

Publication Date: Oct. 4, 2006  
RMBS Presale Report

## Holland Mortgage Backed Series (Hermes) XII B.V. €2.037 Billion Mortgage-Backed Floating-Rate Notes

Analyst: Farid Shavaksha, London (44) 20-7176-3935, farid\_shavaksha@standardandpoors.com  
Surveillance analyst: Sean Hannigan, London (44) 20-7176-3783, sean\_hannigan@standardandpoors.com  
Group e-mail address: StructuredFinanceEurope@standardandpoors.com

This presale report is based on information as of Oct. 4, 2006. The credit ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final credit ratings that differ from the preliminary credit ratings. For further ratings information, call Client Support Europe on (44) 20-7176-7176. Members of the media may contact the Press Office Hotline on (44) 20-7176-3605 or via media\_europe@standardandpoors.com. Local media contact numbers are: Paris (33) 1-4420-6657; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4017. Investors are invited to call the SF Investor Hotline on (44) 20-7176-3223.

Class	Prelim. rating*	Prelim. amount (Mil. €)	Available credit support*** (%)	Interest rate	Step-up date	Legal final maturity
A	AAA	1,905	6.60	Three-month EURIBOR plus a margin	March 2016	December 2038
B	AA	40	4.60	Three-month EURIBOR plus a margin	March 2016	December 2038
C	A	29	3.15	Three-month EURIBOR plus a margin	March 2016	December 2038
D	BBB+	26	1.85	Three-month EURIBOR plus a margin	March 2016	December 2038
E**	NR	37	N/A	Three-month EURIBOR plus a margin	N/A	December 2038

\*The rating on each class of securities is preliminary as of Oct. 4, 2006, 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 opinions, 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.

\*\*\*Available credit support includes the cash reserve, which will be fully funded at closing at 1.85% of the initial note balance, excluding the class E notes.

NR—Not rated.

N/A—Not applicable.

Transaction Participants	
Originator	SNS Bank N.V.
Seller	SNS Bank N.V.
Lead managers	The Royal Bank of Scotland PLC and Barclays Capital
Mortgage administrator	SNS Bank N.V.
Security trustee	Stichting Security Trustee Holland Mortgage Backed Series (Hermes) XII
Liquidity facility provider*	SNS Bank N.V.
Swap counterparty	SNS Bank N.V.
GIC provider	SNS Bank N.V.
Seller collection account provider	SNS Bank N.V.
Savings insurance company	REAAL Levensverzekeringen N.V.
*In the transaction documentation, this is referred to as the "cash advance facility provider"	

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

Transaction Key Features*	
Expected closing date	October 2006
Collateral	Performing loans secured by first-ranking mortgages on properties in The Netherlands
Principal outstanding (Bil. €)	2.44
Country of origination	The Netherlands
Concentration	Gelderland (17.82%) and Noord-Brabant (15.13%)
Property occupancy	100% owner-occupied
Weighted-average current loan-to-foreclosure value ratio (%)	104.1
Average loan balance (€)	195,463
Loan size range (€)	11,668 to 400,000
Weighted-average seasoning (months)	12.4
Weighted-average asset life remaining (years)	28.7
Weighted-average mortgage interest rate (%)	4.15
Arrears greater than one month (%)	0
Redemption profile	Sequential, then after the step-up date excess spread will be applied sequentially to redeem the class A, B, C, and D notes
Excess spread at closing (bps)	45
Cash reserve (%)	1.85
Liquidity facility size at closing (%)	1.00
Mortgage priority	First-lien mortgages only
Maximum loan-to-foreclosure value ratio (%)	125
Principal deficiency ledger	Yes
Percentage of jumbo loans (> €400,000)	0
*Provisional mortgage pool statistics are as of Aug. 31, 2006	

## Transaction Summary

Preliminary credit ratings have been assigned to the €2.037 billion mortgage-backed floating-rate notes to be issued by Holland Mortgage Backed Series (Hermes) XII B.V.

The transaction has been originated by SNS Bank N.V., a midsize Dutch retail bank and a subsidiary of SNS REAAL 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 verifying 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 XII is a repeat transaction for SNS Bank. Consequently, the structure remains largely unchanged from the previous transactions in the Hermes series.

