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The Central Bank of Ireland
New Wapping Street
North Wall Quay
Dublin 1

16th March 2022

Re: Submission CP146 Mortgage measures framework review

Dear Central Bank,

We set out below our responses to CP146. We have answered the questioned that are most relevant to the credit union sector, and based on our own data and insights.

- 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.

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

CUDA is broadly supportive of the refreshed objective statement, however we are somewhat concerned that the first key principle, that *"[the] mortgage measures do not aim to replace lenders' own prudent underwriting criteria …"* appears to be more of a justification as to why a proportionate Debt Service to Income Ratio (DSTI) will not be explored rather than a sound foundation for macroprudential policy Prudent underwriting criteria exist to ensure that credit risk can be managed within a lender's defined appetite and not to ensure fairness to consumers. The Central Bank must ensure that the mortgage measures are appropriate and equitable without deflection to the underwriting criteria of lenders.

- 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.

- 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.

21 of CUDA member credit unions provide mortgage lending through the CUDA SAM platform (System for Application Management), with €50m in applications processed in 2021. Across the mortgage lending considered on the SAM platform, we see that credit unions operate in a niche of the mortgage market where interaction with the boundaries of the mortgage measures are rare. Across all mortgage applications processed on SAM, the average LTV is close to 51% while the average LTI is 2.4, both lower than the averages observed in the market generally.

While niche participants in the mortgage market, credit unions are a significant presence in the consumer lending market with one third market share.

Given the exposure of the credit union sector to the negative consequences of a credit bubble and resulting depression in consumer demand for personal lending, we believe that DSTI is more appropriate than LTI as the instrument employed for mortgage measures. The overall indebtedness of the borrower and their debt servicing capacity must be given due consideration to preserve the long-run sustainability of the financial services sector and this is better achieved with DSTI than LTI. Internationally, Portugal for example has implemented a DSTI model with prudent maturity limits and built-in exceptions.

- 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?

Allowances form an important part of the mortgage measures and are a mechanism through which inequities arising from the regulations can be addressed on a case-by-case basis. However, it would be preferable that their operation be more flexible and transparent for consumers. From a lenders perspective, the flexibility to carry over some of the unused allowances to the following year or indeed to have advance access to some of the following years allowance would significantly improve the operation of allowances, reduce the risk of regulatory breaches and ensure as many consumers as possible can avail of allowances they are entitled to. From a consumer perspective, it would be beneficial if all lenders were to publish their criteria for assessing and approving allowances so that there is unambiguous transparency around the process. We believe that allowances should primarily be targeted at those most in need and who are finding it difficult to get a foothold on the property ladder rather than be preserved for high income earners.

Moreover, it has been observed that an inherent weakness in the Income Ratio Model for assessing housing affordability is that it does not recognise housing quality or adequacy (Stephen Ezennia I, Hoskara SO (2019)). A good example of this would be that modern or renovated homes with high BER rating come at a higher capital cost, however deliver greater utility to homeowners with lower running costs. Consideration should be given to greater flexibility in the mortgage measures to support the national policy objectives of the Climate Action Plan by recognising that energy efficient homes have a higher upfront cost but this can be offset through lower utility bills.

Thank you for an opportunity to respond to CP146. Please do not hesitate to contact me if you have any questions in relation to CUDA's responses.

Yours sincerely,

Elaine Larke
Head of Legal and Compliance