S&P Global Ratings

Research

Presale:

Dutch Property Finance 2022-2 B.V.

September 16, 2022

PRIMARY CREDIT ANALYST

Feliciano P Pereira, CFA
Madrid
+ 44 20 7176 7021
feliciano.pereira@spglobal.com

SECONDARY CONTACTS

Valentina Zugno
London
+44 2071760794
valentina.zugno@spglobal.com

Alastair Bigley
London
+ 44 20 7176 3245
Alastair.Bigley@spglobal.com

Preliminary Ratings

Class	Prelim. rating*	Class size (%)	Credit enhancement (%)	Interest	Step-up margin	Step-up date	Legal final maturity
A	AAA (sf)	84.75	17.25	3ME + a margin	3ME + a margin	July 2027	March 2062
B-Dfrd	AA (sf)	6.00	11.25	3ME + a margin	3ME + a margin	July 2027	March 2062
C-Dfrd	A+ (sf)	3.25	8.00	3ME + a margin	3ME + a margin	July 2027	March 2062
D-Dfrd	BBB (sf)	3.00	5.00	3ME + a margin	3ME + a margin	July 2027	March 2062
E-Dfrd	NR	3.000	N/A	3ME + a margin	3ME + a margin	July 2027	March 2062
F-Dfrd	NR	2.000	N/A	3ME + a margin	3ME + a margin	July 2027	March 2062
X-Dfrd	NR	2.500	N/A	3ME + a margin	3ME + a margin	July 2027	March 2062
R-Dfrd	NR	TBC	N/A	No coupon	No coupon	N/A	March 2062

Note: This presale report is based on information as of Sept. 16, 2022. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. *Our preliminary ratings address timely receipt of interest and ultimate repayment of principal on the class A notes and the ultimate payment of interest and principal on the other rated notes. Our ratings also address timely payments of interest due when a note becomes the most senior outstanding.
3ME--Three-month EURIBOR. Dfrd--Deferrable. NR--Not rated. N/A--Not applicable.

Supporting Ratings

Institution/role	Rating	Replacement trigger	Collateral posting trigger
Elavon Financial Services DAC as bank account provider	AA-/Negative/A-1+	A	N/A
Coöperatieve Rabobank U.A. (Rabobank) as the collection foundation account bank	A+/Stable/A-1	BBB	N/A

Supporting Ratings (cont.)

Institution/role	Rating	Replacement trigger	Collateral posting trigger
NatWest Markets N.V. as swap provider	RCR: A/--/A-1	A-	A-

Note: There are no counterparty constraints on the ratings on the notes in this transaction. The replacement language in the documentation is in line with our current counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019. For a comprehensive list of transaction participants, please refer to the appendix. N/A--Not applicable. RCR--Resolution counterparty rating.

Overview

- Dutch Property Finance 2022-2 B.V. is an RMBS transaction that securitizes a provisional portfolio of €501.5 million buy-to-let (BTL) mortgage loans secured on properties in the Netherlands.
- This is the ninth Dutch Property Finance transaction issued and rated by S&P Global Ratings.
- Most of the loans in the pool were originated in 2021 and 2022 (59.3%). Dutch Property Finance 2022-2 relates to the sale of a portfolio of Dutch mortgage loans originated or acquired by RNHB. RNHB was originally part of FGH Bank which in turn was a subsidiary of the Rabobank Group but this was purchased by CarVal in late 2016. DPF 2022-2 consists of 2.3% from the "Trident" portfolio, a portfolio acquired from ACHMEA, with similar characteristics of the one originated by RNHB. Finally, about one-third of the pool comprises mortgages previous securitized in RNHB's inaugural transaction, Dutch Property Finance 2017-1.
- The collateral comprises multiple borrowers grouped into risk groups, sharing an obligation to service the entire debt. In the provisional pool, 35.3% of the portfolio (53.1% based on S&P Global Ratings' methodology) by current property value comprises commercial (17.6%) and mixed-use (17.7%) properties, respectively.
- Credit enhancement for the rated notes will consist of subordination and the reserve fund.
- There are no rating constraints in the transaction under our counterparty, operational risk, or structured finance sovereign risk criteria. We consider the issuer to be bankruptcy remote.

The Credit Story

Strengths	Concerns and mitigating factors
At closing, the capital structure will provide 17.25% of available credit enhancement for the class A notes through subordination and a fully funded reserve fund.	Under the transaction documents, before the first optional redemption date, the originator may make further advances to borrowers, which Dutch Property Finance 2022-2 will acquire (subject to the asset conditions being met and sufficiency of principal receipts). Although unlikely, borrowers may be permitted to sell collateral within their risk groups without using the proceeds to pay down the associated loans, and the seller can also allow permitted variations to a borrower's loan. Each of these can result in the pool's credit quality deteriorating over time. Therefore, the transaction documents have conditions that limit the extent to which further advances, collateral releases, or permitted variations are allowed. In particular, the weighted-average current loan-to-value (LTV) ratio is limited to 70%, and the cumulative number of further advances permitted is 25% of the portfolio's original balance. We have factored this additional flexibility into our worst-case pool analysis.

The Credit Story (cont.)

