DYNAMIC CREDIT

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Contents

Dutch Housing Market Update 2020 Q3

Contact

Jasper Koops

Head of Portfolio Management

Dynamic Credit

Frederik Roeskestraat 97D

1076 EC Amsterdam

The Netherlands

Desk: + 31 20 794 60 58

jkoops@dynamiccredit.com

www.dynamiccredit.com

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.

The Dutch housing market, just like many other housing markets in the Western world, has shown strong performance since the start of the COVID-19 pandemic due to monetary measures keeping interest rates low, fiscal measures protecting incomes and changing preferences of homebuyers due to spending more time at home. The negative economic impact so far is disproportionally affecting younger generations, employees with flexible contracts and self-employed, subgroups which are underrepresented in the population of homeowners."

Jasper Koops,
Head of Portfolio Management

1. Executive Summary

Payment holidays: On 28 August 2020 the government announced that interest rate deductibility on payment holidays will be extended and all payment holidays issued before 1 January 2021 will be eligible. However, there are a lot of differences between the approaches of lenders, with some lenders even abandoning the payment holiday as a standard option.

Government measures: The Dutch government extended multiple measures for supporting employment, business continuity and providing credit, sometimes in a reduced form. In addition, new supporting measures were announced for specific sectors.

Consumer confidence: Consumer confidence recovered by 6 points to 99 in the third quarter. Fewer consumers believe that COVID-19 has a negative effect on house prices and a positive effect on interest rates.

House prices: Dutch House Prices increased by 2.4% QoQ and 8.1% YoY during 2020-Q3. Transaction prices increased by 11.6% YoY during 2020-Q3. The continuation of the housing boom led to an upward revision of house price forecasts for this and the coming years.

NHG guarantees: The market share of NHG decreased 2.4 percentage points YoY. The new calculation method for the NHG cost limit results in a limit of EUR 325,000 per 1 January 2021, compared to the EUR 310,000 limit in 2020.

Offer volumes: While offer volumes peaked in March and April 2020, in May and throughout the third quarter volumes decreased to levels that are in line with the same period in 2018 and 2019.

Spreads: In the third quarter swap rates decreased and mortgage rates decreased slightly more, resulting in decreasing mortgage spreads. On average, the spread decrease across major fixed rate periods and risk classes was 4 basis points.

RMBS activity: The third quarter showed no recovery in Dutch RMBS activity. Only one RMBS deal and one BTL deal were distributed.

Property transfer tax: Under the new property transfer tax regime, which effectuates in 2021, buyers under 35 years old are exempt from the transfer tax of 2% once. For investors (e.g. BTL) the transfer tax increases to 8% of the purchase price.

Consumption: In August, the consumption of households in the Netherlands was 5.8% lower compared to last year. Since the low of April (-17.1%), the decline became smaller. The decline is mainly driven by a drop in spending on services.

2. Market Update

COVID-19 related measures

Since the start of the corona crisis in March 2020, the government and financial institutions have taken several measures and initiatives to support both businesses and consumers in financial distress due to the crisis. These measures and initiatives have been frequently used. Data of the Dutch Banking Association ("NVB") shows that from 1 March 2020 up to and including 28 September 2020, almost EUR 26 billion of financing has been issued by banks alone to businesses. In addition, 34,000 payment holidays were issued by the banks to consumers alone (22,000 related to mortgage loans, 12,000 related to unsecured consumer financing), amounting to a total of EUR 81 million. It is expected that with the current second wave and partial lockdown, more businesses may need to use these measures as the financial reserves they have had during the first wave might run out.

34,000 payment holidays granted to consumers by banks alone

The following sections provide an update on the measures that have been introduced in the COVID-19 pandemic that are relevant for the developments of the Dutch housing market.

Payment holidays

Payment holidays have been introduced at the beginning of the corona crisis by financial institutions to give borrowers who experience temporary financial distress due to the corona crisis some financial leeway, by deferring both interest and principal payments for a period of 3 to 6 months. Even though, to adhere to fiscal requirements of interest rate deductibility, these payments originally would have to be repaid in the year following the year that the payment holiday was issued, the government contributed as well and allowed the missed payments to be repaid during the remaining maturity of the loan (either by spreading the payments over the remainder of the maturity or by splitting them into a separate loan part) without losing the right of interest rate deductibility.

Banks stop with providing new payment holidays as a general solution for payment issues

Originally, only loans with payment holidays issued before 1 October 2020 and with a maximum duration of 6 months were to remain eligible for interest rate deductibility. However, on 28 August 2020 it was announced that this measure would be extended and is now applicable to loans with payment holidays issued before 1 January 2021 and with a maximum duration of 12 months. Nonetheless, there are many differences between lenders regarding the maximum duration of the payment holidays, with some maximizing the payment holidays to the original 6 months (3 months plus possible extension of 3 months) and others even stop providing the payment holiday as a general option.

Financial institutions stop providing new payment holidays as a general option because these were introduced to provide a solution for temporary payment issues. With the corona crisis continuing, the payment issues are expected to be more structural and a payment holiday is not considered a fitting solution to such issues[1].

Repayment of the granted payment holidays generally follows one of the following two approaches: either the borrower must repay the paused instalments via a linear repayment schedule in 5 or 10 years (depending on the duration of the payment holiday) or the repayment ability of the borrower is assessed on an individual basis.

Income assessment guidelines NVB extended up to and including 31 December 2020

Income assessment guidelines

The guidelines issued by the NVB that aimed at correctly assessing the borrower's income during the corona crisis, are again extended until 31 December 2020[2]. The guidelines require the income documents of a borrower to be no older than 8 weeks at the moment the binding offer is issued. Next to that, the income of self-employed borrowers and freelancers is more extensively assessed. These borrowers have to answer questions relating to the impact of corona on their income and financial buffers are taken into account in the overall affordability assessment.

Government measures

The government has extended many of the existing support measures, but under stricter conditions to ensure that they support the most severely impacted sectors. The overview below provides an update of the government measures:

- **Temporary bridging measures for employment opportunities ("NOW")[3]:** consists of an arrangement in which companies can temporarily receive funding of employment expenses. As of 1 October 2020, this measure is extended for nine months divided into three equal periods. In the first 3-month period, businesses can apply for this compensation when they experience a revenue decline of 20%. This percentage will be 30% for the second and third extension period. Next to that, while the original compensation was 90% of the employment expenses, this is decreased to 80% in the first extension period and further deducted to 70% and 60% in the second and third extension period respectively. Businesses that make use of this measure are no longer prohibited to terminate employment contracts due to the company's financial position.
- **Temporary bridging measure for self-employed borrowers ("TOZO")[4]:** consists of income support up to EUR 1,500 a month (net) and a favorable loan for businesses to obtain capital. This measure is extended with nine months to 1 July 2021. The eligibility criteria for the income support will become more strict, in the sense that from 1 April 2021 proof of a lack of readily available private equity (e.g. savings, cash and stocks) should be provided. If this amounts to more than EUR 46,520, no income support is provided. Originally it was intended to implement this on 1 October 2020, but due to the second partial lockdown this has been postponed. From 1 July 2021, the general welfare benefit for self-employed borrowers ("BBZ") will apply.

1 NOS - Tweede lockdown, maar banken geven niet zomaar tweede betaalpauze
2 NVB - Uitgangspunten voor vaststellen inkomen bij hypotheek aanvraag
3 Rijksoverheid - NOW regeling
4 Rijksoverheid - TOZO regeling

- **Reimbursement fixed costs ("TVL")[1]:** offers a reimbursement for SME's to help cover part of their fixed expenses. This measure is extended with nine months to 1 July 2021. The original maximum amount of EUR 50,000 per four months, is increased to EUR 90,000 per three months. The criteria are however more strict. With the aim of helping the businesses that are struck the hardest, the criteria of a 30% revenue decrease, will be increased to 40% as of 1 January 2021 and to 45% from 1 April 2021. The percentage of fixed costs that can be reimbursed remains at 50%. Even though this measure was originally only applicable to SME's in certain sectors, due to the second partial lockdown, the government announced on 27 October 2020 that the limitation on certain sectors will temporarily be removed for the period of 1 October 2020 until 31 December 2020.
- **Subsidies for catering and events sector[2]:** on top of the existing TVL, the government announced on 27 October 2020 that businesses in the catering sector can apply for a one time subsidy to compensate for stock waste due to the closing of this sector (for a second time) and to compensate for measures taken by these companies to adjust to the 1,5 meters society. The compensation will be approximately 2.75% of the revenue decrease, expected to come down to an average subsidy of EUR 2,500 per business. Businesses in the event sector that used the TVL in the summer, but in Q4 2020 do not have a revenue decrease of at least 30% (due to the fact that most revenue is generated in the summer months), will receive a one time subsidy as well, based on the TVL received during the summer months. On average these businesses will receive EUR 14,000.
- **Deferral in the payment of taxes[3]:** Requests for deferral of taxes could be submitted until 1 October 2020. This means that the last deferrals will end on 1 January 2021. The collection interest rate will remain 0.01% up to and including 31 December 2021.

