



Banc Ceannais na hÉireann  
Central Bank of Ireland  
Eurosystème



# Macroprudential Policy in the Irish Mortgage Market: Taking Stock

Bank of Lithuania - Macroprudential Policy Conference

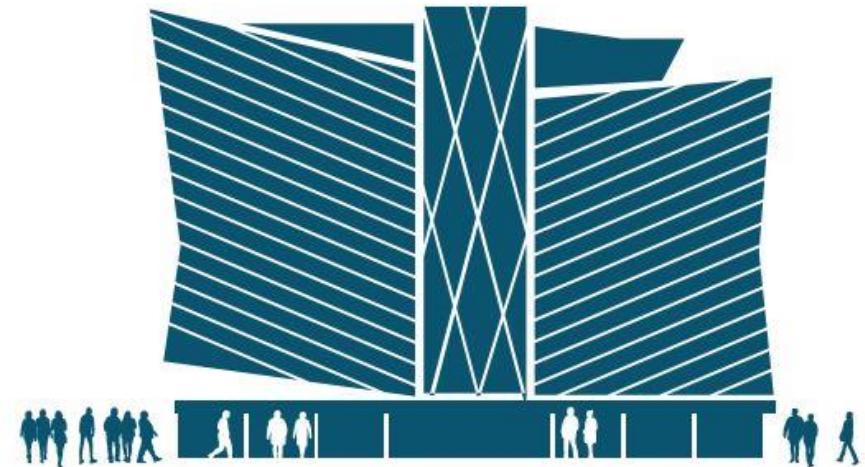
5<sup>th</sup> October 2021

# Central Bank of Ireland – Financial Stability

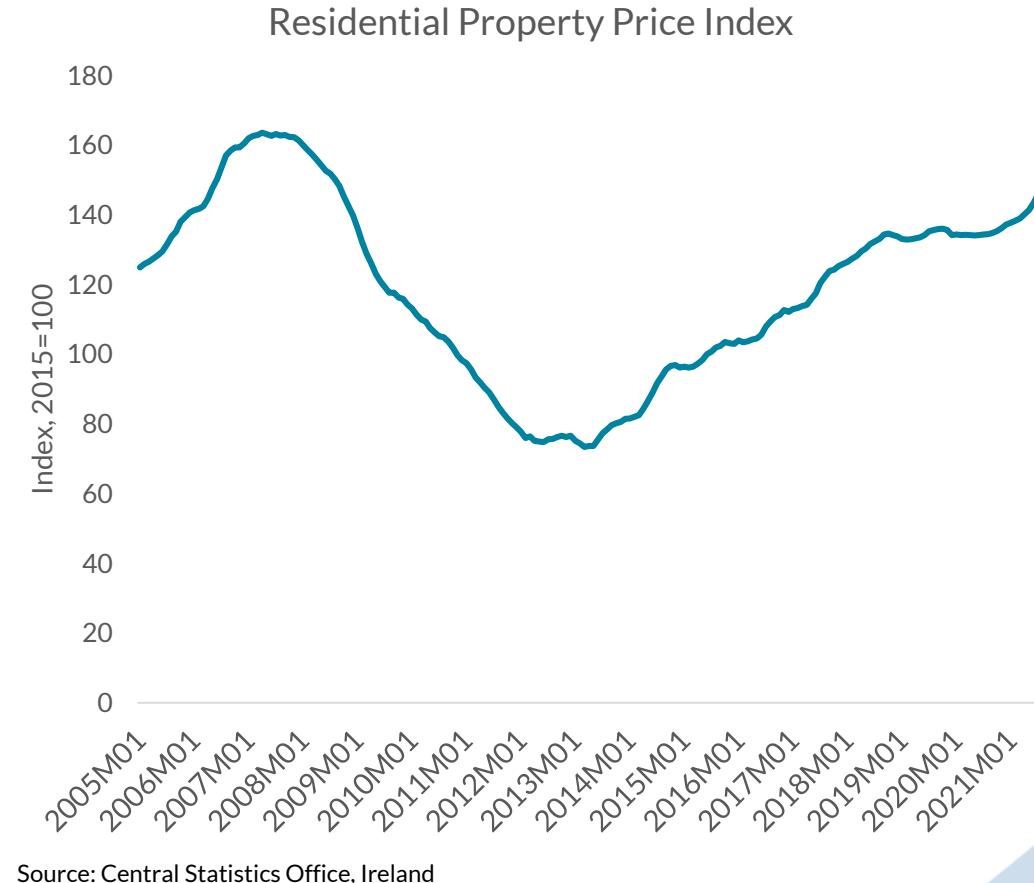
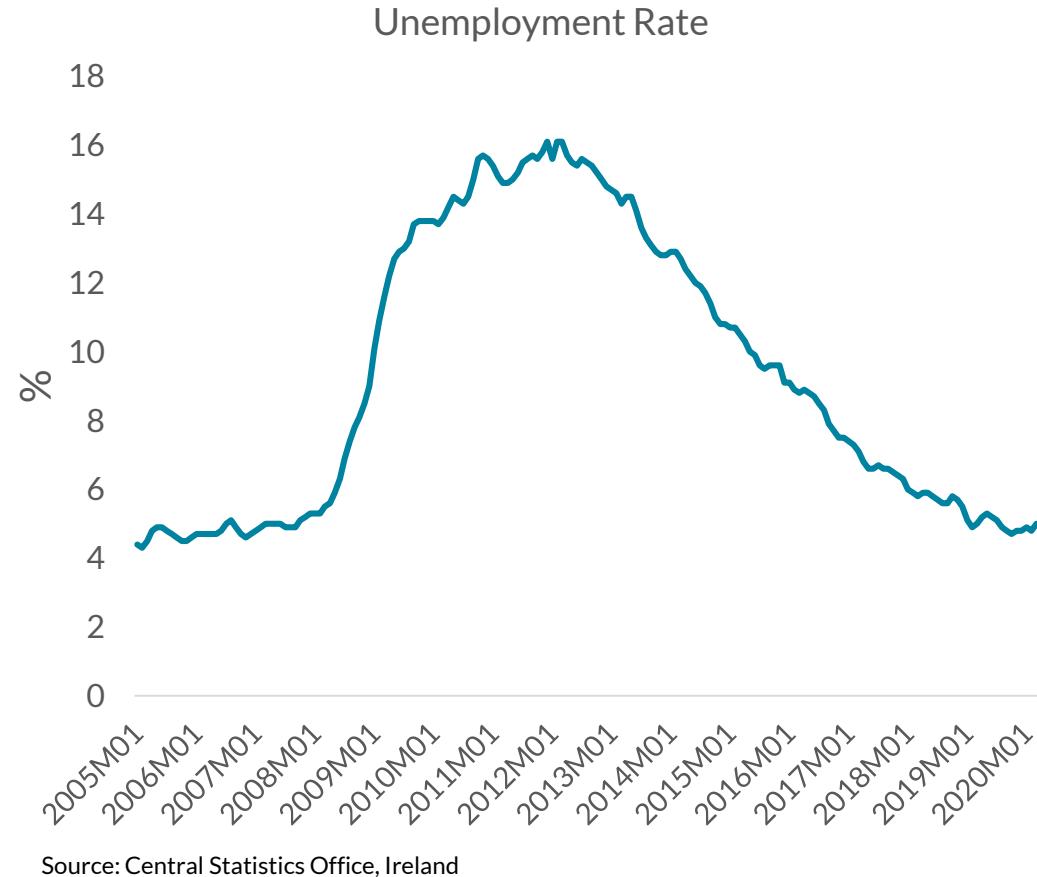
## ■ Our Statutory Mandate:

**“The stability of the financial system overall.”**

- The Central Bank has a mandate in domestic and European legislation to contribute to financial stability in Ireland and across the euro area, which it carries out in conjunction with other relevant authorities
- To achieve its mandate, the Central Bank identifies, implements and monitors policies to limit the impact of systemic risks on both the financial system and the economy
- As the macroprudential authority for Ireland, the Central Bank focuses on the mitigation of system-wide risks with the aim of increasing the resilience of the Irish financial system



# Economic Crisis in Ireland



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# Objectives of the Mortgage Measures

## 1. Strengthen resilience of borrowers and lenders

Higher levels of debt increase the likelihood that borrowers find themselves in financial distress and that lenders make losses on mortgage lending when adverse shocks hit

