LTV (non-NHG)	1.74%	1.42%	1.53%	0.11%	-0.21%
10-year	NHG	1.55%	0.98%	1.11%	0.13%	-0.44%
	60% LTV (non-NHG)	1.60%	1.08%	1.28%	0.20%	-0.32%
	80% LTV (non-NHG)	1.71%	1.22%	1.41%	0.19%	-0.29%
	100% LTV (non-NHG)	2.00%	1.49%	1.73%	0.24%	-0.28%
20-year	NHG	2.16%	1.34%	1.50%	0.16%	-0.67%
	60% LTV (non-NHG)	2.27%	1.48%	1.68%	0.20%	-0.59%
	80% LTV (non-NHG)	2.39%	1.60%	1.80%	0.20%	-0.59%
	100% LTV (non-NHG)	2.60%	1.85%	2.15%	0.30%	-0.45%
30-year	NHG	2.43%	1.68%	1.79%	0.11%	-0.64%
	60% LTV (non-NHG)	2.52%	1.78%	1.98%	0.20%	-0.54%
	80% LTV (non-NHG)	2.65%	1.84%	2.06%	0.22%	-0.59%
	100% LTV (non-NHG)	2.85%	2.12%	2.40%	0.28%	-0.45%

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]

In line with the increasing mortgage rate environment throughout 2020-Q2, mortgage spreads have increased across all major risk classes and major fixed rate periods as swap rates (used for determining the mortgage spreads) have decreased. The average spread increase across major fixed rate periods and risk classes was 35 basis points during 2020-Q2. The overall swap decrease was driven in part by an unprecedented set of measures to mitigate the tightening of financial conditions across the euro area. The spreads in 2020-Q2 were roughly equal to year-end 2018 spreads, except for 30-year fixed rate period spreads (which are now 12 basis points higher on average).

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	2019-06-30	2020-03-31	2020-06-30	QoQ	YoY
5-year	NHG	1.58%	1.23%	1.42%	0.19%	-0.15%
	60% LTV (non-NHG)	1.65%	1.35%	1.56%	0.20%	-0.09%
	80% LTV (non-NHG)	1.77%	1.45%	1.66%	0.21%	-0.10%
	100% LTV (non-NHG)	2.08%	1.74%	1.98%	0.24%	-0.11%
10-year	NHG	1.61%	1.14%	1.44%	0.30%	-0.17%
	60% LTV (non-NHG)	1.66%	1.24%	1.61%	0.38%	-0.05%
	80% LTV (non-NHG)	1.77%	1.39%	1.75%	0.36%	-0.03%
	100% LTV (non-NHG)	2.08%	1.65%	2.06%	0.41%	-0.01%
20-year	NHG	1.90%	1.30%	1.65%	0.35%	-0.25%
	60% LTV (non-NHG)	2.01%	1.44%	1.83%	0.40%	-0.18%
	80% LTV (non-NHG)	2.14%	1.57%	1.96%	0.39%	-0.18%
	100% LTV (non-NHG)	2.36%	1.82%	2.31%	0.49%	-0.04%
30-year	NHG	2.09%	1.58%	1.90%	0.31%	-0.19%
	60% LTV (non-NHG)	2.18%	1.69%	2.09%	0.40%	-0.09%
	80% LTV (non-NHG)	2.32%	1.75%	2.17%	0.42%	-0.15%
	100% LTV (non-NHG)	2.54%	2.04%	2.52%	0.48%	-0.02%

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.

Origination and offer volumes

Offer volumes have increased between 40-50% in March and April 2020 versus January of the same year whereas in 2018 and 2019 fluctuations in those months were relatively muted as shown in Figure 3.

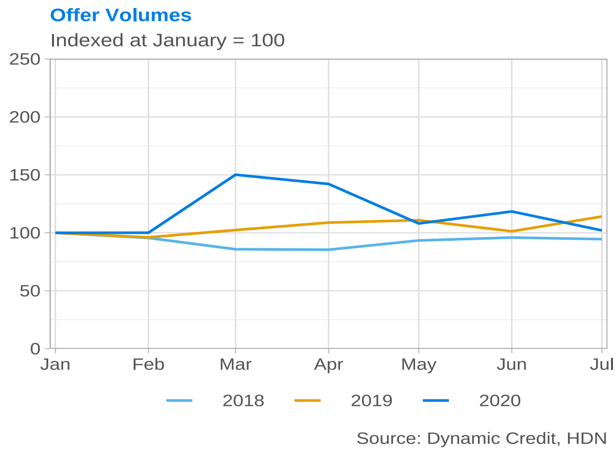


Figure 3: Indexed offer volume in The Netherlands (January 2020 = 100)

This steep increase in volume coincided with the introduction of COVID-19 lockdown measures and is mainly driven by a (more than) doubling of demand for refinancing in March and April versus January as many homeowners expected rates to bottom out as mortgage providers started to increase rates as shown in Figure 4.

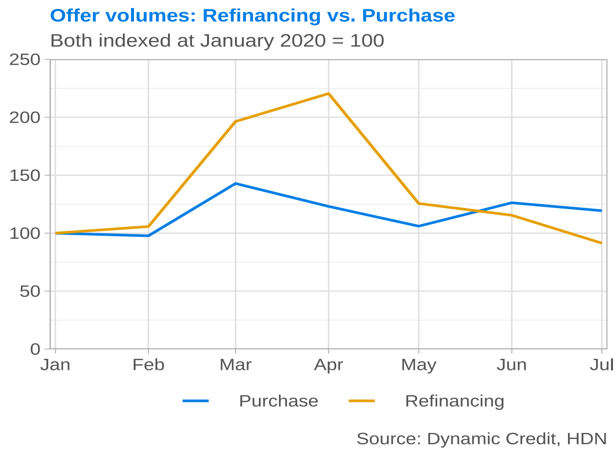


Figure 4: Indexed refinancing- and purchase offer volume in The Netherlands (January 2020 = 100)

Origination volumes are lagging offer volumes by on average three months. The peak in offer volumes is therefore not yet visible in the land registry data. However, a steep increase in origination is visible: year-on-year the land registry reports a total of EUR 66.5 billion of mortgage inscriptions in the first six months versus EUR 45.7 billion in the same period in 2019. In total mortgage inscriptions amounted to EUR 103 billion in 2019. As mortgage inscriptions are generally 10-15% higher than the actual loan amount, the inscription amounts overstate actual mortgage origination.

