RMBS/Netherlands
New Issue

PEARL Mortgage Backed Securities 3 B.V.

Ratings

Class	Amount (EURm)	Final Maturity	Rating	CE (%)
A	800	March 2045	AAA	0.87
B	7	March 2045	BBB-	0.00

Each rated class in this transaction has a Stable Outlook.

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Related Research

- "*Dutch Residential Mortgage Default Model Criteria*", 14 February 2007;
- "*Criteria for NHG Guarantee Mortgage Loans in Dutch RMBS*", 8 June 2006;
- "*Fitch Issuer Report Grades May 2007 Update*", 31 May 2007;
- "*Dutch RMBS Performance Bulletin 2007*", 16 October 2007;
- "*Rating European Mortgage Loan Servicers – the Netherlands Market Addendum*", 26 November 2004;
- "*Fitch Issuer Report Grades*", 25 November 2004;
- "*A Guide to Cash Flow Analysis for RMBS in Europe*"; 20 December 2002;
- "*Legal Issues in Dutch RMBS*"; 13 June 2002.

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Summary

This EUR807m transaction is a repeat true sale securitisation of NHG (Nationale Hypotheek Garantie) guaranteed mortgage loans originated in the Netherlands by SNS Bank N.V. (SNS Bank, rated 'A+/F1') and its two wholly-owned subsidiaries, BLG Hypotheekbank N.V. (BLG) and SNS Regio Bank N.V. (SNS Regio Bank).

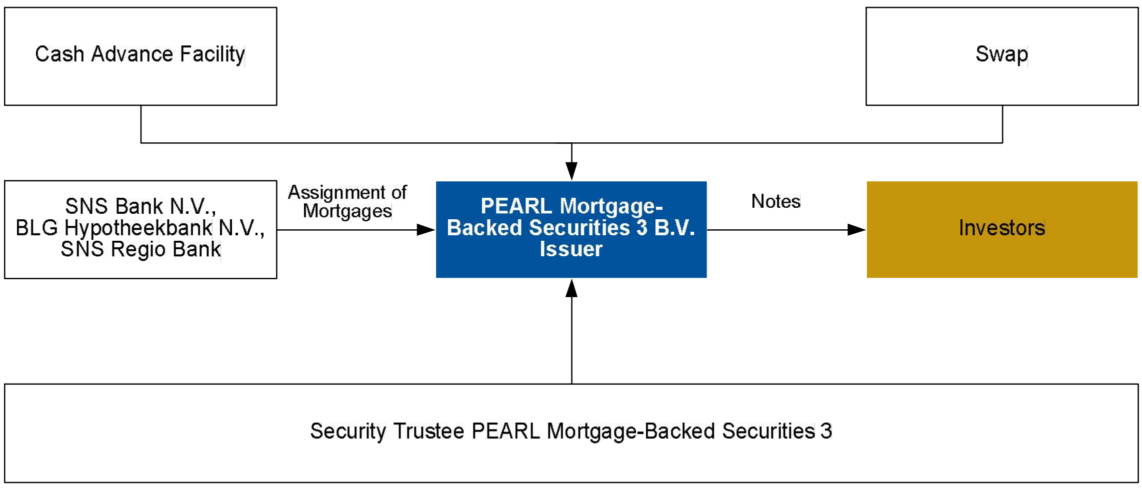
This is the 17th RMBS transaction to be originated by SNS Bank and the third to solely comprise loans guaranteed by NHG. Fitch Ratings has assigned ratings to the notes to be issued by PEARL Mortgage Backed Securities 3 B.V. (PEARL 3 or the issuer) as indicated at left.

The ratings are based on the quality of the credit portfolio, the NHG guarantee, available credit enhancement, the underwriting and servicing capabilities of the sellers as well as the sound legal and financial structure of the transaction. The ratings address the likelihood of investors receiving full and timely interest payments in accordance with the terms of the underlying documents; payment of interest on each payment date; and ultimate repayment of principal on the class A and B notes by legal final maturity in March 2045.

Credit Committee Highlights

- The portfolio solely comprises NHG guaranteed mortgage loans originated by SNS Bank and its two subsidiaries, BLG and SNS Regio Bank. At closing, the portfolio approximately contains 60% of SNS Bank loans, 20% BLG loans and 20% of SNS Regio Bank loans.
- Compared to PEARL 2, this transaction includes a new seller and servicer to the pool – SNS Regio Bank. SNS Regio Bank is wholly owned by SNS Bank and was set up in July 2007 as a result of the merger between an SNS Bank subsidiary, CVB Bank, and an ING subsidiary, Regio Bank.
- PEARL 3 has a five-year revolving period. Substitution of mortgages to the pool is subject to a number of criteria, to prevent any deterioration in the credit quality of the portfolio.
- The weighted-average original loan-to-market-value ratio (WA OLTMV) of the portfolio is relatively low for the Dutch market, at 82.4%. The pool is moderately seasoned – 21 months on average.
- Some 71.0% of the portfolio consists of interest-only mortgages (which carry balloon repayment risk), 14.8% of investment-based mortgages and 13.0% of savings mortgages. About 1.6% of the borrowers are self-employed.

Structure Diagram



Source: Transaction documents

- All mortgages benefit from an NHG guarantee; Fitch accounted for the guarantee as per its methodology and also based on the pay-out history of SNS Bank, BLG and SNS Regio Bank on NHG-guaranteed loans. The agency has also taken into account the commitment from the sellers to repurchase mortgages if the Stichting Waarborgfonds Eigen Woningen (WEW, the entity responsible for administering the NHG programme) fails to (fully) indemnify owing to an error or omission in the origination and underwriting process.

- The interest rate swap guarantees excess spread of 25bp on the non-defaulted principal balance of the mortgages after note interest and senior expenses (including servicing fees).

- Legal ownership of the mortgage loans is transferred using the silent assignment law.

■ Credit Portfolio

The characteristics and stratification figures of the provisional portfolio are detailed in *Appendix 3*.

Loan Types

Interest-Only Mortgage Loans

The borrower repays the mortgage in full at maturity. Mortgage loans that exceed a loan-to-foreclosure-value (LTFV) of 100% have a compulsory life insurance policy covering at least the excess over the 100% threshold.

Savings Mortgage Loans

These mortgages consist of an interest-only loan linked to a savings policy. The premiums payable vary so that the capital generated by the savings policy is targeted to equal the amount payable by the borrower on maturity of the mortgage loan (i.e., 100% target capital).

