



Call for Evidence Based Submissions on the Loan-to-Value and Loan-to-Income Regulations

Please complete this form and return to mortgagesubmissions@centralbank.ie before **31 August 2016** along with any supporting documents.

Please note: It is the policy of the Central Bank of Ireland to publish all responses and such responses will be made available on our website. Stakeholders should thus not include commercially-confidential information in responses and the Central Bank of Ireland accepts no liability whatsoever for the content of stakeholder responses that are subsequently published by the Central Bank of Ireland. We shall not publish any information which we deem personal, potentially libellous or defamatory.

Name:	Department of Finance
Organisation (if applicable):	
Submission Type (select one):	
Individual	
Political party	
Government department	X
Banking industry	
Academic or research institution	
Consumer group	
Mortgage brokers and advisors	
Property and Construction Industry	
Mortgage Insurance Firm	
Other	
Does your submission relate to (select one):	
General comment	
Loan-to-Value (LTV) measure	
Loan-to-Income (LTI) measure	
Both LTV/LTI measures	
BTL component	
Other aspects of the Regulations	
All/Some of the Above	X
Evidence based submission (please attach any supporting documentation):	
Submission attached.	

Department of Finance submission to the Central Bank of Ireland
on its review of the macro prudential residential mortgage lending measures

1. In its submission to the Central Bank on the 2014 Consultation Paper on “macro-prudential policy for residential mortgage lending” (CP98), the Department of Finance recognised that there was a sound rationale for the introduction of such macro-prudential measures and that the introduction of appropriate loan-to-value (LTV) and loan-to-income (LTI) limits could assist in the curtailment of future bank–credit house price spirals and strengthen the resilience of the banking system and of the household sector against sudden house price changes. While it was noted at that time that there was no strong evidence that the expansion of bank credit was contributing to an increase in house prices, there had been an increase in the level of house prices and there was a reasonable concern that as the economy and employment levels further recovered, that there would be a consequent increase in the demand and supply of mortgage credit and that, all other things unchanged, this would impact on the level of house prices and household debt.
2. In considering these regulations, there is a need to balance measures to safeguard the financial system in a way which will also facilitate households to meet important social objectives such as prudently meeting housing needs through private homeownership, and in particular to have regard to the particular requirements of first time buyers in that context. The decisions made by the Central Bank on the precise LTV and LTI measures, in particular allowing first time buyers to borrow up to 90% of the value of a primary home property up to a threshold of €220,000¹, was a reasonable and prudent approach to balancing important financial stability and social policy objectives.
3. It is, and will continue to be, important to keep the precise residential mortgage lending measures under regular review so that they can provide protection against emerging risks to financial stability without unduly impacting on the ability of households to prudently provide for their own housing needs. The Department, therefore, welcomes this upcoming first review by the Central Bank of the macro prudential measures as introduced in February 2015 and it also notes that the Central Bank is committed to reviewing the rules on a regular basis. This commitment to a review process is welcome as it will allow for ongoing monitoring of the policy framework and the individual measures in the context of the evolving financial, economic and wider social environment and will afford the Central Bank an opportunity to efficiently recalibrate measures to meet the emerging risks, as well as

¹ The discretionary measures to allow banks to provide a certain amount of residential mortgage credit in excess of the stated LTV and LTI thresholds were also relevant factors in seeking to achieve an appropriate balance.

addressing any unintended consequences which may emerge, as the economic cycle evolves.

