



European Structured Finance Presale Report

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

Expected Ratings

EUR [831] million Senior	
Class A notes	AAA
EUR [50] million Mezzanine	
Class B notes	A
EUR [19] million Junior	
Class C notes	BBB
EUR [15] million Subordinated	
Class D notes	NR

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Holland Euro-Denominated Mortgage-Backed Series (Hermes) III B.V.'s (Hermes III, the issuer) EUR [xx] million mortgage-backed notes due [July] 2033 are expected to be rated as indicated at left.

Hermes III will be the third public issue of notes backed by a pool of residential mortgages originated by SNS bank Nederland N.V. (SNS bank) through its 100% subsidiaries: SNS bank Groningen-Friesland-Drenthe N.V., SNS bank Overijssel N.V., SNS bank Gelderland N.V., SNS bank Randstad N.V., SNS bank Brabant-Rivierenland-Zeeland N.V. and SNS bank Limburg N.V. (the sellers). The mortgages will be serviced by SNS bank, a wholly owned subsidiary of SNS Reaal Groep N.V. SNS Reaal Group is the sixth largest financial institution in the Netherlands with a prime focus on mortgages and investment products. SNS customers tend to reflect the general public profile rather than weighted to high net worth individuals.

The expected ratings are based upon the quality of the collateral and the underwriting and servicing of the mortgage loans, the available credit enhancement and the sound legal and financial structures. Initial credit enhancement for the Class A notes, totalling [9.3]%, is provided by the Class B and Class C notes ([7.65]%) and the reserve fund ([1.65]%). Initial credit enhancement for the Class B notes, totalling [3.75]%, is provided by the Class C notes ([2.1]%) and the reserve fund. Initial credit enhancement for the Class C notes, totalling [1.65]%, is provided by the reserve fund.

At closing, the Class D notes will be issued in order to fund the initial balance of the reserve account. The reserve account is targeted to grow to a maximum of EUR [18 million] ([2]% of the initial balance of the Class A, B and C notes) from excess spread. The transaction benefits further from [45] basis points of excess spread guaranteed by the swap agreement.

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

At closing, the issuer acquired a portfolio of residential mortgages from the sellers, which will form the collateral for the notes. The portfolio consists of first-ranking mortgages secured over residential property located in the Netherlands. To determine appropriate levels of credit enhancement, Fitch analysed the collateral using a loan-by-loan mortgage default model (see Research "*Dutch Mortgage Default Model II*" dated 28 January 2000, available on its website www.fitchratings.com). Fitch also modelled the cash flow contribution from excess spread using stress scenarios determined by its default model. The cash flow test showed that each class of rated notes, could withstand loan losses, at a level corresponding to the related stress scenario, without incurring any principal loss or interest shortfall.



Key Strengths, Risks and Mitigants

Strengths

- Transaction does not feature a substitution period whereby credit quality can change
- Excess spread of [45]bp guaranteed after notes interest and servicing fees.
- Portfolio consists entirely of 'stable interest' loans which smooths any payment shock caused by increasing interest rates for floating loans or reset dates for fixed rate loans.

Risks

- Portfolio consists exclusively of interest only loans with limited repayment vehicles in place to meet balloon repayment.
- Residual maturity risk with respect to those mortgage loans with no specified legal final maturity date.

Mitigants

- Interest only profile taken into account by Fitch in analysis and resulting credit enhancement levels.
- (I) All loans with maturity exceeding thirty years have a life insurance policy attached – per loan conditions, a policy payment will lead to legal final maturity of the loan.
(II) Note margins also step-up to encourage redemption at optional redemption date.

Collateral

The provisional pool as of the cut-off date ([x][x] 2001) forming the collateral for the notes consisted of [6,715] mortgage loans with a total outstanding balance of approximately EUR[937] million. The mortgages are first-ranking mortgages originated by the sellers.

