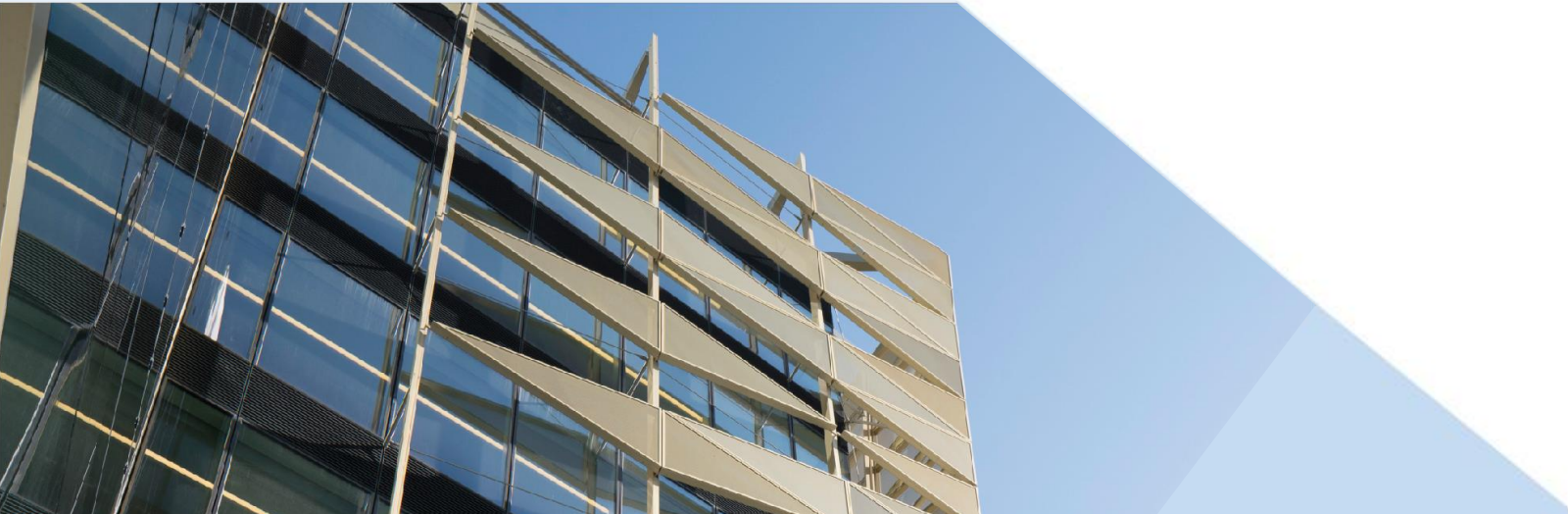




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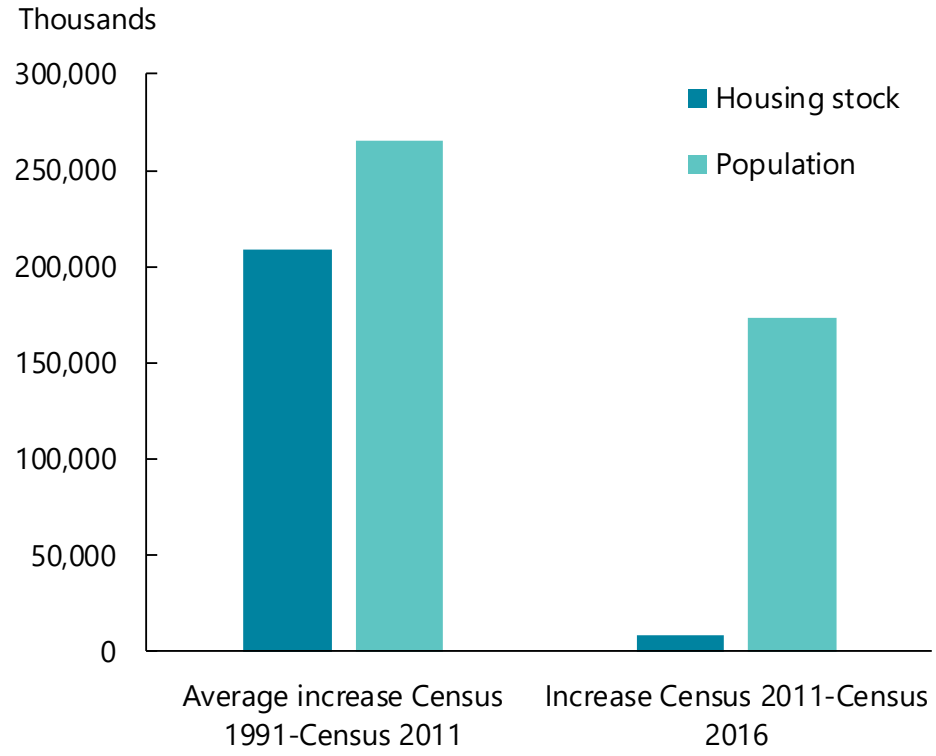
# The housing market and building resilience

Vasileios Madouros

Civil Society Roundtable, 29 November 2019

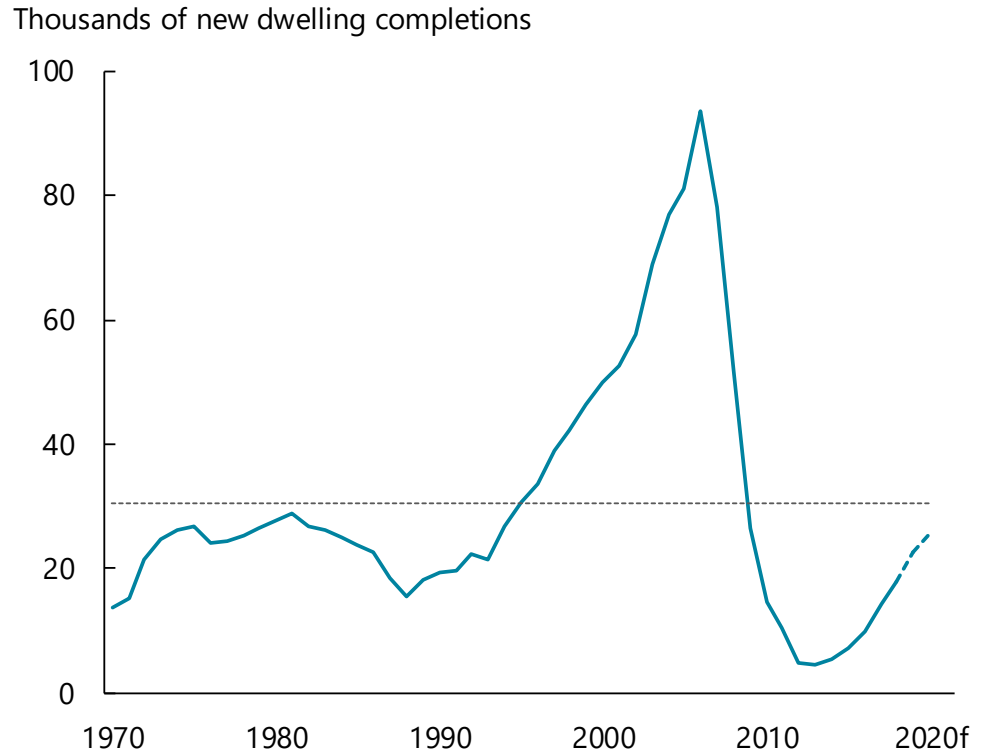
# Growth in housing demand has outstripped growth in housing supply

Growth in population has exceeded growth in the housing stock in recent years



Source: CSO, Census of Population, various years.

After a post-crisis decade of low supply, housing completions gradually starting to rise

