

RMBS/Netherlands
Presale Report

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

Expected Ratings*

Class	Amount (m)	Final Maturity	Rating	CE (%)
A1	EUR[*]	May 2035	AAA	10.2
A2	USD[*]	May 2035	AAA	10.2
B	EUR[75]	May 2035	A	4.2
C	EUR[30]	May 2035	BBB	1.8
D	EUR[22.5]	May 2035	NR	

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*Expected ratings do not reflect final ratings and are based on information provided by issuers as of 31 March 2003.

Summary

This transaction is a securitisation of residential mortgages originated and secured against property located in the Netherlands. Fitch Ratings has assigned expected ratings to the notes to be issued by Holland Euro-Denominated Mortgage-Backed Series (Hermes) VI B.V. ("Hermes VI") as indicated at left.

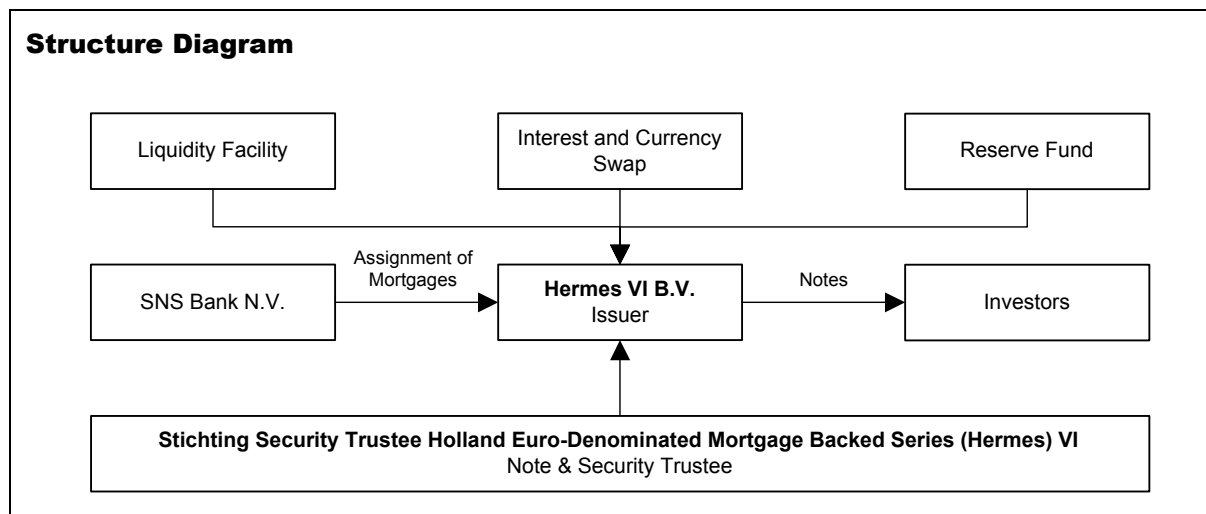
Hermes VI will be the sixth public issue of notes backed by a pool of residential mortgages originated by SNS Bank N.V. ("SNS Bank", rated 'A+/F1') which currently services, and will continue to service, the mortgages. SNS Bank is a wholly owned subsidiary of SNS Reaal Groep N.V., the sixth largest financial institution in the Netherlands, which has a prime focus on mortgages and investment products. SNS customers tend to reflect the general public profile rather than being weighted towards high net worth individuals.

The expected ratings are based on the quality of the collateral and the underwriting and servicing of the mortgage loans, the available credit enhancement, and the transaction's legal and financial structure. Initial credit enhancement for the Class A notes, totalling 10.2%, is provided by the Class B and C subordinated notes and the reserve fund. Credit enhancement for the mezzanine Class B notes, totalling 4.2%, is provided by the Class C notes and the reserve fund. Credit enhancement for the Class C notes, totalling 1.8%, is provided by the reserve fund.