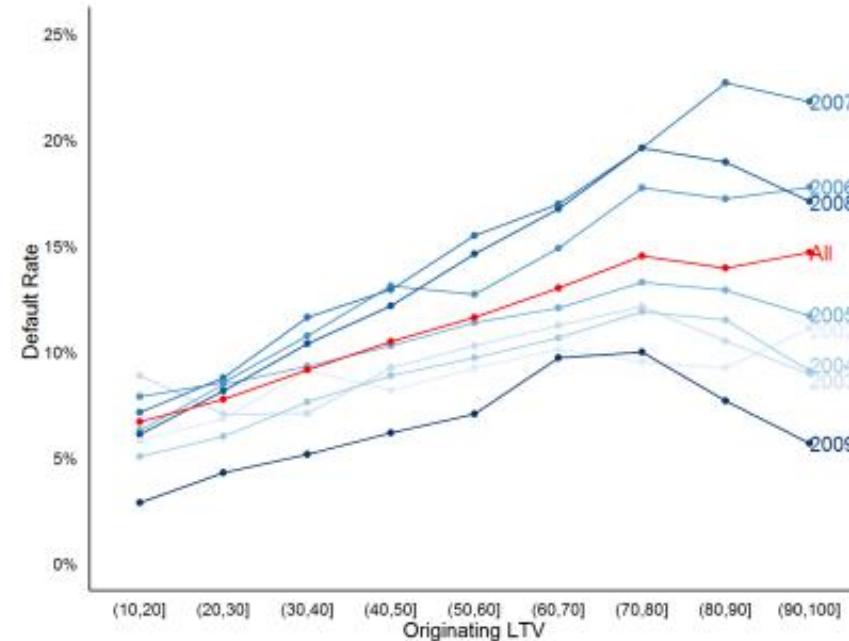
## 2. Reduce likelihood of unsustainable credit-fuelled housing boom

Excessively loose credit standards in ‘good times’ can feed an unsustainable house price boom, which subsequently turns to a costly bust when adverse shocks hit

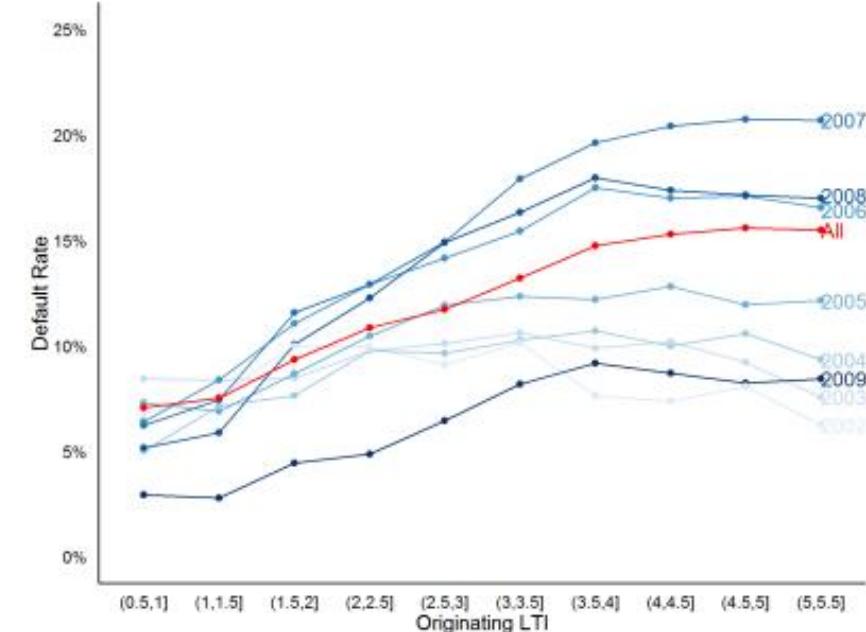


# Originating loan to income and loan to value ratios pre-crisis

Loan to value ratio by year of origin  
and default rate



Loan to income ratio by year of origin  
and default rate



Source: Macro-prudential Tools and Credit Risk of Property Lending at Irish banks,  
Central Bank of Ireland Economic Letter, 2014.