1 Rijksoverheid - Tegemoetkoming Vaste Lasten (TVL) vanaf Q4 2020
2 Rijksoverheid - Aanvullingen op derde steunpakket corona
3 Rijksoverheid - Belastinguitstel tot 1 januari, ruime terugbetalingsregeling voor ondernemers

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. While COVID-19 had a negative impact on consumer confidence in this year's second quarter, the indicator shows recovery in consumer confidence leading to an increase of 6 points to 99 in the last quarter. 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 shows recovery in the third quarter

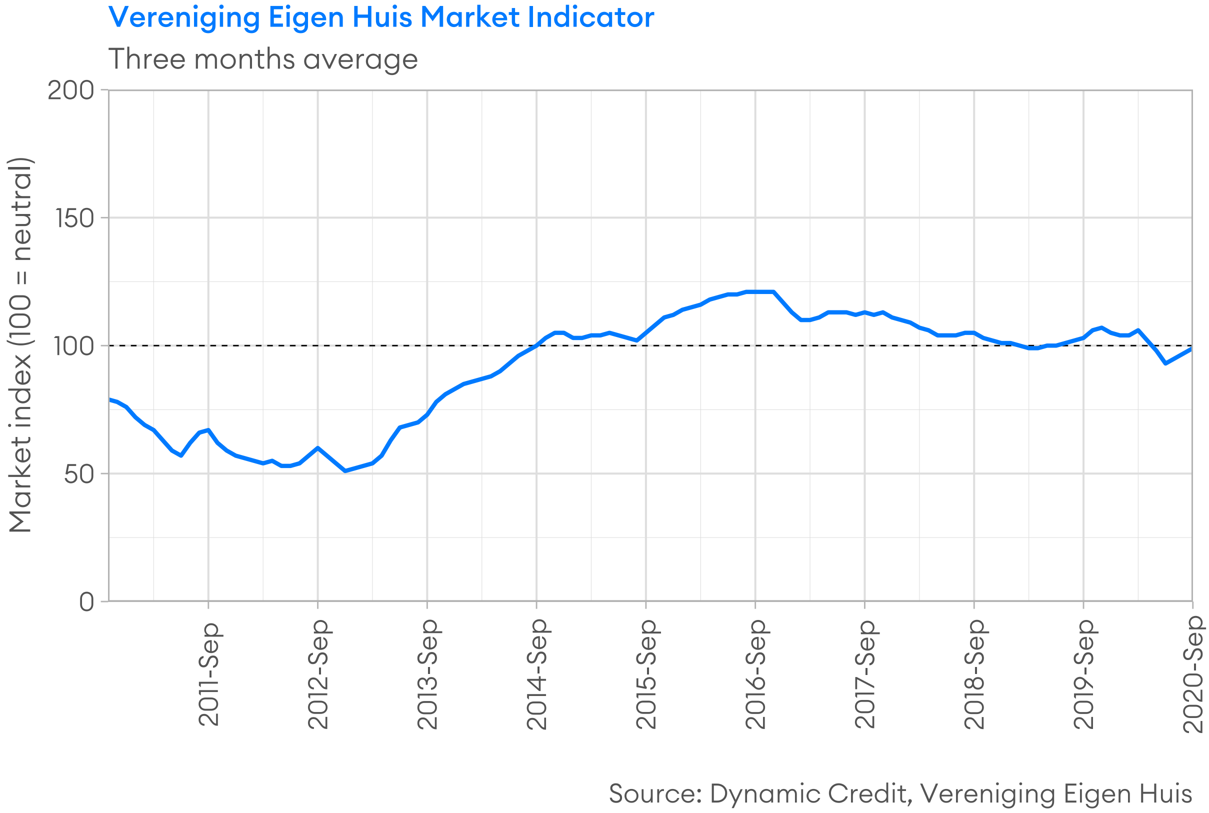


Figure 1: Vereniging Eigen Huis Market Indicator. As of September 2020.

The most recent poll showed that fewer and fewer consumers believe that COVID-19 negatively affects house prices. Only 8% of the respondents expect that house prices will decline, compared to 20% in June. In addition, the percentage of respondents who expect an interest rate increase came down to 32% at the end of the third quarter, opposed to 44% in June. Altogether, the percentage of people that see the market environment as (highly) unfavorable to buy a house at this moment, approximately 37%, hasn't changed much. This sentiment is not solely driven by the consequences of the COVID-19 pandemic, but also because of housing shortage and high house prices.

Next to the consequences of the COVID-19 pandemic, home scarcity and high house prices remain big drivers for the negative sentiment to buy a house at this moment

House prices and property sales

The Dutch House Price Index ("HPI") increased by 2.4% QoQ and 8.1% YoY during 2020-Q3. This compares to house price increases of 2.0% QoQ and 7.5% YoY in 2020-Q2. Slightly over 62 thousand properties were transferred during 2020-Q3, a 13.2% QoQ increase and a 5.6% YoY increase (See Table 1 for more details regarding the regional differences).

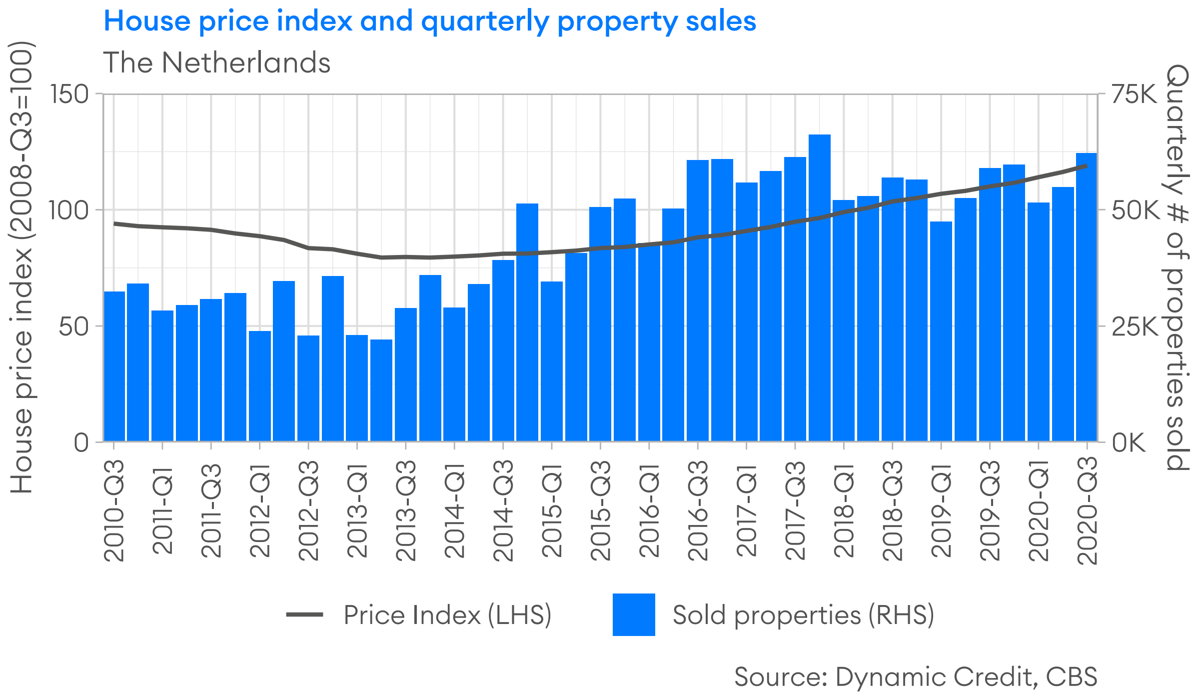


Figure 2: House Price Index of the Netherlands (2008-Q3=100) and monthly property sales. HPI until September 2020.

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 reports1 an 11.6% YoY increase in the average transaction price during 2020-Q3. They note that this is the steepest YoY transaction price in 20 years. On average properties have been sold within 30 days, which is 6 days shorter than a year ago. Supply has not been this tight in 20 years with slightly less than 28 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	143.5	118.9884	8.1	2.3	62,206	13.3	5.6
Friesland	Province	138.9	110.6	8	3.9	2,296	8.5	-2.5
Groningen	Province	141.9	117.1	10.8	2.9	2,037	11.4	0.3
Zeeland	Province	130.2	113.7	8.3	2.8	1,663	17.2	10.9
Drenthe	Province	136.2	111.0	7.9	2.6	1,909	5.6	6.1
Overijssel	Province	138.3	114.5	8.5	2.5	4,122	8.9	10.6
Flevoland	Province	152.4	127.6	9	2.5	1,728	14.8	-1.3
Zuid-Holland	Province	147.6	124.7	8.3	2.5	12,667	14.9	3.7
Gelderland	Province	139.2	111.1	8.3	2.4	7,058	7	0.9
Utrecht	Province	146.4	123.1	8	2.4	4,881	17.1	3.5
Limburg	Province	136.9	113.6	8.6	2.3	4,013	15.7	13
Noord-Holland	Province	152.7	131.3	7.2	2	10,166	19.8	3.8
Noord-Brabant	Province	137.0	110.0	7.9	2	9,666	10.9	13.7
Utrecht	Municipality	165.8	151.4	10.1	2.4	1,376	39.6	7.4
Amsterdam	Municipality	163.7	155.9	5.5	0.8	2,865	30.6	6.9
's-Gravenhage	Municipality	158.3	136.7	8.1	1.7	1,901	23.5	0.3
Rotterdam	Municipality	164.5	150.0	9	2.7	1,943	24	5.8

Table 1: House prices and number of property sales changes in Dutch provinces and major municipalities 2020-Q3` Source: CBS.

This September ING released the “Woonindex”[1], which is an indicator on housing market consumer confidence. During 2020-Q3 the indicator increased 9 points to a level of 100, almost back to the pre-corona level of 104 observed in 2019-Q4. Both first-time buyers as well as homeowners expect house prices to increase further. Furthermore, homeowners have never been so optimistic about the ease and speed with which they think they can sell their property.

Housing Bubble in Amsterdam?

In its 2020 edition of the annual Global Real Estate Bubble Index UBS ranks Amsterdam as sixth on the list of cities with risk of a housing price bubble. This ranking places Amsterdam in the bubble risk category for the 4th consecutive year. Other European cities in the bubble category are Munich, Frankfurt, Paris and Zurich. The index score is a weighted average of the following five standardized city sub-indexes: price-to-income and price-to-rent (fundamental valuation), change in mortgage-to-GDP ratio and change in construction-to-GDP ratio (economic distortion), and relative price-city-to country indicator.

Korevaar et al. (2020)[2] take a different approach when assessing bubble risk in Amsterdam. They argue that high property prices could be the result of speculative behaviour, whereas rental prices are determined by demand and supply (at least in the non-regulated segment).

They continue to calculate the fundamental value of properties as the present value of expected future rental streams. As rents are high and interest rates low, these fundamental values have increased sharply over the last years.

1 ING - Woonindex

2 Korevaar, M., Eichholtz, P., & Francke, M. (2020). Dure Huizen Maar Geen Zeepbel in Amsterdam. Economisch Statistische Berichten, forthcoming.

