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# ANNUAL REVIEW OF RESIDENTIAL MORTGAGE LENDING REQUIREMENTS

28 November 2018

# Outcome of the 2018 Review – No change in calibration of the measures

## First Time Buyers 2019



## Second & Subsequent Buyers 2019



## Buy-to-Let 2019



### Other Exemptions

- Negative equity mortgages exempt from Loan-to-Value (LTV) limit
- Buy-to-Let mortgages exempt from Loan-to-Income (LTI) limit
- Switcher mortgages exempt from LTI and LTV limits



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# Summary of 2018 Review

- The measures as currently calibrated are achieving their objectives and are contributing to overall financial stability.
  - Strengthening both bank and borrower resilience.
  - Reducing the likelihood and impact of a credit-house price spiral emerging.
- Promoting a sustainable role for mortgage financing in the wider housing market
  - A fully functioning and sustainable housing market is not achieved by excessive leverage in the household sector and imprudent lending standards by banks.
- The pace of growth in new mortgage lending remains strong, but there is scope for further sustainable increases in mortgage activity.
- Mortgage lending is not generating a substantial divergence between house prices and underlying fundamentals (housing supply, income, interest rates) and there is little evidence of a credit-price spiral emerging. [\[Slide\]](#)
  - A significant and sustained expansion in housing supply key to addressing affordability problem.
- While there have been shifts in the distribution of LTVs and LTIs in new lending, indicating the measures are more binding, there has been little change in average LTVs and LTIs and no sign of a generalised deterioration in lending standards at present. [\[Slide\]](#)
- The resilience of the Irish financial system to mortgage lending and housing market developments has been reinforced by the activation of the countercyclical capital buffer (CCyB), which will become effective in July 2019. [\[Slide\]](#)

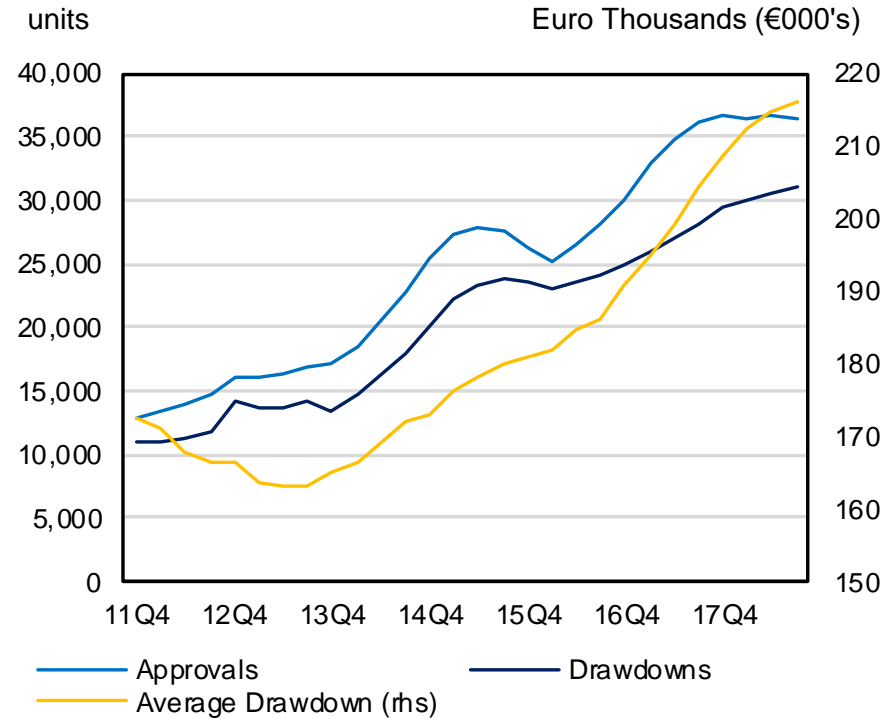


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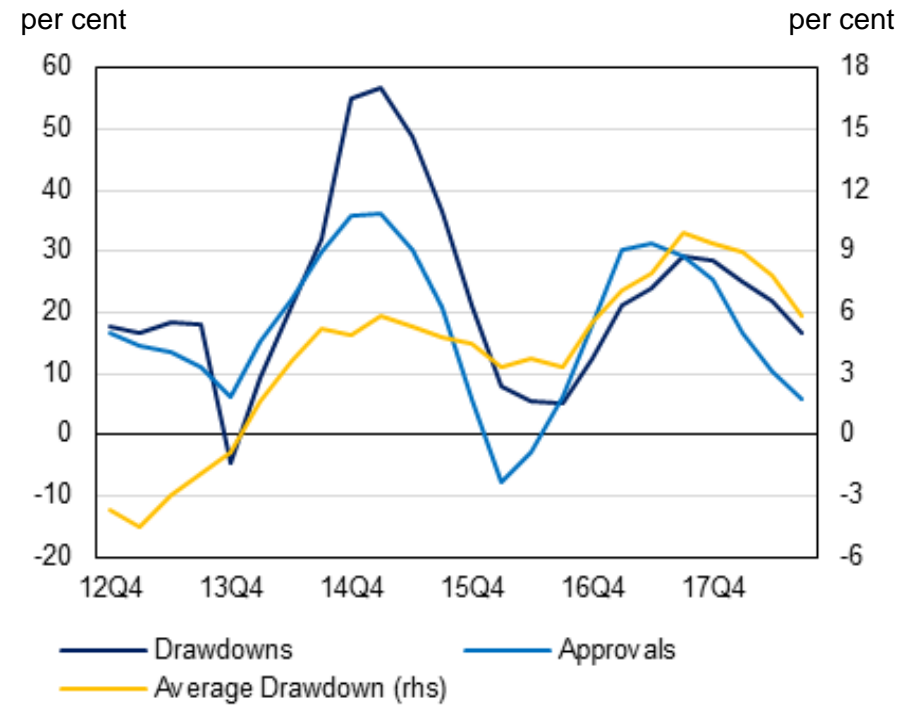
# Growth in value of new lending remains significant, but moderating...

**Volume of mortgage drawdowns, approvals, and average drawdown value (4 quarter rolling total)**



Source: BPF1  
 Notes: Data refer to new loans only for FTB, SSB, and BTLs.  
 Last observation: 2018Q3

**Annual growth rate in value of mortgage drawdowns, approvals, and average drawdown value**

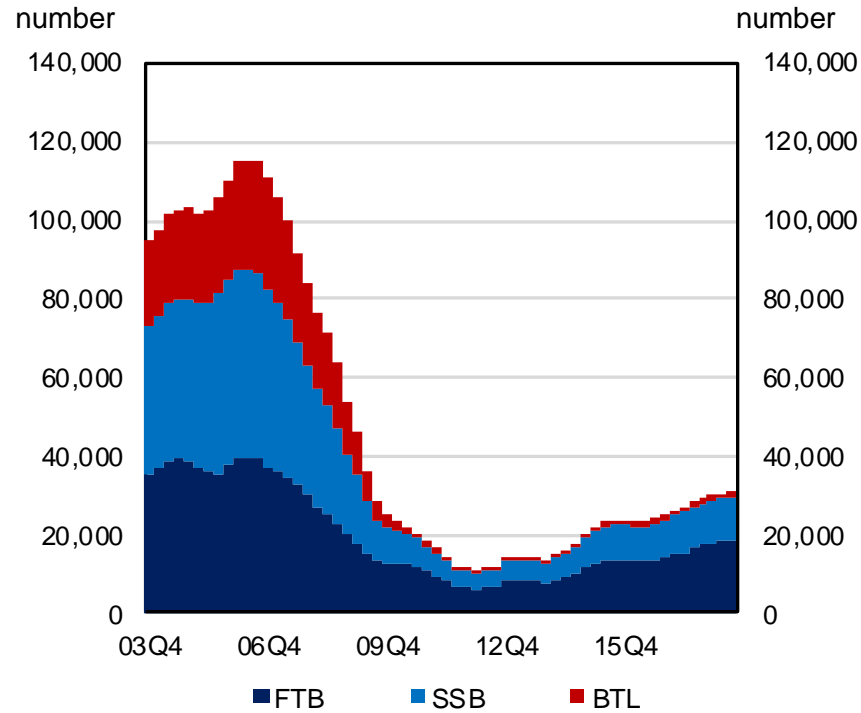


Source: BPF1  
 Notes: Data refer to new loans only for FTB, SSB, and BTLs.  
 Last observation: 2018Q3



