Dutch residential mortgage market

The Dutch residential mortgage debt stock is relatively sizeable, especially when compared to other European countries. Since the 1990s, the mortgage debt stock of Dutch households has grown considerably, mainly on the back of mortgage lending on the basis of two incomes in a household, the introduction of tax-efficient product structures such as mortgage loans with deferred principal repayment vehicles and interest-only mortgage loans, financial deregulation and increased competition among originators. Moreover, Loan-to-Value (LTV) ratios have been relatively high, as the Dutch tax system implicitly discouraged amortisation, due to the tax deductibility of mortgage interest payments. After a brief decline between 2012 and 2015, mortgage debt reached a new peak of EUR 880.8 billion in Q3 2024[1]. This represents a rise of EUR 31 billion compared to Q3 2023.

Tax system
The Dutch tax system plays an important role in the Dutch mortgage market, as it allows for partial deductibility of mortgage interest payments from taxable income. Historically, this has resulted in various deferred amortisation mortgage products, most importantly the use of interest-only loan parts.

Since 1 January 2013, all new mortgage loans have to be repaid in full in 30 years, at least on an annuity basis, in order to be eligible for tax relief (linear mortgage loans are also eligible). The tax benefits on mortgage loans, of which the underlying property was bought before 1 January 2013, have remained unchanged and are grandfathered, even in case of refinancing and relocation. As such, new mortgage originations still include older loan products, including interest-only. However, any additional loan on top of the borrower's grandfathered product structure, has to meet the mandatory full redemption standards to allow for tax deductibility.

A second reform imposed in 2013 was to reduce the tax deductibility by gradually lowering the maximum deduction percentage. As a result, the highest tax rate against which the mortgage interest may be deducted is 37.48% in 2025. This is a slight increase compared to 2024 due to the introduction of an additional income tax bracket which is slightly higher than the lowest income tax bracket. Mortgage interest can be deducted from income in the second tax bracket in 2025.

There are several housing-related taxes which are linked to the fiscal appraisal value ("WOZ") of the house, both imposed on the national and local level. Moreover, a transfer tax of 2% is due when a house is acquired for owner-occupation. From 2021, house buyers aged between 18 and 35 years will no longer pay any transfer tax. From. This exemption only applies to houses sold for 525,000 euros or less (2025) and can only be applied once. In 2025, a transfer tax of 8% is due upon transfer of houses which are not owner-occupied (compared to 10.4% in 2023 and 2024).

Although these taxes partially unwind the benefits of tax deductibility of interest payments, and several restrictions to this tax deductibility have been applied, tax relief on mortgage loans is still substantial.

Loan products
The Dutch residential mortgage market is characterised by a wide range of mortgage loan products. In general, three types of mortgage loans can be distinguished.

Firstly, the "classical" Dutch mortgage product is an annuity loan. Secondly, there is a relatively big presence of interest-only mortgage loans in the Dutch market. Full interest-only mortgage loans were popular in the late nineties and in the early years of this century. Mortgage loans including an interest-only loan part were the norm until 2013, and even today, grandfathering of older tax benefits still results in a considerable amount of interest-only loan originations.

[1] Statistics Netherlands, household data. The total amount of mortgages outstanding reported has also increased including historic data due to a benchmark revision.

Thirdly, there is still a big stock of mortgage products including deferred principal repayment vehicles. In such products, capital is accumulated over time (in a tax-friendly manner) in a linked account in order to take care of a bullet principal repayment at maturity of the loan. The principal repayment vehicle is either an insurance product or a bank savings account. The latter structure has been allowed from 2008 and was very popular until 2013. Mortgage loan products with insurance-linked principal repayment vehicles used to be the norm prior to 2008 and there is a wide range of products present in this segment of the market. Most structures combine a life-insurance product with capital accumulation and can be relatively complex. In general, however, the capital accumulation either occurs through a savings-like product (with guaranteed returns), or an investment-based product (with non-guaranteed returns).

A typical Dutch mortgage loan consists of multiple loan parts, e.g. a bank savings loan part that is combined with an interest-only loan part. Newer mortgage loans, in particular those for first-time buyers after 2013, are full annuity and often consists of only one loan part. Nonetheless, tax grandfathering of older mortgage loan product structures still results in the origination of mortgage loans including multiple loan parts.

Most interest rates on Dutch mortgage loans are not fixed for the full duration of the loan, but they are typically fixed for a period between five and 15 years. Rate term fixings differ by vintage, however. In recent years, there was a strong bias to longer term fixings (20-30 years) but since Q2 2022 10 year fixings have rapidly increased in popularity as the sharply increased mortgage rates drove borrowers to seek lower mortgage payments by going for shorter fixings. Most borrowers remain subject to interest rate risk, but compared to countries in which floating rates are the norm, Dutch mortgage borrowers are relatively well-insulated against interest rate fluctuations.

