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# ANNUAL REVIEW OF RESIDENTIAL MORTGAGE LENDING REQUIREMENTS

28 November 2017

# Outcome of the 2017 Review

- The core parameters of the measures - the LTV and LTI limits - will remain unchanged in 2018.
- The risk characteristics of new mortgage lending have evolved in-line with market developments over the last year.
- No unsustainable developments in the joint dynamics of credit and house prices at this juncture.
- One refinement to the application of LTI allowances and one technical amendment on collateral valuations introduced to improve the overall effectiveness of the measures. Effective from 1 January 2018.
  - Separate LTI allowances for FTB and SSB.
  - Clarify collateral valuation for construction-related mortgage lending.
- The measures continue to play an integral role in strengthening the resilience of banks and borrowers to future financial shocks and in dampening the pro-cyclicality between mortgage lending and property prices.
- Continue to monitor developments and ready to adjust these and/or other macroprudential policy tools as necessary to safeguard the stability of the wider financial system.



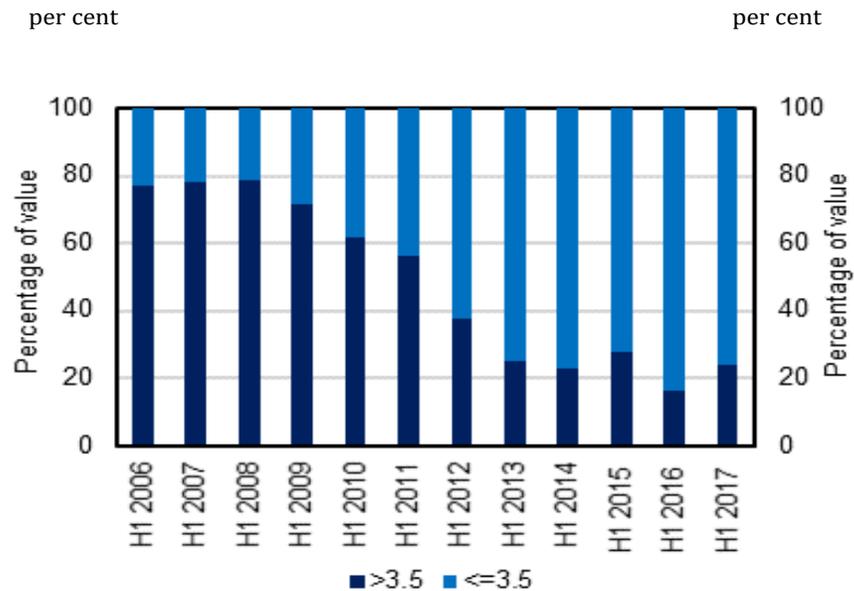
# Details of LTV and LTI Regulations

<b>LTV Limits</b>	<b>For primary dwelling homes:</b>	FTBs: 90%	5% of new lending to FTBs allowed above 90%
		Non-FTBs: 80%	20% of non-FTB new lending allowed above 80%
	<b>For buy-to-let borrowers (BTLs):</b>	70% LTV limit	10% of new lending allowed above the BTL limit
<b>LTI Limit</b>	<b>For primary dwelling homes:</b>	3.5 times income	<b><u>Until 31/12/17</u></b> 20% of new PDH lending above the LTI limit is allowed
			<b><u>From 1/1/18</u></b> 20% of new lending to FTBs allowed above 3.5 limit 10% of non-FTB new lending allowed above 3.5 limit
<b>Exemptions</b>	<b>From LTV limit:</b> Borrowers in negative equity	<b>From LTI limit:</b> BTL borrowers	<b>From both limits:</b> Switcher mortgages Restructuring of mortgages in arrears