# Scope for further sustainable increases in both volume and value of new mortgage lending as housing supply rises...

New mortgage lending by borrower type (4 quarter rolling total)



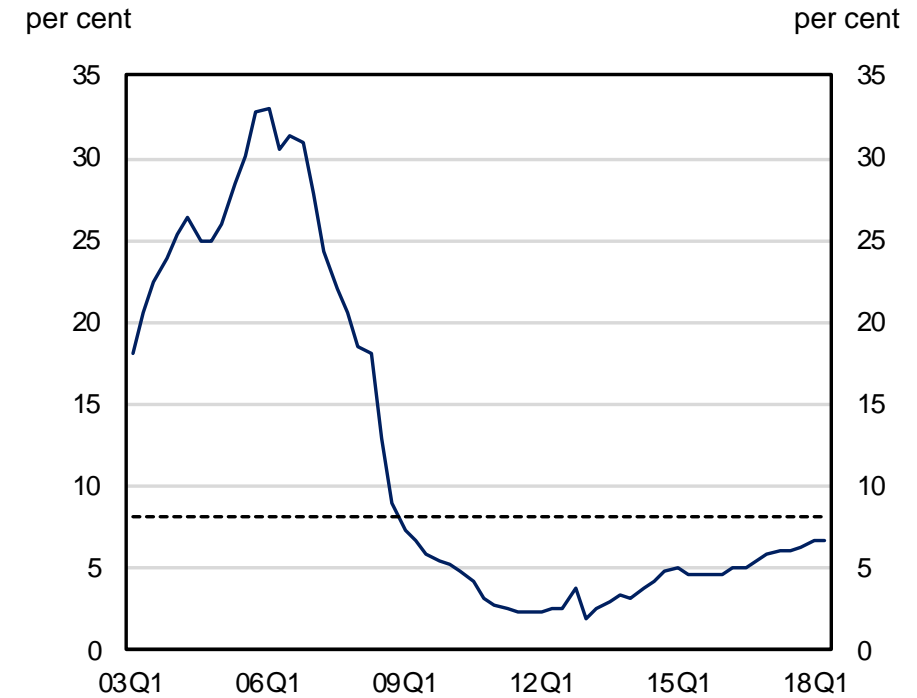
Source: BPF  
Last observation: 2018Q3



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New mortgage lending to disposable income (NMDI) ratio

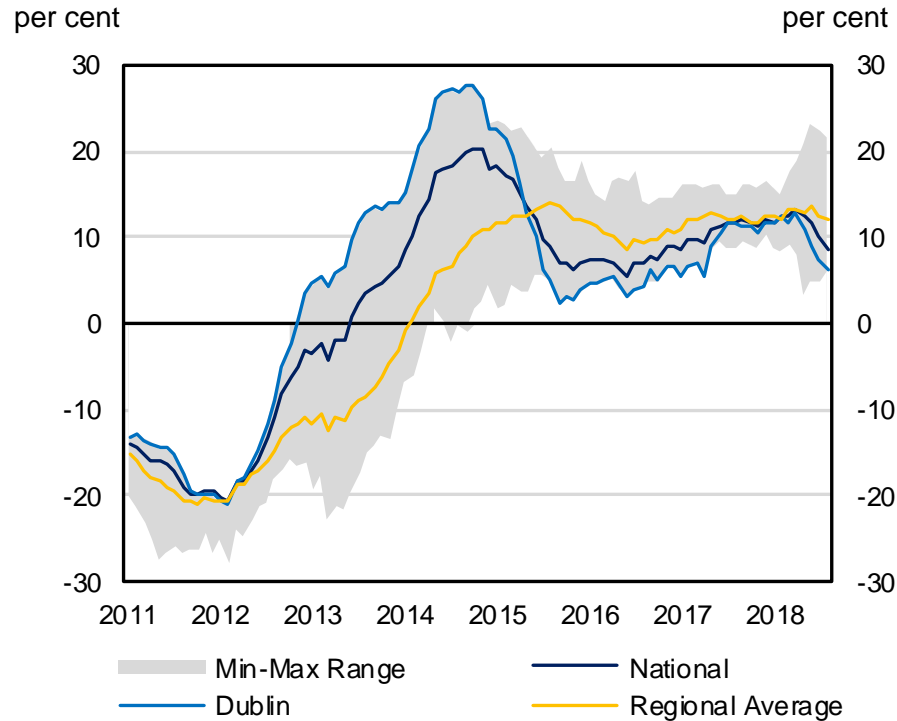


Source: Central Bank of Ireland calculations

Notes: The black dotted line denotes a NMDI ratio threshold derived based on long-run structural determinants. Last observation 2018Q2

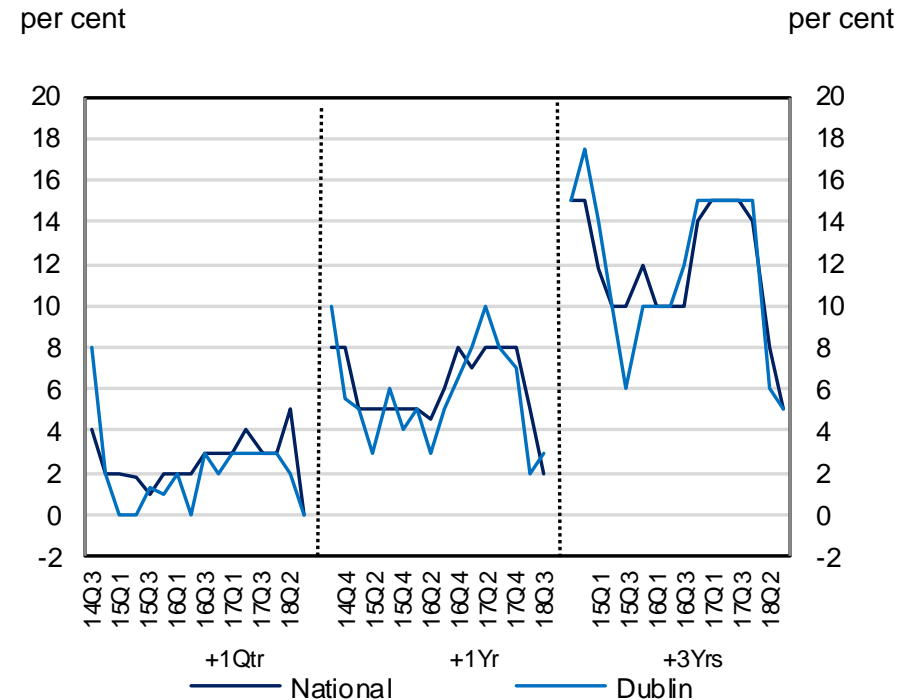
# Divergent developments in house price growth regionally, with the moderation evident recently expected to persist...

**Regional residential property price growth**



Source: CSO  
Notes: Last observation August 2018

**Median expected change in national and Dublin residential property prices over selected time horizon**



Source: CBI/SCSI Residential Property Survey 2018Q3  
Notes: Chart provides details of the results from the past 16 surveys (2014Q3 to 2018Q3). Number of observations vary from survey to survey. 2018Q1 survey did not occur

