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RMBS Presale Report

## Holland Mortgage Backed Series (Hermes) X B.V. €1.5 Billion Mortgage-Backed Floating-Rate Notes

Analyst: Tina Ahmed, London (44) 20-7176-3779, tina\_ahmed@standardandpoors.com  
Surveillance analyst: Sean Hannigan, London (44) 20-7176-3783, sean\_hannigan@standardandpoors.com

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Class	Prelim. rating*	Prelim. amount (Mil. €)	Available credit support*** (%)	Interest rate	Step-up margin (bps)	Step-up date	Legal final maturity
A	AAA	1,424.3	6.90	Three-month EURIBOR plus a margin	100	March 2015	September 2039
B	AA-	35.2	4.55	Three-month EURIBOR plus a margin	125	March 2015	September 2039
C	A-	31.5	2.45	Three-month EURIBOR plus a margin	150	March 2015	September 2039
D	BBB	9.0	1.85	Three-month EURIBOR plus a margin	200	March 2015	September 2039
E**	N.R.	27.7	N/A	Three-month EURIBOR plus a margin	N/A	N/A	September 2039

\*The rating on each class of securities is preliminary as of Aug. 24, 2005 and subject to change at any time. Final credit ratings are expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion, and completion of a corporate overview. Standard & Poor's ratings address timely interest and ultimate principal.

\*\*The class E notes will be issued to fund the reserve fund. It is in this respect that the notes provide credit enhancement in the capital structure, rather than in the form of class subordination. For this reason the amount is excluded from the total issue description.

\*\*\*Available credit support includes the cash reserve, which will be fully funded at closing at 1.85%.  
N.R.—Not rated. N/A—Not applicable.

Transaction Participants	
Originator	SNS Bank N.V.
Lead managers	Dresdner Kleinwort Wasserstein and JPMorgan
Seller	SNS Bank N.V.
Mortgage administrator	SNS Bank N.V.
Security trustee	Stichting Security Trustee Holland Mortgage Backed Series (Hermes) X
Liquidity facility provider	SNS Bank N.V.
Swap counterparty	SNS Bank N.V.
GIC account provider	SNS Bank N.V.
Seller collection account provider	SNS Bank N.V.
Savings mortgage participant	REAAL Levensverzekeringen N.V.

Supporting Ratings	
Institution/role	Ratings
SNS Bank N.V. as seller collection account provider, liquidity facility provider, swap counterparty, and GIC account provider	A/Stable/A-1

Transaction Key Features	
Expected closing date	Sept. 22, 2005
Collateral	Performing loans secured by first-ranking mortgages on properties in The Netherlands
Principal outstanding of provisional pool (Bil. €)	1.80
Country of origination	The Netherlands
Concentration (%)	Gelderland (17.31) and Zuid-Holland (15.02)
Property occupancy	100% owner-occupied
Weighted-average original loan-to-foreclosure value ratio (%)	105.80
Average loan balance (€)	181,948
Loan size range (€)	19,442 to 400,000
Weighted-average seasoning (months)	19.00
Weighted-average asset life remaining (years)	28.10
Weighted-average mortgage interest rate (%)	4.08
Arrears (%)	None
Redemption profile	Sequential, then after the step-up date excess spread to be applied sequentially to redeem class A, B, C, and D notes
Excess spread at closing (bps)	45.00
Cash reserve (%)	1.85
Liquidity facility size (Mil. €)	15.00
Substitution period (years)	2.50
Mortgage priority	First-lien mortgages only
Maximum loan-to-foreclosure value ratio (%)	125.00
Principal deficiency ledger	Yes
Percentage of jumbo loans (> €400,000)	0.00

## Transaction Summary

Preliminary credit ratings have been assigned to the €1.5 billion mortgage-backed floating-rate notes to be issued by Holland Mortgage Backed Series (Hermes) X B.V., an SPE.