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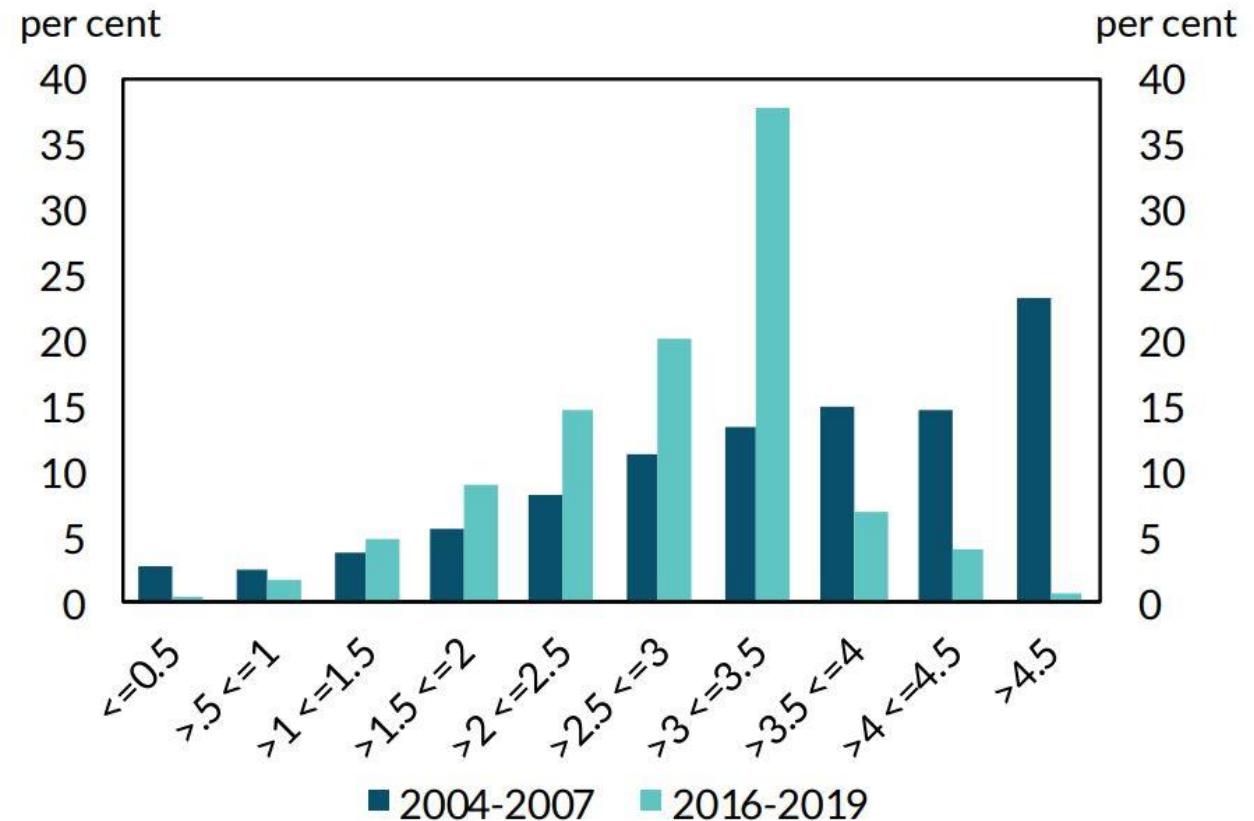
# Calibration of measures

- Different approach for first-time buyers in comparison to second and subsequent borrowers and buy-to-let borrowers