Strengths	Concerns and mitigating factors
The application of principal proceeds is fully sequential. Credit enhancement can therefore build up over time for the rated notes, enabling the capital structure to withstand performance shocks. Additionally, after the first optional redemption date (July 2027), any available revenue remaining after crediting the class E notes' principal deficiency ledger (PDL) will be used as available principal to redeem the rated notes.	In our view, the underlying loans in the pool and lending methodology are not typical of what we generally see in the Dutch RMBS market. However, the general lending criteria remain consistent with previous Dutch Property Finance transactions we have analyzed. Lending by RNHB is done on a risk-group basis, where one or more borrowers can take on debt to acquire residential, mixed-use, or commercial properties. The risk group's entire debt is secured over all of the underlying properties associated with the risk group, and each of the associated borrowers is responsible for the debt. This feature can be complicated further because a borrower can be present in multiple risk groups, although underwriting is done on a loan-by-loan basis. From a credit perspective this feature can have both a positive and negative effect. As an example, should borrowers X and Y in risk group A default and their collateral sale proceeds be insufficient to clear the outstanding debt, then risk group B, which contains borrowers X and Z, can also be foreclosed upon to generate proceeds to clear the debt of risk group A (cross-collateralization). Under the transaction documentation, RNHB can take this action under the loan documentation's terms, but in practice this has never been used and may be subject to legal challenges from borrowers in unaffected risk groups (e.g., borrower Z in risk group B above). We do not anticipate RNHB exercising this option, and therefore we have not considered this feature in our recovery analysis.
At closing, a fully funded (2% of the initial balance of the A to E notes) nonamortizing reserve fund will provide liquidity and credit support for the transaction.	We classify the properties that form the provisional portfolio's underlying security as 46.9% residential, 16.2% mixed-use, and 36.9% commercial (calculations are according to our methodology). In addition, this exposure can increase over time due to further advances. Typically, in Dutch RMBS transactions, we do not see such high levels of non-residential properties, and we have therefore applied an adjustment, as per our global residential loans criteria, to our weighted-average foreclosure frequency (WAFF) of 1.5x for private individuals who purchased a mixed-use or commercial property, and 2.0x for commercial borrowers. We assess the portfolio on a risk-group basis, but we apply our commercial adjustment on a loan-level basis. For our weighted-average loss severity (WALS) analysis, we have applied higher market value decline (MVD) assumptions to risk groups with mixed-use and commercial properties, in line with our covered bond commercial real estate criteria. The exact levels applied are outlined in table 5 below.
Further liquidity is provided through the transaction's ability to use principal receipts to pay senior fees and interest on the most-senior class of notes outstanding.	Of the loans in the provisional pool, 51.30% have a maturity date before the end of 2026. The stated maturity date however is not what we would see for a typical mortgage loan, and in most cases the monthly installments will not result in a redemption of the loan on that date. When a maturity date approaches, RNHB may, at its discretion, offer the borrower an extension with a new rate. The borrower can either accept the revised rate and term, or refinance elsewhere and repay its loan. Alternatively, RNHB can give the borrower timely notice, before maturity, that it wishes to call the loan, and the borrower must repay. In our view, this presents a potential payment shock risk as the borrower in question will have to source alternative financing to redeem its loan at maturity. We have considered this credit risk, applying a payment shock adjustment factor to 50% of the repayment loans for the purpose of our WAFF analysis, based on historical information received from the seller. Furthermore, we also consider in our cash flow analysis the scenario in which all loans are continually "rolled over" until their natural or anticipated maturity date.
The seller is not a deposit-taking institution, which means that the transaction is not exposed to deposit set-off risk.	There is an interest rate mismatch between the interest rate received under the mortgages loans and three-month EURIBOR paid under the notes. However, this is hedged by a swap in place in the transaction, and we considered this in our cash flow analysis.

The Credit Story (cont.)

Strengths	Concerns and mitigating factors
According to our calculations, the 65.8% weighted-average original LTV ratio for this transaction is lower than the average for a typical Dutch RMBS transaction, and similar to the average observed in previously rated Dutch Property Finance transactions.	We expect Dutch inflation to reach 5.0% in 2022. The transaction is a BTL transaction and although underlying tenants may be affected by inflationary pressures, the borrowers in the pool are generally considered to be professional landlords and will benefit from diversification of properties and rental streams.Our credit and cash flow analysis and related assumptions consider the transaction's ability to withstand the potential repercussions of the current economic environment, including higher inflation, such as higher defaults and additional liquidity stresses. Considering these factors, we believe that the available credit enhancement is commensurate with the preliminary ratings assigned. As the situation evolves, we will update our assumptions and estimates accordingly.
The transaction includes a collection foundation holding the collection accounts. In the event of bankruptcy of the seller, any collections in these accounts would not form part of the insolvency estate of the seller, thereby mitigating against potential commingling loss.	

Environmental, Social And Governance (ESG) Factors

Our rating analysis considers a transaction's potential exposure to ESG credit factors. For RMBS, we view the exposure to environmental credit factors as average, social credit factors as above average, and governance credit factors as below average (see "ESG Industry Report Card: Residential Mortgage-Backed Securities," published on March 31, 2021).

In our view, the exposure to social credit factors is in line with the sector benchmark. Social credit factors are generally considered above average because housing is viewed as one of the most basic human needs, and conduct risk presents a direct social exposure for lenders and servicers, particularly given regulators are increasingly focused on ensuring fair treatment of borrowers. For RMBS, social risk is generally factored into our base-case assumptions.

In our view, the exposure to environmental credit factors is in line with the sector benchmark. Physical climate risks could severely damage properties (both residential and commercial) and reduce their value, affecting recoveries if borrowers default. We believe that well-diversified portfolios reduce exposure to extreme weather events.

In our view, the exposure to governance credit factors is relatively higher than the sector benchmark. This transaction allows for further advances to borrowers until the first optional redemption date, which could result in the risk of loosening underwriting standards or potential adverse selection. However, RNHB has strong internal control frameworks with significant relevant experience at key stages of the process, and asset conditions limit are also in place. Finally, RNHB's underwriting follows the Dutch market's special underwriting legislation and the Dutch Code of Conduct, which was created to maintain sustainability. We have also adjusted our credit assumptions to account for the risk of pool migration, taking into account the further advances limits (see "Further advances").

