RMBS/Netherlands
Presale Report

Holland Mortgage Backed Series (Hermes) VII B.V.

Expected Ratings*

Class	Amount (m)	Final Maturity	Rating	CE (%)
A1	[1.167.5]EUR	Nov 2037	AAA	7.60
A2	[0]USD	Nov 2037	AAA	7.60
B	53.5 EUR	Nov 2037	A	3.32
C	29.0 EUR	Nov 2037	BBB	1.00
D	12,5 EUR	Nov 2037	NR	

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

Summary

This EUR1,262.5 million transaction is a securitisation of Dutch residential mortgages originated by SNS Bank. Fitch Ratings ("Fitch") has assigned expected ratings to the notes to be issued by Holland Mortgage Backed Series (Hermes) VII B.V. ("Hermes VII" or "the issuer") as indicated at left. The mortgages are, and will continue to be, serviced by SNS Bank N.V. ("SNS Bank" or "the seller", rated 'A+/F1').

SNS Bank is a wholly owned subsidiary of SNS Reaal Groep N.V., the sixth-largest financial institution in the Netherlands, which has a primary focus on mortgages and investment products. SNS customers tend to reflect the general public profile rather than being weighted towards high net worth individuals.

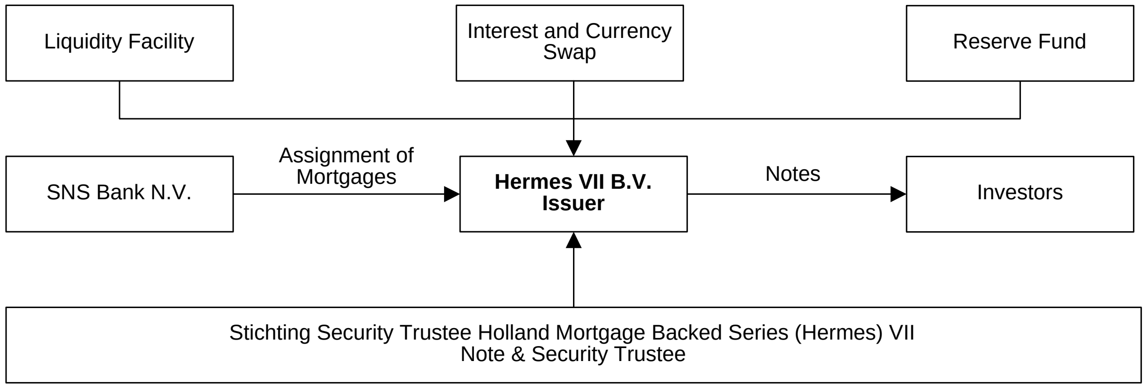
Hermes VII is a special-purpose company incorporated under the laws of the Netherlands with limited liability as a *"besloten vennootschap met beperkte aansprakelijkheid"* (B.V.) and registered with the Commercial Register of the Chamber of Commerce of Amsterdam. The shares of the issuer are owned by Stichting Holland Euro-Dominated 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 mortgage loans from the seller, which form the collateral for the notes. The portfolio consists of first-ranking fixed- and variable-rate mortgages secured over residential property located in the Netherlands. Perfection of assignment will be subject to certain notification trigger events occurring.

The ratings are based on the quality of the collateral, available credit enhancement and excess spread, sound legal structure, underwriting and servicing of the mortgage loans, the liquidity facility, the guaranteed investment contract ("GIC") provided by SNS Bank, the currency swap by CDC IXIS and the interest rate swap by UBS Limited. At closing, credit enhancement for the Class A notes, totalling 7.60%, will be provided by the Class B and C notes and the reserve fund. Credit enhancement for the Class B notes, totalling 3.32%, will be provided by the Class C notes and the reserve fund. Credit enhancement for the Class C notes, totalling 1.00%, will be provided by the reserve fund. At closing, the non-collateralized Class D notes will fund the initial balance of the reserve fund. The transaction further benefits from excess spread guaranteed on the non-defaulted principal balance of the mortgage loans through the swap agreement of 45bps.

This is the seventh RMBS transaction originated by SNS Bank. Fitch affirmed its ratings on Hermes I (upgrade Class C), Hermes II (upgrade Class B and C), Hermes III, Hermes IV, and Hermes V on 3 July 2003. Details of the transaction performance are available at www.fitchresearch.com.

