

Individual Submissions Macroprudential Mortgage Measures Review 2016

Individual Number 1

We are a family of 5. Currently renting in Meath, our rent has increased from €650 to €900 in two years. Our landlord has already informed it will be increased to €1250 per month next March.

Myself and my partner both work full time, with increasing rents we cannot afford to save a huge deposit. Over the years we have managed to save €10,000 but still refused a mortgage as it is not enough. It is becoming more and more difficult to save while renting and now looking like we will never be able to buy our own home even though both in full time good jobs.

Individual Number 2

Full disclosure: I am a member of [REDACTED] My opinion below is mine alone and not mandated by either of them

I just wanted to congratulate the team at CBI for staying steadfast and showing common sense against constant droning of vested interests and the media outlets attached to them via property advertisement. People need to be protected from themselves sometimes and especially the current LTI measure allows for that. I would think that the exceptions should be limited as well (e.g. 4.5 times combined salary) – lenders are uneven on that part, though there is obviously a case for allowing them some flexibility. On the LTV measure, the exception for first time buyers should be removed. We are in the application process with a “pillar bank” and feel the vetting of FTBs is lacking, i.e. the bank is just relying on the rules and “not doing their homework”. People could still get into negative equity too quickly.

Note we are FTBs ourselves, saving up for the deposit and subject to rent increases.

Individual Number 3

The mortgage rules introduced by the Central Bank of Ireland are a prudent measure which will help to improve economic resilience during future economic downturns.

However in a small number of respects some further nuances within the rules would enhance people’s ability to purchase property and reduce pressure on the rental market. This is particular true of the deposit requirements.

At present a potential purchaser must provide a 10% deposit for properties up to €220,000 and 20% thereafter. This is prudent for areas outside Dublin. However within Dublin the average house price is approximately €265,000 (Daft Q1 2016 Report) in West and North County Dublin. This means that a first timer buyer, buying a house in one of the cheaper districts in Dublin is pushed into the 20% bracket which is penal for a FTB. An increase in this limit for the Dublin region to €265,000 would be welcome with appropriate revisions based on the economic cycle.

In addition to the above if one party to a joint purchase of a family home has owned property anywhere in the

world they are also pushed into the 20% deposit requirement for the entire purchase price. This places a large financial burden on workers who may have moved to Ireland from other cheaper European countries where they previously owned a home or those relocating after a period of emigration.

Whilst I understand that this rule helps negate speculators it again seems penal for those trying to buy a family home especially those trading up to a larger property due to an expanding family.

Individual Number 4

Two policies I suggest the Central Bank review are the Income Multiplier stipulations and the stringency of lending towards those who earn in non-Euro currencies.

Income Multiplier:

According to IBEC, on average, pay increases- which consistently started to remerge in the economy around 2014- were at the 1% and 2% rate. According to the Eurostat House Price Index, the average house price rose by 16.8% in the first quarter of 2015 versus the previous year showing the stark disparity between purchasing power of the nation versus accessibility of affordable housing. This is in comparison to our nearest neighbours (UK) where house prices rose by only 8.2% in the previous financial year yet they still have many lenders providing financing at 3.75 times and above an applicant's income and have had a similar wage increase to us at 3%.

It needs not be said that Ireland still requires certain amounts of strict control on our lending institutions to avoid a repeat of the 2008 crash. However, the economy would benefit from the banks taking a more individual approach to lending. Some people could easily afford to borrow at 4.5 times their income versus the multiplier of 3 currently in place. At present both low and average income earners are often competing for the same properties because the income multipliers does not differentiate the pools of properties enough causing a bottleneck at houses at and below the €220,000 mark, compounded further by the first times buyers 10% mortgage rate limit at €220,000 too.

Should the banks actually provide the availability of a higher rate to eligible applicants, and to prevent a steep rise in mortgagees as a result- which could put too much risk into the economy to soon- we could replicate what the Bank Of England's Financial Policy Committee suggested and cap mortgages in the market at the 4.5 rate at 15% of total mortgages in each financial year. Additionally, the introduction of a 'stress test' method as seen recommended by the Bank of England and Financial Conduct Authority (FCA) would allow banks to have more confidence and mitigate risk for applicants they filter as eligible for a higher income multiplier rate. Currently, banks don't differentiate by a person's outgoings as to what multiplier they could afford to borrow against. It's simply, 'if one qualifies, they get the same rate as any other person'. This needs to change if we are to give some movement to the market and relinquish the pressure on rising house prices around the €220,000 mark.

Lending to Irish citizens living abroad (part-time):

As an Irish person commuting between Ireland and London, the stipulations in place make it near impossible to get approval for a mortgage. I work equally between the two countries but my wages are paid in Sterling making me ineligible for a resident mortgage. Most banks will not even entertain the provision of a mortgage and the one bank (Ulster Bank) who will provide quotations, can only do so up to 80% of a person's annual income, drastically reducing the collateral a buyer has in comparison to other buyers in the market.

There are thousands of Irish citizens living abroad who are looking to relocate back home but current policies narrow their returns to the rental market, putting pressure on an already dangerously squeezed sector in the economy. Loosening lending criteria to those in this circumstance to a more flexible rate of 95% (which still takes into account potential fluctuations in the incomes currency of the borrowers) would allow the nation to attract a lot more native talent back to the country. The country is getting back on its feet again; the Banks need to make it possible to live here.

Sources:

<https://www.ibec.ie/IBEC/Press/PressPublicationsdoelib3.nsf/vPages/Newsroom~majority-of-companies-to-increase-pay-in-2015-02-01-2015?OpenDocument#.V2Fcp2cUVLM>

<http://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/april2016>

<http://appsso.eurostat.ec.europa.eu/nui/show.do>

Individual Number 5

We had two incomes and no children when we got our mortgage 9 years ago but now we have a single income and three kids. We have never missed a payment on the loan even though our bank has been raising the mortgage variable rate over the last few years and our family to cut back in all areas of our life so that we could meet the higher payments.

I am now in a position where my house value is less than 80% of my LTV and based on research I could save up to €25,000 over the remainder of the 21 year mortgage by switching provider. I went to switch by approaching AIB and EBS. Both banks were very helpful but informed me that my single income combined with having 3 kids is preventing me from switching even though all other requirements are satisfactory. My ability to pay is proven (as I am making all payments for a higher mortgage in full now) and notably I would actually significantly improve my situation if I got a lower rate with another provider. The rules regarding 'income and kids' discriminate against middle income families who already (i) pay their existing mortgages in full and on time, (2) could significantly save by switching; (3) have a low LTV, but (4) don't pass the income rules because of the number of kids they have (5) or the income multipliers don't meet requirements. I would hope that the Central Bank would consider helping families such as mine to move to mortgage products that would save them significant money and make their lives more manageable on a day to day basis.