The transaction has been originated by SNS Bank N.V. (A/Stable/A-1), a midsize Dutch retail bank and member of the SNS REAAL Groep N.V. The collateral consists of performing loans secured by first-ranking mortgages on properties in The Netherlands. SNS Bank is a frequent originator, and is likely to originate further series under the Hermes program.

The ratings reflect the sound payment structure and cash flow mechanics of the transaction, and a cash flow analysis to verify that the notes will be repaid under stress test scenarios.

Another key consideration in the rating analysis is the strong protection for noteholders provided by a combination of subordination, a liquidity facility, a reserve fund, and excess spread to cover credit losses and income shortfalls.

## Notable Features

Hermes X is a repeat transaction for SNS Bank. The structure remains largely unchanged from the previous transaction, Holland Mortgage Backed Series (Hermes) IX B.V.

## Strengths, Concerns, And Mitigating Factors

### *Strengths*

- All of the loans in the pool are performing, first-ranking residential mortgages.
- The portfolio is geographically diverse and predominantly exposed to urban areas.
- A strong security package will exist to protect the noteholders.
- A cash reserve will be fully funded at closing at 1.85% of the initial note balance, excluding the class E notes. The cash reserve will amortize subject to certain conditions being met.
- A sequential paydown of the notes will occur.
- After the step-up date, excess spread will be used to sequentially amortize the notes once the class E notes have been redeemed.

