Support CLG

MABS Submission to the Central Bank: Review of the mortgage measures framework

MABS PUBLIC DOCUMENT

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Document Information

Short description	This document was prepared in response to a call for submissions issued by the Central Bank of Ireland on its review of the mortgage measures framework for residential lending.
Developed by	This submission was prepared by MABS Support CLG in consultation with representatives from the MABS Regional Companies.
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1. Introduction

The Central Bank of Ireland first introduced the mortgage measures framework in 2015, and placed restrictions on the proportion of new residential mortgage lending. With this framework now in operation for almost seven years, the Central Bank has committed to a detailed review of the measures, calling for stakeholders from financial institutions, civil society, and public sector bodies to comment on the overarching macroeconomic costs and benefits of the mortgage measures and their impact on Irish households since their introduction in 2015. MABS (Money Advice and Budgeting Service) assists clients with all forms of personal debt relief, with an expertise in supporting those with mortgage arrears, and as such new lending principles and practices are not in our immediate remit. However, in the face of Ireland's current housing affordability and accessibility crisis, it is still important that MABS contribute to this review. Across the MABS national network, our frontline staff deal with fallout and consequences of contemporary and past mortgage lending practices on a daily basis, including those that emanate from the 2008 financial crisis.

In order to structure this review, we divide the remaining Sections of this submission as follows:

- Section 2 explores the history of MABS and our work to support those struggling to meet mortgage payments consistently as they fall due.
- Section 3 highlights recent trends regarding on-going challenges in the housing market as observed by MABS frontline staff.
- Section 4 provides answers to the questions posed in the Central Bank's mortgage measures framework review, as they relate to our work with clients.
- Section 5 consists of concluding remarks in relation to this submission.

We understand that the macro prudential interventions into new mortgage lending is just one tool to safeguard and stabilise Ireland's financial sector. We maintain that the Central Bank has been effective in this regard, in particular in terms of strengthening the credit quality of mortgage lending since 2015. Yet everyday MABS staff support clients who are navigating the impact of the high cost of living in Ireland, which has intensified in recent years by rising housing expenses.[1] It is our view that a number of targeted, national policy changes are required to tackle the structural issues that underpin this crisis: including the limited supply of housing and lack of affordable housing options, inflated rental prices in the private market, and the on-going inadequate provision of social and public housing options.

[1] At the present moment, MABS is also particularly concerned with the ways the conflict in Ukraine will impact households and further exacerbate rising living and housing costs. We discuss this throughout this submission.

Therefore, while we support the objective of the Central Bank's lending restrictions to bolster the credit quality of new lending and reduce the risk of another financial collapse, it is important to note that the main policy issues that affect the majority of MABS clients and require urgent action are beyond the purview of this review. In this submission, we position our response within this limited lens regarding the Central Bank's lending rules and their influence on our clients to date. We continue to support further research and policy analysis by the Central Bank and related public bodies in their calls for additional interventions to counteract the rise in housing costs and its long-term impact for the financial wellbeing of all persons and families living in Ireland.

2. About MABS and our work supporting those with mortgage arrears

Established in 1992, the Money Advice and Budgeting Service (MABS) helps persons to cope with personal debt and take control of their own financial wellbeing. It is a free, confidential and independent service that operates from over 60 offices nationwide. MABS is funded and supported by the Citizens Information Board. There are currently 10 Companies in the MABS network – 8 Regional Companies (North Dublin MABS, Dublin South MABS, North Connacht & Ulster MABS, North Leinster MABS, North Munster MABS, South Connacht MABS, South Leinster MABS and South Munster MABS), National Traveller MABS and MABS Support CLG. MABS Support CLG is dedicated to the provision of supports to the regional staff in the MABS network and providing specialist expertise on a range of areas including: learning and professional development, training, case management and technical support, social policy and research, community education and financial inclusion.

Since its inception, MABS services have supported borrowers with mortgage debts. A high percentage of MABS clients in the 90s and early 2000s were low-income households with small debts, utility arrears, court fines, moneylender debt, credit card debt and so on.[2] In the years leading up to and immediately following the financial crisis in 2008, that profile began to shift dramatically – and more and more persons facing larger debts including mortgage difficulties presented at MABS for help. These cases were 'increasingly complex'[3] than previous cases, as clients often had an array of priority and secondary debts and credit types on top of mortgage debt.