The proven ability to pay higher payments over a long period of time should count for something. It makes no sense to stop a struggling family, who have always have paid their mortgage over a number of years, through the recession, from moving to a cheaper mortgage provider because the rules say that they have too many kids or the income multiplier doesn't work. There are many families in Ireland today who pay their mortgage out of a strong morality and will, have cut back on all areas of their life and should not be punished further under the stringent rules that are in place today. The current rules give mortgage providers the power to increase rates for struggling families without reason but stop families from saving significant money by applying unfair rules on them for switching. I understand how these rules would protect first time buyer families but the rules make no sense for struggling families who want to switch to a cheaper mortgage.

In the mean time I will continue meeting my higher mortgage payments, as I always have, and hope that the rules will change so that I can switch my mortgage provider next year.

Individual Number: 6

I have no special expertise, and make this submission to help avoid us getting the country into more trouble. I base my submission on data reported in the press, and on personal experience of house-buying by myself and people I know well.

Experience: (1) My wife and I bought our house in 1975. At the time, the lenders would lend

up to 80% LTV and 2.5 times LTI (husband's income only). We met these criteria, without the assistance of parents, etc. We had a 20-year loan. Interest rates ranged up to 17% over that period. We cleared the loan in 19 years. (2) Young people of my acquaintance have loans at over 100% LTV and 5 times LTI, with a 40-year term. They struggle, even at present interest rates, and face disaster if rates rise significantly.

The price of a new house is made up of site cost, building cost, transaction charges and taxes, and builder's markup. There is feedback. People selling a site have an eye to the price the house might make, and people selling labour also have an eye to the ultimate house price. Lawyers, estate agents and taxmen charge according to the price. Much of what I read and hear in the media treats the price as given, and focusses on who is going to be able to afford it and what happens to the people who can't afford it and have to rent from buy-to-let landlords.

But the price of any commodity is (at least approximately) the price that someone is willing and able to pay for the last item that anyone is willing to sell at that price. Willing and able, mark you. If no-one is willing and able to pay Euro 200K for a house, then it cannot sell for more, and if someone wants to sell it, he has to take less.

It is reported that we have very high building costs compared with other countries in Europe, but even so it seems you can build a typical semi-detached house for about Euro 75K. There is no obvious reason why a one-eighth-of-an-acre site should cost more than Euro 20K, so why should the total price of the house exceed Euro 125K, i.e. about 2.5 times a 50K salary? The only answer I see is that people are willing and able to pay more. They are willing to do this because they want the house, and they are able because they can get the loan. In other words, the lenders are propping up the housing prices.

What is going to happen when interest rates rise? I accept that we are very unlikely ever to see 17% unless the Euro collapses, but surely the rates will go up.

I urge the Central Bank to continue to apply the rules, but to tighten them for buy-to-let loans. The availability of easy buy-to-let loans is fuelling rent increases and making hardship for people who cannot get loans to buy their own homes. I propose that for buy-to-let investors (1) LTV should not exceed 50%, (2) that no lending at all above this limit be allowed, (3) LTI should not exceed 2.5, and (4) no exemptions be allowed for this class of buyers.

In addition, REITs or other such property funds should be prohibited from borrowing to supplement their share capital for the purpose of purchasing private dwellings. These trusts and funds are helping drive up property prices, as well as individual buy-to-let investors.

These measures should take a substantial proportion of the cash chasing houses out of the picture, and collapse house prices back to a sane level. Site prices should settle back to a sane level. Why should a piece of land that can keep a goat and a few chickens fetch Euro 150K? Rents should also settle back down.

Builders are entitled to make a decent living, as are the professionals, tradesmen and labourers who work in the industry. But we have no obligation to protect financial institutions from their own folly, and we cannot be complicit in a system that is driving people into homelessness.

Individual Number 7

Dear Mr Lane,

I am a single woman, 42 years old who is currently trying to purchase a home in Dublin. My annual income is 65,000e. I purchased a house with a partner in the late 90's so am no longer considered a first time buyer. I left this relationship (and house) over 15 years ago and have been renting since.

I was 'sensible' and did not purchase during boom time. I now need to come up with a 20% deposit under CB rules. This is while still paying exorbitant rent. Yes, I can apply for an exemption, and will have to do so, but this restricts my lending ability.

My preference is to buy a 2 bed apartment in South Dublin. My great competition for apartments is first time buyers. Those that only need a 10% deposit, are generally double income, my bank gives FTB a preferential interest rate when saving to the same mortgage saver account as I am, and now the government is talking of an additional topup for FTB. Add to this the reduced mortgage term availability due to my ever increasing age! This is giving them a significant financial advantage - most of it provided by the government & your rules!

I earn a very good salary, am well capable of servicing a mortgage, and wish to purchase sensibly. Your rules are extremely restrictive for someone in my position. It is proving very difficult for me to get back on the property ladder.

May I suggest a review of what constitutes a FTB - is there no option to 'reset' it for those who do not have a financial interest in any property - or who have not owned a property for a prolonged period of time. Perhaps an amendment of the lending rules to accommodate single applicants - there must be many of us from failed relationships - both unmarried & married - who are in this position. This is the next housing crisis..

I appreciate your consideration and thank you for making this forum available for citizens to air their views. I'm sure you will receive significant feedback following Matt Coopers show yesterday.

Individual Number 8

I believe the current practice of permitting auctioneers to carry out valuations for banks intending to lend money by way of mortgage on a residential property is flawed and open to abuse.

I am aware of one valuer, who was recently told if he didn't toe the line and give the valuation required for loan approval his services for the institution for whom he was engaged would no longer be required. He expects to be removed from their valuation panel. I understand the same institution uses one particular valuer for 90% of its valuations in a particular area. I am not even sure if the valuer carrying out the valuations is suitably qualified.

I believe the central bank should take control and create a register of approved valuers, similar to the register of debt management firms, and these valuers and only these valuers would be permitted to value property for mortgage loan approval, operated through a central hub, so that the identity of the client and lending bank would be withheld, so that no adverse influence would impact the valuation.

I believe buyers especially first time buyers are being exposed to inflated house prices and we could face another house price crisis depending on how the Irish economy is affected by Brexit.

Individual Number 9

I am classed as a 'Second Time Buyer'. I currently rent a property in Belfast (where I have lived for almost 10 years), I also pay to rent a room in Dublin for my work which is at [REDACTED] I am classed as a Second Time Buyer as I purchased an apartment in Co. Kildare in 2004 and subsequently sold it in 2006.

At this stage I am now required to pay 20% deposit (80% LTV) to get back on the property ladder. I also pay in excess of €1000 per month on collective rents between Dublin and Belfast. I started working in Dublin in early May and as a result am considering a permanent move back to the South. On top of the €1K of rent per month and I am also saving €1K per month. Without any debt or personal finance, I am able to demonstrate that my repayment capacity is excellent.

