



## 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](mailto: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.*

<b>Name:</b>	Robert Kelly, Public Affairs Manager
<b>Organisation (if applicable):</b>	Ulster Bank Ireland DAC
<b>Submission Type (select one):</b>	
Individual	
Political party	
Government department	
Banking industry	<b>X</b>
Academic or research institution	
Consumer group	
Mortgage brokers and advisors	
Property and Construction Industry	
Mortgage Insurance Firm	
Other	
<b>Does your submission relate to (select one):</b>	
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	<b>X</b>
<b>Evidence based submission (please attach any supporting documentation):</b>	
Attached is a letter outlining the feedback from Ulster Bank Ireland DAC on the Central Bank of Ireland's call for submissions on the Loan-to-Value and Loan-to-Income Regulations.	

31 August 2016

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Dear Sir/Madam,

**Ref: Submission on the Loan-to-Value and Loan-to-Income Regulations**

Ulster Bank Ireland DAC (Ulster Bank) welcomes the opportunity to provide feedback on the Central Bank of Ireland's (CBI) Loan-to-Value (LTV) and Loan-to-Income (LTI) Regulations.

We recognise the CBI's objective of increasing the resilience of banking and household sectors to the property market, and of reducing the risk of bank credit and house price volatility in the future. Ulster Bank also accepts the value that the existing measures have in supporting this objective.

Ulster Bank contributed to and supports the general thrust of the views expressed by the wider banking industry response submitted separately by the Banking & Payments Federation Ireland.

There are three items detailed below that we wish to specifically highlight in addition to the industry submission. We would welcome an opportunity to discuss these further with you, once you have reviewed and considered the contents of this letter.

**a) First Time Buyer LTV limit of 90% - €220,000 threshold**

We are of the view that there should be a framework introduced for the future amendment of the €220,000 threshold applied to First Time Buyer (FTB) lending up to 90% LTV. To ensure that anomalies are not created in either the housing or the mortgage market, it is crucial the process for setting the threshold is transparent. A greater degree of certainty needs to be brought to how the €220,000 threshold is managed and amended. By holding the threshold

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Directors:  
E Gleeson, G Mallon (UK), M Murphy, P Nolan  
(Chairman) (UK), D O'Shea, R Quinlan, P Stanley

limit at the same level for too long or moving it unexpectedly, it could result in an adverse or unintended market reaction.

The economic viability of new residential building at present is being inhibited by a number of supply side constraints such as local authority and VAT contributions; however the static nature of the €220,000 threshold may also be a contributory factor. We would propose that the CBI considers leveraging the now extensive data on mortgage customers that it gathers on a semi annual basis to inform the setting of LTV limits. We recommend that it is appropriate to consider the following when amending the €220,000 threshold in the future:

- a) Link to the prevailing wage levels of mortgage applicants.
- b) The distribution of house prices across the country which was used to set the initial level.

The timing of any amendments should be kept at intervals that allow for the impacts of the data to be considered, the market impacts and sufficient lead time to allow for financial institutions to amend systems, brochures etc.

**b) Operational issues relating to the Regulations**

As the limits currently stand they are 'absolute' with no tolerance set i.e. fixed figures. To ensure that they do not breach the requirements, an individual lender will aim to operate comfortably within each limit, setting maximum levels below the absolute level. The management of exceptions within limits is complicated by the fact that exceptions provided at mortgage approval may not all draw down, thus resulting in a moving target. Variations can occur in the approval to drawdown ratios and exception / non exception mix. Uncertainty is created as many of the factors that impact these ratios and mix are outside an individual institution's control, for example, new competitor proposition, completion issues for customers, etc. This leads to an element of conservatism being built into the percentage of exceptions which a lender can approve.

The current design of the measures means that lenders need to work to lower (internal) exception limits in order to achieve a satisfactory level of safety and to avoid any potential regulation breach. We believe that the impact of this should be considered when assessing the requirement for any future changes to the exception limits.

c) **LTI as the primary measure of affordability**

The introduction of general market wide affordability control is a welcome development to assist in bringing longer term stability to the mortgage and property markets. We acknowledge that given the perceived requirement to introduce new measures in a timely manner during 2015 that LTI was the straightforward measure to implement immediately.

However, we would assert that it is not the most precise tool as an affordability measure and may not be the only metric to use in the longer term. We would propose that consideration be given to replacing this measure with a more customer specific affordability metric which considers:

- a) The term of borrowing.
- b) Existing debt levels.
- c) The customer's other commitments e.g. payment of rent while saving to purchase a property.

The introduction of such a measure will most likely lead to changes in individual customer's maximum borrowing levels within the regulatory limits, but we believe it would encourage more informed and sustainable lending practice.

Until the implementation of the new Central Credit Register, the relevant data in terms of existing borrowings may not be readily available and this could delay the roll out of these metrics. However, examining with the industry, what guidance could be issued now in this area would be useful from both the market perspective but also in allowing financial institutions the time to ensure they are appropriately prepared.

I would welcome the opportunity to discuss the points we have high-lighted in this submission with the CBI at your earliest convenience.

Yours faithfully



**Paul Stanley**  
Chief Finance Officer