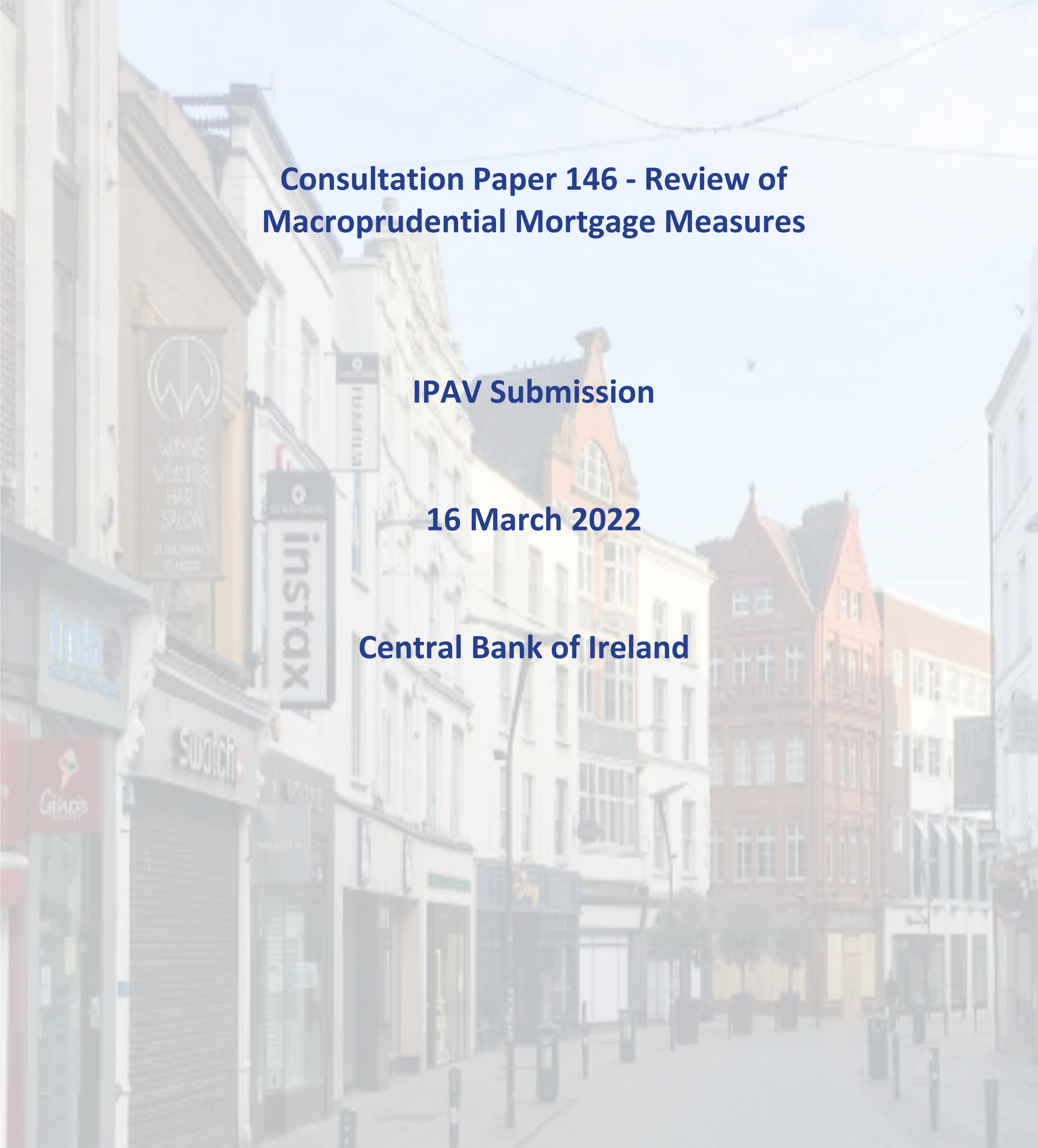
Institute of Professional Auctioneers & Valuers



Consultation Paper 146 - Review of Macroprudential Mortgage Measures

IPAV Submission

16 March 2022

Central Bank of Ireland

'The Voice of Auctioneers and Valuers In Ireland'

Consultation Paper 146 - Review of Macroprudential Mortgage Measures

The Institute of Professional Auctioneers & Valuers (IPAV) was established in 1971 as a representative professional body for qualified, licensed auctioneers, property service providers, estate agents and Valuers. It is the only Irish representative body catering solely for the professional and educational requirements of Auctioneers and Valuers. Among its aims are the representation of its members at national and European level. IPAV currently has more than 1,500 members and one of its primary objectives is to protect, advance and promote professional standards and competence among its members. IPAV is known as 'The Voice of Auctioneers & Valuers in Ireland'.