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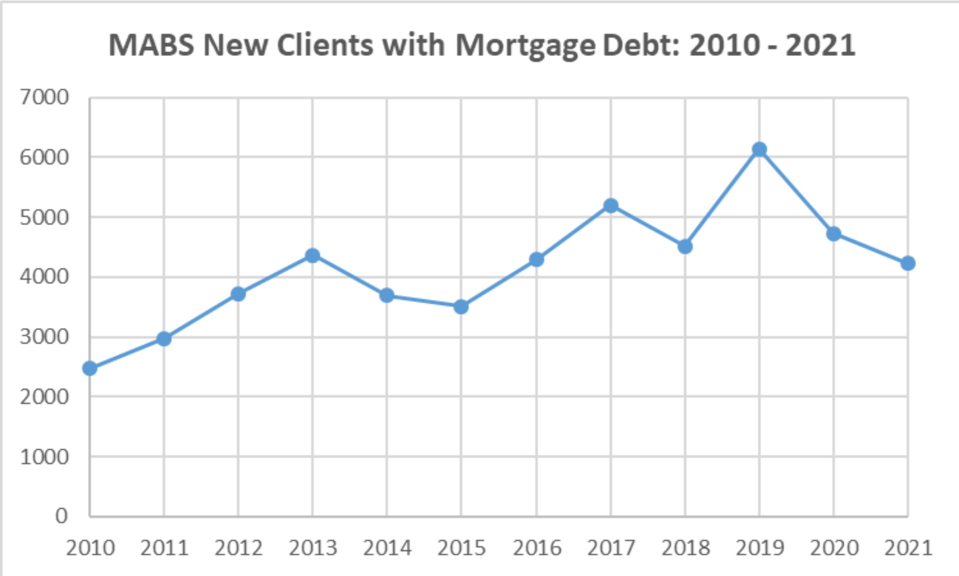
[2] Stamp, Stuart (2011) The Impact of Debt Advice as a Response to Financial Difficulties in Ireland | Social Policy and Society | Cambridge Core

[3] https://www.citizensinformationboard.ie/downloads/social_policy/South_Mayo_MABS_Mortgage_Research_August2016.pdf

As illustrated in the chart below, the number of *new* MABS clients[4] who accessed MABS services with mortgage arrears rose from 2,470 in 2010 (which amounted to 11.4% of all new MABS clients that year) to an all-time high of 6,146 in 2019 (over 36% of all new clients).



While the pandemic resulted in a notable drop of clients accessing MABS services on the aggregate, it is clear that support for clients with mortgage debt remains a crucial aspect of MABS work. There were 4,726 new clients who presented at MABS with mortgage debt in 2020 (which equated to nearly 35% of all new MABS clients that year), and 4,224 in 2021 (32% of all new clients).

For those clients who are struggling with repaying mortgage debt, MABS operates a designated support mechanism under the 'Abhaile Scheme'. The Scheme was initially launched in July 2016 for a 3-year period, and in 2019 was further extended until the end of 2022. The Scheme is funded by the Government and managed by MABS, supported by the Citizens Information Board, the Insolvency Service of Ireland and the Legal Aid Board. The objective of Abhaile is to provide an avenue for clients who face mortgage arrears to access financial advice, legal advice and/or insolvency advice as needed, and to support them to remain, if possible, in their homes. Among the supports offered under Abhaile is a voucher to cover the whole or part of the cost of a client's initial consultation with a PIP (Personal Insolvency Practitioner) to explore the possibility of pursuing an insolvency arrangement. Other expertise provided under the Scheme include MABS Dedicated Mortgage Arrears advisers (DMAs), solicitors, and accountants. To qualify for Abhaile, the client must meet the following conditions:[5]

- Have mortgage arrears on the home in which they currently reside
- Insolvent

[4] Note that this is for new clients only. This chart is collated from MABS Quarterly Statistics (2010 – 2021): https://mabs.ie/about/about-mabs/statistics/

[5] For more on the Abhaile Scheme, see: Abhaile - MABS

- At risk of losing their home because of arrears
- Satisfy the reasonable accommodation criteria as set out in Section 104 of the Personal Insolvency Act, 2012 (i.e. the costs of the borrower continuing to live in the home are not disproportionately large, bearing in mind the reasonable living accommodation needs of the borrower and his or her dependents, and the costs of alternative accommodation for them which has regard to those needs).