NHG

Stichting Waarborgfonds Eigen Woningen, a central, privatised entity, has been responsible for the administration and granting of the NHG Guarantee (Nationale Hypotheek Garantie). 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 during 2020-Q2 49,041 NHG loans with a total balance of EUR 9.6 billion were offered through its network (7.5 billion in 2020-Q1). This corresponds to an NHG market share of 25.8% in terms of mortgage loan balance (29.5% in 2019-Q2).

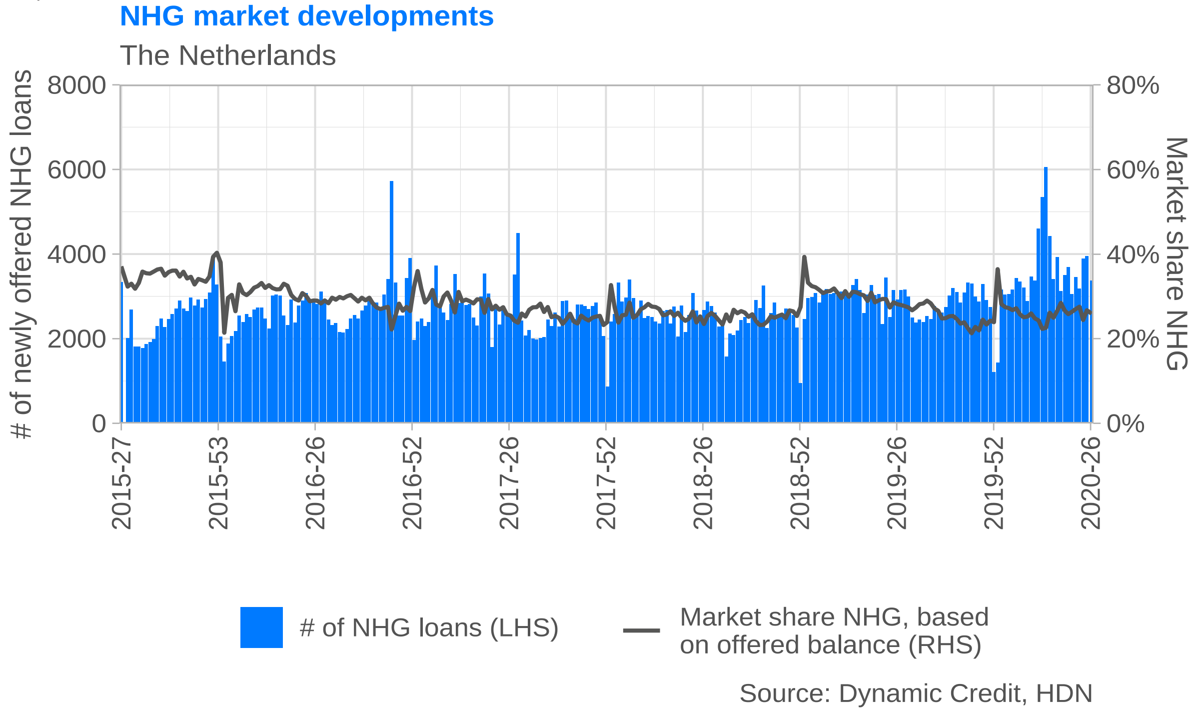


Figure 5: Number of new NHG guarantees and market share of NHG loans as a percentage of total originated balance through time. The x-axis refers to year and week number.

Loss declarations[1]

The number of loss declarations submitted to WEW decreased from 120 in 2019-Q1 to 58 in 2020-Q1, again a strong decrease. WEW indicates that this decrease can mainly be contributed to further increasing house prices. The NHG pay-out ratio of processed declarations increased to 96.9% in 2020-Q1 (was 90.4% in 2019-Q4). The average paid out loss declaration amounted to EUR 10 thousand in 2020-Q1 versus EUR 15 thousand in 2019-Q1.

The impact of COVID-19 is not yet visible in this data. We do not expect to see a significant pick-up in declarations in 2020-Q2 and Q3 due to the widely accepted non-foreclosure statement in Q2 and the offering of payment holidays.

1 NHG - Kwartaalcijferst 2020-Q1

4. Buy-to-let Mortgages

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. Besides that, it allows for equity take-out if this is used for acquiring real estate.

As can be seen in Table 5 below, the average rates decreased. 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	2020-03-31	2020-06-30	QoQ	2020-03-31	2020-06-30	QoQ
1-year	50%	2.39%	2.45%	0.06%	2.78%	2.92%	0.14%
	60%	2.46%	2.53%	0.07%	2.86%	2.99%	0.13%
	70%	2.51%	2.57%	0.06%	2.90%	3.04%	0.14%
	80%	2.80%	2.90%	0.10%	3.19%	3.37%	0.18%
	90%	3.20%	3.25%	0.05%	3.59%	3.72%	0.13%
5-year	50%	2.38%	2.45%	0.07%	2.71%	2.91%	0.20%
	60%	2.46%	2.53%	0.07%	2.79%	2.98%	0.19%
	70%	2.49%	2.55%	0.06%	2.82%	3.01%	0.19%
	80%	2.86%	2.96%	0.10%	3.19%	3.42%	0.23%
	90%	3.25%	3.30%	0.05%	3.58%	3.76%	0.18%
10-year	50%	2.52%	2.58%	0.06%	2.69%	2.93%	0.24%
	60%	2.59%	2.66%	0.07%	2.77%	3.00%	0.23%
	70%	2.63%	2.70%	0.07%	2.81%	3.05%	0.24%
	80%	2.92%	3.02%	0.10%	3.10%	3.37%	0.27%
	90%	3.40%	3.45%	0.05%	3.59%	3.80%	0.21%
20-year	50%	2.74%	2.88%	0.14%	2.73%	3.06%	0.33%
	60%	2.79%	2.93%	0.14%	2.78%	3.11%	0.33%
	70%	2.87%	3.01%	0.14%	2.86%	3.19%	0.33%
	80%	3.30%	3.38%	0.08%	3.30%	3.57%	0.27%
	90%	3.60%	3.65%	0.05%	3.61%	3.85%	0.24%

Table 5: Interest rate and spread development for consumer buy-to-let rates in the Netherlands.
Source: Dynamic Credit, Hypotheekbond.