The LTV ratio is calculated using a chartered real estate agent's execution (or foreclosure) value for the property, in case of mortgages with an original LTV higher than 50%. Otherwise, the execution value is calculated employing a valuer from the sellers, or using the tax authority assessments. The execution value is the estimated value of the property at

auction, and is typically around 85-90% of the market value or the actual open market purchase price.

The loans in the portfolio have all been originated since April 1995, and the weighted average origination date was [March 2000]. All mortgages in the provisional pool are 'stable' interest mortgages, with interest rates determined on an annual basis (*see Interest Rate Types, page [3]*). Of the borrowers, all pay by direct debit, of which 80% is from accounts held with the sellers. At the cut-off date, no mortgages with payments in arrears for a term longer than 30 days were included in the pool.

In terms of geographic concentration, the highest regional concentrations are Gelderland ([19.9]%), Noord Brabant ([11.6]%), Zuid-Holland ([11]%), Limburg ([10.6]%) and Flevoland ([9.3]%).

Key Characteristics

(As of [x] [x] 2001)

Average Loan Balance (EUR)	[139,559]
Weighted Average Original LTFV (%)	[110]
Weighted Average Original LTMV (%)	[96]
Weighted Average Current Term to Maturity (Yrs.)	[29]
Weighted Average Seasoning (Mos.)	[15]

Loan Types

The portfolio consists entirely of *interest only loans* where capital repayments are only due to be made at the legal final maturity of the mortgage loan.

Where the Loan to Foreclosure Value (LTFV) exceeds 75%, the excess above 75% must be covered by a life insurance policy. This capital and risk policy will provide to meet repayment of at least that part of the loan in excess of 75% LTFV on death of the borrower or maturity of the policy. However, apart from this requirement, there is no compulsory investment vehicle required in order to meet the balance of the principal repayment at maturity.

It should be noted that product switches by the borrower during the life of the transaction may result in other loan types forming part of the portfolio over time.

Many mortgage loans do not have a formal legal final maturity date. However, where the tenor exceeds thirty years, the sellers have warranted that the related mortgage loan has a life insurance policy



Key Information

Issuer: Holland Euro-Denominated Mortgage Backed Series (Hermes) III B.V.

Sellers: SNS bank Nederland N.V. (SNS)
SNS bank Groningen-Friesland-Drenthe N.V.
SNS bank Overijssel N.V.
SNS bank Gelderland N.V.
SNS bank Randstad N.V.
SNS bank Brabant-Rivierenland-Zeeland N.V.
SNS bank Limburg N.V.

Trustee: Stichting Security Trustee Holland Euro-Denominated Mortgage Backed Series (Hermes) III

Cut-Off Date: [x] [x] 2001

Servicer/Arrears Liquidity Facility Provider/ Guaranteed Investment Contract Provider: SNS (rated 'A+/F1')

Swap Counterparty: ABN AMRO Bank N.V. (rated 'AA/F1+' by Fitch) (ABN AMRO)

Paying Agent: ABN AMRO

Interest and Principal Payments: Quarterly, commencing [18 July] 2001. Principal payments are made on a sequential basis.

Optional Redemption Date: 18 July 2009

Legal Maturity: 18 July 2033

Collateral: First-ranking residential mortgage loans secured by property based in the Netherlands.

attached to it. Fitch has been informed that all life insurance policies have a maximum tenor of thirty years, whereby the insurance will pay out either upon death or at maturity. Fitch has further been informed that mortgage loan terms and conditions state that, if an insurance policy makes a payment, then the loan becomes due and payable, including that part of the capital balance which is not covered by the insurance policy. This effectively, therefore, limits the final maturity of all mortgage loans to a maximum of thirty years, thereby dispensing with the need for a put option as has existed in previous transactions.

There remains some residual legal risk that such provision may not be enforceable due to a lack of case law.

Interest Rate Types

All loans have rates which are semi-adjustable on an annual basis – so-called '*stable interest*' loans.

The borrower selects a banding between 1% and 3.5% at the origination of the loan. Each loan will have a specified interest rate fixed upon origination. Each stable interest band has a specific rate which is set periodically for new customers.

