

The Netherlands

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Macroeconomic overview

In 2009, the financial crisis affected the real Dutch economy severely. GDP declined by 4.0% resulting in the worst performance since the end of World War II. This decline is comparable to the EU27 figure for 2009 (-4.2%). After the two golden years of 2006 and 2007, when GDP increased by around 3.5% annually, the current crisis is a disillusionment. The dramatic decline of GDP has not (yet) affected the unemployment figure severely. Although the unemployment rate has risen in the past year, on average in 2009 it still was one of the lowest in the EU: 3.4%. Partly, the low unemployment rate may be attributed to the measures undertaken by the government during the crisis, such as the introduction of part-time unemployment benefits, a temporary measure that runs until January the 1st, 2011. This regulation implies that companies which qualify for this scheme let their employees work less and pay less, while the government provides additional income. Such measures may not be extended as the government desperately seeks budget cuts, because crisis measures and bank rescues have already cost many billions. General unemployment is expected to increase in the near future.

Housing and mortgage markets

The share of home ownership in the Netherlands in 2009 is well below the EU average (57.2% according to latest available data from 2008). Nevertheless, home ownership ratio has continued to increase in the past decades from around 40% in 1980 to 57% in 2008. Especially after the end of the large-scale subsidies' regime to the social rental sector and stricter distribution of social rental dwellings, many households turned to the owner occupied sector. Part of this demand for owner occupation was also stimulated by increased prosperity of the middle classes while the government stimulated the introduction of mortgage guarantees. Furthermore, the full mortgage interest tax relief (MITR) on owner occupied homes has been entirely maintained although some measures were introduced in 2001 in order to curb the use of MITR on second homes and equity release for consumptive purposes.

The rental sector is dominated by the housing associations. Although the market share of the housing associations has steadily declined, it is still the largest in Europe accounting for about 32% of the total dwelling stock in 2008 and 2009. The private rental sector has a relatively small market share in the same two years at about 10% of the total dwelling stock. Institutional investors, like pension funds and insurance companies, own about half of the private rental sector. Small companies and/or private persons own the second half.

While in many countries house prices surged well above 10% annually in the 2000s, Dutch house prices increased at a much lower rate. Part of the reason is that Dutch house prices already experienced a hike in the 1990s, fuelled by a decline of mortgage interest rates. After a small increase in 2008, the average house price declined in 2009 by 6.5%. The decline was not as dramatic as in some other countries because of persistent pressures on the housing market: demand has always outperformed supply in the past decades. The government-backed Mortgage Guarantee for house purchases up to EUR 265,000 also played an important role. First-time buying households can still get a 100% Loan-to-Value (LTV) ratio and the data by the Kadaster (National Land Registry) show that young first-time buyers are still quite active on the housing market⁴³. Furthermore, a special temporary crisis measure was introduced which raised the Mortgage Guarantee threshold to EUR 350,000 until January the 1st, 2011 in order to stimulate house

purchases by existing home owners⁴⁴. However, housing market activity in the existing dwellings' segment has declined substantially: from around 200,000 transactions in 'normal' years to 127,500 in 2009. The housing market crisis in 2009 is also clearly noticeable in the volume of new mortgage lending in 2009.

The majority of new dwellings are built in the owner occupied sector (which account, on average, for about 75% of the annual total new residential construction). Self-promoted building has a very small market share. The Dutch residential construction sector limits its risk by starting its construction sites after 70% of the whole project has been sold. After the fall of the Lehman Brothers in Q3 2008, sales of new dwellings declined, but many of the previously sold dwellings were still under construction, which guaranteed the construction companies enough work for the coming year. This is why the actual number of completed dwellings in 2009 remained substantially stable. However, as the sales of new dwellings remained low, eventually the construction industry will be confronted with a smaller workload. In 2009, the government introduced schemes worth about half a billion EUR aiming at reviving a number of high-potential housing developments.

A last theme that relates directly to the crisis is the concern for households that run into financial troubles and into mortgage arrears. However, long-term unemployment is still relatively low while mortgage interest rates have not risen because of the ECB expansionary monetary policy: representative mortgage interest rates on new loans were at 5.27% at the end of 2008 versus 5.37% at the end of 2009⁴⁵. Moreover, the Mortgage Guarantee includes a payment protection scheme against the loss of income for a maximum of three years, by which the Mortgage Guarantee Institute (WEW) pays the mortgage installments. The mortgagee has to repay the WEW however. So far, the WEW reports that only a couple of households have used the payment protection scheme as arising financial problems were usually fugitive⁴⁶. In case the problems are severe, payment protection is unfit and repossession is unavoidable. The number of house auctions has increased in 2009, but the total number sold this way is 'only' 2,256 units⁴⁷. A decisive factor behind the low number of repossessions is the Dutch social security system, which provides income replacement rates up to 70% during the first years of unemployment: if households avoid long-term unemployment they are relatively safe. This is reinforced by the fact that about 75% of mortgagees have long-term fixed rate contracts that 'insure' them against upward interest rate shocks⁴⁸. Dutch mortgage lenders, who hold more than 85% of the domestic mortgage market⁴⁹, have never provided subprime loans. This behaviour was supported by a code of conduct, signed by the financial institutions, which discouraged overindebtedness⁵⁰.

While the owner occupied sector is relatively small, the value of outstanding residential mortgage loans rose to around 106% of GDP in 2009. Three factors contribute to this (apparently) excessive borrowing by Dutch owner-occupiers. First, the housing market is still tight so households are willing to take out the maximum loan in order to 'compete' on the housing market. Secondly, because of the MITR households can take out much higher loans than they could without this scheme. Thirdly, high LTV ratios are still possible because of the government-backed Mortgage Guarantee. Furthermore, MITR stimulates people not to repay their mortgage annually, but as a lump sum at the end of the duration. For this purpose, a repayment vehicle is connected to the mortgage contract, typically in the form of a life insurance product. The Central Bank statistics do not distinguish between mortgage repayment vehicles and normal life insurances, but a substantial share of this EUR 243 billion value – i.e. the value of life insurances – should logically be related to mortgage repayment vehicles.

⁴³ See Kadaster (Land registry and mortgage contract registry), based on monthly data (in Dutch: *Vastgoedbericht*).

⁴⁴ WEW (Mortgage Guarantee Institute) Press release, 1 July 2009.

⁴⁵ See DNB (Dutch National Bank), on its statistics section: table 1.2.2 on interest rates and loan volumes by duration.

⁴⁶ See WEW (2009) Annual report Mortgage Guarantee 2009 (Jaarverslag Nationale Hypotheek Garantie 2009)

⁴⁷ Kadaster, Real Estate Report, July 2010.

⁴⁸ See DNB, *cit.*

⁴⁹ See ECB (2009) Housing Finance in the Euro Area. Occasional paper series 101, march 2009. ECB, Frankfurt am Main.

⁵⁰ See Contactorgaan Hypotheek Financiers, "Code of Conduct on Mortgage Credit", available at www.nvb.nl

Funding

The securitisation of mortgages via Special Purpose Vehicles (SPV) played an increasing role in the Dutch financial sector. Figures from the Dutch National Bank show a rapid increase from the total outstanding amount of EUR 1 billion in 1996 to EUR 191 billion in 2009⁵¹. Securitisation in 2009 accounted for 32% of all outstanding mortgages. The other outstanding mortgages are granted by MFIs (62%) and insurers/pension funds (6%)⁵² (8). A great part of the mortgage debt has been securitised in the past years. It appears that MFIs are less prone to keep mortgages out of their balance sheets: from 2002 to 2009 the value of outstanding mortgages held by MFIs increased from EUR 276 billion to EUR 376 billion while in the same period the value held by the insurers decreased from EUR 44 billion to EUR 25 billion⁵³. There is no reason to presume that the insurers have withdrawn from the healthy Dutch mortgage market in this timeframe, so logically they have been more active in a process of securitising mortgage debt. MFIs such as the Rabo Bank and ING Bank prevail in the Dutch mortgage market and appear to rely more on saving deposits than on securitisation for funding their mortgage loans.

	EU27, 2009	Netherlands, 2009	Netherlands, 2008
GDP growth (%)	-4.2	-4.0	2.0
Unemployment rate (%)	8.9	3.4	2.8
Inflation (%)	1.0	1.0	2.2
% owner occupied	68.2	57.2	57.2
Residential Mortgage Loans as % GDP	51.9	105.6	98.9
Residential Mortgage Loans per capita, EUR thousand	12.37	36.53	35.94
Total value of residential loans, EUR million	6,125,727	602,192	589,532
Annual % house price growth	-6.8	-6.5	2.7
Typical mortgage rate (euro area), %	2.71	5.37	5.27
Outstanding Covered Bonds as % outstanding residential lending	23.2	4.7	3.6

Source: EMF, Eurostat, ECB, IMF, Dutch National Bank, National Statistics Bureau, Kadaster (National Land Registry)

⁵¹ See DNB on the statistics section (Table 1.11 on household debt and assets). Please note that this amount does not include synthetic securitisation against default swaps.

⁵² *Ibidem*.

⁵³ *Ibidem*.

Notes:

- Typical mortgage rate in the euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data.

Netherlands= 2008