Although not on a statutory footing, the Abhaile Scheme includes engagement with the Mortgage Arrears Resolution Process (MARP),[6] and extends into offering personal insolvency advice and representation to clients as needed. Since its inception, the Abhaile Scheme has undoubtedly been successful in its primary objective to help people find the right solutions for their own circumstances, and to keep mortgage holders in arrears, wherever possible, in their own homes. From 2016 - 2020, Abhaile supported over 17,295 households facing arrears, according to figures from MABS and published by the Department of Justice.[7] During this time, 80% of this group remained in their homes while engaging with the Scheme. Further internal statistics from the MABS Abhaile Voucher Desk demonstrate that, as of February 2022, 25,518 total vouchers have been issued to support households in mortgage arrears to date.[8]

However, in the unpredictable aftermath of the job loss[9] and economic impact of the Covid-19 pandemic, as well as the continued residual fallout from the 2008 crisis, the issue of mortgage arrears remains pressing in the Irish context – in particular for those facing long-term arrears.

Many clients who access MABS services (including the Abhaile Scheme) are those facing 'long-term mortgage arrears' – or mortgages with arrears for over 2 years/ 720 days. June 2015 marked the peak of the post-crash long-term mortgage arrears crisis, with 38,043 homeowners in Ireland facing long-term arrears at this time. It is important to note that this figure has decreased steadily each year since this peak, and by the end of 2020, stood at 24,981 – a 34.3% decrease since June 2015.[10] However, those

[6] The Central Bank of Ireland's Code of Conduct on Mortgage Arrears (CCMA) and the Mortgage Arrears Resolution Process (MARP) contained therein, provides for a regulatory framework (as opposed to a strict legal scheme as provided for by the Personal Insolvency Act) that is intended to provide consumer protection measures that allow a borrower and creditor to engage transparently and openly with a view to resolving a borrower's distressed mortgage. The CCMA is the framework that creditors and credit servicing firms on behalf of funds or other non-bank entities must apply when dealing with borrowers in arrears.
[7] Abhaile Fourth Report.pdf (justice.ie)
[8] Internal MABS Document: 'Monthly Update – Aid and Advice Voucher Scheme – 28 February 2022'. Internal Abhaile reports are pre-set and generated monthly. Further information available on request.
[9] The Central Bank estimate that up to 100,000 people will permanently lose their jobs as a result of the pandemic, with those in consumer-facing sectors (such as retail, hospitality and food industries) being the most affected. For more, see: Vol 2020, No.4, The Initial Labour Market Impact of COVID-19 (Byrne, Coates, Keenan, McIndoe-Calder) (centralbank.ie)
[10] Central Bank (2021) 2021q2-q3_ie_mortgage_arrears_statistics.pdf (centralbank.ie)

with long-term arrears make up nearly half of all mortgages in Ireland with some kind of arrears, which was around 52,000 in 2020.[11]

The Central Bank of Ireland's 2021 statistical release[12] included the following key statistics concerning the length of time for those currently with mortgage arrears:

- Accounts with mortgage arrears greater than 1 year accounted for 57% of all accounts in arrears at the end-September 2021
- 16% were in arrears between 2 and 5 years
- 20% were in arrears between 5 and 10 years
- 11% of accounts were in arrears for more than 10 years

This data is important, as MABS does not currently track data of the length of time for mortgage arrears for the clients who access our services. MABS continues to see clients who face challenges to making mortgage payments consistently as they fall due, including clients with arrears from pre-2008 financial collapse as well as those who borrowed more recently.

3. Current challenges related to the Irish housing market

In preparing for this review, MABS Support CLG engaged with staff representing MABS Regional Companies including Money Advisors, Service Delivery Managers and Dedicated Mortgage Arrears advisors. Before providing our responses to the questions posed in the Central Bank mortgage framework review, it is important to note some of the on-going challenges related to the housing situation, including residential lending and the behaviour of mainstream creditors, as highlighted across the MABS network.