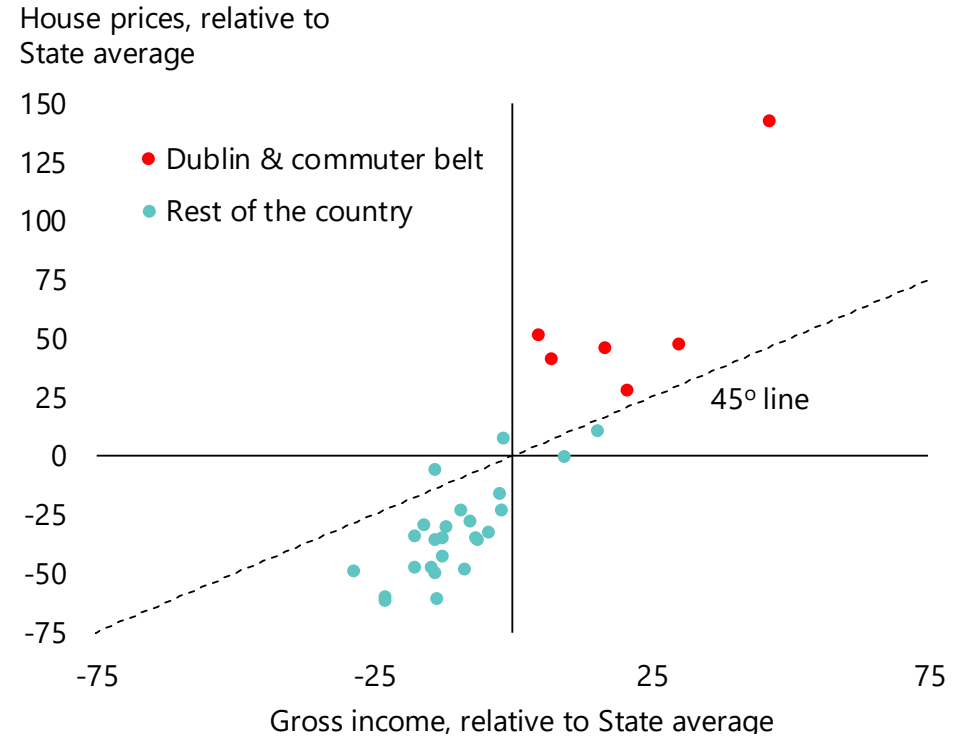
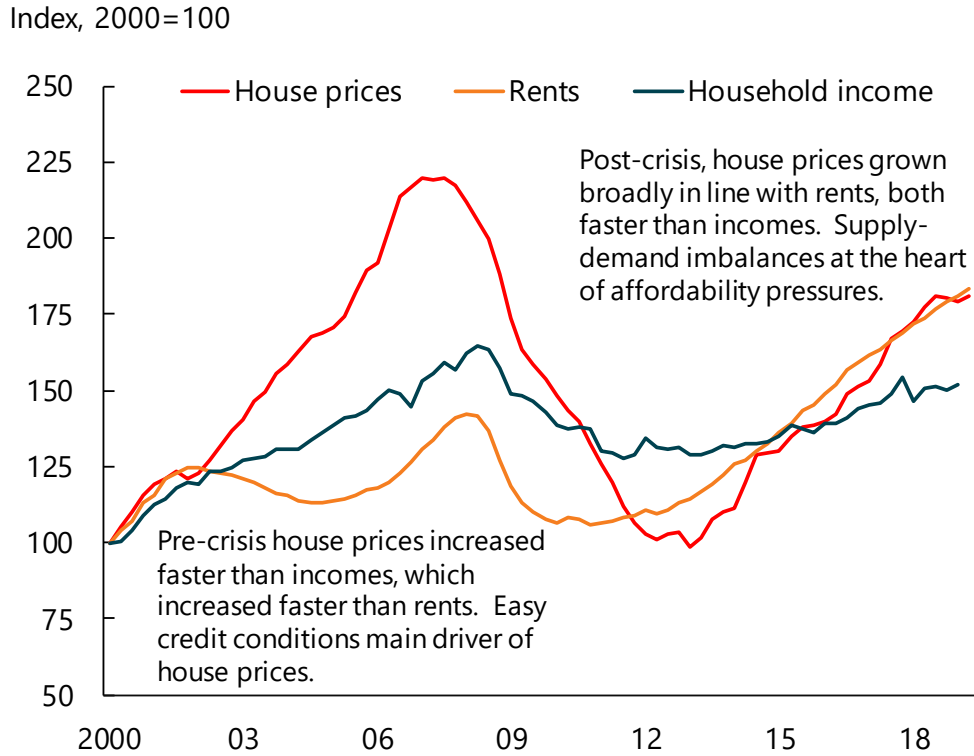


Source: Various sources and Central Bank of Ireland calculations.

# Prices and rents have increased faster than incomes

Housing supply constraints have led to an increase in both prices and rents post crisis

Affordability pressures have been most acute in Dublin and surrounding areas

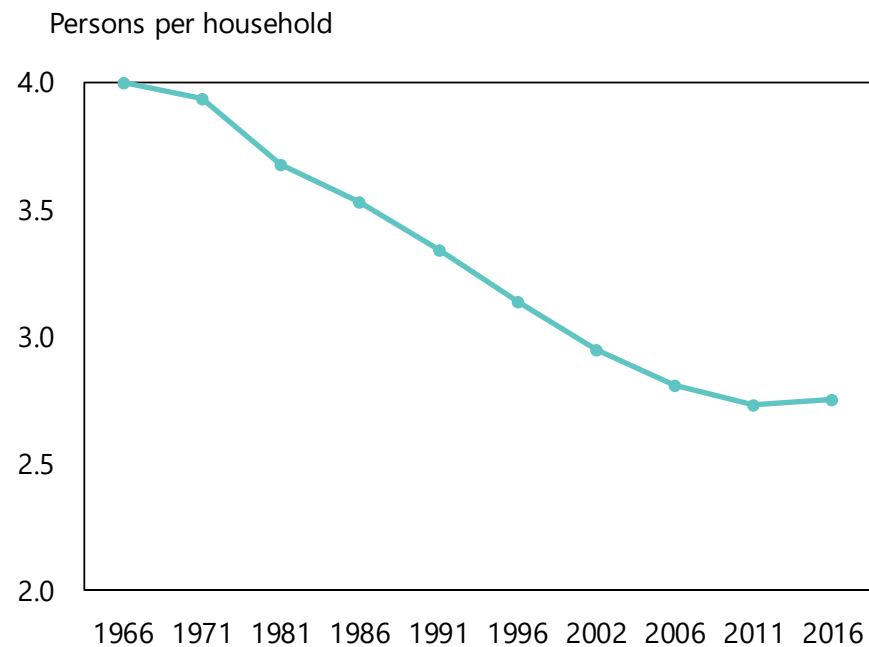


Source: CSO and Central Bank of Ireland calculations.

Source: CSO and Central Bank of Ireland calculations.

# Households have had to adjust to affordability pressures

A continuous 50-year decline in persons per household stalled in 2016



Source: CSO, Census of Population, various years.

Biggest adjustment has been from younger people delaying formation of independent households

Percentage point change in 'headship rate' (share of individuals in an age cohort that list themselves as head of a household), 2011 to 2016



Source: CSO, Census of Population, various years.



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# Strengthening resilience: the broad macroprudential context

## Measures to strengthen lender resilience

### Capital buffers:

- For the banking system, depending on the cyclical position of the Irish economy
- For the banking system, given the structural characteristics of Irish economy
- For individual banks, depending their potential impact on the economy and financial system

## Measures to strengthen both borrower and lender resilience

### Mortgage measures:

- Limit on the amount of new lending above certain LTI and LTV thresholds
- A system of allowances, meaning that lenders can still lend above those thresholds
- Borrower-based measures are now used in 18 out of 28 countries in the EU.



# The objectives of the mortgage measures

## 1. Strengthen the resilience of borrowers and lenders

Higher levels of debt increase the likelihood that borrowers find themselves in financial distress and that lenders make losses on mortgage lending when adverse shocks hit

## 2. Reduce likelihood of unsustainable credit-fuelled housing booms

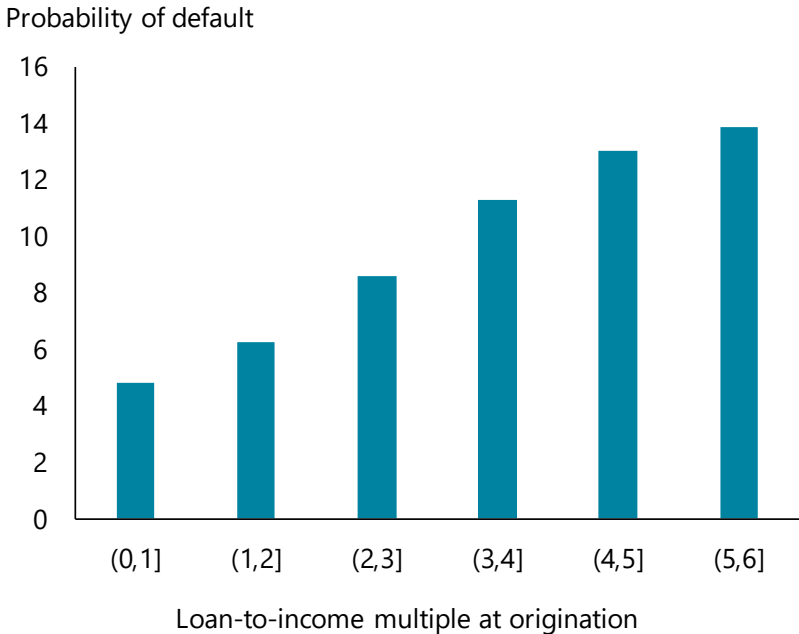
Excessively loose credit standards in 'good times' can feed an unsustainable house price boom, which subsequently turns to a costly bust when adverse shocks hit

The objective of the mortgage measures is not to target house prices.



