



## FAQ – New regulations on residential mortgage lending

### 1. What loan-to-income (LTI) restrictions on residential mortgage lending is the Central Bank introducing?

A LTI limit of 3.5 times gross annual income applies to all new lending for principal-dwelling homes (PDH) purposes. This limit should be exceeded by no more than 20 per cent of the euro value of all housing loans for PDH purposes.

The LTI limits do apply to borrowers in negative equity applying for a mortgage for a new property.

The LTI limit does not apply to buy to let mortgages.

### 2. What loan-to-value (LTV) restrictions on residential mortgage lending is the Central Bank introducing?

There are different limits for different categories of buyers, as follows:

#### Principal Dwelling Homes

- For non-first time buyers of PDHs: A limit of 80 per cent LTV applies on new mortgage lending.
- For first time buyers (FTBs) of PDHs: A limit of 90 per cent LTV applies on the first €220,000 of the value of a residential property and a limit of 80 per cent LTV applies on any value of the property thereafter. In this way, FTBs purchasing more expensive properties will be required to provide a higher deposit than those purchasing cheaper properties.

The total value of new lending for PDH mortgages above these limits should be no more than 15 per cent of the euro value of all PDH mortgages in a calendar year.

The LTV limits do not apply to borrowers in negative equity applying for a mortgage for a new property. As with all these limits, this does not preclude a lender from applying stricter lending standards than contained in the Regulations.

## Buy to Lets (BTL)

- *For non-PDH purchases:* A limit of 70 per cent LTV applies, which should be exceeded by no more than 10 per cent of the euro value of all housing loans for non-PDH purposes.

### **3. Why is the Central Bank introducing these measures?**

The key objective of these regulations is to increase the resilience of the banking and household sectors to the property market and to reduce the risk of bank credit and house price spirals from developing in the future. It is expected that the regulation will be introduced under legislation in the coming weeks. The Central Bank does not wish to regulate or directly control housing prices.

### **4. When will the measures be introduced?**

We expect the legislation to be laid before the Oireachtas in the coming days.

### **5. Why is there a different approach being adopted for first time and other borrowers?**

This approach has been taken to address the concerns raised in the submissions regarding fairness, access to mortgage finance and homeownership and have been informed by empirical research, for example, the finding that FTBs have a lower risk of default than second and subsequent buyers. Limiting higher LTVs in this manner should help prevent a credit-fuelled property bubble from developing as it did in the recent past while at the same time not overly restricting access to credit to FTBs.

### **6. How will this impact FTBs?**

The LTV limit for FTBs depends on the value of the property being purchased. Properties valued at less than or equal to €220,000 will be subject to a maximum LTV of 90 per cent. For properties valued above this level, there is a maximum LTV ratio for each property value, which decreases as the property value increases. So for a FTB buying a property worth €300,000, the maximum loan allowed under the Regulations (subject, of course, to the proportionate limit) would be 90 per cent of €220,000 and 80 per cent of the remaining €80,000. This would result in a deposit requirement on this property of approximately 12.7 per cent. This table shows the percentage deposit required by FTBs for property with a range of values:

Property value (€)	Maximum LTV (%)
Up to 220,000	90
300,000	87.3
400,000	85.5
500,000	84.4
600,000	83.7
1,000,000	82.2

Further information on this is available in the [information note](#).

#### 7. What is the definition of a first-time buyer (FTB)?

A *first time buyer* is defined as a borrower to whom no housing loan has ever before been advanced. Where the borrower under a housing loan is more than one person and one or more of those persons has previously been advanced a housing loan, *none* of those persons is a first-time buyer.

This definition of FTB is aligned to the Revenue definition. The flexibility given by the proportionate limits is in place to allow lenders to make decisions based on an individual borrower's circumstances up to a specific limit.

#### 8. What is a negative equity mortgage?

Negative equity means the value of your property is less than the balance outstanding on your mortgage. If the house is sold the purchase amount will be less than what is required to clear the total mortgage amount.

A negative equity mortgage allows you to add this outstanding amount to the balance of a new mortgage loan if you sell your home and buy a new property. Where the borrower under a housing loan is more than one person, the borrower will be regarded as a borrower under a negative equity loan where one of the persons under the housing loan is a borrower under negative equity loans.

#### 9. Why did you finalise the property value of €220,000 for the 90% LTV for FTBs?

This is a prudent approach, which ensures that new lending to FTBs who are purchasing more expensive properties is at a lower maximum LTV ratio than those purchasing less expensive properties. The property value of €220,000 was set taking into consideration a range of factors, including the level and distribution of house prices across the country.

## 10. Who will the regulations apply to?

### In scope

- The limits apply to housing loans, approval in principle for which was received from the lender after the Regulations coming into effect, and the housing loan is secured on residential property in the State.
- Equity release / top up on an existing mortgage will be in scope of the Regulations.