Some of the savings mortgages contain alternative savings mortgages, whereby the borrower has the option to switch between savings and investment schemes on each interest reset date.

Investment-based Mortgage Loans

The borrower repays the principal in full at maturity using funds that have been accumulated through investments. The borrower pays no principal prior to maturity of the mortgage loan, but undertakes to invest an agreed amount, on an instalment basis, in certain investment funds selected by the borrower from a range of investment funds. At SNS, borrowers are offered bankruptcy-remote funds by SNS Beleggingsfondsen N.V. only; borrowers at BLG have the choice between around 20 different investment companies, which are required to comply with the related regulation on the separation of assets.

Life Mortgage Loans

These are interest-only mortgage loans linked to life insurance policies. Principal repayment will be paid out from the proceeds of the life insurance policy.

Annuity Mortgage Loans

These are mortgage loans where the scheduled repayment of principal plus interest are fixed (provided that interest rates do not change). This means that the total instalment amount remains the same over time.

Linear Mortgage Loans

Linear mortgage loans have scheduled repayments of principal, which are fixed over the term of the mortgage. Therefore, the total instalment amount decreases over time.

Substitution

The transaction structure includes a substitution period up to and including the payment date falling in March 2013, during which time principal receipts may be reinvested quarterly in substitute mortgage receivables. Substitution is subject to certain conditions that aim to preserve the credit quality of the transaction, including the following:

- No notification event has occurred (see *Legal Structure* below).
- No more than 2.25% of the outstanding principal amount of the mortgage loans is more than 60 days in arrears.
- There is no debit balance on the principal deficiency ledger (PDL).
- Substitution will not cause the WA LTFV of the loans in the portfolio to exceed 95.4% (which would be a 1% increase from the level at closing).
- Substitution will not cause the proportion of interest-only mortgages in the portfolio to exceed 74.1% of the portfolio (which would be a 3% increase from the level at closing).
- The aggregate amount of substitute mortgages is limited to 20% per year of all mortgage receivables outstanding at the beginning of any yearly period.
- There has been no failure to repurchase by the seller.
- The ratings of the notes will not be adversely affected by the substitution.

Origination and Servicing

SNS Bank is part of SNS REAAL, the sixth-largest financial institution in the Netherlands. The SNS Group was formed in 1990 and merged with the REAAL Group in 1997.

SNS Bank has more than 145 branches throughout the Netherlands. It continues to open branches in the north and west of the country and its strategy is to focus solely on Dutch retail banking.

BLG Hypotheekbank is a wholly owned subsidiary of SNS Bank and was acquired in 1993. It has a strong presence in the south of the country and is active in mortgages only, offered exclusively through intermediaries.

SNS Regio Bank is a wholly owned subsidiary of SNS Bank. SNS Regio Bank was created following the merger between CVB Bank N.V. and Regio Bank in July 2007. CVB Bank was established back in 1920, and was acquired by SNS Bank in 1992. The bank works exclusively through over 800 intermediaries offering savings and mortgage products.

Origination

Fitch met key staff in the underwriting and servicing departments of SNS Bank and BLG in February 2007 to review the origination, underwriting and administration processes.

In regards to SNS Regio Bank, Fitch has not performed an onsite review, but had a call with SNS Regio Bank's senior management and based its analysis on the information provided by both SNS Bank and SNS Regio Bank.

SNS Bank has a 9% share of the Dutch mortgage market. Traditionally based in the south and east of the country, SNS Bank's recent strategy has been to continue its expansion in the northern and western regions. It offers a full range of retail services to its customers. Roughly 23% of mortgage loans are originated through branches and roughly 77% via intermediaries, such as real estate agents and insurance intermediaries.

Both branches and intermediaries have access to a mortgage front-office system, where they carry out standard underwriting checks - including consultation of the national credit register (Bureau Krediet Registratie or BKR), affordability calculations and verification of compliance with the standard underwriting criteria. Front-offices have mandates for applications that comply with the standard conditions and pass the checks successfully and they can inform the client of the positive outcome of the application, subject to conditions being in place (proof of income, valuation report, insurance requirements). However, the loans will be disbursed only after a satisfactory review by the central middle-office department, which verifies the work done by the front-offices on every application. It also checks that the file contains all the required documents. Fraud checks are carried out at several stages, both against fraud databases and the records of SNS's internal fraud department.

The underwriting criteria of all three sellers are in line with NHG requirements and include but are not limited to the following:

- The maximum loan amount is EUR265,000.
- Self-employed borrowers must present three years of audited accounts as proof of income.
- The maximum loan amount that is interest only is 50% of the market value of the property.
- A full valuation report is required for all existing properties; local tax assessments are accepted for applications involving LTFVs of less than 50%.
- The risk insurance policy should at a minimum cover the loan amount in excess of 80% of the market value.

BLG Hypotheekbank originates mortgages through independent intermediaries exclusively. A marketing team at BLG is dedicated to the selection of quality intermediaries and their training; a complete intranet system is also in place to inform intermediaries about the status of underwritten applications, products or legal issues. Intermediaries are able to use a front-office mortgage system designed specifically for BLG mortgages. They are able to issue a loan offer for applications below 75% LTV, which fulfil all standard underwriting criteria. Non-standard applications are necessarily referred to BLG for pre-approval. BLG Hypotheekbank checks all the files upon completion once the borrower has provided the requested documents. BLG's underwriting criteria are in line with NHG criteria.

SNS Regio Bank originates mortgages through its franchise network. Underwriting criteria of the bank comply with NHG requirements. As to the underwriting process it is similar to SNS Bank as per information provided by SNS Bank.

Servicing

SNS Bank, BLG and SNS Regio Bank currently service mortgages from separate centralised service centres, each of which adhere to similar policies. All collections are made via direct debit.

Since 2006, SNS categorises borrowers into different risk profiles, according to internal default probabilities and loss severity considerations; borrowers with a high risk profile are actively contacted very early in the process, when their repayments are between 10 and 20 days overdue, whereas lower-risk profiles may be called after 55 days in arrears. Changes to the process in 2006 also included a much tighter arrears management timeline.

BLG's timelines for arrears management differ slightly from those of SNS Bank where:

- After 10 days overdue, a reminder letter is generated automatically and sent to the borrower.
- After 44 days overdue, a second reminder letter is generated automatically and sent to the borrower.

SNS Regio Bank's timeline for arrears management slightly deviates from that of SNS Bank. The first call to the borrower is made after 15 days and the first reminder letter after 21 days overdue.