4. As the Central Bank will be aware, since the macro prudential measures were first introduced in 2015, the problems in the housing market have assumed a greater prominence in the formulation of overall public policy and that it formed a major part of the new Programme for a Partnership Government. Much of the requirements to address the problems associated with the housing market – such as the need to boost the supply of social and private housing, to greater utilise existing housing stock, to address homelessness and to improve the rental sector – are matters which will fall outside of the macro prudential remit of the Central Bank. However, as you will be aware, the Government has now put in place a major Action Plan for Housing and Homelessness – Rebuilding Ireland – and set out a range of action points with the overriding objective of increasing the supply of housing to meet increasing demand across all housing tenures. A special Government subcommittee on Housing, which is chaired by An Taoiseach and attended by the Minister of Housing Planning and Local Government, the Minister of Finance and other relevant Ministers, will now oversee the implementation and development of this Action Plan.
5. In considering the current housing market, there are recognised difficulties faced by first time buyers in accessing mortgage finance and this is placing pressure on the rental market. In this context, it would be useful if the Central Bank would consider a “capacity to pay” test in any adjustment to the macro prudential measures. This could take account of the fact that many renters have demonstrated a strong rental payment record over a significant period of time. In particular, they may have difficulty in concurrently saving for a mortgage down payment while also paying high rent. It would seem most appropriate to provide for this through the allowances that permit lending activity in excess of the LTI and LTV thresholds.
6. The current regulations contain flexibility that allow lenders advance up to 15% of lending in excess of the LTV cap and 20% in excess of the LTI cap. It is noted that the lending institutions have advanced PDH lending of 13% in excess of the LTV cap and 17% in excess of the LTI cap. This lending, however, is below that rates allowed. It is therefore clear that lending institutions are leaving a margin to ensure that they do not breach the limits imposed by the Central Bank. The use of moving averaging should be considered to address this as the use of the macro-prudential tools becomes embedded into the mortgage market. In the interim, given the challenges faced by first time buyers, particularly those currently residing in the rental accommodation, it is proposed by the Department that these allowances should be adjusted. It would seem appropriate to allow a lender, on an annual basis, advance the equivalent of up to 20% of PDH housing loans above the LTV limit and up to 25% above the LTI limit. We understand that the allowances were intended to provide some flexibility to banks to provide mortgage lending to first time buyers who had difficulty saving the entire deposit necessary under the rules but could provide evidence of a strong performance in terms of paying rent. The Central Bank should instruct lending institutions that this increased allowance should be directed towards first time buyers, particularly those currently renting that can provide the requisite evidence of a strong payment

discipline. In this regard research published by the Central Bank is noted which shows that that first time buyers are less likely to default.

7. In addition, it is suggested that consideration should be given to increasing the existing 90% LTV threshold limit for first time buyers, currently set at €220,000. In Quarter 1 of 2016, the mix adjusted annual average asking price for property in Dublin was €312,642 and the average price for property sold in Dublin during the same period was €371,554.² The median asking price in Quarter 2 2016 for three-bed semi-detached houses in Dublin was €290,000.³ The limit that is currently set at €220,000 should be increased to €320,000 so that the limit would be more in line with average prices in Dublin and surrounding areas. Furthermore, such an increase would better align the mortgage lending threshold with the cost of constructing a 3 bed semi-detached house in Dublin which a recent publication estimated to be in the region of €330,000 (SCSI, 2016).
8. These proposals are made against the backdrop of the increased consumer protections in relation to mortgage loans which have come into effect since February 2015 and the Central Bank may wish to have regard to these additional protections in its upcoming review. These include the transposition of the Mortgage Credit Directive (which includes a new onus on a creditor to assess the credit worthiness of a consumer borrower); the Consumer Protection (Regulation of Credit Servicing Firms) Act 2015; and the addendum to the Consumer Protection Code 2012 which will require regulated creditors to provide greater information to consumers on variable mortgage rates, including options which could reduce costs to the consumer. In addition, the early introduction by the Central Bank of the Central Credit Register, as provided for in the Credit Reporting Act 2013, will provide lenders with comprehensive information to support credit assessments and will thereby contribute to consumer protection and help improve financial stability.

² http://dkm.ie/en/news/pii_property_watch_q1_2016

³ <http://media.myhome.ie/content/propertyreport/2016/MyHome-Property-Report-Q2-2016.pdf>