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Presale Report: RMBS/Prime/The Netherlands

Holland Mortgage Backed Series (Hermes) XIV B.V. €2 Billion Mortgage-Backed Floating-Rate Notes

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Class	Prelim. rating*	Prelim. amount (Mil. €)	Available credit support (%)	Interest	Step-up date	Legal final maturity
A1	AAA	500	5.1	Three-month EURIBOR plus a margin	February 2013	November 2039
A2	AAA	1,398	5.1	Three-month EURIBOR plus a margin	February 2013	November 2039
B	AA	16	4.3	Three-month EURIBOR plus a margin	February 2013	November 2039
C	A	54	1.6	Three-month EURIBOR plus a margin	February 2013	November 2039
D	BBB	14	0.9	Three-month EURIBOR plus a margin	February 2013	November 2039
E	NR	18	N/A	Three-month EURIBOR plus a margin	February 2013	November 2039

*The rating on each class of securities is preliminary as of Sept. 4, 2007, and subject to change at any time. Initial 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.

NR—Not rated.

N/A—Not applicable.

Transaction Participants	
Originators	SNS Bank N.V. and BLG Hypotheekbank N.V.
Sellers	SNS Bank N.V. and BLG Hypotheekbank N.V.
Arranger	SNS Bank N.V.
Mortgage administrators	SNS Bank N.V. and BLG Hypotheekbank N.V.
Security trustee	Stichting Security Trustee Holland Mortgage Backed Series (Hermes) XIV
Liquidity facility provider*	SNS Bank N.V.
Swap counterparty	SNS Bank N.V.
GIC provider	SNS Bank N.V.
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

*Together with its subsidiary, BLG Hypotheekbank N.V.

Transaction Key Features*	
Expected closing date	Sept. 21, 2007
Collateral	Performing loans secured by first-ranking mortgages on properties in The Netherlands
Principal outstanding, provisional pool (€)	2,061,842,705
Country of origination	The Netherlands
Concentration	Noord-Brabant (19.43%) and Zuid Holland (14.78%)
Property occupancy	100% owner-occupied
Weighted-average loan-to-foreclosure value ratio on an aggregated basis (%)	90.44
Average loan balance (€)	193,528
Loan size range (€)	20,000 to 750,000
Weighted-average seasoning (months)	18.6
Weighted-average asset life remaining (years)	28.2
Weighted-average mortgage interest rate (%)	4.61
Arrears greater than one month (%)	0
Redemption profile	Sequential, and after the step-up date excess spread will also be applied to redeem the class A, B, C, D, and E notes sequentially
Excess spread at closing (bps)	35
Cash reserve	None
Liquidity facility size at closing	2.6% of current balance, with a floor of 0.5% of original balance
Mortgage priority	First-lien mortgages only
Maximum loan-to-foreclosure value ratio (%)	125
Principal deficiency ledger	Yes
Percentage of jumbo loans (> €400,000)	19.23

*As of July 31, 2007.

Transaction Summary

Of the €2.0 billion mortgage-backed floating-rate notes to be issued by Holland Mortgage Backed Series (Hermes) XIV B.V., Standard & Poor's Ratings Services has assigned preliminary credit ratings to €1,982 million of the notes. At the same time, Hermes XIV will issue €18 million in unrated notes.

Two banks originated the loans underlying the transaction: SNS Bank N.V. (SNS), a midsize Dutch retail bank that is a wholly owned subsidiary of SNS REAAL N.V., and BLG Hypotheekbank N.V. (BLG), a mortgage originator that distributes through independent intermediaries, and is in turn a wholly owned subsidiary of SNS.

The collateral consists of performing loans secured by first-ranking mortgages on properties in The Netherlands. SNS is a frequent originator, and is likely to originate further series under the Hermes program. This is the second time that loans underwritten by BLG have been included in a Hermes transaction. By principal balance, Hermes XIV includes 56.2% loans that are originated by SNS and 43.8% originated by BLG.

When assigning ratings, Standard & Poor's considered the sound payment structure and cash flow mechanics of the transaction, and analyzed the cash flows to verify that the notes will be repaid under stress test scenarios. We also considered the strong protection for noteholders provided by a combination of subordination, a liquidity facility, and excess spread to cover credit losses and income shortfalls.

Notable Features

Hermes XIV is a repeat transaction, and none of the key features of the structure have changed compared to Holland Mortgage Backed Series (Hermes) XIII B.V. (Hermes XIII).

Strengths, Concerns, And Mitigating Factors

Strengths

- All the loans in the pool are performing, first-ranking residential mortgages.
- The credit quality of the loans included in this transaction is superior to that of Hermes XIII. The weighted-average LTV ratio of Hermes XIV is 79.75% and its weighted-average loan-to-foreclosure-value (LTFV) ratio is 90.44%—in both cases about 5%-6% lower than that of Hermes XIII. Furthermore, most of this reduction has come from the upper tail of loans, those with an LTFV ratio higher than 100%. This has the additional benefit of reducing the potential loss severity in case of foreclosure.
- The loan portfolio has a weighted-average seasoning of 18 months, which reduces the probability of default as a mortgage that has been outstanding for a significant period of time, and is not currently in arrears has a lower likelihood of foreclosure. None of the loans in this pool are currently in arrears.
- The portfolio is geographically diverse and predominantly exposed to urban areas. This reduces its potential exposure to negative economic developments in any one region of The Netherlands.
- Notes will pay down sequentially, and after the step-up date excess spread will be used to sequentially amortize the notes until all classes of notes have been redeemed.
- Hermes XIV follows the example of the previous two transactions in excluding a substitution period, preventing the quality of the loans included in the pool from deteriorating during this period.