At closing, the Class D notes will be issued to fund the initial balance of the reserve fund (1.8%). The reserve fund is targeted to build to a maximum of EUR[26.8]million (2.15% of the initial balance of the A, B and C notes) from excess spread. The transaction benefits from 45 basis points per annum excess spread guaranteed by the swap agreement. The Class D notes are not collateralised by mortgages but backed purely by excess spread and do not provide credit enhancement to the other notes.

Hermes VI, 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 will acquire a portfolio of residential mortgages from the originator/seller, SNS Bank, 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 the default model it developed specifically for Dutch residential mortgages (see “*Dutch Mortgage Default Model II*”, dated 28 January 2000, available on 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 certificates could withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss or interest shortfall.

■ Credit Committee Highlights

- Repeat structure and established underwriter.
- The portfolio consists of a large proportion of interest-only loans with limited repayment vehicles in place to meet balloon repayment. Moreover, investment mortgages are also included in the pool, which carry an uncertain yield on the underlying investment vehicle. Fitch has increased the default probability on these loans to account for this additional risk.
- Excess spread of 45bps guaranteed after note interest and servicing fees.
- There will be no substitution of new loans in the pool.

■ Legal Structure

Hermes VI, 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. Its shares 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 to the borrowers only 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

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

- A seller payment default is not remedied within 10 business days of receiving notice from the issuer or trustee.
- The seller fails to perform or comply with any of its obligations.
- The seller takes any corporate action, or steps are taken against it for dissolution, liquidation, legal demerger, emergency regulations or bankruptcy.
- SNS Bank’s rating falls below ‘A-’.

Representations and Warranties

The mortgage sale agreement contains representations and warranties given by the originator in relation to the pool of mortgages. No search of title will be conducted by the issuer or the trustee; instead they will rely on the representations and warranties noted below. If there is a breach of any of the representations or warranties which cannot be rectified, 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 seller has full right and title to, and the power to sell and assign, the mortgage receivables;

Key Information

Portfolio Characteristics

Type of Loans: First-ranking and first- and junior-ranking residential mortgage loans secured by property in the Netherlands. Interest-Only Mortgages 74.3%, Investment Mortgages 24.4%, and Annuity/Linear Mortgages 1.4%.

Total Amount: EUR1,503,835,420

Number of Loans: 14,112

Number of Borrowers: 8,356

WA Current Loan Amount: EUR177,990

WA Interest Rate: 5.4%

WA Remaining Maturity (years): 28

WA Seasoning (months): 22

WA Original LTMV: 97.7%

WA Current LTMV: 97.4%

Pool Cut-Off Date: 31 March 2003

Key Parties

Issuer: Hermes VI

Originator/Seller: SNS Bank N.V. ("SNS Bank")

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

Servicer: SNS Bank

Liquidity Facility Provider: SNS Bank

Interest Rate Swap Counterparty: [Barclays Bank plc] (rated 'AA+/F1+')

Currency Swap Counterparty: [AIG] (rated 'AAA/F1+')

Principal Paying Agent: ABN AMRO

Floating Rate GIC Provider: SNS Bank (rated 'A+/F1')

Interest Payments: Class A1, A2, B, C, and D floating payable quarterly in arrears from [●]

Principal Payments: Sequential; firstly Class A1 and Class A2, secondly Class B, thirdly Class C and fourthly Class D, starting on the relevant Mandatory Redemption date on a quarterly basis

Legal Maturity: 2035

- Each mortgage loan was originated by the seller in accordance with its standard underwriting criteria and procedures;
- All mortgage rights and rights of pledge granted to secure the mortgage receivables constitute valid mortgage rights ("*hypothekrechten*") and rights of pledge ("*pandrechten*"), entered into the appropriate public register;

- Each mortgage receivable is secured on residential property located in the Netherlands;
- Each property was valued (with certain exceptions) by an independent, qualified valuer;
- All mortgage rights are first priority;
- Each of the mortgage loans meets the mortgage loans criteria as set out in the mortgage receivables purchase agreement;
- The mortgage conditions provide that all payments by the borrower should be made without any deduction or set-off;
- Each mortgage receivable and the mortgage right and the right of pledge, if any, securing such receivable constitutes a legal, valid, binding and enforceable obligation of the relevant borrower;
- Each of the mortgage loans with a tenor exceeding 30 years has a combined capital and life insurance policy attached (maturing prior to 30 years);
- Mortgage conditions state that a loan becomes due and payable if an attached life and capital 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 re-purchase the related mortgage loan from the issuer.

