

# Woonnu

The innovative Dutch sustainable mortgage lender

May 2021



# NN Bank and Woonnu

Woonnu is a 100% subsidiary of NN Bank

- Nationale-Nederlanden Bank\* (NN Bank) is an **established mortgage originator** in the Dutch market and has an extensive track-record in originating and managing mortgage loan portfolios:
  1. €8.2bln of mortgages granted in 2020 (top 5, 6.6%\* market share).
  2. Portfolio of approx. €53bln under management.
- Nationale-Nederlanden has set itself **very ambitious targets** in terms of sustainability: reason for NN Bank to launch a separate mortgage label solely focused on sustainable mortgage lending.
- NN Bank **launched Woonnu on 17 August 2020** as part of its sustainability ambition.
- Woonnu has been set up as a **hybrid mortgage lender**: a combination of funding from NN Group entities and external investors.

# What is Woonnu?

Woonnu is a new innovative sustainable mortgage lender

- Woonnu contributes to the sustainability conversion of the Dutch property stock by:
  1. Offering consumers a mortgage loan that **rewards improvements** in the energy label of their property; and
  2. Supporting consumers in **actually realising** the conversion of their property and obtaining a new energy label.
- The Woonnu proposition not only focusses on the consumer: we believe the **financial intermediary** and **investors** play a critical role in driving the sustainability conversion.
- Woonnu has been **live since August 2020** and we look forward to sharing our first experiences with you.



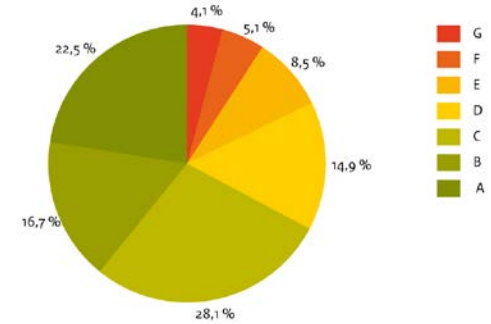
# Background information Dutch market

# Some relevant facts of the Dutch housing market

Relatively high share of energy label A properties

- Of the 7.9mln properties in the Netherlands, 3.8mln properties have a confirmed energy label.
- Of these 3.8mln properties, **22.5% has an energy label A and 16.7% energy label B.**
- Until 31/12/2020 it was possible to obtain a confirmed energy label for €5 based on publicly available property information complemented by property specific information submitted through a web-based questionnaire.
- Since 01/01/2021 an EPC certificate can only be obtained after an on-site visit from a certified agent (in line with European practice) at a cost of > €300.

Energy label distribution of the Dutch residential property stock\*

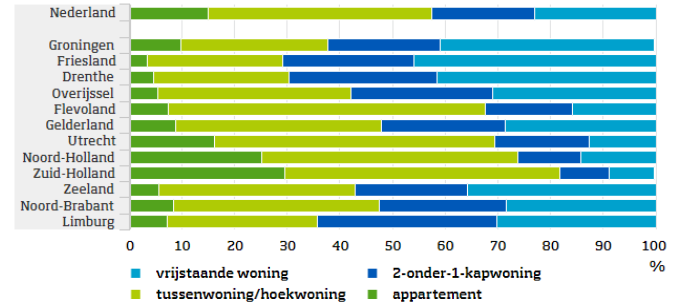


# Some relevant facts of the Dutch housing market

Very strict building regulations apply

- 4.3mln\* (of the 7.9mln) properties are owner-occupied.
- 15%\* of which are apartments (on average).
- Dutch building regulations require an energy label of A+++ (<50KWh/m2) for new-build properties or major renovations.