Structure Diagram



To determine appropriate levels of credit enhancement, Fitch analysed the collateral using the default model it developed specifically for Dutch residential mortgages (see "*Dutch Residential 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

- Weighted average seasoning is 35 months, longer than for most Dutch transactions.

- Excess spread of 45bps is guaranteed after note interest and servicing fees.

- 51.0% of this portfolio is interest-only mortgages, which carry balloon repayment risk. Also included are 39.9% of savings or alternative savings and 8.6% of investment mortgages, which carry a risk due to residual set-off risk as well as an uncertain yield on the underlying investment vehicle. Fitch has increased the default probability on these loans to account for these additional risks.

- Substitution period of two years, during which principal receipts may be reinvested in substitute mortgage receivables. This could alter the credit quality of the collateral; however, this risk is mitigated by certain conditions such as arrears and cumulative loss triggers, and limited loan-to-value ratios etc. (*see Substitution* on page 4), which ensure that the substitute mortgages continue to match the characteristics of the pool at closing.

- Repeat structure and established underwriter.

■ Financial Structure

The Class A1, B, C and D notes will receive floating rate interest in arrears at a margin over three-month EURIBOR. Class A2 notes will receive interest quarterly in arrears at a margin over three-month USD LIBOR. At the first optional redemption date to repay the notes, a step-up margin will apply if the notes are not called.

All amounts of interest and principal payments received by the seller are passed on monthly to the collection account, kept in the name of Hermes VII, with SNS Bank. If SNS Bank is downgraded below 'F1', collections will be swept daily into the collection account. Amounts of money deposited in the collection account will receive, under a GIC, an interest rate equal to three-month EURIBOR less a margin, payable on a quarterly basis.

Priority of Payments

Revenue payments, which include interest on the mortgage loans, will be allocated, prior to enforcement, in the following priority of payments:

1. The issuer's senior fees and expenses (including those payable to the trustee, company administrator, servicer and paying agent);
2. Repayment of any drawings made from the liquidity facility;
3. Payments due under the swap agreement;
4. Interest due on the Class A notes;
5. Amounts to be credited to the Class A principal deficiency ledger ("PDL") until zero;
6. Interest due on the Class B notes;
7. Amounts to be credited to the Class B PDL until zero;
8. Interest due on the Class C notes;
9. Amounts to be credited to the Class C PDL until zero;
10. Interest due on the Class D notes;

Key Information

Key Parties

Issuer: Holland Mortgage Backed Series (Hermes) VII B.V ('Hermes VII' or 'the Issuer')

Originator/Seller: SNS Bank N.V. ("SNS Bank") (rated 'A+/F1')

Trustee: Stichting Security Trustee Holland Mortgage Backed Series (Hermes) VII

Servicer: SNS Bank

Liquidity Facility Provider / Floating Rate GIC Provider : SNS Bank

Interest Rate Swap Counterparty: UBS Limited (rated 'AA-/F1+')

Currency Swap Counterparty: CDC IXIS Capital Markets (rated 'AAA/F1+')

Principal Paying Agent: ABN AMRO N.V. (rated 'AA-/F1+')

Interest Payments: Class A1, A2, B, C, and D floating payable quarterly in arrears.

Principal Payments: Sequential; firstly Class A1 and 2nd Class A2, 3rd Class B, 4th Class C and 5th Class D, starting on the relevant Mandatory Redemption date on a quarterly basis.

Substitution Period: Period from closing until November 2005.

Legal Maturity: November 2037 for all the Notes.

Collateral

Type of Loans: First-ranking residential mortgage loans secured by property in the Netherlands.

Total Amount: EUR 1,359,290,018

WA Original LTMV: 94.1%

WA Seasoning (Months): 36

Interest Only: 51.0%

Regional Concentration: 20.8% in Gelderland

Pool Cut-off Date: 31 July 2003

11. Amounts to be credited to the reserve fund to achieve the Reserve Fund Required Amount (see *Reserve Fund* on page 4);
12. Principal due on the Class D notes;
13. After the first optional redemption date, repayment of principal under the notes;
14. Any gross-up amounts due under the Swap;
15. Any gross-up or other amounts due under the liquidity facility agreements;
16. 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 notes, secondly on the Class B notes, thirdly on the Class C notes and finally on the Class D notes, after certain senior third-party expenses.