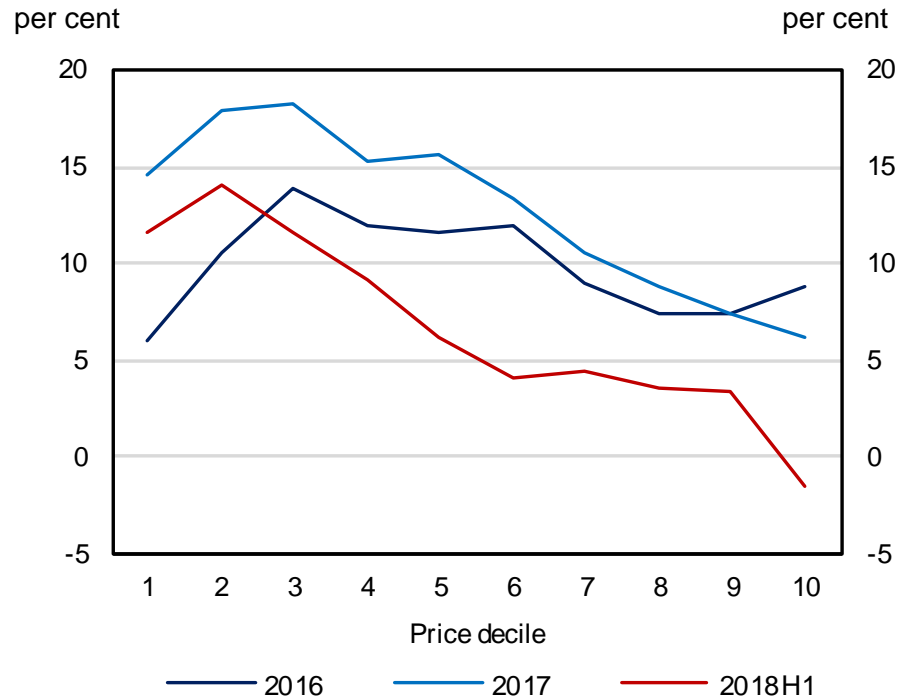


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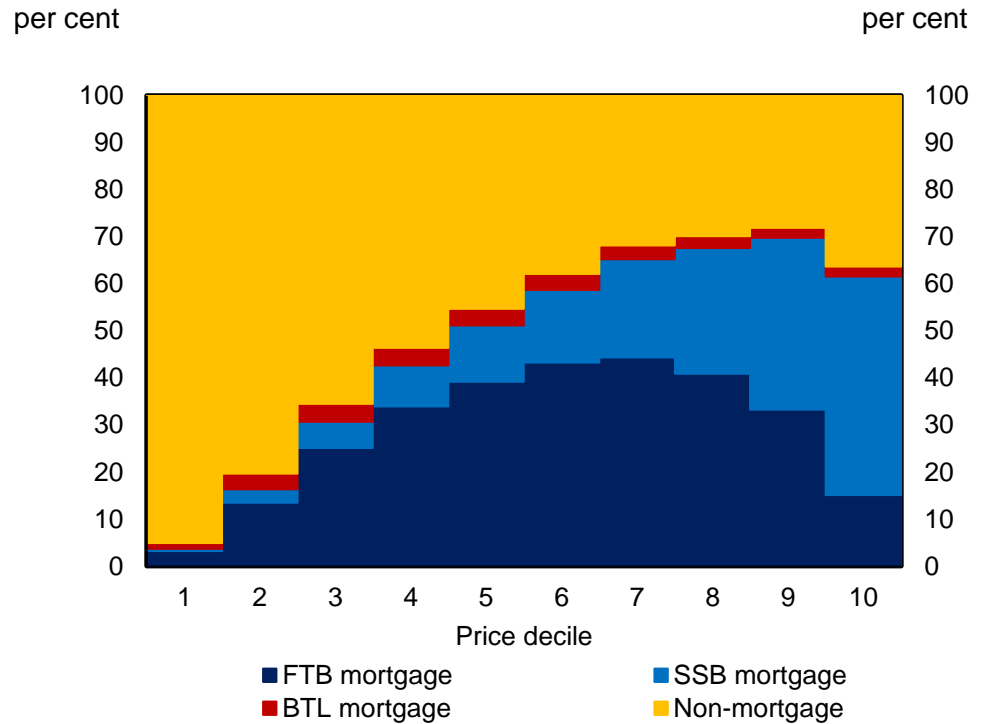
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# Overall price growth driven by developments in lower-priced segments of the market, where mortgage financing is less prevalent...

Annual growth rates of average residential property price in each decile



Residential property purchases by buyer type



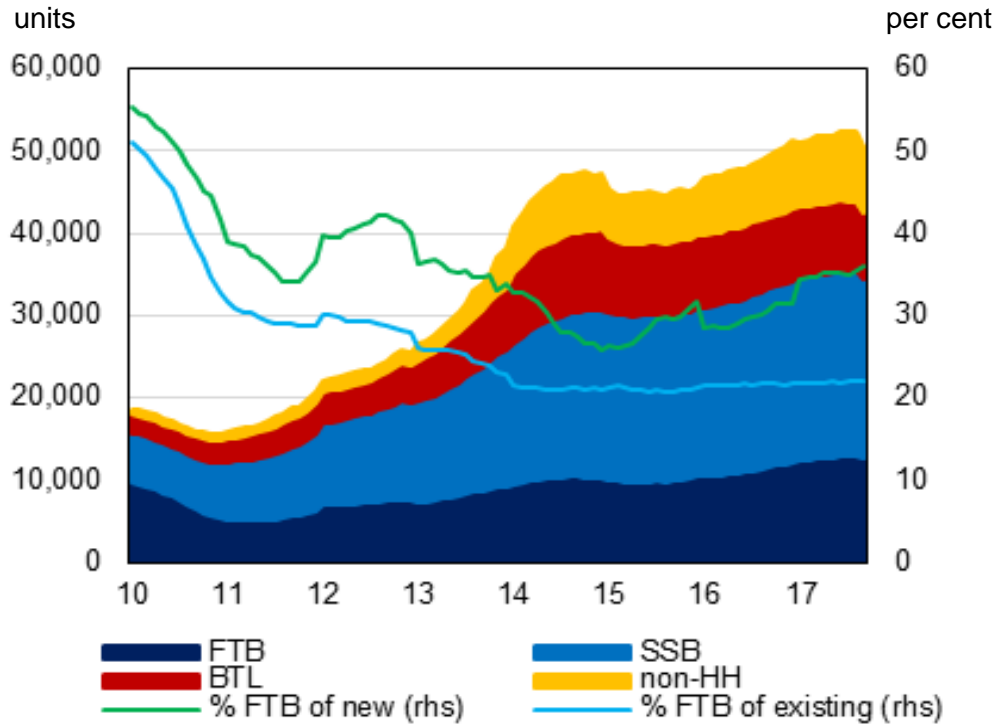
Source: PPR and Central Bank of Ireland calculations  
 Notes: 2018H1 annual growth rate since 2017H1 only.  
 Last observation 2018H1

Source: PPR, Central Bank of Ireland supervisory data and calculations  
 Notes: 2018H1 annual growth rate since 2017H1 only.  
 Last observation 2018H1

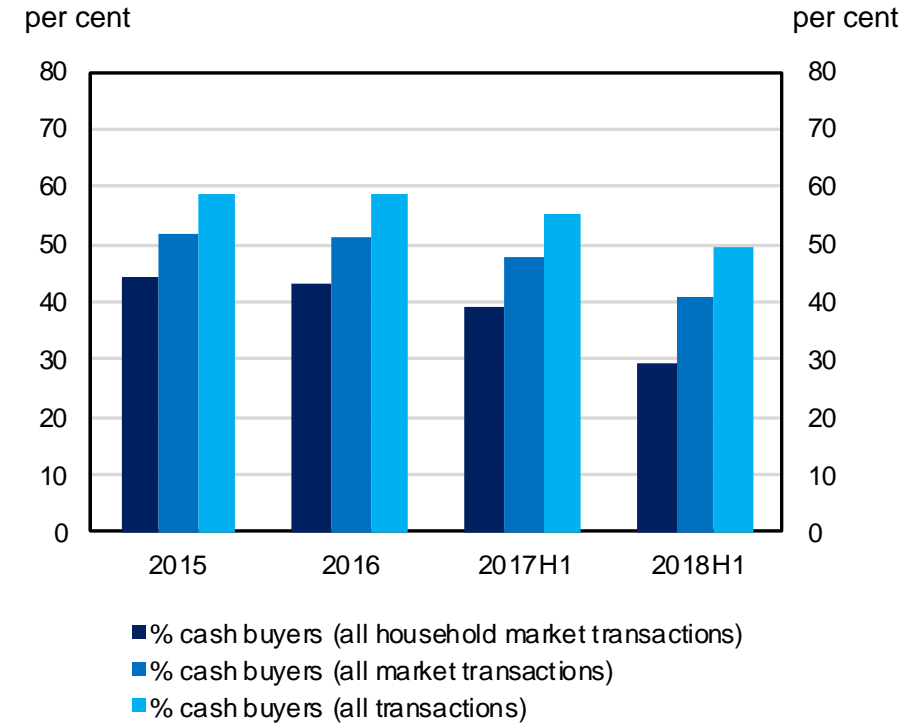


# Increase in housing market activity, with the share of non-mortgage financed transactions marginally lower but still significant...

