

## RMBS/Netherlands Presale Report

## Holland Mortgage Backed Series (Hermes) X B.V.

### Expected Ratings\*

Class	Amount (EURm)	Final Maturity	Rating	CE (%)
A	1,424.3	Sep 2039	AAA	6.90
B	35.2	Sep 2039	AA	4.55
C	31.5	Sep 2039	A	2.45
D	9.0	Sep 2039	A-	1.85
E	27.7	Sep 2039	BBB	

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\* Expected ratings do not reflect final ratings and are based on information provided by the issuer as of July 31st 2005.

### ■ Summary

This EUR1.5 billion transaction is a securitisation of Dutch residential mortgages originated by SNS Bank N.V. ("SNS Bank" or "the seller", rated 'A+/F1'). Fitch Ratings has assigned expected ratings to the notes to be issued by Holland Mortgage Backed Series (Hermes) X B.V. ("Hermes X" or "the issuer") as indicated at left. The mortgages are, and will continue to be, serviced by SNS Bank.

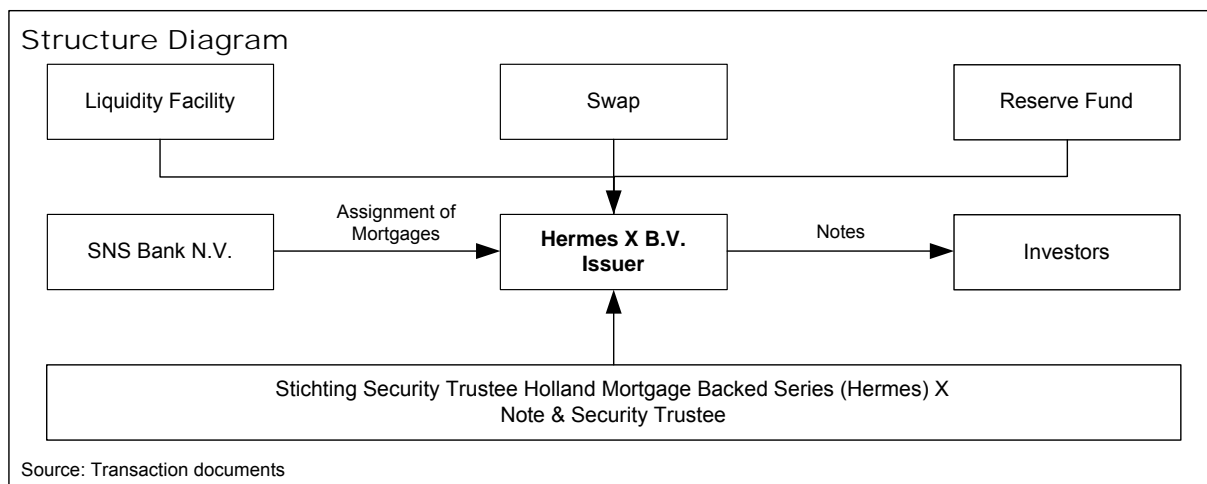
SNS Bank is a wholly-owned subsidiary of SNS REAAL Groep N.V., the sixth-largest financial institution in the Netherlands, which has a primary focus on mortgages and investment products. SNS Bank customers tend to reflect the general public profile rather than being weighted towards high net worth individuals.

Hermes X is a special-purpose company incorporated under the laws of the Netherlands with limited liability as a "*besloten vennootschap met beperkte aansprakelijkheid*" (B.V.) and is registered with the Commercial Register of the Chamber of Commerce of Amsterdam. The shares of the issuer are owned by Stichting Holland Euro-Denominated Mortgage-Backed Series (Hermes) Holding, established under the laws of the Netherlands as a foundation.

At closing, the issuer will acquire a portfolio of residential mortgage loans from the seller, which form the collateral for the notes. The portfolio consists of first-ranking fixed- and variable-rate mortgages secured over residential property located in the Netherlands. Perfection of assignment will be subject to certain notification trigger events occurring.

The ratings are based on the quality of the collateral, available credit enhancement and excess spread, sound legal structure, underwriting and servicing of the mortgages loans, the liquidity facility, the guaranteed investment contract ("GIC") and the interest rate swap provided by SNS Bank. At closing, credit enhancement for the Class A notes, totalling 6.9%, will be provided by the Class B, C and D notes and the reserve fund. Credit enhancement for the Class B notes, totalling 4.55%, will be provided by the Class C and D notes and the reserve fund. Credit enhancement for the Class C notes, totalling 2.45%, will be provided by the Class D notes and the reserve fund. At closing, the non-collateralised Class E notes will fund the balance of the reserve fund. The transaction further benefits from excess spread guaranteed on the non-defaulted principal balance of the mortgage loans through the swap agreement of 45 basis points ("bp").

This is the tenth RMBS transaction originated by SNS Bank. Fitch affirmed its ratings on Hermes I (upgrading Class B and C), Hermes II (upgrading Class B and C), Hermes III (upgrading Class B and C), Hermes IV (upgrading Class B and C), Hermes V and Hermes VI on 1 September 2004 and affirmed its ratings on Hermes VII on 5 January 2005. Details of the transaction performance are available at [www.fitchresearch.com](http://www.fitchresearch.com).



To determine appropriate levels of credit enhancement, Fitch analysed the collateral using the default model it developed specifically for Dutch residential mortgages (see “*Dutch RMBS Default Model 2004*”, dated 1 September 2004, available at [www.fitchratings.com](http://www.fitchratings.com)). Fitch also modelled the cash flow contribution from excess spread using stress scenarios determined by its default model. The cash flow test showed that each class of rated notes could withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss or interest shortfall.