Collateral

Collateral description

We have received preliminary loan-level data as of March. 31, 2022, on a pool of Dutch mortgage loans secured on BTL residential, mixed-use, and commercial properties. The provisional pool of €501,503,187 comprises 1,947 loans granted to 2,131 borrowers. These are grouped into risk groups, and all borrowers within a risk group share an obligation to service the entire debt of the risk group and are included in the securitized pool (that is, there are no situations where within a risk group some borrowers are part of the securitized portfolio and some borrowers are not). This feature is in line with the collateral observed in the previous issuances under the Dutch Property Finance banner (2017-1, 2018-1, 2019-1, 2020-1, 2020-2, 2021-1, 2021-2, and 2022-1). No other portfolios that we rate in the Netherlands contain such a unique set-up. Our analytical approach differs from what we follow when rating a more typical Dutch RMBS transaction (see "Credit Analysis And Assumptions").

RNHB originated 96.5% of the loans in the pool and acquired the rest: 2.3% of the pool is part of the Trident portfolio, which RNHB acquired in June 2021 from Achmea via SAREF, while 0.8% was originated by FGH Bank, and 0.3% was originated by Dome. The Trident portfolio has very similar characteristics, including the risk group concept, to new origination assets from RNHB. The performance of RNHB and Trident's assets has remained strong and stable over recent years.

36.8% of the loans in the pool are currently securitized in Dutch Property Finance 2017-1. Given their seasoning, these assets have benefitted from recent house price increases in the Netherlands and have positively contributed to the WALS of the transaction. On the other hand, DPF 2017-1 loans are backed by a higher portion of non-residential assets than in newly originated loans and the bulk of arrears, although marginal, are from these older vintages.

Table 1

Originators

Percentage of portfolio	Dutch Property Finance 2022-2	Dutch Property Finance 2022-1	Dutch Property Finance 2021-2	Dutch Property Finance 2021-1	Dutch Property Finance 2020-2
FGH	0.8	0.4	0.9	5.1	0.7
RNHB	96.5	94.3	73.9	94.9	99.3
Trident	2.3	5.3	25.2	0.0	0.0
Dome	0.3	0.0	0.0	0.0	0.0

Table 2

Collateral Key Features*

	Dutch Property Finance 2022-2	Dutch Property Finance 2022-1	Dutch Property Finance 2021-2	Dutch Property Finance 2021-1	Dutch Property Finance 2020-2	Dutch Property Finance 2020-1	Dutch Property Finance 2019-1	Dutch Property Finance 2017-1
Pool cut-off date	March. 31, 2022	Dec. 31, 2021	June 30, 2021	Dec. 31, 2020	June 30, 2020	Sept. 30, 2019	Dec. 31, 2018	June 30, 2017
Principal balance (€)	501,503,187	475,732,938	475,523,011	525,813,219	325,575,249	300,389,221	398,569,796	850,065,784

Table 2

Collateral Key Features* (cont.)

	Dutch Property Finance 2022-2	Dutch Property Finance 2022-1	Dutch Property Finance 2021-2	Dutch Property Finance 2021-1	Dutch Property Finance 2020-2	Dutch Property Finance 2020-1	Dutch Property Finance 2019-1	Dutch Property Finance 2017-1
Number of loans	1,947	1,392	1,403	1,898	966	935	1,791	4,766
Number of borrowers	2,131	1,659	1,752	1,951	1,265	1,315	1,550	5,312
Average loan balance (€)	257,577	341,762	338,933	277,035	337,034	321,272	222,540	178,924
Largest loan size (€)	9,000,000	11,200,000	6,313,500	8,750,000	6,502,775	3,618,046	7,252,093	3,864,950
Weighted-average indexed current LTV ratio (%)	60.3	64.2	58.7	60.7	63.3	61.6	59.6	68.5
Weighted-average original LTV ratio (%)	65.8	67.1	66.6	63.6	66.3	76.3	72.6	56.8
Weighted-average effective LTV ratio (%)	63.7	66.5	65.0	63.0	65.7	72.3	N/A	N/A
Weighted-average asset life remaining until the next reset date (months)	55.2	59	48	50	48	41	35	54
Weighted-average interest rate on the mortgage loans (%)	3.38	3.28	3.35	3.48	3.67	3.71	3.69	3.50
Weighted-average seasoning (months)	48	7	38	13	7	49	57	91
Interest only (%)	35.2	28.5	15.0	14.9	9.8	12.0	20.2	21.4
Buy-to-let (%)	93.9	98.9	99.8	97.7	98.1	98.6	92.6	80.1
Construction loans (%)	8.7	15.8	12.4	14.6	16.6	10.6	19.0	4.5
Jumbo valuations (%)	65.2	43.7	52.1	54.8	49.2	26.9	42.0	39.0
Current arrears > one month / >1MIA (%)	0.3	0.0	0.8	0.7	0.2	1.2	2.8	3.3

*Calculations are according to S&P Global Ratings' methodology. LTV--Loan-to-value. N/A--Not applicable.

The underlying collateral in the provisional pool comprises residential, mixed-use, and commercial properties (see table 3).

We consider that loans used to finance mixed-use and commercial properties are more likely to default than loans granted to finance residential properties. Therefore, under our global residential loans criteria, we apply higher default probabilities to risk groups whose collateral contains mixed-use or commercial properties. In the provisional pool, 35.3% of the portfolio by current property value (53.1% based on our methodology) comprises commercial/mixed-use properties.

Table 3

Collateral Type*

Percentage of portfolio	Dutch Property Finance 2022-2	Dutch Property Finance 2022-1	Dutch Property Finance 2021-2	Dutch Property Finance 2021-1	Dutch Property Finance 2020-2	Dutch Property Finance 2020-1	Dutch Property Finance 2019-1	Dutch Property Finance 2017-1
Residential	46.9	57.3	54.1	64.3	62.2	35.8	42.8	51.3
Mixed-use	16.2	11.7	12.6	11.3	9.2	11.5	18.4	24.1
Commercial	36.9	31.1	33.3	24.4	28.5	52.8	38.8	24.6

*Calculations are according to S&P Global Ratings' methodology. 17.6% are commercial and 17.7% are mixed-use assets according to RNHB's classification.