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

Rental market[1,2,3,4]

The Dutch Minister of Internal Affairs, Kajsa Ollongren, has proposed a variety of measures with the aim to limit how vulnerable groups (such as starters on the labour market and middle-income earners) are negatively affected by the housing shortage. The measures could come into effect for an initial period of three years and are then periodically re-evaluated.

The measures need to be ratified by the senate but the current coalition in parliament does not have a majority there. A majority of senate is in favour of banning the yearly rent increases following the global pandemic which is not adopted in the proposal of the Minister. This is a very uncommon situation because this stance is very political in nature while the senate historically has the role of (dis)approving legislation proposed by parliament.

A senate majority has accepted a motion of censure relating to the housing market policy of parliament. Threats have been made that all draft legislation brought forward by Minister Ollongren will be blocked until the proposal by senate is accepted. The view of the Minister is that freezing rents would be disproportionate because landlords will be hit unreasonably hard because it also applies for tenants that do not need such financial support. Landlords are expected to apply customized solutions for tenants in temporary financial hardship. The proposed measures are:

- The yearly rent increase in the private sector is currently unrestricted (depending on exact clauses in the rental contract it is usually a yearly inflation correction or increase that is to the discretion of the landlord). In the proposal, the increase is limited to inflation +2.5% per year.
- Municipalities will get the authority to implement restrictions on buy-to-let by prohibiting letting following a purchase. The intention of this measure is to keep the pool of affordable properties available to starters and middle-income earners, and to keep a balance between rental and owner-occupied properties in areas that are attractive for buy-to-let investors. In areas where this measure is active, buy-to-let investors must be allowed to apply for a permit in case the property caters to for an underserved market such as the middle rent segment (the EUR 700 to EUR 1,000 per month segment).
- Extension of maximum term allowed on a temporary rental contract. Currently, a temporary rental contract is allowed once for a period of at most two years. The measures include a proposal to allow for extension with one to two years, for a total of three years.

Rental market developments[5]

Housing platform Pararius reports a 2.4% YoY increase of the average Dutch rental price per square meter during 2020-Q2, the smallest increase since 2015-Q1. Some major cities in the Netherlands displayed negative rent developments: e.g. in the cities Eindhoven, Amsterdam and The Hague the rental price per square meter decreased by 1.9%, 1.4% and 0.5% respectively.

An important explanation for the decreasing rental prices was the decrease in housing demand from both expats as well as tourists. There was a lack of newly arriving expats coming to work in the Netherlands and many tourists have postponed their trips to the Netherlands due to travel restrictions and general fears due to COVID-19. This in combination with the already stricter regulations of platforms like Airbnb induces property owners to enter the private rental sector which gives rise to further downward pressure on rents.

1 Rijksoverheid - Tijdelijke huurverlaging voor meer financiele ruimte
2 Tweede Kamer - Wijziging van Boek 7 van het Burgerlijk Wetboek, van de Uitvoeringswet huurprijzen woonruimte en van de Woningwet
3 Rijksoverheid - Jaarlijkse huurverhoging vrije sector gemaximeerd
4 Financieel Dagblad - Minister-ollongren-probeert-huurconflict-met-senaat-te-sussen
5 Pararius - Dalende huurprijzen in grote en middelgrote steden

5. Funding Update

RMBS

Activity in the Dutch RMBS market came to an abrupt standstill in April following the COVID-19 virus outbreak. In the first two months of the year, four deals were issued, only one of which was prime. In the second quarter of the year, only one (100% NHG) deal was priced. Total year-to-date distributed Dutch RMBS issuance for 2020 is now EUR 2.2 billion, compared to EUR 5.2 billion over the same period last year. With Nationale Nederlanden Bank's EUR 2.1 billion Hypenn VII and Aegon Bank's EUR 1.6 billion Seacure 19 two large transactions were added to the retained balance which brings total year-to-date retained issuance for 2020 to EUR 3.8 billion (compared to EUR 4.3 billion in 2019).