Market-based household transactions (12 month rolling total)



Share of non-mortgage financed transactions



Source: CSO  
Notes: Last observation August 2018

Source: CSO, BPFi, and Central Bank of Ireland calculations



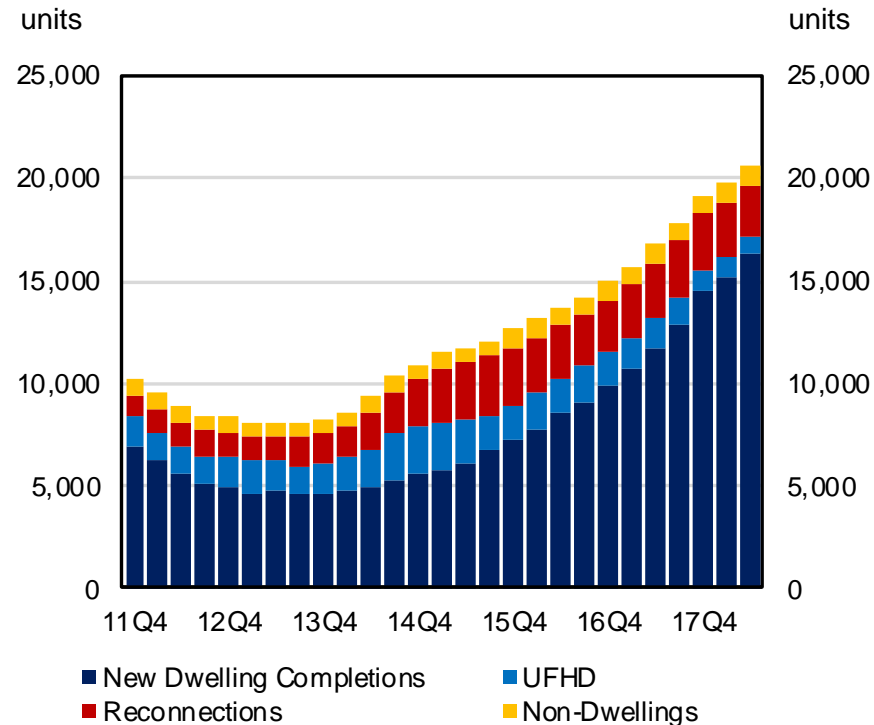
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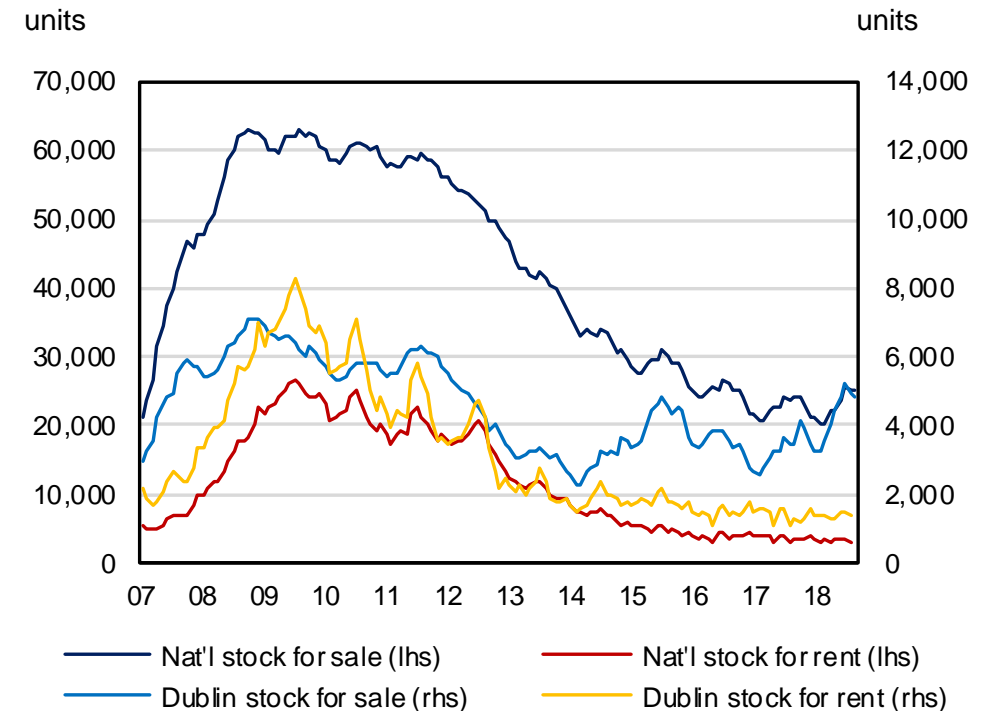
# Continued increase in housing supply and turnover should facilitate more sustainable mortgage lending and moderate house price growth...

**CSO New Dwellings**



Source: CSO  
Notes: UFHD refers to unfinished housing developments

**Stock available to rent or buy on Daft.ie**



Source: Daft.ie  
Notes: Last observation 2018Q2

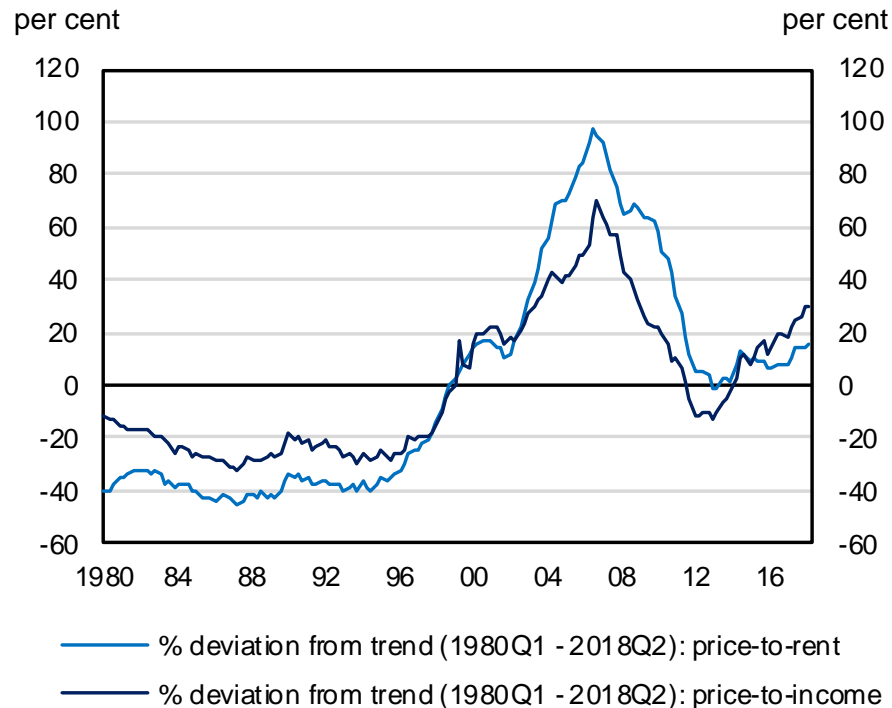


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# Simple indicators of house price misalignment are above long-run averages...

Deviation of statistical house price deviation indicators from long run average values



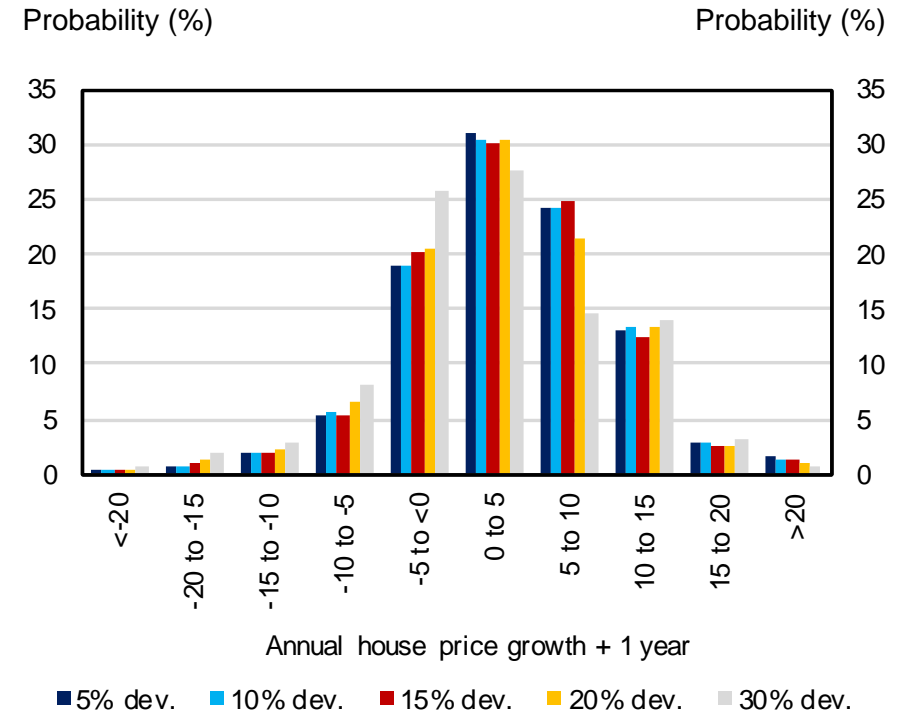
Source: CSO and Central Bank of Ireland calculations



