

Account of Meeting No. 3 of the Macroprudential Measures Committee of 1 November 2016

In attendance: Governor Philip Lane (Chair); Sharon Donnery (Deputy Governor Central Banking) – via teleconference; Cyril Roux (Deputy Governor Financial Regulation); Gabriel Fagan (Chief Economist); Ed Sibley (Director of Credit Institutions Supervision); and Mark Cassidy (Head of Financial Stability Division and Secretary to the Committee).

Also present: Yvonne McCarthy (Financial Stability Division - Items 1-4); Niamh Hallissey (Financial Stability Division – Items 1-4); Paul Lyons (Financial Stability Division – Items 1-4); and Breda Cassidy (Financial Stability Division – Items 1-6).

1. The draft agenda was approved along with the draft account of the previous meeting subject to amendment of two outcomes for clarification purposes.
2. Proposed non-calibration policy options arising from the Bank's internal policy workstream were outlined. Arising from these, proposed changes to the Macroprudential Regulations for Housing Loan Requirements (the Regulations) were noted to include: the length of the two-month valuation period; and the definition of buy-to-let (BTL).

It was noted, from some submissions received from the public and industry participants since the introduction of the measures and via the call for evidence, that the timeline in conveyancing transactions is beyond the control of borrowers and given recently enhanced standards¹ for property valuation in Ireland and the improvement in the stability of the property price register, an increase in the valuation period ought to be considered. After assessing these observations in conjunction with legal practicalities it was deemed appropriate by the workstream to increase the valuation period to four-months.

With regard to the BTL definition, a range of options were considered by the workstream and it was proposed that the approach should remain as in the current Regulations, where the measures apply to non-Principal Dwelling House loans rather than seeking a targeted

¹ Following implementation of the EU Consumer Mortgage Credit Agreements Regulations, March 2016.

definition of BTL, but that loans to commercial landlords and developers would be specifically excluded. The precise drafting of this exclusion was noted to be in progress. It was proposed that this definition would be further considered in the next review.

3. The Committee explored recent dynamics in housing transactions in Ireland. It was noted that while the level of transactions and the turnover rate is currently low by historic standards, developments over recent years have been similar to other European countries considered (namely Spain, Finland and the Netherlands over the 2014-15 period). Drawing on international evidence, demand and supply-side effects following a housing crisis were noted to drag on housing market activity. In particular, it was noted that supply inelasticities are found to be important and preliminary evidence supports that in the Irish case. It was suggested that a more formal structural approach would be necessary to investigate this issue in more depth for a future review.

4. Draft key messages from the extensive analytical programme underlying the review were outlined along with the proposed structure of the report. It was noted that a high-level feedback statement will also be published as part of the review. Subject to the requirement not to publish confidential, libellous or defamatory content, the importance of publishing all submissions alongside the feedback statement was underlined. It was recommended that the levels of non-performing loans, arrears and restructures should be drawn out more in the key messages. A revision of the key messages concerning banking resilience was suggested so as to highlight that the impact will not be known fully until the next downturn. A summary paragraph of main messages was also suggested for the report. It was agreed that the report will be drafted in line with the structure outlined.

Attention was drawn to the Bank's communication regarding a need for a high threshold of evidence in respect of changes to parameters from this review. The external expectation arising from this was highlighted. In addition, it was underlined that the status quo has

changed with the government's introduction of a Help to Buy scheme for first time buyers (FTBs).

6. The meeting concluded with the following recommendations for further work prior to the Committee's next meeting:

- A paper to be drafted,

to include a further assessment of risks utilising a mechanism for prioritisation such as a 'traffic light' approach; and

- The report to be drafted in line with the structure outlined.