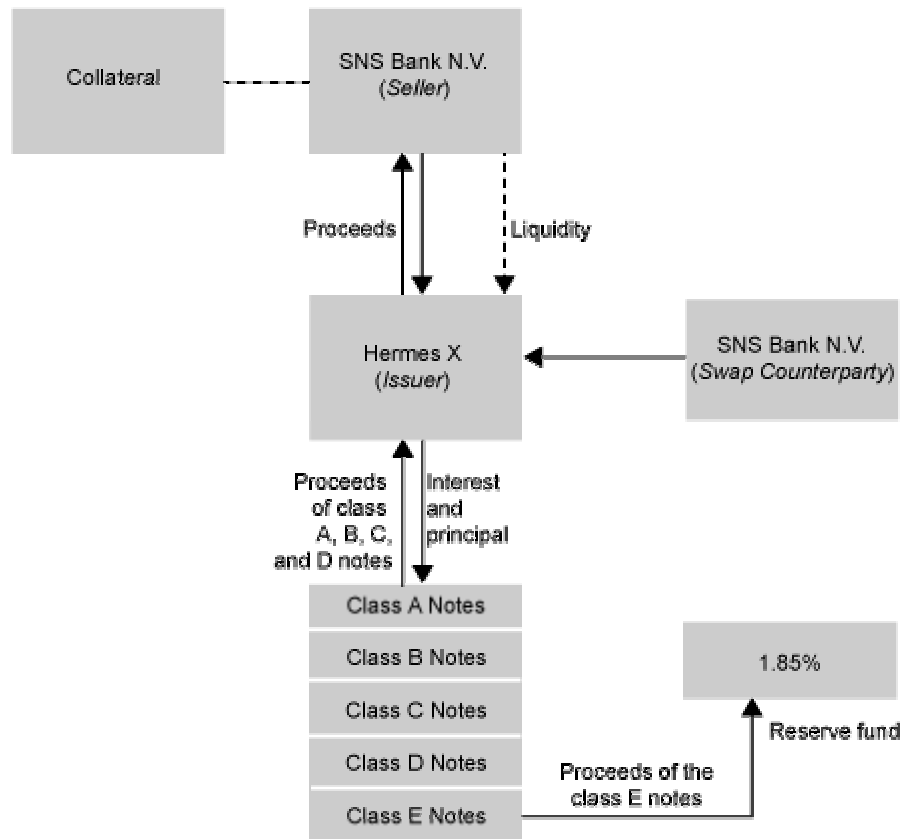
### Concerns and mitigating factors

- As the issuer may acquire new loans during the substitution period, there is a risk that the credit quality of the portfolio could be reduced. This risk is mitigated through the substitution criteria that are designed to ensure that the portfolio quality is maintained. Substitutions are also subject to a WAFF and WALS test. Additionally, there is a risk that the insurance set-off risk (see below) will increase during the substitution period — loans that do not have set-off risk could prepay and be replaced with those that do. Standard & Poor's will monitor this using quarterly reports provided by SNS Bank that estimate the size of the potential set-off risk.
- A concern is the high weighted-average loan-to-foreclosure value (LTFV) ratio of the pool. This is mitigated by the levels of credit enhancement required at the various rating categories. It should also be noted, however, that high LTFV ratios are not necessarily an indicator of higher risk in the Dutch mortgage market, given the various incentives under the Dutch tax regime (including the tax deductibility of mortgage interest and the tax efficiency of savings linked to insurance policies). In The Netherlands, the foreclosure value is about 85% to 90% of the market value.
- As in other Dutch RMBS transactions, there is a risk that on an insolvency of a mortgage borrower's insurance policy provider, he or she may be able to set off any resulting loss of their insurance policy repayments against their mortgage. In this transaction, there are more than 40 insurance policy providers, with the largest exposure equating to approximately 5.1% of the pool. Standard & Poor's considers that the risk of borrower set-off is adequately covered by the credit enhancement. Therefore, Standard & Poor's is able to de-link the ratings on the notes from the ratings on the insurance companies, and assign its highest preliminary rating of 'AAA' to the most senior class of notes.
- There is a concern that borrowers that also hold accounts with SNS Bank may set off the balance of their deposits against the amount owed in respect of the mortgages upon an insolvency of SNS Bank. This is mitigated as the magnitude of the set-off risk is crystallized on notification (see "*Set-Off Risk*" below).

### Transaction Structure

At closing, the issuer will purchase and accept the assignment of all rights of the seller against certain borrowers in connection with the mortgage pool (see chart 1). At that time, the issuer will issue various classes of notes, the proceeds of which (excluding the class E notes) will be used to purchase these rights. The subordinated class E notes will be used to fund a reserve fund.

**Chart 1**  
**Holland Mortgage Backed**  
**Series (Hermes) X B.V. Structure**



### Set-Off Risk

Dutch mortgage-backed transactions contain an element of set-off risk. It is common for Dutch borrowers taking out interest-only mortgages to enter into an insurance policy that is used to repay the mortgage at maturity. The borrower will usually make a form of annuity payment into the policy, which builds up in value as the loan approaches its maturity. There is a risk that if the insurance company providing the policy becomes insolvent during the life of the mortgage, the borrower may be able to set off amounts owed to Hermes X under the mortgage against the amounts that are owed to the borrower under the insurance policy.

The magnitude of the set-off risk depends primarily on when the insurance company providing the policy becomes insolvent, and thus on the value of the policy. In principle, the likelihood of the borrower being able to set off the policy loss against the mortgage obligation will depend on whether the courts deem the mortgage and insurance policy to be part of the same contract, and the concept of fairness that the court would decide on.

Due to the diversity of insurance policy providers to borrowers within the transaction, Standard & Poor's has been able to de-link the risk of an insolvency of an insurance company from the ratings on the notes by mitigating the risk within the credit enhancement available for each of the rated notes. To further mitigate the set-off risk, as the value of the insurance policy and hence the set-off risk increases with time after the closing date, Standard & Poor's has requested that excess spread is used after the step-up date to amortize sequentially the notes once the class E notes have been redeemed. A swap will guarantee 45 bps of excess spread that would be available to fund this amortization.