On an annual basis, the contract rate and the band rate are compared. If the band rate falls within the contract rate plus or minus the selected band, then the borrower will continue to be charged the contract rate for the coming year. If the band rate falls outside the contract rate plus or minus the selected band, then the borrower will be charged the contractual rate but adjusted either upwards or downwards for the proportion of the band rate that exceeded the selected band.

The provision therefore cushions the borrower to some extent from interest rate increases, hence the term 'stable interest' mortgage loan. 86.6% of the borrowers in the portfolio have chosen narrow bands of 1 – 2%; only 13.4 % of borrowers have selected wider bands up to 3.5%.

It should be noted that product switches by borrowers during the life of the transaction may result in fixed or floating rate loans also forming part of the portfolio over time.

Credit Issues

Fitch's methodology for assigning credit ratings to Dutch residential mortgage transactions in general is described in Appendix 1. When rating the note issuance for Hermes III, Fitch noted particular deal characteristics and areas that require specific attention. The following is a summary of these characteristics and how they were dealt with in Fitch's analysis.

Default Probability

Affordability: A borrower affordability measure (such as an income multiple or debt-to-income ratio) was not available on a loan-by-loan basis. Therefore, Fitch made a general assumption of a 35% debt-to-income ratio for all loans in the pool. This figure, which falls at the high end of SNS's underwriting criteria (maximum usually 33% for gross incomes in excess of NLG 75,000), equates to affordability class 3 in Fitch's model. From Fitch's default probability matrix, which is determined by affordability and



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LTV, the default probability for the average borrower in income class 3 would range from 6%-31% in a 'AAA' scenario.

Mortgage Types: In the provisional pool, all of the loans are interest-only mortgages. The risk of interest-only mortgages is mitigated where the LTFV is in excess of 75% by a life insurance policy which makes provision for repayment of at least the excess over 75%. However, the remainder of the mortgage loan remains vulnerable to balloon risk at maturity. For this reason, Fitch adjusted default probability upwards from its base for the interest only product.

Underwriting Quality: Following due diligence by Fitch of SNS's origination practices and servicing standards, it believes SNS to be a sound mortgage originator and servicer. Therefore, no increase in the base default probability has been assigned to the pool in respect of origination and servicing (see *Origination and Servicing*, page [6]).

Loss Severity

Market Value Decline: Recent years have seen steady growth in house prices throughout the Netherlands. Fitch's analysis takes account of this recent trend and the inherent price volatility in its market value decline analysis. The weighted average market value decline of the portfolio is [49]% in a 'AAA' scenario.

High Value Properties: Just [4]% of the reference pool is considered by Fitch to be secured on high value ('jumbo') properties, with risk of greater market value declines (MVDs). Fitch increased the MVDs of these loans by 10-25% based on the value of the property.

Financial Structure

The interest on the notes will be paid quarterly in arrears, commencing on 18 [July] 2001. The notes will receive interest payments based on the three-month Euro Interbank Offered Rate (EURIBOR) plus a margin. The three-month EURIBOR for the aforementioned notes is received from the swap counterparty, under the interest rate swap agreement (see *Interest Rate Swap Agreement*, page 5).

All amounts of interest, prepayment penalties and principal payments, received the 1st business day of each month by the sellers, are passed on the eighth business day of each month to the GIC account, kept

in the name of Hermes III at SNS. The money deposited in the GIC account will earn an interest rate equal to three-month EURIBOR less a margin.

Priority of Payments

Prior to enforcement, on each distribution date, the priority of payments in respect of revenue payments will be as described below. Revenue payments include interest from the mortgage loan, GIC interest received, prepayment penalties received and amounts received from the swap counterparty.