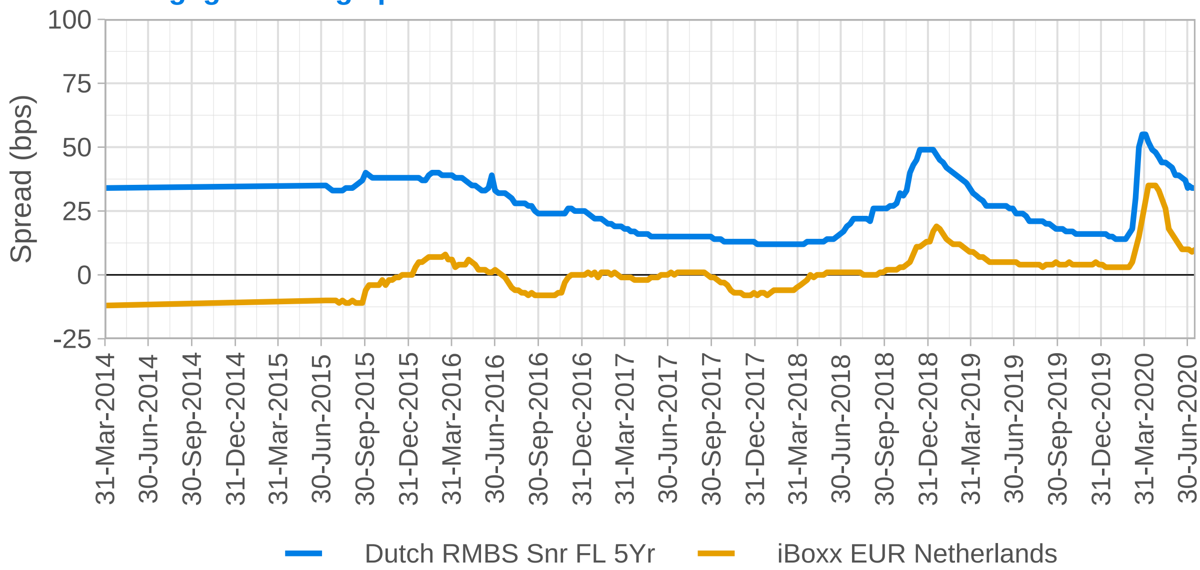
Muted activity in RMBS markets

The only distributed, albeit pre-placed, Dutch RMBS deal in 2020-Q1 was Bastion 2020-1 NHG sponsored by Belgian MeDirect Bank and sized at EUR 375 million. MeDirect has recently entered the Dutch residential mortgage loan market through the Blauwtrust Groep's Dutch Mortgage Portfolio Management platform that operates the HollandWoont label. The deal is not STS-compliant, but all loans benefit from an NHG guarantee. The Class A notes, that have ca. 8% credit enhancement, were priced at 3m Euribor + 0.60%. The pool has 2.5 WA months seasoning, average loan balance of EUR 201 thousand and a WA current loan to original market value of 87.4%. The share of self-employed borrowers is 3.75%.

Covered Bonds

Issuance by Dutch banks in the second quarter of 2020 amounted to EUR 2.3 billion. Dutch covered bond benchmark spreads ended the quarter at 10 bps, 15 bps tighter compared to the end of 2020-Q1 levels.

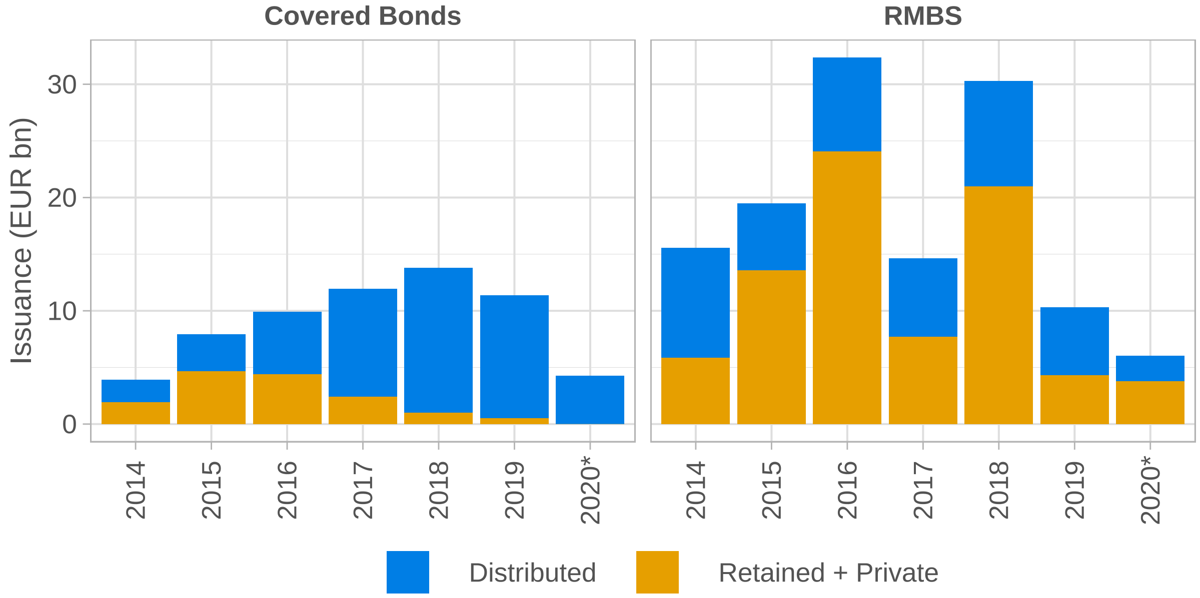
Mortgage funding spreads



Source: Dynamic Credit, JP Morgan

Figure 6: 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-Q2.

Mortgage funding issuance



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

Figure 7: Issuance of Dutch RMBS and covered bonds. The data is as of 2020-Q2.

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Dutch RMBS market: Priced Dutch prime RMBS deals

One new Dutch prime RMBS deal was priced during 2020-Q2

Date	Issuer	Series	Seller	Class	Euro Amount	FXFL	Spread	Benchmark	M	DBR	Retained	Comments
2020-05-08	Bastion BV	2020-1 NHG	MeDirect Bank	A	379	FL	60	3m Euribor	Aaa	AAA	N	EUR 375mm; WA CLTV 87.4%; WA Seasoning 2.5m; Self employed 3.75%; IO Loans 18.9%;
				B	28				NR	NR	Y	
				C	5				NR	NR	Y	

Table 6: Priced Dutch RMBS Deals in 2020-Q2. Source: Dynamic Credit, JP Morgan

6. News

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

Macroeconomic update

The Dutch economy has been seriously affected by the lockdown following the global pandemic. The lockdown measures were not very strict when compared to other countries and the effects are therefore still relatively mild. The lockdown measures were imposed mid-March and were lifted in the course of June.

Consumption[1]

Consumption has declined extremely in the second quarter: April had the worst YoY decline of 17.3% while May was only slightly better with a 12.8% YoY decline. In May, the services sector experienced the largest decline (22.4%) which includes lower spending on restaurants, theatres, bars, amusement parcs, gyms, soccer matches and public transport. The decline is partially counteracted by higher spending on phone subscriptions, internet subscriptions, insurance, private lease and delivery services

