Non-bank Dutch mortgage model goes global

Mortgage origination backed directly by institutional investors has taken hold in the Netherlands, and is now spreading further afield, with similar models expanding in Sweden and Australia. Direct origination now accounts for around a quarter of the Dutch market, with banks having lost share.

By Tom Brown 25 Mar 2019

The return on Dutch residential mortgages is 150bp-250bps higher than on Dutch sovereign debt, encouraging institutional investors to deploy cash into the asset class — not just through buying portfolios from banks or buying securitizations, but by directly funding new origination.

Now other jurisdictions are following. Sabelo, the first Dutch-style mortgage originator started in Sweden last year, with another alternative lender called Athena popping up in Australia.

The Dutch Mortgage Funding Company (DMFCO), an independent asset manager in the Netherlands, started disintermediating the mortgage market in 2014, channelling funds from three leading Dutch pension funds into mortgage origination through its MUNT Hypotheken brand.

Peter Verleun, responsible for institutional sales at the DMFCO, said that the growth of the firm came at a time when the Dutch government was encouraging a change of investment direction from pension funds, encouraging them to deploy more of their assets into the domestic market.

At the end of the third quarter of last year, outstanding Dutch mortgage debt hit €702bn, and is expected to increase to €800bn-€875bn by 2025, according to DMFCO. The country is Europe's fourth largest mortgage market behind the UK, Germany and France.

MUNT originated €3.5bn of mortgages last year, and over its lifetime, has had €13bn committed. Dutch retail banks had a market share of over 80% in 2008. By December 2018, that had fallen below 65%.

In order for alternative investors to bypass banks in the mortgage market, Verleun outlined three factors necessary for the growth of the alternative sector: a strong payment system, or any other kind of long term investor wealth, and hefty domestic investment, and a strong pension system.

“Not all of the preconditions I mentioned are necessary for the non-banking sector to grow,” said Verleun, “but they are certainly the ones which led to this growth of the non- banking sector in Dutch mortgages.”

According to the Dutch central bank (DNB), the cumulative required capital of all Dutch banks will have to increase by €14.3bn. As a result, some banks are actively limiting their exposure to mortgages, and cutting their balance sheets in general.

Stabelo, the Swedish mortgage lender which has adopted the model, has seen growth in the sector — but has worked alongside banks, rather than disintermediating them.

“In Holland, you have more of a broker distribution market," said Michael Ingelög, founder and group chairman at Stabelo. "Here, we teamed up with one of the largest banks called Avanza, who have taken over the role of the brokers, but the mortgages never touch the bank balance sheets.”

Sweden had a healthy banking sector all the way through the crisis, and there were no government incentives to push the mortgages off the bank’s balance sheets. “The market is dominated by the four largest banks," said Ingelög. "The market has been this way for many years."

Real estate prices increased in the last decade quite significantly in Sweden. Prices over the last year are down 3-5%, but according to recent reports have somewhat stabilised.

Stabelo has originated approximately €650m worth of mortgages to date. "We are first and foremost a niche player," said Ingelög. "We do not expect an enormous market share, but we can perhaps take a few percentage points."

Ingelög said that, while securitization does suffer from slightly stricter regulation in Sweden, the sector receives little attention due to a thriving covered bond market.

"The regulators in Sweden have taken a stance that, since we have such a strong covered bond market base, we do not need securitization for the purpose of mortgage financing," said Ingelög. "Part of that is probably due to the regulator's view towards the sector."

Athena Home Loans is another non-bank lender to spring up far away from Dutch shores, supported financially by the Resimac group, and with a model which uses a very similar funding strategy to Stabelo and DMFCO.