Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Feedback Statement

Consultation on Mortgage Measures Framework Review (CP146)

Contents

Introduction 3

Objectives of the measures 4

Number of instruments and choice of income-based instrument . 7

Use of allowances 10

Differential limits by borrower type 13

Strategy around the calibration of the mortgage measures and periodic review 15

Other feedback received on broader housing and mortgage market issues 17

Glossary 20

Back to "Contents"

Introduction

Over the course of 2021 and 2022, the Central Bank conducted a review of the mortgage measures framework. The purpose of the review was to ensure that the mortgage measures continue to remain fit for purpose, in light of the evolution of the financial system and the broader economy since the measures were first introduced in 2015.

As part of this review, on 17 December 2021, the Central Bank of Ireland (Central Bank) published Consultation Paper 146 – Mortgage Measures Framework Review (CP146). Extensive research and analysis, along with the information gathered through a series of listening and engagement events, formed the basis for the proposals put forward in the consultation paper.

The consultation paper sought to elicit the views of stakeholders on a number of key areas:

- the objectives of the mortgage measures
- the role of dual or multiple instruments
- the choice of income-based instruments
- the role of allowances in the overall framework
- the use of differential limits by borrower type
- the frequency at which the measures should be reviewed.

The closing date for responses was 16 March 2022 and 16 responses were received. The Central Bank would like to thank all stakeholders who took the time to make a submission on CP146.

This feedback statement briefly summarises the responses to each of the 10 questions posed in CP146, general feedback received, and the Central Bank's response to the most material and / or consistently raised aspects of the 16 consultation responses.

This paper should be read in conjunction with CP146, which can be found on the Central Bank's website here. All 16 consultation responses received are available on our website here.

Back to "Contents"

Objectives of the measures

Question 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.

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

Respondents to the consultation paper were broadly supportive of the core objectives of the mortgage measures and the associated principles. Some respondents particularly welcomed the Central Bank's proposed approach of assessing the macroeconomic costs and benefits of the measures. There were a number of suggestions, however, of additional factors that the Central Bank should be cognisant of in designing and calibrating the mortgage measures framework. In particular, the evaluation of the distributional effects of the mortgage measures, such as those around housing market access and credit allocation, was put forward as an area of importance. The distributional effects were seen as being particularly pertinent for first-time buyers (FTBs), single and low income applicants, those with changing personal circumstances, such as divorce / separation, as well as geographic considerations.

Other suggestions for the Central Bank's consideration included the issue of gifting deposits, which benefits certain cohorts, the long-term social costs of the measures on individuals' retirement wealth and their ability to fund future housing and care costs, and the need for the measures to be supportive of other public policy initiatives such as the Government's Climate Action Plan and Housing for All plan.

One submission proposed that the measures be considered in the round with other elements of the Central Bank's macroprudential toolkit that have come into effect since measures were first introduced, particularly when considering calibration.

The view was put forward by one respondent that the Central Bank's focus on macroeconomic benefits and costs is too narrow and should be broadened out to consider the impacts on society and the population as a whole and should recognise the fact that the costs of the measures are borne by a narrow cohort of the population

Back to "Contents"

accessing the housing market for the first time. One respondent stated that the mortgage measures are weighted in favour of protecting lenders with an over-emphasis on the financial crisis of 2007 to 2013 and without sufficient regard to the needs of aspiring buyers or the changed market conditions of recent years.

Two respondents provided specific feedback on the principles underpinning the objectives. While the principles were considered to be desirable from a conceptual perspective, the view was put forward that they may not be sufficiently responsive to the challenges faced by aspiring homeowners. One respondent was concerned that the first principle, which states that measures do not aim to replace lenders' own prudent underwriting criteria, but aim to improve the resilience of borrowers, and by association lenders, to adverse economic shocks, precluded the consideration by the Central Bank of the use of a debt service-to-income ratio (DSTI).

Central Bank Response

The feedback received was broadly supportive of the key principles and the refreshed objectives for the mortgage measures as laid out in CP146. As part of the revised framework, the Central Bank will take into account both the economic benefits and costs of the measures.

