



Retail Interest Rates: February 2016

Key Developments

- Today the Central Bank of Ireland expanded its published interest rate statistics to include new data on renegotiations and mortgage interest rates.¹
- A range of fixed and floating mortgage rates for both PDHs and BTLs are shown in Chart 1. **All mortgage rates have declined over the year ending Q4 2015.** The sharpest fall was observed for fixed BTL rates over 3 years, which declined by 113 basis points to 5.11 per cent over the year to end-Q4 2015. **Variable mortgage rates for Primary Dwelling Houses also declined, falling by 44 basis points to 3.76 per cent over the year to end-Q4 2015.**
- The loan to deposit spread decreased slightly by 4 basis points over the month to end-February 2016, to stand at 365 basis points.** The majority of this decrease was driven by a modest fall in variable rate loans for consumption purposes. New business loan-to-deposit spreads² for households have risen sharply since 2012, reflecting a combination of declining deposit rates and stable loans rates (Chart 2).
- During the fourth quarter of 2014, 61 per cent of all new business mortgages were variable interest rate products. **The ratio of fixed versus variable rate mortgages has shifted to an approximate 50-50 split from Q2 2015 onwards** (Chart 3). This change reflects the preference for cheaper fixed rate products currently on offer from domestic banks.

Chart 1: Mortgage Interest Rates³

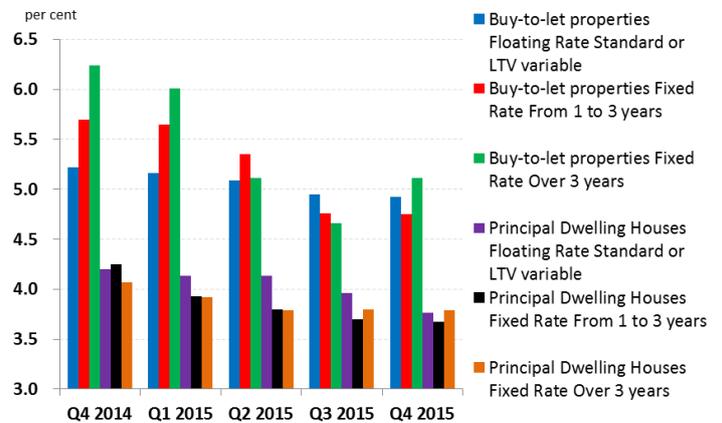


Chart 2: Loan-to-Deposit Spread for Domestic Banks

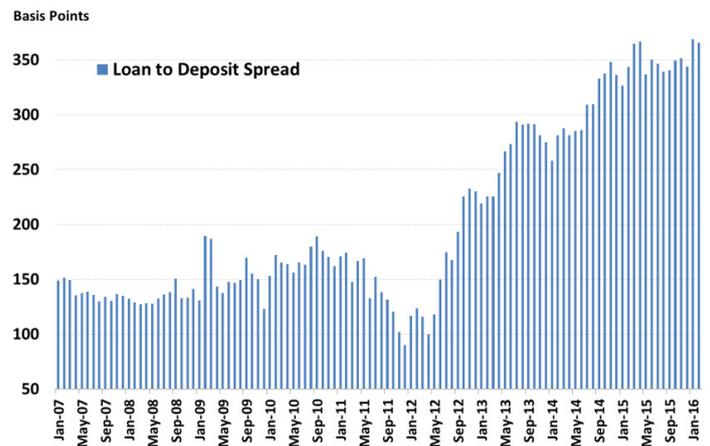
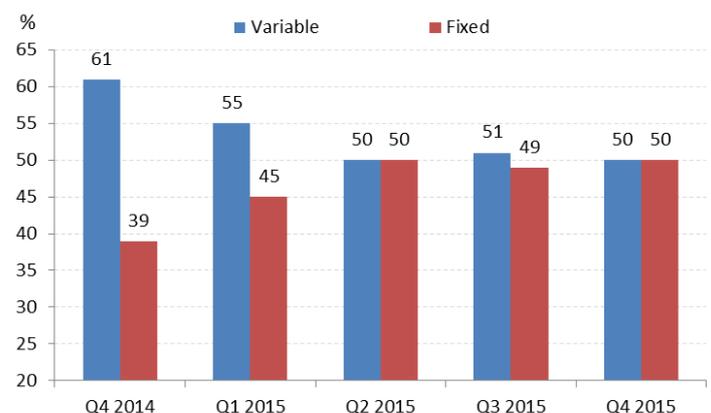


Chart 3: Share of fixed versus variable interest rates for new business mortgages³ (as of Q4 2015)



¹ [Link to Interest Rates B Tables](#)

² The loan to deposit spread is the difference between new business term deposits and the weighted average rate on new business loans to Households for either house purchase or consumer purposes, with a floating or up to one year initial fixation rate.

³ Refers to the volume of new business mortgages drawn down over the respective quarter.

- In February 2016, the volume of renegotiated loans for house purchase stood at circa €445m, a decrease of €449m since October 2015, when renegotiations peaked at almost €894m (Chart 4). In general, the majority of renegotiated contracts reflect normal market behaviours such as mortgage switching. Renegotiated interest rates for house purchase loans increased slightly by 2 basis points to 3.2 per cent in February 2016.**
- In general, interest rates on household term deposits continued to decline in February 2016 (Chart 5). Rates for outstanding household deposits decreased by 5 basis points to 0.93 per cent at end-February 2016. The corresponding deposit rate for new business rose slightly by 2 basis points to 0.25 per cent over the same period. During the month, NFC term deposit rates declined for both new business and outstanding amounts, by 1 and 5 basis points, respectively.**
- The rate on new floating rate loan agreements⁴ for house purchase (which includes renegotiations) was 3.23 per cent at end-February 2016, representing an increase of 5 basis points over the month. The equivalent euro rate was 2 per cent (Chart 6).**

