Association of Irish
Mortgage Advisors

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Association of Irish Mortgage Advisors response to CP146 on the Mortgage Measures Framework Review.

As previously communicated, The Association of Irish Mortgage Advisors and its members have broadly welcomed the impact the Macro-prudential Rules have played in ensuring that borrowers have been protected against over indebtedness. In our opinion, these measures should remain in place subject to ongoing review when required in order to determine their effectiveness and to deal where possible, with any unintended consequences arising.

We have outlined below our response to the questions raised in the Central Bank of Ireland's Consultation Paper CP 146 on the Mortgage Measures Framework Review.

Consultation Paper Questions

1. ***Please provide any feedback on the channels of macroeconomic benefits and costs of the mortgage measures that the Central Bank proposes to consider within its updated framework.***

   We agree with the macroeconomic benefit and cost channels detailed for consideration by the Central Bank within the updated framework.

   The Central Bank's assessment of the broader macroeconomic and societal impact that the mortgage measures have had to date are accepted by our members. The introduction of these Macro prudential rules should dampen the damage and negative economic impact upon consumers and therefore protect the broader economy, in circumstances arising from a financial recession in the future. Equally they should place Lenders in a stronger possession to deal with such an occurrence.

   They also should assist protect against an over exposure on the construction/property industry.

2. ***Please provide any feedback that you have on the proposed principles underpinning the refreshed objective statement of the mortgage measures.***

   We agree with the principles underpinning the revised objective of the mortgage measures. It is important that refreshed objective statement does not replace Lenders own credit policies but rather compliments and improves them by essentially increasing the resilience of borrowers. The measures should not be seen as a replacement for the maintenance of Lenders own criteria.

   It is essential that all reasonable endeavours and options available are utilised to ensure that the relationship between the mortgage and housing markets is more stable. Such actions will accrue broader benefits across society.

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3. ***The Central Bank proposes to maintain a dual-instrument approach with both a collateral-based and income-based instrument in place. In your opinion, is this dual-instrument approach appropriate? Please provide additional information to support your view.***

   We agree with the Central Bank's stated view that maintaining a dual instrument approach (collateral complemented by income-based instruments) continues to be appropriate within the mortgage measures framework.

   Notwithstanding our agreement, we think it important to note that there remains a cohort of borrowers who sit outside of these current rules in terms of capacity to borrow to purchase.

   These include First Time buyers failing the current LTI test but displaying more than adequate repayment capacity and movers caught in historical negative equity who as a result of this and monthly mortgage and childcare costs do not have the sufficient deposit to meet the current LTV rules for SSB's. We believe that such borrowers should be removed from the current exception policy of Lenders.

4. ***Taking both the proposed objective statement for the mortgage measures and the pros and cons of different income-based instruments into account, what are your views on the Central Bank's proposal that LTI remains the most appropriate income-based instrument? Please provide additional information to support your response.***

   We agree that LTI remains the most appropriate income-based instrument. Any move to an alternative based instrument would in our opinion raise a number of problematic issues. Retaining the LTI instrument alongside the LTV measurement represents in our opinion, the most appropriate and comprehensive combination and mechanism for credit assessment.

   These metrics are easy to understand, implementable and at this stage well understood by all relevant stakeholders.

5. ***What is your opinion on the role of allowances as part of the mortgage measures? Do you agree that allowances are important to maintain flexibility within the framework?***

   In our opinion the role of allowances is essential in ensuring flexibility with the framework.

   They complement the LTI and LTV measures and enable lenders treat customers based on their own their unique circumstances and requirements.

   The recent introduction regarding the carryover approach which enable Lenders to manage exemptions more appropriately is welcomed. There is a significant burden placed upon Lenders in managing the availability of exemptions based on the uncertain nature of their ultimate use by customers.

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Notwithstanding the above, given their relatively limited availability, we are concerned that customers can avail of multiple exceptions with various yet can only utilise one. This can lead to exceptions being unavailable to other customers and that currently the cohort referred to above need to avail of exemptions which has the unintended consequence on reducing the general number available.

6. ***What is your view on the proposal that the Central Bank reconsider the balance between the calibration of the limits and the level of the allowances?***

We support the Central Bank's proposal in this regard. It is important to note that the allowances to date have played a very significant role in controlling and facilitating responsible lending policy and providing access to credit for specific cohorts of borrowers. They have also ensured a suitable level of sustainable lending standards leading to wider socioeconomic benefits.

In terms of reconsidering the balance between the calibration of the limits and the level of the allowances, it may be appropriate to consider rising material & labour costs. These have led to some borrowers experiencing difficulty in securing appropriate finance. Therefore, to align the level of limits/allowances to facilitate increasing housing costs where energy upgrades are included in the project and the proposal meets the individual banks criteria.

7. ***The differential treatment for FTBs reflects their different risk profile and the challenges for FTBs in accessing mortgage finance, including paying rents while saving for a deposit. Would you agree that differential treatment across borrower groups remains suitable, given their different characteristics and the different roles they play in the housing cycle?***

We agree that the differential treatment for FTBs reflects their different risk profile and the challenges for FTBs in accessing mortgage finance, including paying rents while saving for a deposit.

In general, we would agree that differential treatment across borrower groups remains suitable, given their different characteristics and the different roles they play in the housing cycle however we reiterate our precious point made regarding the SSB cohort caught in a loan to value trap.

8. ***If so, what would you consider to be the most appropriate option for the choice and design of implementing differential treatment across borrower groups?***

At present we believe that the current preferential treatment for FTB's over SS@'s remains appropriate with a proposal to cater for the cohorts outlined above.

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9. ***The Central Bank proposes that any future calibration changes of the mortgage measures would primarily reflect slower-moving, structural factors rather than responding too frequently to cyclical developments. Do you agree or disagree with this view? Please provide additional information to support your response.***

   In our opinion the Central Bank requires the capacity to be agile and to respond and move when required without pre-determined time limits on when to amend the measures. Any such changes should not have the unintended consequence of causing confusion amongst stakeholders in terms of their operation or understanding of the changes.

10. ***Taking into account the balance between the need to regularly review the measures while not inadvertently disrupting the market with overly-frequent expectations of changes to the measures, should the annual reviews of the measures be replaced by regular assessment of the functioning of the measures in the context of the mortgage market, combined with periodic overarching framework reviews, for example, every 3-5 years? Please provide further information to support your view.***

    We believe that an annual review should take place with a commitment to having an overarching and in-depth review every 3 years, given the important role the measures play in the housing market and the impact they have on the mortgage and property market including unintended consequences.

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