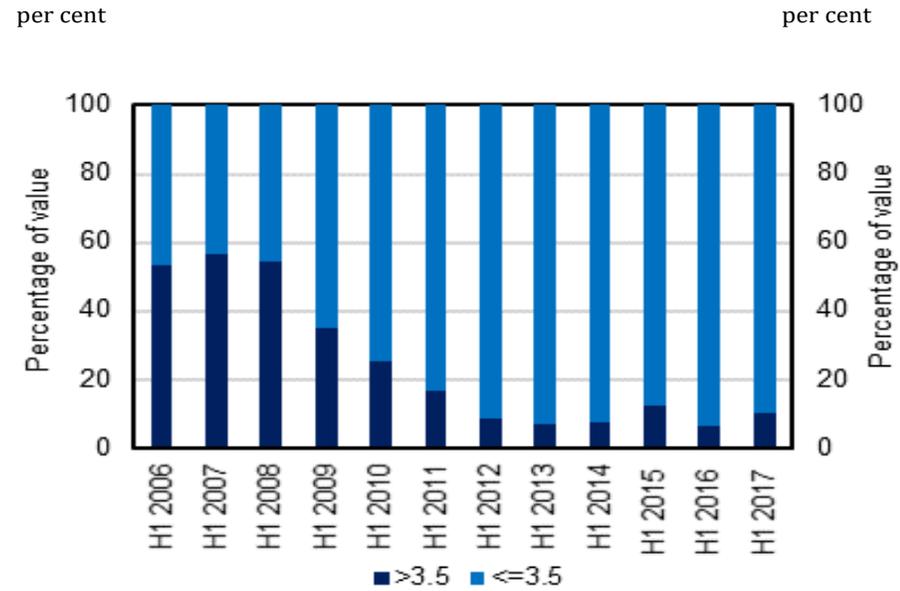


# Distribution of LTI allowances in the market closely matches the new calibration

Distribution of FTB LTI Ratio 2006 – H1 2017



Distribution of SSB LTI Ratio 2006 – H1 2017



Source: Central Bank of Ireland Loan Level Data and Monitoring Templates Data

Note: Percentages are based on the value of lending in each group. LTI distributions are based on a 4-bank view from 2006-2014.