The feedback raised a number of different distributional effects of the measures which are important to note. At their core, many of these distributional issues raised stem from the elevated house-price-to-income ratio across the economy as a whole, which – in turn – partly stems from the continued imbalance between the demand for, and supply of, housing. Macroprudential policy is not a policy lever that can address these fundamental issues with housing supply, and the associated distributional implications.

While the mortgage measures framework operates at the system-wide level and the Central Bank will weigh up the costs and benefits of the measures as they are experienced across the population, the Central Bank will still be cognisant of the effects of the measures on particular cohorts of the population. Here, the aim of the Central Bank is to provide information and research on the potential distributional effects of the measures. By providing

Back to "Contents"

insights into these effects, this can help other areas of public policy which also may consider those issues.

In response to the feedback on the challenges faced by individuals who have experienced a change in personal circumstances (such as divorce / separation or personal insolvency), the Central Bank is addressing this as part of an amendment to the definition of FTBs. These borrowers will now be considered FTBs for the purposes of the mortgage rules, where they no longer have an interest in the previous property.

Public feedback suggested that the measures could be designed to support broader government policies. The Central Bank is responsible for maintaining monetary and financial stability, while ensuring that the financial system operates in the best interests of consumers and the wider economy. The ultimate objective of the Central Bank's macroprudential policies is to safeguard financial stability, with benefits for society as a whole. The mortgage measures themselves have the objective of ensuring sustainable lending standards and supporting the resilience of borrowers and the broader economy. It is important that the measures are designed and calibrated with that primary objective in mind. Indeed, the single best contribution the Central Bank can make to broader government policy is achieving its primary objectives.

However, sometimes there is an opportunity to align with other policy goals without compromising the primary objective of the measures. In this case, the definition of FTBs is being further amended to allow FTBs who are obtaining an equity release on their home to avail of the FTB limits when getting their top-up loan, indirectly supporting the government's Climate Action Plan through supporting financing for the retrofitting of homes.

The feedback on the objectives touched on the costs of the measures for particular cohorts of the population, mainly FTBs. Based on the feedback received through the public engagement, this was a particular area of focus for the review. The Central Bank's assessment of the costs of the measures since their introduction in 2015 has resulted in a targeted recalibration of the measures which are detailed in the Central Bank's framework of the macroprudential mortgage measures.

Back to "Contents"

Number of instruments and choice of income-based instrument

Question 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.

Question 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.

Among the majority of submissions that addressed Question 3 there was strong agreement that the dual instrument approach should remain as a feature of the mortgage measures framework. One submission opposed this view, however, and proposed that the loan-to-value (LTV) restrictions should be removed completely for FTBs, second and subsequent buyers (SSBs), and mortgages for home renovations. While acknowledging that it is prudent for financial institutions to implement a 90% LTV limit, the respondent did not believe this requires Central Bank intervention.

Views on the appropriateness of the loan-to-income (LTI) limit as the income-based instrument in the mortgage measures framework, however, were more mixed.

Respondents in agreement with the LTI instrument expressed the view that the LTI offered a number of advantages over other instruments, namely, it is comprehensive, transparent, easy to understand and implement consistently (as compared with DSTIs), well understood by market participants and consistent with the objectives of the measures. It was noted by one respondent that these characteristics support public trust and confidence in the measures. One submission put forward the view that a move from LTI to LTNI (loan-to-net income) would not be desirable and supported the Central Bank's view that such a move would create substantial risks including the exposure to tax policy and the subsequent potential for pro-cyclicality as well as challenges around

Back to "Contents"

the definitions of income and deductions and interactions with lenders' risk assessments. One submission put forward the proposal that LTI limits should be extended to buy-to-let (BTL) borrowers as they otherwise have an unfair advantage over those purchasing for owner-occupancy.

Nevertheless, amongst those agreeing with the use of the LTI limit, some considered a 3.5 limit to be too tight / restrictive, particularly for single and low-income borrowers. An increase in the LTI limit to higher LTI levels was suggested, as was a step-up rule to support those on lower incomes such that those on incomes below €60,000 would have an LTI of 4.5. One respondent also noted that any increase in the LTI would still be underpinned by credit institutions' own affordability assessments. Other feedback suggested that there should be some flexibility allowed around the LTI limit for mortgage applicants that fall just outside the rules but have demonstrated a capacity to repay and save. One respondent suggested that while there is a growing need for changes to the mortgage measures, the re-calibration of the limits and the timing of any change, particularly to the LTI limit, were viewed as being crucial determinants of their impact on the housing market and noted that a debt-servicing ratio (DSR) is a possible alternative to the LTI limit.