Challenge 1: Impact of Covid-19

Covid-19 and the related public health restrictions had both (1) a direct impact on MABS and Abhaile services themselves, and (2) an on-going, delayed impact on households' financial wellbeing, as the creditor forbearance measures and government supports, brought in to ameliorate the consequences of the public restrictions, cease. During the pandemic, there were difficulties and delays getting arrangements in place with creditors – due in part to the tangible difficulty of collecting documents from

[11] FLAC (2021) flac_pillar_to_post_paper_2_final_18.08.2021.pdf
[12] Central Bank (2021) 2021q2-q3_ie_mortgage_arrears_statistics.pdf (centralbank.ie)

both creditors and clients. In addition, there were notable delays in the processing of PIP referrals and voucher applications under Abhaile.

As restrictions lift, many services are becoming increasingly busy dealing with a backlog of cases and arrangements that have yet to be processed due to delays during the pandemic. There are also fears of a deterioration of household financial wellbeing as the cost of living/housing continues to soar and the full impact of the pandemic on the labour market continues to unfold. We return to this point in Section 4 of this submission.

Challenge 2: Mainstream mortgage lenders exiting the Irish market

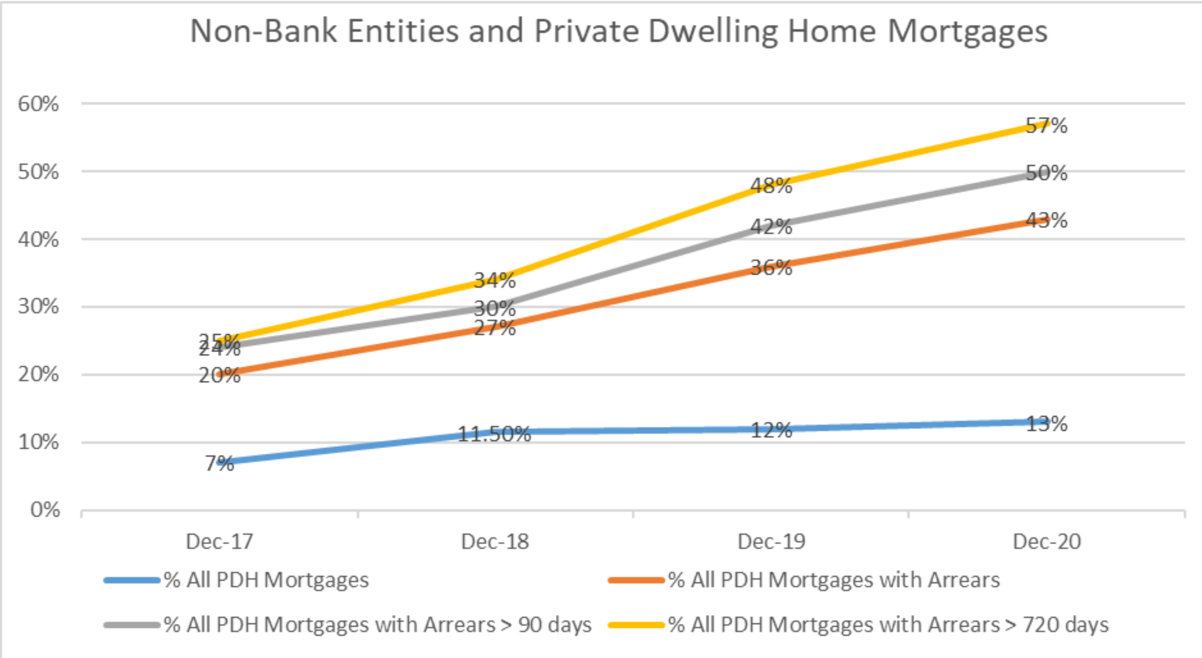
In 2021, Ulster Bank (the third largest bank in Ireland) and KBC gave notice that they were intending to leave the Irish market. Ulster Bank in particular in recent years had actively campaigned for households to switch their mortgages with the attraction of lower rates and fees than competitors. MABS is already seeing the effect of the loss of Ulster Bank in particular on some of our older and more vulnerable clients who experience worry and stress at the prospect of switching banks. We are also concerned about the possible treatment of their loan portfolios by those financial institutions that purchased them, and the effect this will have on our clients' long-term access to insolvency options and debt arrangements as needed. We return to this point when discussing Challenge 3.

