Household Credit Market Report

H1 2015

The Central Bank of Ireland’s Household Credit Market Report is compiled by the Financial Stability Division. It collates information from a wide range of internal and external sources to give an up-to-date picture of developments in the household credit market in Ireland. Data are drawn from Central Bank of Ireland Credit, Money and Banking, Retail Interest Rates, Quarterly Financial Accounts, and Mortgage Arrears aggregate statistics, loan-level data collected by the Central Bank of Ireland from the Irish domestic banks, and the Banking and Payments Federation of Ireland. For cross-country comparisons, the report also draws on data from the ECB (MFI statistics) and Eurostat. All data sources are detailed in Appendix 1. Appendix 2 provides a glossary of key terms and abbreviations.

The report is structured as follows: Section 1 provides an overview of household liabilities and credit stocks. Section 2 focuses on the mortgage credit market. Section 3 presents statistics on mortgage arrears and modifications. Section 4 highlights developments in non-mortgage credit.

Overview

- Total loans to Irish residents for house purchase amounted to approximately €117bn in Q3 2014.\(^1\)
- The average interest rate on outstanding mortgages in Ireland is 2.77 per cent.
- There was an increase in the volume of new lending between Q3 2013 and Q3 2014 from €750mn to €1,126mn. The number of new loans increased from 4,482 in Q3 2013 to 6,308 in Q3 2014. A majority of new loans in 2014 went to First Time Buyers.
- There has been a decline in the volume of Private Dwelling House (PDH) mortgage arrears to €16.5bn in Q3 2014. This accounts for 15.7 per cent of the outstanding stock. As of Q3 2014, the total balance of Buy-to-Let (BTL) mortgages in arrears was approximately €8.9bn, representing 30.8 per cent of the total outstanding credit stock.
- In recent quarters, there has been an increase in the number of PDH mortgage modifications provided to borrowers by financial institutions. In Q3 2014, there were just under 110,000 PDH modifications, an increase from approximately 80,000 in Q3 2012. Approximately four-in-five or 82 per cent of borrowers who received PDH mortgage modifications are meeting the terms of the arrangement.
- Outstanding consumer loans stood at €11.6bn in October 2014. Default rates on non-mortgage loans were between 12 per cent for revolving facilities and 15 and 24 per cent for secured and unsecured term loans as of June 2014.

\(^1\)This represents securitized and non-securitized loans from Irish resident financial institutions as in CBI, Credit, Money and Banking Statistics. This is a lower bound figure which does not capture loans owed by Irish households to entities not in the reporting population for these data. Please see appendix 1 for more details.

\(^2\)Comments and inquiries should be addressed to: Financial Stability Division, Central Bank of Ireland, PO Box 11517, Spencer Dock, North Wall Quay, Dublin 1. Email: fsdadmin@centralbank.ie
1 Overview

Figure 1 provides a breakdown of total household liabilities by type. The largest group of liabilities held by Irish households are long-term loans. Between 2002 and 2008, there was a considerable increase in the volume of long-term loans on Irish household balance sheets. This has decreased since 2009 as a sustained process of household deleveraging has been undertaken. Long-term liabilities amounted to €153bn in Q3 2014. The second largest group of liabilities owed by households were other accounts payable at €9.7bn in Q1 2014. Short term loans, which include credit card lending, amounted to just over €8bn in Q1 2014.

Figure 1. Split of Liabilities by Type, Q1 2002-Q3 2014

Source: Central Bank of Ireland, Quarterly Financial Accounts.

To provide additional information on the type of loans owed by Irish households, Figure 2 presents data on loans for house purchase, loans for consumption (consumer credit), and other loans. The largest share of loans to households is for house purchase (both primary residences and residential investments). Consumer credit increased prior to 2009 but has fallen consistently since then. The share of other loans increased slightly following the crisis but has fallen more recently. Total lending for house purchase has declined steadily since 2009 and amounted to approximately €117bn in Q3 2014. Consumer credit amounted to €11.7bn and other loans amounted to €7.5bn in Q3 2014.

