

Holland Euro-Denominated Mortgage-Backed Series (Hermes) II B.V.

MBS - Netherlands

EXPECTED CLOSING DATE:

30 October 2000

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TRANSACTION IN BRIEF

	Class A	Class B	Class C
Rating:	Aaa	A1	Baa1
Amount (Million):	€621	€28	€16
Margin over 3m Euribor (Bp):	0.27%	0.80%	1.45%
Interest Payment Dates:	18 Jan., 18 April, 18 July and 18 Oct. (Quarterly in arrears)		
Final Maturity Date:	18 April 2012		
Issuer:	Holland Euro-Denominated Mortgage-Backed Series (Hermes) II B.V.		
Security Trustee:	Stichting Holland Euro-Denominated Mortgage-Backed Series (Hermes) II B.V.		
Put Option Provider:	Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank) (Aaa, Prime-1)		
Liquidity Facility Provider:	SNS bank Nederland N.V. (SNS bank) (A2, Prime-1)		
Swap Counterparty:	UBS AG (Aa1, Prime-1)		
Floating Rate GIC Provider:	SNS bank		
Subordinated Loan Provider:	SNS bank (Fees and Expenses) and SNS Reaal Verzekeringen N.V. (Reserve Fund)		
Paying Agent:	ABN AMRO Bank N.V. (Aa2, Prime-1)		
Reserve Fund:	€13.3 million or 2.0% of the initial amount outstanding of the Notes and thereafter building up to 2.2% (€14.63 mio) and amortising to a floor of €3 mio from 2008		
Liquidity Facility:	€3.33 million or 0.5% of the initial amount outstanding of the Notes		
Summary of Provisional Pool as at 31 August, 2000			
Sellers:	SNS bank and 6 wholly owned regional subsidiaries of SNS bank		
Servicer:	SNS bank		
Mortgage Loans:	Loans secured by first-ranking mortgage rights over residential property situated in the Netherlands		
Mortgage Loan Type:	Interest-Only (92.17%), Linear (0.17%), Annuity (1.90%) and Investment Based (5.75%)		
Principal Amount:	€665 million		
Number of Loans:	5,961		
Loan-to-Value:	98% (weighted average)		
Outstanding Balance:	€111,558 (weighted average); Max €340,335; Min €4,538		
Performance:	Current including <= 1 month in arrears on 31 August, 2000		
Interest Rate:	5.33% (weighted average); Max 7.60%; Min 4.50%		
Seasoning:	18 mnths (weighted average); Max 55 mnths; Min 6 mnths		



RATING OPINION

Moody's has assigned long-term credit ratings of **Aaa** to the Class A Notes, **A1** to the Class B Notes and **Baa1** to the Class C Notes.

This transaction represents the second securitisation of Dutch mortgage loans originated by SNS bank. The transaction structure and nature of underlying mortgage loans is similar to the Hermes I transaction closed in November 1999¹ except for the level and funding of the Reserve Fund, the application of Excess Spread during the first year of the transaction and the inclusion of SNS Reaal Verzekeringen N.V. as the Reserve Fund Subordinated Loan provider.

The ratings of the Notes are based upon:

1. An analysis of the characteristics of the securitised pool backing the Notes;
2. The Excess Spread available to cover losses on the mortgage pool;
3. The availability of a Reserve Fund of 2.0% of the initial amount outstanding of the Notes building up to 2.2%;
4. The availability of a liquidity facility of 0.5% of the initial outstanding amount of the Notes to cover interest shortfalls on delinquent mortgage loans;
5. The subordinate position of the junior classes of Notes;
6. The interest rate swap, under which UBS AG (**Aa1, Prime-1**) assumes the basis risk between the fixed rate of interest paid on the mortgage loans and the Euribor-based interest due on the Notes;
7. The legal and structural integrity of the issue; and
8. SNS bank's (**A2, Prime-1**) experience as Servicer of mortgage loans.

Moody's believes that, whilst the structure and nature of underlying mortgage loans is similar to the Hermes I transaction, the expected loss on the subordinated Notes is lower compared to Hermes I due to the 0.30% increase of the Reserve Fund to 2.2% of the initial outstanding amount. Consequently, the rating of the subordinated Notes is one 'notch' above the rating of the subordinated Notes for the Hermes I transaction.

The rating of each of the Notes address the timely payment of interest, and the ultimate payment of principal.

STRUCTURE

The Issuer is a 'besloten vennootschap met beperkte aansprakelijkheid' (limited liability company) incorporated in the Netherlands. The entire issued share capital of the Issuer is owned by Stichting Hermes II established under the laws of the Netherlands as a foundation. SNS bank and six wholly owned regional subsidiaries of SNS bank (together SNS bank) will sell a portfolio of mortgage loans owed by individual borrowers secured by first-ranking mortgage rights over residential property situated in the Netherlands to the Issuer.