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Annual house price growth and the deviation of house price-to-income ratios from trend

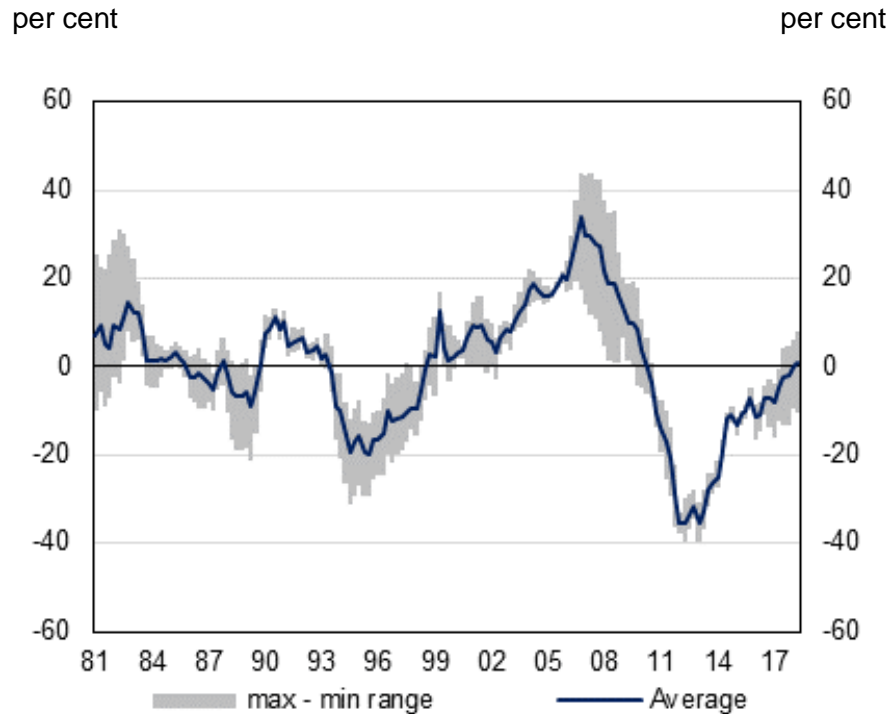


Source: OECD and Central Bank of Ireland calculations

Notes: Calculations are based on OECD house price-to-income data for a sample of 19 countries, between 1980Q1 and 2018Q2 for most countries. Data for DK, KO, NZ and UK available from 1981, 1986, 1986 and 1987 respectively.

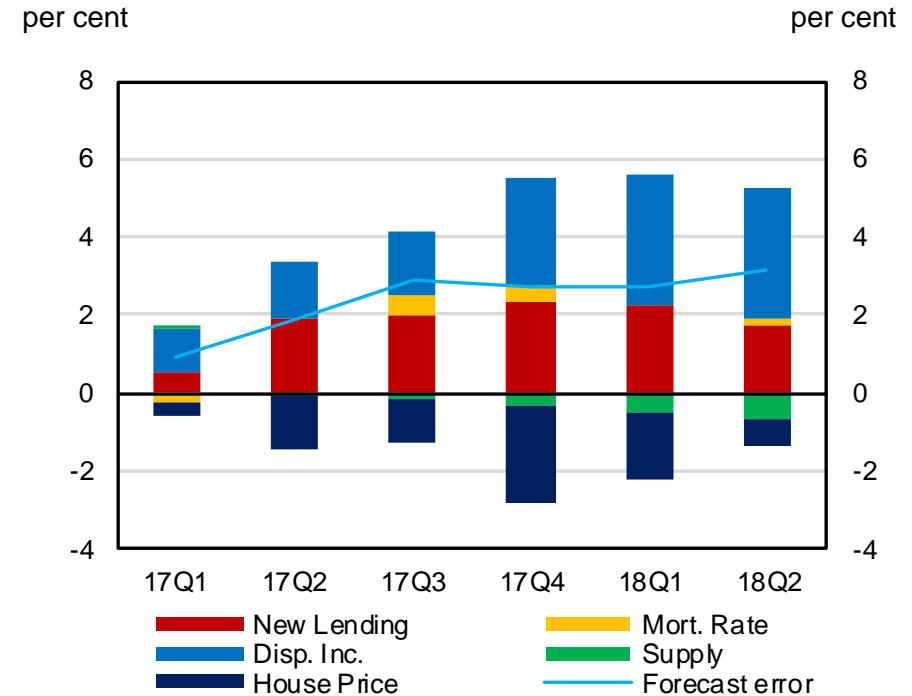
# Model-based estimates suggest mortgage lending is not driving a substantial divergence between house prices and underlying fundamentals...

**Model based measure of Irish house price misalignment**



Source: Central Bank of Ireland calculations

**Drivers of house price growth**



Source: CSO, BPFi and Central Bank of Ireland calculations.

Notes: Forecast error is the difference between the forecast price growth from an empirical model and actual house price growth. A positive forecast error implies actual house prices growth was higher than the model forecast. The bars represent the contribution of shocks to the other variables in the model to the forecast error.

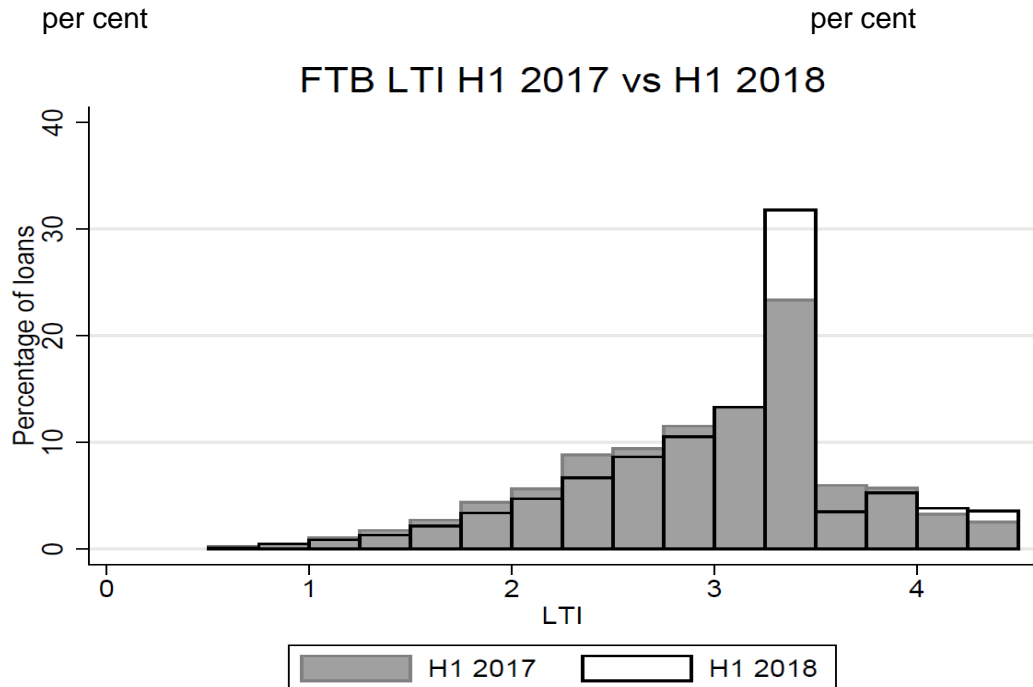


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# Measures are more binding in a rising market, with more borrowers clustering at the LTI limit, but little change in average LTI...