■ Cash Bond Administration

The cash bond administration (CBA) function for this transaction will be carried out by SNS Asset Management. SNS Asset Management has, since the first transactions, been involved in the management of the Hermes series and Provide Lowlands transaction, among other deals.

The team in charge of the CBA function comprises four people, including the team leader. The administrators have an average of five years' experience in the securitisation industry while the team leader has seven years' experience. New joiners are trained internally, both on the job and through informal training programmes.

Each step in the administration process is reported and tracked using a detailed checklist. Every step in the process must be signed off by the administrator and is reviewed by the team leader. The different steps of the process are cross-referenced many times to make sure that each document is filed. File reviews are performed regularly to detect and locate any problems.

At closing of the transaction, closing wires will be sent containing all the details of the cash flows. SNS checks the transaction triggers within the reporting activity. Since there is no specific modelling team in the SNS management team, rating triggers are input manually and the other triggers are hard-coded in the system. IT systems are programmed so that they automatically detect and flag further advances.

In 2004, a risk self-assessment was performed for all the staff involved in securitisation transactions. KPMG performs yearly audits on the statutory account of the SPVs. The internal audit department periodically performs operational audits; the last one was at the beginning of this year.

Fitch is satisfied that SNS Asset Management meets the necessary requirements to provide adequate cash/bond administration services to the transaction.

NHG Guarantee Programme

In 1960, the Dutch government introduced the "municipal government participation scheme" (i.e. the municipality guarantee) to promote home ownership among lower-income groups. Under this system, both the state and municipalities guaranteed residential mortgage loans that fulfilled a set of defined criteria.

Since 1 January 1995, a central, privatised entity, the WEW, has been responsible for granting and administering the NHG guarantee programme.

The WEW finances itself via a one-off upfront charge to the borrower of 0.40% of the mortgage loan amount. If it were unable to meet its obligations under the guarantee scheme, it would receive liquidity support from the central government and the participating municipalities in the form of a subordinated interest-free loan.

Loans less than EUR265,000 (in 2007) qualify for an NHG guarantee provided that the borrowers meet certain other criteria, as detailed below:

- Their gross debt-to-income ratio (DTI) should not be more than 35.1% (for borrowers under 65 years of age).
- The guarantee must be used to purchase a property in the Netherlands.
- The applicant for whose benefit the guarantee is given must be the owner-occupier.
- The relevant mortgage loan must be secured by a first-ranking or first- and sequentially lower-ranking mortgage right.
- If the mortgage right is combined with a life insurance policy, the rights under the policy must be pledged to the lender.
- The borrower must ensure that the property is adequately insured against fire damage and their death for the term of the loan.
- They must not have any outstanding arrears or loss registrations with the BKR, the Dutch credit agency.

Under the NHG guarantee, the lender is responsible for ensuring that an application meets the scheme's terms and conditions. If it qualifies, various reports are produced that are used to process the application, including the form that will eventually be signed by the lender and forwarded to the NHG to register the mortgage and establish the guarantee. If a loan is not underwritten or serviced correctly or if dossier information is missing, the WEW may pay out less than the claimed amount or reject the claim altogether.

NHG Guarantee Cover

The scheme covers any losses mortgage lenders incur on a guaranteed loan after the sale or foreclosure of the related property. This coverage extends to outstanding principal, unpaid accrued interest and repossession costs, among others, including:

- unpaid premiums for maintenance insurance;
- unpaid premiums for life insurance;
- costs of cleaning the property, urgent maintenance and repair;
- (legal) costs resulting from the foreclosure process; and
- the costs of an independent valuer.

However, the guarantee amortises on a monthly, 30-year annuity basis, creating a potential shortfall in protection.

Claiming Under the NHG Guarantee

When arrears on a guaranteed loan have built up to four months, the sellers must inform the WEW in writing of the missed payments (including the guarantee number, borrower's name and the total amount of outstanding payments). The WEW may then approach the lender and/or the borrower to attempt to resolve the problem. If no agreement can be reached, the WEW will review the situation with the lender to maximise potential proceeds from the sale of the property, including exploring the possibility of a private sale rather than a public auction. The WEW's permission is required for a private sale. A forced sale of a mortgaged property is only permitted where the borrower is seven or more monthly instalments in arrears, unless the WEW has agreed otherwise.

If a loss arises after a private or forced sale, the lender must make a formal request to the WEW for payment within three months. The request must include all the necessary documents relating to the original loan and the NHG guarantee. After receipt of a claim and all the supporting details, the WEW must make payment within two months. If it fails to do so, providing that the request is valid, the WEW must pay interest for late payment.

Fitch has analysed the terms of the NHG guarantee and given credit to NHG-guaranteed loans. The WEW payout ratios on the loss amounts were stressed based on historical data provided by SNS, the guarantee's amortisation profile and the underwriting and servicing quality of the originator.

Payment by the WEW is assumed to occur six months after the foreclosure period; in other words, 18 months after the first missed payment.

Legal Structure

PEARL 3, the issuer, is a special-purpose company incorporated under the laws of the Netherlands with limited liability as a B.V. and is registered with the Commercial Register of the Chamber of Commerce of Amsterdam. Its shares are owned by Stichting Holland Euro-Denominated Mortgage-Backed Series (Hermes) Holding, established under the laws of the Netherlands as a foundation.

SNS Bank, BLG and SNS Regio Bank will use the silent assignment law to transfer the legal title of the mortgage receivables at closing. Under the terms of this law, the legal ownership of the receivables can be transferred by registering a deed of assignment with the relevant tax authorities, but without having to notify the borrowers of the assignment. In addition, the mortgages and other rights of the issuer are pledged to the security trustee via various pledge agreements.

The mortgage deeds related to the mortgage receivables provide that, before assignment, the mortgage rights not only secure the loan held by the issuer, but also any other liabilities that the borrowers may now, or in the future, owe to the seller (bank mortgages).

The wording of the mortgage deeds relates to loans originated by SNS Bank before the end of 2005 and all loans originated by BLG and SNS Regio Bank. It stipulates that, upon assignment, the mortgage right will follow the receivable if this is stipulated in the deed of assignment and that, in this event, the mortgage right will no longer secure the other claims of the seller.

