Brokers Ireland Response to Central Bank of Ireland CP146 Mortgage Measures Consultation

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1. **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.
2. **2.** Please provide any feedback that you have on the proposed principles underpinning the refreshed objective statement of the mortgage measures.

Brokers Ireland welcomes the Central Banks proposed consideration and update to the mortgage measures framework considering *both the macroeconomic benefits and costs that the measures pose.*

In the consultation paper the Central Bank has stated that "there is greater uncertainty as to how mortgage measures affect the homeownership rate", we believe that it is imperative that the Central Bank carries out extensive research into the effect of the measurements on home ownership and the impact of home ownership on the wider economy.

Research into the impact of the mortgage measurements, should include the number of applicants who got a mortgage approval but due to location, the mortgage loan amount approved and/or the price of housing, could not proceed. This would capture information on why applicants are locked out of the mortgage market.

Home buying research should also include age, marital status, occupation, dependency of gifts, focusing on the net effect of the exclusion of certain sectors of society such as those who can no longer afford to buy, such as single applicants and those buyers who are forced to move out of cities/urban areas due to affordability.

Brokers Ireland would suggest that the age at which first time buyers enter the market is critically important to that person's affordability and ability to service a mortgage. To prevent poverty in old age and per the market norms, the term of a mortgage is usually to the age at which a person is due to qualify for the old age pension. If a borrower is older entering the housing market, they will have less time to repay the loan and therefore the repayments may be unaffordable to service.

Monitoring should be carried out to assess whether the mortgage measures impact first time buyers entering the market and how adjustments could be made to the measurements to combat this issue.

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.

In the consultation the Central Bank have indicated that LTI is currently the predominant binding constraint for an estimated three quarters of potential borrowers.

Brokers Ireland believe that the LTV restrictions should be removed for First Time Buyers and second time and subsequent buyers and Home Renovations. While we believe it is prudent to have a 90% LTV, we do not believe this requires Central Bank intervention.

However, if LTV restrictions are to stay, the inequality that exists in relation to loan to value for first time buyers and second time buyers needs to be addressed, with the same 90% loan to value ratio applying for both cohorts of borrowers.

An LTV of 80% for second time buyers prohibits them trading-up and freeing up homes that are potentially affordable for first time buyers. If the LTV was 90% for all, then it would allow greater movement in the home purchase market for both first time buyers and second time buyers. If second time buyers do not have equity in their existing homes depending on when they bought, it is effectively locking second time buyers into unsuitable living conditions for them and their family. Also, if the 90% LTV rule was allowed for home renovations, it would put less demand on the current housing supply.

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.

Brokers Ireland agrees that LTI remains the most appropriate income-based instrument. However, the current loan to income ratio is a crude and unfair way to determine a consumer's affordability. We believe that the rules need to move away from a multiple of gross salary to a % of net disposable income (NDI).

Out of 23 European Countries, that Ireland, UK, and Denmark are the only ones that use LTI as the method of calculating how much you can borrow for mortgage purposes.

In Demark, the LTI is 4 times income and in the UK, it is 4.5 times income.

The use of disposable income is a fairer mechanism and will help single applicants in particular, borrow more whilst still being affordable. New long term fixed rates on the market 20,25 and 30 year, are all less than 3% and these types of rates make the NDI method of calculation sustainable as borrowers do not have to worry about interest rates rising.
For example, a single applicant on €50,000 can borrow €175,000, using the current 3.5 times multiple. This means they can no longer afford to buy in cities like Dublin and are being forced out of the Dublin market.

Taking a 30year term, 90% loan to value, 20year fixed rate of 2.9%, the monthly repayments are €728pm. This represents 29% of net disposable income (NDI).
If the rules were changed to look at NDI and not LTI and there was an NDI restriction of 35%, the same individual could borrower €210,000. If this was on a long-term fixed rate the borrower has no risk in relation to interest rate increases and a repayment of 35% of NDI is affordable.

A report published on the 14th of July 2021, by the Residential Tenancies Board states that on average, tenants spent 35.58% of their monthly net income on rent. The median was 30%. Half of all tenants stated that they spent 30% or less of their monthly net income on rent. One in five tenants spent 31%-40% and 28% of tenants stated that they spent more than 40% of their monthly net income on rent.