Underwriting criteria
Most of the Dutch underwriting standards follow from special underwriting legislation ("Tijdelijke regeling hypothecair krediet"). This law has been present since 2013 and strictly regulates maximum LTV and Loan-to-Income (LTI) ratios. The current maximum LTV is 100% or 106% when financing energy saving measures. The new government has indicated not to lower the maximum LTV further. LTI limits are set according to a fixed table including references to gross income of the borrower and mortgage interest rates. This table is updated annually by the consumer budget advisory organisation "NIBUD" and ensures that income after (gross) mortgage servicing costs is still sufficient to cover normal costs of living.

Prior to the underwriting legislation, the underwriting criteria followed from the Code of Conduct for Mortgage Lending. Although the Code of Conduct is currently largely overruled by the underwriting legislation, it is still in force. The major restriction it currently regulates, in addition to the criteria in the underwriting legislation, is the cap of interest-only loan parts to 50% of the market value of the residence. This cap was introduced in 2011 and is in principle applicable to all new mortgage contracts. A mortgage lender may however diverge from the cap limitation if certain conditions have been met.

Recent developments in the Dutch housing market [3]
Wages that have risen by an average of 6.7%, 104,000 additional households, persistently low unemployment and more flexible lending standards have driven demand for (owner-occupied) homes in 2024. In combination with lagging housing construction – taking into account demolition, only 70,000 homes were added – it drove house prices to new records. In 2024, they rose an average of 8.7%; in January 2025, the price increase continued with a year-on-year increase of no less than 11.5%, according to Statistics Netherlands and the Land Registry. The number of transactions also increased sharply last year, by more than 13% to a total of 206,000 sales. This is partly due to the persistent selling of former rental properties. Due to increased interest rates, higher taxes, local rules to keep investors out, and stricter requirements for rents, home investors have been selling more homes than they buy for

several years, according to figures from the Land Registry. This makes it more difficult for potential tenants to find a house, but it is a boost for potential home buyers: They can choose from more owner-occupied homes, which also makes more sales possible.
House prices continue to rise because the demand for housing is rising faster than the supply. The housing shortage calculated by research agency ABF will increase further in the coming years, from 4.9% to 5.1% of the housing stock. This percentage is mainly based on demographic factors: According to ABF's expectations, the population is growing faster than the number of houses. Demand is also increasing further due to a number of economic factors, the most important of which is rising incomes.

Renting out homes has become less attractive in recent years due to higher transfer taxes, increased interest rates, higher wealth tax and stricter rent regulation. This is especially true for investors who bought up existing homes for rental instead of building them. Investors are therefore selling their rental properties en masse. In 2024, they sold about 24,000 homes to owner-occupiers, while they purchased 4,000 homes from owner-occupiers. On balance, about 20,000 homes went to the owner-occupied market. In 2023, that balance was still 11,000 homes, and the trend is still showing a clear acceleration. In practice, considerably more rental houses are sold, because these figures only include companies and individuals who have three or more homes. Last year, Dutch people with two homes also sold many more houses than they bought, a total of 18,000 units. The exact use of second homes cannot be determined with certainty, but research by Statistics Netherlands and the Land Registry indicates that about 70% of second homes in the Netherlands are rented out.

Due to the wave of sell-outs, there is more supply of owner-occupied homes, especially in the cheaper segments. This results in more transactions – especially of apartments. This has contributed to the recovery of the share of young home buyers in the total number of homes purchased, and this also depresses house price growth. Due to the high latent demand for owner-occupied homes – from potential first-time buyers who would like to buy a house, but have missed out in recent years – this extra supply is expected to be sold quickly.

The past year saw a strong rebound in sales, after falling to 182,000 transactions in 2023 – the lowest level since 2015. In total, more than 206,000 owner-occupied homes changed hands in 2024, over 13% more than in 2023. The Amsterdam region showed the largest increase in sales,but the number of sales also rose sharply in many other regions. There are also significant differences within COROP regions: the increase in the number of transactions is largest in urban municipalities. This is probably because in cities – where the share of rental homes is usually higher than in the more rural municipalities – there are many more houses for sale due to the sale of rental homes.

Forced sales

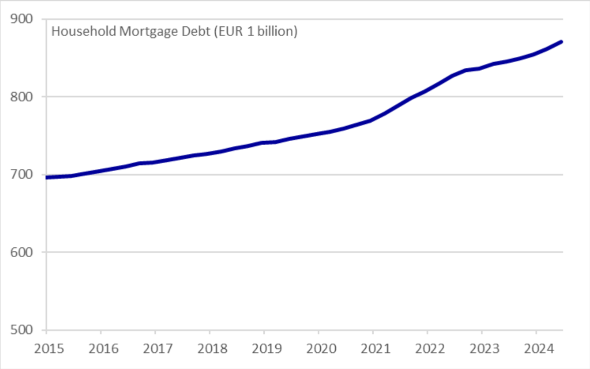
Compared to other jurisdictions, performance statistics of Dutch mortgage loans show relatively low arrears and loss rates[2]. The most important reason for default is relationship termination, although the increase in unemployment following the economic downturn post financial crisis was increasingly also a reason for payment problems. The ultimate attempt to loss recovery to a defaulted mortgage borrower is the forced sale of the underlying property.