### Special Reports

The following special reports provide additional detail on Fitch’s rating approach to, and the performance of, the RMBS market; all are available at [www.fitchratings.com](http://www.fitchratings.com):

- “Dutch RMBS Default Model 2004”;
- “Dutch RMBS Performance Bulletin 2004”;
- “Legal issues in Dutch RMBS”;
- “Rating European Mortgage Loan Servicers – the Netherlands Market Addendum”;
- “A Guide to Cash Flow Analysis for RMBS in Europe”;
- “Fitch Issuer Report Grades”;
- “Rising Stars? Fitch Issuer report Grades H1 2005 Update”.

### ■ Credit Committee Highlights

- Repeat structure and established underwriter. The portfolios originated by SNS Bank and securitised in earlier transactions have all performed well, with arrears over 90 days remaining below 1.32% of the outstanding loan balance.
- Debt-to-income (“DTI”) information was not available for this portfolio. Fitch assumed a DTI of 35%, which is at the upper end of SNS Bank’s underwriting criteria.

- Average seasoning of 19 months and a weighted average original loan to market value (“LTMV”) of 92.6%.
- Excess spread of 45bp is guaranteed after note interest and servicing fees.
- 66.6% of this portfolio is interest-only mortgages, which carry balloon repayment risk. Also included are 9.1% of savings and 23.6% of investment mortgages, which carry a risk due to residual set-off risk as well as an uncertain yield on the underlying investment vehicle. Fitch has increased the default probability on these loans to account for these additional risks.
- A substitution period runs through to and including the payment date falling in March 2008, during which principal receipts may be reinvested in substitute mortgage receivables. This could alter the credit quality of the collateral; however, this risk is mitigated by certain conditions, such as arrears and cumulative loss triggers, and limited loan-to-value ratios (see *Substitution* on page 4), which ensure that the substitute mortgages continue to match the characteristics of the pool at closing.
- Approximately 11% of the borrowers are self-employed. Fitch has increased the default probability on these loans.

### ■ Financial Structure

The Class A, B, C, D and E notes will receive floating-rate interest in arrears at a margin over three-month EURIBOR. The first optional redemption date to repay the notes is March 2015; from March 2015 onwards a step-up margin will apply if the notes are not called (except for the Class E notes).

## Key Information

### Key Parties

**Issuer:** Holland Mortgage Backed Series (Hermes) X B.V. ("Hermes X" or "the Issuer")

**Originator/Seller:** SNS Bank N.V. ("SNS Bank") (rated 'A+/F1')

**Lead Managers:** Dresdner Kleinwort Wasserstein, JP Morgan

**Trustee:** Stichting Security Trustee Holland Mortgage Backed Series (Hermes) X

**Servicer:** SNS Bank

**Liquidity Facility Provider/Floating Rate GIC Provider:** SNS Bank

**Interest Rate Swap Counterparty:** SNS Bank

**Principal Paying Agent:** ABN AMRO N.V. (rated 'AA-/F1+')

**Interest Payments:** Class A, B, C, D and E floating payable quarterly in arrears.

**Principal Payments:** Sequential; Class A, Class B, Class C and Class D starting on the relevant Mandatory Redemption date on a quarterly basis.

**Substitution Period:** Period from closing until and including the payment date falling in March 2008.

**Legal Maturity:** September 2039

### Collateral

**Type of Loans:** First-ranking residential mortgage loans secured by property in the Netherlands.

**Total Amount (net of savings):** EUR 1,796,549,822

**WA Original LTMV:** 92.6%

**WA Seasoning (Months):** 19

**Interest Only:** 66.6%

**Regional Concentration:** 17.3% in Gelderland

**Pool Cut-off Date:** 31<sup>st</sup> July 2005

All amounts of interest, prepayment penalties and principal payments received by the seller are passed on a monthly basis to the collection account, kept in the name of Hermes X, with SNS Bank. In the event that SNS Bank breaches its notification triggers, the borrowers will be notified and will make payments directly into the collection account. Under a GIC, monies deposited in the collection account will receive interest equivalent to three-month EURIBOR less a margin, payable on a quarterly basis.

If SNS Bank, as GIC provider, is downgraded below 'F1' it will, within 30 days, either be replaced or

obtain a guarantee from a third party with a suitable rating, provide collateral to guarantee its obligations or find another appropriate solution acceptable to Fitch to maintain the then-outstanding ratings of the notes.

### Priority of Payments

Revenue payments, which include interest on the mortgage loans, will be allocated, prior to enforcement, in the following priority of payments:

1. The issuer's senior fees and expenses (including those payable to the trustee, company administrator, servicer and paying agent);
2. Repayment of any drawings made from the liquidity facility;
3. Payments due under the swap agreement;
4. Interest due on the Class A notes;
5. Amounts to be credited to the Class A principal deficiency ledger ("PDL") until zero;
6. Interest due on the Class B notes;
7. Amounts to be credited to the Class B PDL until zero;
8. Interest due on the Class C notes;
9. Amounts to be credited to the Class C PDL until zero;
10. Interest due on the Class D notes;
11. Amounts to be credited to the Class D PDL until zero;
12. Interest due on the Class E notes;
13. Amounts to be credited to the reserve fund to achieve the Reserve Fund Required Amount (see *Reserve Fund* on page 4);
14. Principal due on the Class E notes on or after the Payment Date on September 2009;
15. After the Step Up Date, repayment of principal under the notes;
16. Any Swap Counterparty Default Payment;
17. Any gross-up or other amounts due under the liquidity facility agreement;
18. Amounts due towards the deferred purchase price instalment.

Following an enforcement event, when the trustee will declare the notes to be due and payable, all available funds will be allocated sequentially to interest and principal payments due on the Class A to E notes after certain senior third-party expenses.

### Principal Redemption

After March 2008, the end of the substitution period, redemption will be sequential on each payment date, starting with the Class A notes through to Class D. The Class E notes will start redeeming from September 2009.

Any principal deficiencies under each class of notes (except for the Class E notes) will be registered in

the corresponding PDL for that class. These amounts will be debited to the lowest-class PDL available, to transfer the losses to the lowest ranking class of notes. Excess spread will be available to cover such losses according to the priority of payments.

The issuer has the option to call the notes (except the Class E notes) on, and after, the first optional redemption date in March 2015. The purchase price of the mortgages will be their market value. If the call is not exercised by March 2015 (the Step-Up date), the notes will receive three-month EURIBOR plus a margin of 100bp for the Class A notes, 125bp for the Class B notes, 150bp for the Class C notes and 200bp for the Class D notes; excess spread will be used to redeem the E notes. There will be no step-up in the margin applicable to the Class E notes.

The notes are subject to provisions allowing for redemption upon the occurrence of certain tax events.

Unless previously redeemed, the notes' legal final maturity date is in September 2039.

#### Interest Rate Risk

At closing, Hermes X will enter into an interest swap agreement with SNS Bank, under which it will be obliged to pay SNS Bank, quarterly, the scheduled interest income due on the mortgage loans and the GIC, less: (i) a margin of 45bp and (ii) certain senior expenses (including the servicing fee). SNS Bank, as swap counterparty, will be obliged to make scheduled interest payments on the notes insofar as they are backed by non-defaulted mortgage loans.

If SNS Bank's Long-term rating from Fitch is downgraded below 'A' and its Short-term rating is downgraded below 'F1', it will, within 30 days, either be replaced, obtain a guarantee from a third party with a suitable rating, provide collateral to guarantee its obligations or find another appropriate solution acceptable to Fitch to maintain the then-outstanding ratings on the notes.

#### Substitution

The transaction structure includes a substitution period up to and including the payment date falling in March 2008, during which principal receipts may be reinvested on a quarterly basis in substitute mortgage receivables. Substitution is subject to certain conditions which aim to preserve the credit quality of the transaction, including:

- No notification event has occurred (see *Legal Structure* below);
- No more than 2.25% of the outstanding principal amount of the mortgage loans is in arrears for more than 60 days;

- There is no debit balance on the Principal Deficiency Ledger;
- The weighted average original loan to foreclosure value ("LTFV") of the loans in the portfolio shall not increase more than 0.6% from the LTFV at closing unless agreed otherwise with the rating agencies;
- Interest-only mortgages must not exceed 67.6% of the portfolio (66.6% at closing);
- The aggregate amount of substitute mortgages is limited to 20% *per annum* of all mortgage receivables outstanding at the beginning of a yearly period;
- The ratings of the notes will not be adversely affected by the substitution.

#### Credit Enhancement

Credit enhancement for the Class A notes, totalling 6.90%, is provided by the Class B, Class C and D notes and the reserve fund. Credit enhancement for the Class B notes, totalling 4.55%, is provided by the Class C and Class D notes and the reserve fund. Credit enhancement for the Class C notes, totalling 2.45%, is provided by the Class D notes and the reserve fund. Credit enhancement for the Class D notes, totalling 1.85%, is provided by the reserve fund. The Class E notes benefit from the 45bp excess spread through the swap agreement and will amortise with available excess spread only.

#### Reserve Fund

The proceeds of the Class E notes are to be used to fund the balance of the reserve fund to 1.85% of the initial outstanding balance of the notes less the Class E notes.

The reserve fund will not amortise until September 2009. After September 2009, the reserve fund will be equal to 1.85% of the principal outstanding balance of the notes (except the Class E notes) subject to the following conditions being fulfilled on the previous payment date:

- Outstanding balance of mortgages more than 90 days in arrears remains below 2.0% of the outstanding mortgage balance;
- No principal deficiency exists;
- The weighted average seasoning of all mortgage loans is greater than 65 months;
- The outstanding balance of the mortgages is not less than 10% of the initial balance, if the call is not exercised; and
- The reserve fund required amount will not be lower than EUR 7,500,000.

#### Liquidity Facility

A liquidity facility equal to 1.00% of the original note balance less the Class E notes is provided by

SNS Bank to cover any shortfalls on the interest due on the notes. The liquidity facility will be provided for a term of 364 days, which can be extended at the discretion of the provider.

In the event that SNS Bank is downgraded below 'F1', an appropriately-rated substitute replacement liquidity provider must be provided within 30 days. If SNS Bank is not replaced within that period and the rating of the notes suffers materially adverse effects, the issuer will draw on the undrawn portion of the liquidity facility.

## ■ Legal Structure

Hermes X, the issuer, is a special-purpose company incorporated under the laws of the Netherlands with limited liability as a B.V. and is registered with the Commercial Register of the Chamber of Commerce of Amsterdam. Its shares are owned by Stichting Holland Euro-Dominated Mortgage-Backed Series (Hermes) Holding, established under the laws of the Netherlands as a foundation.

The assignment of the mortgage receivables to the issuer will be notified to the borrowers only if a notification event occurs. Notification is necessary to obtain a perfected assignment and security interest in the mortgage loans. In addition, the mortgages and other rights of the issuer are pledged to the security trustee via various pledge agreements.

## Notification Events

Notification events relate to, *inter alia*, a breach of obligations under the documents of the seller or a severe economic deterioration on the part of the seller. Notification events include:

- A seller payment default is not remedied within 10 business days of receiving notice from the issuer or trustee.
- The seller fails to perform or comply with any of its obligations.
- The seller takes any corporate action, or steps are taken against it for dissolution, liquidation, legal demerger, emergency regulations or bankruptcy.
- SNS Bank's rating falls below 'A- (A minus)'.

## Representations and Warranties

The mortgage sale agreement contains representations and warranties given by the originator in relation to the pool of mortgages. No search of title will be conducted by the issuer or the trustee; instead they will rely on the representations and warranties noted below. If there is a breach of any of the representations or warranties which cannot be rectified, the seller will be required to repurchase the loan(s) in question.