I believe that I should be treated as a FTV, as I do not currently own a property, i.e. I do not have a PDH, a principal dwelling house, as defined in your review document (review of recent data on the housing mortgage market, 2015 data).

I believe that the definition of a FTV should be something like, after 10 years of not owning a property the purchaser would be treated as a FTV.

It should be noted that as I am 40, the number of years that I can mortgage up to is also detrimental. I.e. It will take some time to save for the size of deposit required, while values are house/ apartment growing and a lot of money (at a high rate) is spent on rent. This therefore presupposes that somebody such as myself will never be able to buy a home. It is for this reason that I would like the rules to be reviewed, so that anybody who does not own a property, should be able to access a 90% LTV for the purchase of a home, and if there needs to be criteria put into place on the time lapse, I think 10 years would be a good starting place.

The reasons why I had to sell my apartment were down to a break down in a relationship. The outcomes were very tough for me and I feel that I deserve a second chance as a First Time Buyer, another change to be treated like a First Time Buyer.

The government has stated that it wants to attract people back to the Republic of Ireland. Though I never left the island, I did move out of the tax jurisdiction. Without a review of the current rules, it does not make financial sense for me to stay on here. I would be better off financially buying a property in Northern Ireland or the UK, where the rules are more favourable and the costs are much lower. Hence, easier to access a mortgage as properties are comparably cheaper. I don't feel that my case is exceptional and this course of action may be needed to attract other Irish people back to the jurisdiction.

My income is very marginally above the allowable rates to enable to be gain access to some of the schemes that are in place with the local county councils, e.g. with Louth County Council. This again goes against me.

Ideally, I would like to be ready to buy a house next Spring and I would expect to pay €165-175K and comfortably can meet the 90% LTV and repay over 15 years.

In summary, I would like to be treated like a first time buyer as I have been off the property ladder for 10 years. The current requirement is for LTV of 80%, I would like to access the 90% LTV. I feel that anybody who does not have a mortgage, but may have had a mortgage or a property in the past and meet the repayment capacity, should be eligible for 90% LTV.

Individual Number 10

I am fully in support of the current rules as set out by the Central Bank. I am a 32 year old who lives with my girlfriend (29 years old) in a rental 1 x bedroom apartment in [REDACTED]

We have been working hard to save our deposit and by the end of 2016 we will have met the deposit requirements so as to avail of a maximum mortgage based on the LTI ratio. We will be applying for a joint mortgage and will be able to afford a property with a maximum value of around €320k. We will continue (at the very minimum) to save for 6-months in 2017 so as to save for house contents and other related costs (Stamp Duty; Solicitor etc...). We have no fixed time to buy a property, but from July 2017 we will keep our eye open for the right property.

My own opinion is that property should not be a speculative asset/market where there are a large number of investors hoping on boom/bust cycles to buy low and sell high, constantly skimming off profit. Whilst some fortunate persons will benefit, the majority will suffer (negative equity, inability to move, crystallised losses etc...). In general the housing market should not work like this.

I do have a few comments with the current market and cost of living. In the current situation with the high cost of childcare, myself or my girlfriend will not be able to consider to have children while saving for a deposit. We have saved €37.5k in 2.5 years (€1.2k/month + €600 top up/year) and if this monthly saving had to be pushed into childcare our savings rate would be vastly reduced. We would not have the ability to save a deposit for a property purchase. Unless our income increased significantly we would be renting for our entire lives (as more children arrive and household costs increase).

Unfortunately whilst the rules are important and should remain the current cost of childcare means the rules could be viewed as "anti-family". The government needs to find a way for young couples (married/un-married) to feel like they can concurrently save a deposit whilst paying childcare for their young children.

It also needs to be mentioned that the complete lack of supply in the Dublin area and the ridiculous cost of 3-bed properties means that a couple on a combined salary of €80k are struggling to find a decent A-rated, well-built new-build property. The cost of property in Dublin needs to drop to a more acceptable level. I will leave it up to you to decide how this is done. When interest rates return to more acceptable levels (8 or 9%) then huge mortgage debt could quickly become unserviceable for many persons. Property values should be at a level which makes mortgage payment affordable based on a 20 year mortgage at higher mortgage interest rates. Along with this submission I have also attached some previous email correspondence to the central bank.

Individual Number 11

Could I suggest that if a person/persons are paying rent, that this ability to pay be taken into account when seeking a mortgage. It is probably not possible for younger people to both pay rent AND save a decent deposit.

The ability to pay rent, should be considered as an ability to save for these purposes. This is in respect of loan to income.

Individual Number 12

1. Introduction

I am a private individual, not representing any industry group or association. I am a solicitor, involved with the house building industry for upwards of 30 years. I have acted for many of the main house builders in Ireland, as well as the banks lending into the house building industry, and in latter years I have acted for receivers in

selling distressed assets, including partially completed housing estates. I have recently retired from everyday practice.

2. Desirability of home ownership

Home ownership increases the wealth of individuals, and thereby the wealth of the nation. When individuals convert their income into bricks and mortar through mortgage repayments they are effectively saving.

The trend towards “Multi-Family Investments” by international wealth funds, sovereign wealth funds and multi national investment companies is accelerating. The effect of these institutions controlling a larger share of the residential market means that the rental income they receive is diverted from the Irish economy.

Those people who buy their own homes have an asset they can leverage off.

Benefits include

- assisting with third level education
- pension augmentation (by ultimately trading down)
- capability of funding nursing home or medical care as required,
- facilitating further investment,
- a general sense of financial security which encourages spending rather than saving, to the benefit of the economy, as mortgages are paid down.

3. Breaking down class barriers

One of the significant benefits of home ownership is that it is the single biggest factor in breaking down class barriers, as individuals can acquire a significant financial asset, and can leverage off it as outlined at paragraph 2 above. Schemes like that recently announced by Dublin City Council for an extended tenant purchase scheme should be encouraged.

4. Long term financial health of the country

Over the long term, as individuals build up wealth, the nation also benefits. Through inheritance, the next generation are (or at least traditionally have been) wealthier than their parents, and can thus contribute more in taxation when required. They are also less likely to need to rely on the support of the social welfare system.

Recent media reports that the next generation may be the first not to be wealthier than their parents only accentuates the concerns.

Increased housing stock means increased infrastructure for the State, adding to the wealth of the nation. Conversely the lack of residential accommodation has the potential to inhibit a range of investment and development opportunities.

5. Pension time bomb

My principal concern however relates to the effect of restricting home ownership on the already looming

pension time bomb. If people are life long renters then when it comes to retirement age those people will not only require a pension which meets their cost of living requirements, but also, either directly or indirectly, the State will be required to fund their residential accommodation. That would be a very significant additional burden on the nation's finances.