1. Trustee and management expenses.
2. Administration fee.
3. Other expenses due by Hermes III and the fee to the paying agent.
4. Amounts due to the liquidity facility provider.
5. Pro rata, interest to the class A notes and amounts due under the swap agreements (except termination payments).
6. Class A principal deficiency ledger (see '*Principal Deficiency Ledger*' below).
7. Interest to the class B notes.
8. Class B principal deficiency ledger.
9. Interest to the class C notes.
10. Class C principal deficiency ledger.
11. Replenishing the reserve fund to its minimum required balance (see '*Credit Enhancement*' below).
12. Any termination payments to the swap counterparty.
13. Interest to the Class D notes.
14. Principal on the Class D notes
15. Deferred purchase price instalment to SNS

Principal Redemption

Redemption funds generated by principal payments on the loans will be allocated sequentially on each payment date in redeeming senior and subordinated notes, each class being paid once the previous class, ranking higher in priority, has been paid in full.

Any principal deficiencies under each class of notes will be registered in the corresponding principal deficiency ledger for that class. These amounts will be debited to the lowest class of notes' principal deficiency ledger available, in order to transfer the losses to the lowest ranking class of notes. Excess spread will be available to cover such losses according to the priority of payments.

The Class A, B and C notes can be redeemed at the option of the issuer on 18 July 2009 and on any



payment date thereafter, so long as all notes outstanding are redeemed. Any outstanding principal deficiency at that time will be reduced on the corresponding class. The notes can also be redeemed if certain tax changes result in the structure being adversely affected.

To the extent not previously redeemed, the notes will be redeemed on the final maturity date in July 2033.

Interest Rate Swap Agreement

Hermes III will enter into an interest swap agreement with ABN AMRO at closing. Under this agreement, the following payments are made:

- *issuer* is obliged to pay ABN AMRO, quarterly, the scheduled interest received on the mortgage loans plus the GIC interest LESS (i) a margin of 45bp; and (ii) certain senior expenses.
- *Swap counterparty* pays an amount equal to the quarterly interest due on the notes.

If delinquencies on mortgage loans mean that the issuer does not receive sufficient funds to make the payment to the swap counterparty, the issuer will be able to draw any shortfall from the liquidity facility.

In the event of a downgrade of ABN AMRO below 'F1+', within 45 days: (i) a guarantee will be provided for the obligations of ABN AMRO as swap counterparty, accomplishing the rating requirements, (ii) or the interest rate swap will be collateralised, (iii) or other actions will be put in place to avoid the downgrade of the notes.

Credit Enhancement

Initial credit enhancement for the class A notes, totalling [9.3]%, is provided by the Class B and Class C notes ([7.65]%) and the reserve fund ([1.65]%). Initial credit enhancement for the class B notes, totalling [3.75]%, is provided by the class C notes ([2.1]%) and the reserve fund ([1.65]%). Initial credit enhancement for the class C notes, totalling [1.65]%, is provided by the reserve fund.

The transaction further benefits from [45] basis points of excess spread guaranteed through the swap agreement.

Reserve Fund

At closing Class D notes will be issued to fund the initial reserve fund balance.

The reserve fund will be initially funded at [1.65]% of the original note balance. The reserve fund is targeted to increase to [2]% through excess spread. A year after closing, the size of the target reserve fund will always be equal to the lower of (i) the initial reserve fund; and (ii) the greater of (a) [3]% of the outstanding principal balance of the notes; and (ii) [0.5]% of the initial note principal.

Liquidity Facility

A liquidity facility equal to [1]% of the original note balance will be provided by SNS to cover shortfalls caused by mortgage loan delinquencies, for class A, B and C notes. The liquidity facility will be provided for a term of 364 days, and the term will be extendable at the option of the liquidity facility provider.

In the event of a downgrade of SNS below 'F1', within 30 days, a replacement liquidity provider (and a replacement GIC provider), accomplishing the rating requirements, must be found. If a replacement liquidity provider is not provided on downgrade or if the liquidity facility is not renewed at maturity, the issuer will draw down the undrawn portion of the liquidity facility.

Representations and Warranties

The mortgage sale agreement contains representations and warranties given by the originator in relation to the pool of mortgages. If there is an unremediable breach of any of the representations or warranties, the seller will be required to repurchase the loan(s) in question.