For a long time, mortgage servicers opted to perform this forced sale by an auction process. The advantage of this auction process is the high speed of execution, but the drawback is a discount on the selling price. The Land Registry recorded 76 forced sales by auction in Q4 2024 (0.12% of total number of sales over a 12 month period).

[2] Comparison of Moody's RMBS index delinquency data.

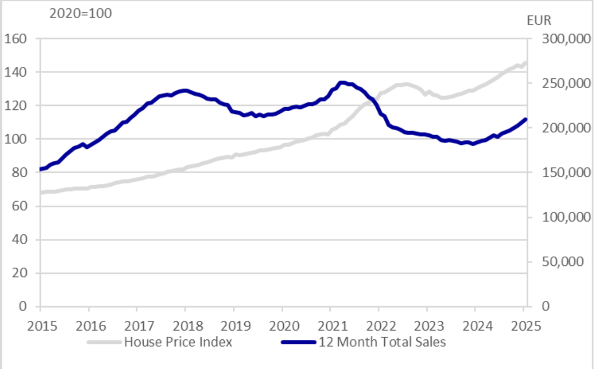
[3] Rabobank Housing market quarterly of 23 December 2024

Chart 1: Total mortgage debt



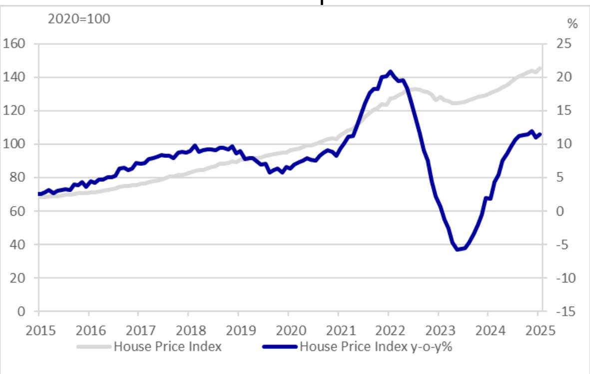
Sources: Statistics Netherlands, Rabobank

Chart 2: Sales



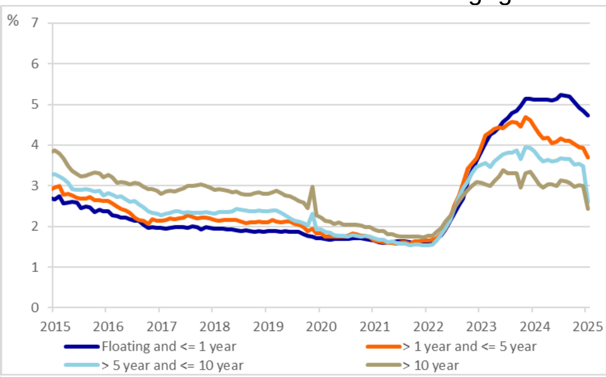
Sources: Dutch Land Registry (Kadaster), Statistics Netherlands (CBS)

Chart 3: Price index development



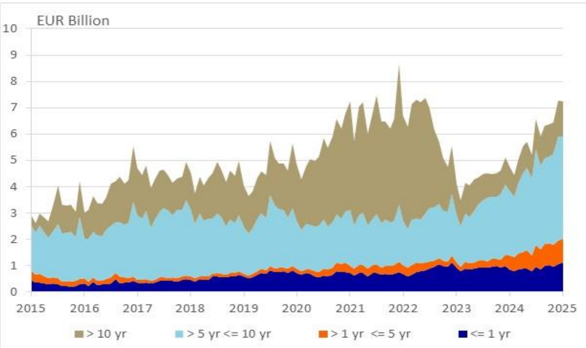
Sources: Statistics Netherlands, Rabobank

Chart 4: Interest rate on new mortgage loans



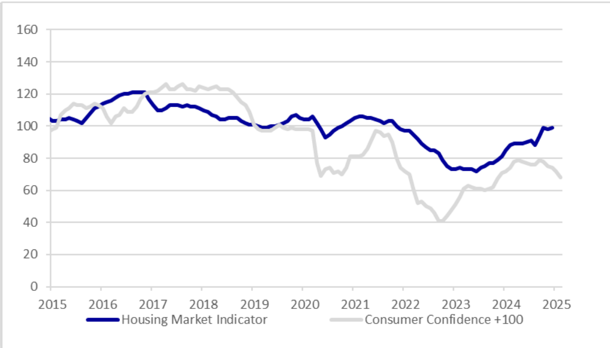
Source: Dutch Central Bank

Chart 5: New mortgages by interest type



Source: Dutch Central Bank

Chart 6: Confidence



Sources: Statistics Netherlands, OTB TU Delft and VEH