Those in disagreement with the LTI argued that it is a blunt and inflexible instrument and should be replaced with a DSR, namely DSTI. These respondents were of the view that the DSTI gives a more appropriate measurement of borrowers' capacity to repay and considers borrowers' total indebtedness levels and not just mortgage debt. Three respondents noted that the introduction of the Central Credit Register (CCR), which was not available when the measures were first introduced in 2015, now facilitates the adoption of a DSTI, with one respondent of the view that credit institutions already make use of the CCR and therefore the introduction of a DSTI would not involve additional complexities for lenders. Some respondents argued that a DSTI would embed greater flexibility within the mortgage measures framework to respond to cyclical factors such as interest rate changes and income/tax changes. The view was also put forward that a DSTI would encourage borrowers and lenders to focus on low cost credit products thereby helping to achieve wider public policy objectives, such as in the area of climate agenda where 'green' mortgages tend to have more competitive interest rates.

Back to "Contents"

It was also proposed that a DSTI measure could be calibrated such that it would minimise the negative impacts that arise from replacing a LTI limit with such a measure.

A common theme across the submissions, related to the challenges high rents are posing for prospective home-buyers. A number of respondents put forward the suggestion that mortgage applicants' rental record should be formally factored into the affordability assessment process as evidence of ability to repay and/or should be accepted as proof of savings, regardless of the choice of income-based instrument.

Central Bank Response

The choice of income-based instrument was a key topic of consideration as part of the review, informed by considerable stakeholder feedback on the relative merits of a DSTI ratio compared to the LTI ratio and experience across other jurisdictions.

The Central Bank considers that, while measures based on servicing capacity play a very important role in banks' own credit policies, an LTI measure better meets the Central Bank's objectives for these system-wide measures.

The benefits of the LTI measure from a macroprudential perspective are that:

- It is comprehensive, easy for the public to understand and simpler for lenders to implement consistently;
- It is less susceptible to the risk that it results in an excessive extension of mortgage terms, which poses its own risks;
- It more effectively guards against excessive pro-cyclicality, as it does not depend on the prevailing level of interest rates at any point in time;
- It complements, but does not replace, banks' own lending practices, fostering prudent lending standards, consistent with its macroprudential objective.

Of course, there remains a key role for measures based on debt servicing capacity in lenders' own assessments. Indeed, lenders are

Back to "Contents"

already required to undertake an affordability assessment of prospective mortgage borrowers under the Central Bank's consumer protection framework.

In terms of the calibration of the LTI limit, the Central Bank has listened to the feedback regarding the level of the limit, in particular for FTBs. This was consistent with the Central Bank's own analysis on the evolution of benefits and costs of the measures, in light of structural challenges in the housing market, leading to persistently higher house prices relative to incomes. Based on that assessment, the Central Bank is recalibrating the LTI limit for FTB borrowers to 4 times income. The targeted recalibration will support FTBs to access the mortgage market, where they can do so in a sustainable way, while not overly reducing the resilience benefits of the measures. Lenders may lend up to 15 per cent of new lending to FTBs above the limits, which still allows scope to take into account individual circumstances or cases when higher LTI/LTV credit is appropriate.

The important issues relating to the rental market are discussed under the "other feedback" section of this paper.

Use of allowances

Question 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?

Question 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?

The role of allowances in providing flexibility within the mortgage measures framework was generally accepted by respondents, notwithstanding a number of suggestions for consideration by the Central Bank. Although most respondents to Question 6 agreed that there could be changes to the balance between the allocation of allowances and calibration of the limits, there was limited specific feedback, aside from some calls for an increase in the level of allowances for FTBs.

Back to "Contents"

Those in agreement with retaining the allowances as part of the framework referenced their role in facilitating consideration of individual circumstances.

A number of respondents noted that allowances are granted to those with higher incomes and purchasing higher priced properties, particularly in Dublin and that it would be preferable if allowances benefited those on lower incomes and those living in rural areas. In this regard, a concern was raised about the potential for discrimination on socio-economic grounds and that this should be a consideration in any assessment of retaining the allowances.