In addition to the set-off risk relating to the insurance policy, there is a risk that on an insolvency of the seller, SNS Bank, borrowers that hold bank accounts with credit balances will be entitled to set off amounts owed under their mortgages against amounts lost on accounts held with SNS Bank. Standard & Poor's has determined that the amount

of set-off is crystallized at the time of notification of the assignment of the mortgages to the SPE (notification will take place if the long-term rating on SNS Bank is lowered below 'A-'). The borrower does not need to invoke the set-off at the time of notification, but can do so later.

As the account "churns", however, new funds are deposited into the account and these would represent new claims that are unlikely to form part of the set-off calculation. Standard & Poor's has considered the average balance held in borrowers' accounts and considers the enhancement levels for each class of notes to be adequate to address this risk.

The provisional pool of Hermes X contains savings mortgages, which represent 9.09% of the pool. Savings mortgages differ from the other types of interest-only mortgages as the installments paid on these loans consist of an interest-only part and a savings part paid directly to the insurance company. The savings funds are invested by the insurer. At maturity, the insurance company has the obligation to set off the principal of the loan with the savings part.

To hedge against the risk that the return on the borrowers' investments falls below the guaranteed amount due on the mortgage repayment date, the insurer buys a share in the mortgages' portfolio by means of subparticipation. Consequently, the issuer would not suffer any damages should the borrower invoke any right of set-off, as long as the amount that the borrower invokes in such a defense does not exceed the amount of the insurer's participation.

## Collateral Description

The collateral pool consists of performing loans secured by first-ranking mortgages over residential properties in The Netherlands. The loans are made up of interest-only mortgage loans, savings mortgage loans, annuity mortgage loans, linear mortgage loans, investment mortgage loans, and combinations of these.

The provisional pool of €1.8 billion comprises 9,874 loans, made up of 17,851 mortgage parts, and was drawn up on July 31, 2005. The loans in the pool have been originated since 1995. The pool has a weighted-average seasoning of approximately 19 months.

Other features of the provisional pool include the following:

- The weighted-average original LTFV ratio is 105.8%.
- Of the principal balance outstanding, 66.6% represents interest-only mortgage loans.
- The largest concentration by geographic area is in Gelderland (see map below), representing 17.31% of loans by principal balance outstanding.
- The average outstanding balance is €181,948 and the maximum balance is €400,000.

Charts 2 to 4 describe the collateral pool.