From a foreclosure frequency perspective, as part of our analysis, we assume a loan is commercial if it has been granted for multiple properties, one of which is commercial. In the same way, if a loan is backing several properties, and at least one is a mixed-use property, then we have considered the entire loan to be mixed-use. Our classification of whether a property is residential, mixed-use, or commercial is shown in table 4.

Table 4

S&P Global Ratings' Collateral Classification

	Residential	Mixed-use	Commercial
Apartment	x		
Café/restaurant			x
Distribution center			x
Garage			x
Hotel			x
House with café/restaurant		x	
House with office		x	
Industrial building			x
Land			x
Land (agricultural)			x
Land (houses planned)			x
Land (industrial planned)			x
Multi-tenant building			x
Office building			x
Office part			x
Office villa		x	
Other			x
Parking			x
Recreation			x

Table 4

S&P Global Ratings' Collateral Classification (cont.)

	Residential	Mixed-use	Commercial
Residential boat			x
Residential complex*	x		x
Residential farm		x	
Residential house	x		
Shop (strip)			x
Shop (large scale)			x
Shop (unit)			x
Shop/house (combination)		x	
Shopping center			x

*If the valuation for a residential complex exceeds €500,000 then the property is assumed to be commercial.

Similarly, we consider recoveries on mixed-use and commercial properties to differ from those observed for residential properties. In our analysis, applying our global residential loans criteria was inappropriate, so we have instead applied MVDs from our covered bond commercial real estate criteria (see table 5).

Table 5

Market Value Decline Assumptions For Mixed-Use And Commercial Properties

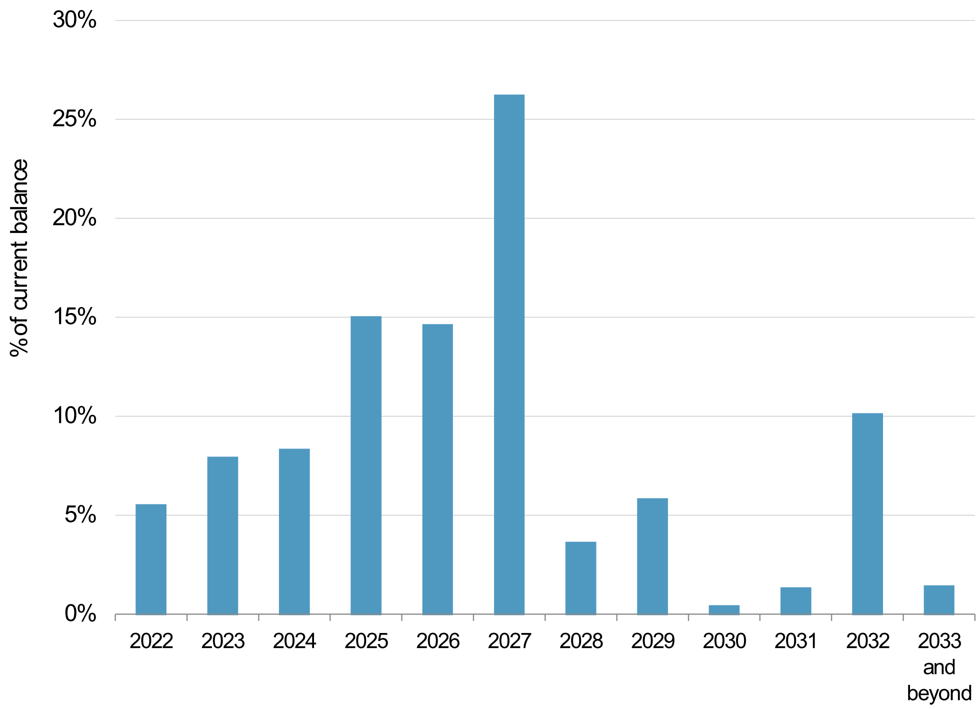
	MVD (%)
AAA	75
AA	65
A	55
BBB	45

Note: As part of our ratings to principles approach, we have assumed an MVD of 40% at 'BB' and 35% at 'B'.

Of the loans in the portfolio, 51.3% have a maturity date prior to the end of 2026 (see chart 1 for a breakdown of the upcoming maturity and reset dates).