### Not in scope

- The LTV and LTI limits do not apply to refinancing of a housing loan (i.e. switcher mortgages) or housing loans entered into in order to address arrears or pre arrears.
- Housing loans for borrowers in negative equity who wish to obtain a mortgage for a new property are not in scope of the LTV limits although the usual lending standards of the individual banks applies to these borrowers. Where the borrower under a housing loan is more than one person and one or more of those persons is a borrower under a *negative equity loan*, all of those persons are borrowers under a negative equity loan. These loans are in scope for the LTI limits
- The LTI limits do not apply to housing loans for non-PDH purposes (i.e. buy –to- let).

## 11. Why have BTLs been excluded from the LTI restrictions?

Buy to let mortgages are not covered by the Regulations as the LTI ratio is a less relevant metric for this type of lending. However the more demanding LTV requirements will limit the risk to borrowers and lenders in this category.

## 12. I had mortgage approval in principle prior to the regulations, how will I be impacted?

If you have approval in principle, supported by a full credit assessment, prior to the effective date of the Regulations, you will not be impacted by these regulations for the duration of your mortgage approval.

The limits do apply to housing loans, approval in principle for which was received from the lender after the Regulations coming into effect, and the housing loan is secured on residential property in the State.

## 13. How many responses did the Central Bank get to the consultation?

We received 110 individual submissions and 47 responses from institutions to this paper (157 in total).

**14. Are these responses available to view?**

It is the Central Bank's policy to publish all responses to consultation papers. All submissions made in response to the consultation paper will be made available on the Central Bank website in the coming days.

**15. Am I guaranteed a mortgage up to the new levels when I apply?**

No. Lenders are still required to assess each loan application on a case by case basis. Ultimately the amount of any loan offered is a matter for individual lenders, but under the new regulations only a proportionate level of mortgages will be allowed to exceed the LTV and LTI caps.

The limits are supplementary to individual banks' credit policies and are not designed as a substitute for lenders responsibilities to assess affordability and lend prudently.

We expect lenders to continue to define and implement rigorous and prudent standards to their own internal credit assessments policies and procedures, making all lending decisions on a case by case basis as required by the Consumer Protection Code and other regulations.

**16. Is there any flexibility in the limits?**

The Central Bank has decided to introduce proportionate limits specifically to allow flexibility by lenders when assessing individual cases. The proportionate limits mean that lenders will be able to make decisions based on an individual borrower's circumstances up to a specific limit.

Lenders will still be required to assess an individual borrower's affordability and lend prudently on a case by case basis, in line with the requirements of the Consumer Protection Code and other regulations.

**17. Why did the Central Bank not introduce a mortgage insurance scheme?**

The Central Bank did not consider an exemption for suitably insured mortgages to be an effective practical amendment at this time. While mortgage insurance may play a role in increasing the resilience of the banking sector, it does not remove the risk of these losses but transfers it to the insurer. There are also consumer protection implications for a mortgage insurance scheme, as this insurance does not protect the borrower but the cost is generally passed on to the borrower either directly or through higher interest rates.

**18. Why did the Central Bank not phase in the measures?**

Given the amendments made in relation to first time buyers and in relation to the monitoring and compliance period for lenders phasing in the measures was not deemed necessary.

**19. Why did the Central Bank not introduce debt to income measures instead of LTI?**

Given that the Central Credit Register is not yet in place it would be premature to establish realistically-enforceable regulations based on total debt. However, we believe the measures cannot be delayed until such a register is established.

**20. Has the Central Bank fully considered the possibility of unintended consequences e.g. on the rental market?**

Efforts have been made to limit the unintended consequences of these regulations; however some spillover effects to other areas of the housing market are unavoidable.

The Central Bank agrees that the macro-prudential tools that are part of its overall remit are only part of the overall range of policies needed to ensure a well-functioning housing market. The choice and timing of other such policy measure are not within the remit of for the Central Bank, which must ensure that the matters under its responsibility are acted on in a timely and effective manner. The Central Bank will continue to contribute to the public research and debate on issues relating to the housing market.

**21. Has the Central Bank considered that these measures may be discriminatory against people looking to buy in Dublin and the surrounding areas?**

The sliding nature of the LTV cap for FTBs means that the measures do not significantly restrict FTBs in more expensive areas. For the average national house price of around €200,000, a maximum LTV for FTBs of 90% would apply. For the average Dublin house price of around €270,000 a maximum LTV for FTBs of 88.15% would apply.

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Lenders will still be required to assess an individual borrower's affordability and lend prudently on a case by case basis, in line with the requirements of the Consumer Protection Code and other regulations.

**22. Where can people get more information on how these regulations apply to their specific case?**

The Central Bank cannot comment on individual cases. Consumers should contact their individual bank for information and clarity on how these rules would apply to them.