The impact of a large High Street bank (Ulster) and a bank with a presence almost exclusively confined to major Irish cities (KBC) exiting the financial services sector is yet to be fully realised, in particular on how it will affect access to credit. There is a fear amongst MABS staff that this will have a negative impact on the wider housing market, driving up interest rates and decreasing competition for mortgage loans.

Challenge 3: The sale of non-performing loans from banks to non-banking entities

Related to Challenge 2 above, the third challenge relates to the increasing role of non-banking entities in the housing market – a direct consequence of both the withdrawal of major banks from Ireland and the increase in selling off portfolios of performing and non-performing loans from all major financial institutions. MABS has observed a significant increase in the number of mortgage loan sales to investment and non-banking entities over the past three years. Clients receive the details of these sales via post, and have no legal basis to appeal the sale. This is true of all clients, regardless of whether or not they are in arrears. MABS staff have observed that the overall behaviour of non-banking entities towards clients (such as the decision to enter into insolvency arrangements) depends on the entity and their own internal protocols, and the amount of documentation received from the original mortgagee bank. For example, some of these lenders may be more open to debt solutions than certain traditional banks, and others are arguably less so.

While banks are selling performing loans to these funds, as MABS works predominately with those in arrears, we are principally interested in the situation of those with non-performing loans. According to an analysis of Central Bank data by FLAC,[13] these non-banking entities have significantly increased their share of overall non-performing mortgages since 2017. For a detailed breakdown, see the table below. Please note that the data portrayed here is taken directly from FLAC's analysis and publication.



As is clearly demonstrated by the chart above, over a three-year period, the percentage of mortgages with arrears in the portfolios of non-bank entities more than doubled – regardless of the length of time the household had been in arrears. It is also important to note that, according to the Central Bank,[14] in December 2020 non-banking entities held 68% of those residential mortgage accounts with arrears over ten years. As such, working with these entities is becoming a progressively central component of our work at MABS.

Non-banking entities are undoubtedly developing an increasingly more prominent role in Ireland's housing market, and there are still a lot of unknowns regarding these institutions and the role they will have in the long run in supporting clients who pursue debt solutions. Voluntary Alternative Repayment Arrangements and insolvency options have served as a vital lifeline to MABS clients with mortgage

[13] For more, see FLAC (2021) flac_pillar_to_post_paper_2_final_18.08.2021.pdf
[14] Central Bank (2020) residential-mortgage-arrears-and-repossession-statistics-december-2020.pdf (centralbank.ie)

arrears. The choice to sell these portfolios en masse is also a concerning activity of traditional mortgage lenders, as it would appear that these creditors 'lose patience' with the process of engaging with borrowers through alternative restructuring arrangements and would rather 'cut their losses and sell'.[15] There are on-going concerns over the consequences of banks severing the relationship with borrowers through loan sales, in particular for how these borrowers will bank and access credit in the future.[16]

Challenge 4: Inaccessibility of housing market for younger persons & single adults

In our engagement with the MABS Regional Companies in order to prepare for this submission, there was a notable concern expressed by MABS staff regarding the differential impact the current housing crisis is having on younger persons, as well as those who are single earners. Research by the ESRI[17] in 2021 revealed that the rate of homeownership by the age of 30 has declined alarmingly for so-called 'millennials' (those born in 1980s and early 90s) when compared to previous generations. Less than 20% of those born in the 1980s were homeowners by age 30, versus nearly 60% of those born in the 1960s. According to IHREC, young adults[18] are also over-represented in homeless services. One reason for this is that young adults are more likely to be renting in the private sector, where existing affordability issues have been exacerbated by rapidly rising rents in recent years. The cost of rent has risen most sharply in Dublin, where prices are now 35% higher[19] than they were at their peak in 2007 and pre-financial crash. Young adults have also been hit hardest[20] with job loss due to the pandemic. The CSO Labour Force Survey Series in December 2020 found that 111,940 people aged 15-23 do not expect to return to their previous job post-Covid-19.[21]

When the pandemic hit, the leading status of new clients who accessed MABS services were 'single adults' and 'single adults with children'.[22] It is important to note that this is a continuous trend for MABS services, where 'single with children' households are historically over-represented in MABS data by a factor of two when compared to the 2016 Census figures. Single person households are also over-represented (to a lesser extent) in the same analysis.[23] This is perhaps unsurprising, as lone parent households, predominately led by women, are four times as likely to experience income poverty than