Chart 1

Maturity Dates

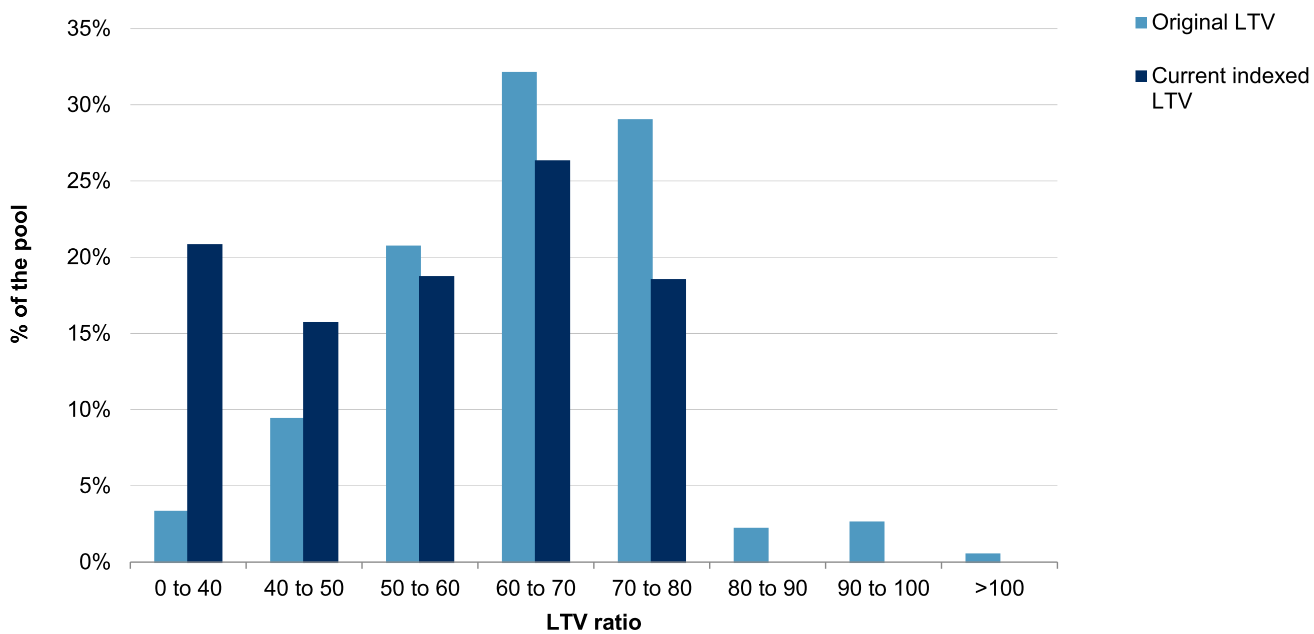


The stated maturity date however is not what we would see for a typical mortgage loan, and in most cases the monthly installment will not result in a redemption of the loan on that date. When a maturity date approaches, RNHB may, at its discretion, offer the borrower an extension with a new rate. The borrower can either accept the revised rate and term, or refinance elsewhere and repay their loan. Alternatively, RNHB can give the borrower timely notice, prior to maturity, that they wish to call the loan on the stated maturity date, and the borrower must repay. In our view, this presents a potential payment shock risk as the borrowers in question will have to source alternative financing to redeem their loan at the stated maturity date. We have considered this credit risk in our analysis.

The 65.8% weighted-average original LTV ratio for this transaction is lower than in typical Dutch RMBS transactions. We calculated the original LTV ratio by applying our global residential loans criteria. We consider that borrowers or risk groups with greater equity in their property are likely to have more refinancing opportunities, and are less likely to default on their obligations, than borrowers or risk groups with loans that have higher original LTV ratios.

Chart 2

Loan-To-Value Ratio Distribution*
By risk group



*According to our calculations. LTV--Loan-to-value.

The proportion of the portfolio with jumbo valuations is 65.2%, which is higher than the typical level in Dutch RMBS transactions but given the nature of the assets in the portfolio this is expected. This percentage is also in line with previous Dutch Property Finance transactions (see table 2 above). Our global residential loans criteria classify a loan as a jumbo valuation if the valuation exceeds €500,000. Due to the illiquid nature of larger-valued properties, these loans will suffer an additional market value decline, in our view. However, we do not apply the jumbo valuation adjustment to loans classified as commercial or mixed-use because the higher MVD assumptions under our covered bond commercial real estate criteria already cover jumbo stresses.

Of the pool, 59.2% of the loans were issued in 2021 and 2022. In line with previous Dutch Property Finance transactions, we have not given credit to seasoning in our analysis as part of our ratings to principles analysis.

The average outstanding loan balance is €257,574 and the largest balance is €9,000,000. This exposure is unusual in a typical Dutch RMBS transaction, but the presence of commercial and residential complexes in this pool explains an individual loan exposure of this size. Additionally, the average balance in this portfolio is slightly higher than in the previous issuances (see table 2).

We have also received detailed historical performance data for each of the sub-pools (residential, mixed-use, and commercial) in the portfolio. Delinquencies, payment rates, and losses are performing in line with the Dutch BTL product. The quality of data provided is in line with our standards.

We received an audit report from a third-party due diligence provider. The scope and results are in line with what we typically see in the Dutch market. We observed a small number of errors, albeit smaller than in previous Dutch Property Finance transactions. We have accounted for this through a pool-level adjustment.

Further advances

Before the first optional redemption date, the originator may make further advances to borrowers of the same risk group, which Dutch Property Finance 2022-2 will acquire (subject to the asset conditions being met and sufficiency of principal receipts). In addition, borrowers within a risk group may sell collateral without using the proceeds to pay down the associated loans, and the originator can also allow permitted variations to borrowers' loans.

The transaction documents limit further advances that can be purchased by the issuer to cumulatively no more than 25% of the initial pool balance. These changes to the underlying collateral can result in the pool's credit quality deteriorating over time, and therefore the transaction documents have conditions that limit the extent to which further advances, collateral releases, or permitted variations are allowed. The limitations include restrictions on the balance of construction loans permitted, the exposure to commercial loans, the maximum LTV on the pool, and the balance of interest-only loans permitted. We have factored these conditions and the ability of the portfolio composition to migrate to a stressed pool in our worst-case pool analysis.

Originators

Table 6

Dutch Property Finance 2022-2 Originator Overview

Originator	RNHB	Trident	FGH	Dome
% of provisional portfolio	96.5	2.3	0.8	0.3
Origination history	In December 2016, funds managed by CarVal and Arrow acquired the RNHB mortgage loan portfolio and RNHB mortgage lending business, together with its associated mortgage servicing operations, from FGH Bank. RNHB began originating new business in 2017.	RNHB acquired a portfolio of assets from Achmea via SAREF in June 2021.	RNHB acquired a portfolio of assets from FGH Bank in June 2018, but the FGH loans in DPF 2022-2 were originated before 2016.	Portfolio of mortgage loans acquired from SNS Bank N.V. (currently known as de Volksbank N.V) in October 2017.