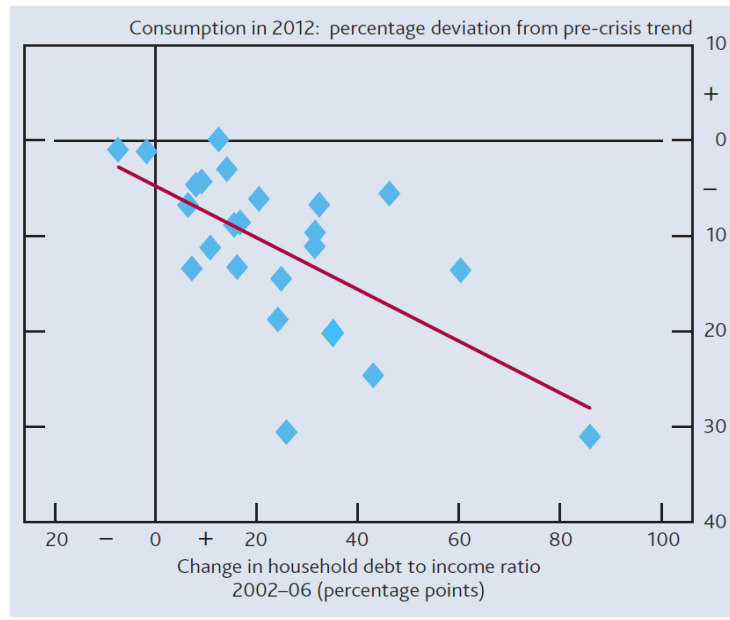
# Excessive debt levels increase the risk of financial distress

Mortgagors with higher loan-to-income ratios at origination had a higher probability of default during the crisis



Source: 2016 Review of Mortgage Market Measures, <https://www.centralbank.ie/docs/default-source/financial-system/financial-stability/macprudential-policy/policy-documents/2016-review-of-residential-mortgage-lending-requirements.pdf?sfvrsn=10>

Countries that saw faster increases in household debt relative to income before the crisis had deeper subsequent recessions

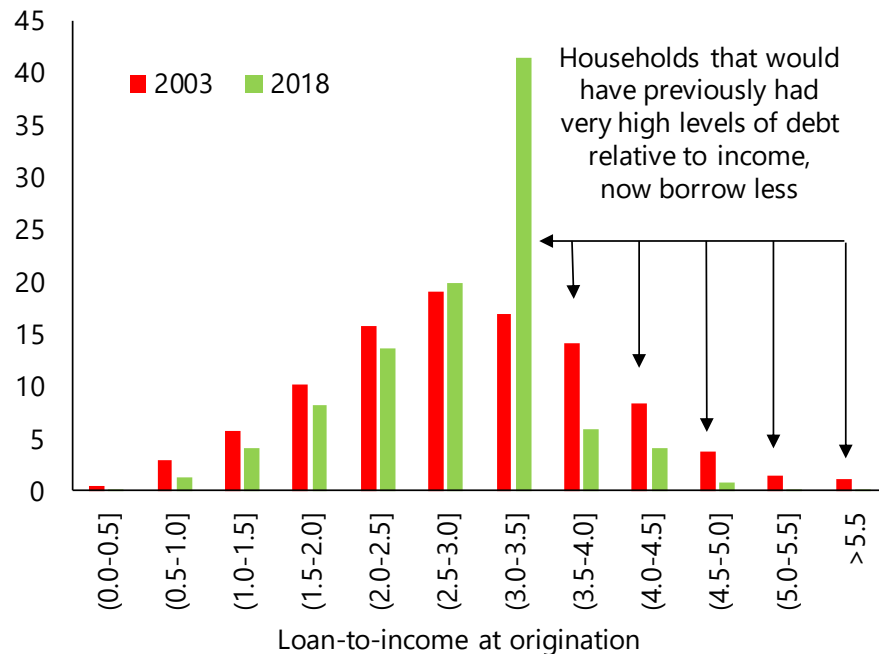


Source: Rostom and Bunn (2014) 'Household Debt and Spending', *Bank of England Quarterly Bulletin*, <https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2014/household-debt-and-spending.pdf?la=en&hash=5D335C93F223902F2CCAC78F383CD59604577D522>

# Mortgage measures have constrained higher risk lending

The share of new FTB borrowers with high LTI ratios is smaller now than at the same point of the last house price cycle

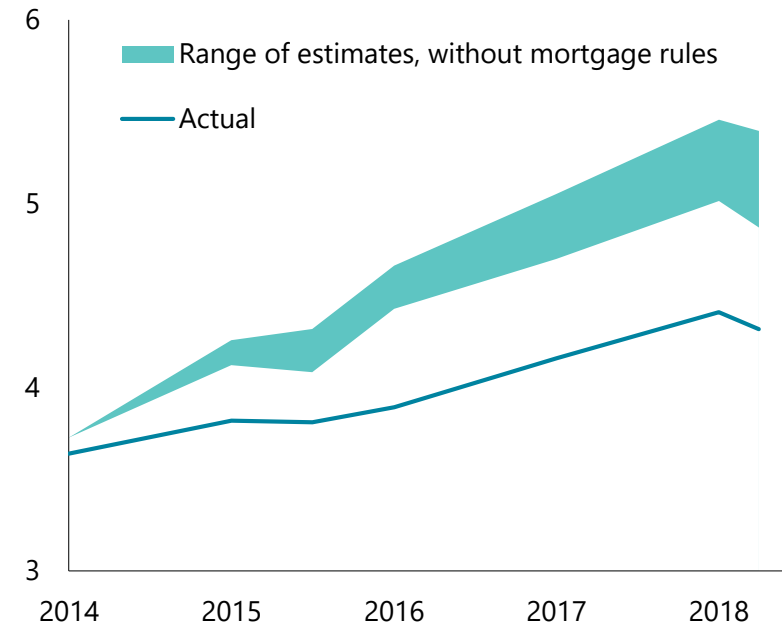
Per cent of new FTB lending



Source: Central Bank of Ireland data and calculations.

In the absence of the mortgage measures, house prices would likely have been even higher relative to incomes

House price to income ratio



Source: CSO and Central Bank of Ireland calculations.



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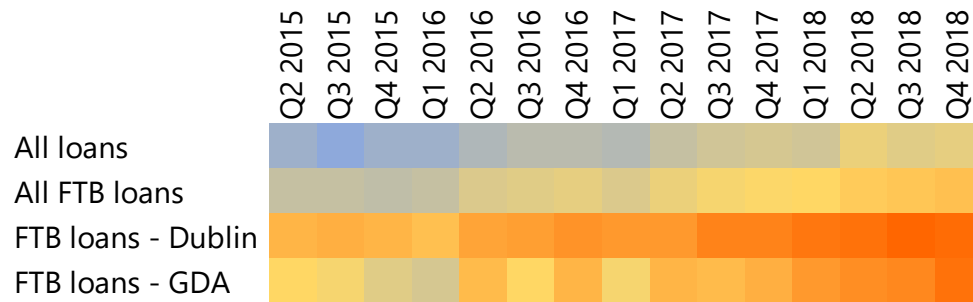


# Mortgage measures in the context of housing supply constraints

As supply constraints have led to house prices growing faster than incomes, the mortgage measures have become more binding

The “allowances” regime is key in ensuring flexibility to take into account of individual borrower circumstances

Heatmap of estimated degree of ‘bindingness’ of measures



Around **1 in 5** of new mortgages was issued with an LTI or LTV level above the limits in 2016-2018

First-time buyer allowances more likely to be allocated to:

- Borrowers in **Dublin**, where house prices are particularly high relative to incomes
- **Younger** borrowers
- **Single-income** borrowers

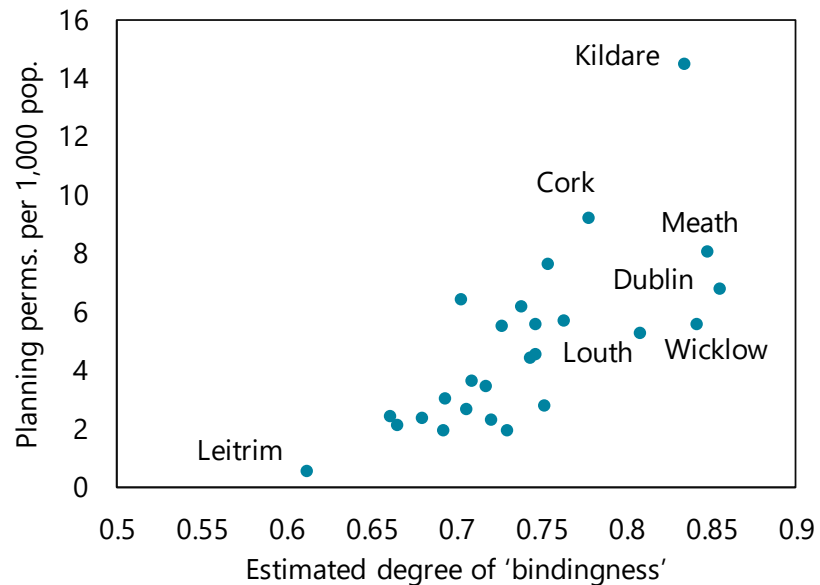


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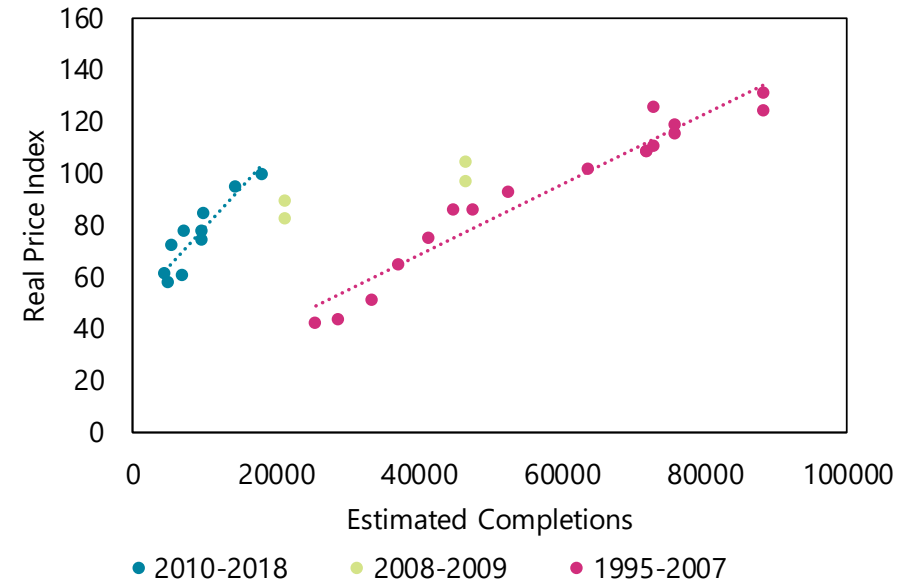
# Mortgage measures in the context of housing supply constraints

Housing supply has been highest in areas where house prices are highest (and the mortgage measures have been more binding)



Source: CSO and Central Bank of Ireland calculations.

Broader public policies aimed at stimulating housing supply important, given apparent shift in housing supply curve



Source: Central Bank of Ireland calculations.



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# Summary

- Supply-demand imbalances in the housing market have contributed to growing prices and rents relative to income.
- Given the Central Bank's mandate, we contribute by ensuring that the financial system is able to provide mortgage finance in a sustainable way, both in good times and in bad.
- The lessons from our own history and from other countries are clear: lending standards that are too loose in good times increase risks to stability, with large subsequent costs for society.
- The mortgage rules guard against excessive loosening of lending standards, contributing to more resilient borrowers and banks, and a more sustainable provision of mortgage finance over time.



# The costs of financial instability for society are large

The credit-fuelled housing boom of the mid 2000s...

**27%**

2003-7 average annual mortgage credit growth

**200%**

Pre-crisis household debt to income ratio

**30%**

Share of new mortgage lending with loan to income ratio greater than 4.5 in 2006

...imposed large costs on society during the financial crisis.

**14%**

Peak share of mortgagors in arrears over 90 days

**40%**

Peak share of mortgagors in negative equity

**16%**

Peak unemployment rate during the crisis



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