[15] FLAC (2021) flac_pillar_to_post_paper_2_final_18.08.2021.pdf (pg. 34)
[16] For more on this, see rep-statement-local-public-banking.pdf (mabs.ie)
[17] ESRI (2021) Poverty, income inequality and living standards in Ireland (esri.ie)
[18] See: Monitoring adequate housing in Ireland (rte.ie)
[19] See ESRI (2021) research
[20] For more on the labour market and youth unemployment, see: Labour Market Scarring and Youth Unemployment | Social Justice Ireland
[21] CSO (2021) https://www.cso.ie/en/statistics/labourmarket/labourforcesurveylfs/
[22] MABS (2021) social-distancing-margins-covid19-mabs-report.pdf
[23] Same as above.

coupled households, and five times more likely to experience material deprivation and consistent poverty.[24] MABS also works with a number of clients who are experiencing relationship breakdown – which can be at times a cause and/or consequence of mortgage arrears and debt challenges. We continue to discuss the structural exclusion of young people and single earners from the mortgage market in Section 4.

4. Central Bank mortgage measures: review questions and responses

In Consultation Paper 146, the Central Bank has requested submissions to include feedback and discussion on the following key focus areas:

1. The overarching macroeconomic costs and benefits of the mortgage measures, and their impact on Irish households since their introduction in 2015.
2. Maintaining the dual instrument approach in the framework, a collateral-based instrument (LTV) and an income-based instrument (LTI), as well as the utility of the 'loan-to-income' (LTI) instrument and its calibration of 3.5.
3. The use of allowances and the differential lending rules for first time buyers (FTBs) versus second or subsequent buyers (SSBs).
4. Feedback on the timeframe and scope for systematically reviewing the mortgage measures.

MABS offers money advice rather than financial advice and is not a financial service, our responses to these focus areas are limited to our areas of expertise. We are currently seeing the consequences of the rising inflation rate, further exacerbated by the current conflict in Ukraine and the surging cost of housing. These factors are making life very difficult for all persons living in Ireland and MABS clients in particular. We support the efforts of the Central Bank to ensure the credit quality of new lending and to take steps to avoid another financial crash. In the following sections, we provide our responses to the Central Bank's questions as they relate to our work.

Focus Area 1: Importance and macroeconomic benefits of mortgage measures

Q. 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.

[24] These stats are taken from One Family Ireland, for more see: [Lone Parents at Increased Risk of Poverty – One Family Ireland]

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

According to the Central Bank's 146 Consultation Paper, the primary principles of the mortgage measures framework are as follows:

> "The mortgage measures aim to ensure sustainable lending standards in the mortgage market and prevent the emergence of an unsustainable relationship between credit and house prices. In doing so, they support the resilience of borrowers, lenders and the broader economy. The Central Bank will pursue these aims, taking into account both the macroeconomic benefits and costs that the measures pose." (p. 11)

MABS supports these principles and the general objective of the mortgage measures framework. We recognise that flawed regulation and inadequate supervision of excessive funding of long-term assets with short-term liabilities in the banking sector, coupled with flawed assumptions regarding house prices in a period of generally elevated household debt, were among the primary drivers of the 2008 financial crash. Macro prudential measures to combat another crisis have served as a necessary intervention, and have improved the credit quality of new mortgage loans on the aggregate over the last seven years.

MABS has a unique perspective regarding the fallout of the previous financial crisis, having witnessed first-hand the immense sacrifices clients made to try to pay unsustainable mortgages. MABS also played a pivotal role in advocating on clients' behalf for affordable and sustainable resolutions. The associated toll on their mental health and wellbeing is undoubtedly reflected in the deep social and economic 'scarring' that exists as a lasting legacy of the recession and the banking collapse. As such, we welcome any national measure that aims to help protect and ensure the resilience and wellbeing of borrowers. We have seen, anecdotally, that since the mortgage measures were put in place, those who fall into arrears with mortgage repayments under the lending rules have greater capacity to resolve the arrears than those who suffered during the financial crash. We see this as a positive development and consequence of the mortgage measures.

However, our principal concern at present, as stated previously, is the rising prices for housing and the impediment this creates for ensuring long-term household financial resilience.