Our most recent on-site visit with RNHB was in June 2018, and we have held detailed follow-up calls in subsequent years to understand their business developments. Our most recent call was in February 2022.

We believe that RNHB's underwriting, origination, and risk management policies and procedures are in line with market standards. In our view, they are adequate to support the preliminary ratings assigned to the notes and to account for the increased lending volumes observed over the last years.

Servicer

Consistent with the previous Dutch Property Finance transactions, Vesting Finance Servicing B.V. will manage the portfolio's daily administration and servicing, including collecting payments and undertaking enforcement actions, in accordance with its internal policy and RNHB's guidance.

We are comfortable with both the performance of Vesting Finance Servicing and its internal process in servicing the assets in Dutch Property Finance transactions.

Credit Analysis And Assumptions

WAFF and WALS

We have applied our global residential loans criteria to the provisional pool to derive the WAFF.

For the WALS analysis we have used our ratings to principles criteria and our covered bond commercial real estate criteria to apply higher MVDs to mixed-use and commercial properties (see table 7). As part of this ratings to principles approach, we have also considered a largest obligor analysis to test the structure to withstand the default of the largest risk groups.

The WAFF and the WALS assumptions increase at each rating level because notes with a higher rating should be able to withstand a higher level of mortgage defaults and loss severity. We base our credit analysis on the loans, the properties, and the associated borrowers' characteristics.

Table 7

Portfolio WAFF And WALS

Rating level	WAFF (%)	WALS (%)	Credit coverage (%)
AAA	38.78	37.10	14.39
AA	26.36	30.37	8.01
A	19.79	20.18	3.99
BBB	13.94	12.96	1.81
BB	7.37	9.49	0.70
B	5.90	6.89	0.41

WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Macroeconomic and sector outlook

S&P Global Ratings acknowledges a high degree of uncertainty about the extent, outcome, and consequences of the military conflict between Russia and Ukraine. Irrespective of the duration of military hostilities, sanctions and related political risks are likely to remain in place for some time. The potential effects could include dislocated commodities markets (notably for oil and gas) supply chain disruptions, inflationary pressures, weaker growth, and capital market volatility. As the situation evolves, we will update our assumptions and estimates accordingly (see "Global Macro Update: Growth Forecasts Lowered On Longer Russia-Ukraine Conflict And Rising Inflation," published on May 17, 2022).

We expect Dutch inflation to reach 5.0% in 2022. Although elevated inflation is overall credit negative for all borrowers, inevitably some borrowers will be more negatively affected than others and to the extent inflationary pressures materialize more quickly or more severely than currently expected, risks may emerge.

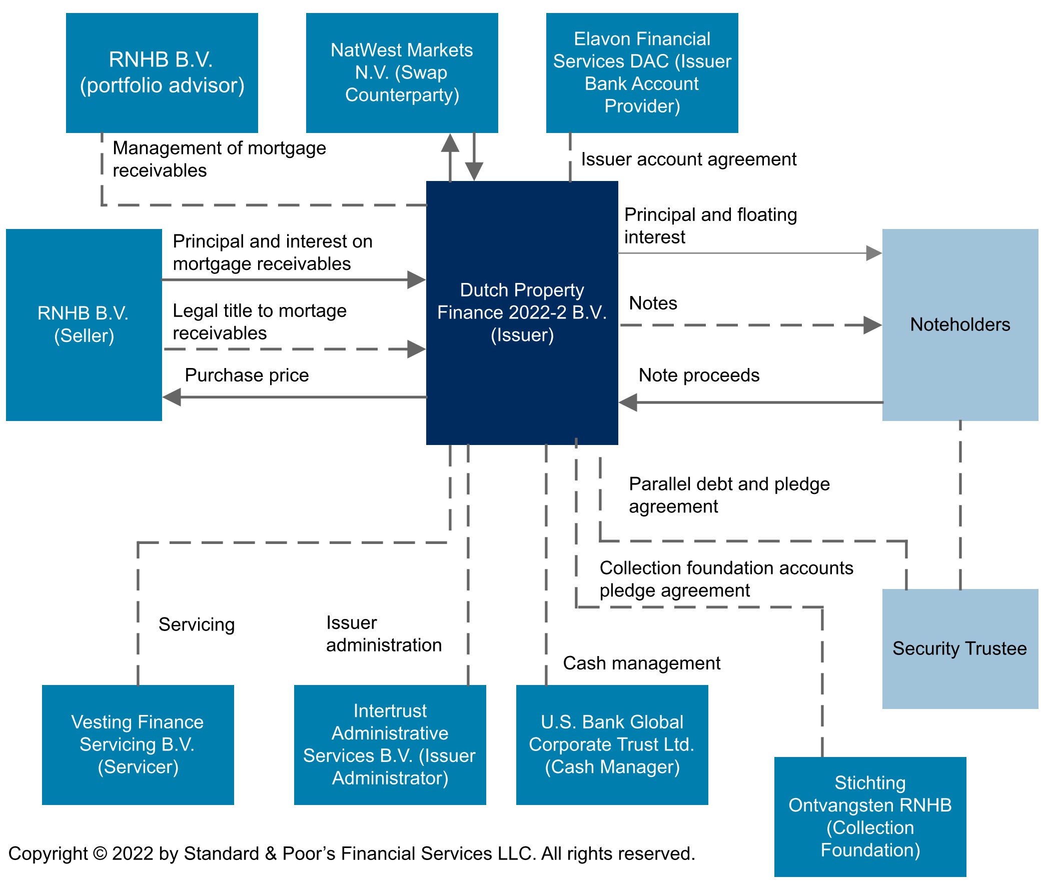
Table 8

Dutch Housing Market Statistics

	2021	2022	2023f	2024f
House price growth, y/y (%)	6.5	8.7	12.0	7.8
GDP growth, y/y (%)	5.0	3.2	2.1	2.0
Unemployment rate (%)	4.2	3.7	3.6	3.4

Source: S&P Global Ratings. Y/Y--Year on year. e--Estimate. f--Forecast.