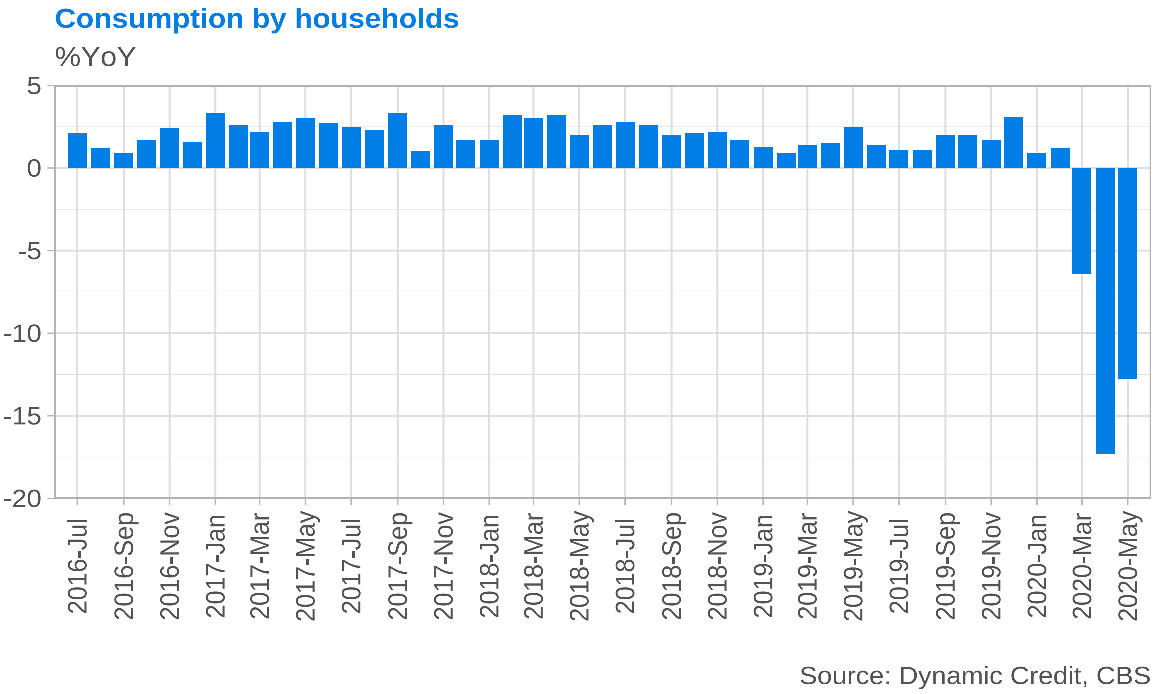

Figure 8: YoY change in consumption by Household in The Netherlands. As of June 2020.

GDP

In the first quarter economic growth was -1.5% QoQ (GDP is published with a 1.5-month lag and the Q2 number has not been published at the time of writing). CBS writes that the decline was mostly caused by decreased consumer spending. In March, consumer spending was 6.4% lower than a year earlier.

1 CBS - Household spending almost 13 percent down in May

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Unemployment[1]

The number of unemployed has increased over the second quarter with 131 thousand to 404 thousand in June; 4.3% of the working population. The growth was strongest in June with 74 thousand new registrations. Note that unemployment is measured by a sample test and was previously reported as a three-month average. The COVID-19 pandemic has triggered monthly reporting but that could lead to more volatility and ex post corrections of the results. For context, the total number of unemployment benefits granted increased from 250 thousand in March to 301 thousand in May (and remained unchanged in June).

After the significant decrease in the first months following the pandemic, the labour force has grown by 119,000 in June. The increase mainly consisted of people that were not looking for work in the preceding months. Some of them found a job, but a larger number became unemployed.

In the first months of 2020, consumer confidence was slightly negative between -2 and -3 (it ranges from -40 to 40). The global pandemic pushed it downwards to its lowest point of -32 in April, after which it recovered to -26 in July. Consumers are especially negative about the current economic climate.

Subsidies[2]

Employment has been generously supported by the Dutch government with the NOW (Tijdelijke Noodmaatregel Overbrugging Werkgelegenheid – for companies) and TOZO (Tijdelijke overbruggingsregeling zelfstandig ondernemers – for self-employed) programs. The goal of the programs was maintaining as many jobs and incomes as possible.

Under this temporary emergency measure for the preservation of jobs (“NOW”), up to 90% of labour costs are subsidized if a company experiences a revenue decline due to the global pandemic. The program has been successful as mostly temporary workers and agency workers have been laid off so far. The program in its current form is in effect until September 2020. As of June, the program has supported 2.1 million workers in 123 thousand companies for a total of EUR 8.7 billion

The temporary scheme for self-employed (“TOZO”) supports self-employed by subsidizing income up to the social minimum and a working capital loan of up to EUR 10,157. The subsidy has been extended to September in its current form[3]. The program is administered by the municipalities so no exact numbers are published yet. The Ministry of Finance estimates that 357,000 self-employed people made a claim to the subsidy so far.

Forecasts

The coming period will be dominated by the economic fallout of the measures to limit the spread of COVID-19 and the expiry of the NOW and TOZO programs later this year. Several research departments of companies and institutions that have published forecasts include: ABN Amro Economic Bureau, CPB (Central Planning Bureau), DNB (Dutch Central Bank), European Commission, ING and Rabobank Research.

1 CBS - Unemployment rises to 404 thousand in June
2 Rijksoverheid - Overzicht financiele regelingen: NOW
3 Rijksoverheid - Overzicht financiele regelingen: TOZO

The average of the forecasts of GDP growth in 2020 is -6.3%. The forecasts are under the assumption that there will be no "second wave" of the spread of the virus such that lockdown measures need to be re-imposed. The average expected growth of GDP in 2021 is 3.3%, which would leave GDP at a level significantly below the 2019 level. All parties expect inflation to pick up in 2021, with the average forecasted value being 1.3%. This is compared to 0.9% in 2020.

Only CPB, DNB and Rabobank have published unemployment forecasts. Both Rabobank and CPB estimate it to reach 5% this year while DNB expects 4.6%, resulting in a 4.9% average. In 2021, unemployment is expected to rise further, and the average expected value is 7.0%.

Monetary policy/ ECB

On 18 March, the President of the European Central Bank ("ECB"), Christine Lagarde, presented a bond-buying program of EUR 750 billion for 2020 (Pandemic Emergency Purchase Programme or "PEPP") following the global pandemic[1]. On 4 June, the ECB released that the program will be increased by EUR 600 million to a total of EUR 1.35 billion and extended to June 2021. Reinvestments of principal from maturing securities purchased under PEPP will be made until at least the end of 2022.