From an affordability perspective, rising house prices are having adverse consequences, especially for first time buyers (FTBs). The ability to purchase a home by means of mortgage finance has become a significant challenge for a growing number of persons living in Ireland. While MABS is firm in its view that the solution to this issue cannot be a return to the injudicious lending practices of pre-2008, we contend that this socio-economic problem is best addressed by the direct allocation of resources to provide more affordable homes in this country.

Focus Area 2: Dual-instrument approach and maintaining the 3.5 LTI instrument

Q. 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.

Q. 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 MABS rarely deals with new lending, we would not have the expertise to respond to the appropriateness of the dual-instrument approach. Analysis from the Central Bank suggests that, given the current level of house prices relative to incomes in the economy, the 3.5 loan-to-gross-income (LTI) limit is the most accurate measure to determining the maximum amount of credit available to most borrowers accessing the mortgage market. We acknowledge that any loosening of this rule could result in an upward spike in property demand, that could in turn drive up prices even further and may cause another negative economic shock and national financial collapse – and we do not want this to happen.

However, MABS has seen first-hand that income level is not a guaranteed determinant for avoiding situations of arrears. Unforeseen circumstances, such as separation, illness, unexpected job loss, can all affect a borrower's ability to repay. For MABS, it is this unpredictable change in circumstance that predominately results in persons being unable to pay their mortgages consistently as payments fall due – and it is essential to have a range of measures available to support borrowers in these circumstances. Accordingly, MABS believe in strengthening protections to borrowers whose capacity to repay is restricted through circumstances beyond their control, particularly in any future amendments or addendums to the Central Bank's existing Code of Conduct on Mortgage Arrears 2013 and Consumer Protection Code 2012.

We would also observe that the 3.5 loan-to-income limit is oftentimes too restrictive for single-earner households, and some flexibility is needed in order to support single earners who are in a position to buy a home. MABS propose that the debt service-to-income (DSTI) measure could be a more appropriate instrument versus LTI, as this would focus less on the amount a person can borrow at the point of obtaining a mortgage and more on their capability to service and repay debts. We also are aware that such a calibration is deployed in many other countries.[25] A challenge we would see a lot with our un-mortgaged clients involves the difficulties of saving for and obtaining a mortgage while also servicing high private rental costs. In this regard, the continuous payment of private rent over a number of years could therefore be recognised as indicative of positive financial behaviours on par with the ability to service a mortgage (which in some circumstances would cost less monthly than the private rental costs). This also applies to mortgaged clients with homes that have become unsuitable for their current circumstances. Their ability and commitment to repay their current mortgage should be considered and credited when seeking a new mortgage.

There is also a concern that the standardised deposit amounts (10% for FTBs and 20% for SSBs) do not necessarily serve as an indicator of repayment capacity, and may be unattainable for many who are servicing high rental costs or mortgage costs in an unsuitable property. They can also further exacerbate gaps in generational wealth inequalities, as those from higher income families may be gifted part/all of their deposits from their parents and/or extended family members, while those from lower-middle income backgrounds may not have access to this level of support.

Overall, MABS observes with our clients that income levels are not keeping pace with rising housing costs. In fact, this disparity has been increasing in recent months. MABS would suggest that the primary emphasis should be on lowering housing costs, not necessarily on increasing borrowing capacity in order to service what are arguably ‘unsustainably priced’ homes. We recognise that the policy action necessary to counter these trends may be beyond the scope of the mortgage measures framework and this review.

Focus Area 3: Role of allowances and differential lending rules

Q. 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? 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?

Q. 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? If so, what would you consider to be the most

[25] IMF (2018) https://www.elibrary-areaer.imf.org/Macroprudential/Documents/AtaGlance.pdf

appropriate option for the choice and design of implementing differential treatment across borrower groups?

As we do not work with the technical mechanics of new lending in the MABS network, we would have very little dealing with allowances and the differential lending treatment of first time and second time buyers. Those working in MABS services outside of Dublin would be under the impression that allowances predominately support those who have higher incomes and are purchasing higher priced properties in Dublin and other urban areas. An expansion of these terms, in particular to better suit those living in rural areas and those on lower incomes, would be welcome. However, we also know these decisions are made by creditors and therefore we expect that this would require a specific, targeted focus in central regulation.