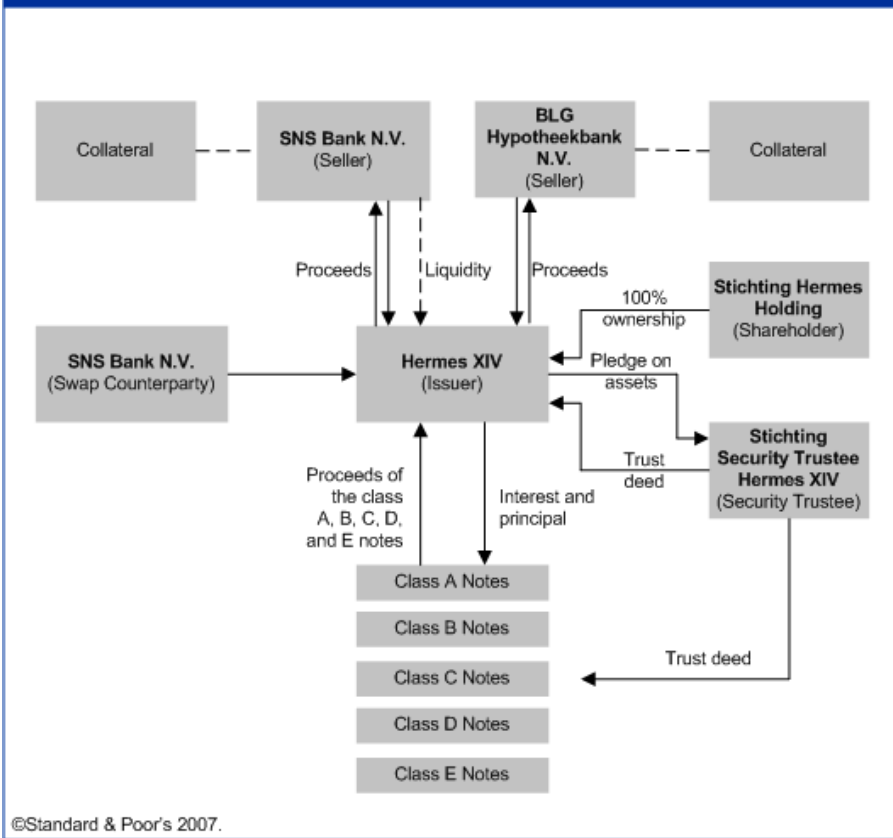
Concerns and mitigating factors

- The entire structure will be collateralized, with no cash reserve fund built into the transaction. The only mitigating factors for this are the existence of a liquidity facility and excess spread in the transaction.
- A larger proportion (19.23%) of the loan portfolio for Hermes XIV consists of jumbo loans (in this market, those above €400,000), compared to Hermes XIII (13.22%). However, the average loan size of the transaction has actually fallen, due to the higher proportion of smaller loans offsetting these jumbo loans.
- While the relatively high weighted-average LTV ratio of the transaction may initially seem a concern (for instance, when compared in absolute terms to the LTV ratio of transactions from other European jurisdictions), it should be noted that it is lower for Hermes XIV than it was for Hermes XIII, and also that high LTV ratios are neither unusual nor necessarily an indicator of high risk in Dutch transactions, due to tax incentives.
- 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 on the insurance policy repayments against his or her mortgage. In this transaction, there are more than 45 insurance policy providers, with the largest exposure equating to approximately 3.78% of the pool. Standard & Poor's considers that the risk of borrower set-off is adequately covered by the credit enhancement and can therefore 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.
- Borrowers that also hold accounts with SNS may be able to set off the balance of their deposits against the amount owed against the mortgages on an insolvency of SNS. The magnitude of the set-off risk is crystallized on notification, which will take place if the long-term rating on SNS is lowered below 'A-'. This risk only applies to those loans originated by SNS; as BLG is not a deposit-taking institution, this risk does not apply to the same extent to that portion of the portfolio.

Transaction Structure

At closing, the issuer will purchase and accept the assignment of all rights of the sellers 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 will be used to purchase these rights.