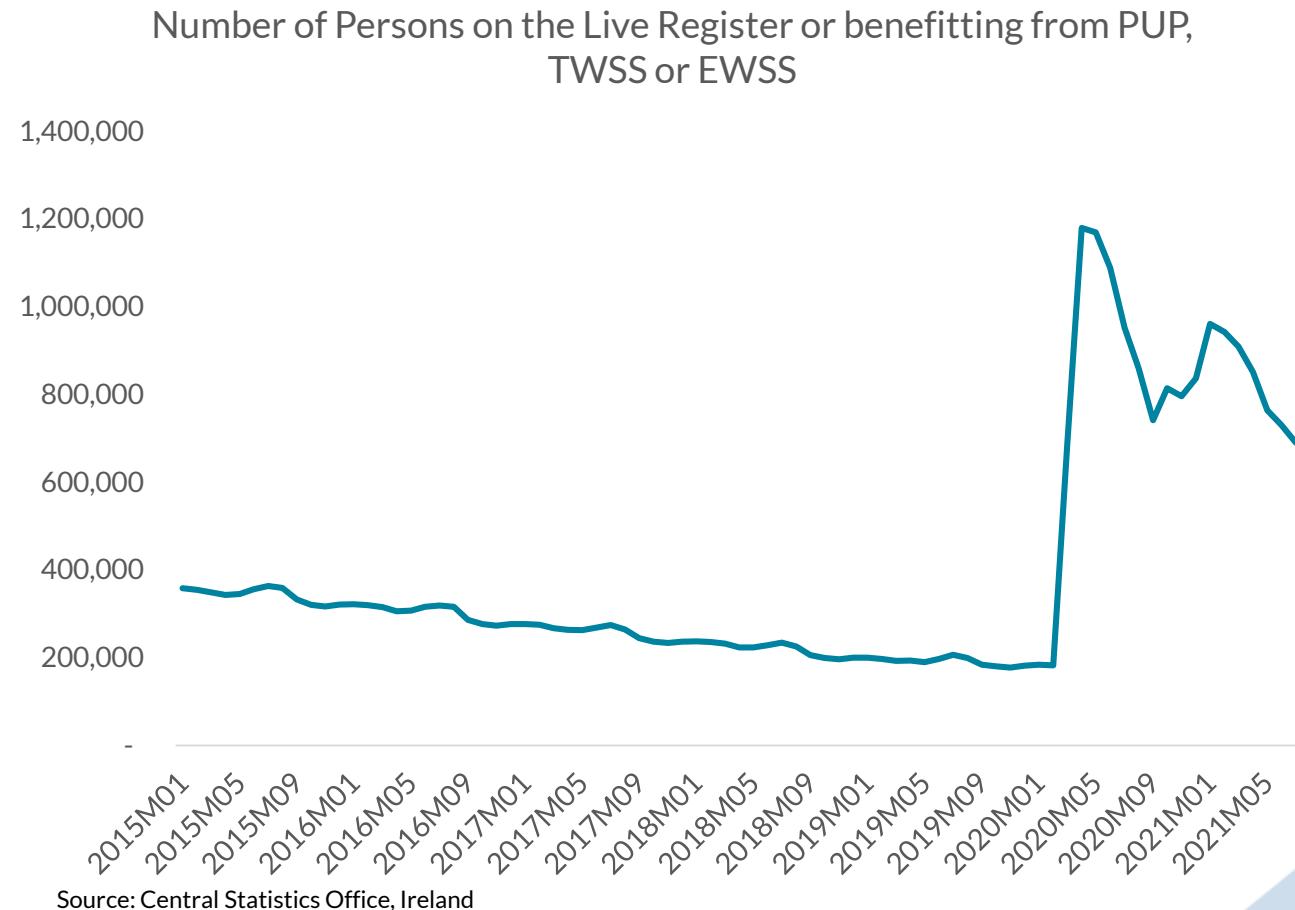
# Mortgage lending pre-crises

- The constraining role of the measures is clear
- Large bunching of borrowers at the loan to income limit of 3.5 pre-Covid
- Longer right tail of higher risk loans in years preceding global financial crisis



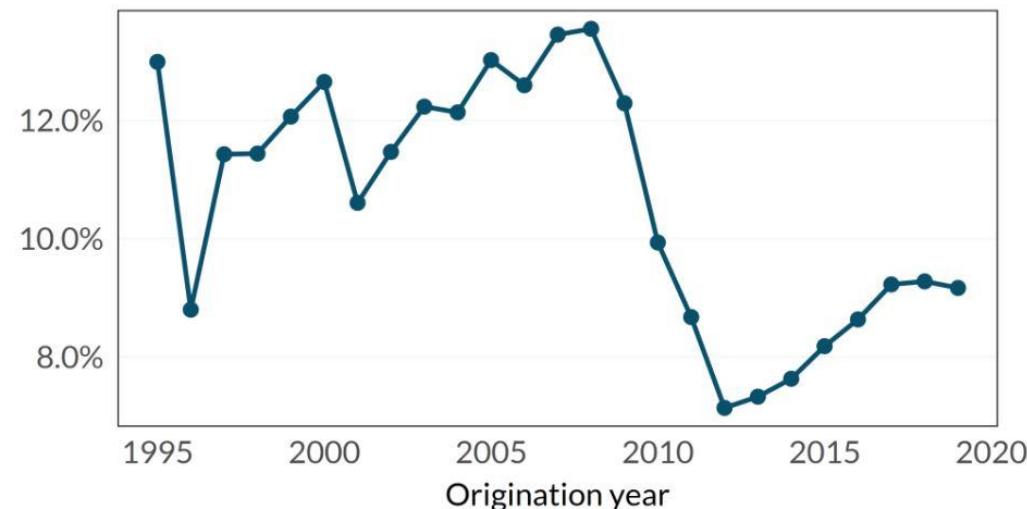
# COVID-19 labour market effects

- 1.2 million people, or close to half the labour force were reliant on the State for either welfare payments or wage subsidies by Q2 2020
- Supports included the pandemic unemployment payment (PUP), the temporary wage subsidy scheme (TWSS), the employment wage subsidy scheme (EWSS) and support via the live register (LR)