Specifically, the representations and warranties include (but are not limited to) the following:

- The seller has full right and title to, and the power to sell and assign, the mortgage receivables;
- Each mortgage loan was originated by the seller in accordance with its standard underwriting criteria and procedures;
- All mortgage rights and rights of pledge granted to secure the mortgage receivables constitute valid mortgage rights ("*hypotheekrechten*") and rights of pledge ("*pandrechten*"), entered into the appropriate public register;
- Each mortgage receivable is secured on residential property located in the Netherlands;
- Each property was valued (with certain exceptions) by an independent, qualified valuer;
- All mortgage rights are first priority;
- Each of the mortgage loans meets the mortgage loans criteria as set out in the mortgage receivables purchase agreement;
- The mortgage conditions provide that all payments by the borrower should be made without any deduction or set-off;
- Each mortgage receivable and the mortgage right and the right of pledge, if any, securing such receivable constitutes a legal, valid, binding and enforceable obligation of the relevant borrower;
- Each of the mortgage loans with a tenor exceeding 30 years has a combined capital and life insurance policy attached (maturing prior to 30 years);
- Mortgage conditions state that a loan becomes due and payable if an attached life and capital insurance policy pays out;
- No arrears in excess of one month exist at closing;
- The borrower has made at least one monthly payment under the mortgage loan.

In addition, should a seller agree to make a further advance to a borrower, or if a borrower switches from a savings insurance policy into another investment, the seller must repurchase the related mortgage loan from the issuer.

## Repurchase of Mortgage Receivables

Under the mortgage receivables purchase agreement, the seller is required to repurchase a mortgage receivable under the following circumstances:

- if the seller agrees with a borrower to grant a further advance;
- breach of any of the representations and warranties as set out above;

- if, under the terms of an savings plus mortgage loan, the borrower has requested that accumulated premia from a savings insurance policy be transferred into another investment under the savings mortgage loan;
- if the seller agrees with a borrower to amend the terms of a mortgage loan, which thereby ceases to meet the criteria set out in the mortgage receivables purchase and/or servicing agreements.

## ■ Collateral

### Loan Types

#### *Interest-Only Mortgages*

The Borrower repays in full at maturity of the mortgage. Mortgage loans that exceed a loan to foreclosure value of 75% have a compulsory life insurance policy covering at least the excess over the 75% threshold.

#### *Savings Mortgages*

These mortgages consist of an interest-only loan linked to a savings policy. The premia payable will vary such that the capital generated by the savings policy is targeted to equal the amount payable by the borrower on maturity of the mortgage loan (i.e. 100% target capital).

Some of the savings mortgages contain alternative savings mortgages, whereby the borrower has the option to switch between savings and investment alternatives at each interest reset date.

In Dutch securitisation transactions, amounts accumulated under a savings policy will be placed by the savings provider with the issuer (with a participation granted to the savings policy provider). This means that funds accumulated to date on the savings policy are immediately available to the issuer to repay the savings mortgage loan on maturity. Other mortgage products, such as life or investment mortgages, entail a risk that the proceeds of the related investment or life policy may be paid to a counterparty other than the issuer, resulting in residual set-off risk. The participation structure with respect to savings mortgages eliminates this residual risk.

#### *Investment Mortgages*

The borrower repays the principal in full at maturity with funds that have been accumulated through investments. There are three alternatives of this type of mortgage loan. The mortgage loans sold and assigned to the issuer will be in the form of the "first alternative", whereby the borrower does not pay principal prior to maturity of the mortgage loan, but

### Loan Portfolio Summary

(As of 31 July 2005)

#### Pool Characteristics

Original Principal Balance (EUR)	1,812,277,726
Current Principal Balance (EUR)	1,806,886,344
Outstanding Savings Balance	10,336,522
WA Original LTMV (%)	92.6
WA Indexed Current LTMV (%)	87.0
WA Seasoning (Months)	19
WA Interest Margin (%)	4.08
WA Remaining Maturity (Years)	28.1
Average Current Loan per Borrower (EUR)	181,948
Number of Borrowers	9,874
Oldest Loan in Portfolio	March 1995
Most Recent Loan in Portfolio	April 2005

#### Mortgage Type (%)

Interest Only	66.6
Savings	9.1
Investment Based	23.6
Linear & Annuity	0.7

#### Interest Rate Type (%)

Fixed Rate	46.6
Floating	30.5
Others	22.9

#### Payments

Payment Frequency	Monthly
Payment Method	Direct Debit
Performing Loans (%)	100

#### Regional Concentration (%)

Gelderland	17.3
Zuid-Holland	15.0
Noord-Holland	12.1

#### Lien Position (%)

First Ranking	100
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Source: SNS Bank

undertakes to invest, on an instalment basis, an agreed amount in certain investment funds selected by the borrower from a range of investment funds of SNS Beleggingsfondsen N.V.

## ■ Origination and Servicing

SNS Bank is part of SNS REAAL Groep, the sixth-largest financial institution in the Netherlands. The SNS group was formed in 1990 and merged with the Reaal group in 1997. SNS Bank has over 175 branches throughout the Netherlands combined with over 400 franchise branches. SNS Bank continues to open branches in the north and west of the Netherlands and its strategy is to focus solely on retail banking in the Netherlands. Fitch visited SNS Bank and met with senior staff in order to perform a review of the origination, underwriting and administration processes.

### Origination

Fitch has reviewed and analysed SNS Bank's origination and servicing guidelines. The agency has conducted several interviews with the originator and

servicer managers responsible for SNS Bank's mortgage loan department.

SNS Bank has been growing its market share over the last four years and in 2004 it had 9.1% of the Dutch mortgage market. Traditionally based in the south and east of the country, SNS Bank's recent strategy has been to continue to expand in the northern and western regions. SNS Bank offers a full range of retail services to its customer base. Loans are originated through the 575-strong branch network and the intermediary market, and mortgages are distributed through the seller's branches and via independent agents based in the Netherlands. Currently 75% of originations are via the intermediary channel.