■ Financial Structure

The interest on the notes will be paid quarterly in arrears, commencing on [●]. Class A1, B, C and D notes will receive interest quarterly in arrears at a rate based on three-month EURIBOR plus a margin. Class A2 notes will receive interest quarterly in arrears at a rate based on three-month USD LIBOR plus a margin.

In the event that insufficient funds are available on a particular payment date to pay interest on Class B, C or D notes, such interest can be deferred and non-payment on the due date will not represent an event of default. Interest balances deferred in this way will attract interest themselves at the relevant note coupon. If interest shortfalls are not recouped by the legal final maturity date of the relevant tranche, then this will represent an event of default at that time. Such deferral mechanism does not apply to the Class A notes – failure to pay Class A interest on its due date will represent an event of default.

If notes remain outstanding and are not called on the optional redemption date, then all the available excess spread will switch to redeem the notes.

All payments received monthly by the servicer are to be paid into the collection account, and passed on in arrears on the eighth business day after the end of the Mortgage Calculation Period to the guaranteed investment account (“GIC”) kept in the name of Hermes VI at SNS Bank. Monies deposited in the master collection account will receive, under a GIC, an interest rate equal to three-month EURIBOR minus a margin. All principal payments credited to the transaction account are then passed through to the noteholders.

The negative carry created by monthly payments on the loans but quarterly on the notes is mitigated through the swap structure as described below.

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 loans, GIC interest received, prepayment penalties received and amounts received from the swap counterparty.

- i. The issuer’s senior fees and expenses (including those payable to the trustee, company administrator, servicer and paying agent);
- ii. Repayment of any drawings made from the liquidity facility;
- iii. Payments due under the swap agreement;
- iv. Interest due on the Class A notes;
- v. Amounts to be credited to the Class A principal deficiency ledger (“PDL”) until zero;
- vi. Interest due on the Class B notes;
- vii. Amounts to be credited to the Class B PDL until zero;
- viii. Interest due on the Class C notes;
- ix. Amounts to be credited to the Class C PDL until zero;
- x. Interest due on the Class D notes;
- xi. Amounts to be credited to the reserve fund to achieve the Reserve Fund Required Amount (see **Reserve Fund** below);
- xii. Any gross-up amounts due under the Swap;
- xiii. Any gross-up or other amounts due under the liquidity facility agreements;
- xiv. Principal due on the Class D notes;
- xv. Amounts due towards the deferred purchase price instalment.

Following an enforcement event, when the trustee will declare the notes to be due and payable, all available funds will be allocated sequentially to interest and principal payments due; firstly, on the Class A through D notes, after certain senior third-party expenses.

Principal Redemption

Redemption funds generated by principal payments on the loans will be applied sequentially to repay firstly Class A1, then Class A2 notes, then the Class B through C notes. The Class D notes will be redeemed quarterly from closing with available excess spread.

Any principal deficiencies under each class of notes will be registered in the corresponding PDL for that class. These amounts will be debited to the lowest class PDL available, 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 November 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 that they have not been previously redeemed, the notes will be redeemed on the final maturity date.