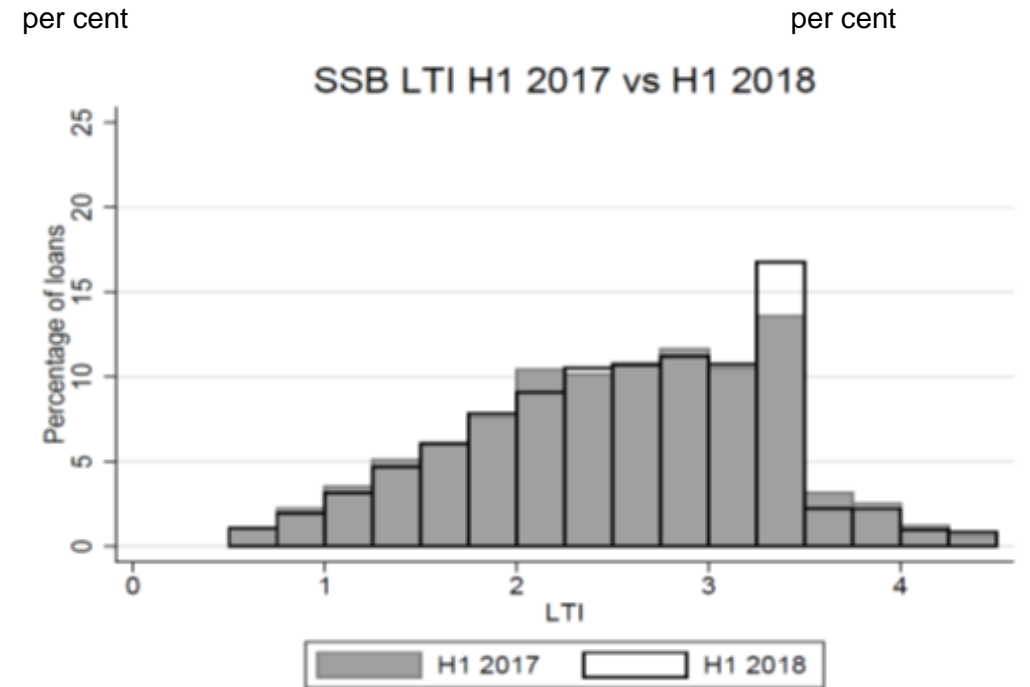
FTB LTI H1 2017 vs H1 2018



Note: Excluding observations at 1st & 99th percentiles. In-Scope New PP & Self Builds Only

Source: Central Bank of Ireland. Excluding observations at the 1st and 99th Percentile. New Property Purchase and Self-Build loans only.

SSB LTI H1 2017 vs H1 2018



Note: Excluding observations at 1st & 99th percentiles. In-Scope New PP & Self Builds Only

Source: Central Bank of Ireland. Excluding observations at the 1st and 99th Percentile. New Property Purchase and Self-Build loans only.

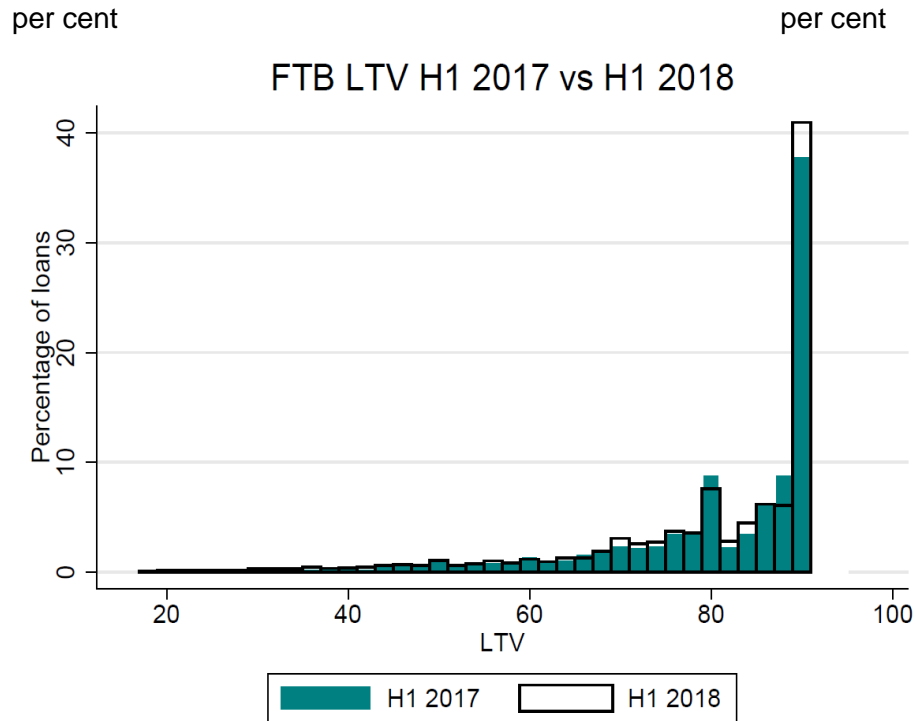


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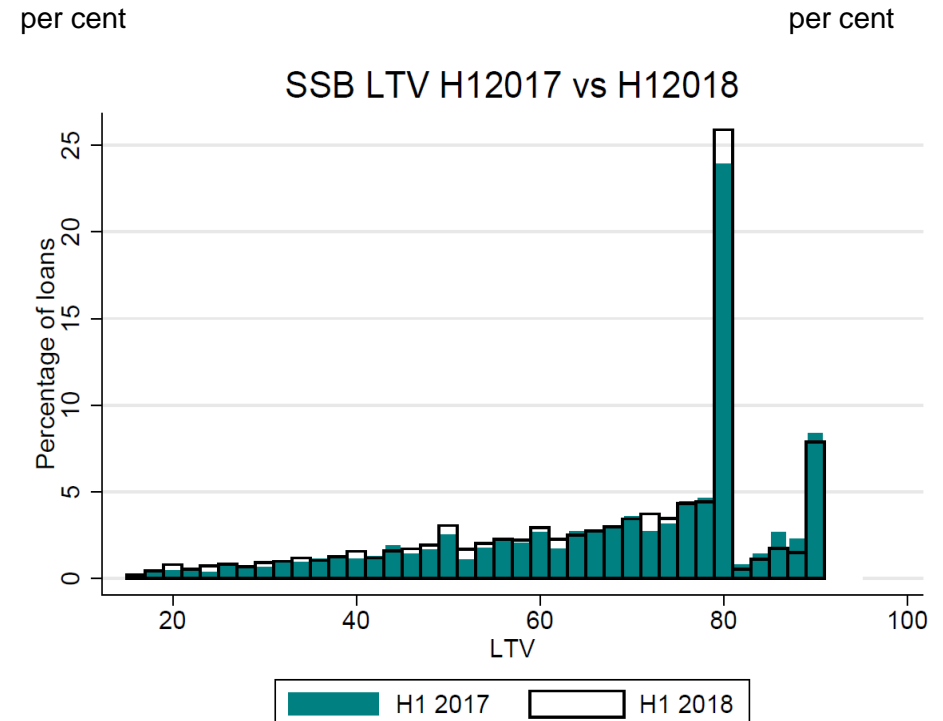
# Distribution of LTVs also more clustered at the limits, but more risky higher LTV lending remains contained...

**FTB LTV H1 2017 vs H1 2018**



Source: Central Bank of Ireland. Excluding observations at the 1st and 99th Percentile. New Property Purchase and Self-Build loans only.

**SSB LTV H1 2017 vs H1 2018**



Source: Central Bank of Ireland. Excluding observations at the 1st and 99th Percentile. New Property Purchase and Self-Build loans only.