Principal Redemption

From November 2005, after the substitution period, redemption will be sequential, starting with the Class A1 notes through to Class C. After the first optional redemption date, the Class A1 and Class A2 notes will redeem pro rata if not redeemed before. The Class D notes will be redeemed quarterly from closing with available excess spread only.

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 Issuer has the option to call the notes on, and after, the first optional redemption date in February 2010. The purchase price of the mortgages will be their market value. If the call is not exercised, the notes will receive three-month EURIBOR plus a margin of 100bps for the Class A notes, 100bps for the Class A2 notes, 150bps for the Class B notes and 200bps for the Class C notes; excess spread will be used to redeem the Notes.

The notes are subject to provisions allowing for redemption upon the occurrence of certain tax and legal events affecting the financial equilibrium of Hermes VII.

Unless previously redeemed, the notes' legal final maturity date is in November 2037.

Interest Rate Risk

Hermes VII has entered into an interest swap ISDA agreement with UBS Limited at closing. Under this agreement, the issuer is obliged to pay UBS Limited, quarterly, the scheduled interest due on the outstanding mortgage receivables plus prepayment penalties received and the interest on the GIC less an excess margin of 45bps before and after the first optional redemption date and certain senior expenses (including the servicing fee). UBS Limited, as the swap counterparty, is obliged to make the scheduled interest payments on the notes insofar as they are backed by non-defaulted mortgage loans.

In the event that the interest rate swap counterparty is downgraded below 'F1+', within 30 days it will be required to either: 1) be replaced by a suitably rated swap counterparty; 2) obtain a guarantee from a suitably rated third party; 3) cash collateralise its obligations; or 4) find another appropriate solution acceptable to Fitch in order to maintain the then outstanding rating of the notes.

Currency Risk

Hermes VII has entered into a currency swap ISDA agreement with CDC IXIS at closing to hedge the currency risk of the Class A2 notes. Under this agreement, the issuer is obliged to pay CDC IXIS, quarterly, the proceeds of the Class A2 notes, converted into euros, multiplied by EURIBOR plus the applicable margin. The currency swap counterparty is obliged to make the scheduled interest payments on the A2 notes.

In the event that the currency swap provider is downgraded below 'A', within 30 days it will be required to either: 1) obtain a guarantee from a suitably rated counterparty; 2) obtain a guarantee from a suitably rated third party; 3) collateralise the interest rate swap, or 4) find another appropriate solution acceptable to Fitch in order to maintain the then outstanding rating of the notes.

Substitution

The transaction structure includes a substitution period up to November 2005, during which principal receipts may be reinvested on a quarterly basis in substitute mortgage receivables. Substitution is subject to certain conditions which aim to preserve the credit quality of the transaction, including:

- No notification event has occurred (see *Legal Structure* below);
- No more than 2.25% of the outstanding principal amount of the mortgage loans is in arrears for more than 60 days;
- The cumulative realised losses do not exceed 0.5% of the aggregate outstanding principal amount of the mortgage loans prior to November 2005 and, after such date, any cumulative realised losses do not exceed 0.9% of the aggregate outstanding principal amount of the mortgage loans;
- The weighted average original loan to foreclosure value of the loans in the portfolio does not exceed 108.2%, unless agreed otherwise with the rating agencies;
- The aggregate amount of substitute mortgages is limited to 20% per annum of all mortgage receivables outstanding at the beginning of a yearly period;
- The ratings of the notes will not be adversely affected by the substitution.

Credit Enhancement

Credit enhancement for the Class A notes, totalling 7.60%, is provided by the Class B and C notes and the reserve fund. Credit enhancement for the Class B notes, totalling 3.32%, is provided by the Class C notes and the reserve fund. Credit enhancement for the Class C notes, totalling 1.00%, is provided by the reserve fund. The transaction further benefits from 45bps excess spread guaranteed through the swap agreement.

Reserve Fund

The proceeds of the Class D notes are used to fund the initial balance of the reserve fund to 1.00% of the initial outstanding balance of the notes less the Class D notes. The reserve fund will build up to 1.80% by using excess spread. The reserve fund will be subject to a floor equating to the maximum of a) 0.5% of the original note balance less the Class D notes; or b) 1.80% of the outstanding notes balance less the Class D notes.

The reserve fund will amortise subject to the following conditions being fulfilled on the previous payment date:

- Outstanding balance of mortgages more than 90 days in arrears remains below 2.25% of the outstanding mortgage balance;
- No principal deficiency exists;
- 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 August 2007, the Reserve Fund Required Amount will not be less than EUR22,500,000.