Consultation Paper 146 – Review of Macroprudential Mortgage Measures

Q1. 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.

IPAV supports the stated core objectives of the mortgage measures – increasing the resilience of borrowers and banks to negative economic and financial shocks, and dampening the pro-cyclicality of credit and house prices so that a damaging credit-house price spiral does not re-emerge.

However, we believe the rules, as currently constituted, have severe unintended consequences, and should take into account the changed environment now for borrowers, in particular the advent of better value mortgage products, whereby low interest fixed rate mortgages can be secured for periods of up to 30 years, even if higher than the euro area average. This contrasts sharply with the scenario a few years ago whereby a typical fixed rate period was three or five years, after which time there would be a risk that the borrower could emerge into a market with higher than anticipated interest rates.

Indeed with inflation rising and indications that this could lead to a rise in interest rates before the end of 2022, it is a matter of concern for us that aspiring buyers, many of whom are paying rents substantially higher that the cost of servicing a mortgage, may miss out on the best interest rates available historically in Ireland. As a matter of interest from the most recent DAFT report stated that only two markets in Ireland were dearer to buy than to rent in Ireland.

Unsuccessful aspiring buyers who could not reach the milestones set by the strict mortgage rules but could afford to service a mortgage, have already lost out on lower property prices since the rules were introduced in 2015. As your Consultation paper points out, house prices in Ireland have increased by 57.5 per cent since the introduction of the measures. Therefore for a cohort of the population, generally younger people on average incomes, in some cases above average incomes, the ambition of becoming a home owner has been thwarted by what is effectively a moving target.

IPAV agrees with your statement that there are many policy levers that can be used to stimulate additional housing supply, such as reduced barriers to and costs of construction.

However, overall we are of the view that the current mortgage rules are weighted in favour of protecting lenders, with an over emphasis on the financial crisis of 2007 to 2013 and do not display sufficient regard to the needs of aspiring buyers or the changed market conditions of recent years.

Q2. Please provide any feedback that you have on the proposed principles underpinning the refreshed objective statement of the mortgage measures.

Our main concern with the update to the objectives as set out on page 11 of the Consultation document is that while in theory they are desirable objectives, in practice they may be overly academic particularly in an historical context and may not be sufficiently responsive to the needs of a young home ownership aspiring population many now advancing towards middle age, with insufficient years left to service an affordable mortgage. The fewer mortgage servicing years left the higher the monthly repayments. Currently house prices and mortgage attainment are to a large extent the preserve of those with sufficient resources who may not even require mortgage finance to buy a home or those on high salaries, many in excess of €100,000 per year. Again we would make the point that the mortgage measures are but one lever impacting housing policy. Indeed, it is our belief that the lack of sufficient housing or affordable housing, and the fact that the issue is so prolonged at this stage, could, unless it is addressed, threaten the future cohesion of our society. IPAV believes the issue requires every element of the State, including the Central Bank, to work together in an urgent fashion to find solutions. For example, if the LTI of the mortgage rules were changed from 3.5 times salary to 4.5 times salary we believe it would obviate the need for the Government's affordable purchase shared equity scheme.

Q3. 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.

IPAV believes the main issue that gives rise to difficulty is the severe nature of the 3.5 times gross income limit. IPAV attaches a copy of a proposal sent on 15 May 2021 (see appendix 1) to Governor Gabriel Makhlouf which sets out our primary concerns about the current mortgage rules.

Q4. 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.

As above.

In our experience lenders calculate LTI by using a net methodology which makes it even more difficult to borrow the amount of money required to purchase a property. So, where one has a car loan, as many aspiring mortgage holders do, banks take account of that in calculating mortgage repayment capacity. Frequently they insist that the applicant must pay off the car loan putting more pressure on. The applicant is then in a position where they either have to sell their car to pay off the loan or borrow the money from a third party until they get their mortgage and then go to another finance house to mortgage their car again.

We believe that payment of rent in all cases should be used as proof of ability to repay a mortgage.

Q5. 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?