The purchase of the loans will be funded using the proceeds of the Notes. At the same time, the Issuer will use the proceeds of the subordinated loans to fund fees and expenses and to fund part of the Reserve Fund. Repayment of principal and payment of interest will take place on a sequential basis; any subordinated class of Notes will only be repaid after the more senior Class(es) of Notes is (are) redeemed in full. According to the cash flow allocation, interest on the Notes will be payable from interest payments and prepayment penalties collected on the mortgage loans. For up to 0.5% of the initial amount outstanding of the Notes, SNS bank will agree to provide liquidity support for any payment of interest in arrears. Principal collected on the mortgage loans will be applied to the Class A, B and C Notes on a pass-through/sequential basis.

A common feature of Dutch MBS transactions is the 'conditional' sale of mortgage receivables. Only in the case of certain events will the transfer of legal title to the mortgage receivables be perfected by way of notification to the borrowers. These include the failure of SNS bank to perform or comply with its obligations under the relevant documentation and the downgrading of SNS bank's long-term rating below **A3**. A right of pledge over the mort-

¹ "Holland Euro-Denominated Mortgage-Backed Series (Hermes) I B.V." *Moody's International Structured Finance New Issue Report*, December 1999.

gage receivables is granted by SNS bank in order to secure its obligations to transfer the legal title to the mortgage receivables to the Issuer.

Collateral

The Notes are backed by 5,961 performing residential mortgage loans secured by first ranking mortgages on properties in the Netherlands. *Table 1* provides a breakdown per mortgage type.

The interest period on the mortgage loans is fixed for a 10-year period (68% of the Principal Balance) or 12-year period (32% of the Principal Balance) from the date of origination. The latest interest reset date for any given mortgage loan is March 2012. The portfolio is concentrated in the following provinces; Gelderland (21.8%), Noord-Holland (13.7%), Limburg (13.5%), Flevoland (10.9%) and Noord-Brabant (10.2%), together representing approximately 70.1% of the total portfolio. In order to reflect the concentration, Moody's has sized the credit enhancement accordingly.

None of the mortgage loans will be in arrears on the selection date of the mortgage pool. The portfolio has an average seasoning of 1.5 years.

Dutch Market: Strong Increase in Residential Property Prices

Dutch growth in property prices has been robust. Since 1990, prices in the Netherlands have increased more rapidly than in all EU countries apart from Ireland. Various reasons explain this increase. First, the interest rates have been low and economic growth strong, so providing a strong demand. Second, structural factors such as demographic developments, fiscal treatment, housing policy and land utilisation planning has increased pressure on the supply side. *Chart 1* provides an overview of residential property prices in the Netherlands (1975 = 100). While assessing the credit enhancement for this transaction, Moody's took into account the historical price decline experienced in the Netherlands.

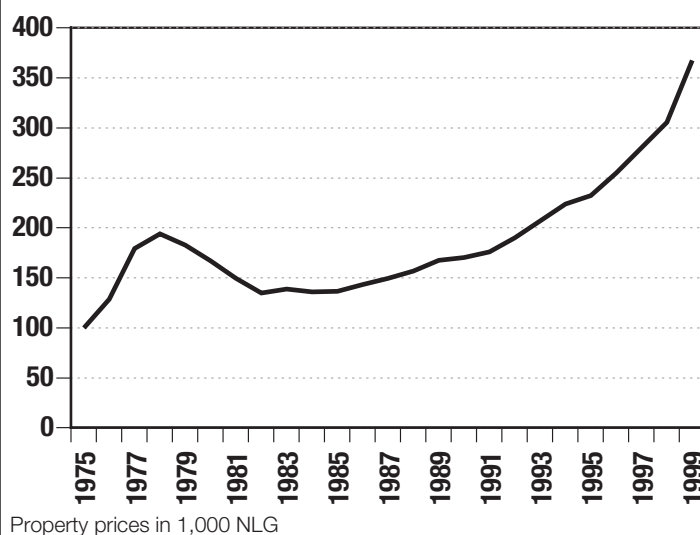
Dutch Mortgage Institutions Experience Low Loss Levels

Loss levels reported by Dutch mortgage lenders since the mid-nineties (both banks and insurance companies) are relatively low compared to other EU countries. This could be explained by the positive economic environment and the continued increase in property values. SNS bank provided the following net loss figures expressed as a percentage of their total mortgage portfolio (*Table 2*). No data is available covering a longer period. Moody's used industry data to complement its analysis of historical loss experience. No losses are reported on the Hermes I securitisation closed in November 1999.

