



## Retail Interest Rates: July 2015

### Key Developments

- Variable rate new housing loans** (excluding renegotiations) averaged 4.13 per cent during the second quarter of 2015 (Table 1), remaining broadly unchanged from Q1. New business **fixed rates are below standard variable rates** across all fixation categories. While SVR rates have remained stable in Q2, **fixed rate pricing on new business mortgage contracts has declined**. In terms of new business PDH contracts, fixed rates have declined by nearly 20 basis points for both the 1-3 and over 5 years categories compared to Q1. Similarly, fixed rates on BTL mortgages declined by 125 basis points for the 3-5 year fixation category. Over the quarter to end-June 2015, over **51 per cent of all new business mortgages drawn down for primary dwelling homes were at fixed interest rates, compared to 47 per cent in Q1**. In terms of new business buy-to-let mortgages, the corresponding share of fixed rate loans stood at 7.2 per cent.
- Rates on **outstanding tracker mortgages** which account for almost half of all housing loans were 1.05 and 1.02 per cent for principal dwelling and buy-to-let loans respectively, at the end of Q2.
- The new business **loan-to-deposit spread** for households has remained elevated for the last number of months (Chart 1). The loan to deposit spread decreased by some 7 basis points over the month to July 2015, predominately driven by a fall in the weighted average interest rate on household loans. Spreads have increased from circa 100 basis points in April 2012 to **360 basis points at end July 2015**.

Table 1: Mortgage Rates (as of June 2015)

	New Business		Outstanding Amount	
	Primary Dwelling House	Buy-to-Let	Primary Dwelling House	Buy-to-Let
Standard or LTV Variable Tracker Mortgages*	4.13	5.09	4.10	4.24
Fixed Rate	n/a*	n/a	1.05	1.02
- 1 to 3 years	3.80	5.35	4.08	4.78
- 3 to 5 years	3.87	5.07	4.24	4.86
- over 5 years	3.70	5.50	3.52	4.00

\*no active market

Chart 1: Loan to Deposit Spread for Domestic Banks<sup>1</sup>

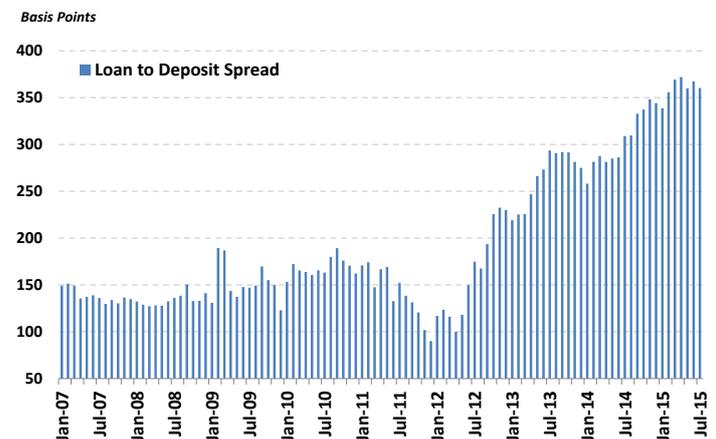
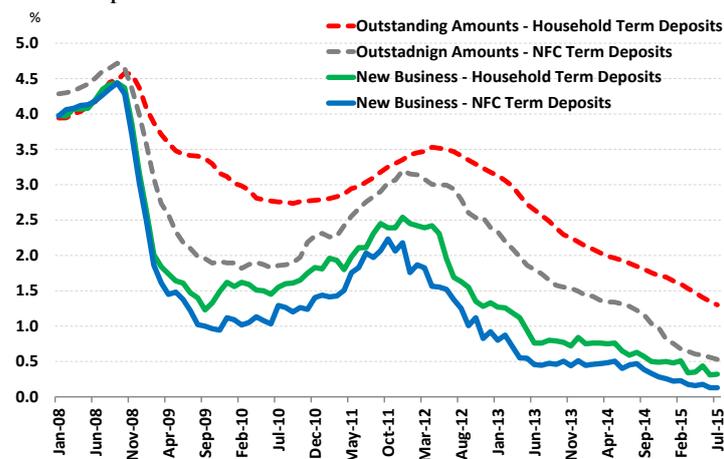