The conditions applicable to mortgage loans originated by SNS Bank as of the end of 2005 provide that, upon assignment, the mortgage right will partially follow the receivable unless SNS Bank determines otherwise. It will be co-held, pro rata, by SNS Bank and the issuer. Although entitled to a pro rata share of the proceeds in the event of foreclosure, SNS Bank has agreed with the issuer that any such proceeds will be applied in priority to the outstanding balance of the foreclosed loan held by the issuer. Where the agreement is found not to be enforceable, SNS Bank has undertaken to compensate the issuer. Mortgage loans to be acquired during the substitution period are likely to include loans originated after the end of 2005. In addition, upon the occurrence of certain "notification events" (see below), SNS Bank is required to give the borrowers notice of partial termination of the security rights it may have against them. As a result, the mortgage right will only secure the loans held by the issuer.

Notification Events

Notification events relate, among other things, to a breach of obligations under the documents of the seller or a severe economic deterioration on the part of the seller. Notification events include where:

- a seller payment default is not remedied within 10 business days of receiving notice from the issuer or trustee;
- the seller fails to fulfil or comply with any of its obligations;
- action is taken against the seller for its dissolution, liquidation, demerger, bankruptcy or entering into emergency regulations;
- SNS Bank's rating falls below 'A-';
- any of BLG or SNS Regio Bank ceases to be a subsidiary of SNS Bank; or
- SNS REAAL withdraws its 403-declaration made to the benefit of BLG or SNS Regio Bank.

Representations and Warranties

The mortgage sale agreement contains representations and warranties given by the originator in relation to the pool of mortgages. No search of title will be conducted by the issuer or the trustee; instead they will rely on the representations and warranties noted below. If there is a breach of any of the representations or warranties, which cannot be rectified, the seller will be required to repurchase the loan(s) in question.

Among others, the representations and warranties include the following:

- The sellers have power to sell and assign the mortgage receivables and related beneficiary rights.
- Each mortgage loan was originated by one of the sellers in accordance with its standard underwriting criteria and procedures.
- All mortgage rights and rights of pledge granted to secure the mortgage receivables constitute valid rights, and have been entered into the appropriate public register.

- Each mortgage receivable is secured on residential property located in the Netherlands and governed by Netherlands law.

- All mortgage rights are first priority.

- Each of the mortgage loans meets the mortgage loan criteria as set out in the mortgage receivables purchase agreement.

- The mortgage conditions provide that all payments by the borrower should be made without any deduction or set-off.

- Each mortgage receivable, together with the mortgage right and the right of pledge, if any, securing that receivable constitutes a legal, valid, binding and enforceable obligation of the relevant borrower.

- BLG Hypotheekbank owes no amounts to any borrower under an account relationship and no deposits have been accepted by it from any borrower.

- Each of the mortgage loans with a tenor exceeding 30 years has a combined capital and life insurance policy attached.

- The mortgage conditions state that the loan becomes due and payable if an attached life and capital insurance policy pays out.

- No arrears in excess of one month exist at closing.

- The borrower has made at least one monthly payment under the mortgage loan.

- Each loan benefits from the NHG guarantee, all conditions applicable to the NHG guarantee at the time of origination of the loan were complied with, and the seller is not aware of any reason why any claim made in accordance with NHG requirements should not be met in full and in a timely manner.

Repurchase of Mortgage Receivables

Under the mortgage receivables purchase agreement, the seller is required to repurchase a mortgage receivable if:

- the seller agrees with a borrower to grant a further advance;

- there is a breach of any of the representations and warranties as set out above;

- under the terms of a savings plus mortgage loan, the borrower has requested that accumulated premiums from a savings insurance policy be transferred into another investment under the savings mortgage loan;

- the seller agrees with a borrower to amend the terms of a mortgage loan, which thereby ceases to meet the criteria set out in the mortgage receivables purchase and/or servicing agreements; and

- if it appears that the loan no longer benefits from the NHG guarantee for its full amount as a result of an action that a seller or the servicer has taken or omitted to take, or if a seller fails to submit a claim under the guarantee despite being entitled to do so.

Financial Structure

The class A and B notes will receive floating-rate interest in arrears at a margin over three-month Euribor. The first interest payment date will fall in March 2008. The first optional redemption date to repay the notes is March 2013. From March 2013 onwards, a step-up margin will apply in case the notes are not called.

All amounts of interest, prepayment penalties and principal payments received by SNS Bank, BLG and SNS Regio Bank are passed monthly to the relevant collection accounts held at SNS Bank in the name of PEARL 3. In the event that SNS Bank breaches its notification triggers, borrowers will be notified and make payments directly into the collection account. Under a guaranteed investment contract (GIC), monies deposited in the collection account will receive interest equivalent to three-month Euribor less a margin, payable quarterly.

If SNS Bank, as the seller collection account provider, is downgraded below ‘F1’, it will, within 30 days, either: (i) ensure that a third party rated at least ‘F1’ guarantees its obligations as seller collection account provider; (ii) transfer to the escrow account, opened in the name of the issuer for this purpose, an amount equal to the highest single amount received since closing on the floating-rate GIC account during any single mortgage calculation period; or (iii) any other actions agreed by Fitch.

If SNS Bank, as GIC provider, is downgraded below ‘F1’ it will, within 30 days, either be replaced by or obtain a guarantee from a third party with an adequate rating, provide collateral to guarantee its obligations or find another appropriate solution acceptable to Fitch to maintain the then-outstanding ratings of the notes.

Interest Priority of Payments

Revenue payments, which include interest on the mortgage loans, will be allocated, prior to enforcement, according to the following priority:

1. the issuer's senior fees and expenses (including those payable to the trustee, company administrator, servicer and paying agent);
2. repayment of any drawings made from the cash advance facility;
3. payments due under the swap agreement;
4. interest due on the class A notes;
5. amounts to be credited to the class A PDL until zero;
6. interest due on the class B notes;
7. amounts to be credited to the class B PDL until zero;
8. any swap counterparty default payment;
9. any gross-up or other amounts due under the cash advance facility agreement; and
10. amounts due on the deferred purchase price instalment.

Principal Redemption

The class A and B notes will be redeemed sequentially. Notably, however, during the substitution period that runs through to the payment date falling in March 2013, only the principal collections that are not applied to the purchase of substitute mortgages may be used to redeem the notes.

On each optional redemption date from March 2013 onwards, the issuer will have the right to sell all the mortgages to the seller or a third party and to use the proceeds of any such sale to redeem the outstanding notes, provided that all of them can be redeemed, and not only a portion thereof.

If the call option is not exercised, the notes will receive three-month Euribor plus a step-up margin, increased from the level at closing.

The notes are subject to provisions that allow for redemption on the occurrence of certain tax events that affect the financial position of PEARL 3.

Following an enforcement event, when the trustee will declare the notes to be due and payable, all available funds will be allocated sequentially to interest and principal payments due on the class A and B notes after certain senior third-party expenses.