There were calls from three respondents for greater transparency in how lenders use allowances. Suggestions made in this regard included lenders to publish details of their criteria for allocation of allowances, the number of allowances granted as well as number of applications, approvals and drawdowns.

Three respondents called for the level of allowances to be increased while there was a single request for no increase. In calling for an increase in the level of allowances, one respondent noted the fact that mortgages issued since the introduction of the mortgage measures are performing better than mortgages issued prior to 2015 and so an increase may be possible without affecting the effectiveness of the mortgage measures. The other submissions put forward the proposal that the increase in allowances, to 40% in one instance, be specifically for FTBs.

It was suggested by one respondent that rising house-building costs should be considered in the setting of allowances and limits.

Two respondents put forward the view that allowances should not be part of the framework. One rationale put forward was that the allowances were judged to lead to an unfair treatment of those borrowers seeking an allowance due to lack of availability at certain times of the year. The view was expressed that this could be obviated by a three-year carry over cycle (year-to-year rolling average) rather than being based on one calendar year but that allowances would not be necessary if the LTV limit was removed and a DSR was implemented. The second respondent advocated for the removal of allowances on the grounds that the rules should be applied consistently across all borrowers while also being of the view that

Back to “Contents”

the allowances may create unnecessary risk for borrowers by facilitating greater levels of credit.

Central Bank Response

The review considered the experience with allowances. The allowances have played an important role in the Irish framework since the introduction of the measures, and will continue to do so in future. They embed a degree of flexibility in the measures, which can accommodate factors that are specific to individual borrowers. That flexibility is also important to account for cross-country variation in the house-price-to-income ratio as well as gradual changes over time in underlying, structural factors that may be relevant to the calibration of the measures. However, based on the feedback received, it was considered that some rebalancing between the calibration of the headline LTV and LTI limits and the size of the pool of allowance lending was warranted, so that the framework has less reliance on allowances in future.

As a result, the headline LTI limit for FTBs (from 3.5x to 4x) and the LTV limit for SSBs (from 80% to 90%) are being increased, accompanied by a reduction in the size of the allowance pools (from 20% to 15% in both cases). As these are the two limits which had previously seen the most demand for allowance lending, these changes should reduce the demand for lending above the LTI and LTV limits. In addition, the move to a single allowance pool per borrower type, 15% of each of FTB and SSB lending, is intended to reduce complexity in the framework.

The 'carry-over' approach to the operation of the allowances, initially introduced under the 2021 annual review of the mortgage measures, will continue to be part of the framework. This should continue to smooth the operation of the allowances regime.

In terms of the allocation of allowances, this remains a matter for individual lenders, based on an evaluation of each specific borrower and lender's own credit policies. The limits are in addition to individual banks' credit policies and are not a substitute for lenders' responsibilities to assess affordability and lend prudently. The Central Bank will continue to publish analysis and research

Back to "Contents"

around the distribution of new lending, including the allocation of allowances at a system-wide level.

Differential limits by borrower type

Question 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?

Question 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?

Views on whether different borrower groups should be subject to different treatment under the mortgage measures were evenly split among those that responded to Question 8.

Those respondents agreeing with the differential treatment of FTBs and SSBs were of the view that this approach was appropriate on the grounds of the challenges faced by FTBs in accessing home-ownership and their different risk profile.

A number of changes to the limits for particular cohorts were put forward. One respondent believed that a change to the 3.5 LTI limit for single people was warranted, as they considered that the current framework prevents single people from attaining home ownership, except for those with very high incomes, while some improvement for couples could also be considered. An increase to the LTV limit for FTBs was also proposed while other suggestions included some flexibility on deposit amounts for at-risk groups in a position to buy a home (e.g., single earner households following a separation or loss of a spouse) and those SSBs caught in a negative equity trap. The introduction of an LTI limit for BTLs was also proposed.

Among those advocating for no differential treatment in the limits for FTBs and SSBs, two respondents put forward a specific suggestion of a flat 90% LTV limit with one of those also suggesting the inclusion of mortgage loans for home renovations at this LTV limit.

Back to “Contents”

There were calls for a change to the definition of FTB to include couples where one is an FTB and the other an SSB, as well as a similar adjustment for separated / divorced applicants.