Figure 2. Split of Lending by Type, Q1 2003-Q3 2014

Source: Central Bank of Ireland, Credit, Money, and Banking Statistics. Note 1: Data covers loans held at banks reporting to CBI, Credit, Money, and Banking Statistics. See appendix 1. Note 2: Loan volumes differ between figure 1 and figure 2 due to differences in the reporting populations. Please see explanatory notes for these releases on the CBI website and appendix 1 for more information.
2 Developments in Mortgage Credit

2.1 Mortgage Credit Stocks Outstanding

Figure 3 presents the evolution of total mortgage credit in Ireland split between lending for primary homes (PDH), buy-to-let investments (BTL) and holiday or other second-home loans. The majority of lending has historically been for PDH mortgages. The volume of lending for BTL investments increased considerably during the credit boom period as households increased their investment exposure to residential property.

Figure 4 presents total outstanding mortgage lending per capita in Ireland, the United Kingdom and the median for a group of selected European economies. The grey shaded area captures the 25th and 75th percentiles below and above the median while the grey lines are the maximum and minimum countries in the sample. Irish households have above median levels of mortgage credit per capita relative to other European countries.

Countries were selected where comparable data was available for the full period from the ECB website. This ensures that the underlying data series are of a common composition. Using ISO codes, the countries included are: AT, BE, CZ, DE, ES, FI, FR, UK, GR, HU, IE, IT, LU, NL, PT, SE.

Source: ECB and Eurostat. Note: For Ireland, data cover unsecuritised loans held at banks reporting to CBI, Credit, Money, and Banking Statistics. This is to provide a consistent European series and differs from Figure 2. See appendix 1.
2.2 Interest Rates on Outstanding Loans

Figure 5 presents the percentage of outstanding PDH and BTL loans that hold fixed, standard variable rate (SVR) and tracker mortgages. As of Q3 2014, for PDH loans, 45 per cent had a SVR interest rate, a further 45 per cent had tracker rates and the remaining were on fixed-rate contracts (3 per cent on short-term fixed and 7 per cent on fixed terms of greater than one year). For BTL loans, a majority are on tracker rate mortgages (65 per cent) with SVR rates the second largest type of rate structure (32 per cent).

To provide an international comparison, Figure 6 presents interest rates on overall outstanding mortgages for Ireland and the median across a group of selected European countries. As per Figure 4, percentiles and the sample maximum and minimum are presented. The outstanding interest rate in Ireland, at approximately 2.8 per cent is close to the European median. As evident in Figure 5, there is a high share of Irish loans on tracker interest rates. Reductions to ECB policy rates in recent years would have been passed through to the interest rate paid by these mortgage holders. Part of the cross-country variation can be explained by the different shares of variable and fixed-rate mortgages in the stock of loans in each country. It must be noted that these data do not represent the interest rate on new lending.

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*aCountries were selected due to data availability. Included countries are: AT, BE, DE, ES, FI, FR, GR, IE, IT, LU, NL, and PT.*
2.3 *New Mortgage Lending*

An important consideration for Irish households relates to the volumes of new credit provided for house purchase. Figure 7 presents data on new lending from the Irish Banking and Payments Federation for the period Q1 2005 to Q3 2014. The number and volume of new loans has fallen since the onset of the financial crisis. There has been an increase in the volume of new lending between Q3 2013 and Q3 2014 from €750mn to €1,126mn. The number of new loans has increased from 4,482 in Q3 2013 to 6,308 in Q3 2014.

Figure 8 presents new lending by loan type across the following categories: First Time Buyers (FTB), Movers, Residential Investment Loans (RIL), Re-mortgaging and equity release (Top-ups). Prior to the crisis, considerable new lending was allocated for re-mortgaging, equity release and residential investment. Since the crisis, the highest share of lending has been undertaken by FTBs. In Q3 2014, FTBs accounted for 51 per cent of new loans, Movers account for 35 per cent of new loans with 4 per cent for RIL, 2 per cent for re-mortgages and just under 7 per cent for Top-ups. The share of FTBs has been consistent throughout 2014.