Despite steep increases in house prices in Amsterdam, the difference between house prices and the fundamental value has decreased over the past years, suggesting that there is no bubble. The chart below shows the relation between the fundamental value of a house, the house price index and the yield on long-term government bonds with a 2.5% premium dating back to 1620.

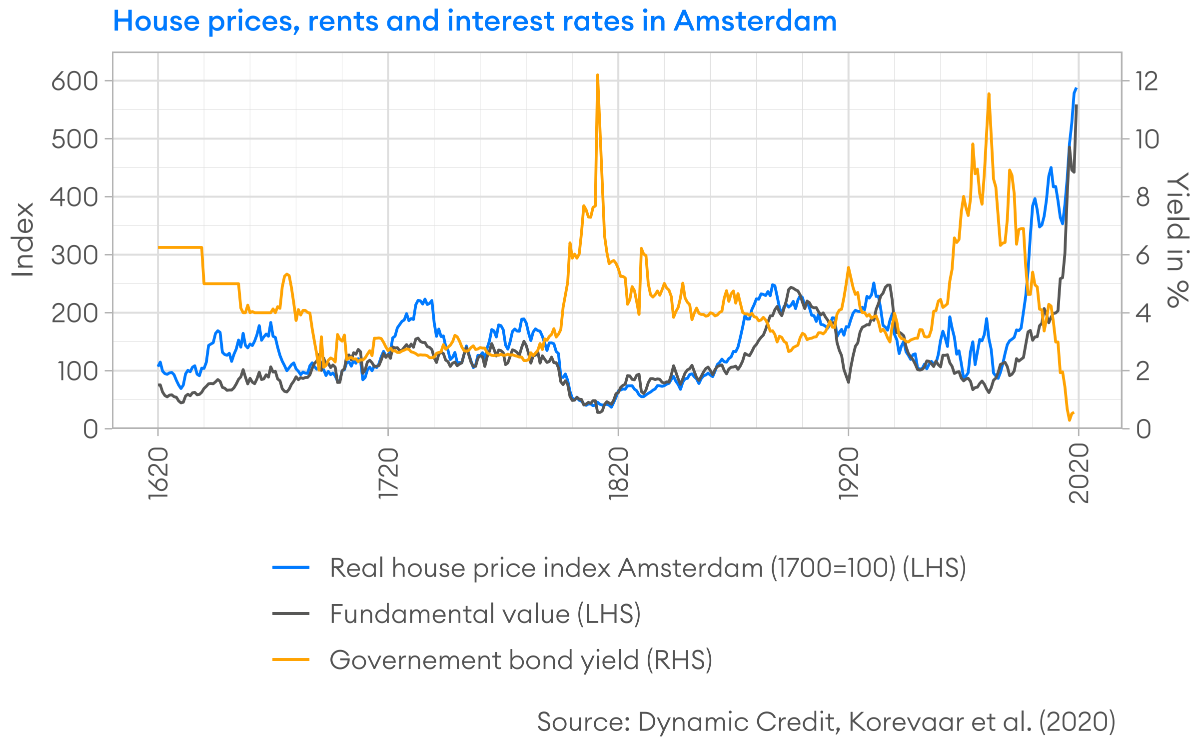


Figure 3: Expensive houses but no bubble in Amsterdam.

Currently COVID-19 restrictions are increasing supply of rental properties, as the demand for Airbnb by tourists has diminished, and there is a lower inflow of expats lowering demand for rental properties. This has resulted in a modest rental price decrease so far of 1.4% YoY, the first YoY decrease since 2016 according to Pararius. If this means that house prices will start to decrease in Amsterdam is uncertain, Korevaar et al. conclude that their discrepancies between the fundamental values and house prices are only resolved over a longer period (25 years). Furthermore interest rates are still trending downwards.

Housing market in an international context

The continuation of house price increases since the start of the COVID-19 pandemic is not unique to the Netherlands, but is widely observed throughout the Western world. For example, the European House Prices Index increased by 1.29% in 2020-Q2 versus 2020-Q1. The continuation of house price increases is generally attributed to three factors: (i) extensive monetary easing keeping pressure on mortgage rates (ii) unprecedented fiscal measures largely preserving incomes despite the negative economic shock and (iii) changing buyer's preferences as workers are spending more time at home may develop a preference for more spacious properties.

Expectation of housing market developments

This continuation of the housing boom has surprised many economists. This led to an upward revision of house price forecasts for this year and the coming years. The average forecast for house prices in the next year based on forecasts by ABN, Rabobank and DNB is a decrease of 2.3% versus a predicted decrease of 2.9% in Q2 of this year. For 2022 the average forecast has been revised upwards to an increase of 0.4% from decrease of 3.7% a quarter before.

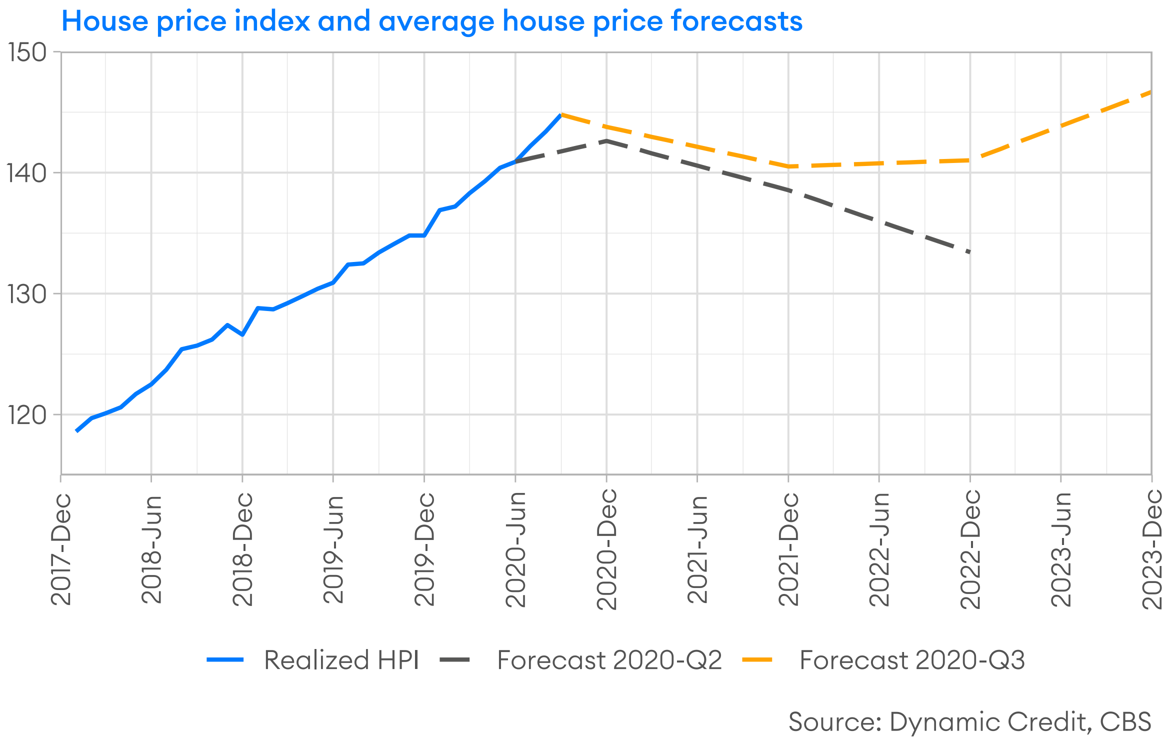


Figure 4: House price index and average house price forecasts.

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 7 basis points from the end of 2020-Q2 to the end of 2020-Q3. NHG rate decreases averaged 8 basis points across major fixed rate periods while the 60%, 80%, and 100% LTV segments saw average rate decreases of 5, 4, and 9 basis points respectively.

Rates fell in 2020-Q3 with the largest decreases in NHG and long fixed-rate periods

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**	**2019-09-30**	**2020-06-30**	**2020-09-30**	**QoQ**	**YoY**
5-year	NHG	1.03%	0.98%	0.92%	-0.05%	-0.11%
	60% LTV (non-NHG)	1.15%	1.12%	1.10%	-0.02%	-0.05%
	80% LTV (non-NHG)	1.25%	1.22%	1.19%	-0.03%	-0.06%
	100% LTV (non-NHG)	1.50%	1.54%	1.49%	-0.05%	-0.01%
10-year	NHG	1.22%	1.11%	1.05%	-0.06%	-0.17%
	60% LTV (non-NHG)	1.29%	1.29%	1.22%	-0.07%	-0.07%
	80% LTV (non-NHG)	1.42%	1.41%	1.35%	-0.06%	-0.07%
	100% LTV (non-NHG)	1.67%	1.74%	1.66%	-0.08%	-0.02%
20-year	NHG	1.69%	1.50%	1.37%	-0.13%	-0.32%
	60% LTV (non-NHG)	1.74%	1.68%	1.61%	-0.07%	-0.14%
	80% LTV (non-NHG)	1.82%	1.80%	1.75%	-0.06%	-0.07%
	100% LTV (non-NHG)	1.98%	2.16%	2.05%	-0.12%	0.07%
30-year	NHG	2.05%	1.79%	1.70%	-0.09%	-0.35%
	60% LTV (non-NHG)	2.11%	1.98%	1.93%	-0.05%	-0.18%
	80% LTV (non-NHG)	2.19%	2.06%	2.04%	-0.02%	-0.14%
	100% LTV (non-NHG)	2.36%	2.40%	2.30%	-0.10%	-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]