Interest Rate Risk

At closing, PEARL 3 will enter into an interest rate swap agreement with SNS Bank, under which it is obliged to pay SNS Bank, quarterly, the scheduled interest income due on the mortgage loans and the GIC, less: (i) a margin of 25bp; and (ii) certain senior expenses (including the servicing fee). SNS Bank, as swap counterparty, will be obliged to make scheduled interest payments on the notes insofar as they are backed by non-defaulted mortgage loans.

If SNS Bank's Long-Term Rating is lowered below 'A' and its Short-Term Rating below 'F1', it will, within 30 days, either be replaced, obtain a guarantee from a third party with a suitable rating, provide collateral to guarantee its obligations or find another appropriate solution acceptable to Fitch to maintain the then-outstanding ratings on the notes.

Reserve Fund

There will not be any reserve fund mechanism in this transaction.

Cash Advance Facility

A cash advance facility equal to 1.0% of the original note balance will be provided by SNS Bank to cover any shortfalls in interest due on the notes. The cash advance facility will be provided for a term of 364 days, which can be extended at the discretion of the provider.

If SNS Bank is downgraded below 'F1', an adequately rated replacement of the cash advance provider must be found within 30 days. If SNS Bank is not replaced within that period and the rating of the notes suffers materially adverse effects, the issuer will draw on the undrawn portion of the cash advance facility.

■ Credit Analysis

Fitch's methodology for assigning credit ratings to Dutch residential mortgage transactions in general is described in *Appendix 2*. The following section details the agency's particular areas of focus and concern with regard to PEARL, as well as outlining the factors incorporated into its analysis to deal with these concerns. For more information, please see the special report *"Dutch Residential Mortgage Default Mode Criteria"*, dated 14 February 2007 and available at www.fitchratings.com.

Default Probability

Affordability

Loan-by-loan income data was available for 60% of the pool. The affordability level for this part was good on average. To account for a possible increase in DTI levels during the substitution period, Fitch revised slightly the DTI distribution, assigning 19% to class 2 and the other 81% to class 3. Fitch Class 3 represents DTI ratios ranging from 30% to 40%; this falls at the higher end of SNS Bank's underwriting criteria, and is in line with the maximum acceptable ratio under the NHG criteria.

Repayment Type

Some 71.0% of the pool consists of interest-only mortgages that carry a balloon repayment risk. Loans that exceed an LTFV of 100% have a compulsory life insurance policy covering at least the excess over the 100% threshold, thus reducing the balloon repayment risk. Fitch has increased the default probability for interest-only loans by 20% to account for the additional risk.

The pool also includes investment mortgage loans (14.8%), which carry a higher risk because of both residual set-off risk and the uncertainty of the yield on the underlying investment vehicle. Fitch has increased the default probability for investment loans by 10% to account for this additional risk.

Savings mortgages (13.1%) have not been penalised, as the accumulated savings will match the loan balance at maturity. Moreover, the sub-participation structure allows the ruling out of set-off risk for savings mortgages: amounts accumulated under a savings policy will be placed by the savings provider with the issuer (with a participation granted to the savings policy provider). This means that funds accumulated to date on the savings policy are immediately available to the issuer to repay the savings mortgage loan on maturity.

Borrower Profile

Fitch believes that self-employed borrowers have a greater probability of defaulting on their mortgage loan than employed borrowers who are paid a regular monthly salary. Some 1.6% of this pool relates to loans to self-employed borrowers. Fitch has applied a 10% default probability increase for these loans, and accounted for the possibility that the proportion of such loans may rise in the future, following substitution.

Recoveries

Indexation

In its analysis, Fitch reappraises the original value of each property as a function of the current house price index. The agency applies a 50% indexation credit for appreciation of property values, but will discount 100% for depreciation.

Market Value Decline (MVD)

To estimate recoveries on the mortgage loans, Fitch examined house price movements in the Netherlands by province from 1993 to 2007.

After a period of steady house price growth, price increases have slowed since 2001 and higher-valued properties have suffered a decline. The growth rate in house prices has picked up again since the dip caused by the recession in 2003, but remains well below the rate recorded in the 1990s. Fitch considers these trends and the inherent price volatility in its MVD analysis.

Recovery Rate

To determine the recovery rate, Fitch uses the lesser outcome of the following two formulae:

- the current loan balance, plus carry costs, divided by the current loan balance; or
- the indexed property value net of foreclosure costs (based on Fitch's indexation methodology, whereby 50% credit is given for property price appreciation) reduced by the MVD amount and divided by the current loan balance.

Credit Given to the NHG Guarantee

In the calculation of its weighted-average recovery rate (WARR), Fitch accounted for the benefit provided by the NHG guarantee. Based on the historical pay-out SNS has received from the Stichting WEW, the agency's calculation assumes that a certain percentage of the loan balance remaining after the liquidation of the property will be indemnified by the WEW. In the percentage used, Fitch also accounted for the repurchase commitment from the sellers, who will buy back the loan for the remaining balance and accrued interest if the WEW does not fully pay off the loan.

Cash Flow Analysis

To evaluate the contribution of structural elements such as excess spread, the liquidity advance facility and other factors, Fitch modelled the cash flows from the mortgages based on the weighted-average foreclosure frequency (WAFF) and the WARR provided by the loan-by-loan collateral analysis.

The cash flow model assumes that defaults are spread over the first five years of origination immediately after closing. It also simulates the cost of carrying written-off loans until recoveries are received after the assumed 12 months in a high prepayment and high Euribor-index environment. Recoveries realised from the liquidation of the property are assumed to arise 12 months after the first arrears; the WEW is assumed to pay the claim 18 months after the first arrears.

The swap, excess spread and the cash advance facility are modelled and used to cover losses and carrying costs.

The class B notes do not benefit from any credit enhancement. Should losses occur in excess of the guaranteed excess spread paid by the swap on a given period, the class B notes would suffer a loss.

However, given SNS's commitment to repurchase defaulted loans that are not fully indemnified by the WEW, the only losses that can be expected under a 'BBB-' scenario would be those arising from the realisation of the amortisation risk under the guarantee. Fitch has accounted for this risk in the calculation of its recovery rate and has tested several default distributions in its modelling.

The cash flow test showed that each class of rated notes could withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss or interest shortfall.