*Figure 7. New Lending by Loan Count and Balance, Q1 2005-Q3 2014*

*Figure 8. Breakdown of New Lending Count by Credit Type, Q1 2005 - Q3 2014*

*Source: Banking and Payments Federation of Ireland.*
Table 1 presents summary statistics for new lending for the period January to June 2014 from the loan-level data (LLD) provided to the Central Bank of Ireland by three domestic credit institutions, Allied Irish Bank, Bank of Ireland and Permanent TSB. It does not contain information on the lending activity of other market participants. These data do not capture any changes to new-lending interest rates or balances that have occurred between June 2014 to present. The table presents the statistics for loan balance, interest rates, originated loan-to-value (OLTV) and mortgage term for PDH and BTL loans. The average balance for all loans was approximately €156,700. The average new lending rate was 4.25, median OLTV was 75 per cent and average term was 26 years.

<table>
<thead>
<tr>
<th>Variable</th>
<th>All</th>
<th>PDH</th>
<th>BTL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Balance (€)</td>
<td>135,000</td>
<td>138,000</td>
<td>87,750</td>
</tr>
<tr>
<td>Mean Balance (€)</td>
<td>156,710</td>
<td>159,080</td>
<td>111,777</td>
</tr>
<tr>
<td>Median OLTV (%)</td>
<td>75</td>
<td>78</td>
<td>60</td>
</tr>
<tr>
<td>Mean OLTV (%)</td>
<td>67</td>
<td>68</td>
<td>59</td>
</tr>
<tr>
<td>Mean Interest Rate (%)</td>
<td>4.25</td>
<td>4.19</td>
<td>5.28</td>
</tr>
<tr>
<td>Mean Term (years)</td>
<td>26</td>
<td>27</td>
<td>17</td>
</tr>
</tbody>
</table>

Figure 9 provides additional insight into the distribution of OLTV for new lending in Ireland between January and June 2014. The chart provides the distribution of loans by loan type (PDH/BTL) and OLTV. It can be seen that a large share of the PDH distribution was clustered around 90 per cent LTV with lower levels of lending originated with LTVs above 90 per cent. For BTL loans, there was more variation across LTV at origination.

Figure 9. Distribution of Originated Loan-to-Value Ratios, January to June 2014

Source: Central Bank of Ireland, LLD. Note: Y axis is per cent of all loans both PDH and BTL.
3 Mortgage Arrears and Modifications

2.3 Mortgage Arrears

Figure 10 presents the total volume of outstanding mortgage balances in arrears across both PDH loans and BTL loans. As of Q3 2014, a total of just under €25.5bn worth of loans were in arrears. This represents just over 19 per cent of all residential mortgage loans outstanding. As can be seen from Box 1, the level of mortgage arrears in Ireland is high in a European context. However, the overall volume of mortgage arrears is on a downward trend, having peaked at over €27.6bn in Q3 2013 or approximately 21 per cent of all loans.

Figure 10. Mortgage Arrears by Default Rate and Balance, Q2 2012-Q3 2014

![Graph showing mortgage arrears by default rate and balance from Q2 2012 to Q3 2014.](image)

Source: Central Bank of Ireland, Mortgage Arrears Statistics.

In this report, when we refer to mortgages in arrears, we use the standard Basel definition of mortgages in default as being at least 90 days-past-due.

Figure 11 presents the percentage of loans that were in default by county in June 2014 from the Central Bank LLD. There is considerable variation across counties in Ireland. Default rates were lowest in Cork, Tipperary, and Mayo. Default rates were high in counties in the border and midlands regions.

Figure 11. Default Rates on All Residential Mortgages by County, June 2014

![Map showing default rates by county in Ireland.](image)

Source: Central Bank of Ireland, Loan Level Data.
Figure 12 presents the total value of mortgage balances in arrears for PDH loans as well as the percentage of the total outstanding loans that this balance accounts for. The value of mortgages in arrears peaked at just over €18.8bn in Q3 2013. This represented just over 17 per cent of the total outstanding stock of mortgages. Since this peak there has been a general decline in the value of mortgages in arrears to €16.6bn in Q3 2014. This accounts for 15.7 per cent of the outstanding stock.