Type of properties\*



EPC Class	Energy Label (NTA 8800)	BENG 2: Primary Energy Demand (fossil) [kWh/m²]
A	A+++	< 50
A	A+++	> 0 & ≤ 50
A	A++	> 50 & ≤ 80
A	A+	> 80 & ≤ 110
A	A	> 110 & ≤ 165
B	B	> 165 & ≤ 195
C	C	> 195 & ≤ 255
D	D	> 255 & ≤ 300
E	E	> 300 & ≤ 345
F	F	> 345 & ≤ 390
G	G	> 390

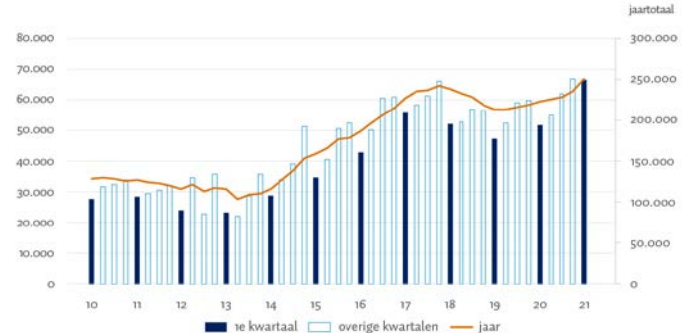
# Some relevant facts of the Dutch housing market

- Average house price of €379k (Q1 2021)\* and up >16% compared to Q1 2020.
- The house price index increased by >10% compared to Q1 2020.
- The **number of transactions is at an all-time high** (66.000 in Q1 2021, up 29% compared to Q1 2020).
- **Number of properties for sale is at an all-time low**: only 17k\*\*.

House price index\*



Number of transactions\*



# Some relevant facts of the Dutch mortgage market

- Total outstanding mortgage debt of € 740bln.  
New production in Q1 2021: € 40bln (average loan amount of €360k).
- Traditionally the top 4 banks had a market share of >75%. Strong growth of non-traditional mortgage lenders (mainly servicing investors through OTD mandates) in recent years have reduced this to approx. 50% of new origination.
- Approximately 1/4 of new mortgage production (in EUR) qualifies for an NHG guarantee (state guarantee that covers 90% of loss to the mortgage lender). One of the conditions to qualify for an NHG guarantee is that the property value is < €325k. NHG covers a sustainability renovation budget of up to 6% of the loan amount (max LTV of 106%).
- >70% of all mortgage loans are distributed through the intermediary channel. Relatively few intermediaries currently include 'sustainability' in their advice.



# Some relevant facts of the Dutch mortgage market

- >65% of all new origination has an interest fixed rate of >20yr.
- The current rate for a Dutch 20yr /100% LTV fixed rate mortgage loan is 1.75%.
- For most mortgage loans with a conversion budget it is difficult to distinguish between sustainability conversion and general renovation – often closely linked and not compulsory for client to provide separately.
- Following on from the Dutch climate agreement, nearly all of the largest mortgage originators have set the **objective of improving the energy efficiency of their mortgage portfolios (e.g. to average energy label A by 2030).**

# Sustainability conversion of Dutch housing stock

The 4.3mln owner-occupied properties are key in realising the climate agreement objectives

- Depending on the current energy label of a property, the **average estimated investment\*** required to obtain an energy label A ranges from **€5k to 22k** per property.
- Based on these estimates the **total investment** is expected to be **€35bln** to achieve an average energy label A for the total owner-occupied Dutch building stock (5% of current mortgage debt).
- The actual investment amounts could be significantly higher as i) the distribution of energy labels in the owner-occupied stock is expected to be worse than in the total Dutch property stock and ii) the actual amounts required to achieve an energy label are different (higher).
- Uncertain for how many properties it is uneconomical to aim for energy label A/B.
- The investment amount increases to **€75bln** if the objective is set at **energy neutral** instead of energy label A (10% of current mortgage debt).