## Strengths, Concerns, And Mitigating Factors

### Strengths

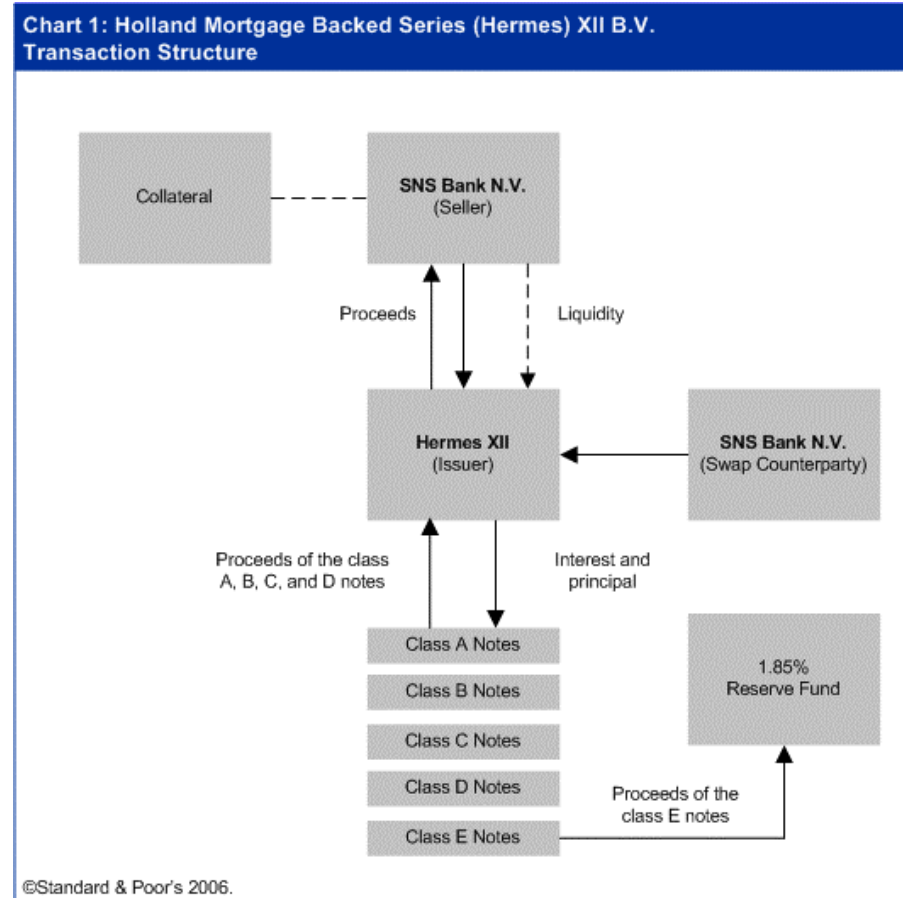
- All of the loans in the pool are performing, first-ranking residential mortgages.
- The portfolio is geographically diverse and predominantly exposed to urban areas.
- A strong security package will exist to protect the noteholders.
- A cash reserve will be fully funded at closing at 1.85% of the initial note balance, excluding the class E notes. The cash reserve will amortize subject to certain conditions.
- 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.
- Unlike in previous Hermes transactions, there will be no substitution period.

### Concerns and mitigating factors

- 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 generally represents about 85%-95% of the market value of the property, depending on what region the property is in, and specific property characteristics.
- 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% 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 delink 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*").

## 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.



## 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 XII 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 delink 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, excess spread will be 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 will be available to fund this amortization.

In addition to set-off risk relating to insurance policies, there is a risk that on insolvency of the seller, borrowers that hold bank accounts with credit balances may be entitled to set off amounts owed under their mortgages against amounts lost on accounts held with the seller. 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 make the set-off at the time of notification, but can do so later. Standard & Poor's considers the enhancement levels for each class of notes to be adequate to address this risk.

The provisional pool of Hermes XII contains savings mortgages, which represent 3.6% of the pool. Savings mortgages differ from the other types of interest-only mortgages as the instalments 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 is obligated 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 €2.44 billion comprises 12,450 loans, made up of 23,993 mortgage parts, and was drawn up on Aug. 31, 2006. The loans in the pool have been originated since February 1999. The pool has a weighted-average seasoning of approximately 12.4 months.