IPAV welcomes the flexibility afforded by the various allowances whereby lenders can go beyond the normal limits in a proportion of mortgage applications. However, because of the very risk averse attitude of lenders following the financial crash these by and large tend to be limited to those on higher incomes buying higher value properties and used up in the first months of a new year leaving none for many purchasers later in the year. It is an unfair way of dealing with the simple problem that people, especially those on lower incomes but with repayment capacity, have difficulty in proving this capacity under the existing rules. They find themselves unable to get the funds at a time when low fixed interest rates are available for terms of 20, 25 and thirty years.

A more sophisticated approach would be to step the Mortgage Rules of up to 60K to 4.5 times income to enable and help such aspiring purchasers to borrow the amount of money required to purchase a property. If the rules were reviewed every year and if this were found to be not working as intended to help these cohort of deserving purchasers to get on the property ladder then the rules could easily be amended.

Q6. 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?

IPAV would support the Central Bank revisiting the balance between the calibration of the limits and the level of the allowances especially allowing lower paid purchasers to borrow more money.

Q7. 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?

IPAV believes that a 10 per cent deposit requirement, rather than the current 20 per cent, should apply to second and subsequent buyers. Taking that the average cost of a new home across Ireland ranges between €270,000 and €325,000, under the current CBI rules it is very difficult for purchasers to purchase a property, often even with two incomes, which is very unfair. The Government’s Local Authority Home scheme allows 4.5 and even 5 times LTI. The Government's new Affordable Purchase Shared Equity scheme also intends to tackle this issue. It seems incongruous that the State would purchase an equity share in a property for FTBs when they can show and prove that they can buy the full house themselves and pay back a mortgage, provided they are enabled to borrow sufficient money without being over indebted. There will likely be many problems with such a scheme in the future, not least of which would be valuing such properties when owners wish to buy back a portion of the equity share.

We also believe that rental payments should be accepted as proof of savings.

Q 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?

As above.

Q9. 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.

We believe that too frequent changes to the rules can be disruptive to the market, creating uncertainty. However, market trends are very important as well and as the rules are not set up to control the property market its much better to review the rules more often and amend if change is required. One cap does not fit all, all of the time. We do believe the rules should be capable of being changed if it is clear they are having an unintended impact as they are right now. A rigid three-to-five-year review process would not be sufficiently responsive to address such adverse consequences as the property market can very quickly as we have seen over the past 20 years.

Q10.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.

As above

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Mr. Gabriel Makhlouf, Governor
Central Bank of Ireland
New Wapping Street
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18th May 2021

Re: Macro Prudential Rules on Mortgage Lending

Dear Governor Makhlouf,

You may recall I wrote to you in September 2019 on behalf of IPAV, the Institute of Professional Auctioneers & Valuers, the representative professional body for qualified, Licensed Auctioneers, Valuers, Estate Agents and Property Service Providers.

At the time I articulated our concerns in relation to the severity of the macroprudential mortgage rules, particularly in how they are impacting those on average wages, not alone in the short term but particularly the longer-term consequences of diminished or depleted financial power arising from not owning one's own home. This is especially so in an Irish context where our welfare system is based on the assumption that most citizens will own their own homes by pension age.

We believe the good savings discipline inherent in mortgage repayments also helps people over time to acquire financial independence and a sense of financial wellbeing.

In the intervening period since I last wrote to you our concerns have not abated, they have escalated.

Let me clarify, our Institute does not question the need for macroprudential mortgage rules per say but rather their severity. The rules, as currently constituted, are preventing those of a younger age cohort, and those on average wages from achieving home ownership.

The Q2 2019 BPFI Housing Market Monitor tracking the income levels of property purchasers found that the most common type of purchaser, at 36pc, earned in excess of €80,000. That was up from 15pc in 2004 and 16pc in 2012.

Purchasers with incomes of up to €50,000 were at 20pc and those with incomes up to €40,000, the most common type of earner in the country, formed less than 10pc. In 2012 those earning up to €50,000 formed almost 50pc and those in the under €40,000 income bracket formed almost 30pc.

This situation where those on average incomes have been, effectively, locked out of the property market, has been happening over a prolonged period when interest rates were, and still are, historically low in an Irish context. In addition, fixed rate mortgages are now available for up to twenty years, which of course enables people to plan for the future with greater certainty.

Many such people have no option but to rent in a market where rental levels are higher than mortgage repayments for similar properties, substantially so in almost all areas of the country, as evidenced yet again by the recent Daft.ie Rental Report for Q1 2021.

