Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Private Household Credit and Deposits Explanatory Notes

(June 2011)

General

Private Household Credit and Deposits (Tables A18 – A18.2) contain data on the main asset and liability categories of within-the-State offices of credit institutions, where the counterparties of the credit institutions are private households resident in the Republic of Ireland. The data are quarterly in frequency and are released no later than ten weeks after the reference quarter-end

The reporting population which is covered in these tables are all credit institutions resident in Ireland[1]. Credit institutions, as defined in Community Law, are undertakings whose business is to receive deposits or other repayable funds from the public and to grant credits for their own account and/or issue means of payment in the form of electronic money. In the Irish case, resident credit institutions comprise licensed banks, building societies and, since January 2009, credit unions as regulated by the Registrar of Credit Unions. A resident office means an office or branch of the reporting institution which is located in the State (the Republic of Ireland). These are: institutions incorporated and located in the Republic of Ireland, including subsidiaries of parent companies located outside the Republic of Ireland; **and** branches of institutions that have their head office outside the Republic of Ireland. Reporting institutions report the data in respect of their resident offices only.

The reporting framework underpinning the compilation of *Private Household Credit and Deposits* was significantly changed in December 2010. While every effort has been made to avoid structural breaks in the series, users should note the possibility of such breaks in some series at that date.

The residency classification for counterparties conforms to international balance of payments convention. The tables presented here illustrate the main asset and liabilities position of resident credit institutions vis-à-vis Irish resident private households, which comprise individuals engaging with the credit institutions in their personal capacity (i.e. not related to an enterprise which is their primary economic activity), that are living in the State for at least one year. The definition of private households (personal) differs from the definition of Households used in the European System of Accounts 1995 (ESA 95) which governs the

[1] A list of the reporting population is available on the Central Bank of Ireland website.

classifications used in *Money and Banking Statistics*[2]. In the case of the latter, households comprise non-profit institutions, non-incorporated enterprises, sole-traders and partnerships which are not large enough to be considered quasi-corporations, as well as individuals engaging with the credit institution in their personal capacity.

In some cases the totals in the tables may not equal the sum of their constituent parts due to rounding. Recent data are often provisional and may be revised in the future. In the tables, the wording "up to (x) years" means "up to and including (x) years". The data presented in *Private Household Credit and Deposits* are neither seasonally nor working day adjusted. The following symbols are used in the tables:

n.a.	Not available
. .	No figure to be expected
-	Nil or negligible

The *Private Household Credit and Deposits* tables presented here have three components for most series:

1. Outstanding amounts;
2. Quarterly transactions;
3. Annual rates of change.

1. Outstanding amounts refer to the assets and liabilities position recorded at book value on the last working day of the reference period. All non-euro liabilities and assets, regardless of residency classification, are valued at mid-spot exchange rates on the last working day of the period and recorded as euro equivalents of the amounts outstanding on those days. The valuation of liabilities and assets would not normally include accrued interest payable or receivable on relevant accounts, nor would it include unearned interest charges. However, where a liability or asset is valued at market price which indistinguishably includes interest, such accrued interest may form part of the valuation; where interest is paid by means of discount, such interest may also be included in book value, if it is the accounting practice of reporting institutions to do so. As of December 2010, the outstanding amount of loans is reported at nominal value, i.e. the gross position owed on loans by the credit institutions' counterparties. Prior to December 2010, the book value of loans is reported, which reflects the carrying value of these loans on credit institutions' balance sheets and are net of impairment provisions recognised against those loans. As a result, the outstanding amount of loans and related series increased substantially in December 2010. The underlying

[2] *Money and Banking Statistics* are released on a monthly basis. See *Money and Banking Statistics Explanatory Notes* for further details.

transactions and growth rates in loans when comparing December 2010 with previous periods have been corrected to adjust for the impact of this change in methodology and reflect underlying business activity.

2. Quarterly transactions are calculated from quarterly differences in outstanding amounts adjusted for reclassifications, other revaluations, exchange rate variations and any other changes which do not arise from transactions. If L_t^{OBS} represents the outstanding amount on the credit institutions' balance sheet at the end of quarter t; C_t, the reclassification adjustment in quarter t; E_t, the exchange rate adjustment; and V_t, the other revaluation adjustments, the transactions value in the period, F_t, is defined as:

$$F_t = (L_t^{OBS} - L_{t-1}^{OBS}) - C_t - E_t - V_t$$

Reclassifications (C_t) comprise any change in the balance sheet of the credit institutions that arises due to changes in the reporting population, corporate restructuring, reclassification of assets and liabilities, the correction of long-standing reporting errors, or changes in reporting methodology. The occurrence of these factors gives rise to breaks in the series and, hence, affects the comparability of successive end-of-period outstanding amounts.

Foreign-exchange revaluations (E_t) comprise any change in the value converted into euro of balance sheet items originally denominated in foreign currency that arises due to changes in the exchange rate of the euro. A change in the exchange rate of the euro affects the euro value of these items, in addition to actual transactions.

Revaluations (V_t) comprise any change in the balance sheet of credit institutions that arises due to the (partial) removal from the balance sheet of loans that are subject to write-offs or write-downs where the counterparty remains liable to repay the nominal amount outstanding on the loan. A write-off or write-down of loans has an impact on the reported book value of the outstanding amount of loans, but is not related to a change in the amount of credit institutions financing to the economy. Prior to December 2010, the outstanding amounts of loans are valued net of impairment provisions recognised against them. Consequently any changes in the level of impairment provisions also impacts the comparison of successive end-of-period outstanding amounts up to September 2010, and such changes in the level of impairment provisions are also removed in calculating transactions to that point. As of December 2010 the outstanding amount of loans is reported at nominal value, i.e. the gross position owed on loans by the credit institutions' counterparties and does not exclude impairment provisions. Accordingly, from December 2010 there is no longer any need to include changes in the level of impairment provisions in determining the revaluation adjustment.