Despite the overall decline in the total volume of PDH arrears, there has been an increasing percentage of loans in long-term arrears. Figure 13 presents the volume of mortgages in arrears by depth of arrears. An increasing share of arrears cases are moving into long-term arrears (more than 720 days-past-due). In Q3 2014, over €8bn of total arrears was more than 720 days-past-due (dpd). A further €6.8bn was between 180 and 720 dpd, with approximately €1.8bn in arrears between 90 and 180 dpd.
Figure 14 presents the total balance of BTL mortgages that were in arrears as well as the per cent of total balance in arrears. As of Q3 2014 the total balance of BTL mortgages in arrears was approximately €8.9bn, representing 30.8 per cent of the total outstanding credit stock for BTLs.

Figure 15 presents the balance of BTL loans in arrears by the duration of arrears. The chart is split into mortgages that are greater than 180 days-past-due (dpd), mortgages that are between 90 and 180 dpd and mortgages in arrears of less than 90 days. In total, approximately €4.8bn is in long-term arrears of greater than 720 dpd. A further €3.3bn is in arrears of between 180 and 720 dpd. Around €764mn are in arrears of between 90 and 180 dpd. The trend is towards an increasing share of mortgages in long-term arrears, which is similar to that for PDH mortgage arrears.
2.4 Negative Equity

Figure 16 presents the percentage of loans in negative equity by the year the loan was originated. The calculation of negative equity is completed using data as of June 2014 and therefore does not reflect changes to loan balances and house prices from June 2014 to present. Negative-equity calculations in these data only reflect the loans in the LLD which are collected by the Central Bank of Ireland. It can be seen that a large number of loans that were originated between 2004-2008 were in negative equity in June 2014. Over 50 per cent of the loans originated in 2007 were in negative equity at June 2014.

Table 2 presents the share of loans in default and in negative equity for both PDH and BTL loans. For PDH loans, 65 per cent of loans are both in positive equity and performing, 20 per cent are in negative equity and performing, 7 per cent in default and positive equity, and 8 per cent in negative equity and performing. For BTL loans, 46 per cent of loans are both in positive equity and performing, 26 per cent are in negative equity and performing, 9 per cent in default and positive equity, and 19 per cent in negative equity and default.

Table 2. Split of Loans by Negative Equity and Default Status, June 2014

<table>
<thead>
<tr>
<th></th>
<th>Positive equity</th>
<th>Negative equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PDH</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performing Default</td>
<td>65%</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td><strong>BTL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performing Default</td>
<td>46%</td>
<td>26%</td>
</tr>
<tr>
<td></td>
<td>9%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: Central Bank of Ireland, Loan Level Data.
2.5 Mortgage Modifications

Figure 17 presents the total number of mortgage modifications provided by financial institutions to borrowers in arrears or pre-arrears for PDH loans. In recent quarters there has been an increase in the number of modifications. In Q3 2014, there were just under 110,000 modifications provided by financial institutions to borrowers. This has increased from approximately 80,000 in Q3 2012.

Figure 17. Total Restructured PDH Mortgage Accounts, Q4 2010 - Q3 2014

Source: Central Bank of Ireland, Mortgage Arrears Statistics.

Figure 18 presents the total number of mortgage modifications by the type of arrangement. The largest arrangement type is arrears capitalisation. In recent quarters, there has been an increase in the share of split mortgages, while the share of interest only (IO) arrangements and reduced payment arrangements (where the payment is lower than the original term but greater than IO) have decreased.

Figure 18. Total Restructured PDH Mortgage Accounts by Type, Q4 2010 - Q3 2014

Source: Central Bank of Ireland, Mortgage Arrears Statistics.

Arrears capitalisation is an arrangement whereby some or all of the outstanding arrears are added to the remaining principal balance, to be repaid over the life of the mortgage.
Table 3 outlines the percentage of modified loans that are meeting the terms of the arrangement, overall and for each specific type of modification. The statistics are as at Q3 2014 for both PDH and BTL. Overall for PDH loans, over 82 per cent are meeting the terms of the arrangement. For BTL loans, over 76 per cent are meeting the terms of the arrangement. There is variation across modification type in the percentage of borrowers meeting the terms of the arrangements.

