

Dutch RMBS Credit Conditions Sour, As House Prices Reach 10-Year Low

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OVERVIEW

- Dutch RMBS has historically been one of the best-performing European securitization sectors, but credit fundamentals are weakening.
- Data from the Dutch statistics office last week showed that house prices declined again in April to reach a 10-year low.
- Prices are now down 19% since their 2008 peak, and we expect them to decline by 3% by year-end 2013, and by 1.0% next year.
- Macroeconomic difficulties and the implementation of mortgage market reforms could continue to drag down Dutch house prices in the short term. In the long term, however, property shortages could support house price growth.

LONDON (Standard & Poor's) May 28, 2013--On May 21, 2013, Statistics Netherlands (CBS) reported a house price decline in April of 1.4% month-on-month and 7.6% year-on-year. This puts Dutch house prices at a 10-year low and 19.0% below their 2008 peak, with the rate of price declines continuing to accelerate. Combined with the current 17-year high in the unemployment rate, this suggests that the Dutch residential mortgage-backed securities (RMBS) sector's credit fundamentals are turning increasingly negative, even though average arrears and losses remain low so far.

Not all Dutch regions and property types have fared the same in terms of house prices. Kadaster reports that, as of December 2012, house prices in the Zeeland region were down by 12% from their peak, compared with 18% in Friesland. Similarly, Rabobank calculated that apartment prices declined by

16% between Q3 2008 and Q4 2012, compared with 19% for detached houses.

By year-end 2013, Standard & Poor's Ratings Services expects overall Dutch property prices to decline further by 3%, and by another 1% in 2014. This would increase the cumulative house price decline to about 23% from its 2008 peak (see "Recession Keeps House Prices In The Dumps In Most European Markets," published on May 7, 2013).

In the short term, austerity measures (including cuts in pension and unemployment benefits), rising unemployment, and various mortgage market reforms may weigh on property prices and transaction volumes. Key mortgage market reforms include a scaling back of tax deductibility on interest payments, a gradual reduction in the maximum loan-to-value (LTV) ratio for new mortgages, and a move away from interest-only loans.

Provisional property sales agreements rose in Q4 2012, as buyers rushed to the market before the new, less borrower-friendly mortgage lending rules took effect. However, the residential property market is now once again moribund, with transaction volumes dropping to a monthly average of 7,400 between January and April 2013, according to Kadaster--barely half of the Q4 2008 volume. Meanwhile, the number of houses entering the market for sale has continued to rise, reaching 229,000 in April, according to Huizenzoeker.

In the long term, however, a shortage of housing stock may support a gradual recovery. For example, ABF Research estimates that there is currently a 150,000 unit shortage of properties, but that this will double by 2020 due to a widening gap between housing completions (averaging 35,000 to 45,000 per year) and housing demand (80,000 to 100,000 per year).

Despite deteriorating macroeconomic and housing market conditions, credit performance in Dutch RMBS collateral pools to date remains broadly stable. In our view, this may be due to relatively generous unemployment benefits historically, which likely introduce a significant lag between rising unemployment and rising mortgage arrears.

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- *A Weak Housing Market And Sluggish Economy Still Constrain Dutch Banks' Performance*, April 5, 2013
- *Dutch RMBS Index Report Q4 2012: Further Economic Deterioration Fails To Affect Stable Transaction Performance*, Feb. 19, 2013
- *No Pain, No Gain: How The Housing Market Correction Is Affecting Dutch Banks*, June 27, 2012
- *Economic Outlook For The Netherlands: The Housing Market Slump Is Dampening Consumer Demand*, May 21, 2012
- *At A Glance: The Dutch RMBS Market*, Oct. 14, 2011

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