In line with the decreasing mortgage rate environment throughout 2020-Q3, mortgage spreads have decreased across all major fixed rate periods while swap rates (used for determining the mortgage spreads) decreased as well but to a lesser extent. The average spread decrease across major fixed rate periods and risk classes was 4 basis points. Changes among fixed rate periods varied compared to the end of the previous quarter, with 20-year fixed rates seeing the biggest decreases (7 bps) and 5-year fixed rates seeing on average no rate changes (0 bps). Despite the decrease, spreads in 2020-Q3 were roughly equal to peak 2020-Q1 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**	**2019-09-30**	**2020-06-30**	**2020-09-30**	**QoQ**	**YoY**
5-year	NHG	1.52%	1.43%	1.41%	-0.01%	-0.11%
	60% LTV (non-NHG)	1.64%	1.57%	1.59%	0.02%	-0.05%
	80% LTV (non-NHG)	1.75%	1.67%	1.68%	0.01%	-0.07%
	100% LTV (non-NHG)	1.99%	1.99%	1.98%	-0.01%	-0.01%
10-year	NHG	1.56%	1.44%	1.41%	-0.03%	-0.15%
	60% LTV (non-NHG)	1.63%	1.62%	1.58%	-0.04%	-0.05%
	80% LTV (non-NHG)	1.76%	1.75%	1.71%	-0.03%	-0.04%
	100% LTV (non-NHG)	2.01%	2.07%	2.02%	-0.05%	0.01%
20-year	NHG	1.79%	1.65%	1.54%	-0.11%	-0.25%
	60% LTV (non-NHG)	1.84%	1.83%	1.78%	-0.05%	-0.06%
	80% LTV (non-NHG)	1.92%	1.96%	1.93%	-0.04%	0.00%
	100% LTV (non-NHG)	2.08%	2.33%	2.23%	-0.10%	0.15%
30-year	NHG	2.09%	1.90%	1.83%	-0.07%	-0.26%
	60% LTV (non-NHG)	2.15%	2.09%	2.06%	-0.03%	-0.09%
	80% LTV (non-NHG)	2.23%	2.17%	2.18%	0.00%	-0.06%
	100% LTV (non-NHG)	2.41%	2.52%	2.44%	-0.08%	0.03%

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.

Origination and offer volumes

While offer volumes peaked in March and April 2020, in May and throughout the third quarter volumes decreased to normal levels in line with the same period in 2018 and 2019 (see Figure 5). The steep increase in volume in March and April 2020 following the introduction of lockdown measures related to the spread of the corona virus appears to have worn off. In the second half of March many mortgage providers increased their rates in an attempt to decrease the offer volume. This further increased demand for refinancing as consumers expected interest rates to have bottomed out. Throughout 2020-Q3, the top six most competitive rates have again fallen by 7 basis points.

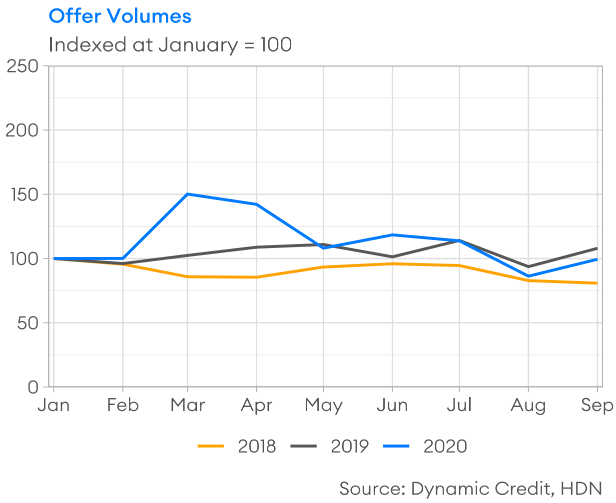


Figure 5: Indexed offer volume in The Netherlands (January 2020 = 100).

Fixed rate period segmentation has stabilized

In contrast to offer volumes, fixed rate period segmentation has remained relatively stable throughout 2020. 20-years and 30-years fixed rate periods have consistently won market share over the past 6 years, seeing their highest market shares in 2020-Q2, while falling back slightly in 2020-Q3.

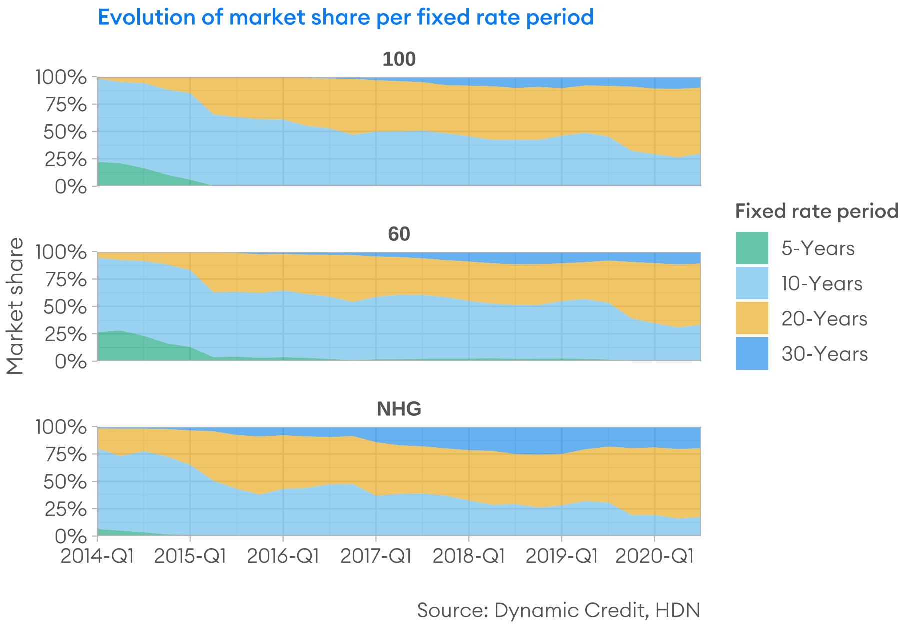


Figure 6: Offer volume market share for major fixed rate periods.

NHG

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

New NHG guarantees

Data from the Mortgage Data Network ("HDN") shows that over 2020-Q3, almost 41 thousand NHG loans with a total balance of EUR 8 bn were offered through its network (7.3 bn in 2019-Q3). This corresponds to an NHG market share of 24.7% in terms of mortgage loans balance (27.1% in 2019-Q3).

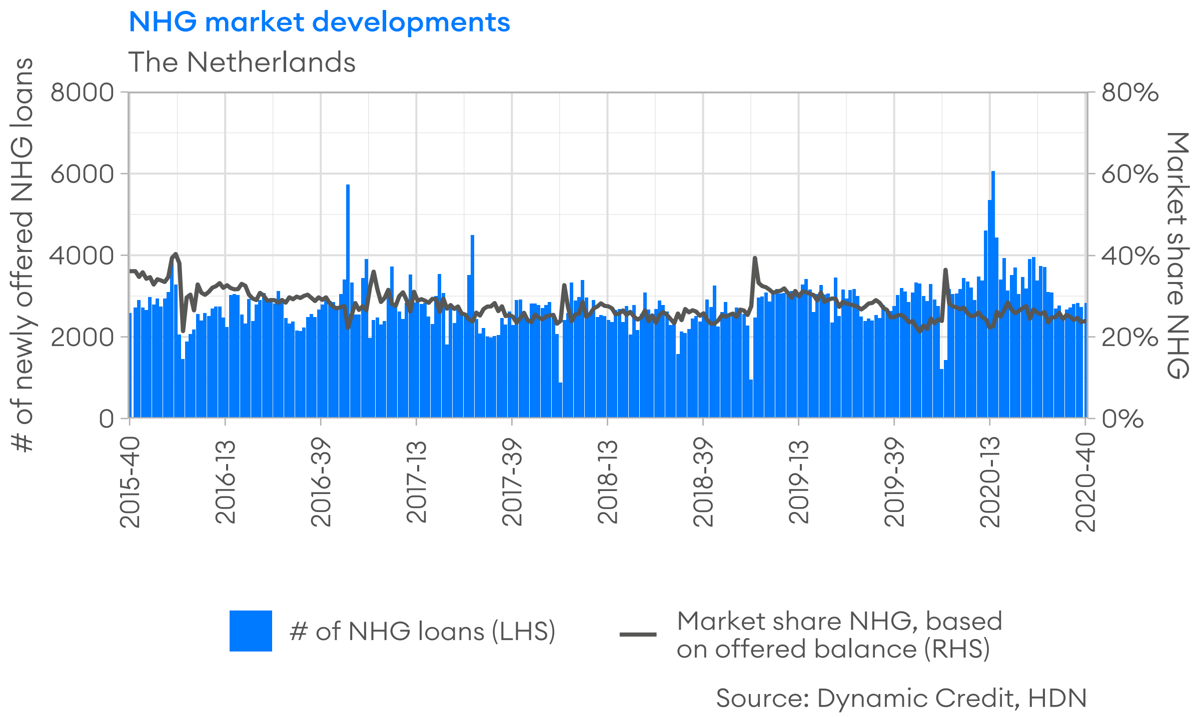


Figure 7: Number of new NHG guarantees and market share of NHG loans as a percentage of total originated balance through time. The x-axis refers to year and week number.

Loss declarations[1]

The number of loss declarations submitted to WEW decreased again from 101 in 2019-Q2 to 27 in 2020-Q2. The low amount of loss declarations submitted, is attributed by WEW to the still increasing house prices. The overall number of loss declarations up to and including 2020-Q2 decreased by 60% opposed to the same period in 2019 (85 in 2020 opposed to 221 in 2019).

Similarly to the previous quarterly report, these numbers do not yet reflect any impact of the corona crisis on the submitted loss declarations, due to the mortgage statement regarding foreclosures in Q2, the offering of payment holidays and strong government measures to mitigate loss of income.

1 NHG - Kwartaalcijferst 2020-Q2

Expected NHG changes 2021

NHG cost limit

In previous years, the cost limit of NHG was determined on the average purchase prices over the last three months. This could potentially result in high fluctuations over the years. Therefore, with the aim of creating a more stable NHG cost limit and with that contributing to a more stable housing market, NHG changed the calculation method of the NHG cost limit. The new methodology determines the cost limit as the average purchase price over the last 39 months, plus a correction factor to prevent the cost limit to go down due to the increasing lookback period during which purchase prices increased. The methodology will change step by step over 3 years, leading to full implementation by 2023.

