Moody's Investors Service

Rating Action: Moody's upgrades B and C notes issued by Hermes V

Global Credit Research - 24 Jul 2009

EUR80 million of debt securities affected

Milan, July 24, 2009 -- Moody's Investors Service has upgraded the ratings of the notes issued by Holland Euro-Denominated Mortgages-Backed Series (Hermes) V B.V. (Hermes V):

- Class A Mortgage-Backed Notes 2002 due 2034, current rating Aaa affirmed, previously assigned on 29 November 2002;

- Class B Mortgage-Backed Notes 2002 due 2034, upgraded to Aa2, previously upgraded to Aa3 on 31 January 2005; and

- Class C Mortgage-Backed Notes 2002 due 2034, upgraded to A2, previously upgraded to A3 on 31 January 2005.

Despite of a less favourable macro economic environment in the Netherlands and the negative outlook published by Moody's for the Dutch RMBS sector, the combination of the portfolio's solid performance and the build-up of credit enhancement have prompted us to affirm the rating of the class A notes and to upgrade the ratings of the class B and class C notes. The reserve fund is now equal to its amortising target of EUR7.7 million, which represents 3.0% of the current note balance, amortising to a floor of 0.5% of the rated notes. In addition, a non-amortising liquidity facility of EUR11.0 million provides liquidity support to the rated notes.

As of the last reporting date on 30 June 2009, the amount of cumulative losses reached almost 0.4% of the original pool balance, with a very small increase from the previous payment date. Outstanding delinquencies 60+ days were at 1.1% of current portfolio balance during the past quarter, which is the same level as in the previous collection period. The pool factor stands at 22.5%.

As part of its analysis, Moody's has assessed updated loan-by-loan information to determine the credit support consistent with revised rating levels and the volatility of the distribution of future losses. We took into account the current amount of losses and completed a roll-rate and severity analysis for the non-defaulted portion of the portfolio. As a result, we have decreased the MILAN Aaa credit enhancement (MILAN Aaa CE) assumption to 7.5% from the 10% used at closing. Current credit enhancement in terms of mezzanine and junior classes and reserve fund under Aaa-rated Class A notes is 34.2%.

The expected loss determined for this rating review corresponds to the 0.5% of the original balance used initially. The loss expectation and the MILAN Aaa CE are the two key parameters Moody's uses to calibrate its loss distribution curve, which is one of the core inputs in the cash flow model it uses to rate RMBS transactions. Using an unchanged lifetime loss and a decreased MILAN Aaa CE means that we have decreased the standard deviation of the loss distribution, taking into account the reduced uncertainty of the transaction as a consequence of amortisation. These updated assumptions reflect the collateral performance to date as well as Moody's expectations for this transaction in the context of a weakening macroeconomic environment in the Netherlands.

We also tested the sensitivity of the ratings to various stress scenarios increasing for example the lifetime losses. By doubling lifetime losses with a more back-loaded loss timing, we tested the resilience of the revised ratings against the high remaining proportion of bullet loans in the transaction. Additional sensitivities assessed the possible impact of an increased commingling exposure and a negative change in the rating of the originator. The sensitivity analysis concluded that the upgraded ratings on the notes were not affected.

We also assessed the set-off risk on savings and current accounts as well as the life insurance policy exposure using a conservative assumption on the distribution in terms of credit quality and exposure to single counterparty of insurance companies. In addition, Moody's incorporated the risk linked to the lack of appointment of the issuer and/or the trustee as first beneficiary under the insurance policies, possibly resulting in bullet payments being made to a bankrupt originator. We assumed, amongst others, that certain payments may be lost. These cash flow shortfalls were added to the commingling risk that we modelled to account for the monthly sweep of collections to an SNS-held account (rating trigger at loss of P-1). Finally, we should note that the assignment of the mortgage loans by SNS to Hermes V has not been notified to the borrowers. Legal title will pass to the issuer only after notification triggered by SNS' rating falling below A3.

In our analysis, we have assessed potential losses affecting the junior notes related to the optional redemption date in January 2011. We have tested that, from this date onwards, there would be no excess spread provided by the swap.

This transaction is the 5th securitisation of Dutch residential mortgage loans originated by SNS Bank N.V. (SNS, rated A2/P-1/C with stable outlook) and certain subsidiaries merged into SNS in 2001. In the transaction, SNS securitised a portfolio of first and sequential ranking mortgage loans to Dutch individuals amounting to a total of EUR1.1 billion. At deal inception, the weighted average loan-to-foreclosure value was 110.0%, which has since decreased slightly to 101.6%. Almost the entire portfolio consists of bullet loans (98.3% at present), which includes investment loans (19.2% of the total pool). 51.59% of the portfolio has an life insurance policy, compulsory for the loan parts with an LTV above 75%.

The principal methodology Moody's used in rating these transactions is described in the Rating Methodology reports: "Moody's Updated MILAN methodology for Rating Dutch RMBS", published on 16 March 2009, "Cash Flow Analysis in EMEA RMBS: Testing Structural Features with the MARCO Model", published in January 2006, and "Revising Default/Loss Assumptions Over the Life of an ABS/RMBS Transaction," published in December 2008 which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating these transactions can also be found in the Credit Policy & Methodologies directory.

The ratings address the expected loss posed to investors by the legal final maturity (18 October 2034). Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

Moody's is closely monitoring the transaction. For updated monitoring information, please visit Moody's website at www.moodys.com or contact our Client Service Desk in London (+44-20-7772 5454).

Frankfurt
Marie-Jeanne Kerschkamp
Managing Director
Structured Finance Group
Moody's Deutschland GmbH
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Milan
Nikoletta Knapcsek
Vice President - Senior Analyst
Structured Finance Group
Moody's Investors Service
Telephone:+39-02-9148-1100

Moody's Investors Service