SNS Bank follows a tight process of underwriting based on a detailed underwriting criteria manual. The underwriting decision is made centrally at SNS Bank, which can be a useful control to maintain consistency in underwriting. The underwriter uses a mortgage analysis programme for certain computations in the underwriting process.

Main underwriting criteria and general conditions:

- the maximum loan to foreclosure value is 125%;
- the maximum debt to income ("DTI") – the proportion of the borrower's income that may be applied to pay principal and interest on the mortgage – can vary between 20%-36% of the borrower's gross income;
- the borrower must be at least 18 years old;
- self-employed borrowers are subject to additional income tests;
- a credit assessment of the borrower is required, including proof of income; and
- insurance in respect of the property against risk of fire and other accidental damage for its full restitution value is also required.

SNS Bank analyses the borrower's ability to pay (i.e. the borrower's DTI) using a mortgage ratio, which determines the maximum mortgage a borrower can take out, considering all other financial commitments a borrower may have. The mortgage ratio depends on household status (single/dual), income level and the mortgage interest rate. As stated above checks of the national credit register (*Bureau Krediet Registratie*), income checks and collateral analysis are integral parts of the decision process. SNS Bank is also in the final stages of implementing a credit scoring system which should be in place for all new originations by the fourth quarter of 2005.

## Servicing

Since 2003, SNS Bank has been servicing mortgages from one centralised service centre. SNS Bank benefits from having a modern IT system without the legacy issues of some lenders. As at June 2005, the number of mortgage positions managed by the servicing group was 311,500. This portfolio is managed by 143 FTE. Workflow and systems engineering continues to drive the growth of the managed portfolio whilst not significantly increasing the size, and therefore the cost, of the servicing area.

All collections and arrears management is performed by the seller, following formal procedures. The file is allocated to a local branch for resolution once a payment is missed, and branches are monitored for their handling of arrears cases. The system will automatically generate reminder letters on the 10th and 20th day after the payment date. A formal request demanding payment is sent on day 36. At 90 days, should local resolution not work, the delinquency will be transferred to the central recovery department. At this point, if no work out plan is agreed, the borrower is advised to sell his house privately. If all negotiations fail and a forced sale is necessary, the foreclosure procedure will start after 210 days.

On the basis of its visit, Fitch believes that SNS Bank is a sound originator and an effective servicer of Dutch residential mortgages.

## ■ Credit Analysis

Fitch's methodology for assigning credit ratings to Dutch residential mortgage transactions in general is described in Appendix 1. The following section details the agency's particular areas of focus and concern with regard to Hermes X, and an outline of the factors incorporated into its analysis to deal with these concerns. For more information please see the special report "*Dutch RMBS Default Model 2004*", dated 1 September 2004 and available at [www.fitchratings.com](http://www.fitchratings.com).

## Fitch Default Model Output

Rating Level	WAFF* (%)	WARR** (%)	Loss Severity (%)	MVD***
AAA	18.25	56.68	47.44	40.90
AA	14.60	62.15	41.97	35.24
A	10.95	67.53	36.60	29.57
BBB	7.30	72.94	31.18	23.68
BB	3.65	78.19	25.93	17.78

Recovery time (years): Interest accrued on contractual rate for 1 year

Foreclosure cost: fixed EUR 5,000 and 6% of the value of the property after the application of indexation and MVDs

\* Weighted Average Foreclosure Frequency

\*\* Weighted Average Recovery Rate

\*\*\* Market Value Decline

Source: Fitch

## Default Probability

### *Affordability*

A borrower affordability measure, such as an income multiple or DTI ratio, was not available for the pool on a loan-by-loan basis. Fitch therefore made a general assumption of a 35% DTI ratio for all loans in the pool. This figure, which falls at the higher end of SNS Bank's underwriting criteria, equates to affordability class 3 in the agency's model. According to Fitch's default probability matrix, which is determined by affordability and LTV, the default probability for the average borrower in income class 3 would range from 4.5% to 22.5% in a 'AAA' scenario.

### *Repayment Type*

66.6% of the pool consists of interest-only mortgages, which carry a balloon repayment risk. Loans that exceed a loan to foreclosure value of 75% have a compulsory life insurance policy covering at least the excess over the 75% threshold, thus reducing the balloon repayment risk. Fitch has increased the default probability for interest-only loans by 20% to account for the additional risk.

The pool also includes investment (23.6%) mortgage loans, which carry a higher risk because of both residual set-off risk and the uncertainty of the yield on the underlying investment vehicle. Fitch has increased the default probability for investment loans by 10% to account for this additional risk.

### *Borrower Profile*

Fitch believes that self-employed borrowers have a greater probability of defaulting on their mortgage loan than employed borrowers who are paid a regular monthly salary. Around 11% of this pool relates to loans to self-employed borrowers. Fitch has increased the default probability on these loans to account for this risk.

## Recoveries

### *Indexation*

In its analysis, Fitch reappraises the original value of each property as a function of the current housing price index. The agency applies a 50% indexation credit for appreciation of property values, but will discount 100% for depreciation.

### *Market Value Decline*

Until 2001 house price growth was steady throughout the Netherlands. However, since 2001, house price increases have slowed and the high-value segment of the property market has suffered from price falls. Fitch's analysis takes account of this

recent trend and the inherent price volatility in its market value decline analysis.

### *High-Value Properties*

Approximately 2.0% of the reference pool is considered by Fitch to be secured on high-value ("jumbo") properties, with a risk of greater market value declines ("MVDs") due to a perceived lack of liquidity and therefore variability in market values for these properties. Fitch increased the MVDs of these loans by 15%-25% based on the value of the property.

### *Recovery Rate*

To determine the recovery rate, Fitch uses the lesser outcome of the following two formulas:

- the current loan balance, plus carry costs, divided by the current loan balance; or
- the indexed property value net of foreclosure costs (based on Fitch's indexation methodology, whereby a 50% credit is given for property price appreciation) is reduced by the MVD amount and is divided by the current loan balance.