Central Bank Response

The Central Bank has concluded that differential treatment by borrower type should remain as a cornerstone of the mortgage measures framework.

The review found that there is a strong economic rationale for having different limits for FTBs compared to SSBs, including: the different role that both borrowers play in the housing cycle, given their differential exposure to house price increases; the different income growth potential after mortgage origination, given the difference in average age between FTBs and SSBs; and the continued evidence of lower default risk amongst FTBs relative to SSBs, other things being equal. Moreover, the costs of the mortgage measures relating to challenges entering the mortgage market are deemed to be higher for potential FTBs than potential SSBs, also supporting a differential treatment between borrowers.

An examination of the roles of the LTI and the LTV limits highlights that it is the LTI limit that is the main driver of credit outcomes for borrowers in the current environment of elevated house prices relative to incomes, as well as being the critical lever in assuring that house prices maintain a relationship to real developments in the economy, hence the move to a higher LTI limit for FTBs and a flat LTV limit for both FTBs and SSBs.

In addition, as part of the framework review, the Central Bank has made certain changes to the definition of an FTB including:

- To account for specific instances where an individual's circumstances (such as divorce / separation or personal insolvency) mean that they may not have the benefit of housing equity that other SSBs have. These borrowers will now be considered FTBs for the purposes of the mortgage rules.
- To allow FTBs who are obtaining a top-up loan or re-mortgage with an increase in principal to avail of the FTB limits, provided the property remains their primary home. This allows

Back to "Contents"

additional access to credit for those FTBs and indirectly supports government policies such as the Climate Action Plan.

In response to the feedback on buy-to-let mortgages, the Central Bank still considers that the LTI limit is not an appropriate, or practical, metric of affordability for these borrowers. The relevant affordability assessment for buy-to-let mortgage would need to reflect the rental income from the property, rather than solely relying on the income of the borrower. The stricter LTV limit on this type of lending has been calibrated to achieve the macroprudential objectives.

Strategy around the calibration of the mortgage measures and periodic review

Question 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.

Question 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.

Respondents were broadly in agreement that frequent changes to the mortgage measures can be disruptive to the housing market and that policymakers should avoid responding too frequently to cyclical developments, albeit with some caveats.

While generally in favour of less frequent reviews, a number of respondents felt that a rigid timeframe on the review process was not desirable, but rather that the Central Bank should have the capacity to be agile and respond quickly to developments when necessary, with one respondent proposing that the calibration of the measures operate on a rules basis.

Back to “Contents”

One respondent expressed a preference for less frequent reviews but suggested a delay to changing the review cycle if there were to be significant changes to the framework to allow time for the changes to become embedded and the costs and benefits assessed.

Three respondents advocated for the retention of the annual review given the current challenges in the housing market. Respondents also stressed the need for continued monitoring of and regular updates on the mortgage measures and the housing market by the Central Bank.

Where views were expressed on the timeframe for a framework review, proposals ranging from 3 to 5 years were put forward.

Central Bank Response

The Central Bank has noted the feedback from respondents that frequent changes to the mortgage measures can be disruptive to the housing market.

In general, the Central Bank considers the mortgage measures to be permanent in nature and their calibration to be largely driven by structural factors, so does not foresee regular changes to calibration. Structural factors are slow-moving features which play a role in determining, for example, the magnitude of risks to affordability or the sustainable level of house prices relative to incomes. Examples of such factors include estimates of the equilibrium level of interest rates, the elasticity of housing supply or the degree of openness of the Irish economy, which has implications for the magnitude of possible downside macro-financial risks.

The Central Bank will continue its regular monitoring of the mortgage measures and housing markets more broadly and communicate its findings and judgements on these in the biannual Financial Stability Reviews. In addition, the Central Bank deems it good practice to undertake a review of the strategy around the mortgage measures on a periodic basis. A periodic review acts as a complement to the regular monitoring, analysis, engagement and communication relating to the measures undertaken by the Central Bank on an on-going basis.