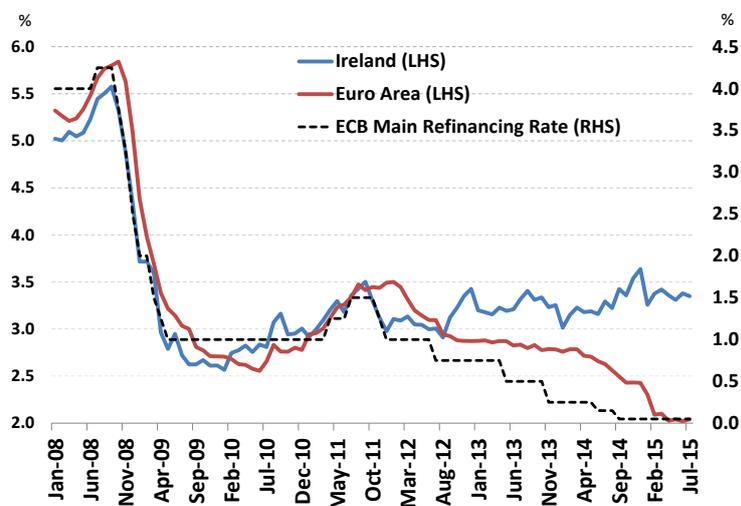
Chart 2: Interest Rates on Household and NFC term Deposits



<sup>1</sup> The loan to deposit spread is the difference between new business term deposits and the weighted average rate on new business loans to Households for either house purchase or consumer purposes, with a floating or up to one year initial fixation rate.

- **Rates on outstanding term deposits continued to decline** in July 2015 (Chart 2). Rates applicable to NFCs decreased by 3 basis points to 0.53 per cent, while the corresponding rates for households fell by 5 basis points to stand at 1.3 per cent. **New business deposit rates remained broadly unchanged** for both NFCs and household in July.
- Interest rates on **outstanding loans for house purchase** were unchanged at 2.66 per cent at end-July 2015.
- The rate on **new floating rate loan agreements<sup>2</sup> for house purchase** (which includes renegotiations), was 3.35 per cent at end-July 2015, representing a decrease of 3 basis points over the month. The equivalent euro rate was 2.04 per cent. Irish rates have decoupled from their traditional correlation with the MRO benchmark (Chart 3).

Chart 3: Interest Rates on new floating rate loans agreements to households for house purchase



<sup>2</sup> Floating rates include variable rates and loans with an initial fixation up to one year.

**Note:**

A number of enhancements to the calculation of the national weighted average interest rates and national total business volumes have been introduced in ECB Guideline (ECB/2014/15) on monetary and financial statistics. These enhancements introduced in the Guideline involve changes to the sampling methods. The changes made contribute to a further harmonization of the data compilation process thus improving cross-country data comparison. The changes apply as of January 2015 for reference period December 2014. As a result of these enhancements, data have been recalculated, as per the requirements of Guideline ECB/2014/15, for previous reference periods in order to ensure a consistent and coherent compilation of data across time and to allow for time series analysis. The extensive set of [Retail Interest Rate Statistics](#) tables are available on the Central Bank of Ireland website.

Retail Interest Rate Statistics cover all euro-denominated lending to, and deposits from, households and non-financial corporations (NFCs) in the euro area by credit institutions resident in Ireland. Interest rates on outstanding amounts cover all loans and deposits outstanding on the last working day of the month, while interest rates applicable to new business volumes cover all new loan and deposit business agreed during the month.

For retail interest rate statistics purposes, new business is defined as any new agreement between the customer and the credit institution. This agreement covers all financial contracts that specify, for the first time, the interest rate of the deposit or loan, including any renegotiation of existing deposits and loans. Automatic renewals of existing contracts, which occur without any involvement by the customer, are not included in new business. New business volumes have been exceptionally low in various instrument categories during the last number

of months. Low volumes of this nature can result in increased volatility within the interest rate series.

New loan agreements to households for house purchase with either a floating or initial rate fixation period of up to one year are broader in scope than just 'new mortgages', issued at variable interest rates. There are a number of factors that can lead to differences between MIR statistics and interest rates advertised by resident credit institutions, including renegotiated loans, the inclusion of home improvement loans, and the underlying MIR compilation methodology. New data on mortgage interest rates are available, and outlined above, these rates are not part of the MIR framework and represent drawdowns broken down by type of interest rate (i.e. Fixed, Tracker and SVR). These data will be available on a quarterly basis.