## Cash Flow Analysis

To evaluate the contribution of structural elements such as excess spread, the reserve fund, liquidity facility and other factors, Fitch modelled the cash flows from the mortgages based on the WAFF and the WARR provided by the loan-by-loan collateral analysis. Recoveries included both interest and principal.

The cash flow model assumes that defaults are spread over the first five years of origination immediately after closing. The analysis simulates the cost of carrying defaulted loans as the difference between the performing balance of the mortgages and the notional note balance. Excess spread, the reserve fund and the liquidity facility must be sufficient to cover the carrying cost until recoveries are received after the assumed 12 months. Interest rates are stressed upwards over time; however, the effect of this factor is limited by the swap.

Losses are tracked by the model, which determines, on a quarterly basis, whether they can be absorbed by available funds. Any principal deficiencies under each class of notes will be registered in the PDL. These amounts will be debited to the lowest-class PDL available, to transfer the losses to the lowest-ranking class of notes. Excess spread will be available to cover such losses according to the priority of payments.

The cash flow analysis assumes high levels of prepayments on the mortgages (which stress

available excess spread) up to 30%, 25% and 20% under 'AAA', 'A' and 'BB' scenarios, respectively.

Under these stresses, payment of principal would be received before the final legal maturity date. Payment of interest would be received without interruption, although, in the case of the Class B, C and D notes, this would be subject to the terms and conditions of the notes.

## Set-Off

In most Dutch mortgage transactions there is a risk that borrowers may seek to set off certain amounts owed to them against amounts due from them in relation to the mortgage loan. Set-off is specifically precluded in the terms and conditions of the mortgage loans, but a lack of legal precedent makes it uncertain whether such a set-off waiver would be enforceable if the borrower were to contest it in court.

The primary set-off risk relates to insurance mortgages and stems from the possibility that, in the event of a default by the insuring entity such that a capital sum is not received from the relevant policy when due, the borrower may seek to avoid repaying the mortgage loan. The justification for this is that the sums due from the policy were specifically earmarked to repay the loan and the borrower should not, therefore, have to pay from their own funds merely because the policy provider defaulted. The risk of set-off is greater for the hybrid mortgage loans with a savings component compared to other types of insurance mortgages since under these hybrid mortgages loans (part of) the premium can be invested in a savings fund that "imitates" a savings insurance policy and the risk is not mitigated by the sub-participation structure.

For set-off claims to be valid, the borrower would generally need to prove that they had a legal claim against the defaulting entity that existed before the provider defaulted. Where the borrower brings a policy to the table from a provider that is independent of the seller, and the mortgage product has been marketed as one where the provider and seller are two independent entities, the claim for set-off will be weaker.

Fitch believes that the combination of legal provisions and pledge agreements in the transaction provides some comfort in addressing this risk. The likelihood of set-off succeeding is further reduced because a number of obstacles to its validity must be overcome. Any definitive rulings in this regard would be reviewed by Fitch, and their impact on the transaction assessed.

However, even if set-off were ruled invalid, the borrower would probably have limited alternative

funds to repay the mortgage loan if the policy providers defaulted, thereby increasing the risk of default on the loan. Consequently, Fitch gives no credit to policies that have accrued when assessing loss severity.

For further analysis in relation to set-off matters, refer to the agency's report "*Legal Issues in Dutch RMBS*" dated 13 June 2002 and available at [www.fitchratings.com](http://www.fitchratings.com).

## ■ Performance Analytics

This is the tenth publicly-rated residential mortgage-backed transaction originated by SNS Bank. Fitch affirmed its ratings on Hermes I (upgrading Class B and C), Hermes II (upgrading Class B and C), Hermes III (upgrading Class B and C), Hermes IV (upgrading Class B and C), Hermes V and Hermes VI on 1 September 2004 and affirmed its ratings on Hermes VII on 5 January 2005.

The chart below shows the 90+ days arrears levels for the Hermes transactions. The definition of days in arrears is the oldest monthly payment missed. For example: a missed payment in January, and payments made for the months February and March would still equal 90 days in arrears for this borrower.

Fitch will monitor the transaction on a regular basis and as warranted by events. Fitch's structured finance team ensures that the assigned ratings remain, in Fitch's view, an appropriate reflection of the issued notes' credit risk.

Details of the transaction's performance are available to subscribers at [www.fitchratings.com](http://www.fitchratings.com).

For more information on Dutch RMBS performance please see the special report "*Dutch RMBS Performance Bulletin 2004*", dated 4 November, 2004 and available on [www.fitchratings.com](http://www.fitchratings.com).

## Issuer Report Grade

Fitch has recently introduced Issuer Report Scores as part of an ongoing effort to improve the transparency of transaction performance to investors. Transactions are scored on a system ranging from one star (meets basic requirements) to five stars (outstanding). The Hermes transactions were upgraded to four stars in the H105 update – Hermes provides good, user-friendly reporting in all areas and meets Fitch's published reporting standards in most areas.

For further information on the agency's Issuer Report Scores, please see the reports "*Fitch Issuer Report Grades*", dated 25 November 2004 and "*Rising Stars? Fitch Issuer Report Grades H1 2005 Update*", dated 7 June 2005, both of which are available at [www.fitchratings.com](http://www.fitchratings.com).

## ■ Appendix I: Rating Methodology

To determine the appropriate levels of credit enhancement, Fitch analyses the collateral for Dutch residential transactions using a loan-by-loan mortgage default model (see Research “*Dutch RMBS Default Model 2004*”, dated 1 September 2004 and available at [www.fitchratings.com](http://www.fitchratings.com)). The model subjects the mortgage loans to stresses resulting from its assessments of historical home price movements and mortgage defaults in the Netherlands. Fitch’s study showed that the borrower’s LTV, reflecting the size of his/her downpayment and willingness to pay, and the borrower’s DTI ratio or income multiple, reflecting his/her ability to pay, are the key determinants of default probability in the Netherlands.