Chart 2

### Mortgage Type

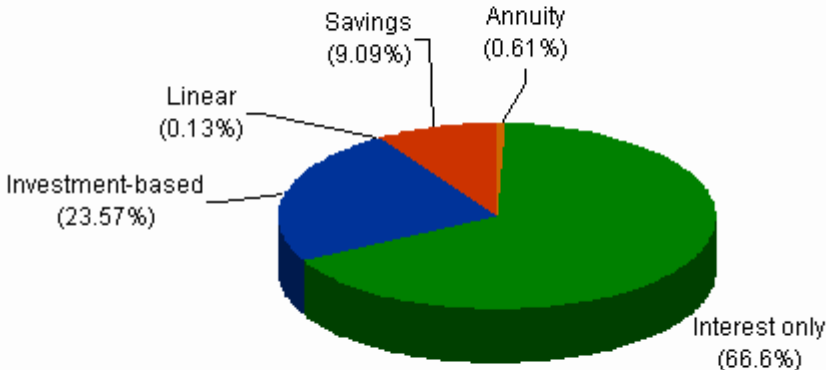


Chart 3

### Original LTFV Ratio

Percentage of portfolio balance

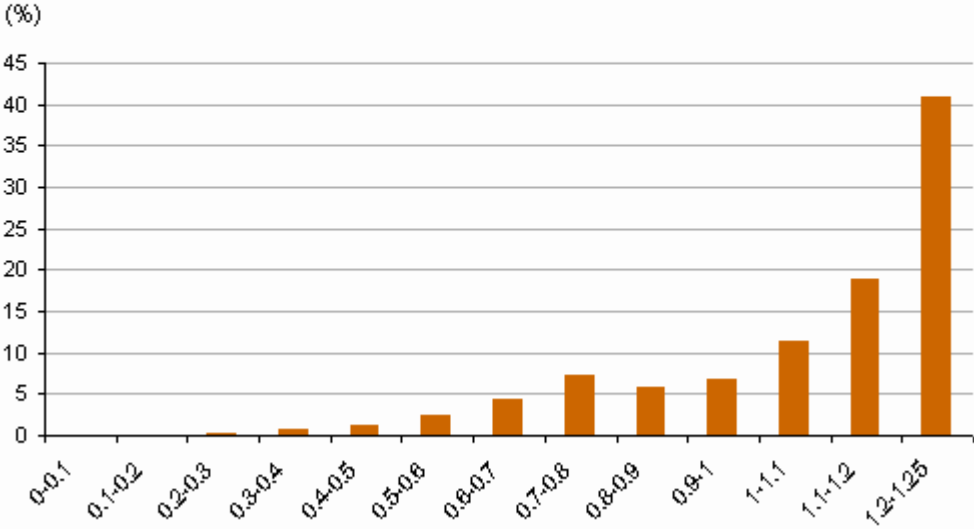
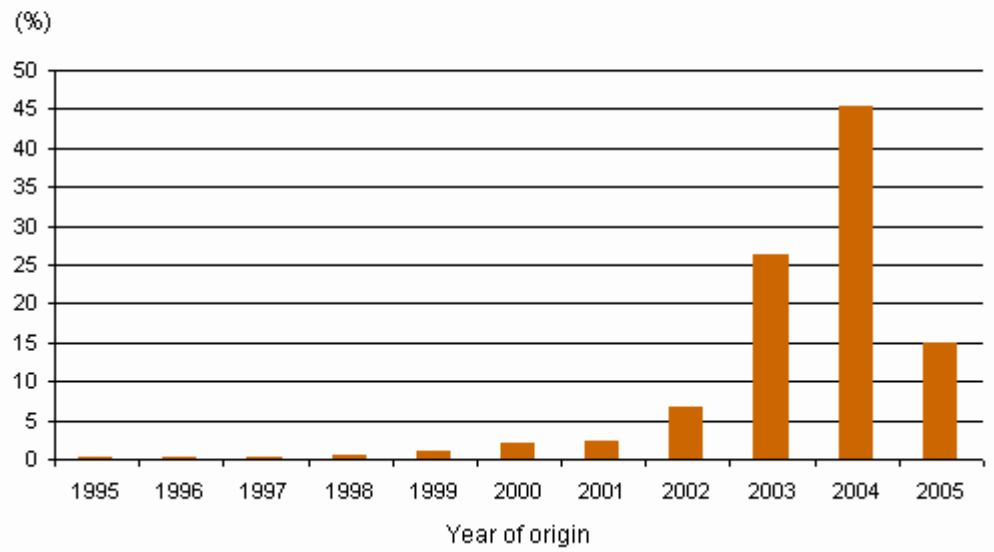


Chart 4  
Seasoning



Portfolio Geographic Concentrations  
(by principal balance)



## Credit Structure

### *Mortgage loan interest rates*

The mortgage loans have either a floating- or fixed-rate of interest, subject to a reset from time to time. The weighted-average interest rate on the provisional pool is 4.08%. Interest rates vary between individual mortgage loans. At the reset date, a borrower may prepay his or her loan without penalty.

### *Cash collection arrangements*

Provided the seller has a minimum short-term rating of 'A-1', payments by the borrowers will be due on the first day of each month. These payments will be paid into a collection account in the name of SNS Bank, the seller, and held at SNS Bank. All amounts of interest, principal, and any prepayment penalties received will then be transferred to the issuer's GIC account within eight business days of the first day of each month.