Year	Period of reference	Correction factor
2020	3 months	0%
2021	15 months	2%
2022	27 months	4%
2023 and onwards	39 months	6%

Table 4: Period of reference and correction factor for the NHG methodology.

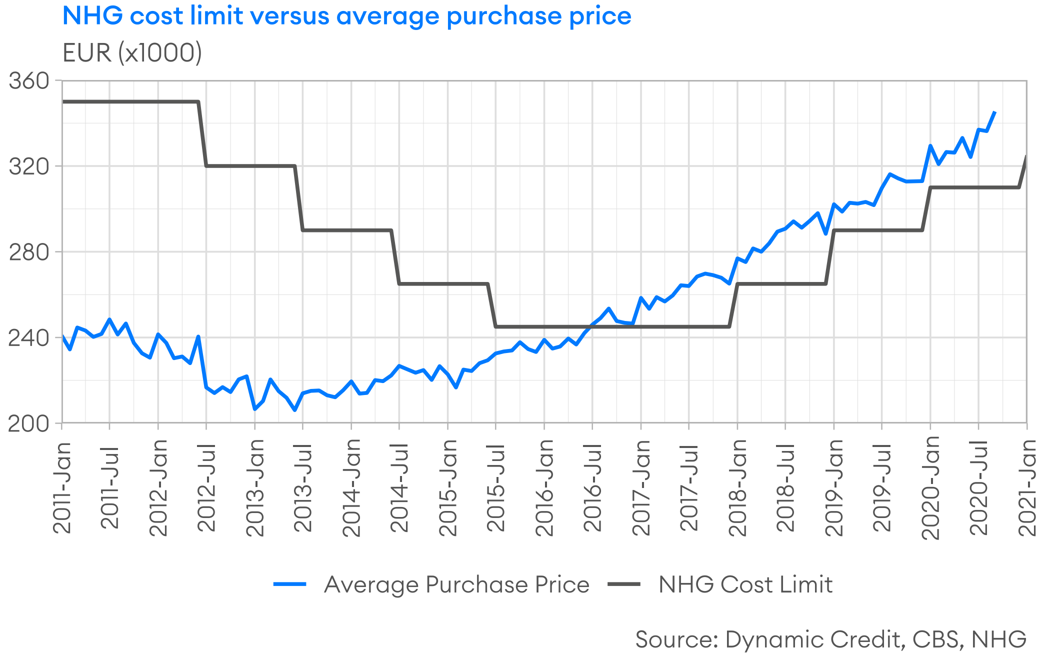


Figure 8: NHG limit versus average purchase price.

Figure 8 shows the development of the NHG cost limit compared to the average purchase prices over time. Originally, the NHG cost limit has always been dependent on the average purchase prices, but during the previous financial crisis the limit was kept stable at EUR 350,000 per 2009 with the intention to provide a positive boost to the housing market. The NHG cost limit was scaled down step by step since mid 2012, with the intention to scale down the NHG cost limit to EUR 225,000 per mid 2016. However, due to the recovery of the housing market and increased purchase prices, it was decided to keep the NHG cost limit in 2016 on 245,000 and make the NHG cost limit again dependent on the average purchase prices per 1 January 2017.

The new calculation method results in a new NHG cost limit of EUR 325,000 by 1 January 2021 (or EUR 344,500 when including energy saving measures), an increase from the EUR 310,000 limit in 2020 (or EUR 328,600 when including energy saving measures). When the old calculation method would have been used, the 3 months average, the NHG cost limit would have been EUR 330,000 (or EUR 349,800 when including energy saving measures).

NHG premium
The NHG premium will remain 0.7% in 2021. NHG aims to keep this premium at the same level for the coming years. This again with the aim of creating a stable housing market.

New initiatives
Per 1 January 2021 WEW will also introduce their new Terms and Conditions. Binding offers issued from 1 January 2021 for NHG-backed mortgage loans will have to comply with these Terms and Conditions. The summation below highlights the most noteworthy changes:

- **Changes related to changing law and regulations:** Per 1 January 2021, amongst other changes, the second income of a couple requesting a mortgage loan can be taken into account for 90% when determining the maximum debt-serviced-to-income ratio ("financieringslastpercentage"). Next to that, the determination of the monthly burden for student loans will we changed, it will become dependent on the interest rate and maturity of the student loan. These regulatory changes will be implemented in the new Terms and Conditions.
- **New employment statement:** The COVID-19 pandemic showed that important information was missing on the employment statement. Together with the Nederlandse Vereniging van Banken and the Verbond van Verzekeraars a new employment statement is developed giving more insight into whether there is a reorganization planned at the employer that might impact the income of the borrower and providing more detailed information regarding the intention to extend a temporary employment contract. The new employment statement can already be used per 1 October 2020 and will be obligatory for binding offers issued per 1 January 2021.
- **Explain on income for retiring borrowers that have a temporary income shortage before both borrowers retire:** To minimize the negative impact couples may experience when the oldest borrower retires before the younger borrower without income from employment does, WEW introduces the possibility to calculate affordability of the mortgage loan by using the actual burden, for a maximum period of 10 years. This should provide a solution for borrowers retiring within 10 years, where based on the annuity calculation the mortgage loan is affordable both before retirement age of the oldest borrower and after retirement of the youngest borrower, but in the period in between the annuity affordability check would lead to a negative affordability test. When the actual burden of the mortgage loan is affordable in this period and the period has a maximum duration of 10 years, the mortgage loan can still be issued.

4. Buy-to-let Mortgages

Dynamic Credit launched its consumer buy-to-let platform in the Netherlands 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 increased. Changes among fixed rate periods varied compared to the end of the previous quarter, with 90%-LTV rates seeing the biggest increases (29 bps) and 50%-LTV rates seeing on average a slight rate decrease (2 bps). 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	2020-06-30	2020-09-30	QoQ	2020-06-30	2020-09-30	QoQ
1-year	50%	2.45%	2.47%	0.02%	2.92%	2.99%	0.07%
	60%	2.53%	2.53%	0.00%	2.99%	3.05%	0.06%
	70%	2.57%	2.57%	0.00%	3.04%	3.09%	0.05%
	80%	2.90%	3.00%	0.10%	3.37%	3.52%	0.15%
	90%	3.25%	3.55%	0.30%	3.72%	4.07%	0.35%
5-year	50%	2.45%	2.46%	0.01%	2.91%	2.95%	0.04%
	60%	2.53%	2.53%	0.00%	2.98%	3.02%	0.04%
	70%	2.55%	2.56%	0.01%	3.01%	3.05%	0.04%
	80%	2.96%	3.03%	0.07%	3.42%	3.52%	0.10%
	90%	3.30%	3.60%	0.30%	3.76%	4.10%	0.34%
10-year	50%	2.58%	2.54%	-0.04%	2.93%	2.91%	-0.02%
	60%	2.66%	2.61%	-0.05%	3.00%	2.98%	-0.02%
	70%	2.70%	2.67%	-0.03%	3.05%	3.04%	-0.01%
	80%	3.02%	3.13%	0.11%	3.37%	3.51%	0.14%
	90%	3.45%	3.75%	0.30%	3.80%	4.14%	0.34%
20-year	50%	2.88%	2.83%	-0.05%	3.06%	3.03%	-0.03%
	60%	2.93%	2.88%	-0.05%	3.11%	3.08%	-0.03%
	70%	3.01%	2.94%	-0.07%	3.19%	3.14%	-0.05%
	80%	3.38%	3.39%	0.01%	3.57%	3.60%	0.03%
	90%	3.65%	3.90%	0.25%	3.85%	4.13%	0.28%

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

Property transfer tax

A change in property transfer tax was announced on budget day and a distinction will be made between first time buyer, subsequent time buyers and others. The goal is to make access to the housing market easier for first time buyers. Under the current tax regime, a 2% tax rate applies for the purchase of residential real estate and a 6% rate applies for other real estate.

Under the new regime three categories are defined which are mainly defined by the buyer type:

- Buyers under 35 years old (if purchased as principal residence) are exempt from property transfer tax once.
- Home buyers not being eligible for the exemption under the previous bullet 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.

The plan is surprising as there has been relatively vocal critique to the measure. The Council of State (Raad van State), the highest competent court in The Netherlands and advisor to the Dutch government, has advised against the measure. They mention that the measures are unlikely to meet the goal because the current housing shortage is driven by demand being larger than supply. Demand side measures therefore are not expected to have structural impact but will most likely increase prices. As a result, first time buyers are implicitly incentivised to borrow more. Other points they mention are:

- The proposal lacks an impact analysis on the housing market for renters and for buyers older than 35 years.
- The eligible purchase price is unrestricted, e.g. a “first time buter” can buy a EUR 1 million property and enjoy the benefit of the subsidy.
- The marginal costs per first time buyer are very high, these are estimated between EUR 42,500 and EUR 212,500 based on 1,040 (2%) to 5,200 (10%) more first time buyers entering the market and a structural budget of EUR 221 million for this subsidy.
- The tax authority cannot maintain this measure before 1 January 202.
- There is no framework (and key metrics) formulated on which the subsidy will be periodically evaluated with respect to the (cost) effectiveness.

The critique follows the conclusions in the research report that Dialogic (an independent research and advisory firm in the public domain) has published on behalf of the Ministry of Finance. They conclude that differentiation in property transfer tax has limited effectiveness and is not efficient. One of the reasons for the negative perception of efficiency is that the tax cut for starters is likely to result in a 1% increase in prices due to competition of starters amongst each other due to increased demand for that group.

The Central Planning Bureau (CPB) has reported that a general abolishment of the property transfer tax would lead to a 2.4% increase in house prices. They now expect such increase to take place in the segment where first time buyers are most active.

Nonetheless, the tax plan subsidy is expected to be approved by the senate because it is part of a larger tax reform plan. The property transfer tax reforms seem to be a result of political exchanges.