Purchases under the asset purchase program ("APP") will continue at EUR 20 billion per month together with the additional EUR 120 billion for 2020. Reinvestments will continue to be made for the foreseeable future.

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 Governing Council expects no increases until inflation hits the "close to, but below, 2%" level.

EU

On the 21st of July, the EU leaders have agreed on the multi-year EU budget and recovery fund for member countries following the global pandemic. The recovery fund totals EUR 750 billion of which EUR 390 billion will be subsidies and EUR 360 billion will be loans[2]. The countries that were hit hardest – such as Italy and Spain – can claim from the subsidies. For both the loans and subsidies conditions apply and approval from the Commission and member states is required. The fund will be available for requests in the coming 3 years and will close after that period.

The European Commission has been mandated to access the capital markets with the European budget (as financed by the member states) as collateral. This will be the first time that bonds will be issued by the European Commission. Repayments will be (at least partially) made from new income sources such as taxes on plastic garbage, taxes on digital activities, expanding the emissions trading system and to-be imposed taxes.

EIB

In March, the European Investment Bank ("EIB") has announced a EUR 40 billion program to support European companies under strain from the COVID-19 pandemic and its economic effects[3]. The funding will go towards bridging loans, credit holidays and other measures designed to alleviate liquidity and working capital constraints for SMEs and mid-caps.

1 ECB - ECB announces €750 billion Pandemic Emergency Purchase Programme (PEPP)
2 European Council - Special meeting of the European Council 17-21 July 2020
3 EIB - EIB Group will rapidly mobilise EUR 40 billino to fight crisies caused by COVID-19

In May, the Pan-European Guarantee fund has been announced for a total of EUR 25 billion[1]. The intention of the fund is to mobilise up to EUR 200 billion of funding to SMEs and others in the real economy. Its focus is on companies that are viable in the long-term but are currently struggling due to the economic fallout following the COVID-19 pandemic.

In addition to the above programs, EIB has made EUR 6 billion available for investments in the health care sector. This is available for medical infrastructure, further research, or other vaccine- and cure-related financing. Given that EIB provides this funding in the form of guarantees or partial financing, the committed amount should mobilize a multiple of that amount. Plans are being made to make EUR 5 billion available for coronavirus support outside the EU to support healthcare infrastructure, as well as to maintain access to finance for impacted SMEs.

1 EIB - EIB Board approves EUR 25 bn Pan European Guarantee Fund to respond to COVID-19 crisis

EBA Guidelines on loan origination and monitoring published

After issuing Draft Guidelines on loan origination and monitoring on 19 June 2019, the European Banking Authority ("EBA") published the final report ("the Guidelines") on 29 May 2020. Due to the variety of requirements and the volume of consultation comments received, publication was delayed.

Implementation timeline

The publication of the final report came in the middle of the COVID-19 pandemic. This results in exceptional circumstances which were taken into account by the EBA. They introduce a 3-phase implementation period to allow institutions to cope with immediate operational priorities related to COVID-19:

- After 30 June 2021, the guidelines apply to newly originated loans and advances;
- After 30 June 2022, the guidelines will apply to existing loans that require negotiation or contractual changes (the changes should require a credit decision approval and a new loan agreement or addendum to the existing agreement with the borrower); and
- After 30 June 2024, the full monitoring requirements apply to the stock of existing loans, meaning that institutions have until then to address possible data gaps and adjust their frameworks and infrastructure for the monitoring of existing loans.

Scope of application

The Guidelines apply to institutions as defined in Regulation no. 575/2013, article 4(1) point 3, which included the following institutions:

- Credit institutions: an undertaking 'the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account'
- Investment firms: 'any legal person whose regular occupation or business is the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis'[1]

Section 5 (creditworthiness assessment) itself has a broader scope and applies, with the exception of paragraph 93, to creditors within the meaning of the de Mortgage Credit Directive or the Consumer Credit Directive. Creditors being natural or legal persons 'who grant or promise to grant, to a consumer, a credit in the course of his trade, business or profession'. Competent authorities may decide to apply Section 6 (pricing) and 7 (valuation) to these creditors as well.

1 excluding the following as set out in Regulation no. 575/2013 :
a. credit institutions;
b. local firms;
c. firms which are not authorised to provide the ancillary service referred to in point (1) of Section B of Annex I to Directive 2004/39/EC, which provide only one or more of the investment services and activities listed in points 1, 2, 4 and 5 of Section A of Annex I to that Directive, and which are not permitted to hold money or securities belonging to their clients and which for that reason may not at any time place themselves in debt with those clients;

Content

The objective of the Guidelines is to improve institutions' practices and governance arrangements, processes and mechanisms regarding credit granting and ensure the institutions practices are robust and prudent to credit risk taking, management and monitoring. Furthermore, the Guidelines ensure that newly originated loans are of high credit quality and respect consumer protection rules. With these Guidelines, the EBA aims to improve the financial stability and resilience of the EU financial system. To achieve this, the Guidelines cover the following topics:

- Internal governance and risk framework related to credit-granting and credit-decision making (including anti-money laundering and counter-terrorism financing requirements)
- Assessment of the creditworthiness of borrowers
- Pricing of loans
- The valuation of immovable and movable property (both at origination and during the lifetime of the loan)
- Ongoing monitoring of credit risk and credit risk exposure

Based on feedback received by the EBA, the principle of proportionality has been implemented in the Guidelines in several ways. For the requirements of the internal governance and risk framework, proportionality is based on the size, nature and complexity of the institution. However, for the assessment of creditworthiness, collateral valuation and credit risk monitoring, proportionality is based on the size, nature and complexity of the credit facility. The application of proportionality intends to make loan origination and monitoring criteria proportionate to the size, complexity and risk profile of the loans or credit facilities originated and monitored.