6. Alternative tools available to the Central Bank?

Of course I am not arguing for a market free for all, and nobody wants a repeat of the recent crash, with the devastating effect on people's lives, as well as the dramatic effects on the economy. While it is outside my area of expertise to suggest alternative potential Central Bank controls, I submit that there must be a range of options open to the Central Bank, including close monitoring of bank lending practices, and swift interventions where evidence of overheating is identified. At present there is no such evidence, and therefore to maintain the rules, depressing the market at a time of acute shortage of residential accommodation, is inappropriate.

I appreciate that one can argue that it is precisely because the rules are in place that the market is not overheating. The Central Bank will have the relevant data on the point. I note however the IMF sponsored studies in 2015 (1) suggesting that loan-to-value and debt-to-income rules had a marginal effect at best on the markets studied.

7. Conclusion

It is clearly in the interests of individuals, and the State, that the residential market does not overheat again. However, the loan-to-value and income-to-value regulations are a short term measure which will have long term consequences. Those consequences far outweigh the immediate concern. Alternative measures should be taken by the Central Bank in applying the brakes on the residential market as and when it is necessary to do so.

There are already a number of factors mitigating against home purchase, including new employment patterns, increased worker mobility, concerns borne from recent experiences of negative equity (either personally or vicariously) and affordability. The Central Bank's policies ought to encourage home ownership rather than impede it.

Thank you for the opportunity to express my views.

25 August 2016

(1) Implementing Loan-to-Value and Debt-to-Income Ratios: Learning from Six Country Experiences project led by the IMF.

Individual Number 13

Why not allow the valuation of the home be completed by any registered estate agent?

AIB provides three Agents only, acceptable to them.

A valuation costs a few hundred euro – if already recently completed by a different agent, for a different reason, this valuation cannot be used for a request for loan to value mortgage rate

Individual Number 14

Summary:

I do not want a larger mortgage, I want a cheaper house.

Background:

The Central Bank has two goals which I believe are central to the issue in question:

1. Protect the Stability of the Financial System,
2. Protect Consumers of Financial Services.

Protect the Stability of the Financial System

The Irish Banking crisis was not specific to any one individual Bank. The crisis affected the entire Banking system and cost the following (per Karl Whelan <http://karlwhelan.com/blog/?p=471>):

- AIB cost the State €20.7bn
- BOI cost the State €4.7bn
- Anglo/INBS cost the State €34.7bn
- IL&P cost the State €2.7bn,
- Ulster cost RBS GBP9bn,
- BOSI cost Lloyds GBP6.4bn

In total that equates to approx. €84bn (using a 1.35x FX rate) or approx. 53% of 2011 GDP.

In reality the total cost was possibly double that when you consider (i) the €43bn pre-crisis market caps of AIB, BOI & Anglo, (ii) the equity in INBS, IL&P, Ulster & BOSI and other Lenders, (iii) the direct capital injections required by KBC, ACC, Danske etc and (iv) the €14bn in haircuts applied to subordinated Bondholders of AIB, BOI, Anglo/INBS. (<http://oireachtasdebates.oireachtas.ie/debates%20authoring/debateswebpack.nsf/takes/dail2013011700053>).

Every single Bank required a restructuring principally driven by over-exposure to a massively inflated property market.

Protect Consumers of Financial Services

The inflated property market benefited landowners, developers and the Irish State through windfall property & transaction taxes (Stamps increased from €1.1bn in 2000 to €3.7bn in 2007). It did not benefit consumers.

With respect to residential development projects and their financing; these projects were underwritten based on prospective unit sales prices, which in turn were derived from market sales prices at the margins (the market price setting sales) which were funded by 100% or 5.0x income home loans provided to consumers. Loans to Irish households increased 176% between Jan 2003 and May 2008 (CBI statistics) while GNP only increased approx. 30% during this period (CSO database). This surge in mortgage lending included home loans to some of my friends, my colleagues and my family at between 5.0x and 10.0x annual gross income.

At Q1 2016 there were 59,696 PDH arrears cases of which 35,792 were over 720 days in arrears. That is 8% of total PDH mortgage cases and 12% of total PDH mortgage debt by balance. The Central Bank's Frost Paper (April 2014) highlighted how out of kilter Irish PDH arrears were relative to other European mortgage markets. Not only are there so many Borrowers in arrears, but these loans are virtually unsecured – we have the highest arrears rate in western Europe but the lowest repossession rate. S&P's rating guidance for Irish RMBS transactions provides for a 42 month foreclosure period compared with only 18 months for UK RMBS transactions. Obviously this suggests an 80% LTV Irish mortgage is not the same as an 80% LTV UK mortgage.

Why would the Central Bank allow Lenders increase the risk on loans where both the collateral value and the Lender's access to said collateral in default is questionable? (Coffey, Deeter, Burges)

From the above I believe it is safe to conclude the following:

1. Irish Bank's cannot be trusted to employ prudent lending practices,
2. Irish consumers cannot be trusted to limit their borrowings,
3. The collateral values supporting Irish mortgages are questionable given the difficulty in accessing said collateral in the event of default.

Central Bank Independence

The impression I have is that the Central Bank's review of the LTV/LTI mortgage regulations is being driven by political pressure. This flies in the face of the requirement for the Central Bank to maintain its independence from the Government. In fact, in May 2015 the IMF recommended that the Central Bank's independence be further reinforced (<https://www.imf.org/external/pubs/ft/scr/2015/cr15118.pdf>).

It is not the Central Bank's responsibility to fix the housing supply issues in Ireland. That is the preserve of the Government.

The Irish Government has chosen to do virtually nothing about the costs/levies/ charges the State imposes on builders & developers (up to 50% of the total cost of a standard house). The Irish Government has chosen not to directly contract the development of social housing. The Irish Government has chosen not to materially increase densities in urban areas. Irish political parties have chosen to reduce local property taxes which means new home purchasers are left footing the bill for all new local amenities & Part V social housing contributions.

None of these issues should be resolved by the Central Bank allowing Irish consumers borrow more money.

Evidenced Based Submission

I appreciate this submission will not qualify as an "evidenced based submission". However, I do not think the voice of consumers, who would be impacted by any changes, should be omitted from the process simply because they do not have the time nor the resources available to other professional lobby groups. After all, it took the Banking inquiry over 12 months and €5mm to complete a Banking crisis report which reached few material conclusions and has been largely ignored. My family & I are currently living abroad access to suitable, affordable accommodation in Dublin is a material deterrent to returning home. Again, that is not the fault of the Central Bank; that is the fault of the Irish political system from Top (Oireachtas) to Bottom (County Councils).

