

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

RMBS - Netherlands

CLOSING DATE:

28 June 2001

AUTHOR:**London**

Arjan Verbeek
Vice President
Senior Analyst
(44-20) 7772.5524
Arjan.Verbeek@moodys.com

CONTACTS:**London**

Detlef Scholz
Managing Director
(44-20) 7772.5398
Detlef.Scholz@moodys.com

New York

Vernessa Poole
All Asset Backed and
Residential Mortgage
Backed Securities
(212) 553-4796
Vernessa.Poole@moodys.com

WEBSITE:

www.moodys.com

TRANSACTION IN BRIEF**The Notes**

	Class A	Class B	Class C	Class D
Rating:	Aaa	A1	Baa1	NR
Amount (Million):	€831.5	€50.0	€18.5	€15.0
Placement:	Public	Public	Public	Private
Margin over 3M Euribor (BP):	0.24%	0.65%	1.3%	N.A.
Step-up Margin following Optional Redemption Date:	1.00%	1.50%	3.00%	N.A.
Interest Payment Dates:	18 Jan., 18 April, 18 July and 18 Oct. (Quarterly in arrears)			
Optional Redemption Date:	18 July 2009 for the Class A, B and C Notes			
Final Maturity Date:	18 June 2033 for all Classes of Notes			
Listing:	Euronext Amsterdam N.V.			

Transaction Parties

Issuer:	Holland Euro-Denominated Mortgage-Backed Series (Hermes) III B.V.
Security Trustee:	Stichting Security Trustee Holland Euro-Denominated Mortgage-Backed Series (Hermes) III B.V.
Liquidity Facility Provider:	SNS bank Nederland N.V. (SNS bank) (A2, Prime-1)
Swap Counterparty:	ABN AMRO Bank N.V. (ABN AMRO Bank) (Aa2, Prime-1)
Floating Rate GIC Provider:	SNS bank
Paying Agent:	ABN AMRO Bank
Reserve Fund:	1.65% of the initial amount outstanding of the Notes building up to 2%
Liquidity Facility:	€ 9 million or 1% of the initial amount outstanding of the Notes

Underlying Assets Based on Preliminary Pool Selection dated May 1, 2001

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 (100%) with a capital and risk insurance policy covering at least the amount in excess of a loan to foreclosure value of 75%. Borrowers have the right to change the mortgage loan type into an annuity or linear mortgage type.
Principal Amount:	€937 million
Number of Loans:	9,637
Outstanding Loan Balance:	Average 139,559; Max 272,268; Min 11,718
Interest Rate:	Average 5.83%; Max 7.40%; Min 4.40%



Remaining term (months):	Average 340; Max 357; Min 8
Seasoning (months):	Average 15; Max 73; Min 3
Loan-to-Value (Original Foreclosure Value):	110%
Loan-to-Value (Current Loan and Indexed Market Value):	82%
Geographical Diversification:	Gelderland (19.85%); Noord Brabant (11.59%); Zuid-Holland (11.01%); Limburg (10.61%); Drenthe (3.75%); Flevoland (9.29%); Friesland (3.72%); Groningen (4.67%); Noord-Holland (8.55%); Overijssel (7.34%); Utrecht (8.78%); Zeeland (0.85%)

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 third securitisation of Dutch mortgage loans originated by SNS bank. Hermes I and Hermes II closed in November 1999 and October 2000 respectively.

The ratings of the Notes are based upon:

1. An analysis of the characteristics and quality 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 1.65% of the initial amount outstanding of the Notes building up to 2%;
4. The availability of a liquidity facility of 1% of the initial outstanding amount of the Notes to cover interest shortfalls on delinquent mortgage loans;
5. The subordinate position of the mezzanine and junior classes of Notes;
6. The interest rate swap, under which ABN AMRO (**Aa2, Prime-1**) assumes the basis risk between the interest paid on the mortgage loans and the interest received on the collection and the reserve account 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.

Different from the prior two Hermes transactions, this transaction will not use a put option agreement under which all the mortgage loans are sold to the put option provider before a certain date. Instead, an interest rate step up mechanism is used to create an incentive for the Issuer to redeem all of the Notes on the Optional Redemption Date (18 July 2009). The rating of each of the Notes however, address the timely payment of interest, and the ultimate payment of principal at the Final Maturity Date (18 June 2033). Apart from the interest rate step up, the transaction structure and nature of underlying mortgage loans are similar to those of the Hermes I and Hermes II transactions.

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 Holland Euro-Denominated Mortgage Backed Series established under the laws of the Netherlands as a foundation.

SNS bank Nederland and six of the regional subsidiaries of SNS bank (together SNS bank) will sell a portfolio of mortgage loans — owed by individual borrowers and secured by first-ranking mortgage rights over residential property situated in the Netherlands — to the Issuer. The proceeds of the Notes will be used to fund the purchase price of the loans and the Reserve Account (at its initial level).

Repayment of principal and payment of interest will take place on a sequential basis; any subordinated class of Notes (other than the unrated D Notes) will only be repaid after the more senior Classes of Notes 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 and collection and reserve account. For up to 1% 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.¹ 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, amongst others, the failure of the Sellers to perform or comply with their obligations under the relevant documentation, the downgrading of SNS bank Nederland's long-term rating below **A3** and/or the Sellers, on a consolidated basis, failure to meet a minimum solvency ratio.² A right of pledge over the mortgage 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 6,715 performing residential mortgage loans secured by first ranking mortgages on properties in the Netherlands. All mortgage loans are originated under the SNS label by six wholly owned regional subsidiaries of SNS bank Nederland.