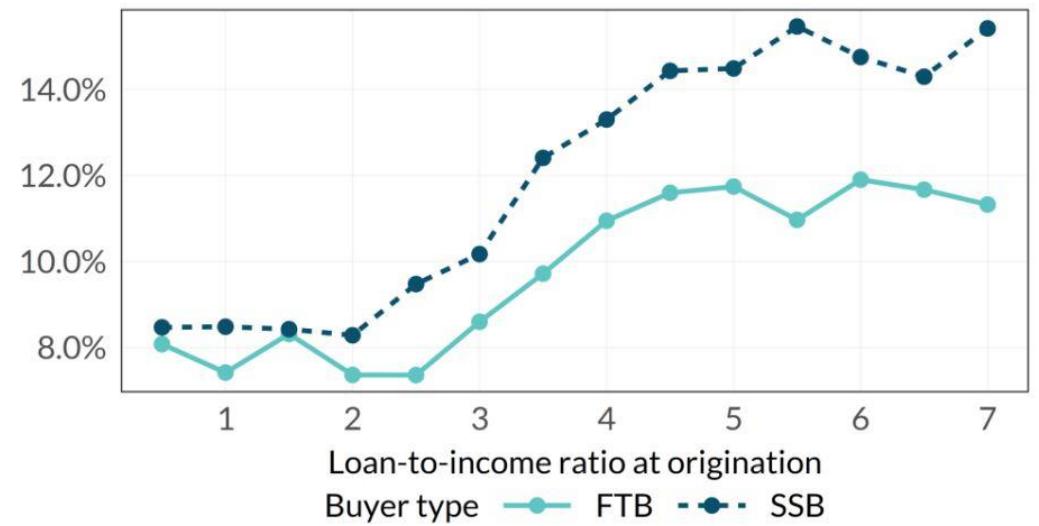
# Payment breaks in Ireland

Payment break propensity by year of origination



Source: COVID-19 payment breaks on residential mortgages, Central Bank of Ireland Financial Stability Note, 2020.

Payment break propensity by loan-to-income ratio at origination



Source: COVID-19 payment breaks on residential mortgages, Central Bank of Ireland Financial Stability Note, 2020.



# The Central Bank's overall framework review

## Mortgage Measures Framework Review

We are conducting a framework review of the **Mortgage Measures**.

The diagram illustrates the framework review process. On the left, a hand holds a book titled "FRAMEWORK REVIEW Mortgage Measures". To the right, a central box contains the title and purpose: "Examining our overarching approach, toolkit and strategy for mortgage measures. Framework review to be conducted over 2021 and 2022, in parallel to our regular, annual assessment of the mortgage measures". Below this are three boxes: "Listening and public engagement" (with an arrow pointing down to "to hear your view on the mortgage measures" and a profile of a person's head), "Analysing evolution of the Irish financial system and economy" (with an arrow pointing down to "to ensure the framework remains fit for purpose"), and "Reviewing international best practice" (with an arrow pointing down to "to learn from the experience of other countries").

Examining our overarching approach, toolkit and strategy for mortgage measures  
Framework review to be conducted over 2021 and 2022, in parallel to our regular, annual assessment of the mortgage measures

Listening and public engagement  
to hear your view on the mortgage measures

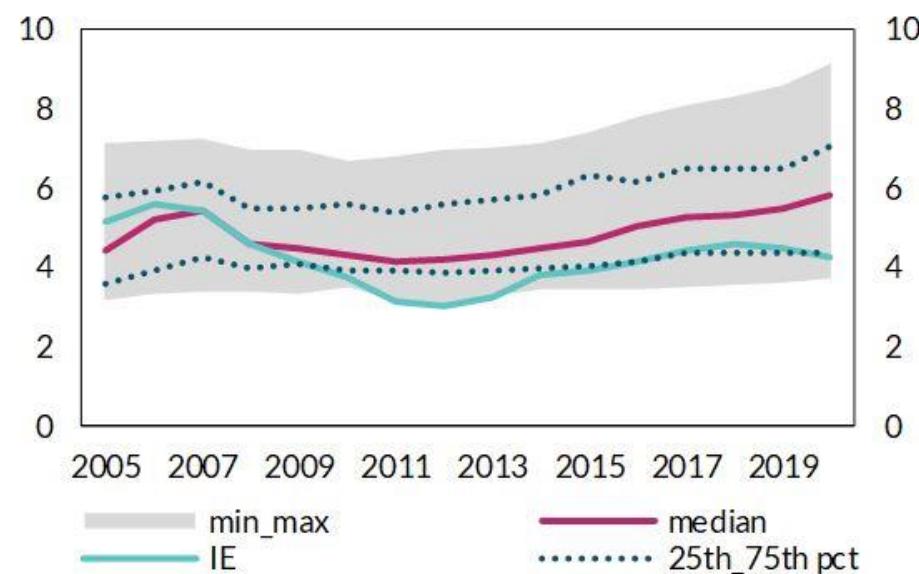
Analysing evolution of the Irish financial system and economy  
to ensure the framework remains fit for purpose