Individual Number 15

Hi. You made the actual rules for mortgage in the hope that it will help the people and there will be no more boom on the house market. Still this rules are not perfect. For example: there are families who got mortgage and are in arrears. There are also families, like mine, who CAN'T access mortgage because of the rules even if we can AFFORD easily and with extreme low risk of arrears. I send you my story (a SAD one because I am forced to pay a rent of 1.200 eur monthly when I could be paying a mortgage of 600 - 900 eur monthly). I can prove my story with bank details and bank payments: every month I pay 1200 eur (never delayed in the last 4 years) and still after all expenses I still am on the plus side.

This is What I wrote to the Central Bank of Ireland: I understand that you tried to make the rules so there will be no more boom, or you tried to do the rules so there will be as less possible people with arrears. From your web site I see that the people with arrears rose by 8 % (more then 3 months). That means that the rules are not quite that

good. Unfortunately for me (that's the reason for which I write this e-mail) I can't get a mortgage with your current rules: I am working for more than 1 year (currently 4 and counting), I am resident in Ireland, I have the deposit 10 % cash in my account with [REDACTED] (I have even more, but the rule say only 10 % for first time buyer), no gambling addiction, no credit card (only debit card), never had another loan, etc, etc. Still, even if in my family (2 adults - me and my wife, and 4 kids [REDACTED]) the monthly income is around 4.000 eur, and the spending monthly about 3.000 eur (including a rent for 1.200) I am NOT eligible for a mortgage because of your rules. I might add that this rules (intended to protect the citizens) still make lots of families to have arrears. I spoke with my bank for a mortgage (I must say they were very helpful and nice and tried to give me all the options but your rules denied me the opportunity to escape the Big rent of 1200). A part of dialog went like this: the mortgage agent: so that will mean about 33 years with a monthly mortgage of 546.35. I go (stunt I might add): come again????? You telling me I could have a mortgage of 570 eur when for the past 4 years I PAID a rent for 1.200 Eur and I was NEVER LATE with payment?

So, my big problem is this: I comply with all the rules except one: I am the only family member who works. I get as [REDACTED] about 500 Eur per week. The Mortgage agent in [REDACTED] said that for my salary I have something like 32.500 per annum, multiplied by 3.5 around 113.750. The lowest house on the market is about 125.000. I told him that I have cash the rest of the amount but the answer was still no. And he said that the conditions of central bank of Ireland for mortgage stipulate that will not be taken inconsideration the 500 Eur monthly child benefit nor 1100 monthly Family income supplement. So basically, A family like mine, with a 4000 eur monthly income can not access a mortgage for even 125.000, while lots of families with 2 salaries stay in arrears. The Mortgage agent even sounded surprised as he was browsing through my account and saw that for the past 4 years since I am with them I ROSE my deposit in account monthly with 1000 eur (some times 1300 some times 700). But every month I pay 1200 rent and still after all expenses I remain with at least 1000 Eur. That is absurd to me. Why I cant get a mortgage? My wife is staying at home to take care of our kids. She used to work but the childminder fee is to high so we agreed that it is better for us that she will mind the kids for free. Also from your web site I see that the rules for mortgage will be reviewed on November this year. Is there anything I can do to help change them for people / families like me / in my situation. I don't want to blame anyone or to point the finger but I am DESPERATE to take a mortgage. The bottom line is why should I pay 1200 rent when I can pay 600 - 700 - 800 - 900 mortgage and still win more money?

Individual Number 16

Myself and my partner (who is Spanish living in Ireland for 10 years) applied for a mortgage with [REDACTED]. I have no loans or credit cards or previous mortgage. My partner has an apartment in Spain with a small mortgage outlay per month of €380 with her Spanish bank.. We are currently renting in Ireland paying €1300 per month and have €26,000 in savings. We are saving on average €600 - €700 a month. Despite me being a first time buyer, as we applied together, we are both labelled as second time buyers. This means we need a 20 percent deposit as opposed to 10 percent. We were only looking to borrow 200,000. I believe it is wholly unfair that there is no dispensation for the fact that one of us is a first time buyer. Furthermore, the 20 percent deposit requirement seems to have zero regard for a persons ability to pay their existing mortgage. It doesn't matter if you have an existing mortgage outlay per month of €10 or €1,000 – it is 20 percent regardless. There are people with heavier car loan repayments per month than my partners current mortgage repayment. Yet we are completely hamstrung by the 20 percent rule. To borrow 200,000 we need to have a 40,000 deposit and when you factor in fees, stamp duty and other costs 46,000 is likely the more reflective figure. This is an insane amount of savings required to borrow what would be considered a very practical amount of money. With our rent costs due to rise again most likely, our ability to save will be further restricted. I believe this is a perfect example of two people in a very favourable position to afford a mortgage but restricted from doing so by a blanket ruling that refuses to treat applicants on their own individual merits.

For the record, the bank were willing to offer us more than the 200,000 we requested. The only impediment was the LTV deposit stipulation.

Individual Number 17

The 3.5 times income multiplier upon which the LTI limit is based, could be increased if a more nuanced approach was taken. In the years prior to the introduction of the HLRRs, a sensible approach which some lenders followed, was to measure the amount of disposable income which the applicant(s) would have each month following payment of their mortgage, and to calculate the appropriate level of mortgage to offer on that basis. In the case of a family, following payment of the stress-tested mortgage amount, the household was required to be left with a monthly amount in excess of €1,000 per adult and €250 per dependent child. Depending on the income of the applicant(s), this approach can result in the mortgage offer being a lower or higher multiplier than 3.5 times income.

On that basis, I would suggest an increase in the LTI multiplier to 4.5 times income, strictly on the basis that lenders would be required to ensure that the amount which is loaned, when stress tested (ie, the monthly amount of the mortgage would be calculated as if the mortgage interest rate had increased by two percentage points) would result in the applicant(s) having monthly disposable income (ie, income following the mortgage payment and payment of any other loan commitments) of €1,000 per adult applicant and €250 per dependent child.

Individual Number 18

To whom it may concern.

I am a 30year old professional living in London who would like to return to Ireland in the next few years to buy a house and start a family. I would like to express my full support of the LTV and LTI measures which are frustrating to some but ultimately are needed to ensure we do not sleep walk into another crisis driven by a property bubble.

While living in London you become acutely aware of what happens when property is used as a high return asset. With its growing population there is simply not enough houses to meet demand which has driven up property value. Coupled with this is the reality the investors are focused on buying up apartments which they then leave empty, further adding to the situation, to sell them on a few months later for a crazy profit. This lack of housing and the reality that young people, who cannot afford to buy, are being forced to remain in the rental market longer has fuelled exorbitant rental market. With people paying higher and higher rent they are simply unable to save the deposit needed to buy a house and the cycle continues. From an economic point of view London is large enough to be buffered slightly from a housing bubble but Dublin is not.

The last recession in Ireland had a devastating impact on my generation causing our lives to but put on hold as we immigrate to find work. It is important that Ireland learns from its previous mistakes and ensures that we do not once again see investing in property as a way to make a quick buck. This Pyramid scheme operates successfully once the economy is strong but crumbles quickly at the first sign of uncertainty.