Compared to the draft version published in June 2019, the Guidelines clarify certain topics, such as dividing 'professional' borrowers into two specific groups (micro and small enterprises versus medium-sized and large enterprises), aligning definitions with other European legislation and clarifying that annexes represent best practices rather than minimum requirements. However, the EBA has introduced changes that require additional efforts from institutions, amongst others:

- Additional requirements to incorporate ESG (environment, social and governance) factors and associated risks into policies and assessments
- The requirement to have a separate pricing framework for different type of loans
- Supplemental monitoring requirements in relation to leveraged transactions and in relation to qualitative factors related to loan repayment prospects

To summarize, the way in which the Guidelines approach the monitoring of credit quality during the lifetime of a loan has a major impact on the organization of data, technology, governance and processes of institutions. The Guidelines are also expected to influence the relationship with borrowers and the commercial lending practices.

Appendix

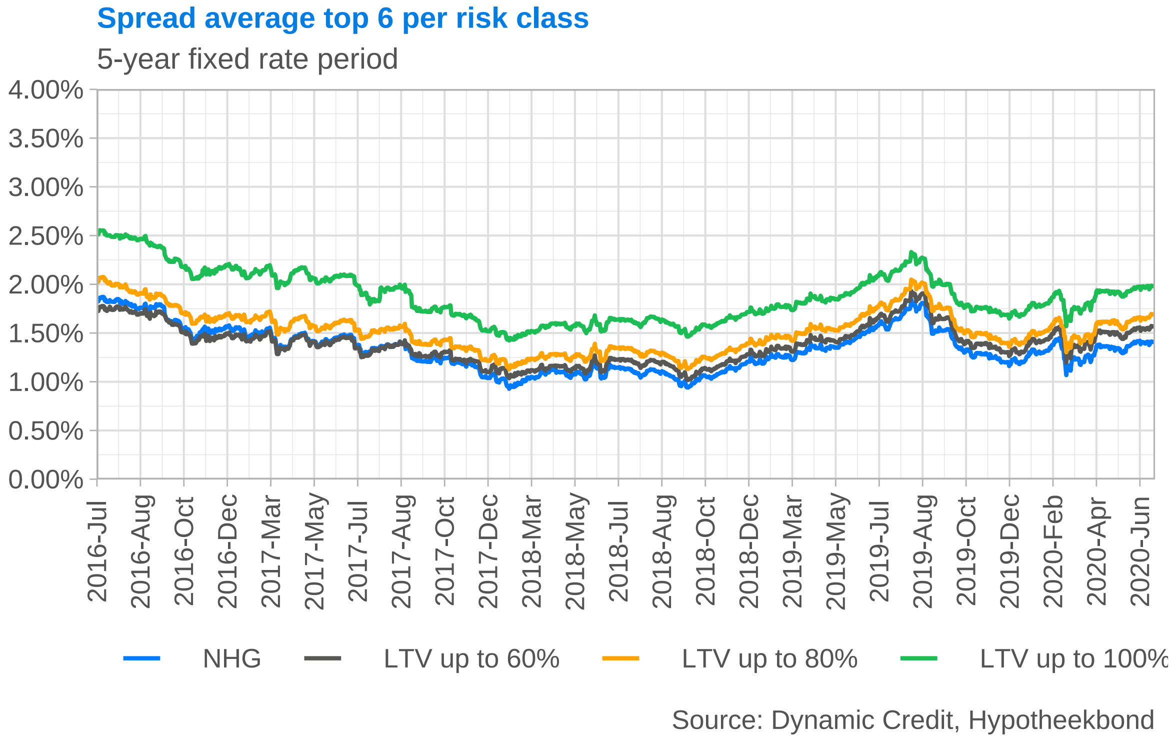

Figure A1: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 5-year fixed rate period for four risk classes. Up to and including 21/7/2020.

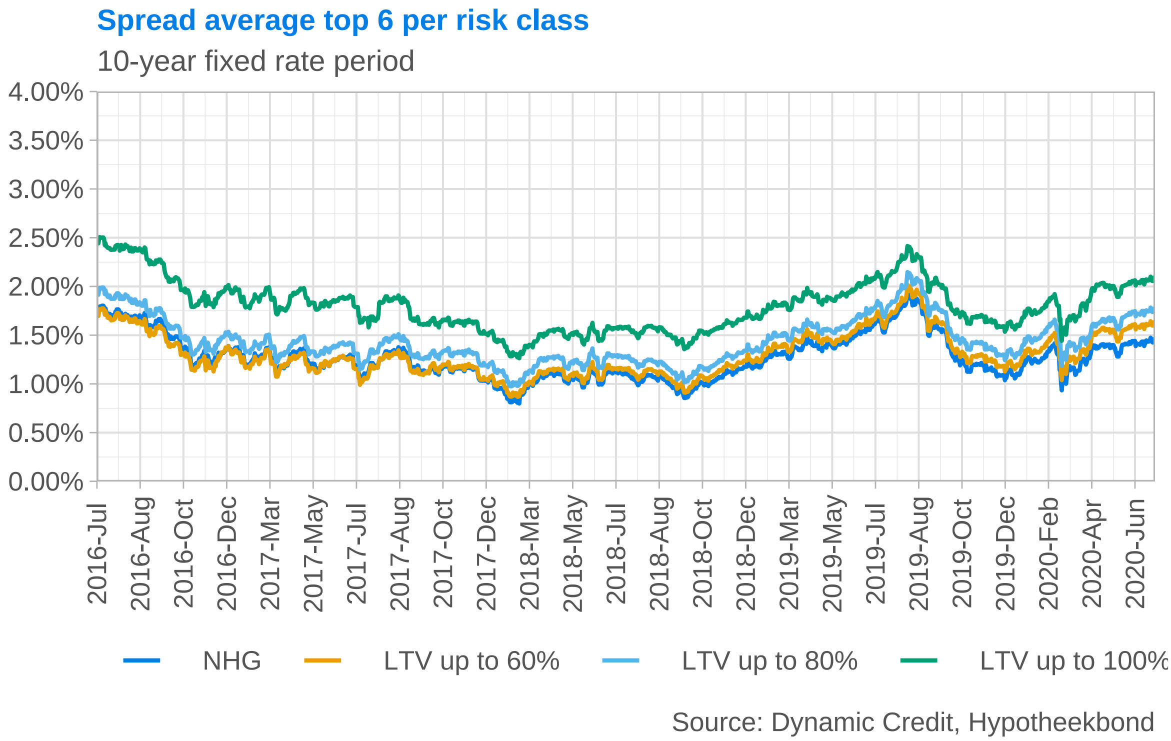

Figure A2: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 10-year fixed rate period for four risk classes. Up to and including 21/7/2020.