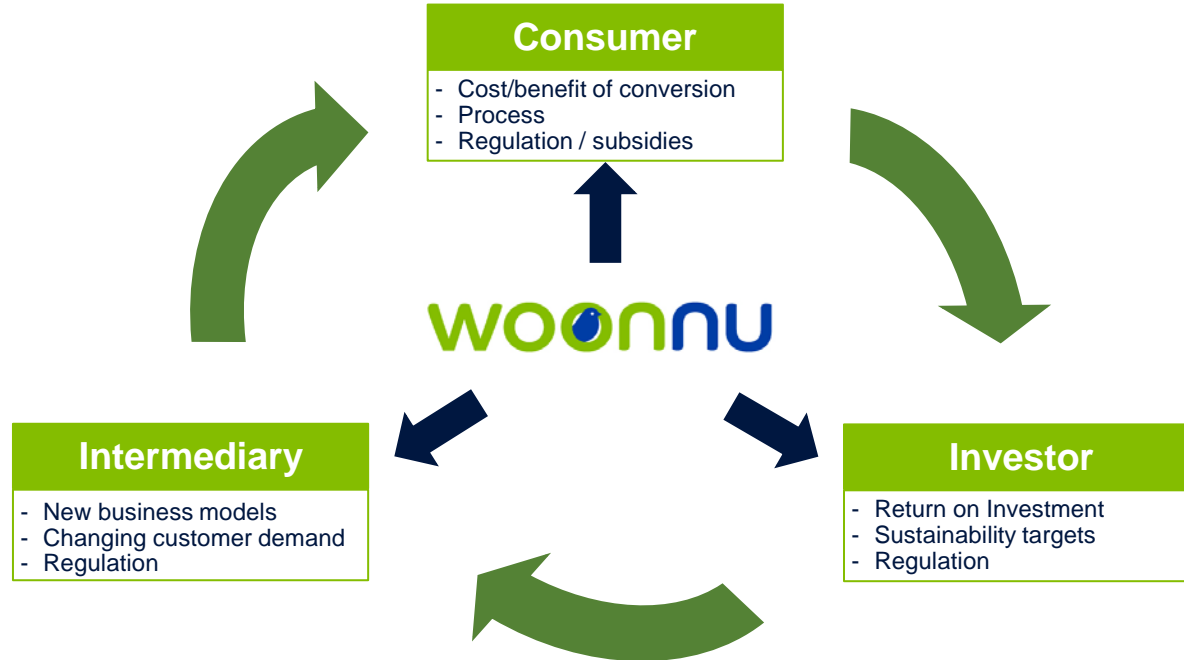
Cost per property to achieve energy label A							
From/ To							
€	F label	E label	D label	C label	B label	A label	Total
G label	4,700	3,110	2,600	2,760	3,650	4,780	21,600
F label		3,110	2,600	2,760	3,650	4,780	16,900
E label			2,600	2,760	3,650	4,780	13,790
D label				2,760	3,650	4,780	11,190
C label					3,650	4,780	8,430
B label						4,780	4,780

# Woonnu proposition



# Woonnu aims to service three core client groups

The interests of intermediaries, consumers and investors are highly interconnected and future regulation plays an important role



# The Dutch consumer faces numerous challenges

Both in terms of process as well as financing, consumers are not offered integrated solutions



The Woonnu platform aims to provide customers with an integrated offering: focussed on the conversion process itself and the financing thereof.

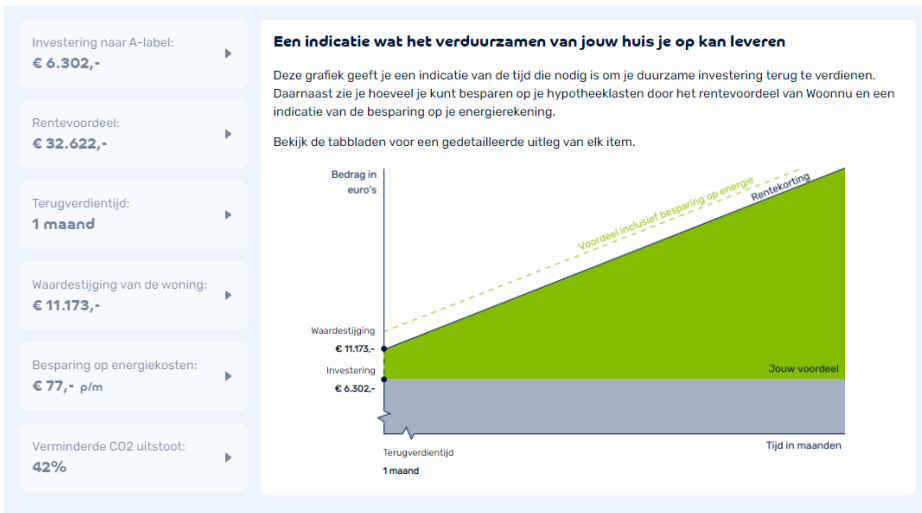


# Woonnu tool

The Woonnu tool enables consumers to analyse the economics of potential energy efficiency improvements that can be made to a (target) property