The LTV and LTI measures are one way of preventing another property bubble and I am in full support of them. While young people will have to save longer to collect a bigger deposit, the value of the property will not be as inflated. In the long run it will also reduce the cost of renting as mortgages will be lower and less people will see property investment as the holy grail of making money fast.

The measures are designed to take the heat of the market and protect the most vulnerable in society who are hit

the hardest by a recession. While big business may want to see the measures scrapped, I believe if you ask the majority of young people hoping to buy their first home, they will wholeheartedly agree with the measures. I ask that the Central Bank does not succumb to pressure and keeps the measures in place.

Individual Number 19

I have been working full time in for the past 2 years and 6 months after returning home from travelling.

I am single and trying to apply for a mortgage which is proving to be impossible as with then regulation of 3.5 times your wages.

Between saving and paying monthly rent to parents I can prove that I can pay a mortgage on a house between €150000 and €180000, but it won't be approved.

How is somebody supposed to be able to get on the property ladder when the maximum I can apply for is €105000, it's absolutely outrageous.

Unless something changes in this country, I, like a lot have done before and like More will do, will have no choice but to leave the country to try start a life somewhere else, which I do not want to do.

I don't know who is going to read this email, but I feel I needed to voice my opinion.

Individual Number 20

In relation to the policy that new mortgage applicants must have up to a 20% deposit. This creates a large barrier to entry into the housing market particularly for first time buyers when the cost of the house exceeds €220,000.

I agree with the aim of this policy of keeping the price of houses under control however I believe a more effective policy would be to concentrate on the length of the term of the mortgage rather than the size of the deposit.

I suggest the following approach:

- Minimum deposit of 10% for all applicants.
- Maximum term of mortgage for first time buyers 20 or 25 years
- Maximum term of mortgage for second or subsequent mortgages 10 or 15 years

This approach would have the following advantages:

- Reduce and stabilize the price of houses over the long term
- Significantly reduce the barriers to entry of the current policy
- Significantly reduce the total cost for the purchaser against 30/35 year mortgages
- Give assistance to the first time purchaser without increasing the the availability of money in the market (resulting in increased prices) and at no cost to the exchequer
- In the event of a mortgage holder getting into difficulties there is scope for a short term reduction in payments by extending the mortgage for a number of years, as against the current situation (very little scope with a term of 35 years)

I believe that there is no overall benefit to society of high house prices and that there is far to much emphasis on the investment value rather than the utility value of houses. I put forward this suggestion in the hope that it will

be of benefit to my children and the current generation of house buyers. Such a policy would have no personal benefit for me, it would however reduce the value of my house.

Individual Number 21

Dear Officials at Central Bank,

I think current rules on mortgages need revision. You wanted to prevent another housing bubble by making it harder to obtain mortgage and the only thing you did was increase homelessness and slowed down house constructions.

I understand that it was too easy to get mortgage at some stage in Ireland. This was a bad practice in the "boom times". Then it was a good time to introduce these measures. But you did the exact reverse – you introduced them when the prices have fallen significantly and when people taking out the mortgage actually can afford to pay the instalments on it!!!

I would like to buy a place to live. I would need 100% mortgage though. I earn 23k gross per annum. I live in North Dublin and my rent is 750 a month. I get no rent supplement. (Please don't be sending me their way, I believe I should just be able to get a mortgage and not beg the state for money).

Why does the system not recognise people with low earnings but ones that can manage their finances well? When I apply for a mortgage I am told that I cannot afford it. Well I certainly can if I pay 750 a month rent. But it seems the banks know better how much money I have to make to be able to afford to live. But it just might be the case that I live modestly and their calculations are wrong, right?

I think people with low earnings should have 100% mortgages available to them. It is impossible to save for a deposit nowadays, especially in Dublin. And the LTI ration should b

Thank you.

Individual Number 22

I am unable to fill out the form as I am using an iPad and the form is not supported on this device.

However as a mortgage holder, who is looking to move to a home to accommodate the needs of our growing family ; this is already almost beyond us, as we live in Dublin. I feel that any relaxation of the rules will further drive already rising house prices making any chance of us ever trading up impossible.

We have always saved, always been careful, and bought within our means in 2005. Since then if we have had extra money we have used it to increase our mortgage payments and more recently we have been saving up to trade up. It will still be a stretch but in the current market we can just afford this and crucially qualify for the central bank criteria.

However now I feel that any rule relaxation will cause an increase in house prices pricing us out of the market, punishing us once again as we become the people in the wrong place at the wrong time

Individual Number 23

A repeated observation is the challenge for FTB's in particular to save for the deposit while continuing to rent. This is a particularly frustrating aspect where there is a cash flow advantage to buying by reducing the monthly outgoing in circumstance where rent is higher than mortgage payments, or even where they don't have the luxury of having a parents home to temporarily move back into to save on rent.

Where rental payments are higher than the mortgage:

Measures should be considered to address this by allowing discretion in cases where the differential between mortgage payments and rental payments over a defined short period (e.g. two years) would cumulatively bridge the gap in deposit shortfall. Given the current interest rate environment, and the capacity of banks to borrow from the ECB at zero rates, such a structure could be put in place whereby the bank would lend the shortfall amount, at close to zero percent, such that the amount is cleared to achieve the required "deposit level".

Creating a structured "saving of deposit":

A variation on this, and possibly easier, could be implemented by allowing banks to lend but defer the first payment on the mortgage in circumstance where they simultaneously lend a shortfall in the deposit, again at zero or virtually zero percent of interest given the current and forecast interest rates, such that the "deposit" level would be reached within a defined period of time, e.g. say 6 months.

Some examples would be as follows:

House price	Rent	Rent over 6 months	Equivalent deposit
180,000	1,000	6,000	3.33%
180,000	1,200	7,200	4.00%
180,000	1,300	7,800	4.33%
200,000	1,000	6,000	3.00%
200,000	1,200	7,200	3.60%
200,000	1,300	7,800	3.90%
240,000	1,100	6,600	2.75%
240,000	1,250	7,500	3.13%
240,000	1,400	8,400	3.50%
280,000	1,500	9,000	3.21%
280,000	1,750	10,500	3.75%
280,000	2,000	12,000	4.29%

By allowing the FTB to effectively save the additional deposit through the provision of zero interest rate short term debt it targets in a very specific way their needs. It would also have the additional benefit of relieving some of the pressure from the rental market and create a more normalised rental and housing markets.

This would then over time allow for people to have the capacity to save deposits in a normalised environment such that when interest rate do increase in the next 5 years or so we have created a more realistic and stable market.

Individual Number 24

Mortgage Lending Restrictions: Making Banks Weaker?