Reviewing international best practice  
to learn from the experience of other countries



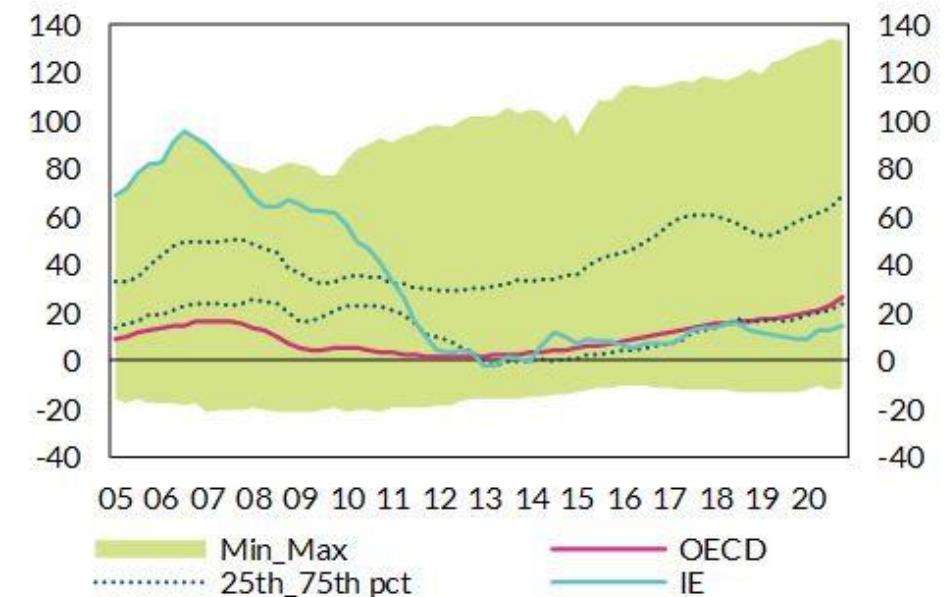
# The international context

House price to income estimates for Ireland and a range of international countries



Source: The cost of housing and indebtedness across European and OECD households, Central Bank of Ireland Financial Stability Note, 2021.