5. Funding Update

RMBS

Activity in the Dutch RMBS market was subdued in the second quarter due to the COVID-19 virus outbreak and in the third quarter no recovery in activity can be observed. In the first two months of the year, four deals were issued and in the second quarter of the year only one deal was priced. In the third quarter only one deal was priced as well. Total year-to-date distributed Dutch RMBS issuance for 2020 is EUR 3.1 billion, compared to EUR 6.0 billion in 2019. No large transaction was added to the retained balance. The total year-to-date retained issuance for 2020 is now EUR 4.4 billion, which is at approximately the same amount as the whole of 2019 (EUR 4.3 billion).

No recovery in Dutch RMBS activity

The only distributed Dutch RMBS deal in 2020-Q3 was Cartesian Residential Mortgages 5 sponsored by Venn Partners and sized at EUR 300 million. The deal is STS compliant. The Class A notes were priced at 3m Euribor +0.55% and are AAA rated. Class B up to and including Class D have decreasing credit ratings and corresponding higher spreads, ranging from 115 bps to 250 bps. The pool has 7 WA months seasoning and a WA current loan to original market value of 93.4%. The percentage of Interest-only mortgages is 34.8%.

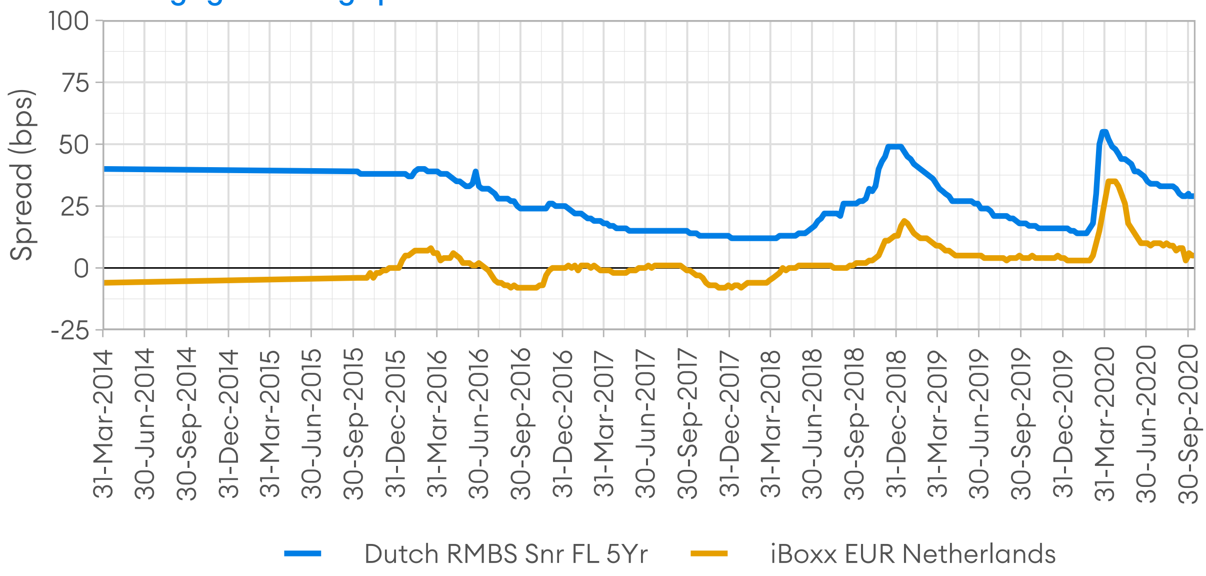
BTL

In September one BTL deal was distributed with the name Dutch Property Finance BV 2020-02, sponsored by RNHB BV and sized at EUR 325 million. The Class A notes were priced at 3m Euribor +0.79% and are AAA rated. Class B up to and including Class E have decreasing credit ratings and spreads ranging from 135 bps to 400 bps. The pool has a WA seasoning of 7 months and a current LTV of 65.4%. The percentage of Interest-only mortgages is 9.8%.

Covered Bonds

Issuance by Dutch banks in the third quarter of 2020 amounted to EUR 500 million. Dutch covered bond benchmark spreads came down to 5 bps by the end of October, 5 bps tighter than end of 2020-Q2 levels.

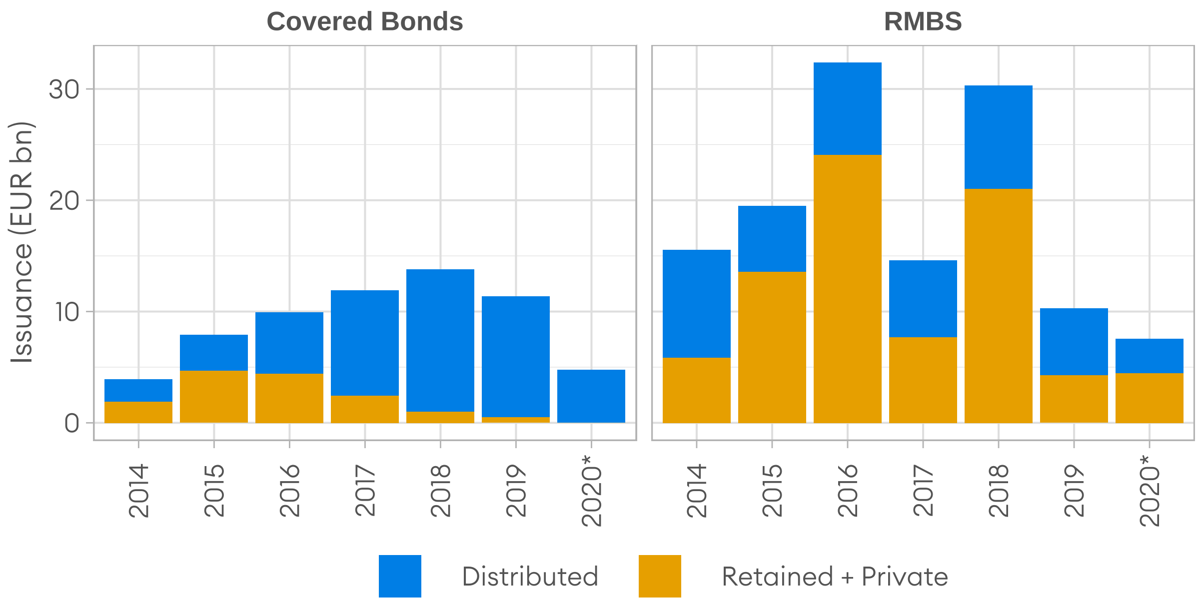
Mortgage funding spreads



Source: Dynamic Credit, JP Morgan

Figure 9: 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-Q3.

Mortgage funding issuance



* Data up to Q3
Source: Dynamic Credit, JP Morgan

Figure 10: Issuance of Dutch RMBS and covered bonds. The data is as of 2020-Q3.

Dutch RMBS market: Priced Dutch prime RMBS en BTL deals

One new Dutch prime RMBS and one BTL deal were priced during 2020-Q3

Date	Issuer	Series	Seller	Class	Euro Amount	Life	FXFL	Spread	Benchmark	SP	F	DBR	Retained	Comments
2020-09-08	Cartesian Residential Mortgages S.A.	5	Venn Partners	A	274	4.33	FL	55	3 Mo. Euribor		AAA	AAA	N	EUR 300mm; WA CLTV 93.4%; WA Seasoning 7m; IO Loans 34.8%;
				B	9	5.19	FL	115	3 Mo. Euribor		AA+	AAL	N	
				C	5	5.19	FL	170	3 Mo. Euribor		A+	AL	N	
				D	2	5.19	FL	250	3 Mo. Euribor		BBB+	BBBH	N	
				E	10								Y	
				S	4								Y	
2020-09-17	Dutch Property Finance BV	2020-2	RNHB BV	A	269	2.97	FL	79	3 Mo. Euribor	AAA		AAA	N	Buy-to-let; EUR 325mm; WA CLTV 65.4%, WA Seasoning 7m, IO loans 9.8%
				B	12	4.65	FL	135	3 Mo. Euribor	AA+		AAH	N	
				C	13	4.65	FL	185	3 Mo. Euribor	AA-		AH	N	
				D	17	4.65	FL	275	3 Mo. Euribor	BBB+		BBB	N	
				E	5	4.65	FL	400	3 Mo. Euribor	BB		BBBL	N	
				F	10		FX						Y	
				G	7		FX						Y	

Table 6: Priced Dutch RMBS en BTL Deals in 2020-Q3. Source: Dynamic Credit, JP Morgan

6. News

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

Macroeconomic update

The third quarter began with the economy opening up from the lockdown measures that were taken in the second quarter to halt the spread of the corona virus. Although the measures were not as strict as in other European countries, there was significant impact in some sectors. As the end of the quarter approached, the number of positive COVID-19 cases rose and new measures were announced. A 'partial lockdown' was announced mid-October.

Consumption[1]

Domestic household consumption declined in the third quarter compared to last year. In July the decline was 6.4%, while in August the consumption of households in the Netherlands was 5.8% lower compared to last year. Since the low of April (-17.1%), the decline became smaller.
The decline of 5.8% in August is predominantly driven by the substantial drop in spending on services. This is mainly due to the decrease in capacity for e.g. restaurants, theatres, amusement parks and sports games. On the other hand, the spending on services like phone and internet subscriptions, insurance, housing and delivery services increased. Consumers spent 8.2% more on durable goods, like electrical appliances, home furnishing and clothing and consumer spending on food, beverages and tobacco increased with 6%.

The decline in domestic household consumption decreased

The CBS mentioned that the circumstances are 'less unfavorable' in October compared to August. This is driven by a less negative outlook among Dutch manufacturers with respect to future employment growth within companies and more positive expectations of consumers on their own financial future. However, it is important to note that these are expectation before the 'partial lockdown' which started on the 14th of October was announced.