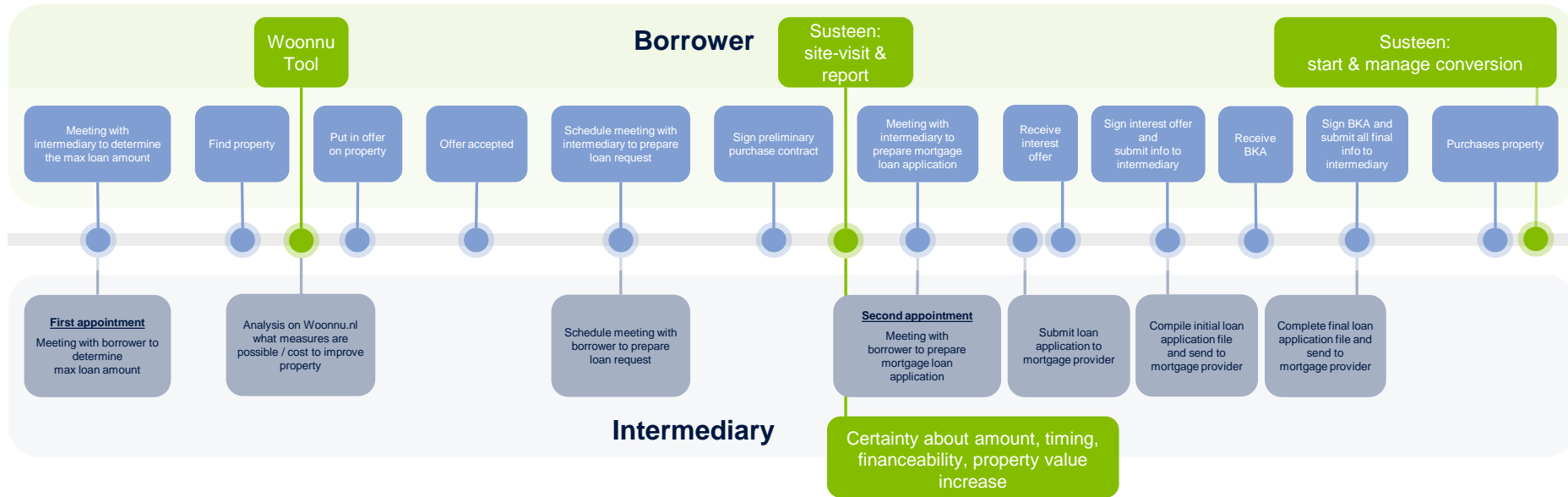


- For different conversion measures, the Woonnu tool calculates the cost, the Return on Investment and pay-back period, based on property value increase and mortgage cost savings.
- If desired, this estimate can be confirmed in a energy improvement report after an on-site visit.



# Woonnu proposition: process

Woonnu is bringing fundamental changes to the mortgage process by integrating the sustainability advice into the mortgage application process and managing the property conversion



# Woonnu proposition: pricing scheme

Woonnu directly rewards consumers for realised energy label improvements



- The Woonnu mortgage loan pricing scheme contains an innovative element:
  - In addition to risk-class and interest rate fixed period, Woonnu considers a third element: the energy label of the property.
  - Depending on the energy label of the property, a discount or mark-up is applied to the mortgage interest rate:
- Borrowers pay the interest rate (including discount or mark-up) that is applicable: an improvement in energy label is **immediately translated into a decrease of the interest rate** (upon demonstration of the new energy label).
- The discount on the interest rate is applicable:
  - i) to the **full loan amount** (not just the amount needed for the sustainability conversion); and
  - ii) for the **full tenor** of the mortgage loan (not just up to interest reset).