Chart 4: Renegotiated household loans for house purchase

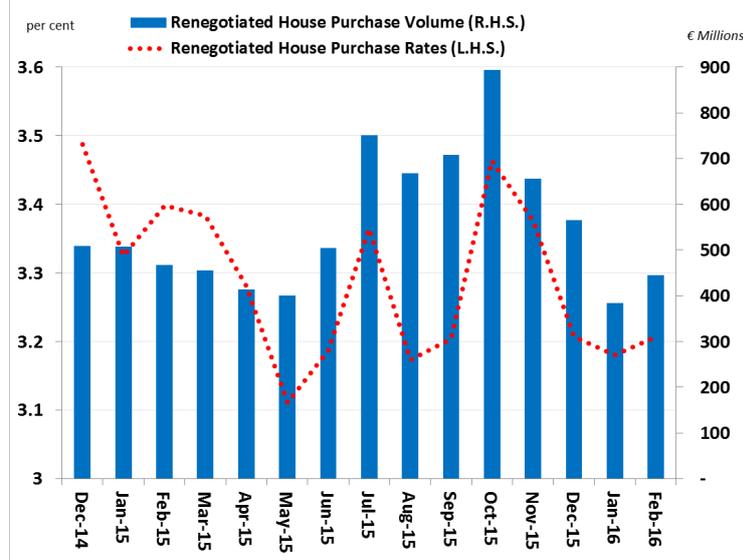


Chart 5: Interest Rates on Household and NFC term deposits

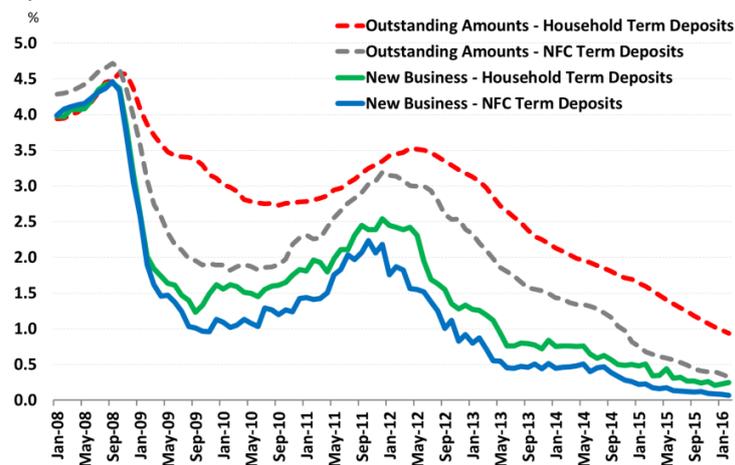
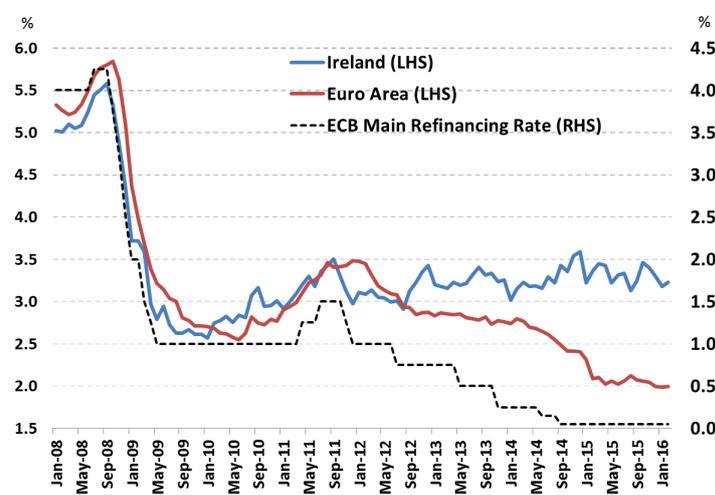


Chart 6: Interest Rates on new floating rate loans agreements to households for house purchase



⁴ Floating rates include variable rates and loans with an initial fixation up to one year.

Note:

A number of enhancements to the calculation of the national weighted average interest rates and national total business volumes have been introduced in ECB Guideline (ECB/2014/15) on monetary and financial statistics. These enhancements introduced in the Guideline involve changes to the sampling methods. The changes made contribute to a further harmonization of the data compilation process thus improving cross-country data comparison. The changes apply as of January 2015 for reference period December 2014. As a result of these enhancements, data have been recalculated, as per the requirements of Guideline ECB/2014/15, for previous reference periods in order to ensure a consistent and coherent compilation of data across time and to allow for time series analysis. The extensive set of [Retail Interest Rate Statistics](#) tables are available on the Central Bank of Ireland website.

Retail Interest Rate Statistics cover all euro-denominated lending to, and deposits from, households and non-financial corporations (NFCs) in the euro area by credit institutions resident in Ireland. Interest rates on outstanding amounts cover all loans and deposits outstanding on the last working day of the month, while interest rates applicable to new business volumes cover all new loan and deposit business agreed during the month.

For retail interest rate statistics purposes, new business is defined as any new agreement between the customer and the credit institution. This agreement covers all financial contracts that specify, for the first time, the interest rate of the deposit or loan, including any renegotiation of existing deposits and loans. Automatic renewals of existing contracts, which occur without any involvement by the customer, are not included in new business. New business volumes have been exceptionally low in various instrument categories during the last number of months. Low volumes of this nature can result in increased volatility within the interest rate series.

New loan agreements to households for house purchase with either a floating or initial rate fixation period of up to one year are broader in scope than just 'new mortgages', issued at variable interest rates. There are a number of factors that can lead to differences between MIR statistics and interest rates advertised by resident credit institutions, including renegotiated loans, the inclusion of home improvement loans, and the underlying MIR compilation methodology. New data on mortgage interest rates are available, and outlined above, these rates are not part of the MIR framework and represent drawdowns broken down by type of interest rate (i.e. Fixed, Tracker and SVR). These data will be available on a quarterly basis.