Chart 1: Holland Mortgage Backed Series (Hermes) XIV B.V. Transaction Structure



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Originator Profiles

SNS is a public limited liability company that was incorporated under Dutch law in 1990 (with corporate headquarters in Utrecht) as a result of the merger of several regional savings banks. SNS is a 100% subsidiary of SNS Reaal N.V., and is thus also part of the SNS Reaal Group. SNS is a retail bank with a strong focus on its domestic market, and a product offering that is concentrated around savings, mortgages and small commercial services. Its origination of residential mortgages is broadly dispersed throughout The Netherlands, without a specific regional concentration (unlike that of BLG). SNS originates mortgages via three principal distribution platforms: its own branch network (146 locations throughout The Netherlands), direct channels (a call center and the Internet), and intermediaries (estate agents, financial advisers, insurance intermediaries). SNS also has close links with the insurance subsidiary of its own group (Reaal Verzekeringen N.V.) to facilitate the sale of mortgage products with an underlying repayment vehicle that is provided by this insurance company (for instance, life insurance and investment products). However, regardless of the channel of origination, the underlying credit process involved in underwriting is undertaken internally by SNS itself.

BLG is a wholly owned subsidiary of SNS and sells mortgages exclusively via independent intermediaries (i.e., without a branch network). However, as is also the case with SNS, BLG always makes the final decision to underwrite a loan internally itself (although the intermediary can make a preliminary decision for loans with a LTFV ratio below 75%). Geographically, BLG is strongest in the southern provinces, such as Limburg and Noord-Brabant. BLG's products are relatively similar to those of its parent SNS, but its choice of repayment vehicles (for instance, for life insurance and investment products) is not restricted to its parent's products. BLG's credit policies have traditionally been more conservative than those of its parent, and its customer base in the south tends

to be older, more stably employed, and have more equity built in their homes. As a result, the loans underwritten by BLG have a lower overall risk profile than those of SNS by key metrics such as LTFV ratio and loan-to-income (LTI) ratio, and arrears and write-offs also tend to be lower on the BLG portfolio than on the SNS portfolio.

The policies and processes of servicing and arrears management are similar for both SNS and BLG, and their middle-office arrears management processes are being consolidated in the course of 2007. Regardless of the channel of sale, both SNS and BLG control servicing and arrears management internally, although an intermediary may become involved in certain stages of the arrears management process. Both BLG and SNS maintain surveillance on the comparative credit quality of borrowers being introduced by different intermediaries. As soon as a borrower becomes delinquent, it is classified by risk category (high, medium, low), and the speed and frequency of contact with this borrower is prioritized accordingly. The arrears management process will generally move into the legal stage (with formal foreclosure procedures) after 65 days of arrears.

In May 2007, SNS Bank agreed to purchase Regio Bank from ING Bank. Regio Bank distributes mortgage and savings products throughout The Netherlands via a network of independent intermediaries. There are no mortgages originated by Regio Bank included in the mortgage collateral that underlies the Hermes XIV transaction.

Standard & Poor's has reviewed the organizational process, underwriting criteria, and collections activity of both SNS and BLG, and found them to be satisfactory.

Collateral Description

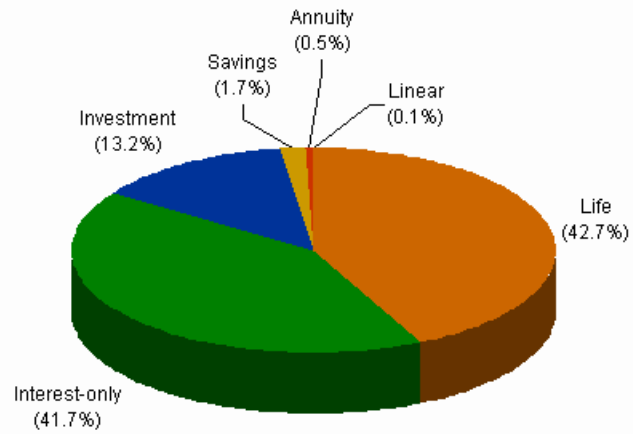
The collateral pool consists of performing loans secured by first-ranking mortgages over owner-occupied residential properties in The Netherlands. The pool comprises interest-only mortgage loans (41.72%), savings mortgage loans (1.71%), life insurance loans (42.71%), annuity mortgage loans (0.53%), linear mortgage loans (0.09%), and investment-based mortgage loans (13.24%).

The provisional pool of €0.06 billion comprises 10,654 loans, composed of 16,831 mortgage parts, and was drawn up on July 31, 2007. The pool has a weighted-average seasoning of approximately 18 months.

Eligibility criteria for the inclusion of loans in the pool include that they must be first-lien, have a maximum LTFV ratio of 125%, be owner-occupied (no investment properties), and have a maximum loan size of €750,000. Furthermore, both originators have underwriting criteria which generally restrict the LTI ratio of the borrower to less than 36%.

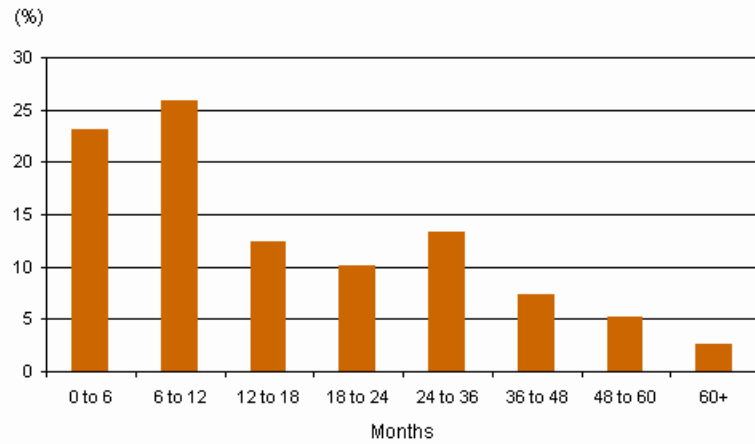
The collateral in Hermes XIV benefits from a lower overall level of credit risk than that of the previous transaction, primarily due to its lower weighted-average LTFV ratio (see charts 2 to 5).

Chart 2: Distribution By Mortgage Type



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Chart 3: Distribution By Seasoning



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Chart 4: Distribution By Loan-To-Foreclosure-Value Ratio

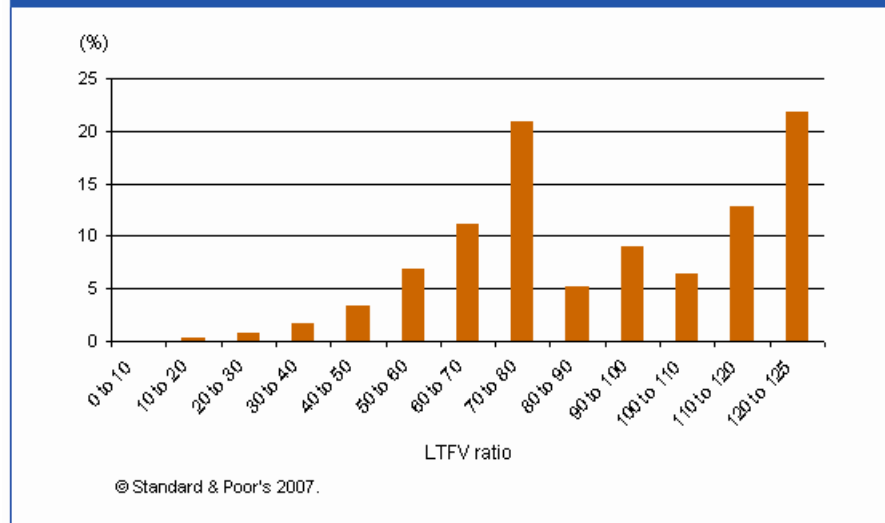


Chart 5: Geographic Concentration (by principal balance)



There are three products—savings mortgage loans, investment mortgage loans, and life mortgage loans—that carry set-off risks in the Dutch market. This is because the Dutch tax regime includes various incentives to assume a large mortgage loan balance. Mortgage interest is tax-deductible and savings linked to insurance policies are tax-efficient. The eligibility criteria for the inclusion of new mortgage loans in the pool do not contain any restrictions on the proportion of the pool that may consist of any of these

types of mortgage loans. However, given the extra risks associated with these products, and the fact that the magnitude of this set-off risk may increase over time, these factors are addressed separately below.

Savings mortgage loans

Savings mortgage loans comprise 1.71% of the provisional pool. The borrower takes out a savings mortgage loan and also a combined risk and capital insurance policy with a savings insurance company. Instead of paying principal, the borrower pays savings premiums that accrue on an annuity basis. At maturity, the cash proceeds of the savings insurance policy are sufficient to repay the savings mortgage loan. If the savings insurance company becomes insolvent, the borrower may be able to set-off amounts lost as a result of the savings insurance company's insolvency against amounts due on the linked savings mortgage loan. There is a substantial risk of set-off with savings mortgage loans because the loan and the policy bear a close connection.

To mitigate the risk associated with savings mortgage loans, the initial asset purchaser will enter into a subparticipation agreement with the relevant savings insurance company. Under the terms of this agreement, the savings insurance company will invest the savings premiums paid by borrowers under savings mortgage loans with the initial asset purchaser. This is referred to as a participation. If a borrower were to successfully invoke a set-off defence for any amounts lost as a result of the savings insurance company becoming insolvent or otherwise defaulting on its obligations under the savings mortgage loan, the savings company's participation would be reduced by the amount lost. Consequently, the initial asset purchaser would only suffer a loss if the amount lost as a result of set-off exceeds the relevant participation.

Investment mortgage loans

Investment mortgage loans comprise 13.24% of the pool. A borrower with an investment mortgage loan makes periodic investment premiums under an investment policy that will, at maturity, be used to pay the principal balance of the mortgage if the return on the investment portfolio is sufficient over the life of the mortgage loan. A potential set-off risk arises with investment mortgage loans if the company granting the investment policy were to become insolvent. The set-off risk associated with investment mortgage loans in this transaction is partially mitigated by the payment mechanics relating to most of these mortgage loans. Borrowers under most investment mortgage loans will make their payments to SNS Beleggersgiro (in the case of SNS), a bankruptcy-remote Dutch foundation. This foundation will invest borrower funds in accordance with their instructions by acquiring participations in investment funds. These investment funds will be used to pay the mortgage loan at the expiry of its term. Only if this bankruptcy-remote foundation was unable to meet its obligations would borrowers be able to invoke set-off against amounts due on their mortgages. Similar circumstances exist for loans originated by BLG, except that the foundations to which the payments are made would not necessarily just be SNS Beleggersgiro, but would include those of multiple third parties.

Life mortgage loans

Life mortgage loans comprise 42.71% of the pool. Life mortgage loans come in several forms, but the concept remains essentially the same. A borrower with a life mortgage loan pays insurance premiums, which provide him or her with life insurance coverage. If the insurer meets or exceeds a benchmark return on the borrower's premiums, the mortgage loan will be paid at maturity with the accrued value of the policy.

Life mortgage loans are subject to similar risks to savings mortgage loans and investment mortgage loans. Four events would need to occur before set-off could result in a loss to noteholders:

- The relevant insurer would need to be declared insolvent.
- A borrower who had suffered a loss as a result of the insurer's insolvency would need to invoke a set-off claim.
- A court would need to determine that the borrower's waiver of set-off rights under the initial seller's mortgage documentation was invalid and that the borrower has met all the conditions necessary to invoke set-off.
- The aggregate loss realized as a result of set-off would need to exceed the available credit enhancement for a class of notes (after factoring into account the excess margin under the cash flow swap available to make whole any principal deficiencies).

The likelihood of all these events occurring together reduces any potential set-off risk exposure.

Set-off risk in this transaction applies primarily to mortgage loans originated by SNS, which contain waivers on a borrower's ability to invoke set-off defence for all loans originated since the end of 2005. There is, however, no legal certainty that these provisions would be deemed valid. BLG does not include a specific waiver of the right of set-off in loans it originates. However, any claim of setoff risk would be harder to validate because BLG only offers third-party repayment vehicles for life insurance mortgages, and there is no compulsion for the borrower to purchase products of the insurance companies of its parent, SNS Reaal Group (see "*Changes To The Treatment Of Potential Set-Off Risk In The Dutch RMBS Market*" in "*Related Articles*").

Other forms of set-off risk

In addition to the above set-off risks, there is a risk that on insolvency of the sellers, 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 sellers. Standard & Poor's has determined that the amount of set-off would be 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 is lowered below 'A-'). The borrower does not need to make the set-off claim 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 risk is lower for the BLG loans than for the SNS loans, as BLG is not a deposit-taking institution.

Credit Structure

Mortgage loan interest rates

The mortgage loans pay either a fixed (89.80% of the pool) or a floating (8.56% of the pool) rate of interest, which may be reset from time to time. A small proportion of loans (1.64%) pay a rate of interest with an alternative calculation mechanism. The weighted-average interest rate on the provisional pool is 4.61%. The loans may also contain rate and reset mechanisms that control the volatility of the mortgage rate to the borrower, for instance by maintaining it within a bandwidth, by applying a ceiling, or by calculating a moving average of prior rates. At the reset date, a borrower may prepay his or her loan without penalty; otherwise up to 20% per year (SNS) or 10% per year (BLG) may be prepaid without penalty.

Cash collection arrangements

Payments by the borrowers will be due on the first day of each month. Provided that SNS has a minimum short-term rating of 'A-1', these payments will be paid by both sellers (SNS and BLG) into collection accounts held in the name of each seller at SNS. All interest, principal, and any prepayment penalties received will then be transferred to the issuer's GIC account. If the short-term rating on SNS is lowered to 'A-2', each seller will

ensure that payments to be made for the collections will be guaranteed by a party with a short-term rating of at least 'A-1'. Alternatively, each seller may open an escrow account in its name with a bank rated 'A-1' or higher, and transfer to this escrow account 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 may not exceed 20% of the outstanding 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-2'.

Liquidity facility

On the closing date, the issuer will enter into a liquidity facility agreement (known as the cash advance facility). The facility will equal 2.6% of the current balance of the notes, with a minimum floor value of 0.5% of the original balance of the notes. It will be available to meet certain items in the interest priority of payments on the interest payment dates. However, in circumstances when there is a debit balance on the class B through E principal deficiency ledgers, the liquidity facility may not be available to pay interest on notes in these classes.

Note payments

Payments of interest will be made quarterly in arrears on the payment date in February, May, August, and November of each year. The notes will pay interest at three-month EURIBOR plus a class-specific margin yet to be determined, starting in November 2007, and will have a final maturity date of November 2039.

Interest swap agreement

On the closing date, the issuer will enter into a swap with SNS 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, plus any prepayment penalties received, minus senior fees and expenses payable by the issuer, and minus 35 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, but will exclude the balance recorded on the relevant principal deficiency ledger of each series of notes in calculating the amount of interest due. Consequently, the swap provides an excess spread of 35 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 the 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.

Priority of payments

The transaction has separate principal and interest priority of payments. The priority of payments for interest receipts can be summarized as follows:

- Senior fees and expenses;
- Liquidity facility provider (excluding gross-up amounts);
- Swap counterparty (unless in default);
- Interest due on the class A notes;
- Credits to the class A principal deficiency ledger;
- Repeat the above two steps for class B through E notes;
- After the step-up date, pay down principal sequentially on the class A1 through E notes;
- Swap counterparty (if in default);
- Gross-up amounts due on the liquidity facility; and
- Deferred purchase price installment to the sellers.