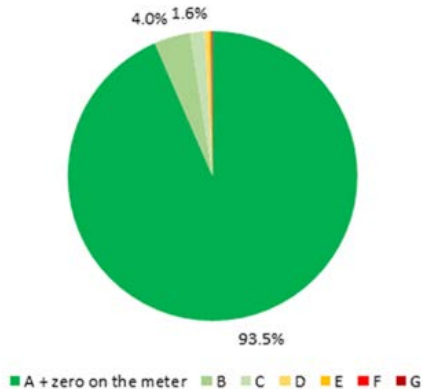


# Woonnu was launched on the 17<sup>th</sup> of August 2020

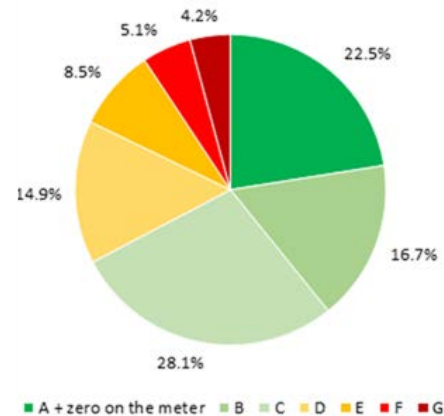
Since go-live in August Woonnu has managed to build a very solid pipeline of high-quality loans

- Since the launch of the Woonnu label in August 2020, production volumes have been steadily increasing and Woonnu entered the top 20 of mortgage originators in the Dutch market in Q1 2021, realising a market share of approx. 1%.
- Due to our pricing scheme, Woonnu is particularly attractive to consumers that are either looking to improve the energy efficiency of their property to energy label A or already have an energy label A.
- In our mortgage production to date, we see many existing A labels but we are also starting to see more energy label >B with the intention to (pipeline) or actually converting to energy label A (portfolio).

Woonnu energylabel distribution originated loans (EUR weighted)



Market average energylabel distribution\*



## 1. The customer journey of a consumer buying a property is fundamentally different from a consumer looking to renovate its existing property (and potentially refinance):

- Although many consumers think about sustainability improvements, the stress of getting the financing for the property purchase in place means that the actual **decision is often postponed**, particularly in a stressed market.
- Obtaining a new energy label is not straightforward and an extra step that also adds to the cost of the conversion (> €300).
- The majority of consumers looking to improve the energy efficiency of their existing property are **not aware that a refinancing of their existing mortgage** is often a very economical solution to obtain the necessary funding and can even lead to lower interest expense.

## 2. A very significant portion of the sustainability conversions to be realised involve apartments. However, the decision making process for owners of apartments is highly complex and involves many stakeholders:

- Financing is at home-owner association level – another type of financing solution is required to pay for the sustainability conversion measures.
- For a decision on most of the energy efficiency improvement measures, the majority of the members of a home-owners association is required.
- Economics of the required investment are not the same for each member of a home-owner association (affordability, time horizon, borrowing capacity).
- Often the mandate of a home-owner association does not allow for up-front cost such as a feasibility study or entering into a loan to finance improvements.

## 3. Not all sustainability conversions are equal:

- We do not yet have enough data on completed conversions to draw any meaningful conclusions – each conversion is a combination of very individual factors.
- Cost savings (energy and financing) are important drivers for most consumers.
- However, we note that even many of our customers that already have an energy label A property still request a ‘renovation budget’ in their loan application to make further sustainability improvements (for often very considerable amounts).
- These customers appear to be primarily motivated by ‘comfortable living’ and/or environmental considerations.

## 4. Still a long way to go in making sustainability a standard part of the mortgage application process:

- Particularly in a market where there is a high volume of transactions, many intermediaries do not see the need to offer additional services and extend their service offering to the customer.
- There are however, many exceptions: the share of intermediaries actively engaging in discussions with their customers is increasing.

## 5. It will be a challenge to 'prove' the realised energy efficiency improvements:

- To meet the requirements of the EU taxonomy, a vast amount of data will need to be recorded and translated. This is currently not captured in the mortgage process and will require a huge effort from many stakeholders.
- CO<sub>2</sub> reduction is as much driven by behaviour and not just (semi-)static underlying property characteristics.

# Contact Details & Disclaimer



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