Transaction Structure



Deferral of interest

Our preliminary rating on the class A notes addresses the timely payment of interest and the ultimate payment of principal. On all other classes of notes our preliminary ratings address the ultimate payment of interest and principal.

Under the transaction documents, interest payments on the class B-Dfrd to D-Dfrd notes can be deferred until that class of notes becomes the most senior outstanding. Any deferred interest payments will accrue interest at the applicable note coupon. Once a note becomes the most senior outstanding, previously deferred interest is not due and payable immediately; only interest due in that period is due immediately.

Any deferral of interest on the most-senior notes outstanding would constitute an event of default.

Our analysis considers that, at the preliminary rating assigned, senior fees are paid on a timely basis and that once a note becomes the most senior, there are no further deferrals of interest.

Reserve fund

At closing, the issuer will fund the rated notes' reserve fund to 2.0% of the class A to E notes' balance. The reserve is non-amortizing and can be used as available revenue. It can be applied as far down as the class D-Dfrd notes' PDL in the revenue priority of payments.

Liquidity

In high-delinquency scenarios, there may be liquidity stresses, whereby the issuer would not have sufficient revenue receipts to pay senior fees or interest due on the most-senior class of notes. To mitigate this risk the issuer can use any existing principal receipts to pay senior fees and interest on the most-senior class of notes. The use of principal to pay interest would result in the registering of a PDL and may reduce the credit enhancement available to the notes. Principal will only be used once the reserve fund has been exhausted.

Excess spread

On each interest payment date (IPD) from July 2027 onward, any available revenue remaining after the class E PDL has been cleared will be applied as available principal in the principal priority of payments.

PDLs

The PDL will comprise five subledgers, one for each of the class A to E.

Amounts will be recorded on the PDL if the portfolio suffers any losses and if the transaction uses principal as available revenue receipts or to fund the reserve fund.

Priority of payments

Table 9

Priority Of Payments

Revenue priority of payments	Principal priority of payments
Senior fees	Principal applied as available revenue
Swap payment except for the subordinated swap termination payment	Class A notes' principal
Class A notes' interest	Class B-Dfrd notes' principal

Table 9

Priority Of Payments (cont.)

Revenue priority of payments	Principal priority of payments
Class A notes' PDL	Class C-Dfrd notes' principal
Class B-Dfrd notes' interest	Class D-Dfrd notes' principal
Class B-Dfrd notes' PDL	Class E notes' principal
Class C-Dfrd notes' interest	Additional amounts to be applied as available revenue receipts
Class C-Dfrd notes' PDL	
Class D-Dfrd notes' interest	
Class D-Dfrd notes' PDL	
Top up reserve fund	
Class E notes' PDL	
On each IPD after July 2027, as long as the rated notes have not been fully redeemed, payments will be applied as available principal	
Class X notes' interest	
Class X notes' principal	
Class E notes' interest	
Class F notes' interest	
Class F notes' principal	
Subordinated swap termination payments	
Class R notes' principal	
Class R residual payments	

PDL--Principal deficiency ledger. IPD--Interest payment date.

Hedging

All the loans in the provisional pool pay a fixed rate, whereas the rated notes pay interest based on three-month EURIBOR.

To hedge the interest rate mismatch between the assets and the liabilities, the issuer will enter into a balance guaranteed swap agreement with NatWest Markets N.V. Under the swap, the issuer will pay to the swap provider the swap rate portion of each underlying loan and will receive back three-month EURIBOR. The notional is defined as the outstanding balance of the loans in the pool that are less than 180 days in arrears.

As mentioned previously, the issuer retains the margin element of the fixed rate, which is added to the three-month EURIBOR received from the swap counterparty. The swap works on a loan-by-loan basis, and when a loan is periodically reset (on the stated maturity date), the seller will calculate, using a swap rate acceptable to the swap counterparty, a revised rate for the loan in question. A condition of any resetting loans or further advances made is that they are covered under the hedging agreement. To reflect the swap mechanism in our cash flow analysis, we have assumed that all the loans in the pool will be reset to three-month EURIBOR plus a margin of 2.25%, which is guaranteed under the relevant transaction documents.

Cash Flow Assumptions And Analysis

We stress the transaction's cash flows at all rating levels to test the credit and liquidity support that the assets, subordinated tranches, and reserve fund provide.

Spread compression

The asset yield on the provisional pool can decrease if higher-paying assets default or prepay. We have taken this into account in our cash flow analysis, but only until the loans reach their reset date.

Commingling risk

In 2019, we issued rating agency confirmation for the previously rated Dutch Property Finance transactions following the establishment of a collection foundation (that holds the collection accounts) in those transactions to mitigate against potential commingling risk.

Borrowers will pay directly into a common collection account, held by the collection foundation, which is used for all Dutch Property Finance transactions. Collections will then be swept within a day into the transaction account and will be held in the issuer's name.

As the collection foundation is set up as an orphan entity, which we believe to include characteristics supportive of the concept of bankruptcy remoteness as per our legal criteria, and the fact that the issuer is the beneficiary of the amounts standing to the credit of the collection foundation accounts, we consider the risk of commingling loss to be mitigated, although we have applied a one-month liquidity stress to account for potential delays to recover such amounts.

The collection account is held with Rabobank, and it has downgrade language in line with our counterparty criteria.

Fees

The issuer must pay periodic fees to various parties providing services to the transaction such as servicers, trustees, and cash managers, among others. We have accounted for these in our analysis. In particular, and in line with our residential loans criteria, we have applied a stressed servicing fee of 0.40% to account for the potential increase in costs to attract a replacement servicer.

