# Consultation Paper 146

# Mortgage Measures Framework Review

## Submission from the Irish League of Credit Unions

**Irish League of Credit Unions, 16th March 2022**

**Background and Context**

The Irish League of Credit Unions ("ILCU") is the largest credit union representative body on the island of Ireland. It was founded to provide representation, leadership, co-operation, support and development for credit unions in both the Republic of Ireland ("ROI") and Northern Ireland ("NI"). Credit Unions affiliated to the ILCU elect the Directors of the ILCU and ultimately determine what the ILCU delivers. The ILCU responds directly to the needs of the affiliated credit unions. As an advocate of the credit union ethos of mutuality, volunteerism, and self-help and not for profit philosophy, the ILCU has a vision to influence and inspire the credit union movement to achieve all its objectives - social, economic and cultural - while always respecting the individual's rights and dignity.

**Introductory comments:**

Thank you for allowing the ILCU the opportunity to respond to Consultation Paper 146 ("The Paper"), we have read The Paper carefully and have noted its recommendations and outputs with great interest. This is a subject of significant relevance to our members and the wider population and we are aware that differing views have been expressed by many stakeholders. We will monitor and listen carefully to this debate and will be very engaged in its ultimate outcome.

**Consultation Paper Questions:**

Regarding the Consultation Paper Questions posed, we feel that the most appropriate approach is to submit our feedback by way of a general observation on The Paper's content, recommendations and rationale. Our reasoning for this is that the very specific nature of the questions posed for feedback would require detailed experience of the mortgage market in Ireland, informed by a critical volume of examples and case studies. As the scale of the mortgage activity to date by credit unions relative to the mortgage market in Ireland is small, we feel we would not be in a position to provide responses to the specific individual questions supported by sufficient evidence. Therefore, we set out hereunder a general observation of The Paper.

While the Measures are designed to protect buyers from borrowing more than they can afford, the standardised or one-size-fits-all nature of the mechanisms to mitigate this may not be the most effective or appropriate. Consideration could be given to measuring and assessing a borrower's affordability in a more refined and layered manner based on an individual's sustainable affordability rather than a multiple of income.

Applying Loan-to-Income (LTI) thresholds unilaterally across the country, while simple and understandable, disregards the geographical differences in house prices and, thus, disadvantages buyers seeking to purchase in urban areas.

The higher cost of property in urban areas, combined with borrowing constraints, is driving purchasers further from their place of work and of origin and thus from their core support networks. The financial saving in servicing a lower capital cost when purchasing in a suburban/rural area is offset by the increased expense of greater travel. This has negative effects on work life balance, mental health and negative impacts on the environment.

The ILCU believes the current LTI threshold at 3.5 times income is set at a level which necessitates the requirement to produce a higher deposit than the amount actually required by the LTV measure, especially in urban areas throughout the country. In many instances, this gap has to be bridged through parental gifting, but this is imbalanced and discriminates against those without access to such support. As identified in The Paper, the lending institutions undertake detailed analysis of the ability to repay the mortgage and this assessment is the key metric considered when assessing the application. Allowing for a higher LTI threshold will still be underpinned by this assessment.

In terms of the Deposit required measure, those who are renting are disproportionately negatively impacted by the sustained high rental environment in comparison to those who do not need to rent, as a significant proportion of their potential savings are expended on rent resulting often in an inability to build up the required deposit. These renters may have equal, or greater, sustainable affordability as non-renters but are disadvantaged in comparison. The issue of renters being disadvantaged in striving to buy their own home has been evident for a number of years and is getting worse, yet this remains unaddressed in this Paper.

We would urge caution in relation to moving away from the annual review cycle. The housing market remains particularly dynamic and therefore we believe that an annual review is appropriate and needed for the foreseeable future.

Ideally, a sustainable mortgage market would see a balance between supply and demand, resulting in housing that is affordable to a majority of wage earners. This would lead to a more stable cost for property, where buyers would have a consistent expectation on what house price inflation is likely to be year on year thus enabling them to plan and save for the required deposit.