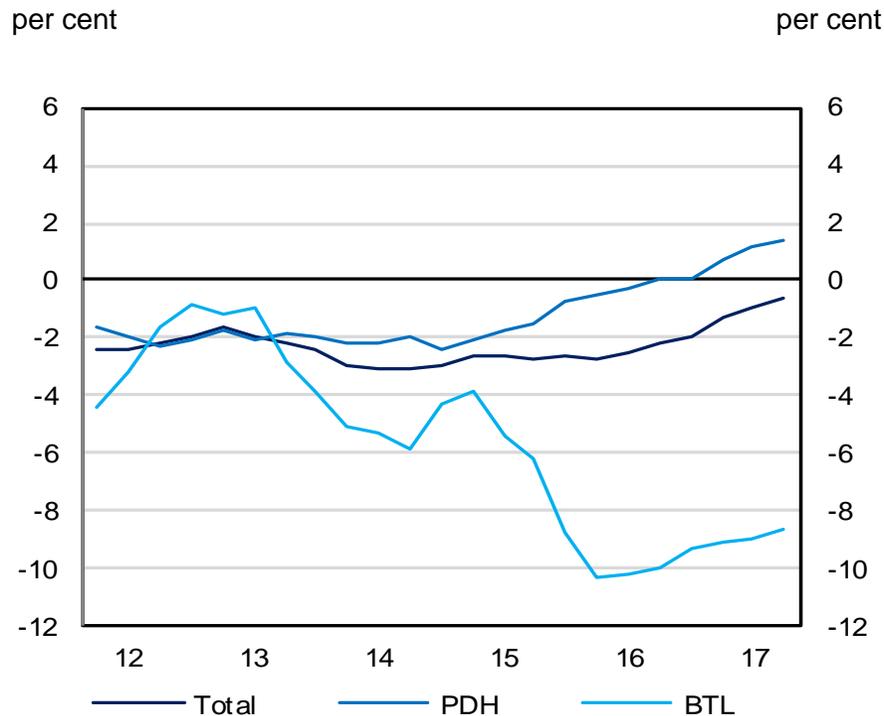


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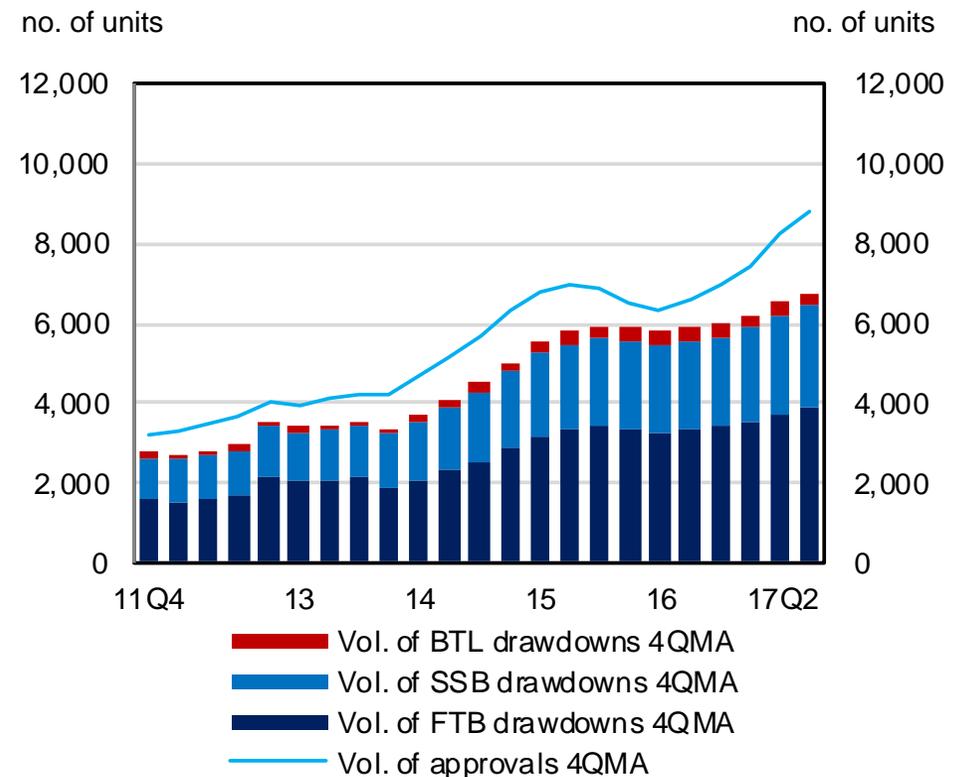
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# Increase in new mortgages still reflecting post-crisis adjustment, with overall change in mortgage credit remaining subdued

Annual rate of change in outstanding mortgages (PDH, BTL, Total)



Volume of mortgage approvals and drawdowns



Source: Central Bank of Ireland.

Source: BPIF and Central Bank of Ireland calculations

Notes: Data refer to mortgage drawdowns for housing transactions only, i.e. mortgages to FTBs, mover purchasers and BTL / RILs.



