



The Dutch mortgage market at a cross road?

The problematic relationship between supply of and demand for residential mortgages

22/03/2013

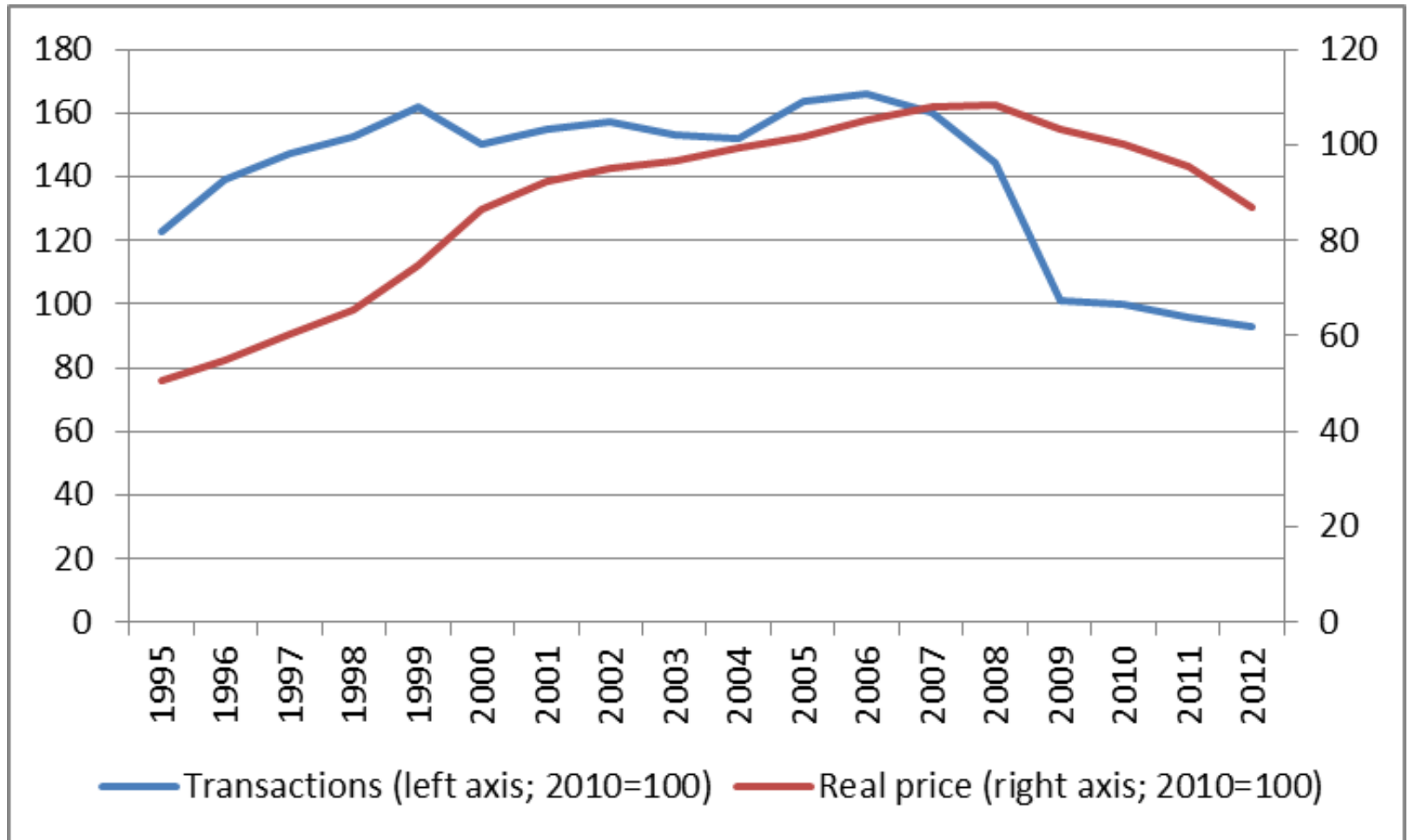


Housing market in crisis

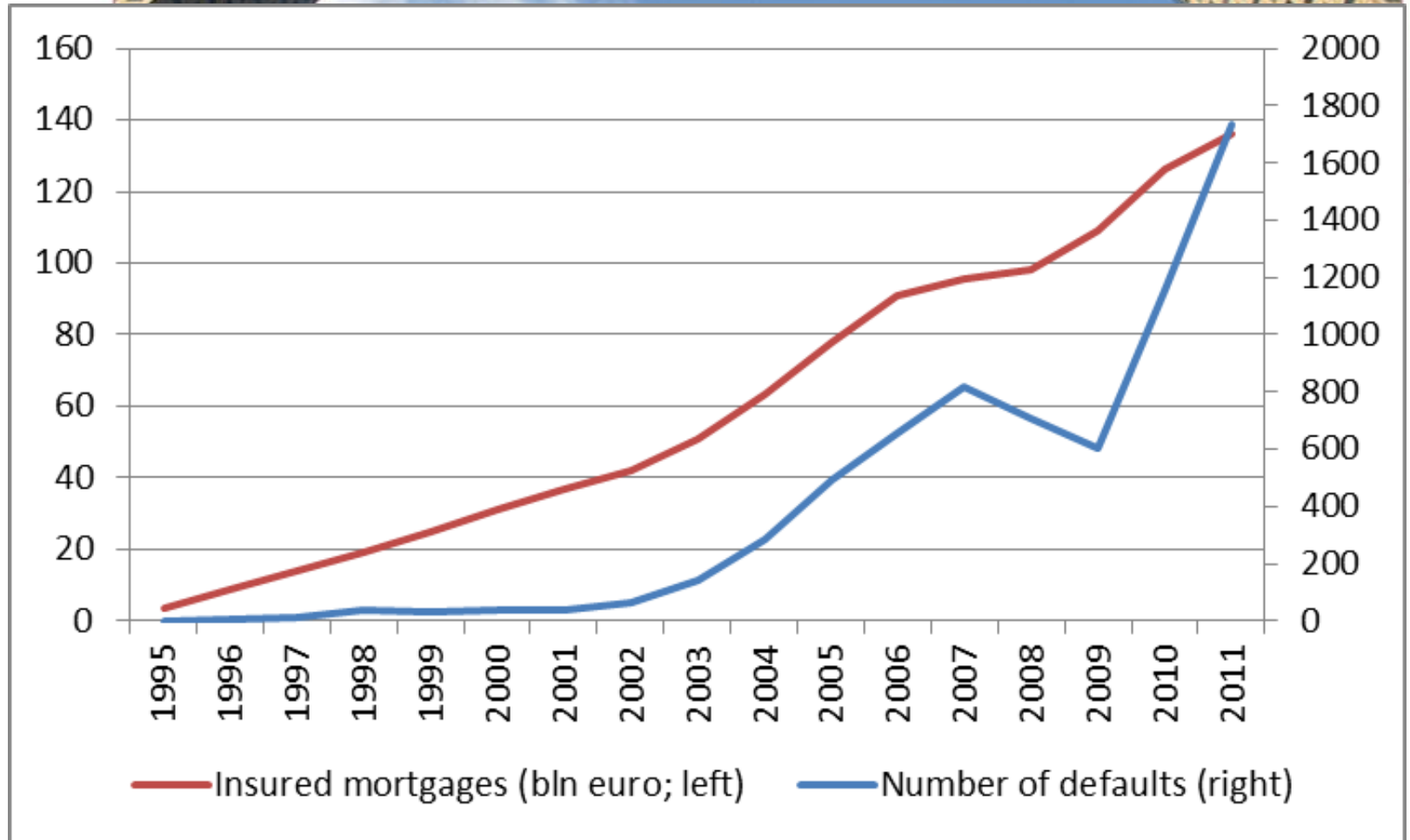
- House prices down
- Number of transactions down
- Increasing number of households under water
- Increasing (yet still relatively low) number of defaults

Mortgage market plays an important role

- Large funding gap with Dutch banks (500 bln)
- Difficult refinancing of securitized mortgages
- Mortgage interest rates high
- Supply is limited: small “imperfections” seem to lead to rejections

