Increasingly more strict borrowing capacity rules in the Netherlands create lower LtIs for newly originated mortgages

Newly originated portfolios have lower LtIs than existing ones, providing possibilities for a solid and diversified exposure to the market. This article highlights the impact and strategic opportunities.

- In the last two decades we've seen that LtIs have shown a consistent trend towards austerity
- This results in a decrease in the maximum loan principal that can be borrowed
- Therefore, the year of origination of mortgages correlates directly with LtIs
- The current mortgage landscape in 2025 presents reduced LtIs for investors, marking a historically favorable period for mortgage-related activities in the Dutch market

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In The Netherlands the affordability test for mortgages is prescribed by law. The criteria for responsible lending are determined by the government in collaboration with the National Institute for Family Finance (Nibud). This body predominantly dictates the determination of the borrowing capacity by the annual update of the so-called "housing quotes". These quotes are determined based on the development of borrower's purchasing power, creating a matrix that consists of income categories and interest rates with corresponding maximum percentages of the qualifying income that can be allocated to mortgage payments.

Below an example of an affordability test in 2025:

2025		
Income 1	€	50,000
Income 2	€	25,000
Qualifying income	€	75,000
Interest rate		3.5%
Housing quote		24.0%
Max yearly income towards mortgage (qualifying income x housing quote)	€	18,000
Max sum available for mortgage (30 year term)	€	540,000
Max mortgage after turning max sum into annuity	€	334,042.48

The monthly mortgage payments are calculated on an annuity basis, even if the redemption type of the mortgage is interest-only. In the calculation of the mortgage payments the applicable mortgage rate is used unless the fixed interest term is shorter than 10 years, in which case a predefined calculation rate is used (currently 5.0%, much higher than the current market rate for 10Y fixed mortgages). In this way security is created that the consumer is able to adapt to fluctuating interest rates on the short term. This is one of the main reasons why arrears in the Netherlands remain relatively low.

Loan-to-Income Ratio Trends

The loan-to-income ratios (LtIs) have shown a consistent trend towards austerity. In 2015, someone with an income of 35,000 euros could still spend 25% of their gross income on their mortgage; in 2025, this percentage is only 22.5% (at an interest rate of 3%). Due to this deterioration of the LtIs, the maximum mortgage for any given income also decreases.

Over the past two decades, there has been a significant decline in maximum loan amounts relative to income, with higher income segments experiencing the most significant reductions. One of the reasons for this decline lies in the fact that the Dutch government has reduced the tax deductibility options for borrowers since 2012. As a result we observe that the maximum loan amount decreased, especially for the higher income segments, which have been impacted most by the measures implemented.

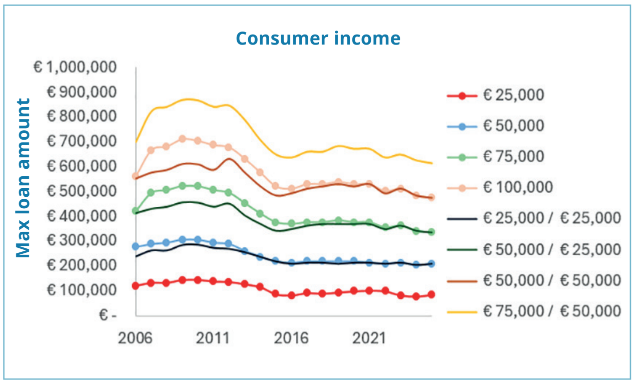
Single vs Dual-Income Households

Above, we have shown the developments for single-income households. We see a similar trend for dual-income households: just as with single-income households, we see a decrease in the maximum loan principal that can be borrowed. However, we see a flatter course here, which has to do with the qualifying and gross income mentioned earlier. Policy regarding the qualifying income for dual-income households has changed over the last two decades:

- Pre-2011: Second income not considered in mortgage calculations
- 2011-2023: Gradual inclusion of second income
- Post-2023: Full consideration of both incomes

Despite increased borrowing potential for dual-income households, the overall trend of reduced LtIs has prevailed. Since 2023 the maximum borrowing capacity calculation is equal for single and dual-income households.

Figure 1: Max loan amount versus consumer income



Source: DMPM Analytics, Nibud

Implications for Investors

The year of mortgage origination directly correlates with maximum LtIs as data on the qualifying income are not periodically updated :

- 2006-originated mortgages carry inherently higher LtIs
- 2025-originated mortgages benefit from historically low LtIs

The decline in maximum loan amount influences investors in the Dutch mortgage market. The year of origination of the mortgages in the portfolio directly correlates with LtIs. Mortgages originated in 2006 inherently have a higher average LtI than mortgages from 2025. The LtIs in 2025 are at a historic low, ensuring that these are ideal conditions to get exposure to mortgages using a mortgage origination strategy. Ramping up a new portfolio creates a portfolio with lower LtIs than investing in Dutch mortgages through the purchase of an existing mortgage portfolio. If an originator already has exposure to NL mortgages a new ramp-up or replenishment results in diversification in the asset class also with respect to the LtIs.

Consequences for investments in mortgage portfolios:

- The ramp-up of a new mortgage portfolio generates lower LtIs compared to the purchase of an existing portfolio
- Replenishment of a portfolio creates diversification of the LtIs

The current mortgage landscape in 2025 presents reduced LtIs for investors, marking a historically favorable period for mortgage-related activities in the Dutch market.

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