The latest report highlights that only in two of the most expensive areas for property in the country, Dublin 4 and 6, is repaying a mortgage on a three-bedroom home more expensive than paying rent, and at that it is only marginally so. In every other area of the country, including Dublin, it would be cheaper, close to half the cost in many cases, to service a mortgage than paying rent on the same property - if one could acquire a mortgage.

Examples from the Daft.ie report for a 3-bedroom home, paying a 3.25pc variable mortgage over 30 years with 85pc LTV include:

- In Meath, a mortgage would cost €741 while rent is €1,317. Even if the interest rate were to increase by 2pc the mortgage would still be much lower at €941.
- In Louth, the respective figures are €666 (mortgage); €1,231(rent) and €845 (mortgage if there was a 2pc increase in the interest rate).
- In Westmeath: €596; €1,012 and €756
- In Longford: €378; €742 and €480
- In Offaly: €544; €941 and €690
- In Kerry: €499; €864 and €633
- In Clare: €477; €864 and €605
- In Mayo: €373; €750 and €473
- In Donegal: €352; €671 and €446.

I would like to reiterate how, we believe, an adjustment to the existing rules could have a major impact on that cohort of our society that we are most concerned about.

Under the existing mortgage rules someone on an average wage of €45k can borrow a maximum of €157,500, assuming they have already saved 10pc (€17,500) towards a deposit. They can buy a property up to a value of €175k. But there are few properties available at this level.

If the Central Bank enabled those earning up to €50k to borrow 4.5 times income, as opposed to the current 3.5 times gross salary a person on €45k could borrow €202,500 and with a salary of €50,000 one could borrow €225,000.

This change would mean a much-improved ability to buy a first home. Please see enclosed our most recent Residential Property Price Barometer for H2 2020 which charts the average prices achieved in the period for the most common nationwide starter home, a 3-bedroom semi-detached.

Also, now fixed rates of up to 10 years are freely available and one company has just started offering fixed rates for 20 years. The guarantee of tenure these new 20-year fixed mortgages give is exactly what is needed for mortgage purchasers, giving them security way above that of renting where a tenant can be asked to quit at any time during the tenancy and at best after their 6 years lease expires.

The Government's Rebuilding Ireland Home Loan is available at similar rates to other lenders but with something not available anywhere else in Ireland, being able to fix the interest rate for a full 30 years and up to 4.5 times earnings for a single person and over 5 times earnings for couples.

If European Central Bank interest rates were to rise in the next few years, already there are growing inflation fears, there will be much bitter regret that the younger generations in 2020 and 2021 were

excluded by State policy from accessing mortgages when they could get attractive fixed interest rates for periods up to twenty years.

A new opportunity has now opened up with the normalisation in working from home, if not on a full time basis, at least part-time. This will make properties outside of the Greater Dublin Area more attractive, provided workers can get mortgage finance. This in our view reinforces the need to revise the rules as proposed. It would make home ownership a more realistic option.

An additional advantage of greater home ownership is that in each case in which it happens it opens up to the market an additional rental property. The availability of such rental properties would not only help those members of the community who have difficulty in finding a suitable rental property, it would, critically, put downward pressure on rental prices, which would, in turn, alleviate the massively growing Government expenditure on the Housing Assistance Payment.

Finally, I would say that we should not allow what happened leading up to the property crash of 2007 haunt the property and lending markets today. Prior to the financial crash of 2007 to 2013 mortgagees could borrow up to 7 times and possibly much more of their gross income, property prices were at an all-time high, interest rates were also high and very little fixed term rates were available. This left purchasers bidding against each other for the same properties, ironically, often with the same bank's money.

We do appreciate that the Central Bank of Ireland has but a limited amount of leverage over the policy decisions that impact the property market. However, the power you do have is considerable in terms of the long-term impact on young people and those who because of the response to the last financial crisis find themselves' locked out of the market at a time when there is a series of very favourable factors for buying a home. Many are now advancing towards middle age and may well find their options limited, not only for a 30-year mortgage but also for pension planning.

For our part, IPAV is happy to work with policy makers to promote the development of a sustainable property market where people can buy, sell, and rent property according to their needs.

Over exuberant lending or volatile property prices may serve isolated opportunistic interests, but does not help the sustainability of citizens, businesses, our own included, nor does it serve the wider economy.

On behalf of IPAV I would ask you to seriously consider this proposal and I would like to meet with you to discuss the proposal.

I look forward to hearing from you.

Yours sincerely,

Patrick Davitt

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CEO IPAV

IPAV

'The Voice of Auctioneers and Valuers In Ireland'

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