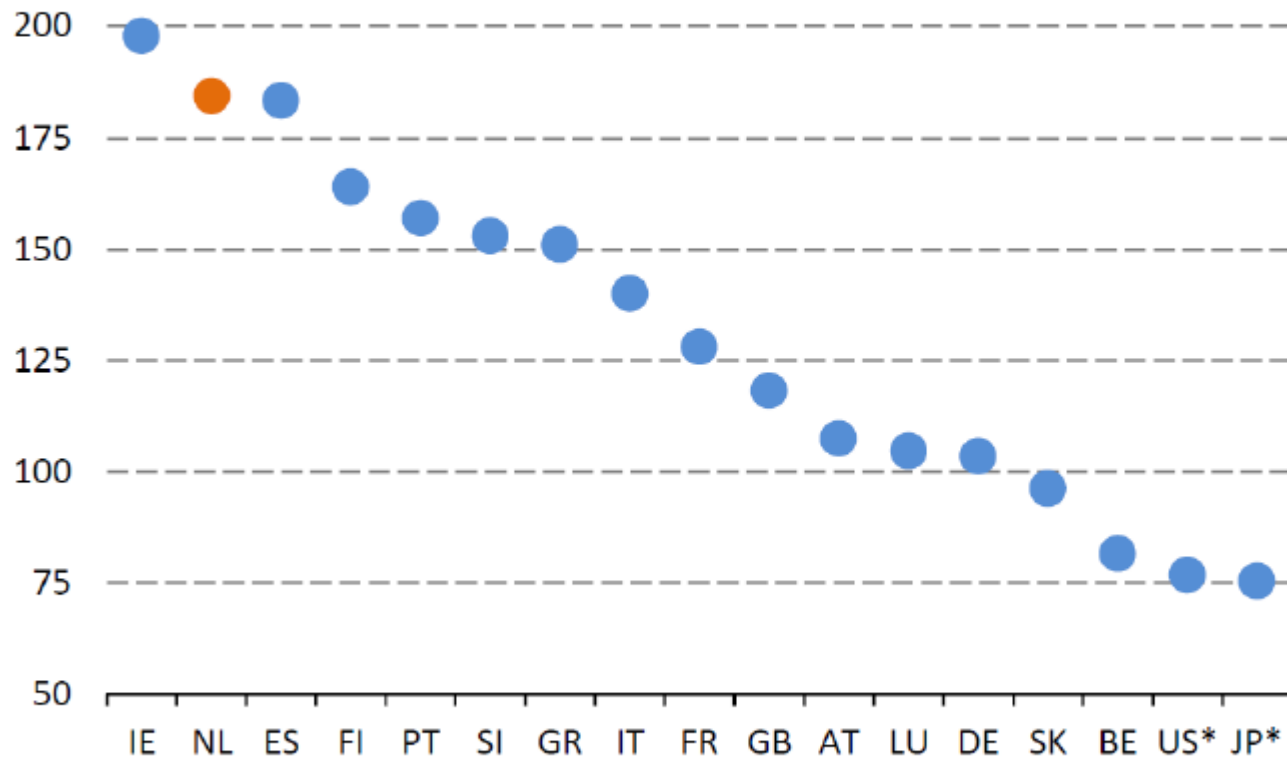






Figuur 1 Loan-to-deposit ratio

Procenten deposito's; 2012 K3



Toelichting: Cijfers VS en Japan betreffen 2011 (eindejaar).

Bron: DNB, BIS en ECB.



Very lively debate – policy in the fast lane

Some highlights signaling the problem:

- | | |
|------------|--|
| 02/02/2012 | Six steps to more durable housing market
Plan by 22 economists to reform the housing market, includes reform of the funding of mortgages |
| 10/05/2012 | Importance of reducing funding gap
Financial stability; trust in Dutch market |
| 14/02/2013 | CPB report on mortgage interest rates
High mortgage interest rates not explained by high financing costs, rather lack of capacity, competition |
| 01/03/2013 | DNB report on mortgage interest rates
High mortgage interest rates partly explained by high financing costs, also lack of competition |



In need of a solution – what happened so far:

- Tightening of credit conditions
LTI: Code of conduct 2007 – onwards
LTV: Code of conduct 2011 – onwards
- Restricting (one) fiscal stimulus for mortgage debt
Maximum of 50% non-amortizing (Code of conduct 2011)
No more interest deductibility for non-amortizing loans (01/01/2013)
- Residual debt slightly more fundable
Eligible for interest deductibility during 10 years (29/10/2012)



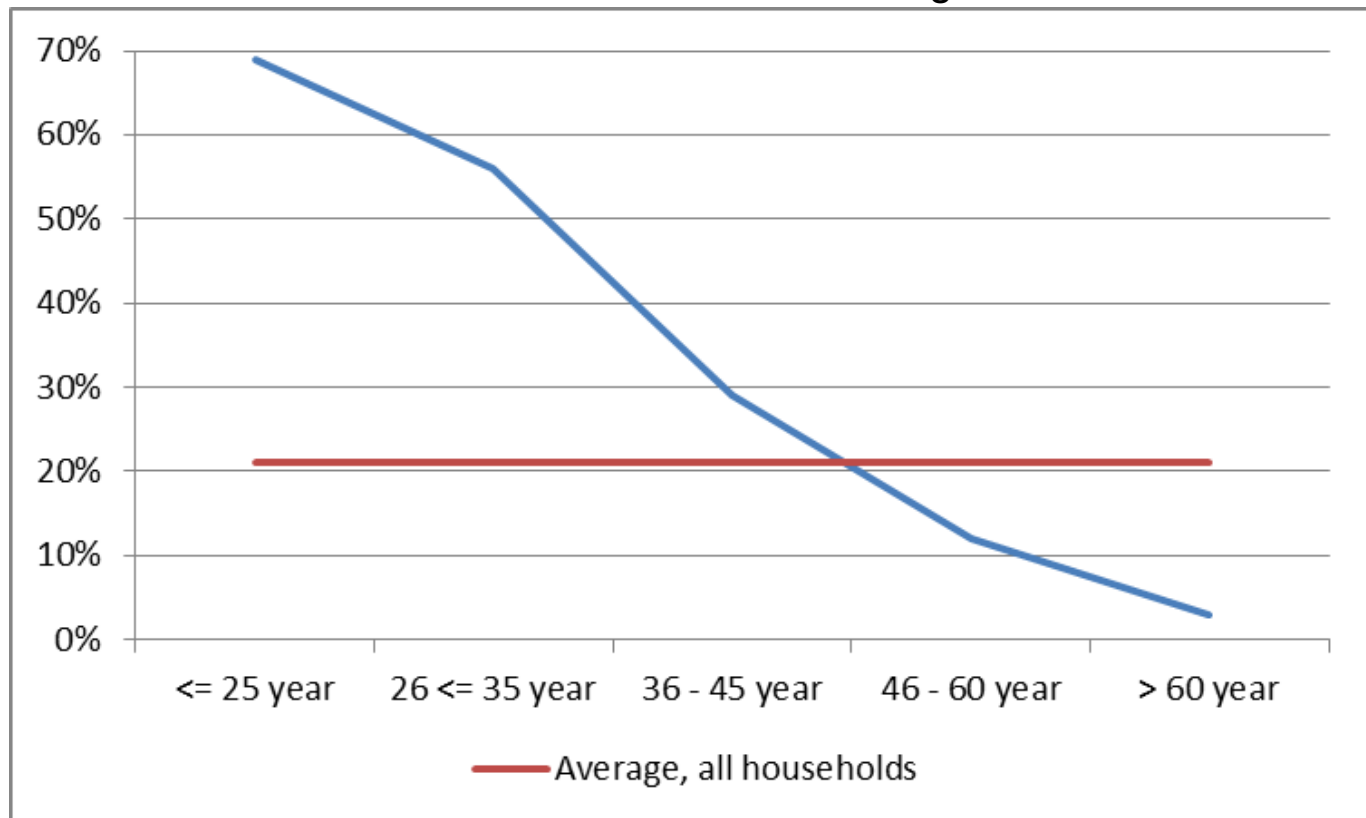
This will not be enough:

- It does not help households under water much
No rules regarding the way to finance residual debt (i.e. high price)
Restriction of 10 years impacts debt capacity
- Demand for mortgage credit will increase funding gap
Autonomous housing market processes
Issues with respect to limited and expensive funding of mortgages