Back to “Contents”

Other feedback received on broader housing and mortgage market issues

A number of the responses to the CP provided views on broader housing and mortgage market issues as well as the Central Bank's mortgage measures, with similar themes to the Listening and Engagement events in 2021 emerging. The key issues raised included the following:

Environmental considerations: A number of respondents expressed the view that the mortgage measures should support the national policy objectives of the Government's Climate Action Plan with specific proposals including greater flexibility in the mortgage measures to support the development of green housing, purchases of vacant properties and those requiring renovation / energy upgrades.

Rental market: The issue of high rents was the most commonly raised theme in the responses to the online survey in June 2021. The particular issues highlighted in the survey were echoed in the responses to CP146, including the view that the mortgage measures are a contributory factor to the inflation of rents and high rental payments pose challenges for those saving for a deposit, which are noted to be often greater than average mortgage repayments.

Housing market – supply and construction costs: Housing supply constraints were pointed to as the key challenge to achieving equilibrium in the housing market as well as the targets in the Government's Housing for All policy. A number of hurdles to the supply of new developments were highlighted, including, planning, infrastructure and zoning, with construction costs considered to be a key constraint on new housing delivery. While the Government was considered by respondents as having a role to play in addressing supply issues, the view was also expressed that the mortgage measures should be cognisant of supply issues such that they are not an impediment to the viability of new development.

Banking sector and mortgage interest rates: The exit of KBC Bank and Ulster Bank from the Irish market was viewed as likely having an adverse effect on access to credit and competition in the mortgage market. Some respondents also suggested that action is needed to reduce Irish mortgage interest rates, for example, by introducing interest rate caps, so that they are similar to rates available in other

Back to "Contents"

EU states. Greater transparency on how lenders exercise the 'allowances' discretion afforded to them under the mortgage measures was also called for.

Central Bank Response

The feedback received on broader housing and mortgage market issues touches on very important themes, which have informed the review of the framework even as these relate to policy areas outside of the Central Bank's remit.

Broader housing market issues

Underlying structural challenges in the housing market remain and have intensified over a number of years. At the heart of these challenges is a continued imbalance between the demand for housing and the supply of housing, at least partly as strong population growth has not been matched by an equivalent increase in the housing stock. These trends have resulted in growing affordability pressures, evident in both house prices and rents having continued to rise faster than incomes.

The underlying challenges in the housing market would be best addressed by policies that focus on the level and composition of the supply of housing. The mortgage measures are not a policy lever that can address underlying housing supply challenges.

Still, these broader developments in the housing market and the economy since the measures were introduced have implications for the mortgage measures. While the benefits of the measures remain, the continued housing supply challenges, leading to persistently higher house prices relative to incomes, imply higher economic costs of the measures, relative to when they were introduced.

The Central Bank concludes that targeted recalibration of the measures can relieve some of the costs of the measures, without unduly reducing their benefits. This decision will imply a somewhat greater degree of macro-financial risk. But broader developments over the past decade, including strengthening of the resilience of

Back to "Contents"

the banking sector and continued deleveraging of the household sector as a whole, guard against some of the economic risks.

Rental market

On the rental market, the challenges facing prospective home buyers in saving for a deposit while making rental payments was one of the strongest themes coming out of the public and stakeholder engagement throughout the course of the mortgage measures framework review.

The growth in rents relative to incomes in Ireland reflects the underlying imbalance between the demand and supply of housing. Changes to the mortgage measures cannot address that underlying imbalance. The best path to an increased ability to save for a deposit is a higher supply of rental properties, which will lower rental cost burdens for those in the rental sector.

However, the review assessed that the economic costs of the measures have increased since 2015, primarily arising due to structural developments that have led to persistently higher house prices (and rents) relative to household incomes. The recalibration of the LTI limit for FTBs has been a key outcome of the review, balancing the evolution of the benefits and costs of the measures since their introduction. The higher LTI limit for FTBs will ease some of the costs of the measures in terms of entering home-ownership, in part by indirectly reducing the size of the deposit that households need to accumulate.

More broadly, additional policy support in the form of the Help to Buy scheme implies that the effective deposit required can be relatively small for large cohorts of FTBs.

Back to “Contents”

Glossary

BTL Buy to let

CCR Central Credit Register

DSTI Debt service to income ratio

DSR Debt servicing ratio

FTB First time buyer

LTI Loan to income ratio

LTNI Loan to net income ratio

LTV Loan to value ratio

SSB Second and subsequent buyer

Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem