



Retail Interest Rates: September 2015

Key Developments

- Over the third quarter **mortgage interest rates were generally lower compared to Q2** (Table 1). The largest falls have been for fixed rates on new business buy-to-let mortgages. BTL interest rates pertaining to the 1-3 year fixation cohort declined by nearly 60 basis points on a quarterly basis, to stand at 4.76 cent. Similarly, rates fixed for 3-5 years declined by over 40 basis points to 4.66 per cent. Fixed rates also declined for new business PDH mortgages, albeit by smaller amounts. **New business fixed interest rates are currently below standard or LTV variable** for all instrument categories. Variable PDH rates declined by some 17 basis points over the second quarter with corresponding BTL rates falling by 14 basis points during the same period.
- The proportion of variable rate mortgages has declined** significantly for new business conducted over recent quarters (Chart 1). In December 2014, 61 per cent of all new business mortgages were variable interest rate products. However, from June 2015 onwards, this ratio has shifted to approximately 50-50, as mortgage customers opt for cheaper fixed rate alternatives.
- New business **loan-to-deposit spreads¹ for households have increased sharply** over recent years (Chart 2). **Spreads increased from circa 100 basis points in April 2012 to 373 basis points at end-April 2015.** More recent months have seen some reversal of this trend with spreads measuring 340 basis points at end-September 2015, largely unchanged over the latest month.

¹ 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.

Table 1: Mortgage Rates (as of September 2015)

	New Business		Outstanding Amount	
	Primary Dwelling House	Buy-to-Let	Primary Dwelling House	Buy-to-Let
Standard or LTV Variable Tracker Mortgages*	3.96	4.95	4.08	4.60
Fixed Rate				
- 1 to 3 years	3.70	4.76	3.93	4.94
- 3 to 5 years	3.70	4.66	4.13	4.81
- over 5 years	3.76	n/a*	3.38	3.94

*no active market

Chart 1: Share of fixed versus variable interest rates for new business mortgages²

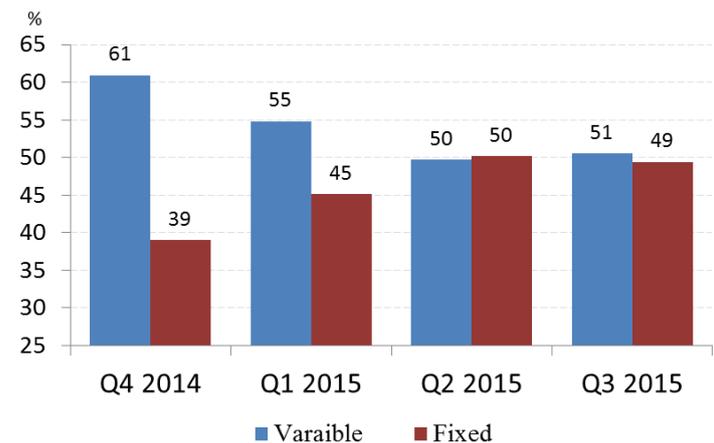
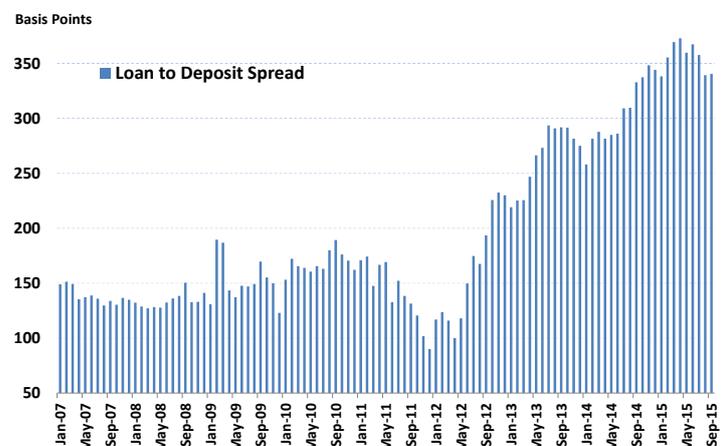


Chart 2: Loan to Deposit Spread for Domestic Banks



² Refers to the volume of new business mortgages drawn down over the respective quarter.

- Rates on outstanding term deposits continued to decline** in September 2015 (Chart 3). Rates applicable to NFCs decreased by 6 basis points to 0.43 per cent, while the corresponding rates for households fell by 6 basis points to stand at 1.18 per cent. **New business deposit rates also declined slightly**, with NFC rates falling by 1 basis point to 0.11 per cent in September.
- Interest rates on **outstanding loans for house purchase were unchanged** at 2.67 per cent at end-September 2015. The rate on new floating rate loan agreements³ for house purchase (which includes renegotiations), was 3.24 per cent at end-September 2015, representing an increase of 11 basis points over the month. The equivalent euro rate was 2.07 per cent. Irish rates have decoupled from their traditional correlation with the MRO benchmark (Chart 4).
- Renegotiated household interest rates have fluctuated within a relatively narrow range** between 3.1 and 3.6 per cent since December 2014 (Chart 5). The volume of renegotiated household loans for house purchase has generally trended upward since May when it stood at just under €400m. **In September 2015, the volume of renegotiated loans increased to circa €707m**, largely unchanged compared to the previous month.

Chart 3: Interest Rates on Household and NFC term Deposits

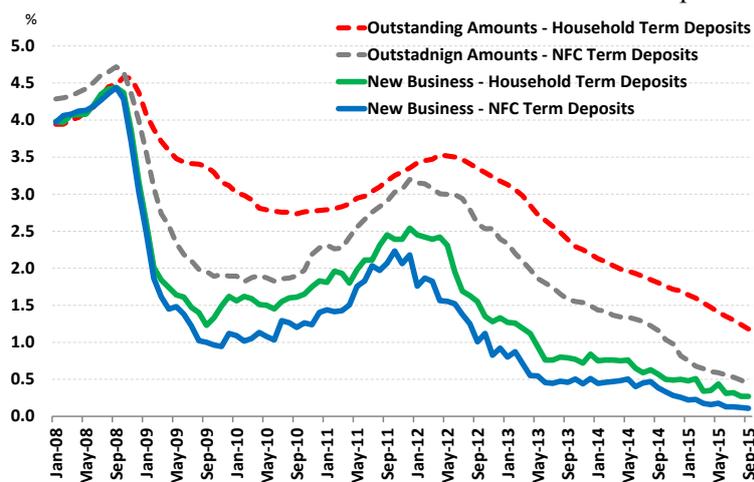


Chart 4: Interest Rates on new floating rate loans agreements to Households for house purchase

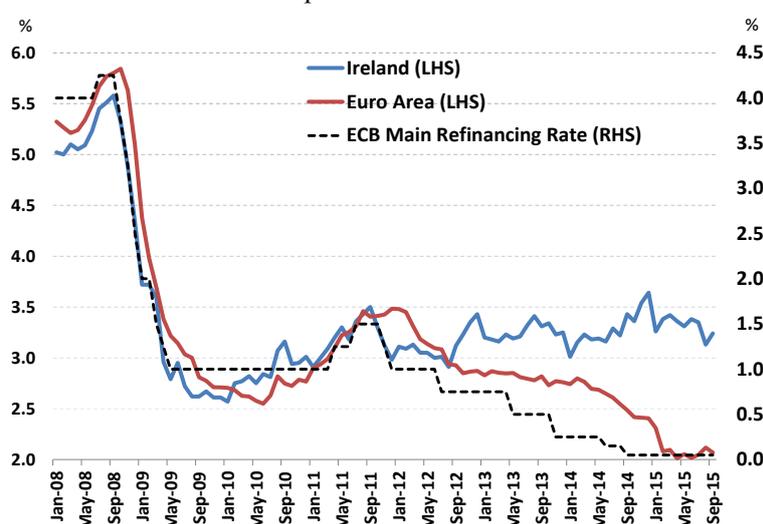
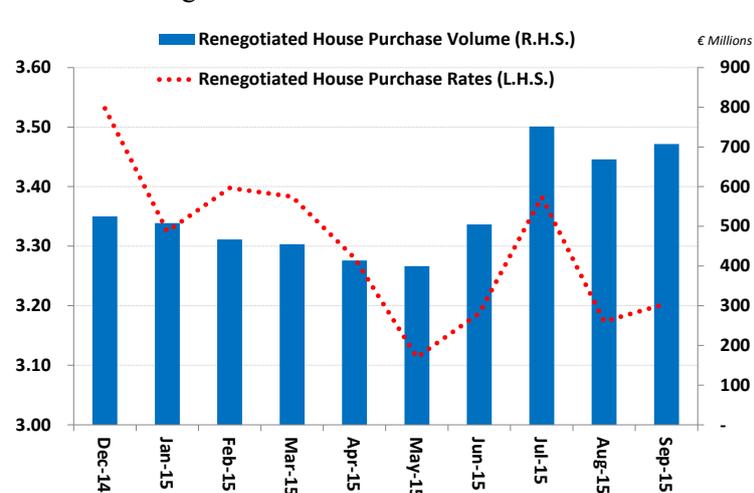


Chart 5: Renegotiated Loans



³ 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.