Interest Rate Risk

To hedge interest rate risk between the notes and the underlying mortgage loans, Hermes VI will enter into a swap agreement with Barclays Bank plc, under which the following payments are made:

- **Issuer** pays quarterly to the swap counterparty all scheduled interest income due from the mortgage loans and the GIC less (i) a margin of 45bps and (ii) certain senior expenses (including the servicing fee);
- **Swap counterparty** pays an amount equal to the quarterly interest due on the notes insofar as they are backed by non-defaulted mortgage loans.

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 Barclays Bank below ‘F1+’, within 30 days: either (i) a guarantee will be provided for the obligations of Barclays Bank as swap counterparty, accomplishing the rating requirements, or (ii) the interest rate swap will be collateralised, or (iii) other actions will be put in place to avoid the downgrade of the notes.

Currency Risk

To hedge currency exchange rate risk between the Class A2 notes and the underlying mortgage loans, Hermes VI will enter into a currency swap agreement with [AIG], under which the following payments are made:

- On the Closing Date, the Issuer will pay to the currency swap counterparty the proceeds of the Class A2 Notes and simultaneously receive from the currency swap counterparty a EUR amount equal to the aggregate principal amount of the Senior Class A2 Notes multiplied by a rate of exchange determined on the Closing Date.
- The Issuer will pay on each payment date to the currency swap counterparty an amount equal to the Principal Amount Outstanding of the Class A2 Notes, converted into EUR at the Exchange Rate, multiplied by EURIBOR plus the acceptable margin.
- The currency swap counterparty will agree to pay on each Payment Date to the Issuer an amount equal to the scheduled interest due under the Class A2 Notes, calculated by reference to the floating rate of interest applied to the Principal Amount Outstanding of the Class A2 Notes.

In the event of a downgrade of [AIG] below 'A', within 30 days either: (i) a guarantee will be provided for the obligations of AIG as swap counterparty, accomplishing the rating requirements, or (ii) the interest rate swap will be collateralised, or (iii) other actions will be put in place to avoid the downgrade of the notes.

Repurchase of Mortgage Receivables

Under the mortgage receivables purchasing agreement, the seller is required to repurchase a mortgage receivable under the following circumstances:

- The seller agrees with a borrower to grant a further advance;
- There is a breach of any of the representations and warranties as set out above;
- The seller agrees with a borrower to amend the terms of a mortgage loan and as a result the mortgage loan no longer meets the criteria set out in the mortgage receivables purchase and/or servicing agreements.

Collateral

The pool forming the collateral for the notes consists of 14,112 mortgage loans with a total outstanding balance of approximately EUR1.5 billion as on 31 March 2003 (the pool cut-off date), all of which are first-ranking and first- and junior-ranking mortgages originated by the seller. The approximate weighted average original loan-to-foreclosure-value ratio ("LTFV") measured against the current balance, calculated using a chartered real estate agent's execution value for the property, was 112.3%.

The execution value is the estimated value of the property at auction and is typically 85%-90% of the market value or the actual open market purchase price. Therefore, the approximate weighted average loan-to-value ratio ("LTV") using adjusted market valuations ("LTMV") is 97.7%.

The loans in the portfolio have all been originated since 1995, and none benefit from a NHG guarantee. All the mortgage loans were performing as of the pool cut-off date.

In terms of geographic breakdown, the highest regional concentrations are Gelderland (20%), Zuid-Holland (13%), Noord-Holland (12%), Noord-Brabant (11%) and Limburg (11%). Fitch's regional definitions may differ from those published in the offering circular.

Loan Types

The following types of mortgage loans are included in the portfolio: Interest-Only (74.4% of the portfolio by current principal balance), Investment (24.2%) and Annuity/Linear (1.4%).

Interest-Only Mortgage Loans ("aflossingsvrije hypotheek")

Principal is repaid at final maturity of the mortgage. The mortgage loans for which the LTFV ratio exceeds 75% have a compulsory life insurance policy covering at least the excess over the 75% threshold.

Investment-Based Mortgage Loans ("rendement hypotheek")

The Borrower repays the principal in full at maturity with funds which have been accumulated through investments. There are three alternatives of this type of mortgage loan. The mortgage loans sold and assigned to the issuer will be in the form of the "first alternative", whereby the borrower does not pay principal prior to maturity of the mortgage loan, but undertakes to invest, on an instalment basis, an agreed amount in certain investment funds selected by the borrower from a range of investment funds of SNS Beleggingsfondsen N.V..

Linear Mortgage Loans (“*lineaire hypotheek*”)

Scheduled (usually monthly) repayments of principal are fixed over the term of the mortgage.

Annuity Mortgage Loans (“*annuïteitenhypotheek*”)

Scheduled (usually monthly) repayments of principal plus interest are fixed (provided that interest rates do not change).

Interest Rate Types

The mortgage loans bear interest on the basis of any of the following alternatives:

- fixed rate, whereby the interest rate can be fixed for a specific period between 1 and 30 years;
- floating rate; or
- any other type of interest alternatives offered by the Seller.

■ **Origination and Servicing**

The mortgage receivables were originated by SNS Bank, which will continue to service the receivables.

SNS Bank is part of SNS Reaal Group, the sixth largest financial institution in the Netherlands. 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 Bank’s origination and servicing guidelines. The agency has conducted several interviews with the originator and servicer managers responsible for SNS Bank’s mortgage loan department. SNS Bank follows a tight process of underwriting based on a detailed underwriting criteria manual.

SNS Bank puts considerable emphasis on a borrower’s ability to pay; employees perform a credit analysis to determine a prospective borrower’s creditworthiness. Ability to pay is determined primarily by the borrower’s credit profile, risk profile of the property, and the LTV ratio of the transaction.

SNS Bank offers all retail services to its customer base. Mortgages are distributed through the seller’s branches and via independent agents based in the Netherlands. The underwriting decision is based on the same criteria, which are set centrally at SNS Bank to maintain effective control and implement consistent underwriting procedures. The underwriter uses a mortgage analysis programme for certain computations in the underwriting process. SNS Bank

analyses the borrower’s ability to pay using a mortgage ratio, which determines the maximum mortgage a borrower could take out. The mortgage ratio depends on household status (single/dual), income level and the mortgage interest rate. Checks of the national credit register (*Bureau Krediet Registratie*), income checks, and collateral analysis are also integral parts of the decision process.

Collections and arrears management are performed by the seller, following formal procedures. Loan administration will be carried out centrally. The system will generate reminder letters on the 14th and 35th days after the payment date is overdue. After 40 days the seller will start negotiations with the borrower as well as the foreclosure process, if necessary.

On the basis of its visit, Fitch believes that SNS Bank is a sound originator and an effective servicer of Dutch residential mortgages.

■ **Credit Analysis**

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 VI, 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 the agency’s analysis.

Default Probability

- **Affordability:** A borrower affordability measure, such as an income multiple or debt-to-income, was not available for the pool on a loan-by-loan basis. Fitch therefore made a general assumption of a 35% debt-to-income ratio for all loans in the pool. This figure, which is at the higher end of SNS Bank’s underwriting criteria, equates to affordability Class 3 in the agency’s model. From Fitch’s default probability matrix, which is determined by affordability and LTV, the default probability for the average borrower in income Class 3 would range from 6% to 31% in a ‘AAA’ scenario.
- **Mortgage Types:** Life insurance mortgages carry a certain amount of risk given that there is residual set-off risk. Additionally, life insurance and investment mortgages carry an uncertain yield generated by the underlying life insurance policy and investment vehicle. Fitch therefore increased the base default probability for these types of mortgages.
- **Underwriting Quality:** Following a detailed review by Fitch of SNS Bank’s origination

practices and underwriting standards, Fitch believes SNS Bank to be a sound mortgage originator. As a result, no increase in the base default probability is assigned to this pool (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 decline of the pool is 45.34% in a 'AAA' scenario.
- **High Value Properties:** Approximately 6% of the reference pool is considered by Fitch to be secured on high-value ('jumbo') properties, with a risk of greater market value declines due to the decreased degree of liquidity at this end of the market. The agency increased the market value declines of these loans by 10%-25% based on the value of the property.