The priority of payments for principal receipts can be summarized as follows:

- Sequential payment of the principal amounts outstanding on the notes (class A1 through E); and
- Deferred purchase price installment to the sellers.

Redemption of the notes

Principal will be used to redeem the notes sequentially, and after the step-up date excess spread will also be used to sequentially amortize the notes. The issuer may choose to redeem all (but not some) of the notes after the optional redemption date in February 2013 at their principal amount outstanding. If there is a class B, C, D, or E note principal shortfall, the issuer may choose to redeem the class B, C, D, or E notes at the principal amount outstanding minus the shortfall. The issuer may also call the notes if the outstanding principal balance of the notes is lower than 10% of the initial note balance (clean-up call) or if taxes are imposed that result in a requirement to withhold or deduct payments of principal or interest on the notes.

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.

WAFF And WALs		
	WAFF (%)	WALS(%)
AAA	15.6	23.7
AA	12.2	20.2
A	8.7	16.3
BBB	5.2	14.0
BB	3.5	10.3

The liquidity facility was modeled as documented, taking into account the seniority of interest and fees regarding 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. The senior expenses were not sized as these are effectively guaranteed by the swap payment.

Key Performance Indicators

Continual surveillance will be maintained on the transaction until the notes mature or are otherwise retired. To do this, regular servicer reports detailing the performance of the underlying collateral will be analyzed. Additionally, Standard & Poor's will review the composition of the portfolio on an ongoing basis to ensure that the ratings on the notes are supported by the credit quality of the portfolio. The key performance indicators will be:

- Total and 90-day delinquencies;
- Cumulative realized losses;
- LTFV ratios;
- Constant prepayment rates; and
- Increases in credit enhancement for the notes.

The supporting ratings on the transaction parties will be closely monitored. Regular contact will be made with the servicer to ensure that servicing standards are being maintained, and that any material changes in the servicer's operations are assessed.

The Hermes series is well established. Charts 6 to 9 show the performance of Holland Mortgage Backed Series (Hermes) VII B.V. and Holland Mortgage Backed Series (Hermes) VIII B.V.