An evidence based assessment

Introduction

In January 2015 the Central Bank of Ireland announced new mortgage lending regulations. In broad terms, the rules cap the proportion of mortgages that banks can lend at loan-to value (LTV) ratios greater than 80 percent and loan-to-income (LTI) multiples of more than 3.5 times.

The Central Bank has outlined two objectives of the rules: to strengthen banks by preventing them from making too many high risk loans; and to reduce the risk of a future house price bubble and crash. But, as argued below, the rules weaken banks by preventing them from making loans which are profitable and resilient, and by suppressing house prices beneath their “fundamental” levels.

The rules make banks weaker, not stronger

Banks saw substantially higher credit losses on high LTV and LTI loans than low LTV and LTI loans. But – despite the scale of the mortgage arrears crisis – mortgages were still among the safest loans the banks made. Overall, losses on Irish owner occupier mortgages accounted for no more than 6 percent of the Irish resident banks’ total credit losses. The cumulative loss rate on Irish owner occupier mortgages amounted to 7 percent. By comparison, the loss rate on property development lending was in excess of 50 percent (1). Even those mortgages issued outside the Central Bank’s new rules – at LTVs of greater than 80 percent or LTIs of more than 3.5 times – exhibited a loss rate of no more than 9 percent (2).

As well as being relatively low risk, mortgages are also typically issued over long terms. This is important for the lending economics of the banks: the longer that performing loans remain on the balance sheet, the more they are able to contribute towards any losses on non-performing loans. This means that relatively low margins are sufficient to offset even quite significant credit losses. For example, a margin of 2 percent would be more than sufficient to offset the 9 percent credit loss rate incurred on loans outside the rules during the crisis (3).

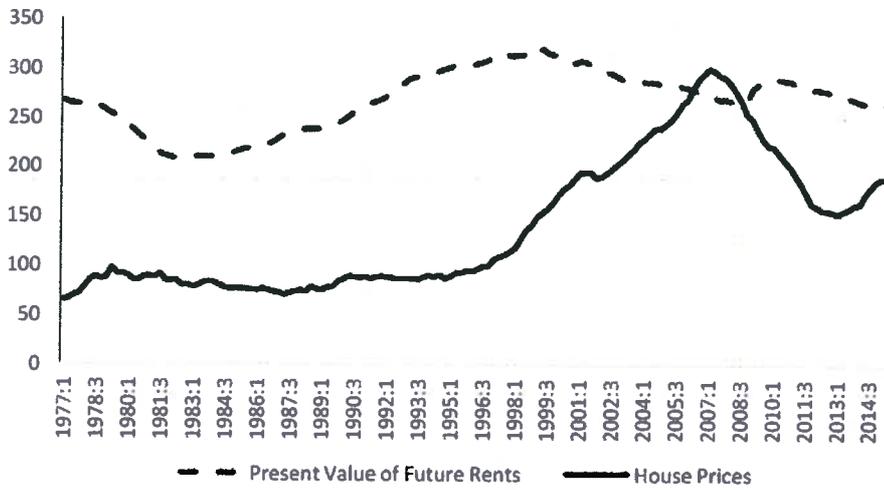
At current pricing for new business, banks are making margins in excess of 2 percent (4). This means that loans made today outside the rules would still be profitable even if a crisis of the same scale were to reoccur immediately. The rules prevent the banks from taking on resilient loans that would be profitable in a crisis, and in doing so they make the banks weaker, not stronger.

The rules keep house prices too low

The Central Bank’s second objective is that the rules should prevent another house price bubble (and subsequent crash) from emerging. There is good reason to believe that a restriction on high LTV and LTI lending could constrain house price growth. But is there reason to believe that house prices are too high currently?

The Central Bank’s Lars Frisell notes that “it is near-impossible to determine what is the fundamental level of house prices – there are almost as many house price models as economists.” (5) But there is in fact wide agreement on a basic principle – a house is valued fairly when its price equals the present value of the future rents it generates (6). Given long enough a time series, we can compare past house prices with actual subsequent rents (7). Figure 1 shows the present value of future rents and house prices since 1977 (both series are adjusted for inflation; and we assume rents stay flat in real terms after 2015) (8). Other than at the height of the property boom, the present value of rents has been in excess of actual house prices. This suggests that house prices have generally been undervalued relative to rents – often significantly so – and are undervalued today.

Figure 1: Present Value of Future Rents and House Prices (constant €'000 2010)



Why would this be the case? The answer would appear to lie in the impact that inflation – and the high nominal interest rates that accompany it – has on mortgage affordability. Banks will only lend where they believe customers can meet repayments from current income. When interest rates are high, loan sizes have to be smaller so that initial payments (which are elevated by high interest rates) are made affordable.

Figure 2 shows how inflation and interest rates have moved in tandem over the last 37 years. Figure 3 translates this into an impact on loan affordability. The “affordable mortgage” line represents the loan size at which initial repayments would take up 40% of the average gross income (which we assume to be indicative of the affordability test that banks might have applied) (9). Comparing to actual house prices, we see much greater alignment up until the peak of the boom. This suggests that the loan affordability requirement and high mortgage interest rates were constraining loan amounts – and hence house prices – well beneath their fundamental value.

Figure 2: Mortgage Interest Rates and Annual Inflation Rates (percent)