Setoff risk

As the originator is not a deposit-taking institution, and there are no employee loans in the provisional pool, we have not applied a stress to account for potential set-off risk in our analysis.

Default timing and recoveries

We have used the WAFF and WALS derived under our credit analysis as inputs in our cash flow analysis.

At each rating level, the WAFF specifies the total balance of the mortgage loans we assume to default over the transaction's life. Defaults are applied on the outstanding balance of the assets as of the closing date. We simulate defaults following two paths (i.e., front-loaded and back-loaded) over a three-year recession (see table 10).

Table 10

Default Timings For Front-Loaded And Back-Loaded Default Curves

Recession periods (year)	Front-loaded defaults (percentage of WAFF per month) (%)	Back-loaded defaults (percentage of WAFF per month) (%)
1	25.0	5.0
2	25.0	10.0
3	25.0	10.0
4	10.0	25.0
5	10.0	25.0
6	5.0	25.0

WAFF--Weighted-average foreclosure frequency.

We assume recoveries on defaulted assets to be received 24 months after default. Foreclosure costs are estimated at 3% of the repossession value and €5,000, for residential properties.

Our loss severities are based on loan principal and do not give any credit to the recovery of interest accrued on the loan during the foreclosure process.

Delinquencies

To simulate the effect of delinquencies on liquidity, we model a proportion of scheduled collections equal to one-third of the WAFF (in addition to assumed foreclosures reflected in the WAFF) to be delayed. We apply this in each of the first 18 months of the recession, and we assume a full recovery of these delinquencies to occur 36 months after they arise.

Prepayments

To assess the impact on excess spread and the absolute level of defaults in a transaction we model two prepayment scenarios: high and low (see table 11).

Table 11

Prepayment Assumptions

	High	Low
Pre-recession	24.0	1.0
During recession	1.0	1.0
Post-recession	24.0	1.0

Interest rates

We modeled two interest rate scenarios in our analysis: up and down.

Summary

In combination, the default timings, recession timings, interest rates, and prepayment rates described above give rise to eight different scenarios at each rating level (see table 12).

Table 12

RMBS Stress Scenarios

Total number of scenarios	Prepayment rate	Interest rate	Default timing
8	High and low	Up and down	Front-loaded and back-loaded

Sovereign Risk

Our long-term unsolicited credit rating on the Netherlands is 'AAA'. Therefore, our ratings in this transaction are not constrained by our structured finance sovereign risk criteria.

Surveillance And Scenario Analysis

We will maintain surveillance on the transaction until the notes mature or are otherwise retired. To do this, we will analyze regular servicer reports detailing the performance of the underlying collateral, monitor supporting ratings, and make regular contact with the servicer to ensure that it maintains minimum servicing standards and that any material changes in the servicer's operations are communicated and assessed.

Various factors could lead us to lower our ratings on the notes, such as increasing foreclosure rates in the underlying pool and changes in the pool composition. We have analyzed the effect of increased delinquencies by testing the sensitivity of the ratings to two different levels of movements, multiplying the pool WAFF by 1.1x and 1.3x. We have also simulated a decrease in property valuations with a subsequent increase in the pool WALS.

For this purpose, we ran four scenarios by either increasing stressed defaults and/or reducing expected recoveries as shown in the tables below.

Table 13

Sensitivity Scenarios

Class	Assigned ratings	WAFF 1.1x andWALS 1.0x	WAFF 1.3x andWALS 1.0x	WAFF 1.3x andWALS 1.3x	Maximum deterioration (notches)
A	AAA	AA+	AA+	AA+	1
B-Dfrd	AA	AA	AA-	AA-	1
C-Dfrd	A+	A	A	A	1
D-Dfrd	BBB	BBB-	BBB-	BB+	2

Appendix

Transaction participants

The main transaction parties are listed below.

Transaction Participants

Originators	RNHB B.V., FGH Bank N.V., Vesting Finance Servicing B.V., de Volksbank N.V., and Stichting PVF Zakelijke Hypothekenfonds
Arrangers/joint lead managers	HSBC Continental Europe, Barclays Bank Ireland PLC, BNP Paribas S.A., and Natixis S.A.
Seller	RNHB B.V.
Servicer	Vesting Finance Servicing B.V.
Issuer administrator	Intertrust Administrative Services B.V.
Replacement servicer facilitator	Intertrust Administrative Services B.V.
Cash manager	U.S. Bank Global Corporate Trust Ltd.
Paying agent	Elavon Financial Services DAC
Security trustee	Stichting Trustee Dutch Property Finance 2022-2
Bank account provider	Elavon Financial Services DAC
Swap counterparty	NatWest Markets N.V.
Collection foundation account bank	Cooperatieve Rabobank U.A. (Rabobank)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | Covered Bonds: Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013

- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- EMEA Structured Finance Chart Book: August 2022, Aug. 5, 2022
- European RMBS Index Report Q2 2022, Aug. 2, 2022
- Economic Outlook Eurozone Q3 2022: Inflation Dulls The Post-COVID Bounce, June 27, 2022
- Economic Research: Moving The Russia-Ukraine Scenario Needle: European Output At Risk, March 16, 2022
- Clearer Skies Ahead For European Structured Finance In 2022, Jan. 27, 2022
- How We Analyze Small Ticket Commercial Real Estate Assets In European Structured Finance, Jan. 19, 2022
- ESG Industry Report Card: Residential Mortgage-Backed Securities, March 31, 2021
- ESG Industry Report Card: Residential Mortgage-Backed Securities, March 31, 2021
- Residential Mortgage Market Outlooks Updated For 13 European Jurisdictions Following Revised Economic Forecasts, May 1, 2020
- 2017 EMEA RMBS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016