Table 1
Mortgage Type

Mortgage Type	Principal Balance (€ million)	% of Total
Annuity	13	1.87
Interest Only	613	92.14
Investment-Based	39	5.81
Linear	1	0.18
Total	665	100.0

Chart 1
**Evolution of Dutch Residential
Property Prices**



Property prices in 1,000 NLG

Source: NVM

Table 2
Net Loss SNS Bank

Year	Net Loss In €	Net Loss In % of total portfolio
1996	48,554	0.001
1997	525,477	0.006
1998	436,990	0.004
1999	491,444	0.004

Source: SNS bank

The Interest Rate Risk is Mitigated by a Put Option and Swap Agreement

The interest risk between the fixed interest rate on the mortgage loans and the Euribor based Note interest rate is mitigated by two separate agreements: the Put Option Agreement and the Swap Agreement. The Swap Agreement entered into with UBS AG (**Aa1, Prime-1**), provides for a conversion of a fixed rate of interest to the Euribor based Note interest rate on the Notes. The fixed leg payable by the Issuer is set below the current yield of the mortgage pool in order to provide Excess Spread and cover the margin on the Notes and certain costs. The notional amount under the Swap will be equal to the principal amount outstanding under the Notes as at the first date of each interest period. If UBS AG loses its **Prime-1** rating, alternative protection will be provided for the Swap Agreement.

The interest rate on the mortgage loans is fixed for a period of 10 or 12 years from the date of origination. After this period, the interest rates will be reset for a similar or different period. In order to provide protection against a reduction in the interest rate on the mortgage loans following an interest rate reset date, the Issuer will enter into a Put Option Agreement with Rabobank (**Aaa, Prime-1**).

The Issuer will undertake to use its best efforts to sell any mortgage loan before its interest reset date. If the Issuer has not succeeded in selling the mortgage loan, the Issuer is obliged to offer such mortgage loan to Rabobank. Rabobank is obliged to purchase any mortgage loans offered by the Issuer no later than 65 days prior to the interest reset date. Performing mortgage loans will be sold at a price equal to their outstanding amount (including accrued interest), while defaulting mortgage loans will be sold at a price equal to the lesser of the expected foreclosure value or outstanding amount (including accrued interest). As the latest interest reset date for any given loan in the pool is March 2012, the Put Option Agreement provides for full redemption of the Notes substantially before full repayment of the underlying mortgage loans. Moody's is of the opinion that the mechanics of the Swap and Put Option Agreement provide adequate protection against interest rate risk.

Credit Enhancement in the Form of Excess Spread, Reserve Fund and Subordination

Excess Spread

The first layer of protection for investors in the Notes is the Excess Spread in the transaction. This is the difference between:

- The income receivable by the Issuer from mortgage loans, the Swap and its other investments, and
- The amounts due by the Issuer under the Notes and for its various ongoing costs and expenses.

On day one, the value of Excess Spread is approximately 60 bps. The prepayment level and the timing of losses have an impact on the value of Excess Spread. Moody's assessed the credit enhancement provided by Excess Spread over time, assuming different prepayment and loss scenarios. Excess Spread not used to cover any losses or build-up or to replenish the Reserve Fund is paid to SNS bank in the form of a deferred purchase price.

Reserve Fund

The second layer of protection is the Reserve Fund. The initial size of the Reserve Fund is 2.0% of the initial amount outstanding of the Notes and is funded by the Reserve Fund Subordinated Loan. Excess Spread will be used to increase the size of the Reserve Fund to 2.2% of the initial amount outstanding. In 2008, a step-down mechanism will reduce the Reserve Fund's size to the lesser of its original size and the greater of 4.4% of the current outstanding of the Notes and €3 million.

Subordination

The third layer of protection is the subordination of Classes in reverse alphabetical order. Hereby, credit losses on the mortgage pool would first be allocated to the Class C and thereafter to the Class B Notes. Only after depletion of all subordinated Classes from cumulative credit losses, would the holders of Class A Notes suffer an allocation of losses.

The likelihood of each Class suffering such loss given the credit enhancement described above and the impact on the expected yield to investors are consistent with the assigned ratings.

Guaranteed Investment Contract and Transaction Account

In order to minimise the reinvestment risk of the amounts available from time to time within the structure, a GIC agreement has been entered into with SNS bank (**A2, Prime-1**). Under this agreement, SNS bank agrees to pay interest equal to Euribor minus 25 bps on the balance of the transaction account. The Transaction Account is held with SNS bank to which on the 8th business day of every month all amounts received by the Servicer are transferred. If SNS bank loses its **Prime-1** rating, the Transaction Account at SNS bank will be moved to another **Prime-1** rated entity within 30 days.

Servicing is Performed by SNS Bank

SNS bank will be the Servicer for the transaction. SNS bank's primary business consists of mortgage lending, domestic retail banking and small and medium sized companies. SNS bank is the 5th largest mortgage lender in the Netherlands and has a 9% market share (by new production). Moody's has reviewed SNS bank's servicing practice and believe SNS bank is capable of servicing the portfolio to the required standards.

Moody's will monitor the transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including a review of the supporting ratings and periodic servicing reports.

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