Credit Enhancement

Credit enhancement for the Class A notes, totalling 10.2% initially, is provided by the Class B and C notes and reserve fund.

Credit enhancement for the mezzanine Class B notes, totalling 4.2% initially, is provided by the Class C notes and reserve fund.

Credit enhancement for the Class C notes, totalling 1.8% initially, is provided by the reserve fund. Over time, the reserve fund will grow to a maximum of EUR[26.8] million, or 2.15% of the balance of the A, B and C notes at closing (see **Reserve Fund**).

The transaction will further benefit from 45bps per annum excess spread guaranteed by the swap agreement.

Reserve Fund

At closing, the issuer will issue the Class D notes in the amount of EUR22.5 million, 1.8% of the original principal balance, which will be used to fund the initial balance of the reserve fund. Once the reserve fund has reached 2.15% of the outstanding note balance as a result of note amortisation, it will amortise to the higher of:

- 3% of the outstanding note balance, or
- 0.75% of the original note balance.

The reserve is allowed to amortise if, on the previous payment date, the following conditions are fulfilled:

- Outstanding balance of mortgages more than 90 days in arrears remains below 2% of the outstanding mortgage balance;
- No principal deficiency exists; and
- The outstanding balance of the mortgages is not less than 10% of the initial balance, if the call is not exercised; and
- On or before the Payment Date falling in [February] 2007, the Reserve Fund Required Amount will not be less than 1.8%.

The reserve fund will be held with the GIC account counterparty, and will be used to meet the issuer's payment obligations on the notes.

Liquidity Facility

In addition to credit enhancement, a 364-day liquidity facility will be provided by SNS Bank to meet shortfalls in interest payments on the notes after application of the amount available from the reserve fund. The amount of the liquidity facility withdrawn on a given payment date will be recouped from cashflow received in subsequent months. The facility will be 1% (EUR12.5 million at closing) of the Class A, B and C note balance.

In the event of a downgrade of SNS Bank below 'F1', within 30 days, a replacement liquidity provider and a replacement GIC provider must be found that meet the rating requirements. 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.

■ Performance Analytics

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance Performance Analytics team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Details of the transaction's performance are available to subscribers at www.fitchresearch.com. Further information on this service is accessible at www.fitchratings.com.

Please call the Fitch analysts listed on the first page of this report for any queries regarding the initial analysis or the ongoing performance.

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 *"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 their downpayment and their willingness to pay, and the borrower's debt-to-income ratio (DTI) or income multiple, reflecting their 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 for this 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 such 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 with those 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 DTIs 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 this 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, a life insurance mortgage does 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 (i.e. periodic contributions are made to an investment fund); but has a different choice of investment opportunities. 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 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 property'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 by 10%-20%.

Fitch assumes that a financially distressed borrower is more likely to default on a second home than a primary residence, 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 a 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 those over 91 days in arrears (non-performing status) by 100%.
- **Underwriting Quality:** Fitch's review and analysis of the origination process determines whether it decreases default rates by up to 25% or increases them by 0%-200%.

Loss Severity

To estimate loss severity on mortgage loans in the Netherlands, Fitch examined home price movements by separating the Netherlands into 12 regions. Fitch's market value decline assumptions are somewhat higher for Dutch mortgages than for most other European markets, due to the greater severity of the housing recession between 1978 and 1982 and the sharp increase in prices over the past few years. Worst-case market value declines were estimated, and were then 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 EUR163,000 by 10%-25%. Higher-value properties tend to have larger market value declines owing to the smaller marketplace for such properties and less precise pricing information for larger properties (given the less active market).

When calculating recovery value, Fitch's model reduces each property valuation by the market value decline, repossession costs, and costs 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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