Set-Off

In most Dutch mortgage transactions there is a risk that borrowers may seek to set-off certain amounts owed to them against amounts due from them in relation to the mortgage loan in question. Set-off is specifically precluded in the terms and conditions of the mortgage loans, but a lack of legal precedent makes it uncertain whether such a set-off waiver would be enforceable if the borrower were to contest it in court.

The primary set-off risk relates to insurance mortgages and stems from the possibility that, in the event of a default by the insuring entity such that a capital sum is not received from the relevant policy when due, the borrower may seek to avoid repaying the mortgage loan. The justification for this is that the sums due from the policy were specifically earmarked to repay the loan and the borrower should not, therefore, have to pay from his or her own funds merely because the policy provider defaulted. The risk of set-off is greater for the hybrid mortgage loans with a savings component than other types of insurance mortgages since, under these hybrid mortgages loans, (part of) the premium can be invested in a savings fund that "imitates" a savings insurance policy and the risk is not mitigated by the sub-participation structure.

For set-off claims to be valid, the borrower would generally need to prove that he/she had a legal claim against the defaulting entity that existed before the provider defaulted. Where the borrower brings a policy to the table from a provider that is independent of the seller, and the mortgage product has been marketed as one where the provider and seller are two independent entities, the claim for set-off will be weaker.

Fitch believes that the combination of legal provisions and pledge agreements in the transaction provides some comfort in addressing this risk. The likelihood of set-off succeeding is further reduced because a number of obstacles to its validity must be overcome. Any definitive rulings in this regard would be reviewed by Fitch, and their impact on the transaction assessed.

However, even if set-off were ruled invalid, the borrower would probably have limited alternative funds with which to repay the mortgage loan if the policy providers defaulted, thereby increasing the risk of default on the loan. Consequently, Fitch gives no credit to policies that have accrued when assessing loss severity.

For further analysis in relation to set-off matters, refer to the agency's report *"Legal Issues in Dutch RMBS",* dated 13 June 2002 and available at www.fitchratings.com.

Performance Analytics

This is the third publicly rated RMBS transaction securitising a portfolio of NHG loans and all together the 17th transaction originated by SNS Bank and its subsidiaries. In August 2007, Fitch affirmed ratings on PEARL 1. For more information on the performance of the non-NHG transactions by SNS Bank, please see *Appendix 1*.

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance team ensures that the assigned ratings remain, in Fitch's view, an appropriate reflection of the issued notes' credit risk.

Details of the transaction's performance are available to subscribers at www.fitchratings.com.

For more information on Dutch RMBS performance please see the special report *"Dutch RMBS Performance Bulletin 2007"*, dated 18 October 2007 and available on www.fitchratings.com.

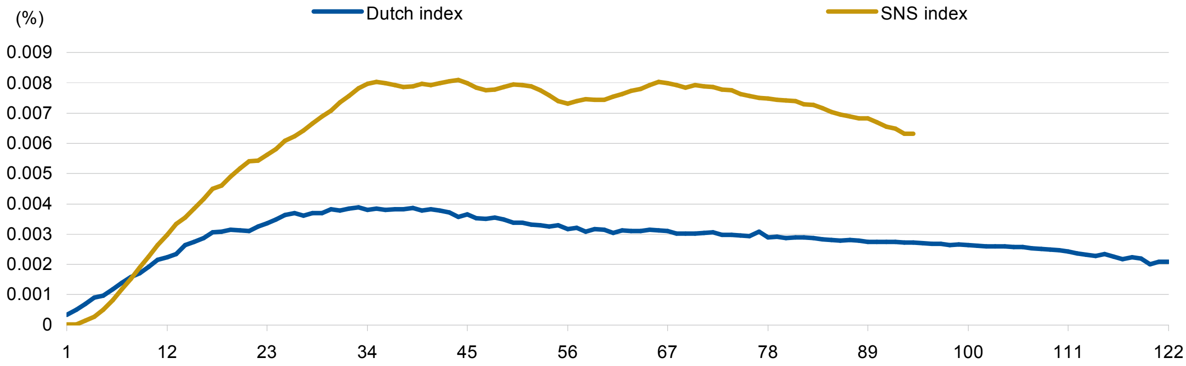
Issuer Report Grade

Fitch has recently introduced Issuer Report Scores as part of an ongoing effort to improve the transparency of transaction performance to investors. Transactions are scored on a system ranging from one star (meets basic requirements) to five stars (outstanding). The Hermes and PEARL transactions were upgraded to five stars in the May 2007 update. Hermes and PEARL provide very good, user-friendly reporting in all areas and meets Fitch's published reporting standards in most areas.

For further information on the agency's Issuer Report Scores, please see the reports *"Fitch Issuer Report Grades"*, dated 25 November 2004 and *"Fitch Issuer Report Grades May 2007 Update"*, dated 31 May 2007, both of which are available at www.fitchratings.com .

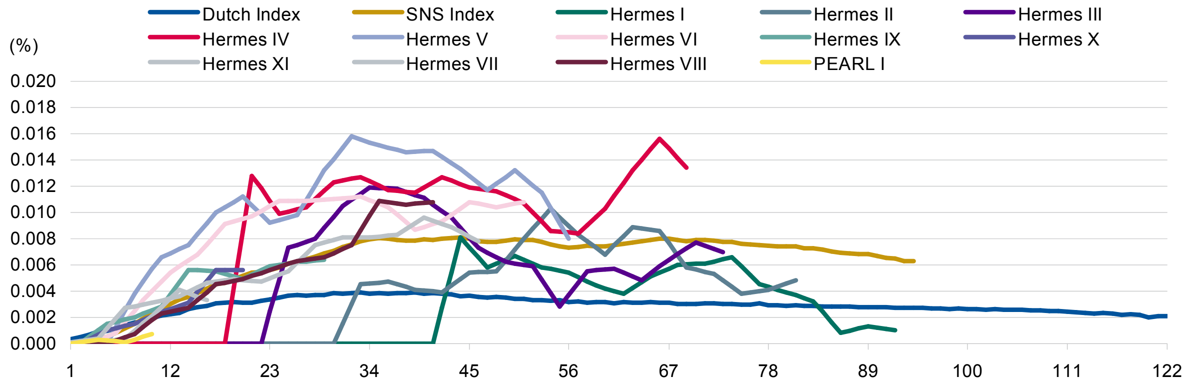
Appendix 1 – Transaction Performance

SNS Arrears Profile
3 months +



Source: Fitch

Hermes and PEARL: Arrears Profile
3 months +



Source: Fitch

Appendix 2 – Rating Methodology

To determine the appropriate levels of credit enhancement, Fitch analyses the collateral for Dutch residential transactions using a loan-by-loan mortgage default model (see research "*Dutch Residential Mortgage Default Model Criteria*", dated 14 February 2007, available on www.fitchratings.com). The model subjects the mortgage loans to stresses resulting from its assessments of historical home price movements and mortgage defaults in the Netherlands. Fitch's study showed a borrower's LTV to be the key determinant of default probability in the Netherlands, reflecting the size of their down payment and their willingness to pay. The borrower's DTI or income multiple, reflects their ability to pay.