Restricted finance affects predominantly young households

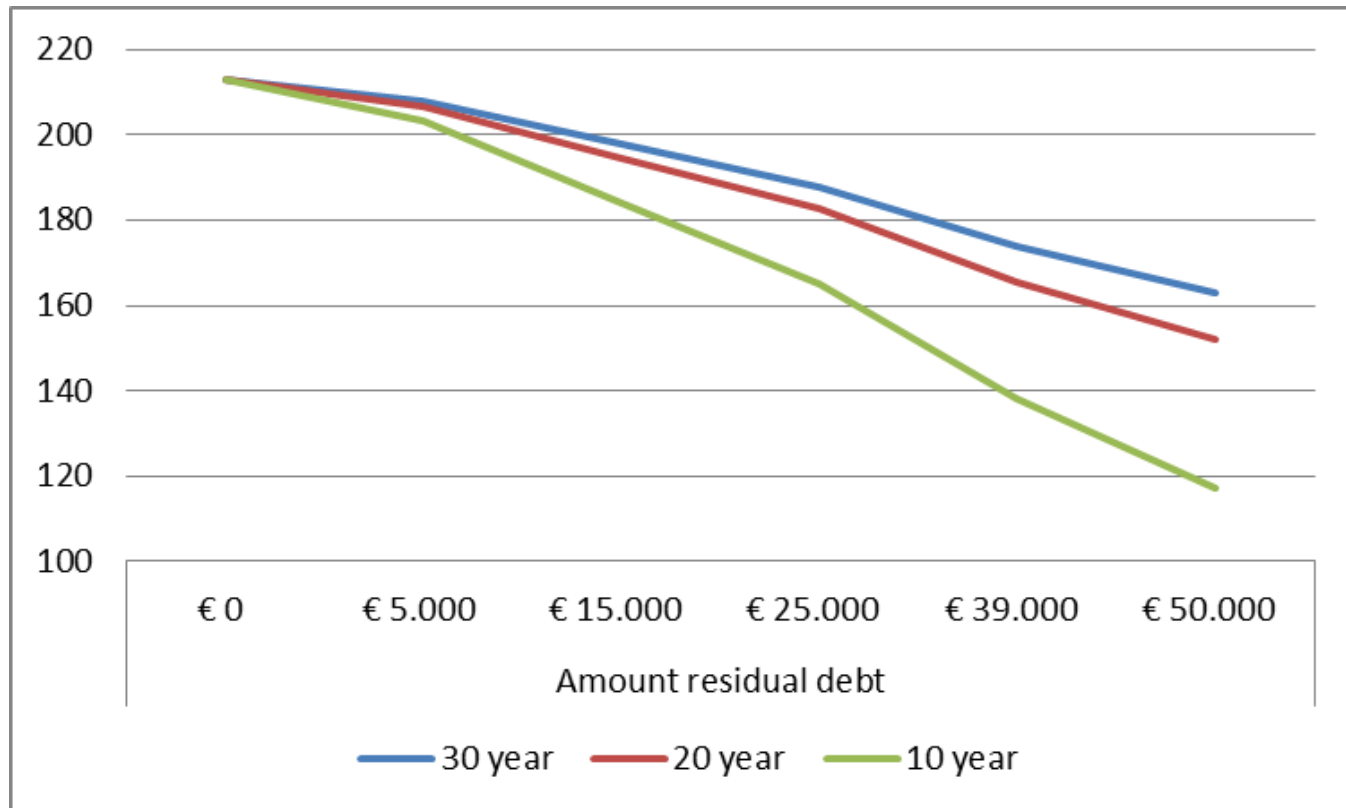
Relative occurrence of residual debt among home-owners