If the short-term rating on the seller is lowered to 'A-2', the seller will ensure that payments to be made in respect of the collections will be guaranteed by a party having a short-term rating of at least 'A-1'. Alternatively, SNS Bank will open an escrow account in the name of the issuer with a bank rated 'A-1' or higher. SNS Bank will transfer to this escrow account an amount equal to the maximum single amount of principal, interest, and prepayment penalties received since the closing date in one mortgage calculation period.

As long as the rating on the accounts provider is 'A-1', amounts in the GIC account may not exceed 20% of the outstanding rated notes. Any excess will be either invested in eligible investments that mature before the next interest payment date of the notes, or transferred into an account in the name of the issuer with a bank rated 'A-1+'.

### *Reserve fund account*

The reserve fund will be fully funded from proceeds of the subordinated class E notes equal to 1.85% of the aggregate principal balance of the notes (excluding the class E notes) on the closing date. The balance on the reserve account will be available on any interest payment date to pay senior fees, the coupons on the class A, B, C, D, and E notes, and to reduce any debit balances on the respective principal deficiency ledgers. To the extent the reserve fund has been used, it will be replenished up to 1.85% (€27.7 million) from excess spread in accordance with the priority of payments.

From and including the payment date in September 2009 onwards, the reserve required amount will be allowed to amortize to the higher of 1.85% of the outstanding principal amount of the notes (excluding the class E notes) and €7.5 million, subject to certain performance tests being met. The tests that need to be met before the reserve is permitted to amortize include the following:

- There should be no balance on any of the principal deficiency ledgers.
- The balance of loans with arrears greater than 90 days must not exceed 2% of the aggregate outstanding principal balance.
- After the first optional redemption date, the outstanding principal amount of all mortgage receivables must be equal to or greater than 10% of the outstanding principal amount of all mortgage receivables at the closing date.
- The weighted-average seasoning of the pool must be greater than 65 months.

### *Liquidity facility*

On the closing date, the issuer will enter into a liquidity facility agreement. The liquidity facility will equal 1% of the original balance of the notes (excluding the class E notes) and will be available to meet certain items in the interest priority of payments on the interest payment dates. In circumstances when there is a certain debit balance on the class B, C, and D principal deficiency ledgers, the liquidity facility may not be available to pay class B, C, or D interest.

### *Interest swap agreement*

On the closing date, the issuer will enter into a swap with SNS Bank to hedge the basis risk between the rate of interest to be received by the issuer on the mortgage loans and the rate of interest to be paid by the issuer on the notes.

Under the swap, the issuer will pay to the swap counterparty the interest due on the mortgages and interest accrued on the GIC account plus any received prepayment

penalties, less senior fees and expenses payable by the issuer, and an amount equal to 45 bps on the outstanding mortgage balance. In turn, the swap counterparty will pay to the issuer the interest amount due on each class of notes less the balance on the relevant principal deficiency ledger. If there is a balance on the class D principal deficiency ledger, no interest will be paid on the class E notes. Consequently, the swap guarantees an excess spread of 45 bps for the life of the transaction, which will be available to cover credit losses.

#### *Security for the notes*

The notes are secured:

- By a first-ranking right of pledge by the seller to the security trustee and a second-ranking pledge by the seller to the issuer over the mortgage receivables and the rights of the seller as beneficiary under the savings insurance policies and the life insurance policies; and
- By a first-ranking right of pledge by the issuer to the security trustee over the issuer's rights under or in connection with the various transaction documents and transaction accounts.

The amount payable to the noteholders and the other secured parties is limited to the amounts available for this purpose to the security trustee. Broadly, this consists of amounts recovered by the security trustee on the mortgage receivables, the beneficiary rights and amounts received by the security trustee as creditor under the mortgage receivables purchase agreement, and the parallel debt agreement. Payments to the secured parties are made in accordance with the priority of payments upon enforcement.