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

- The sellers have full right and title to the mortgage receivables and the power to sell and assign the mortgage receivables;
- Each mortgage receivable is secured on residential property located in the Netherlands;
- Each property was valued (with certain exceptions) by an independent qualified valuer;
- Each mortgage receivable and related security represents a valid, binding and enforceable obligation of the borrower.



- All mortgage rights are first priority;
- Each of the mortgage loans with a tenor exceeding thirty years have a life insurance policy attached (maturing prior to thirty years);
- Mortgage conditions state that a loan becomes due and payable if an attached life insurance policy pays out;
- No arrears in excess of one month exist at closing.

In addition, should a seller agree to make a further advance to a borrower, the relevant seller must repurchase the related mortgage loan from the issuer.

Legal Structure

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

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

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

- Unremedied payment default by the sellers;
- Failure of the sellers to comply with their obligations;
- Any corporate action leading to dissolution, liquidation, etc of any of the sellers;
- If SNS bank (on a consolidated basis) during any two consecutive months fails to have a solvency ratio and liquidity equal to or greater than that required by the Dutch Central Bank;
- SNS bank's long term rating is downgraded below single A.

Origination and Servicing

The mortgage receivables were originated by the sellers and will be serviced by SNS.

SNS owns 6 regional banks (the six sellers). SNS is part of SNS Reaal Group, the sixth largest financial institution in the Netherlands by total assets at year end 1999. The SNS group was formed in 1990 and merged with the Reaal Group in 1997.

In addition to the pool analysis, Fitch has reviewed and analysed SNS's origination and servicing guidelines. The agency has conducted several interviews with the respective originator and servicer managers responsible for SNS's mortgage loan department. SNS follows a tight process of underwriting based on a detailed underwriting criteria manual.

SNS puts much emphasis on a borrower's ability to pay and employees perform a credit analysis in the determination of a prospective borrower's creditworthiness. Ability to pay is determined primarily by the borrower's credit profile, risk profile of the property, and LTV ratio of the transaction.

SNS offers all the retail and wholesale services of a commercial bank on a national scale.

Mortgages are distributed through the sellers and via independent agents based in the Netherlands. The underwriting decision is based on the same criteria, which are set centrally at SNS to maintain effective control and implement consistent underwriting procedures. Each underwriter also uses a mortgage analysis program for certain computations in the underwriting process. SNS analyses the borrower's ability to pay using a housing ratio, which determines the maximum mortgage a borrower could take out. The mortgage ratio depends on the household status (single/dual), the income level, and the mortgage interest rate. Checks of the national credit register — Bureau Krediet Registratie, income checks, and collateral analysis are also an integral part of the decision process.

Collections and arrears management is performed by the sellers, following the formal procedures defined by SNS. Loan administration will be carried out centrally. The system will generate reminder letters on the 14th, 35th and 40th day after the payment date overdue. Generally, after 75 days without positive results the seller will start foreclosure procedures.



Surveillance

Fitch will maintain surveillance of this transaction by reviewing ongoing performance reports, available on Bloomberg at “FI” <GO> and at www.fitchratings.com. Queries regarding surveillance information should be directed to Omar Mirza on telephone number +44 (0)20 7417 6266 or by e-mail at sf_suveillance@fitchratings.com



Appendix I: Rating Methodology

To determine the appropriate levels of credit enhancement, Fitch analyses the collateral for Dutch residential transactions using a loan-by-loan mortgage default model (see Research on “*Dutch Mortgage Default Model II*”, dated 28 January 2000, available on www.fitchratings.com). The model subjects the mortgage loans to stresses resulting from its assessments of historical home price movements and mortgage defaults in the Netherlands. Fitch’s study showed that the borrower’s LTV, reflecting the size of the borrower’s down payment and his willingness to pay, and the borrower’s debt-to-income ratio (DTI) or income multiple, reflecting the borrower’s ability-to-pay, are the key determinants of default probability in the Netherlands.