Charts 2 to 5 describe the collateral pool.

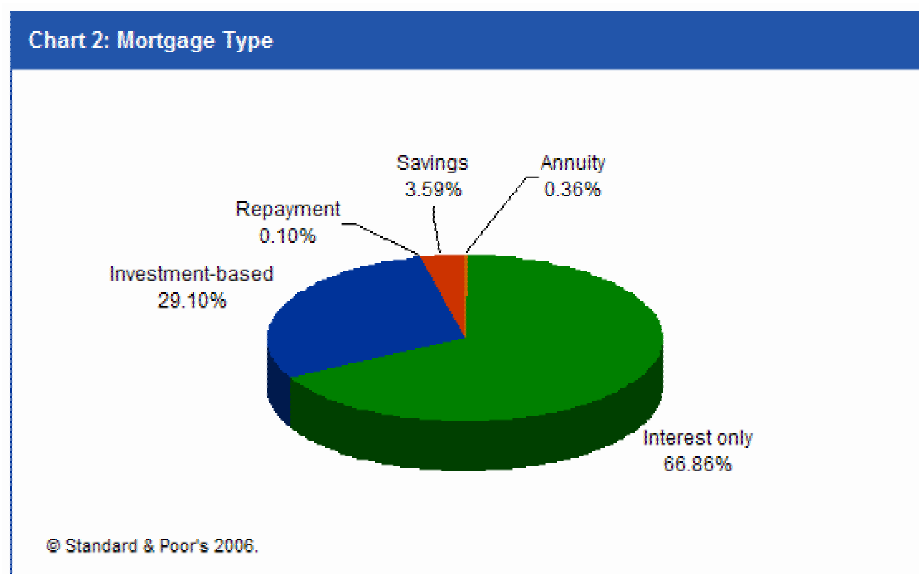


Chart 3: Seasoning

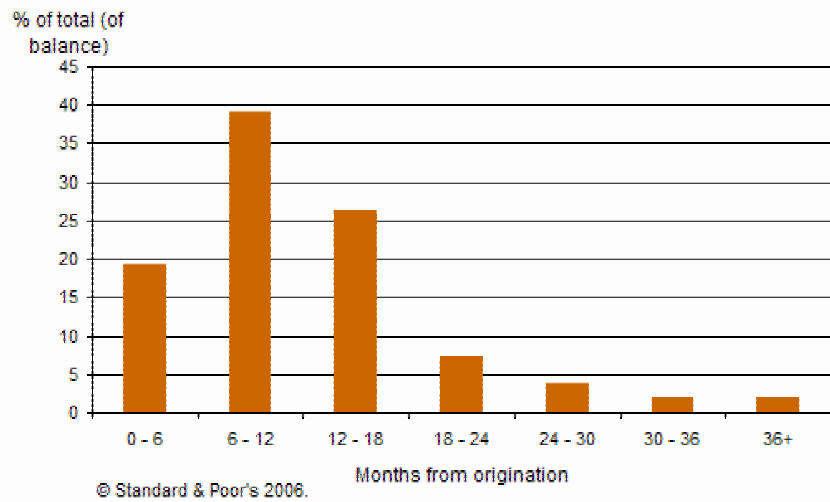
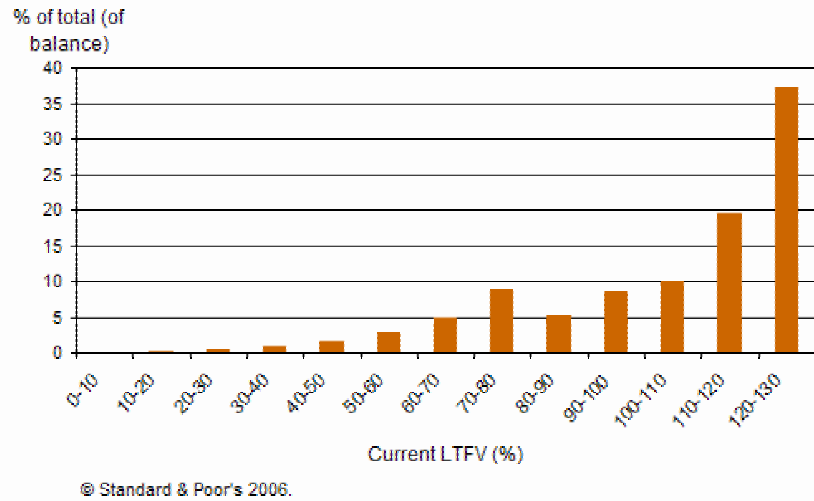