### Table 3. Percentage of Modifications Meeting Arrangement Terms, Q3 2014

<table>
<thead>
<tr>
<th>Modification</th>
<th>PDH</th>
<th>BTL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>82.2</td>
<td>76.6</td>
</tr>
<tr>
<td>Interest Only - up to one year</td>
<td>80.5</td>
<td>81.2</td>
</tr>
<tr>
<td>Interest Only - over one year</td>
<td>92.1</td>
<td>92.3</td>
</tr>
<tr>
<td>Deferred Interest Scheme</td>
<td>71.7</td>
<td>0</td>
</tr>
<tr>
<td>Reduced Payment (less than IO)</td>
<td>68.1</td>
<td>88.1</td>
</tr>
<tr>
<td>Reduced Payment (greater than IO)</td>
<td>88.4</td>
<td>91.4</td>
</tr>
<tr>
<td>Temp Interest Rate Reduction</td>
<td>91.6</td>
<td>88.8</td>
</tr>
<tr>
<td>Payment Moratorium</td>
<td>95.9</td>
<td>99.1</td>
</tr>
<tr>
<td>Arrears Capitalisation</td>
<td>68</td>
<td>39.9</td>
</tr>
<tr>
<td>Term Extension</td>
<td>89</td>
<td>87.7</td>
</tr>
<tr>
<td>Perm Interest Rate Reduction</td>
<td>57.1</td>
<td>n/a</td>
</tr>
<tr>
<td>Split Mortgage</td>
<td>95.6</td>
<td>95.5</td>
</tr>
<tr>
<td>Other</td>
<td>86.7</td>
<td>89.2</td>
</tr>
</tbody>
</table>

*Source: Central Bank of Ireland, Mortgage Arrears Statistics.*

*Note: It should also be noted that some categories reflect only a small number of arrangements, particularly in the case of BTL accounts.*

### 3.6 Mortgage Market Structure

The financial crisis period in Ireland saw a number of changes to the structure of the Irish lending market. These structural changes include the merger of AIB and EBS, the market exits of Bank of Scotland Ireland and Danske Bank, the winding down of Anglo Irish Bank and Irish Nationwide as well as the liquidation of the Irish Bank Resolution Corporation. To provide some insight into the changes in concentration in the Irish mortgage market, figure 19 presents a Herfindahl index (HH Index) for the stock of outstanding Irish mortgages. This measure is the sum of the squares of each institution’s market share and is a generally accepted measure of concentration. The index has increased since the onset of the crisis.

*Source: Central Bank of Ireland data.*
4 Non Mortgage Household Credit

While mortgage lending is the largest credit type on the balance sheet of Irish households, it is also important to review trends in consumer and other household credit. Figure 20 presents the trends in consumer credit broken down by the loan term. All consumer lending has fallen since the onset of the crisis as deleveraging has continued. Consumer credit of less than one year stood at €3.5bn in Q3 2014, down from €3.8bn one year previously. Loans of 1 to 5 year terms stood at €5.1bn in Q3 2014 down from €5.7bn the preceding year. Consumer loans of over 5 years stood at €2.9bn, down from €3.4bn one year previously.

Figure 20. Trends in Consumer Credit, Q1 2003 - Q3 2014

Source: Central Bank of Ireland, Credit, Money and Banking Statistics. Note: The increase in the series in Q1 2009 reflects the inclusion of credit unions in the reporting population.

Figure 21 presents the interest rates on outstanding loan amounts of consumer and other loans by loan term. There has been an increase in the interest rates on all groups other than the longer term consumer credit loans (CC/OL (greater than 5 years). The highest rates are for overdraft facilities which are in excess of 14 per cent. The lowest rates are for longer maturity term loans.

Figure 21. Interest Rates on Consumer Credit, Q1 2003 - Q3 2014

Source: Central Bank of Ireland, Credit, Money and Banking Statistics.
Figure 22 provides a European comparison on the interest rates on revolving facilities (such as overdrafts and credit cards) across selected European countries. The Irish rate is presented alongside the median for selected European economies, the 25th and 75th percentiles around the median and the max and min countries. While not the highest rate of all the countries considered, the interest rate on revolving facilities in Ireland is above the median of the countries examined and above the 75th percentile.