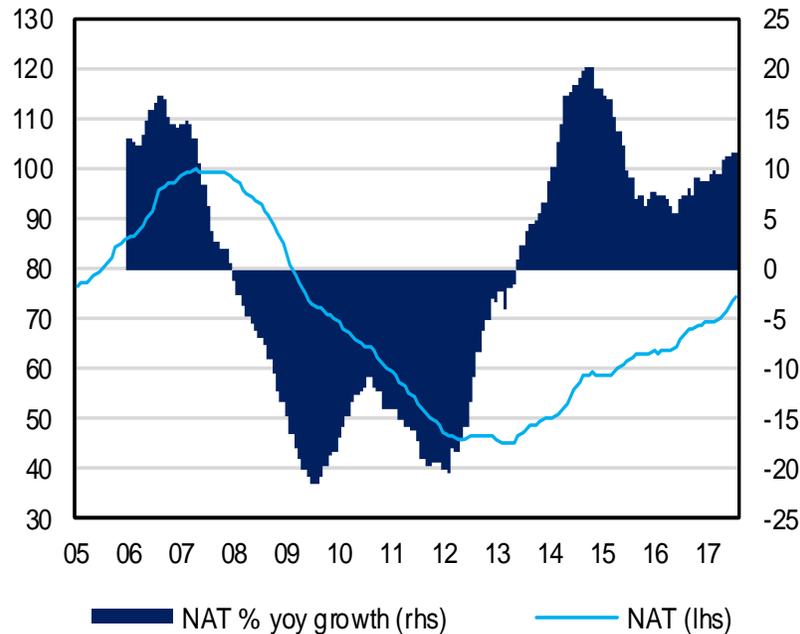
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# Recent increases in house prices and in house price expectations

## CSO RPPI and annual change: National

index = 100, Apr 2007      per cent, year-on-year change

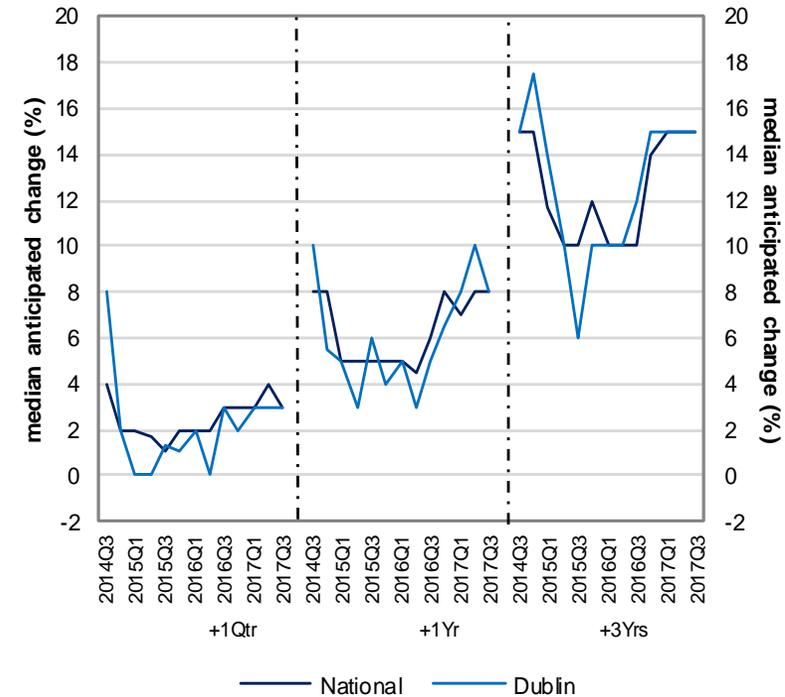


Source: CSO.

Notes: Latest observation August 2017.

## CBI/SCSI property survey house price expectations

per cent      per cent



Source: Central Bank of Ireland / SCSl Property Survey.

Notes: Chart provides details of survey results from the past 13 quarters (2014Q3 to 2017Q3). Number of observations vary from survey to survey.