In the case of loans series, transactions are calculated by further removing the **net flow of loans securitised or otherwise transferred, S_t**, during the period:

$$F_t = (L_t^{OBS} - L_{t-1}^{OBS}) - C_t - E_t - V_t - S_t$$

<u>3. Annual rates of change</u>, a_t, for each period, i.e. the change in the four quarters ending in period *t*, are calculated using the transactions defined above using the following formula:

$$a_t = \left[\prod_{i=0}^{11}\left(1 + {F_{t-i}^{Q}}/{L_{t-1-i}^{OBS}}\right) - 1\right] \times 100$$

Growth rates for intra-annual periods can be derived by adapting the annual formula. For example, the quarter-on-quarter rate of change, a_t^q can be calculated as

$$a_t^q = \left({F_t^Q}/{L_{t-1}^{OBS}}\right) \times 100$$

Glossary of Instrument Categories

Deposits are amounts owed to creditors of resident credit institutions other than those arising from the issue of negotiable securities, and comprise:

- *Overnight deposits* are convertible into currency and/or are transferrable on demand without significant delay, restriction or penalty. This would include current accounts and demand deposit accounts.

- *Agreed maturity deposits* are non-transferable deposits which cannot be converted into currency before an agreed fixed term or which can only be converted into currency before that agreed term provided that the account holder is charged some kind of penalty.

- *Redeemable at notice deposits* are defined as non-transferable deposits without any agreed maturity, which cannot be converted into currency without a period of prior notice, before the term of which the conversion into cash is not possible or possible only with a penalty. They include deposits, which, although perhaps legally withdrawable on demand, would be subject to penalties and restrictions and investment accounts without period of notice or agreed maturity, but which contain restrictive drawing provisions.

Loans are defined as funds lent by credit institutions to borrowers, which are not evidenced by documents or are represented by a single document (even if it has become negotiable). Loans to Irish resident private households are further broken down by:

- *Lending for house purchase inclu*des loans secured on residential property that are used for the purpose of house purchase and, where identifiable, other loans for house purchase made on a personal basis or secured against other forms of assets. Loans for house purchase include bridging loans.
- *Other personal lending* includes finance for investment purposes and finance for consumption purposes. *Finance for investment* purposes is lending to private individuals for purposes such as debt consolidation, education, etc. Lending to individuals, on a personal basis, for investment in a trade, business or profession, including lending to purchase a trade or profession, to acquire a share in a partnership, or to finance investment in long-term risk capital ventures. Lending to active partners to invest in their partnership. Lending to directors/employees to acquire shares in, or otherwise finance, their company. Lending to individuals for third-level or other specific educational expenses. *Finance for other purposes* is lending to private individuals in the form of consumer credit, for the purpose of personal use in the consumption of goods and services. Lending to private individuals not already specified, including overdrafts and personal credit card borrowings are included here.

Lending for house purchase is further disaggregated in the tables by type of interest rate fixation and primary use of the property for which the loan was drawn-down:

- *Standard variable* loans include loans the interest rate on which the credit institution can change at any time and are not explicitly anchored to the ECB main refinancing rate, or any other policy rate set by a monetary authority.
- *Tracker* loans are loans where the interest rate is explicitly anchored to the ECB main refinancing rate, or any other policy rate set by a monetary authority.
- *Fixed up to 1 year* are loans where the interest rate is fixed and cannot change up to and including 1 year.
- *Fixed rate (various breakdowns over 1 year)* are loans where the interest rate is fixed and cannot change up to and including the fixation period.

- *Loans for principal dwellings* relate to lending to private individuals for purchase, renovation, improvement or own construction of a house or apartment that is or will be used as the principal place of residence for the borrower; lending should be fully secured by mortgage on the principal dwelling house. Top-up mortgages or equity release mortgages whereby a mortgage is increased to allow funds to be used for purposes other than the purchasing of residential property are recorded here, provided the purpose of such borrowing is home improvement or renovation of the principal-dwelling house.

- *Loans for buy-to-let residential properties* relates to lending to private individuals for purchase, renovation, improvement or own construction of a house or apartment which is or will be let out to third parties for residential purposes by the borrower. The same conditions on the security for the loan and the use of top-ups and equity release apply as that for principal dwellings.
- *Loans for holiday homes/second homes* relates to lending to private individuals for purchase, renovation, improvement or own construction of a house or apartment which is or will be used as a holiday home or second house by the borrower, i.e. not let out to third parties and not used as the principal residence of the borrower. The same conditions on the security for the loan and the use of top-ups and equity release apply as that for principal dwellings.

Notes to Specific Tables

Table A.18 provides a table of loans advanced to, and deposits received from Irish resident private households as reported by within-the-State offices of credit institutions. Loans are further disaggregated by purpose and interest rate category.

Table A.18.1 presents loans advanced to Irish resident private households for the purpose of house purchase by within-the-State offices of credit institutions. These loans are further disaggregated by the by type of interest rate fixation and primary use of the property for which the loan was drawn-down.

Table A.18.2 presents the outstanding amount of loans advanced to Irish resident private households for the purpose of house purchase by within-the-State offices of credit institutions that have been de-recognised from the balance sheet as loans through securitisation or other transfers but continue to be serviced by the originating credit institution. These loans are further disaggregated by the by type of interest rate fixation and primary use of the property for which the loan was drawn-down.