#### Default Probability

Generally, the two key determinants of default probability are the borrower’s willingness and ability to make the mortgage payments. The willingness of a borrower to pay is usually measured by the LTV. Fitch’s model assumes higher default probabilities for high-LTV loans and lower default probabilities for low-LTV loans. The main reason for this is that in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low-LTV loans) have an incentive to sell and maintain/protect their equity, eliminating the need for the lender to repossess the property. However, the Netherlands is characteristically a high-LTV market due to the current tax incentives for such borrowing. Fitch accounts for this and places a greater emphasis on affordability when determining default probability.

The ability to pay is usually measured by the borrower’s net income in relation to the mortgage payment. Historical data available show lower levels of default by Dutch borrowers compared with those in neighbouring countries. Base default probabilities are determined by using a matrix that considers each loan’s affordability factor and LTV. The matrix classifies affordability into five classes, the lowest of which (class 1) encompasses loans with DTIs of less than 20% and the highest of which (class 5) encompasses all loans with DTIs exceeding 50%. A loan classified as affordability class 3, for example, would be allocated a base default probability of 4.5%-22.5%, depending on LTV.

#### Adjustments

Fitch adjusts the base default rates on a loan-by-loan basis to account for the individual loan characteristics of the collateral across all rating levels.

#### Repayment Type

- **Savings Mortgages:** A borrower makes interest payments on a savings mortgage, but instead of making principal payments, contributions are made to a savings account. Funds accumulated in this account are then used to redeem the mortgage at maturity. To ensure that there are sufficient funds at maturity, the savings account earns the same rate of interest as is charged on the loan. However, there is still a risk to the third-party savings institution in this case. The way most transaction structures mitigate such risk is to have the monthly premiums made by the borrower passed through to the issuer by the insurance company purchasing and accepting from the issuer a partial assignment in the mortgage. As long as this is the case, Fitch does not penalise savings mortgages.
- **Life Insurance Mortgages:** Similar to savings mortgages, a life insurance mortgage does not pay down any principal prior to loan maturity, at which point it is redeemed by the insurance policy. The yield on the policy can vary and will not necessarily equal the principal amount on the mortgage at maturity. Fitch increases default probability for life insurance mortgages, depending on how they are underwritten, the strengths of the insurer and the nature of the policy, owing to the increased market and third-party risk.
- **Investment Mortgages:** The investment mortgage is similar to the life insurance mortgage in concept (i.e. periodic contributions are made to an investment fund), but has a different choice of investment opportunities. Fitch increases the default probability according to the rating of the investment fund and/or the nature of the investment options.
- **Interest-Only:** Fitch generally increases the default assumptions for interest-only mortgages, whereby the mortgage is secured solely by the property value and principal is repaid by the borrower in one lump sum upon loan maturity, to take into account the potential payment shock to the borrower and the reliance on the borrower’s equity in the property.

*Loan Purpose*

- Fitch believes that mortgage loans advanced to release equity in the home (equity refinance mortgages) are risky, as the homeowner is essentially borrowing back equity based on the property's price appreciation. Based on reviews of the issuer's appraisal process, as well as underwriting guidelines, if Fitch believes that these loans have an increased likelihood of default, the base default probability will be adjusted by 10%-20%.

Fitch assumes that a financially distressed borrower is more likely to default on a second home than a primary residence, and even more so on an investment property. Accordingly, base default rates are increased by 10%-25%.

*Borrower Profile*

- Fitch increases default probability on loans to self-employed borrowers by 10% to account for their lack of a fixed monthly salary.

*Arrears Status*

- When rating portfolios that include both current and arrears mortgages, Fitch increases base default rates for mortgages in arrears by up to 90 days by 25%-75%, and those over 91 days in arrears (non-performing status) by 100%.

*Underwriting Quality*

- Fitch's review and analysis of the origination process determines whether it decreases default rates by up to 25% or increases them by 0%-200%.

*Recoveries*

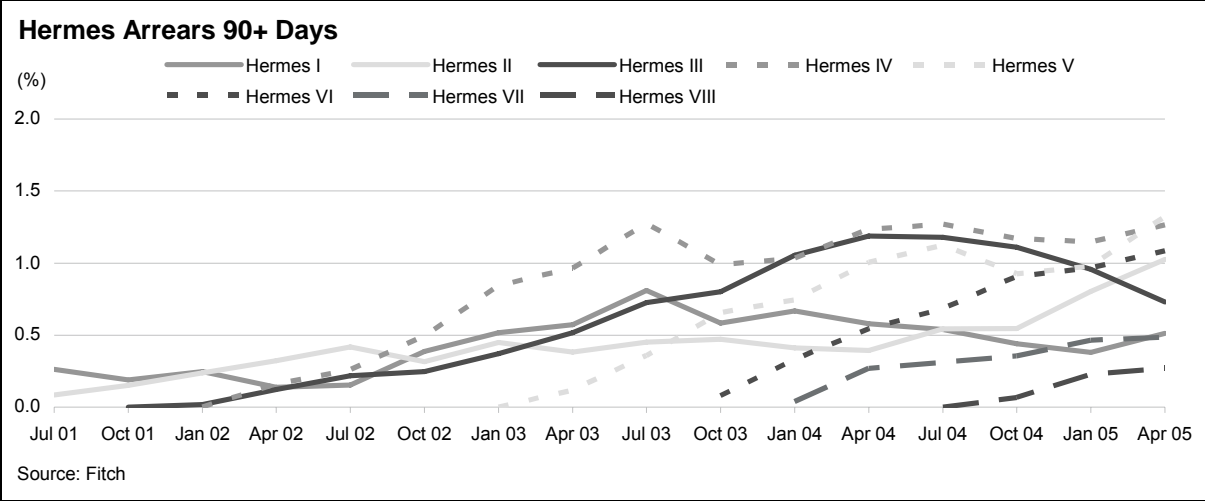
To estimate loss severity on mortgage loans in the Netherlands, Fitch examined house price movements by separating the Netherlands into 12 regions. Worst-case market value declines were estimated, and then were generated for each rating level and by region.