Chart 6: Delinquencies In Hermes VII

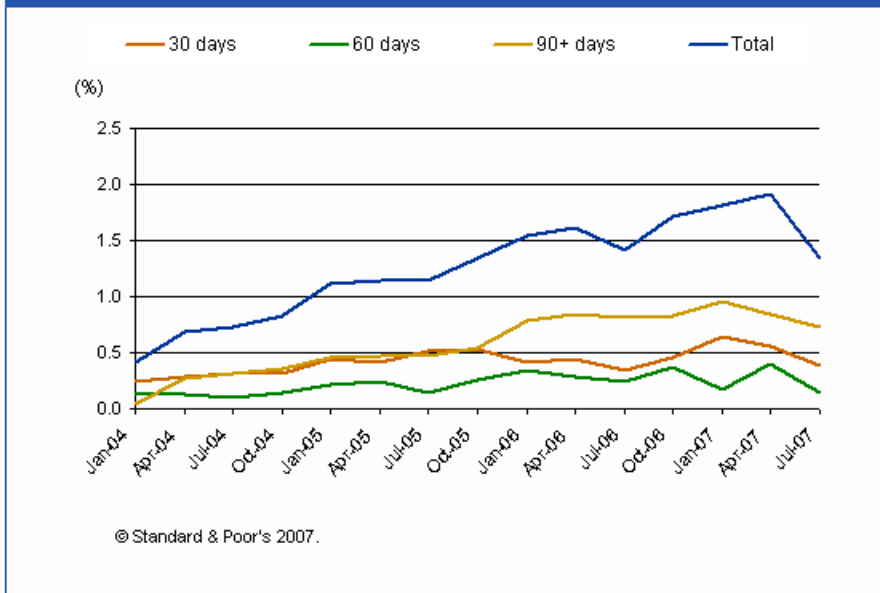


Chart 7: Delinquencies In Hermes VIII

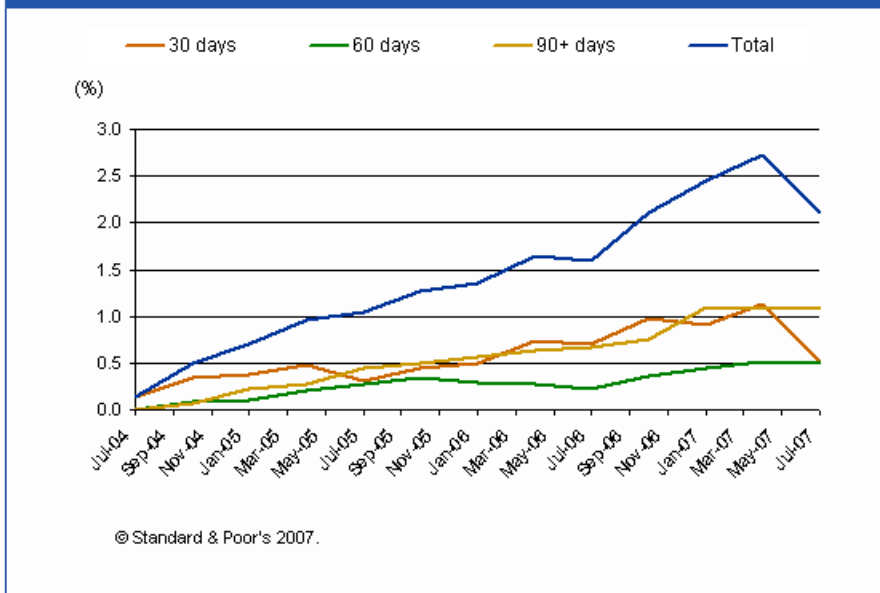


Chart 8: Cumulative Realized Losses

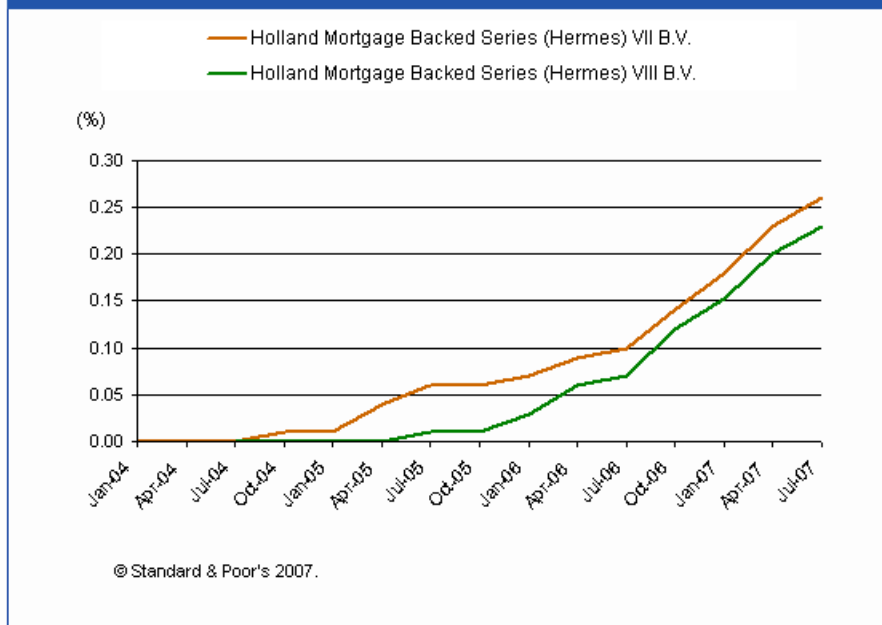
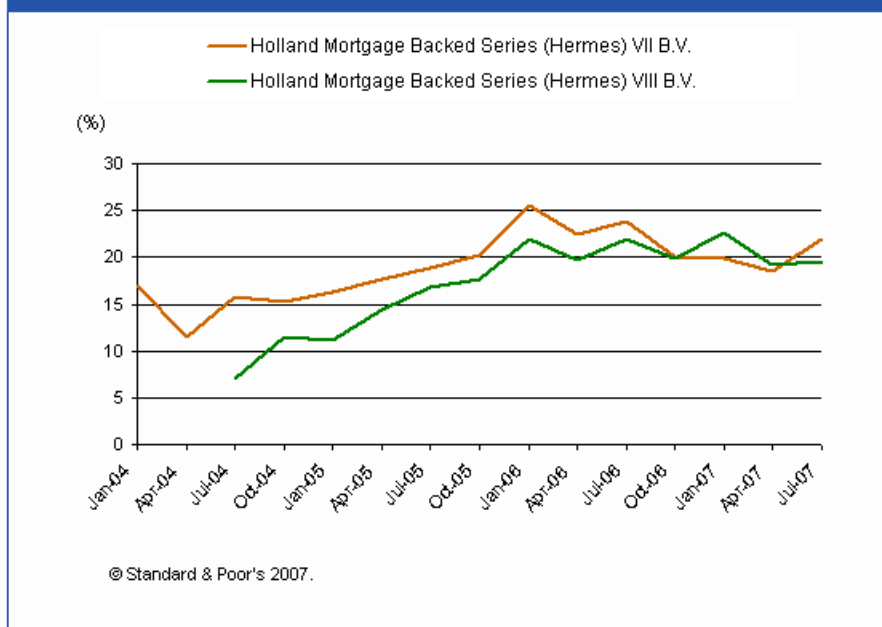


Chart 9: Three-Month Prepayment Speed (CPR)



Sovereign Risk Assessment: The Netherlands

The ratings on the State of The Netherlands (AAA/Stable/A-1+) are underpinned by the country's prosperous, highly open, and diversified economy. Although it has a relatively small population, The Netherlands' economy is the 16th largest in the world.

After a period of slow growth, over 2007-2008 growth is expected at just below 3% and the structure of the economy has been strengthened. In 2006, the government

implemented reforms of the social security system that have increased the number of people entering the labor force and made a positive contribution to public finances. Additional measures to make work more attractive are planned for 2007, and corporate tax cuts and an easing of the administrative burden will improve the investment climate. In combination with recently improved competitiveness as a result of wage moderation, these developments signal a promising perspective for economic growth. Policies aimed at increasing productivity will be vital to maintaining and increasing potential growth in The Netherlands, while additional structural expenditure reforms, including to the pension system, will be necessary to reduce pressures on public finances over the coming years.