1 CBS - Household spending almost 13 percent down in May

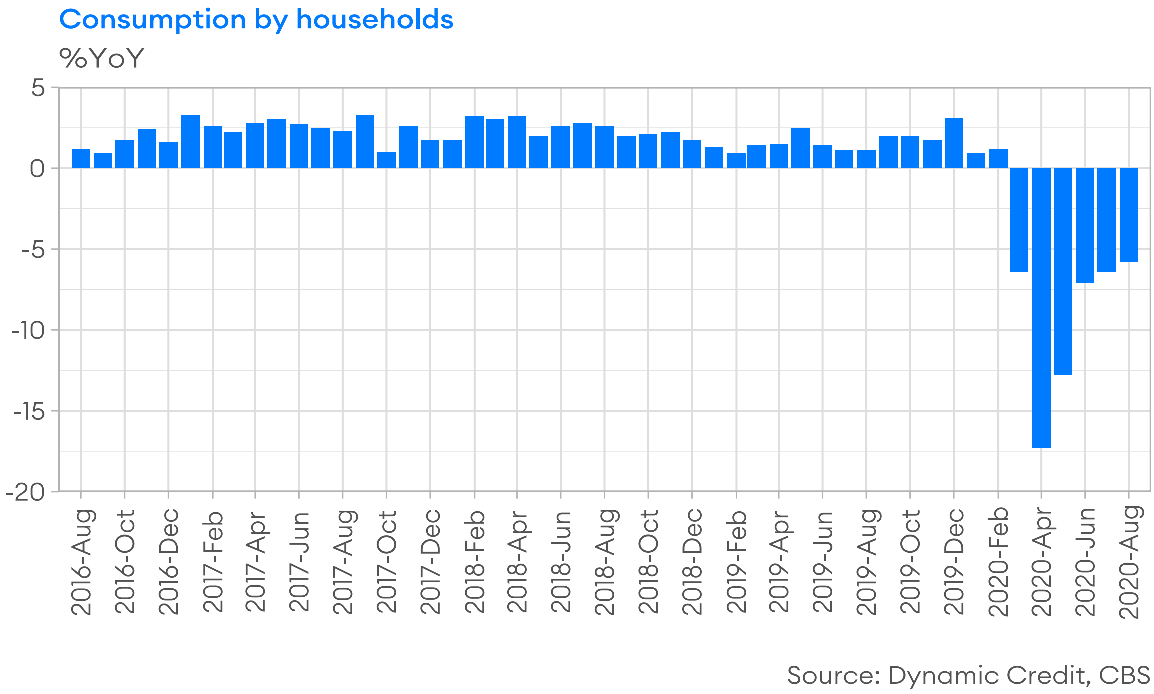


Figure 11: YoY change in consumption by Household in The Netherlands. As of August 2020.

GDP estimates[1]

In the second quarter economic growth was -8.5% QoQ (GDP is published with a 1.5-month lag and the Q3 number has not been published at the time of writing), while the YoY decline was 9.4%. The decline can be attributed for the biggest part to the decline in household consumption. In addition, investments and the trade balance declined significantly.

Unemployment[2]

The number of unemployed people declined with 13 thousand to a total of 413 thousand unemployed in September. This is equivalent to 4.4% of the total labour force. In recent months unemployment increased and September is the first month since the COVID-19 outbreak where unemployment decreased. For reference, in the period from June to August, unemployment rose by 32 thousand on average per month, with a maximum unemployment rate of 4.6%.

The Employee Insurance Agency ("UWV") recorded 278 thousand current unemployment benefits ("WW uitkering") by the end of September. This is a decline of 13 thousand compared to August. The number of new applications for unemployment benefits was only slightly higher than previous year. There are now 9.3 million people on the labour market, which is at a level comparable to that of the first three months of 2020. There were more unemployed who found a job than employed who lost their job. On balance, this resulted in the decline in unemployment for the first time since March.

1 CBS - Economic contraction of 8.5 percent in Q2 2020
2 CBS - Unemployment rises to 404 thousand in June

Monetary policy[1]

The ECB will continue its purchases under the pandemic emergency purchase program (PEPP) with a total size of EUR 1,350 bln. These purchases contribute to easing the overall monetary policy stance, helping to offset the downward impact of the COVID-19 virus. The purchases will be conducted across different asset classes and among jurisdictions until at least 2021, with principal payments reinvested 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.

The ECB will also continue to provide liquidity through targeted longer-term refinancing operations (TLTRO). The latest operation in the third series (TLTRO III) registered a high amount of liquidity drawn to support bank lending to firms and households.

EU[2]

In July, EU leaders have agreed on the multi-year EU budget and a recovery fund of EUR 750 billion to support member countries to get through hard times caused by the global pandemic. On October 6th the Ministers of Economic Affairs and Finance agreed upon the facility for recovery and resilience, which, with a size of EUR 672.5 billion, makes up the largest part of the EU recovery plan. The facility consists of subsidies and loans. The subsidies amount EUR 312.5 billion, of which 70% will be allocated in 2021 and 2022 and 30% by the end of 2023 the latest.

The distribution key for the years 2021-2022 will take into account the population size of each Member State, the inverse of GDP per capita and the relative unemployment rate over the past 5 years. In the distribution key for 2023, the unemployment criterion will be replaced by the decrease in real GDP in 2020 and the cumulative change in real GDP in the period 2020-2021, with both variables counting equally. In addition, up to 2023 EUR 360 billion in loans will be made available to Member States to provide them with additional funding for their reforms and investments. These loans may not exceed 6.8% of the GNI of each Member State.

At least 37% of the resources referred to in the facility must go to the green transition, and at least 20% to the digital transformation. In addition, the resources may not be used to cause serious harm to the environment. Member states are able to submit their plans to the Commission from 15 October and the assessment should take up to two months.

1 ECB - Monetary policy decisions
2 COVID-19: Council agrees its position on the Recovery and Resilience Facility

Prinsjesdag [1]

The third Tuesday of September is called Prinsjesdag in the Netherlands. On that day, the national budget for the following year will be presented. Some changes have been announced related to the housing and mortgage market, which are briefly mentioned below. The NHG cost limit and property transfer tax are already discussed earlier in the quarterly update and will therefore be omitted here.

The lowest income of dual earners will count more heavily when applying for a mortgage. In 2020 the second income counts for 80% and this will increase to 90% in 2021. Student debt also counts less heavily in the mortgage application per January 2021, which is beneficial for young people who often still have a student debt.

For people that already own a house fiscal changes have been announced. For people with a high income (higher than EUR 68.507) the mortgage interest reduction will decrease from 46% to 43%. This might make it attractive for these people to refinance their mortgage before year-end, because the transfer costs and penalty interest will be tax deductible at a higher rate. Another fiscal change is the reduction of the 'Wet Hillen' deduction, which affects people with no or a small mortgage debt. In case the notional rental value is higher than the deductible expenses, home owners are entitled to an additional deductible item. From 2021, only 90% of the difference between the notional rental value and deductible expenses can be deducted, compared to 93% in 2020.

Several measures that were announced were related to sustainability. From 2021, the 'knowledge and experience test' that borrowers need to do for 'execution only' mortgages (mortgage without advice) will lapse. The government hopes that more lenders will offer mortgage increases for sustainability through 'execution only'. This lowers the threshold and ensures lower closing costs for mortgage applicants. In this way, sustainability is stimulated.

The government has also made extra money available and it will bring investments forward to stimulate housing construction. This yields 15,000 to 25,000 homes. They also try to stimulate faster decision-making so construction can take place on large housing locations.

1 VEH - Prinsjesdag

Appendix

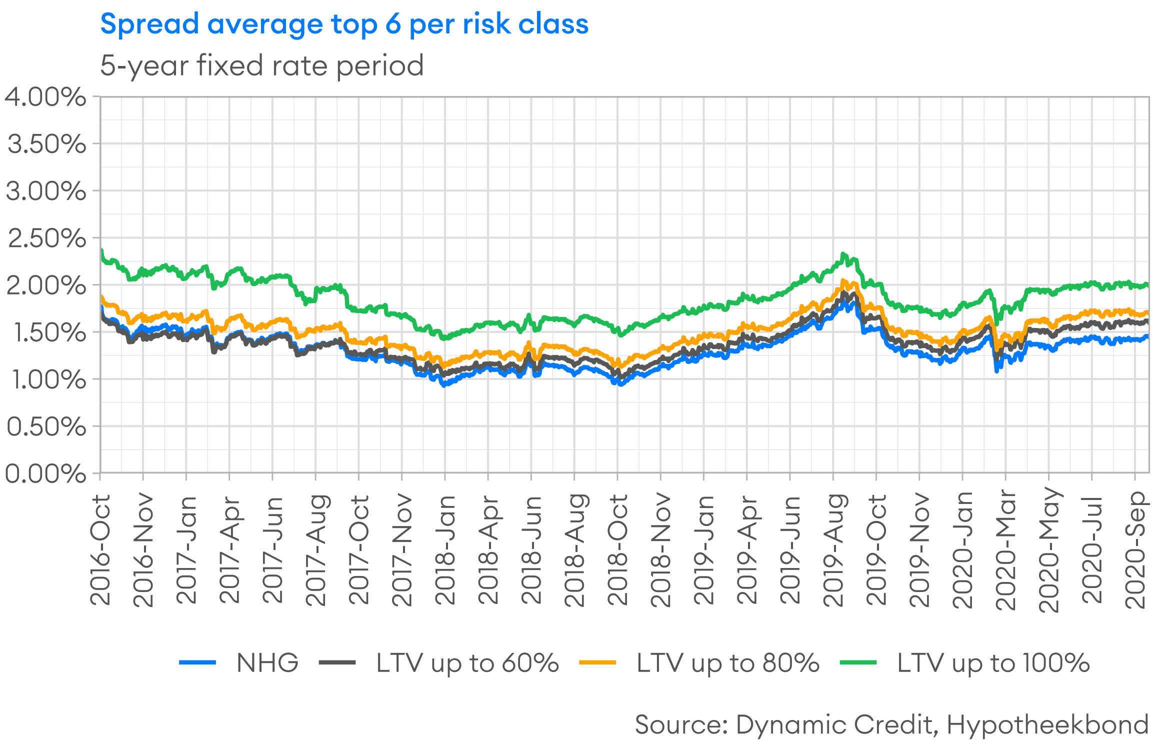


Figure A1: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 5-year fixed rate period for four risk classes. Up to and including 22/10/2020.