The portfolio is concentrated in the following provinces; Gelderland (19.85%), Noord-Brabant (11.59%), Zuid-Holland (11.01%) and Limburg (10.61%), together representing approximately [53]% 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 closing date of the transaction. The portfolio has an average seasoning of 15 months. All mortgage loans have the benefit of a combined risk and capital life insurance policy (see *Life Insurance Linked Mortgage Loans: Set Off Risk* below).

No losses have been reported on both the Hermes I and the Hermes II transaction. *Table 1* provides an overview of total losses incurred by SNS bank as a percentage of their total mortgage book for the period 1996 to 2000.

With respect to the collateral, we have noted that certain mortgage loans do not have a specified legal maturity date, but become payable upon the expiration of the linked repayment policies. Moody's has reviewed this and is comfortable basing the legal maturity of the notes on the maturity of the repayment policy.

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
2000	473,000	0.002

RISK MITIGANTS

The Interest Rate Risk is Mitigated by Swap Agreement

During the life of the transaction mortgage loans either bear a fixed or a floating interest rate. In respect of the fixed rate loans, the interest rate is typically fixed for a number of years where after the rate is re-fixed for another period or for the remaining term of the mortgage loan. Compared to the previous Hermes transactions, this pool at the outset, only includes Stabiel Rente mortgage loans. Subject to the conditions of this product, the interest rate is floating with adjustment both up and downwards should interest rates move outside a pre determined band. Given the reduced interest rate risk exposure of a borrower

¹ See "Moody's Approach to Conditional Sale of Mortgage Receivables in Rating Dutch MBS", *Moody's Special Report*, May 2001.

² As required by clause 4001 of the Guidelines issued pursuant to the Act on Supervision of the Credit System 1992 ('Handboek Wtk').

taking out a Stabiel Rente product compared to a more traditional floating rate loan, Moody's reduced its credit enhancement requirements for this product.

The interest rate risk between the interest rate on the mortgage loans and the Euribor based Note interest rate is mitigated by the Swap Agreement. The Swap Agreement entered into with ABN AMRO (**Aa2, Prime-1**), provides for a conversion of the scheduled interest receipts under the mortgage loans to the Euribor based Note interest rate. The interest 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 outstanding balance of the notes as at the first date of each interest period. If ABN AMRO loses its **Prime-1** rating, alternative protection will be provided for the Swap Agreement.

Moody's is of the opinion that the mechanics of the Swap Agreement provides 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 and from interest on the collection and reserve account, 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 absolute amount of Excess Spread is approximately 45 bps, as this is guaranteed through the swap. The prepayment level and the timing of losses have an impact on the absolute amount 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 used for repayment of the D Notes and a deferred purchase price.

Reserve Fund

The second layer of protection is the Reserve Fund. The initial size of the Reserve Fund is 1.65% of the initial amount outstanding of the A, B and C Notes and is funded by the D Note proceeds. Excess Spread will be used to increase the size of the Reserve Fund to 2% of the initial amount outstanding of the A, B and C Notes. From 18 July 2002, a step-down mechanism may reduce the Reserve Fund's size to the lesser (a) 2% of the initial amount outstanding of the A, B and C Notes and (b) the greater of 3% of the current amount outstanding of the A, B and C Notes and 0.50% of the original balance outstanding.

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.

LIFE INSURANCE LINKED MORTGAGE LOANS: SET OFF RISK

Due to the tax deductibility of interest on residential mortgages and the ability to set up an independent tax efficient repayment vehicle, set off is an additional risk to Dutch RMBS transactions. This repayment vehicle usually takes the form of a risk and capital insurance policy. In the event of a bankruptcy of the insurance company providing the borrower with the insurance policy, the possibility exists that the borrower is able to set off the value of his insurance policy against the mortgage loan.

Depending on the factual circumstances involved, it is possible that the Dutch courts could rule in favour of the Borrower and allow set off. SNS bank has made certain representations describing the factual circumstances under which the life insurance linked mortgages were originated.³ In Moody's opinion, these representations reduce the possibility of set off by the borrower of his insurance policy against the mortgage loan.

However, the rating of the Notes have been adjusted taken into account the expected loss due to any remaining risk related to a potential set off made by the borrower. The expected loss is a function of (x) the severity — which is the value of the insurance policy a borrower could potentially set off against the amount of the loan — and (y) the probability that the insurance companies will go bankrupt during the term of the transaction.

GUARANTEED INVESTMENT CONTRACT AND TRANSACTION ACCOUNTS

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 a margin 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 during the preceding month 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.

MORTGAGE LOAN 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 5 largest bank in the Netherlands and has a 8% market share (by new production).

Since June 2000, mortgage servicing is performed from one central office compared to regional serving at the local SNS bank subsidiaries before. Servicing of delinquent and/or defaulted mortgages continues to be done by the regional offices.

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.

³ No connection (legal or commercial) between mortgage loan and life insurance policy; mortgage loan and life insurance policy are not marketed as one product and the borrowers were free to choose the relevant life insurance company.

Doc ID# SF10911isf

© Copyright 2001 by Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007.
All rights reserved. ALL INFORMATION CONTAINED HEREIN IS COPYRIGHTED IN THE NAME OF MOODY'S INVESTORS SERVICE, INC. ("MOODY'S"), AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling. Pursuant to Section 17(b) of the Securities Act of 1933, MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,000 to \$1,500,000.