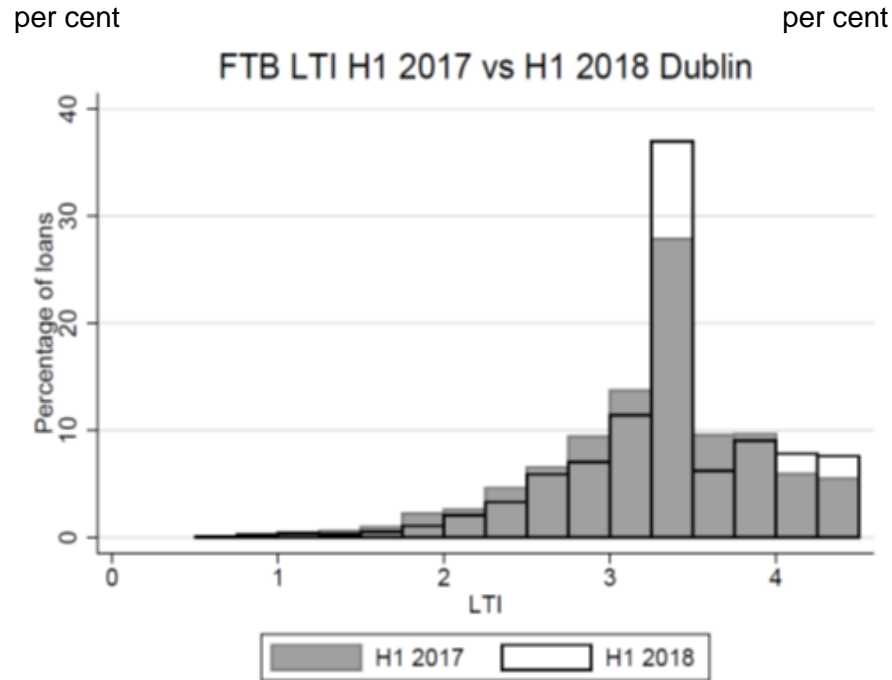


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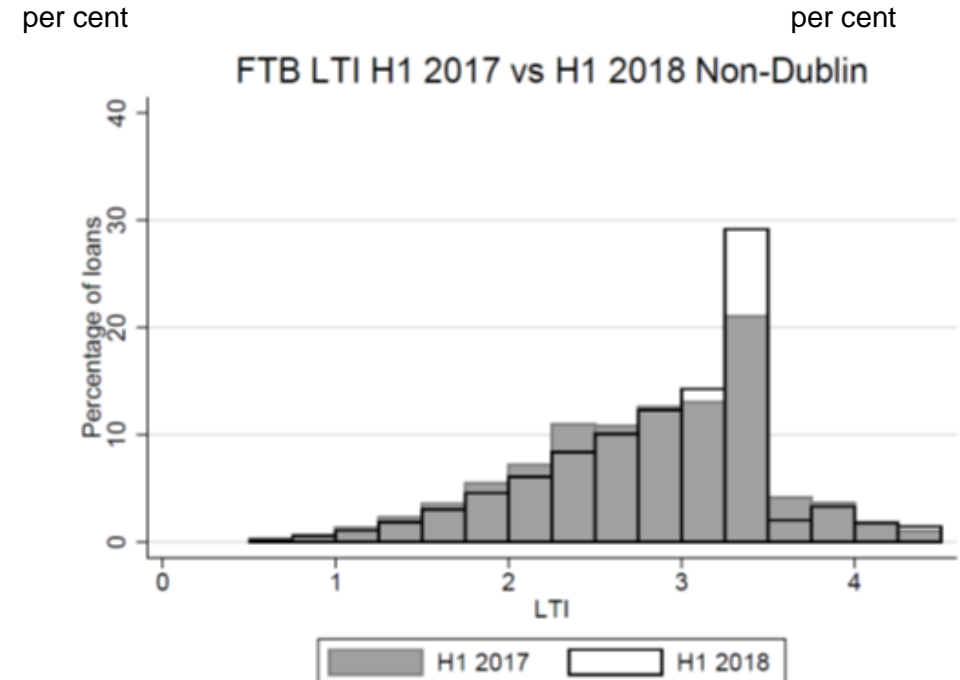
# Measures are more binding in Dublin, consistent with higher price levels, but Dublin borrowers also more likely to receive an allowance...

FTB LTI H1 2017 vs H1 2018 - Dublin



Note: Excluding observations at 1st & 99th percentiles. In-Scope New PP & Self Builds Only

FTB LTI H1 2017 vs H1 2018 - Non Dublin



Note: Excluding observations at 1st & 99th percentiles. In-Scope New PP & Self Builds Only

Source: Central Bank of Ireland.

Note: Excluding observations at the 1st and 99th Percentile. In-scope new PP and self builds only

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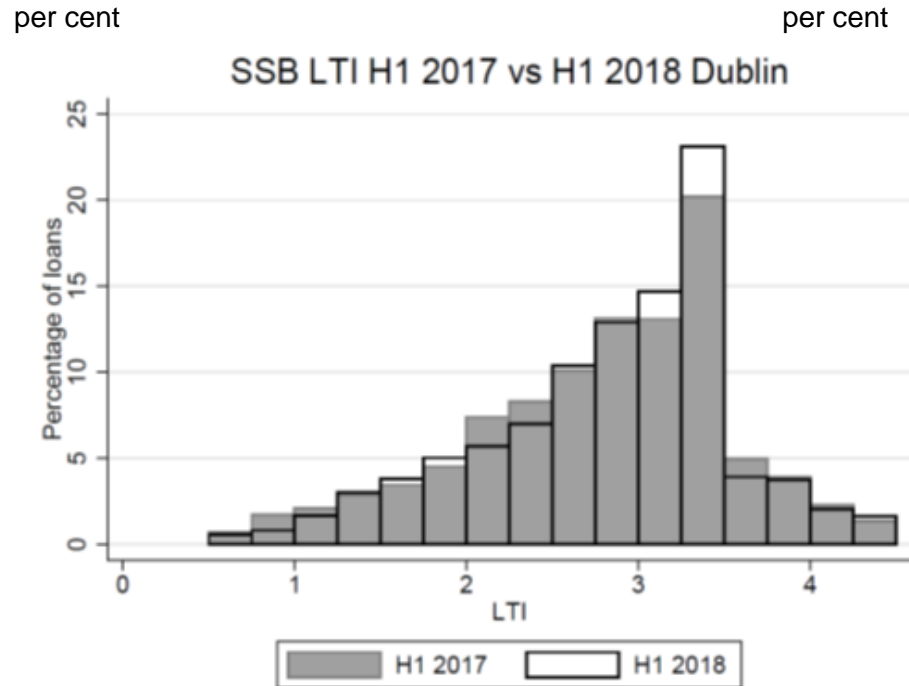


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# LTI measure also more binding for SSBs in Dublin than outside Dublin...

**SSB LTI H1 2017 vs H1 2018 - Dublin**

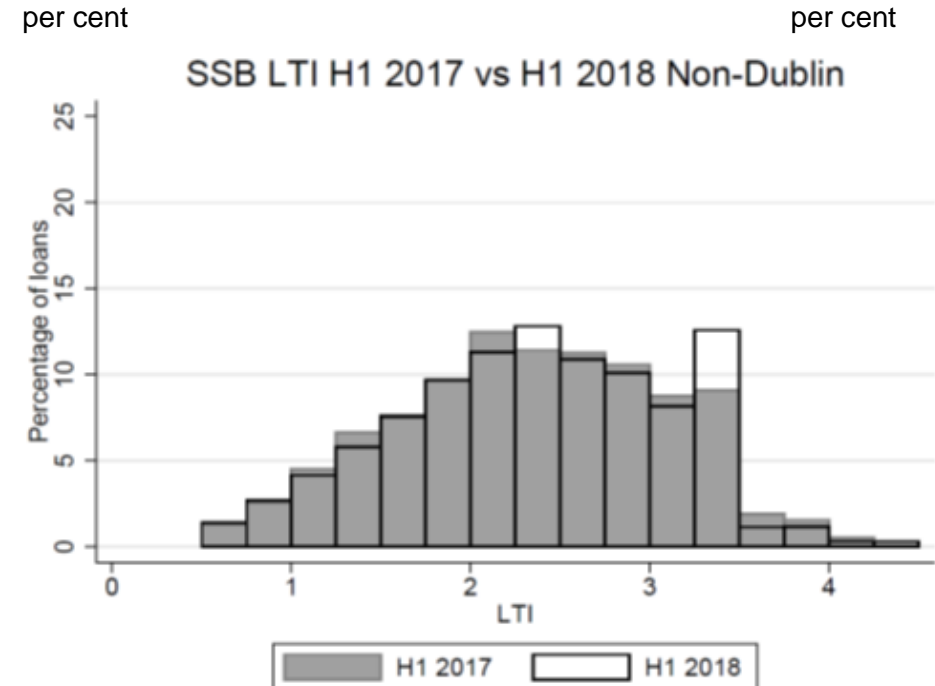


Note: Excluding observations at 1st & 99th percentiles. In-Scope New PP & Self Builds Only

Source: Central Bank of Ireland.

Note: Excluding observations at the 1st and 99th Percentile. In-scope new PP and self builds only

**SSB LTI H1 2017 vs H1 2018 - Non Dublin**



Note: Excluding observations at 1st & 99th percentiles. In-Scope New PP & Self Builds Only

Source: Central Bank of Ireland.