Chart 4: Current Loan-To-Foreclosure Value Ratio



**Chart 5**  
**Geographic Concentration**  
**(by principal balance)**



## Credit Structure

### ***Mortgage loan interest rates***

The mortgage loans pay 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 4.15%. Interest rates vary between individual mortgage loans. At the reset date, a borrower may prepay his or her loan without penalty; otherwise up to 20% per year may be prepaid 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 with 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 account 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. If the reserve fund is used, it will be replenished up to 1.85% from available excess spread in accordance with the priority of payments.

From and including the payment date in December 2009, the reserve required amount will be allowed to amortize to the higher of 1.85% of the then-outstanding principal amount of the notes (excluding the class E notes) and 0.50% of the initial asset-backed note balance at closing, 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.
- 90+ day arrears do 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 46 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. If 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, minus 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 minus 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 provides 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 will be secured by:

- A first-ranking right of pledge by the issuer to the security trustee over the mortgage receivables and the beneficiary rights; and
- 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.

After enforcement, the amounts payable to the noteholders will be limited to those available to the security trustee to make these payments, and will consist of amounts recovered under the rights of pledge and as a creditor under the parallel debt agreement. Payments will be made in accordance with the priority of payments upon enforcement.

## **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 2006, and will have a final maturity date in December 2038.

### ***Redemption of the notes***

Principal will be used to redeem the class A, B, C, and D notes sequentially. The class E notes will be repaid from excess spread starting in December 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 (but not some) of the notes (other than the class E notes) after the optional redemption date in March 2016, at their principal amount outstanding. If there is a class B, C, or D note principal shortfall, the issuer will have the option to redeem the class B, C, or D notes at the principal amount outstanding, minus 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 are 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 regarding this facility. Additionally, the cash flow model took into account the payments made by the issuer to the swap counterparty, that is, 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.

## **Key Performance Indicators**

Ongoing 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 contact will be kept with SNS Bank to ensure that its minimum standards are being maintained, and that any material changes in its operations are assessed.

## Criteria Referenced

- "*Dutch RMBS Market Overview And Criteria*" (published on Dec. 16, 2005).
- "*European Legal Criteria for Structured Finance Transactions*" (published on March 23, 2005).
- "*Set-Off in Certain Dutch Mortgage Products and its Effect on Rating RMBS*" (published on Sept. 25, 2002).

All criteria and related articles are available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, 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).

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280. Copyright 2006 by The McGraw-Hill Companies, Inc. Reproduction in whole or in part prohibited except by permission. All rights reserved. Information has been obtained by Standard & Poor's from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities.

Standard & Poor's uses billing and contact data collected from subscribers for billing and order fulfillment purposes, and occasionally to inform subscribers about products or services from Standard & Poor's, our parent, The McGraw-Hill Companies, and reputable third parties that may be of interest to them. All subscriber billing and contact data collected is stored in a secure database in the U.S. and access is limited to authorized persons. If you would prefer not to have your information used as outlined in this notice, if you wish to review your information for accuracy, or for more information on our privacy practices, please call us at (1) 212-438-7280 or write us at [privacy@standardandpoors.com](mailto:privacy@standardandpoors.com). For more information about The McGraw-Hill Companies Privacy Policy please visit [www.mcgraw-hill.com/privacy.html](http://www.mcgraw-hill.com/privacy.html).

Analytic services provided by Standard & Poor's Ratings Services ("Ratings Services") are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

Permissions: To reprint, translate, or quote Standard & Poor's publications, contact: Client Services, 55 Water Street, New York, NY 10041; (1) 212-438-9823; or by e-mail to: [research\\_request@standardandpoors.com](mailto:research_request@standardandpoors.com).

**The McGraw-Hill Companies**