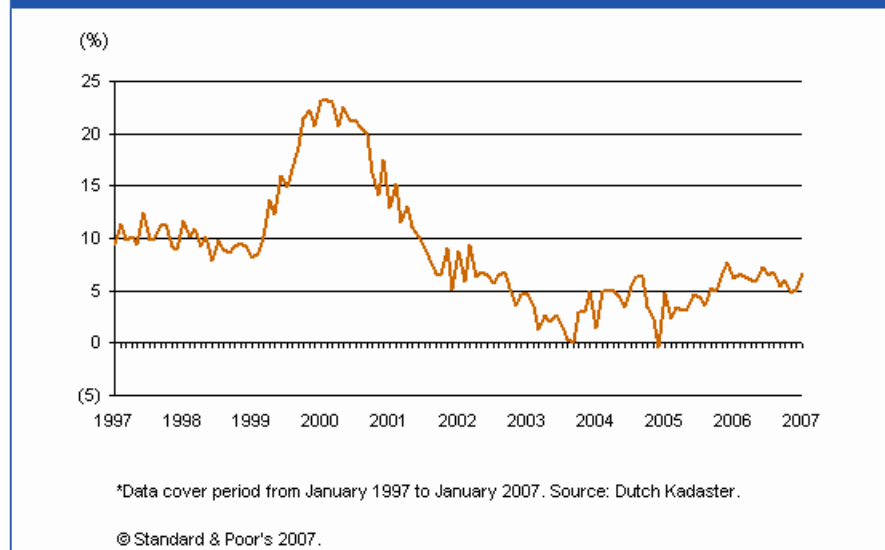
The Netherlands has achieved considerable success in terms of fiscal consolidation. The government succeeded in realizing a 0.6% of GDP surplus in 2006, after posting a deficit of 3.1% of GDP in 2003. The surplus is expected to decline in 2007-2008 due to additional tax cuts and reductions in unemployment insurance premiums. The debt burden has declined to less than 50% of GDP in 2006, slightly above the 'AAA' median of 45%, but is expected to continue declining over the next few years.

In the medium term, The Netherlands' extremely strong creditworthiness should remain secure against nearly all foreseeable negative economic, political, and financial risks. The stable outlook reflects the expectation that the predictable political environment and the government's commitment to expenditure discipline will continue to support the credit ratings on the sovereign. In the long term, further structural reforms to raise labor participation rates and productivity will be necessary to enhance growth potential, to ensure the sustainability of public finances as the population ages, and to underpin The Netherlands' credit standing.

The Dutch Housing Market

Against the backdrop of a strong economic recovery since mid-2005, the housing market in the Netherlands has continued to show strength. House price inflation accelerated in the second half of 2005 and early 2006 as homebuyers tried to hedge future interest rate increases (see chart 10) by locking themselves into fixed-rate mortgages. As a result, outstanding mortgage debt has continued to grow, reaching almost €500 billion, matching the level of the country's GDP. The average LTI ratio has increased to more than 170% in 2006, from less than 120% in 2000, according to the Dutch Central Bank's latest estimates. Even more striking, the average LTI ratio of newly arranged mortgage loans stood at around 550% at the end of 2006. This substantially exceeds the average for the entire stock of mortgage loans and creates a major risk in the medium term: a lot of first-time buyers' mortgages are short term, leaving them exposed to higher interest rates in the future.

Chart 10: House Price Inflation In The Netherlands 1997-2007*
(% Change Over 12 Months)



The Dutch tax system has been highly favorable for home buyers, in a country where marginal rates of taxation are very high. The mortgage interest tax relief has permitted net interest costs to be very low or even negative in real terms for the better part of this decade. Furthermore, capital gains from rising house prices are not taxed. Another supportive factor is that housing supply is very tight, while the share of home ownership in the Netherlands has risen to 54% in 2004, from approximately 15% in 1957. Last year, housing completions rose for the first time in years, to reach an estimated 75,000. Nevertheless, strong regulatory and geographic restrictions on land availability are still resulting in a chronic imbalance between supply and demand.

As in other European countries, the conflicting influence of a robust economy on one hand, and rising interest rates on the other, leads us to expect that the Dutch housing market will remain resilient in the remainder of 2007. House price growth, meanwhile, is likely to decelerate to between 3% and 5% per year. Risks remain, however: if the ECB hikes its leading interest rate substantially beyond the current level of 4%, the pressure on home affordability will become particularly acute for the first-time buyers that recently acquired their homes and have to refinance their mortgage.

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- "*Changes To The Treatment Of Potential Set-Off Risk In The Dutch RMBS Market*" (published on Sept. 8, 2006).
- "*Set-Off in Certain Dutch Mortgage Products and its Effect on Rating RMBS*" (published on Sept. 25, 2002).
- "*European Economic Forecast: Rate Hikes Take The Heat Out Of Europe's Housing Markets*" (published on April 3, 2007).

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. The criteria can also be found on Standard & Poor's Web site at www.standardandpoors.com.

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