### Key Performance Indicators

Continual surveillance will be maintained on the transaction until the notes mature or are otherwise retired. To do this, regular reports provided by SNS Bank and detailing the performance of the underlying collateral will be analyzed. The supporting ratings will be closely monitored. Regular due diligence visits will be made to SNS Bank to ensure that its minimum standards are being maintained, and that any material changes in its operations are assessed. Standard & Poor's will also monitor the level of potential set-off risk during both the substitution and amortization periods.

### Terms And Conditions Of The Notes

#### *Interest*

Payments of interest will be made quarterly in arrears on the payment date in March, June, September, and December of each year. The notes will pay interest at three-month EURIBOR plus a class-specific margin yet to be determined, starting in December 2005, and will have a final maturity date of September 2039.

#### *Redemption of the notes*

Principal will be used to redeem the class A, B, C, and D notes on a sequential basis. The class E notes will be repaid from excess spread commencing in September 2009. Additionally, after the step-up date, excess spread will be used to sequentially amortize the class A, B, C, and D notes once the class E notes have been redeemed in full.

Once all amounts of interest and principal due on the class A, B, C, and D notes have been paid, any amounts held in the reserve fund will be released to be used in the interest priority of payments and will be available to pay principal on the class E notes.

#### *Optional redemption*

The issuer will have the option to redeem all the notes (other than the class E notes) after the optional redemption date in March 2015 at their principal amount outstanding. If there is a class B, C, or D principal shortfall, the issuer will have the option to redeem the class B, C, or D notes at the principal amount outstanding less the shortfall.

### Standard & Poor's Stress Test

The rating analysis includes a conservative assessment of the credit risk inherent in the transaction and, ultimately, the ability of the cash flows generated from the assets to pay the coupon on the notes on a timely basis and to repay the notes by the legal final maturity date.

The credit enhancement levels were sized after analyzing the impact that severe stress scenarios would have on the collateral. In determining the credit quality of a mortgage pool, an estimate must be made of an expected case of potential losses that could occur because of foreclosures. This estimate of potential losses is the amount of loss protection needed. All types of exposures are thus eligible for inclusion in a pool, provided their credit risk can be quantified and adequate loss protection is supplied.

The analysis determined the foreclosure frequency and loss severity on an exposure basis. In considering the foreclosure frequency, the characteristics and structure of the lending and the results of the evaluation of the originator were analyzed. The key structural characteristics considered include the loan leverage, the underwriting of the mortgage loans, and an administrator review.

The foreclosure frequency and loss severity for each exposure was weighted to derive the WAFF and WALs at each rating level. In considering the WALs, Standard & Poor's analyzed the quality and type of property, the length of the foreclosure period, foreclosure costs, and market value declines.

The transaction has been replicated using a cash flow model to test the robustness of the cash flows generated after applying severe stress scenarios to the transaction commensurate with each rating level. Stresses include defaults (based on the WAFF) and recoveries (based on the WALs), delinquencies, prepayment rates, and varying interest-rate environments.

The liquidity facility was modeled as documented taking into account the seniority of interest and fees in respect of this facility. Additionally, the cash flow model has taken into account the payments made by the issuer to the swap counterparty, i.e., no credit was given to balances held in the GIC account. The senior expenses were not sized as these are effectively guaranteed by the swap payment.

## Criteria Referenced

- "*European Legal Criteria*" (published in March 2005).
- "*Set-Off in Certain Dutch Mortgage Products and its Effect on Rating RMBS*" (published on Sept. 25, 2002).

## Related Articles

- "*Ratings Transitions 2004: Upgrades Outnumber Downgrades for the First Time in European Structured Finance*" (published on Jan. 17, 2005).

All criteria and related articles are available on RatingsDirect, Standard & Poor's Web-based credit analysis system, at [www.ratingsdirect.com](http://www.ratingsdirect.com). The criteria can also be found on Standard & Poor's Web site at [www.standardandpoors.com](http://www.standardandpoors.com).

## Group E-Mail Address

[StructuredFinanceEurope@standardandpoors.com](mailto:StructuredFinanceEurope@standardandpoors.com)

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