Default Probability

Generally, the two key determinants of default probability are the borrower's willingness and ability to make their mortgage payments. The willingness of a borrower to pay is usually measured by the LTV. Fitch's model assumes higher default probabilities for high LTV loans and lower default probabilities for low LTV loans. The main reason for this being that in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low LTV loans) have an incentive to sell and maintain/protect their equity, eliminating the need for the lender to repossess the property. However, the Netherlands is characteristically a high-LTV market due to current tax incentives for such borrowing. Fitch takes this into account and places a greater emphasis on affordability when determining default probability.

The ability to pay is usually measured by the borrower's net income in relation to the mortgage payment. Historical data shows lower levels of default by Dutch borrowers compared to those in neighbouring countries. Base default probabilities are determined by using a matrix that considers each loan's affordability factor and LTV. The matrix classifies affordability into five categories, the lowest of which (class 1), encompasses loans with DTIs of less than 20% and the highest of which (class 5) encompasses all loans with DTIs exceeding 50%. A loan classified as affordability class 3, for example, would be allocated a base default probability of 3.6%-21.6%, depending on LTV.

Adjustments

Fitch adjusts the base default rates on a loan-by-loan basis to account for individual loan characteristics of the collateral across all rating levels.

- **Repayment Type**

  Savings Mortgages: a borrower makes interest payments on a savings mortgage, but instead of making principal payments, contributions are made to a savings account. Funds accumulated in this account are then used to redeem the mortgage at maturity. To ensure that there are sufficient funds at maturity, the savings account earns the same rate of interest charged on the loan. However, there is still a risk to the third-party savings institution in this case. The way most transaction structures mitigate such risk is to have the monthly premiums made by the borrower passed through to the issuer by the insurance company, which purchases and accepts from the issuer a partial assignment in the mortgage. As long as this is the case, Fitch does not penalise savings mortgages.

  Life Insurance Mortgages: similar to the savings mortgages, a life insurance mortgage does not pay down any principal prior to loan maturity, at which point it is redeemed by the insurance policy. The yield on the policy can vary and will not necessarily equal the principal amount on the mortgage at maturity. Fitch increases default probability for life insurance mortgages, depending on how they are underwritten, the strengths of the insurer and the nature of the policy, owing to the increased market and third-party risk.

  Investment Mortgages: the investment mortgage is similar to the life insurance mortgage in concept (i.e. periodic contributions are made to an investment fund) but has a different choice of investment opportunities. Fitch increases the default probability according to the rating of the investment fund and/or the nature of the investment options.

Appendix 2 – Rating Methodology (cont.)

Interest-Only: Fitch generally increases the default assumptions for interest-only mortgages, to take into account the potential payment shock to the borrower and the reliance on the borrower's equity in the property. The increase is generally applied when the mortgage is secured solely by the property value and principal is repaid by the borrower in one lump sum upon loan maturity.

- **Loan Purpose**
  Fitch believes that mortgage loans advanced to release equity in the home (equity refinance mortgages) are risky, as the homeowner is essentially borrowing back equity based on the property's price appreciation. Based on reviews of the issuer's appraisal process, as well as underwriting guidelines, if Fitch believes these loans have an increased likelihood of default, the base default probability will be adjusted by 10%-20%.

  Fitch assumes that a financially distressed borrower is more likely to default on a second home than a primary residence, and even more so on an investment property. Accordingly, base default rates are increased by 10%-25%.

- **Borrower Profile**
  Fitch increases default probability on loans to self-employed/self certified borrowers by 10%-30% to account for the absence of a fixed annual salary.

- **Arrears Status**
  When rating portfolios combining current and arrears mortgages, Fitch increases base default rates for mortgages in arrears by up to 90 days by 25%-75%, and those over 91 days in arrears (non-performing status) by 100%.

- **Underwriting Quality**
  Fitch's review and analysis of the origination process determines whether it decreases default rates by up to 25% or increases them by 0%-200%.

Recoveries

To estimate loss severity on mortgage loans in the Netherlands, Fitch examined home price movements by separating the Netherlands into 12 regions. Worst-case MVDs were estimated, and then generated for each rating level and region.

As in its other European mortgage default models, Fitch increased MVDs for properties worth more than EUR500,000 and those worth less than EUR100,000 by 10%–25%. Such properties are applied larger MVDs owing to their lesser liquidity and the less precise pricing information available on these markets.

Fitch's model gives full credit for property price declines and 50% credit for property price appreciation. The agency calculates recoveries by reducing the indexed property valuation by the MVDs, repossession costs, and the costs to the servicer of carrying the loan from delinquency through to default.

On the basis of worst-case information gathered from Dutch mortgage lenders, Fitch assumes that repossession costs represent 6% of the value of the property at the time of possession, plus a fixed amount of EUR5,000. To calculate carrying cost, Fitch assumes that the borrower does not pay interest for a period of 12 months and that interest accrues during this period at the weighted-average rate of interest.