The costs of the macro prudential rules have a much wider effect on society than just the prudent borrowing limitations. An increasing number of front-line workers are moving out of Dublin to surrounding counties due to the lack of affordability and supply in Dublin and commuting initially with a view to changing the location of their employment. This could in time create a shortage in key workers in our capital city. If this trend continues, we will have to look at having a city allowance for key works for all those living and working in Dublin similar to that applied in London.

Some potential borrowers are paying €2,000 for rent yet their new mortgage repayment on borrowings of €315k on a purchase price of €350k, term of 30 years at an average 3-year fixed rate of 2.35% = €1,216 per month, a difference of nearly €800 pm. Their repayment capacity is often much higher and yet they are limited by the 3.5 times income rules and due to the high prices of houses in Dublin and other cities and therefore moving to more rural locations. This puts pressure on the existing infrastructure such as transport, schools, and child-minding facilities in those more affordable areas.

When reviewing the LTI, it should be noted that short term loans impact the ability of getting a housing loan and more so when it comes to an exemption. As credit for short term loans including cars is so easily accessible, there should be a mandatory warning included on all short-term debt that 'taking out of a short-term loan can affect the amount that you can borrow when taking out a home loan'. This does not cause any additional regulatory burden for the Central Bank, but it would make consumers aware of the impact of taking out a short-term loan when looking to buy a home.

If the rules were amended to use the NDI method of calculation, then borrowers would be paying on average the same or less than they are currently paying in rent.
Paying rent over a number of years demonstrates repayment capacity which is very important in seeking a mortgage. If someone is not renting, their monthly savings can be used to assess what % of NDI they are saving monthly to justify repayment capacity and the amount they can borrow.

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?

The current structure of allowance quotas has created an inequality between borrowers seeking an allowance. This is due to the withdrawal/lack of access to allowances at different times in the year. If allowances are to remain in force, they should be based on a three-year cycle (year to year rolling average) and not just based on one calendar year.
If the measurements moved away from a multiple of gross salary to a % of net disposable income (NDI) and the LTV requirement were removed, we do not believe allowances would be required.

The macro prudential rules favour the bigger banks, the bigger the number of allowances that a specific bank can give out is based on forecasted turnover for that year which gives those lenders an unfair competitive advantage.

With lenders having to balance the number of allowances that they can give out, it can create unfair and inequitable treatment of consumers due to timing. A good applicant who otherwise would be able to avail of an allowance may, due the timing, have to wait for 4-6 months to qualify for one.

6. **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?

If allowances remain then Brokers Ireland would encourage a review of the way in which allowances are allocated. Brokers Ireland does not see an issue with the current balance between the calibration of the limits and the level of the allowances, however allowances, should be based on a three-year cycle (year to year rolling average) and not just based on one calendar year.

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?

Brokers Ireland do not agree that there should be differential treatment for FTB's in relation to LTV requirements. We believe that all borrowers should be allowed to borrow up to 90% of the value of the property.

An unintended consequence of these measures has been the impact on existing homeowners seeking to carry out home improvements. They are restricted to an 80% loan to value mortgage as they are deemed 'second subsequent buyer' and thus require an exemption to qualify where the 'LTV' exceeds 80%. These owners typically have children, are settled in an area but desire more space and are finding it virtually impossible to release sufficient equity in their homes to carry out refurbishments. They are faced with two alternatives; A) wait a number of years until the loan to value falls which can be unworkable as space is required now or B) take out an unsecured home improvement loan and pay a much higher APRC. This results in a much higher monthly repayment. It should be permissible to release equity for home improvements up to 90% or such activity should fall outside the definition of a 'second subsequent buyer'.

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?

We do not believe there should be differential treatment across borrower groups. We believe it is inherently unfair to differentiate between these groups when as is outlined in the consultation, LTI remains the most appropriate income-based instrument.

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.

Whilst Broker Ireland agrees that collaboration is not required as frequently as is currently imposed, we believe that it would be best practice that future calibration changes of the mortgage measures should be timetabled for every 5 years.

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.

Brokers Ireland agree that a yearly review with resulting changes would be disruptive to the market, however, we believe it is important that a transparent collaborative engagement process with all stakeholders takes place on a 3–5-year basis. We believe it is vital that long term forecasting and scenario planning is carried out by the Central Bank to ensure that if changes are made to the current measurements, it is done in a timely manner.