


NHG: STRENGTHENING THE DUTCH MORTGAGE MARKET



This factsheet gives you the main highlights of NHG and a quick reference to interesting facts for regulators or policy makers.

INTRODUCTION

The National Mortgage Guarantee scheme (NHG in Dutch) contributes to the unique strength of the mortgage market in the Netherlands. The Dutch housing market has many specific characteristics thanks to full right of recourse and good social security provisions (relating to pensions, unemployment benefits and incapacity for work). What makes this market even more unique is that the Homeownership Guarantee Fund (WEW in Dutch) offers extra certainty through its NHG-scheme. For house buyers, mortgage lenders and for investors.

WHAT YOU NEED TO KNOW

- The NHG's function as a credit risk mitigant (or CRM) is currently still recognized in the key regulatory frameworks.

CRM status NHG	Basel III	Solvency II
Internal model	✓	✓
Standard	✓	Lifted in 2016

- It is included in the risk weighting of mortgages on the balance sheet of mortgage lenders. For banks, under the EU Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD-IV), NHG is considered to be a CRM both in the standardized approach and in banks' internal models. For insurers, NHG used to be recognized as a CRM in both the standardized approach and in the insurers' internal models, but in Solvency II CRM status for standard models was recently lifted.
- If the NHG's status as a CRM is further pared down, this could limit mortgage lenders' capacity to finance residential properties for consumers.
- Moreover, that would not fully reflect the unique character of the mortgage market in the Netherlands. This uniqueness lies in the fact that the NHG-scheme has a mitigating effect on credit risk for lenders. Dutch mortgages form a solid investment and a credible alternative to government bonds. NHG lowers the risk of expected loss even further by more than 50% compared to other mortgages.¹
- NHG provides extensive cover; the surety is not limited to the residual debt. It also includes interest arrears (including penalties) and costs necessitated by the sale. What remains for lenders is a fixed own risk margin of 10%, which is applicable on mortgages that fall under the new tax regime (from 2014).
- So if more stringent international regulation forces lenders to

¹ Source: Moody's, presentation "Assessing The Credit Risk of Dutch Mortgages", October 2016

scale back their lending in the Dutch mortgage market, the arteries of the Dutch housing market will become blocked. This represents a risk to the health of the mortgage market in the Netherlands.

- This is a risk that doesn't need to be taken since NHG really does function as a CRM. Why else would the Dutch government unconditionally stand surety for all guarantee commitments made by WEW – which minimizes the counterparty risk of WEW being unable to meet its financial obligations?
- Which is why WEW has been rated **triple A** (Fitch) and **Aaa** (Moody's).

AND IN PRACTICE: THE IMPACT OF NHG

The impact of NHG on the housing market and the economy allows for a correlated risk to be insured that could not be insured by commercial insurance companies. In this way, the WEW contributes to stability and liquidity within the mortgage market.

The NHG is also an instrument to develop standards that facilitate the further development of the mortgage market. The NHG was present at the birth of the "lending standards", which

established a standard for safe and prudent borrowing (NibuD). The WEW also introduced a standard for the special management of NHG mortgages, that can also be used across the rest of the market. This is the reason the state guarantees the NHG.

During the financial crisis the Dutch government raised the threshold value² of NHG to support the housing market. This meant that during these challenging times more people were able to take out a safe NHG-backed mortgage and could still buy their own home. This crisis measure is an example of how WEW contributed to a healthy housing market. And throughout the crisis years the fund maintained a robust position. Dutch mortgages in general exhibit strong performance with low arrears, and this holds even more true for mortgages with NHG. Even in one of the deepest financial crises seen in decades arrears were no higher than 1%³ and the WEW did not have to call on the Dutch government for back up.

In summary, NHG contributes to the stability and liquidity of the mortgage system in the Netherlands.

² Prior to this the NHG threshold value was linked to the average purchase price of homes in the Netherlands.

³ Source: Moody's, presentation "Assessing The Credit Risk of Dutch Mortgages", October 2016

ABOUT NHG AND THE HOMEOWNERSHIP GUARANTEE FUND (WEW) HELPING HOMEOWNERS, SUPPORTING THE HOUSING MARKET.

- **AUTONOMOUS, NOT-FOR-PROFIT, PRIVATE ORGANIZATION.**
- **IMPROVES HOMEOWNERS' ACCESS TO DUTCH HOUSING MARKET**
- **+/- €190 BILLION IN MORTGAGE LOANS**
- **+/- 1.3 MILLION ACTIVE GUARANTEES**



NATIONALE HYPOTHEEK GARANTIE