Liquidity Facility

A liquidity facility equal to 1.00% of the current note balance less the Class D notes is provided by SNS Bank to cover any shortfalls on the interest due on the notes. The liquidity facility will be provided for a term of 364 days, which can be extended at the discretion of the provider.

In the event of a downgrade of SNS Bank below 'F1', a substitute liquidity provider, with suitable ratings, will be appointed within 30 days. If SNS Bank is not replaced, or the liquidity facility is not renewed, the issuer will draw down on the undrawn portion of the liquidity facility.

Legal Structure

Hermes VII, 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-Dominated 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. In addition, 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*, a 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;
- 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 ("*hypotheekrechten*") 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, or if a borrower switches from a savings insurance policy into another investment, the seller must re-purchase the related mortgage loan from the issuer.Collateral

Loan Portfolio Summary

Pool Characteristics (As of 31 July 2003)	
Original Principal Balance (EUR)	
Current Principal Balance (EUR)	1,359,290,018
WA Original LTMV (%)	94.1
WA Indexed * Current LTMV(%)	84.6
WA Seasoning (Months)	36
WA Interest Margin (%)	5.54
WA Remaining Maturity (Years)	26
Average Current Loan per Borrower (EUR)	145,649
Number of Borrowers	7,923
Oldest Loan in Portfolio	Jun 1995
Most Recent Loan in Portfolio	May 2003
Mortgage Type (%)	
Interest Only	51.0
Savings & Alternative Savings	39.9
Investment Based	8.6
Linear & Annuity	0.5
Interest Rate Type (%)	
Fixed Rate	75.8
Floating	12.4
Others	11.8

Loan Portfolio Summary

Pool Characteristics (As of 31 July 2003)

Payments	
Payment Frequency	Monthly
Payment Method	Direct Debit
Performing Loans (%)	100
Regional Concentration (%)	
Gelderland	20.8
Limburg	19.2
Noord-Holland	10.2
Lien Position (%)	
First Ranking	100

*Based on Fitch's Indexation methodology
Source: SNS Bank

Loan Types

Interest-Only Mortgages

The Borrower repays in full at maturity of the mortgage. Mortgage loans which exceed a loan to foreclosure value of 75% have a compulsory life insurance policy covering at least the excess over the 75% threshold.

Savings Mortgages

These mortgages consist of an interest-only loan linked to a savings policy. The premia payable will vary such that the capital generated by the savings policy is targeted to equal the amount payable by the borrower on maturity of the mortgage loan (i.e. 100% target capital).

Some of the savings mortgages contain alternative savings mortgages, whereby the borrower has the option to switch between savings and investment alternatives at each interest rest date.

In Dutch securitisation transactions, amounts accumulated under a savings policy will be 'placed' by the savings provider with the issuer (with a participation granted to the savings policy provider). This means that funds accumulated to date on the savings policy are immediately available to the issuer to repay the savings mortgage loan on maturity. The participation structure with respect to savings mortgages eliminates this residual risk.

Investment Mortgages

The Borrower repays the principal in full at maturity with funds that 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.

■ 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, the risk profile of the property, and the LTV ratio.

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. 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. The following are particular areas of focus and concern for Fitch with regard to Hermes VII, and an outline of the factors incorporated into its analysis to deal with these concerns.

Fitch Default Model Output

Rating Level	WAFF* (%)	WARR** (%)	Loss Severity (%)	MVD***
AAA	18.93	55.37	49.99	47.74
AA	15.15	61.19	44.16	42.19.
A	11.36	66.89	38.46	36.64
BBB	7.57	72.64	32.73	30.88

Recovery time (years): Interest accrued on contractual rate for 1 year
Recovery cost: 5%
* Weighted Average Foreclosure Frequency
** Weighted Average Recovery Rate
*** Market Value Decline
Source: Fitch

Default Probability

Affordability

A borrower affordability measure, such as an income multiple or debt-to-income ratio, 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 falls at the higher end of SNS'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

51.0% of the loans are interest-only mortgages. Such mortgages carry a balloon risk, given that the originators need to rely on the repayment ability of the borrower at the maturity of the mortgage loan. Interest rates may rise materially in the future, potentially causing payment shocks for borrowers. For these reasons, Fitch believes that the propensity to default for interest-only mortgages increases. Although SNS Bank does apply conservative underwriting criteria for interest-only loans, Fitch increases the base default probability for the latter. The LTV of interest-only loans is limited to 75% and for any excess the borrower would be required to have a repayment vehicle, such as a savings or life-insurance policy.