*Countries include: AT, CY, DE, DK, EE, ES, FI, FR, GR, HU, IE, IT, LU, NL, PT.

As with mortgage lending, it is important from a banking-sector stability perspective to monitor the development of loan defaults in consumer lending. Figure 23 presents the share of the total outstanding balance in default for revolving facilities as well as secured and unsecured consumer term loans. The default rate for unsecured term loans was highest at over 24 per cent of balance. Term secured loans had the second highest default rate at approximately 15 per cent while revolving loans had a default rate of approximately 12 per cent.

*Source: ECB, MFI Interest Rates.*

*Source: Central Bank of Ireland, Loan Level Data.*
**Box 1: European Banking Authority Stress Tests - Default Data**

The publication of results of the 2014 EU-wide stress test by the European Banking Authority (EBA) has provided a substantial quantity of data on the balance sheets of 123 European banks. The exercise was carried out on a sample of banks covering at least 50 per cent of the national banking sector in each Member State, as expressed in terms of total consolidated assets as of end of 2013.

These data are employed to compare exposures across each country’s banking system. Figure 24 presents the default rate for domestic mortgage exposures in the selected European countries as of December 2013. Ireland has the third highest default rate (20.99 per cent) across all countries which took part in the stress test. However, Ireland also shows a high level of provision coverage (48.11 per cent coverage ratio for defaulted stock) – see Figure 25.

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1We have excluded countries with total exposures less than €5 bn (Hungary, Malta and Latvia, Slovenia). Furthermore, the figures describe domestic exposures only (excludes all foreign mortgage exposures of domestic banks). Asset classes are defined as per the EU’s Common reporting (COREP) definitions and Regulation (EU) No 575/2013 (CRR). For mortgages, we compare each country’s ‘Retail – Secured on real estate property – Of Which: non-SME’ exposures.
Appendix 1: Data Sources

Information from the following sources is used:

- Central Bank of Ireland: Credit, Money and Banking Statistics, http://www.centralbank.ie/polstats/stats/cmab/Pages/releases.aspx. The loan data presented from this source represents securitized and non-securitized loans from Irish resident financial institutions. This is a lower bound figure as does not include Irish banks that were previously in the reporting population to the CBI but have since left the market and banks whose mortgage loan books have been sold to non-banks or sub-prime mortgages.


- Central Bank of Ireland loan-level data: This data set provides information on a wide range of loan characteristics including outstanding balances, loan terms and loan repayment for the population of mortgage and consumer loans at Allied Irish Banks, Bank of Ireland and Permanent TSB. ‘Default’ is defined as loans greater than 90 days past due, or deemed unlikely to repay without giving up collateral (Basel II).


- European Central Bank, Monetary Financial Institution (MFI) Statistics.

- Eurostat, Population Statistics are used in calculating per capita values.

- Herfindahl-Hirschman Indices are calculated using the bank-level lending data used to compile the Central Bank of Ireland’s Credit, Money and Banking statistics.


This report has been compiled including published data available from, or before, January 2015.
Appendix 2: Glossary of Key Terms and Abbreviations

The following are key terms used in this document:

**BTL**  Buy-To-Let
**CBI**  Central Bank of Ireland
**CC**  Consumer Credit
**CLTV**  Current Loan-to-Value
**EBA**  European Banking Authority
**ECB**  European Central Bank
**FMP**  Financial Measures Programme
**FTB**  First-Time Buyer
**IO**  Interest Only Mortgage
**LLD**  Loan Level Data held by Central Bank of Ireland
**NP**  Non-performing loan
**OL**  Other Loan
**OLT**  Originating Loan-to-Value Ratio
**PDH**  Principal Dwelling House
**REV**  Revolving Loan such as Overdraft or Credit Card
**RIL**  Retail Investment Loan for Residential Property Purchase
**SVR**  Standard Variable Rate
**Tracker**  Mortgage Interest Rate that automatically changes in line with the ECB policy rate