

Re: CP87 - Macro - prudential policy for residential mortgage lending

To the Central Bank Authority,

With the current problems in the housing and rental market and the general difficulty for working people in Ireland to acquire affordable housing. It's important that solutions go beyond measures that can be employed by Central Bank instruments. The current proposed measures I believe are however a welcome step in the right direction.

To address particular points that have been laid out for consideration:

Question 1: Which of the tools or combination of tools available to the Central Bank would, in your opinion, best meet the objective of increasing resilience of the banking and household sectors to shocks in the Irish property market and why?

I would be supportive of a Loan to Value ratio of ~80% and a 3.5 times Loan to Income ratio. Black Swan type unexpected events in the world economy can lead to uncertainty in repayment as we have seen where we are at the point now where 53,000 mortgages are in arrears of more than 720 days(including 15,000 buy to let properties). Its important for the banks to concentrate on deleveraging/offloading these loans(particularly the in arrears BTLs) and to be restrained in engaging in further potentially risky lending.

There are many individual reasons why conservatism is warranted:

- The economy is weak still, currently we are in the 5th year of greater than 10% unemployment and govt deficits and debt are still significant.
- World Stock Markets may be in a significant bubble with various stock indices looking much as they did in 2006/2007.
- Ireland's corporate tax regime - a main driver of the economy, is under significant scrutiny.

Question 8: Do you consider restrictions on loan-to-income ratios as suitable for buy-to-let mortgages?

I would think that the measures proposed should apply to Buy to Lets for the immediate future. The reason being any excess price drop in the household market should not be taken advantage of by more speculative lending(And especially by fund purchasers). I would indeed support further measures specifically related to BTLs, In other economies measures to cool heating in the housing market have been implemented focusing on BTL buyers such as for example:

- Increased deposit minimums for single income households when buying second properties.
- A 20% capital gains tax for BTL homes.

- Moratoriums and measures stopping couples from buying third homes.

These might be contemplated in addition to the existing proposals as first time buyers who are experiencing difficulty purchasing should be given priority of need in the current climate to resolve the pent up demand.

Final comments

Other measures to shore up the stability of the housing market might be examined such as

- Petitioning against the governments 41% Dirt tax which is effectively a tax on saving that encourages money to flow into property.
- Conducting an analysis examining the supply issues in the housing market - particularly in relation to certain high demand areas of the capital and then developing policy while working with local and national government to ameliorate these issues rapidly.

I think any measures showing a more proactive attitude to altering lending policies by the Central Bank is welcome. Bertie Ahern mentioned in an Interview published in the Sunday independent on 30th Nov 2014 where he stated about the financial crisis:

"I wasn't responsible for the Central Bank or the Financial Regulator. They're independent under the 1941 Act. I wasn't privy to what was going on in the boardrooms of the banks... It was years later that I found out some people I knew myself had gotten nine or 10 mortgages. It absolutely shocked me. That was not being put to us by the Central Bank. In fact, even at the very end, in 2007 and 2008, the Central Bank and the Department of Finance were saying this was a liquidity problem, they said our banks did not involve themselves in sub-prime lending."

This indicates the final responsibility with mortgage policy will be placed with the Central Bank, politicians will likely not take responsibility for any unfortunate collapse in the ability of people to repay loans. This is despite they being in control of many other tools of macro prudential policy themselves.

Sincerely,
Stephen Foskin