Default Probability

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

The ability to pay is usually measured by the borrower’s net income in relation to the mortgage payment. Historical data available shows lower levels of default by Dutch borrowers compared to borrowers in neighbouring countries. Base default probabilities are determined by using a matrix that considers each loan’s affordability factor and LTV. The matrix classifies affordability into five classes, the lowest of which (Class 1), encompasses loans with Debt-to-Income ratios (DTI) of less than 20% and the highest of which (Class 5) encompasses all loans with DTIs exceeding 50%. A loan classified as affordability class 3, for example, would be allocated a base default probability of 6-31%, depending on LTV.

Adjustments

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

- **repayment type:**

- *Savings Mortgages*

- A borrower makes interest payments on a savings mortgage, but instead of making principal payments, contributions are made to a savings account. Funds accumulated in the savings account are then used to redeem the mortgage at maturity. To ensure that there are sufficient funds at maturity, the savings account earns the same rate of interest as is charged on the loan. However, there is still a risk to the third-party savings institution in this case. The way most transaction structures mitigate such risk is to have the monthly premiums made by the borrower passed through to the issuer by the insurance company purchasing and accepting from the issuer a partial assignment in the mortgage. As long as this is the case, Fitch does not penalise Savings Mortgages.

- *Life Insurance Mortgages*

- Similar to the savings mortgages, life insurance mortgages do not pay down any principal prior to loan maturity, at which point it is redeemed by the insurance policy. The yield on the policy can vary and will not necessarily equal the principal amount on the mortgage at maturity. Fitch increases default probability for life insurance mortgages, depending on how they are underwritten, the strengths of the insurer and the nature of the policy, owing to the increased market and third-party risk.

- *Investment Mortgages*

- The investment mortgage is similar to the life insurance mortgage in concept (ie. periodic contributions are made to an investment fund); however the borrower has full discretion as to how the contributions are invested. Fitch increases the default probability according to the rating of the investment fund and/or the nature of the investment options.

- *Interest Only*

- Fitch generally increases the default assumptions for interest-only mortgages, whereby the mortgage is secured solely by the property value and principal is repaid by the borrower in one lump sum upon loan maturity, to take into account the potential payment shock to the borrower and the strong reliance on the borrower’s equity in the property.



- **loan purpose:** Fitch believes that mortgage loans advanced to release equity in the home (equity refinance mortgages) are risky as the homeowner is essentially borrowing back equity based on the home's price appreciation. Based on reviews of the issuer's appraisal process, as well as underwriting guidelines, if Fitch believes these loans have an increased likelihood of default, the base default probability will be adjusted 10%-20%.
Fitch assumes that a financially distressed borrower is more likely to default on a second home than a primary home, and even more so on an investment property. Accordingly, base default rates are increased by 10%-25%.
- **borrower profile:** Fitch increases default probability on loans to self-employed borrowers by 30% to account for their lack of fixed annual salary.
- **arrears status:** when rating portfolios combining current and arrears mortgages, Fitch increases base default rates for mortgages in arrears by up to 90 days by 25%-75%, and mortgages over 91 days in arrears (non-performing status) by 100%
- **underwriting quality:** Fitch's review and analysis of the origination process determines whether Fitch decreases default rates by up to 25% or increases them by 0%-200%.

Loss Severity

To estimate loss severity on the mortgage loans in the Netherlands, Fitch examined home price movements by separating the Netherlands into 12 regions. Fitch's MVD assumptions are somewhat higher for Dutch mortgages than most other European markets, due to the greater severity of the housing recession between 1978-1982 and the sharp increase in prices over the last few years. Worst-case market value declines were estimated, and then market value declines were generated for each rating level and by region.

As in its other European mortgage default models, Fitch increased market value declines for properties worth more than NLG 390,000 by 10%–25%. Higher value properties tend to have larger market value declines owing to the smaller marketplace for these properties and less precise pricing information for larger properties (owing to the less active market).

When calculating recovery value, Fitch's model reduces each property valuation by the market value decline, repossession costs, and the cost to the servicer of carrying the loan from delinquency through to default.

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

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