Restrictive impact of financing residual debt on debt capacity

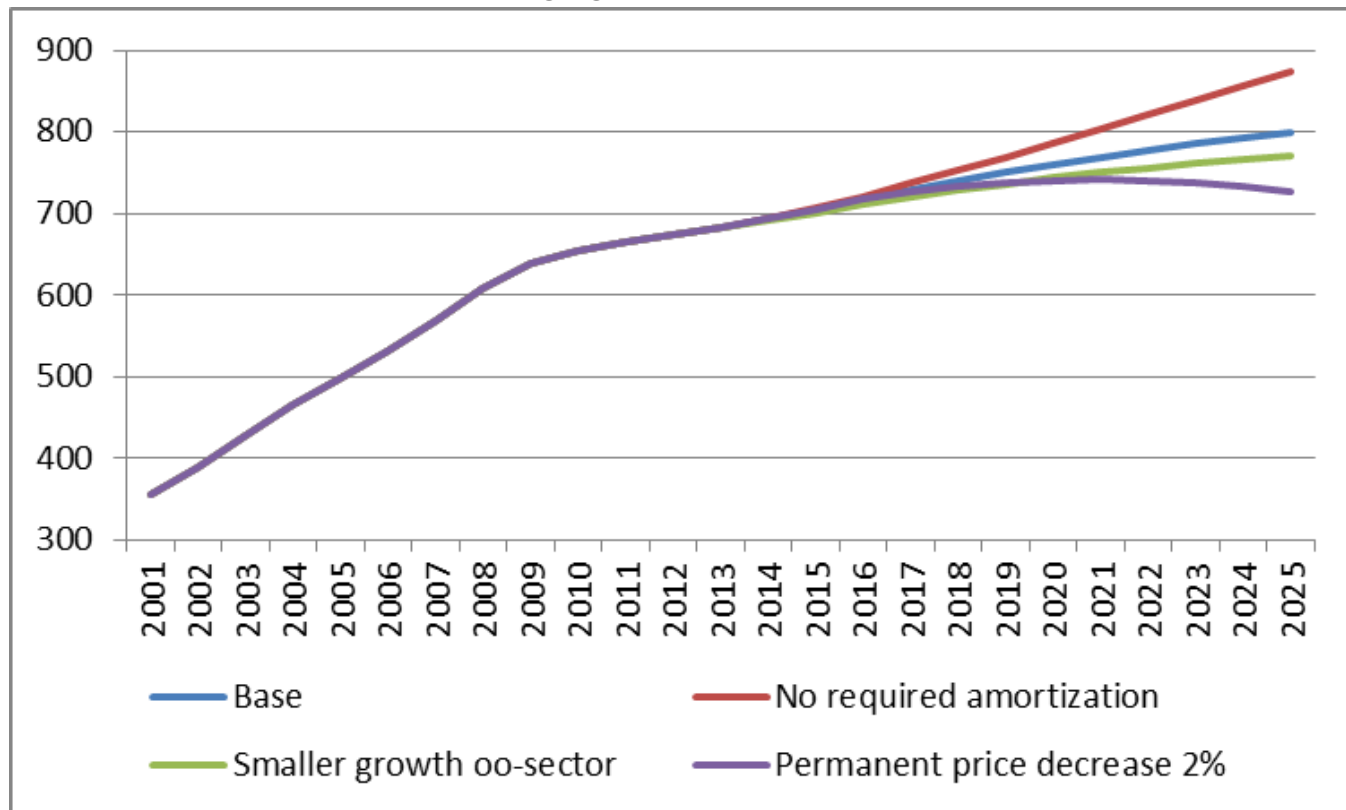
Remaining debt capacity at various levels of amortization
(assumed annual income € 50.000)





Autonomous housing market processes will increase total debt

Development mortgage debt, various scenarios





Increase total outstanding debt

- Funding gap will increase, despite measures on housing market
- Banks remain confronted with high(er) funding costs
- Banks remain dependent of international capital market

Solution?

11/03/2013

Van Dijkhuizen

- + Create national SPV that issues bonds on already state-secured loans
- + Lowers threshold pension funds to invest in Dutch mortgages
- + Lowers uncertainty international investors with respect to quality NHG
- Banks remain with smaller, albeit more risky balance
- Housing market need not benefit

Conclusions

- Housing market malfunctions partly because of problematic balances of banks
- Funding gap will increase, despite measures on housing market
- No solution for residual debt related problems of large group of households

Agenda

- Clarify details on Van Dijkhuizen
- Reform of funding system mortgage market
- Started reform of housing market needs continuation