As in its other European mortgage default models, Fitch increased market value declines for properties worth more than EUR500,000 by 10%-25%. Higher-value properties tend to have larger market value declines owing to the smaller marketplace for such properties and less precise pricing information for larger properties (given the less active market).

Fitch's model gives full credit for property price declines and 50% credit for property price appreciation. The agency calculates recoveries by reducing the indexed property valuation by the market value decline, repossession costs and costs to the servicer of carrying the loan from delinquency through to default.

On the basis of worst-case information gathered from Dutch mortgage lenders, Fitch assumes that repossession costs represent 5% of the loan's balance at the time of possession. To calculate carrying cost, Fitch assumes that the borrower does not pay interest for a period of 12 months and that interest accrues during this period at the weighted average rate of interest.

■ Appendix 2



## ■ Holland Mortgage Backed Series (Hermes) X B.V.

RMBS/Netherlands

### Capital Structure

Class	Rating	Size (%)	Size(EURm)	CE (%)	Margin	PMT Freq	Maturity	Coupon	ISIN
A	AAA	94.95	1,424.3	6.90	[●]	Qtrly	2039	3 m Euribor	[●]
B	AA	2.35	35.2	4.55	[●]	Qtrly	2039	3 m Euribor	[●]
C	A	2.10	31.5	2.45	[●]	Qtrly	2039	3 m Euribor	[●]
D	A-	0.60	9	1.85	[●]	Qtrly	2039	3 m Euribor	[●]
E	BBB	1.85	27.7		[●]	Qtrly	2039	3 m Euribor	[●]

	Size (%)	Size (EURm)
Cash Reserve	1.85	
Liquidity	1.0	
Step Up Date	February 2015	

Swap	Total return, 45bp guaranteed margin, paying WA margin notes
Excess Spread (Closing)	n.a.

### Key Information

<b>Closing Date</b>	[●]	<b>Parties</b>	
<b>Country of Assets</b>	The Netherlands	<b>Seller/Originator</b>	SNS Bank N.V.
<b>Issuance Date</b>	[●]	<b>Servicer</b>	SNS Bank N.V.
<b>Structure</b>	Pass-Through	<b>Lead Managers</b>	Dresdner Kleinwort Wasserstein, JP Morgan
<b>Bloomberg</b>	[●]	<b>Trustee</b>	Stichting Security Trustee Holland Mortgage Backed Series (Hermes) X
<b>Settlement</b>	Euroclear, Clearstream	<b>Swap Counterparty</b>	SNS Bank N.V.
<b>Listing</b>	Euronext Amsterdam N.V.	<b>Liquidity Facility Provider</b>	SNS Bank N.V.
<b>Analyst</b>	Arjen Wink arjen.wink@fitchratings.com +44 20 7862 4147	<b>Floating Rate GIC Provider</b>	SNS Bank N.V.
		<b>Paying Agent</b>	ABN AMRO Bank N.V.

### Others (Summary)

Short Term and Long Term Rating Triggers (Minimum)	
Liquidity Facility Agreement	F1
Swap Agreement	F1 and A
Transaction Account Bank	F1

### Credit Enhancement

Excess Spread, Reserve Fund, Subordination

### PDL Mechanism

Any principal deficiencies under each class of notes will be registered in the PDL. Future excess spread will be available to cover such losses according to the priority of payments.

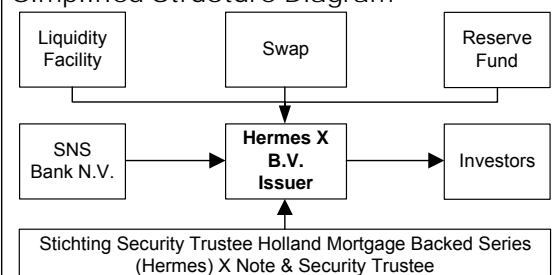
### Credit Committee Highlights

Established and experienced underwriter  
 No income data available, DTI assumed at 35%  
 WA seasoning is 19 months, WA original LTMV is 92.6%.  
 Gross excess spread guarantees 45bp per annum  
 Substitution period runs till March 2008  
 Fitch increased default probabilities for interest-only loans, investment loans and self-employed borrowers

### Fitch Default Model Output

Rating Level	WAFF (%)	WARR (%)	WALS (%)	MVD
AAA	18.25	56.68	47.44	40.90
AA	14.60	62.15	41.97	35.24
A	10.95	67.53	36.60	29.57
BBB	7.30	72.94	31.18	23.68
BBB-	3.65	78.19	25.93	17.78

### Simplified Structure Diagram



Source: Transaction documents

### Provisional Collateral

#### Pool Characteristics

Outstanding Principal Balance (Net of Savings) (EUR)	1,796,549,822	<b>Regional Concentration (%)</b>	
Average Current Loan per Borrower (EUR)	181,948	Gelderland	17.3
Number of Borrowers	9,874	Zuid-Holland	15.0
Seasoning (Months)	19	Noord-Holland	12.1
<b>Loan to Value (LTV) (%)</b>			
WA OLVFV	105.8	<b>Lien Position (%)</b>	
WA OLTMV	92.6	First & Subsequent Ranking	100
WA Indexed CLTMV	87.0		
<b>Mortgage Characteristics</b>		<b>Jumbo (%)</b>	2.0
Interest-only (%)	66.6	<b>Payments</b>	
Savings (%)	9.1	Payment Frequency	100% Monthly
Investment Based (%)	23.6	Payment Method	Direct Debit
<b>Interest Rate Type (%)</b>			
Fixed Rate	46.6	Performing Loans (%)	100
WA Interest Rate (%)	4.08	DTI (%) (assumed)	35
Interest Index (EURIBOR)	EURIBOR		

Source: SNS Bank

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