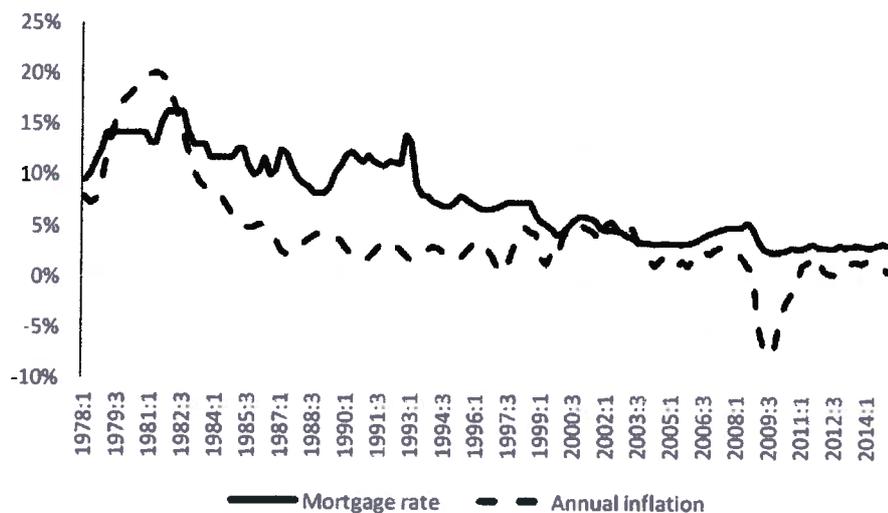
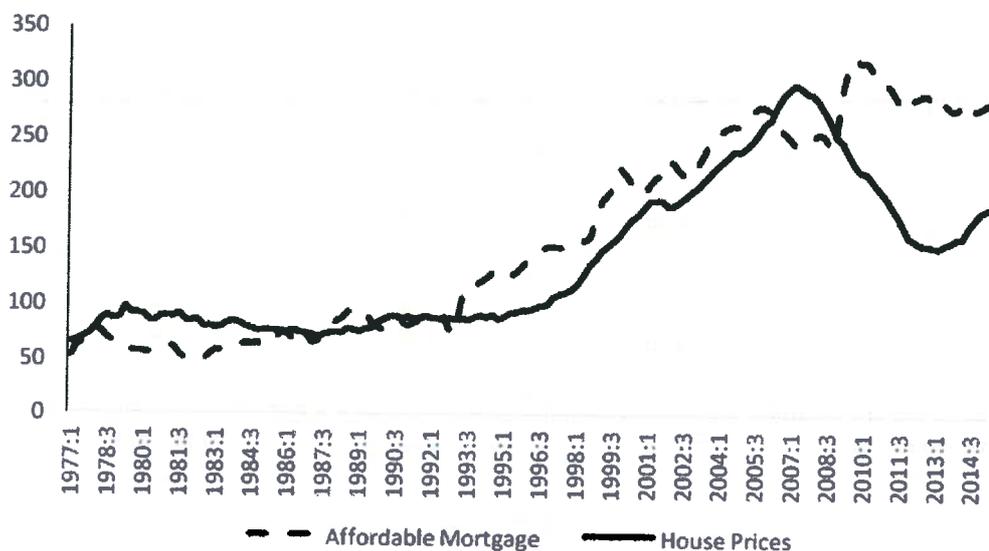


Figure 3: Affordable Mortgage and House Prices (constant €'000 2010)



This analysis suggests an alternative narrative for the house price boom. House prices were kept too low (relative to fundamentals) through the 1990s as high nominal interest rates created a binding loan amount constraint. As disinflation subsequently caused nominal rates to fall, prices were allowed to grow towards fundamental value. The degree of overvaluation at the house price peak appears to be very much less than is perhaps commonly thought (10). Moreover, it suggests that house prices remain low relative to both fundamentals (rents) and affordability (nominal interest rates) today.

By implementing tight lending restrictions when house prices are already “too low”, the Central Bank risks blunting the incentive to build new housing. House prices are in fact lower than construction costs in most of the country currently (11). Where this is the case, it follows that building is unprofitable. It is not surprising that construction activity is subdued, with 12,000 completions in 2015 against a demographic need of 25,000 per annum (12). Capping house prices at current levels (which is the intent of the rules) would serve to prolong the already deep construction recession.

Summary

The intention of the rules is to strengthen banks by restricting the proportion of high risk lending they can do, and to stop house prices rising beyond fair value. Unfortunately, they act to do the opposite – they weaken banks by preventing them from taking on robustly profitable business, and suppress house prices beneath construction costs. In doing so they prolong the construction recession and hamper the banking recovery.

Notes

1. Author's calculations based on Annual Reports of AIB, Anglo, Bank of Ireland, EBS, INBS, Permanent TSB and NAMA.
2. Author's calculation based on data presented in Hallissey, N., R. Kelly and T. O'Malley, 2014 “Macroprudential Tools and Credit Risk of Property Lending at Irish banks”, Economic Letter, Vol. 2014. No. 10, Dublin: Central Bank of Ireland.
3. Breakeven margin calculated as margin which sets present value of profit stream to zero. Assumes 25-year term,

66 basis points cost of funds, 30 basis points annual operating costs, 45% loss given default and 10% cost of capital.

4. Lowest rate currently offered at 80-90% LTV is 3.5% (AIB, variable rate). With cost of funds and operating cost assumptions as above, margin before credit losses is 2.5%.

5. Address by Lars Frisell to Irish Economy Conference: Learning from the Crisis 25 February 2015 "The Timing of Macroprudential Intervention: The Central Bank's new LTV and LTI regulations".

6. For example: "In equilibrium, the user cost of homeownership should be equal to the market rent for an identical bundle of housing services", from "Understanding Irish house price movements – a user cost of capital approach", Frank Browne, Thomas Conefrey and Gerard Kennedy, Central Bank of Ireland, Conference Paper - 13th February 2013.

7. The approach in this section draws from that famously used by Robert Shiller in relation to stock price volatility: "Do Stock Prices Move Too Much to be Justified by Subsequent Changes in Dividends?", Robert Shiller, American Economic Review, 1981, vol. 71, issue 3, pages 421-36.

8. Time series indices are from OECD Analytical House Price database, Q1 1977 through Q2 2015. Levels for house prices, average income and rents for Q2 2015 are from MyHome Report, AMECO and Daft Report respectively. Mortgage interest rates are from CSO. The present value calculation discounts actual subsequent rents by actual subsequent mortgage interest rates in each period to Q2 2015 and adds a terminal value for rents beyond that date. The terminal value assumes zero real rent growth and an equilibrium real mortgage interest rate of 4%. The equilibrium real interest rate is taken from Browne, F, "The Irish Housing Market: Fundamental and Non-Fundamental Influences", CBFSAI Financial Stability Report 2004. The main conclusions here are not particularly sensitive to these terminal value assumptions.

9. This is same concept as the "amount that can be borrowed" used in McQuinn, K. and G. O'Reilly (2008) "A model of cross-country house prices," Central Bank of Ireland Research Technical Paper 5/RT/07

10. This result is consistent with the equilibrium analysis in "Understanding Irish house price movements – a user cost of capital approach", Frank Browne, Thomas Conefrey and Gerard Kennedy, Central Bank of Ireland, Conference Paper - 13th February 2013. The authors mistakenly interpret house price equilibrium as requiring zero nominal – rather than real – growth. The interest rates in their Chart L (p.23) should correctly be interpreted as real rates; at 4% real, their analysis shows significant undervaluation of house prices relative to rents through the 1990s and only mild overvaluation at the peak. We use Browne's earlier (2004) estimate of the equilibrium real mortgage rate of 4% here.

11. Society of Chartered Surveyors Ireland, House Rebuilding Costs (2015) gives the construction cost for a three bed as €133k. Prices for three beds are lower than this everywhere bar Dublin, adjacent counties (Meath, Kildare, Louth and Wicklow) and the cities of Cork, Galway and Limerick. Prices are lower than construction costs in more than half the country by population.

12. Department of Housing, Planning, Community and Local Government reports 2015 completions as 12,666. The Economic and Social Research Institute estimates demographic need as "at least 25,000 new dwellings a year over the coming fifteen years". Duffy, D., D. Byrne and J. FitzGerald (2014). 'Alternative Scenarios for New Household Formation in Ireland', Special Article in ESRI Quarterly Economic Commentary, Spring 2014.