Note: Excluding observations at the 1st and 99th Percentile. In-scope new PP and self builds only

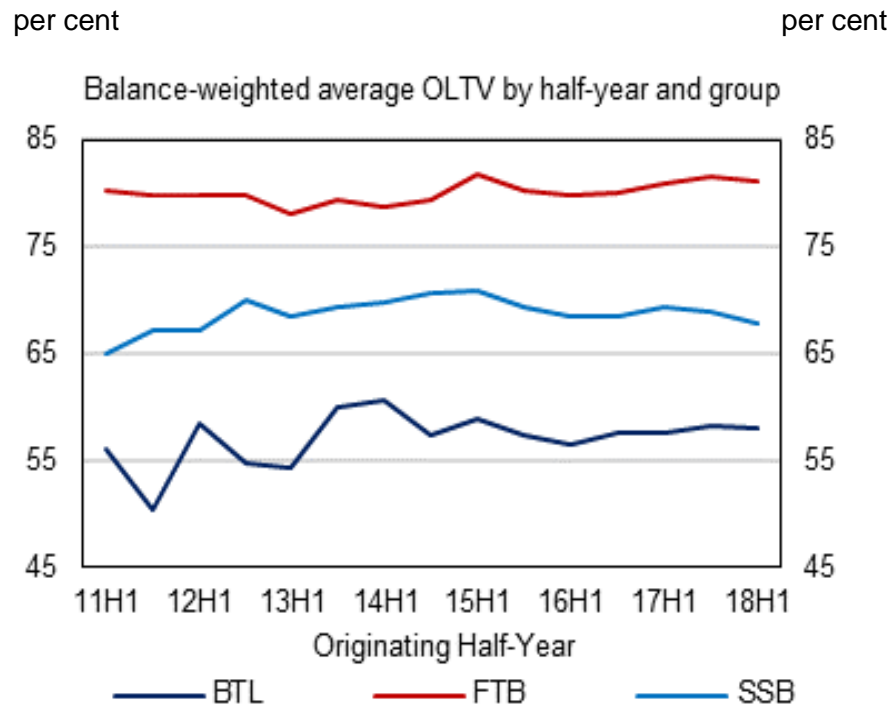


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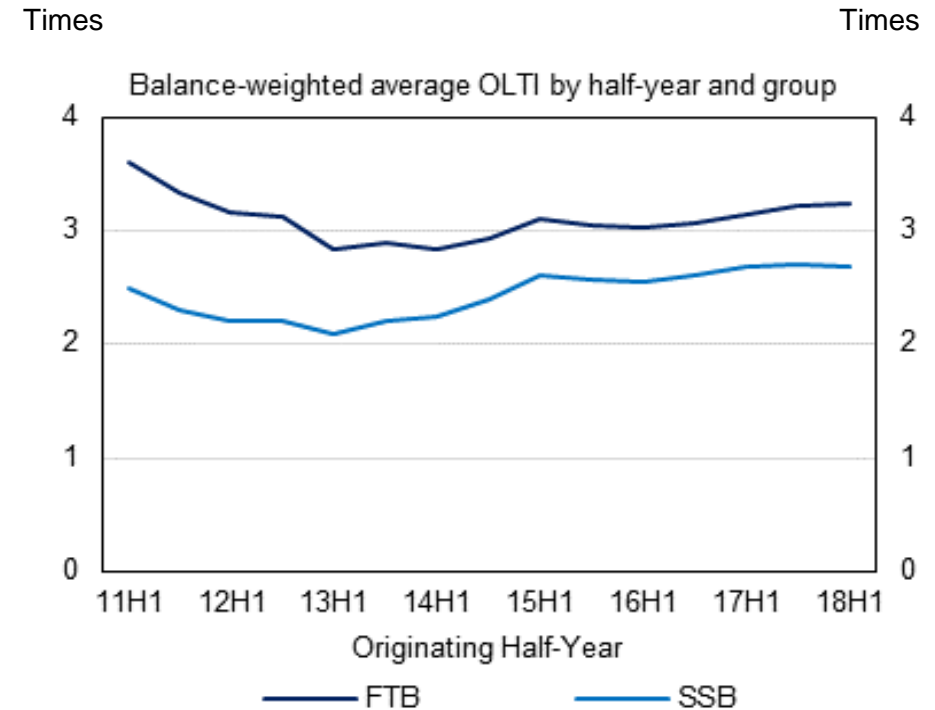
# Portfolio-level developments in LTV and LTI ratios do not point to a deterioration in bank-level resilience...

Balance-weighted average OLV by half-year and group



Source: Central Bank of Ireland.

Balance-weighted average OLV by half-year and group



Source: Central Bank of Ireland.

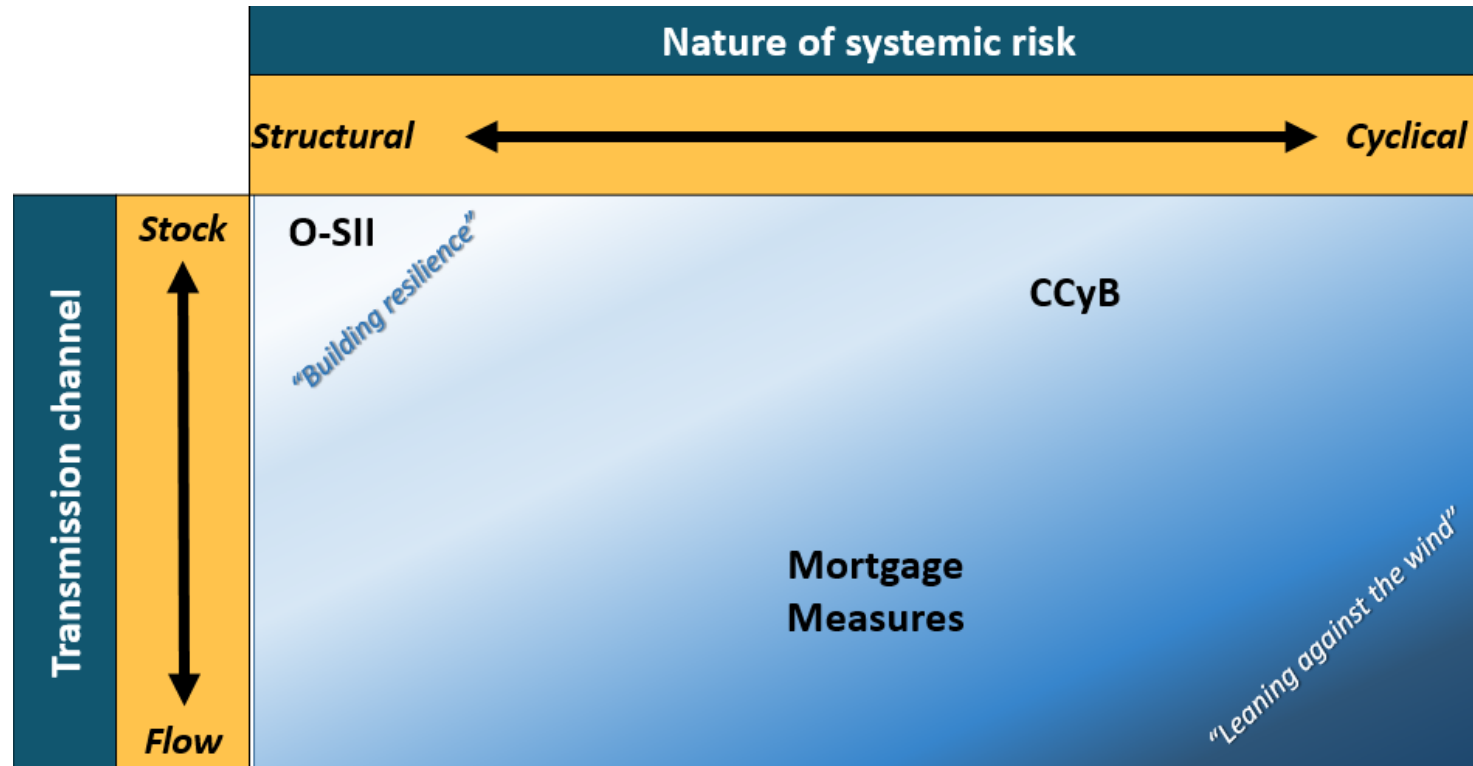


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# The mortgage measures in the context of the Central Bank's macroprudential framework...



Source: Central Bank of Ireland. The chart presents the various macroprudential policy instruments based on the nature of systemic risk they are designed to mitigate (structural to cyclical), the relevant exposures through which the policies becomes effective (stock to flow) and the objective or impact of the measures ("Building resilience" to "Leaning against the wind"). All three dimensions are, to an extent, not mutually exclusive. This is especially the case for the latter dimension where there is significant overlap and complementarity.



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[centralbank.ie/mortgagemasures](https://www.centralbank.ie/mortgagemasures)



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