MABS also recognises that the Central Bank of Ireland takes the perspective that a differential limit by type of borrower group continues to have merit. However, again looking at the circumstances of particular at-risk groups, such as single earners or those who have gone through a separation, or the loss of a spouse, some flexibility on deposit amounts would be advantageous for those in a position to buy a home. For example, regarding the 20% upfront deposit costs, this can be very difficult to obtain for a single-earner household, who may have once co-owned a home with a former partner. We support the commitment of the Central Bank of Ireland to revisiting the balance between the calibration of the limits and size of the pool of allowance lending on a regular basis.

Focus Area 4: Overall framework and review structure

Q. 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.

Q. 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.

At MABS, our work with clients is continually shifting due to broader structural and contextual change. However, MABS has also pivoted when necessary to respond to cyclical developments when they have a particularly adverse impact on our client base in comparison to other less vulnerable segments of society. For example, we are currently supporting more and more clients facing difficulties with utilities arrears due to rising energy prices. We therefore recognise the importance of allowing for a degree of flexibility and fluidity in order to respond more effectively to both structural issues and cyclical developments as they arise, and we believe that such an approach is essential in terms of the anticipated consequences of the current conflict in Ukraine. We support the Central Bank’s commitment to prioritising structural factors and enabling the calibration and adjustment of the mortgage measures framework based on these factors in the future, as long as this approach does not diminish the monitoring of the mortgage measures and the housing market.

In Consultation Paper 146, the Central Bank confirms that the mortgage measures framework is now ‘a permanent feature’ of the housing market in Ireland. It is therefore necessary that these measures are not locked into a standard review pattern and have the flexibility necessary in order to respond to structural changes and economic shocks in a regular and efficient manner. However, this flexibility should not impede the work of the Central Bank in continually monitoring the measures and their influence on Irish households and the wider Irish economy. At the same time, given the current climate and the anticipated impact of the present conflict in Ukraine, coupled with the contextual challenges associated with the pandemic and the cost of living crisis, MABS does not believe that the annual reviews of the measures should be replaced by three or five yearly overarching framework reviews at this juncture.

It is also important that the Central Bank continue to respond and directly engage with stakeholders such as MABS who have unique insight into the ‘on the ground’ implications of Ireland’s national housing policies and the impact of regulatory and policy measures.

5. Conclusion

MABS welcomes the efforts of the Central Bank to monitor and regularly evaluate the mortgage measures framework. In our submission, we offer an overview of our work with those facing mortgage arrears and outline the importance of the necessary public mechanisms to support borrowers who fall behind on payments. Since its inception in 2015, the mortgage measures framework has increased the strength of credit in the Irish mortgage sector. However, the extent to which these measures have been effective in stabilising the housing market and preventing the rise in housing prices is less clear. In MABS view, the housing affordability and accessibility crisis remains a massive barrier to attaining long-term financial resilience and social stability for households. MABS would support any public policy intervention that would work to oppose the continued rise of the cost of housing.

There are also serious developments in the banking sector, and concerns from those of us who work with clients that these developments will further deteriorate public trust in major banks – as relations between banks and customers remain on tenuous footing since the 2008 crisis.[26] The long-term consequence of major creditors Ulster Bank and KBC exiting the Irish market, as well as the emergence of non-bank entities as a powerful player in the area of mortgage lending, is yet to be fully realised. This situation should continually be monitored by the Central Bank and related public bodies.

While we do not profess to have technical expertise in the area of new residential lending, we support the overarching objectives of the mortgage measures framework and the continued review of this framework moving forward. This is particularly important in the current moment, given the openness of the Irish economy and the possible future adverse implications for the Irish State and the residents of Ireland to the current conflict in Ukraine.

To conclude, MABS Support CLG would like to thank our colleagues across the MABS Regional Companies for their collaboration in the formulation of this submission. We hope for continual engagement with the Central Bank on this and related issues in the future.

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[26] For more on the 'low levels' of public trust that remain towards the Irish banking sector, see this report compiled by the Irish Banking and Cultural Board (IBCB) in 2021. According to this research, 43% of those surveyed say their perception of banks has dis-improved since 2008. IBCB-2021-eist-Public-Trust-in-Banking-Survey-ONLINE-v2.pdf (irishbankingcultureboard.ie)

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