Appendix 3

Transaction Comparison Table

Issuer	PEARL 3 MBS B.V.		PEARL 2 MBS B.V.		PEARL 1 MBS B.V.	
Closing date		Jan 08		Jun 07		Sep 06
Total issuance (EURm)		807		808		1,013
Class						
A	AAA	99.13	AAA	99.00	AAA	98.65
B	BBB-	0.87	BBB-	1.00	BBB-	1.35
C						
D						
E						
Initial reserve (% of initial balance)		No reserve fund		No reserve fund		No reserve fund
Target reserve (% of current balance)		No reserve fund		No reserve fund		No reserve fund
Swap + excess spread (XS)		Interest on the notes less PDL + 25bp XS spread		Interest on the notes less PDL + 25bp XS spread		Interest on the notes less PDL + 25bp XS spread
Cash advance (%)		1.00		2.25		2.25
WAFF (%)						
AAA		15.23		14.77		16.51
AA		12.18		11.82		13.21
A		9.14		8.86		9.9
BBB		6.09		5.91		6.6
BB		3.05		2.95		3.3
WARR (%) before/after NHG						
AAA		64.27/97.1		62.87/96.85		60.68/93.03
AA		69.81/99.0		68.35/98.86		66.41/94.33
A		75.17/103.2		73.65/103.31		72.03/102.50
BBB		79.77/103.3		78.22/103.34		77.75/102.55
BB		84.16/103.3		82.61/103.38		83.26/102.64
Portfolio						
Collateral balance (net of savings) (EUR)		807,000,000		1,174,123,697		1,013,700,000
Pre-funding amount (EUR)		0		0		0
Savings amount (EUR)		6,673,046		11,148,038		17,634,169
Number of borrowers		5,116		7,736		6,938
Average current balance (EUR)		157,740		151,774		146,108
WA seasoning (months)		21		25		32
WA interest rate (%)		4.4		4.22		4.34
Fixed/floating (%)		90.8/9.8		81.9/18.1		61.6/38.2
WA OLTMV (%)		83.0		83.9		88.9
WA DTI (%)		20 cl.2/ 80 cl.3		25 cl.2/ 75 cl.3		100 cl.3
Self certified (%)		0		0		0
Self employed (%)		1.6		2		Assumed 7
Construction deposits (%)		0		0		0
Arrears (%)		0		0		0
Mortgage type (%)						
Interest only		71.0		71.2		53.9
Savings		13.1		12.2		24.24
Insurance		0.0		0.0		0
Repayment		1.1		1.2		0.96
Investment		14.8		15.4		20.9
Other						
WA CLTMV (%)		82.8		83.7		87.1
WA CLTMV (indexed values) (%)		78.8		80.9		83
WA MVD ('AAA') (%)		38.23		38.18		40.61
Jumbo properties (%)		2.9		1.0		0.0

Source: Transaction documents

PEARL Mortgage Backed Securities 3 B.V.

RMBS/Netherlands

Capital Structure

Class	Rating	Size (%)	Size (EURm)	CE (%)	Interest rate	PMT freq	Maturity	ISIN/CUSIP
A	AAA	99.13	800	0.87	3m Euribor + 0.12%	Quarterly	2045	XS0343673611
B	BBB-	0.87	7	-	3m Euribor + 1.20%	Quarterly	2045	XS0343676044

Cash reserve	0.0
Cash advance	1.0
First interest payment date	March 2008
Substitution end date	March 2013
Step-up date	March 2013
Swap	Pays senior expenses and interest on notes minus PDLs
Excess spread	25bp

Key Information

Closing date	6 February 2008	**Seller/originator**	SNS Bank (A+/F1), BLG Hypotheekbank, SNS Regio Bank
Country of assets	The Netherlands	**Servicer**	SNS Bank, BLG, SNS Regio Bank
Country of SPV	The Netherlands	**Lead managers**	ABN AMRO Bank N.V.
Bloomberg	PEARL 3 <MTGE>	**Trustee**	Stichting Security Trustee PEARL Mortgage Backed Series 3
Issuance date	February 2008	**Swap counterparty**	SNS Bank N.V.
Structure	Pass-through, substitution period	**Cash advance facility provider**	SNS Bank N.V.
Settlement	Euroclear, Clearstream	**Floating rate GIC provider**	SNS Bank N.V.
Listing	Euronext Amsterdam N.V.	**Paying agent**	ABN AMRO Bank N.V.
Analysts	Spyros Michas Ieva Snejkova	**Cash collection account provider**	SNS Bank N.V.

Others (Summary)

Short-term rating triggers (minimum)	
Cash advance facility	F1
Swap agreement	F1 and A
Transaction account bank	F1

Credit enhancement

Excess spread under the swap, subordination

Credit committee highlights

Repeat structure and established issuer. The portfolio consist of 20% BLG originated loans, 20% - SNS Regio Bank and 60% SNS Bank originated loans.

WA OLTMV is 83%, seasoning 21 months; interest-only loans are 71.0% of the portfolio, around 1.6% of self-employed borrowers.

Substitution period running through to March 2013.

All mortgages benefit from the NHG guarantee; credit given in accordance with the standard methodology.

No reserve fund; class B does not benefit from any credit enhancement.

Swap pays servicing fees, interest on the notes minus PDLs and 25bp guaranteed excess spread.

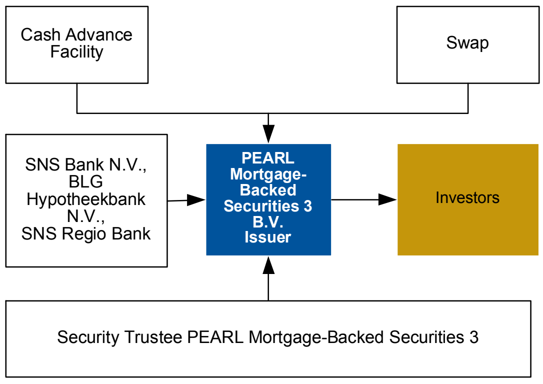
Use of new silent assignment law for transfer of mortgage loans.

Source: SNS Bank/Fitch

Fitch Default Model Output

Rating level	AAA	AA	A	BBB	BB
WAFF (%)	15.23	12.18	9.14	6.09	3.05
WARR (%)	64.27	69.81	75.17	79.77	84.16
WARR with NHG (%)	97.1	99.0	103.2	103.2	103.3
MVD	38.23	32.66	27.08	22.11	17.13

Structure Diagram



Source: Transaction documents

Collateral

Pool characteristics

Current principal balance (EUR) (net of savings)	807,000,000	**Regional concentration (%)**	
Savings balance (EUR)	6,673,046	Gelderland	14.9
Average current loan per borrower (EUR)	157,740	Limburg	14.7
Number of borrowers	5,221	Zuid-Holland	14.3
Seasoning (months)	20.8	Lien position (%)	
Loan-to-value (LTV) (%)		First & subsequent ranking	100
WA OLTMV (%)	83.0		
WA CLTMV (%)	82.8	Jumbo (%)	2.9
WA CLT indexed MV (%)	79.4		
		Payments	
Mortgage characteristics		Payment frequency	Monthly
Interest only	71.0	Payment method	Direct debit
Savings	13.1	Performing loans (%)	100
Insurance	0		
Repayment	1.1	WA DTI (%)	20% class 2 / 80% class 3
Investment	14.8	Employment status (% of self-employed)	1.6
Floating-rate loans (%)	9.8		
Fixed-rate loans (%)	90.8		
WA interest margin (%)	4.4		
Interest index	Euribor		

Source: SNS Bank/Fitch