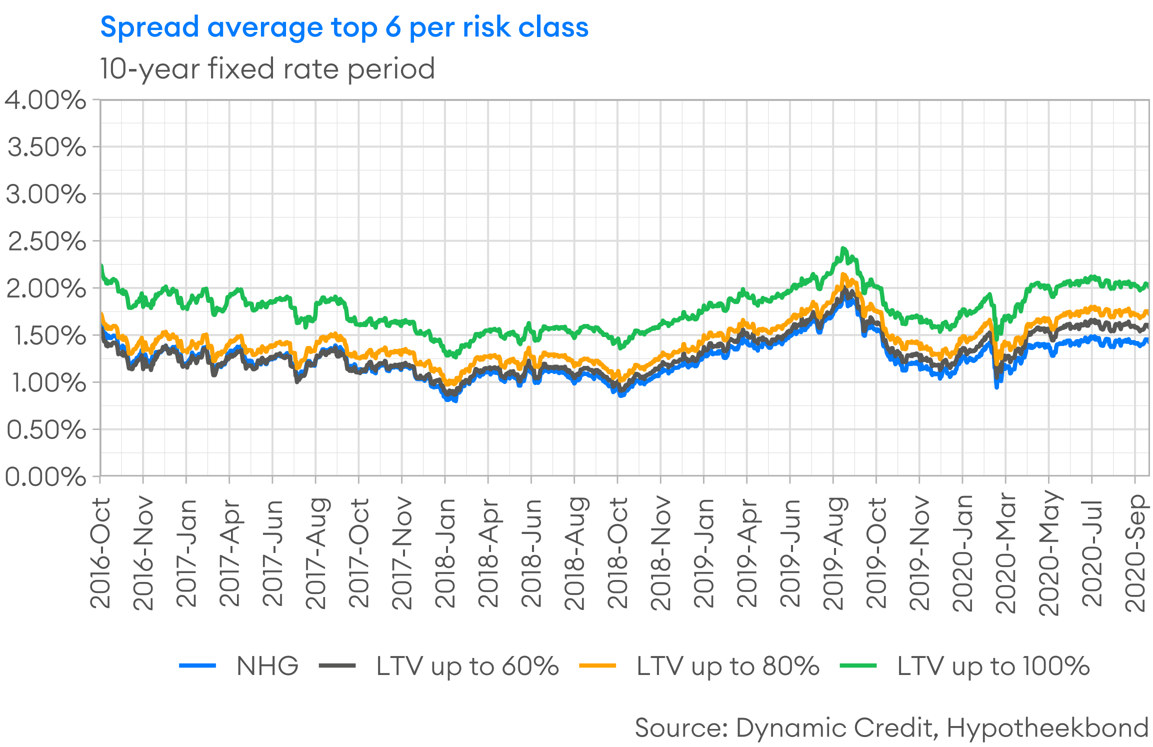


Figure A2: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 10-year fixed rate period for four risk classes. Up to and including 22/10/2020.

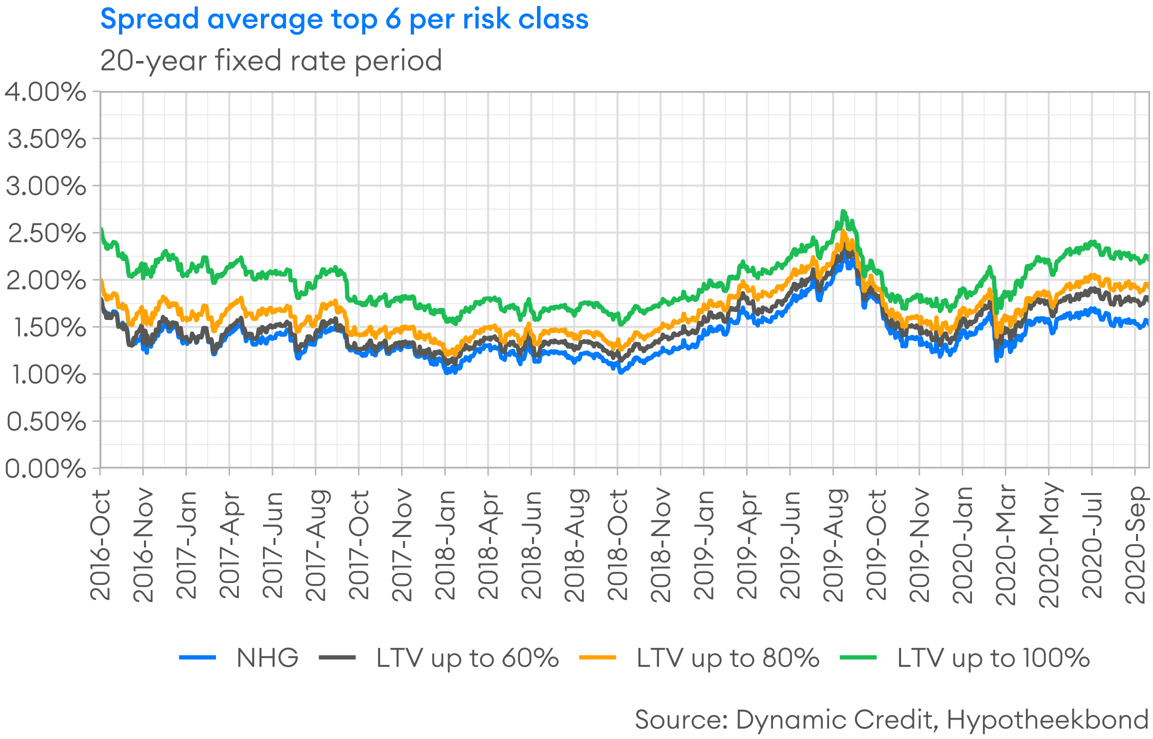


Figure A3: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 20-year fixed rate period for four risk classes. Up to and including 22/10/2020.

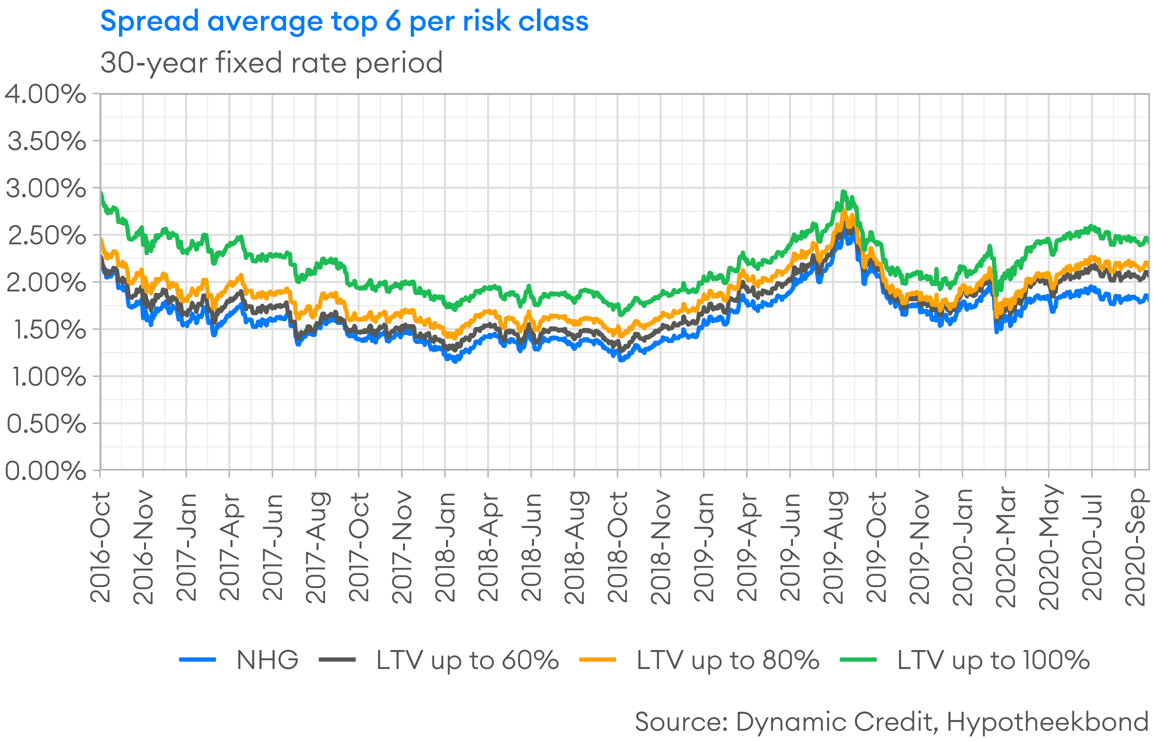


Figure A4: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 30-year fixed rate period for four risk classes. Up to and including 22/10/2020.

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Contact details

Portfolio Management Team Members

Jasper Koops

Head of Portfolio Management

T: + 31 20 794 6058

jkoops@dynamiccredit.com

Allard Vollering

Portfolio Manager

T: +31 20 235 8895

avollering@dynamiccredit.com

Anne Koens

Underwriting Due Diligence Analyst

T: +31 20 280 7104

akoens@dynamiccredit.com

Roland Wezenbeek

Analyst

T: +31 20 798 1382

rwezenbeek@dynamiccredit.com

Pim Ligtvoet

Analyst

T: +31 20 280 7100

pligtvoet@dynamiccredit.com

DYNAM/C CREDIT

Revealing Opportunities.

Contact
Jasper Koops
Portfolio Management Team
Dynamic Credit Partners Europe

Frederik Roeskestraat 97D
1076 EC Amsterdam
The Netherlands

Desk: + 31 20 794 60 58
jkoops@dynamiccredit.com
www.dynamiccredit.com

www.dynamiccredit.com

Amsterdam
Frederik Roeskestraat 97D
1076 EC Amsterdam
The Netherlands

Phone: +31 20 770 4876

Jakarta
Equity Tower, 35th Floor
Jalan Jend. Sudirman, Kav 52-53 (SCBD)
12190 Jakarta, Indonesia

Phone: +62 21 2939 8922

New York
389 Fifth Avenue, Suite 809
New York, NY 10016
United States of America

Phone: +1 212 710 6608

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