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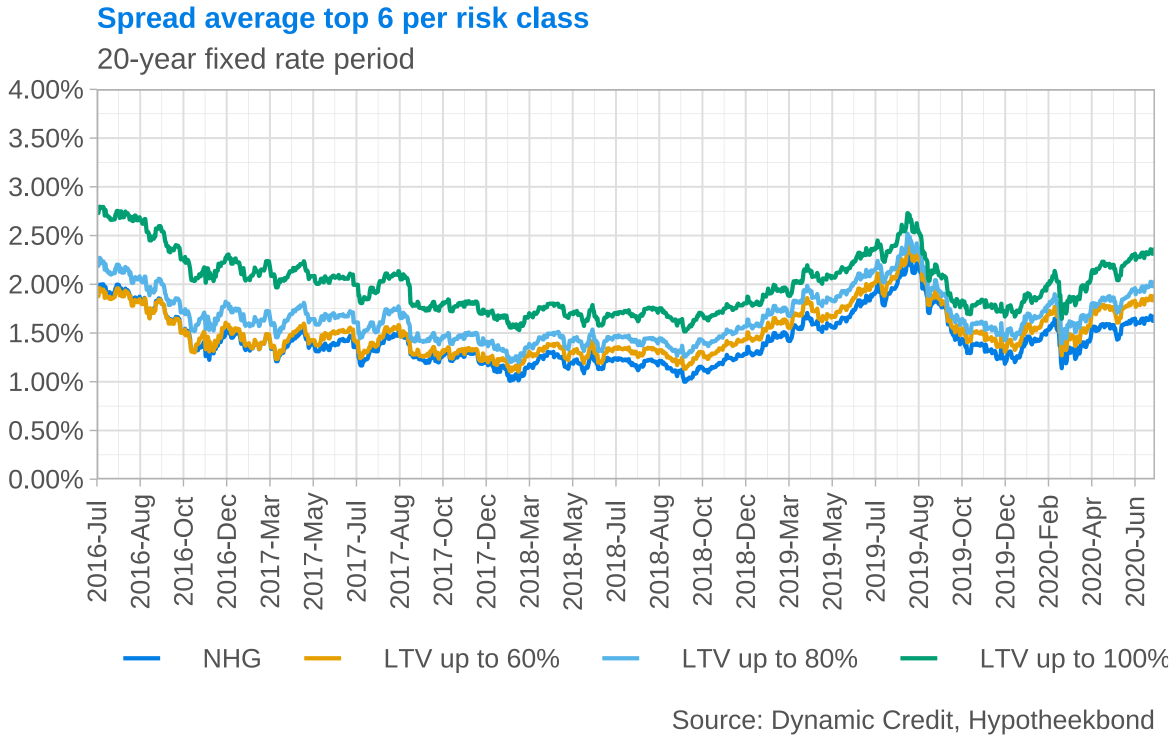

Figure A3: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 20-year fixed rate period for four risk classes. Up to and including 21/7/2020.

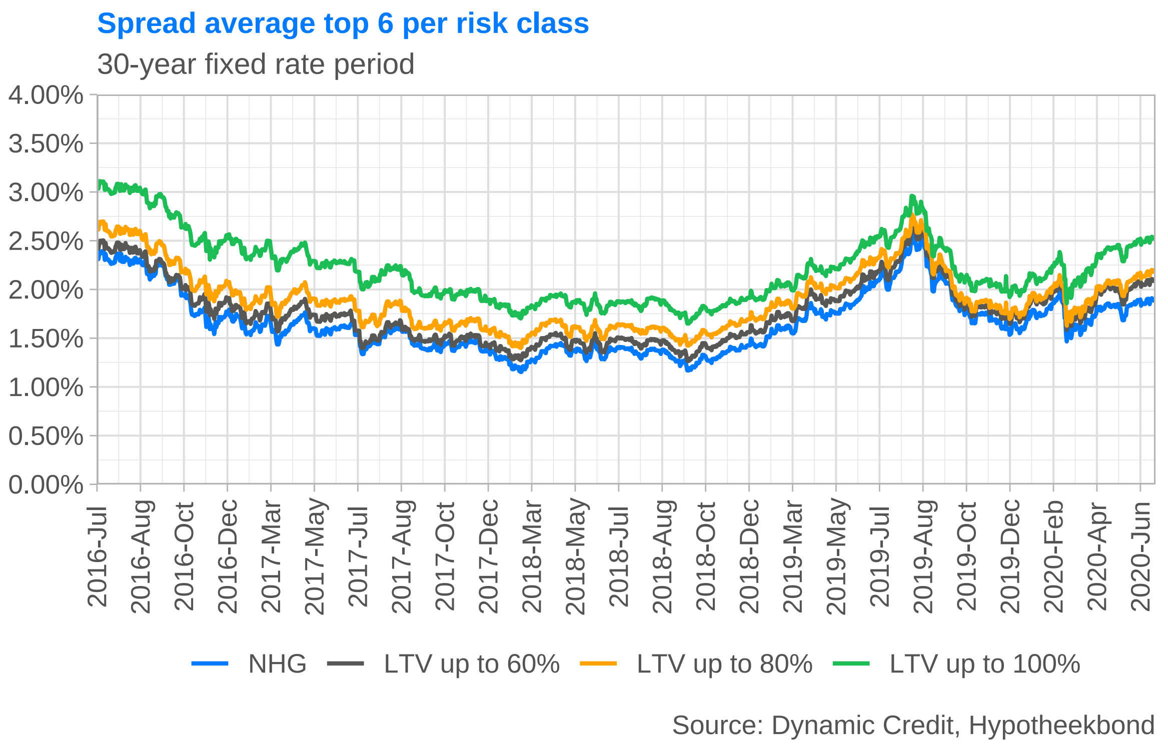

Figure A4: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 30-year fixed rate period for four risk classes. Up to and including 21/7/2020.

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