Savings mortgages make up to 39.9% of the total portfolio. These mortgages save the premiums in certain savings funds. Under this mortgage type, no principal is paid by the borrower prior to loan maturity, at which point the loan is redeemed with the funds accumulated through savings. The savings fund generally guarantees a minimum rate of return which is equal to the principal payment. Part of the savings mortgages consists of alternative savings mortgages, whereby part of the premium is invested in certain investment funds. All policies are provided by Hooge Huys Insurance Company, which is a subsidiary of SNS Reaal Groep. Fitch has increased the default probability on these loans accordingly to account for these additional risks.

Also included are 8.6% of investment mortgages, which carry a risk due to residual set-off risk as well as an uncertain yield on the underlying investment vehicle. Fitch has increased the default probability on these loans to account for these additional risks.

Less than 0.5% of the pool is represented by annuity and linear mortgages. In view of the periodic amortisation of these loans, default probabilities for the latter were not stressed.

Recoveries

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.

High-Value Properties

Approximately 1% of the reference pool is considered by Fitch to be secured on high-value ("jumbo") properties, with a risk of greater market value declines ("MVDs") due to a perceived lack of liquidity and therefore variability in market values for these properties. Fitch increased the MVDs of these loans by 15%-25% based on the value of the property.

Set-Off

The risk exists in most Dutch mortgage transactions that borrowers may seek to exercise set-off of certain amounts owed to them against amounts due from them in relation to the mortgage loan. Set-off is specifically precluded in the terms and conditions of the mortgage loans; however, lack of legal precedent makes it uncertain whether such a set-off waiver would be enforceable if the borrower contested it in court.

The primary set-off risk exists in relation to insurance mortgages. This stems from the possibility that, in the event of a default by the insuring entity such that a capital sum is not received from the

Delinquencies >90+, Hermes 1 to Hermes 6

NB: Prior to July 2001 SNS Bank reported delinquencies as over 30 days in arrears only; as from July 2001 it also reported delinquencies over 90 days in arrears. This change resulted in a significantly lower delinquency level as from this date for earlier transactions.
Source: Fitch/SNS Bank

relevant policy when due, the borrower may seek to avoid repaying the mortgage loan. This is on the grounds that the sums due from the policy were specifically earmarked to repay the loan and therefore the borrower should not have to pay from his own funds merely because the policy provider defaulted.

For set-off claims to be valid, generally the borrower would need to prove that he had a legal claim against the defaulting entity which existed before the provider defaulted. Where the borrower brings a policy to the table from a provider independent from the seller, and the mortgage product has been marketed as the provider and seller being two independent entities, then the claim for set-off will be weaker.

Fitch believes that the combination of legal provisions and pledge agreements in the transaction provides some comfort in addressing this risk. The likelihood of set-off succeeding is further reduced because there are a number of obstacles to its validity to be overcome. Any definitive rulings with regard to the set-off risk would be reviewed by Fitch and their impact on the transaction assessed.

However, even if set-off were ruled invalid, it is likely that the borrower would have limited alternative funds in order to meet the repayment of the mortgage loan if the policy providers defaulted, thereby increasing the risk of default on the loan. Fitch therefore gives no credit to policies that have accrued when assessing loss severity.

For further analysis in relation to set-off matters, refer to the agency's report *"Legal Issues in Dutch RMBS"* dated 13 June 2002 and available at *www.fitchratings.com.*

■ Performance Analytics

This is the seventh publicly rated residential mortgage-backed transaction originated by SNS Bank. Fitch affirmed its ratings on Hermes I (upgrade Class C), Hermes II (upgrade Class B and C), Hermes III, Hermes IV, and Hermes V on 3 July 2003. Fitch will monitor the transaction on a regular basis and as warranted by events. Fitch's structured finance team ensures that the assigned ratings remain, in Fitch's view, an appropriate reflection of the issued notes' credit risk.

Details of the transaction's performance are available to subscribers at *www.fitchratings.com.* Further information on the service is available at *www.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 *"Dutch Residential 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 the 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 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 that 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%.

Recoveries

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 then 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 EUR500,000 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).

Fitch's model gives full credit for property price declines and 50% credit for property price appreciation. The agency calculates recoveries by reducing the indexed 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 that 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.