Deviation of OECD house price-to-rent index from long-run average value

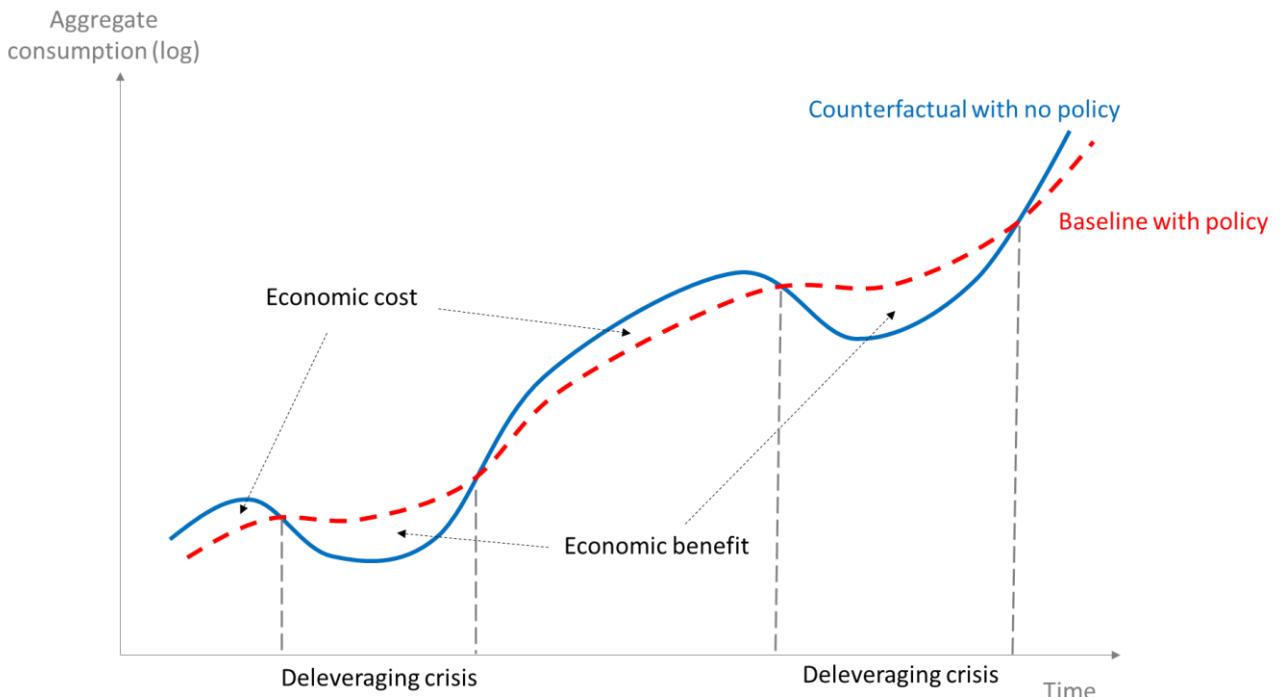


Source: The cost of housing and indebtedness across European and OECD households, Central Bank of Ireland Financial Stability Note, 2021



# The macroeconomic channels of mortgage measures

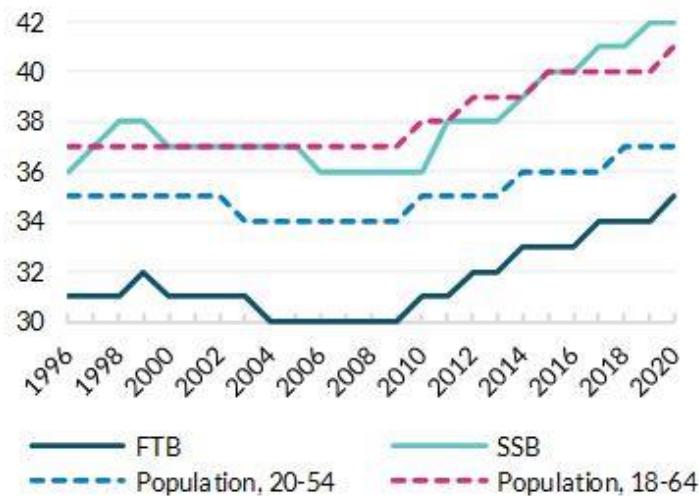
- The benefits accrue to all citizens, rather than new mortgage borrowers only, operating through the reduction of both the likelihood, as well as the severity, of a recession stemming from spiralling housing-credit dynamics



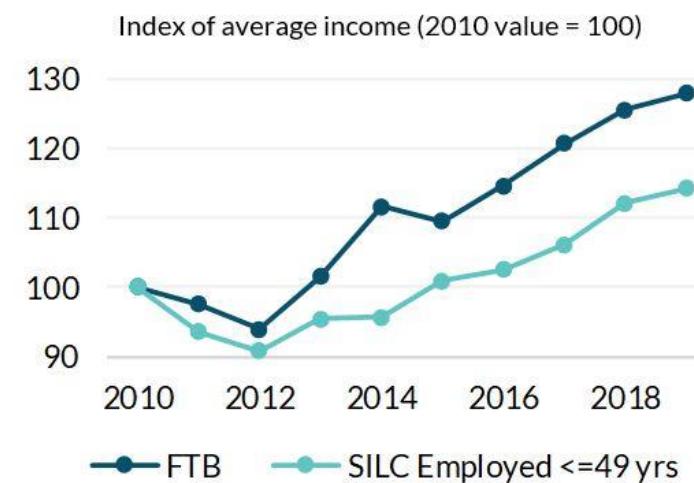
Source: The macroeconomic channels of macroprudential mortgage policies, Central Bank of Ireland Financial Stability Note, 2021.

# Distributional aspects

Median age of home purchase mortgage borrowers and the population of Ireland, by year



Income growth for first-time buyer mortgage borrowers and the wider population aged under 50 years



Source: Mortgage lending in Ireland during the 2010s, Central Bank of Ireland Financial Stability Note, 2021.

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The diagram illustrates the framework review process. It begins with a hand holding a book titled 'FRAMEWORK REVIEW' and 'Mortgage Measures'. The text 'Examining our overarching approach, toolkit and strategy for mortgage measures' is displayed above three main components: 'Listening and public engagement' (with an arrow pointing down to 'to hear your view on the mortgage measures'), 'Analysing evolution of the Irish financial system and economy' (with an arrow pointing down to 'to ensure the framework remains fit for purpose'), and 'Reviewing international best practice' (with an arrow pointing down to 'to learn from the experience of other countries').

Examining our overarching approach, toolkit and strategy for mortgage measures

Framework review to be conducted over 2021 and 2022, in parallel to our regular, annual assessment of the mortgage measures

Listening and public engagement  
↓  
to hear your view on the mortgage measures

Analysing evolution of the Irish financial system and economy  
↓  
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