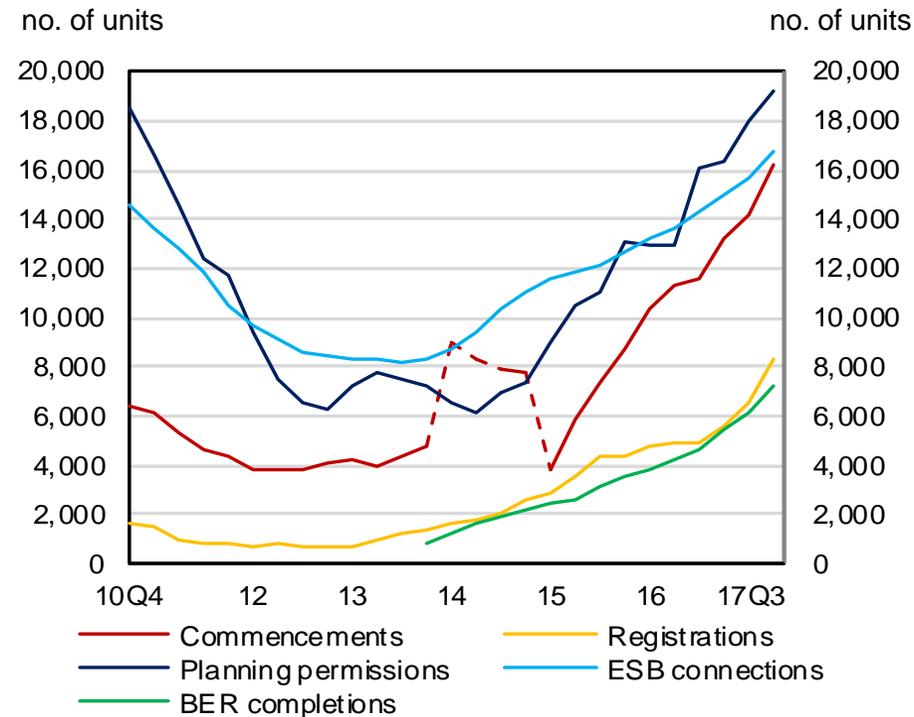


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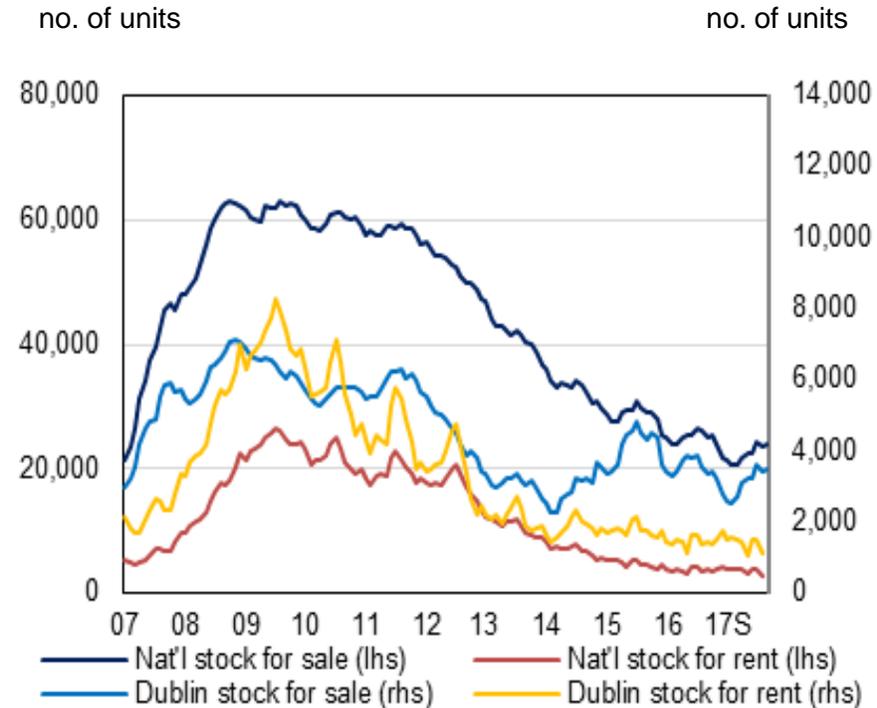
# With low supply relative to favourable current and expected macroeconomic conditions being the main driver

**Residential construction activity: (rolling annual total)**



Source: Department of housing, planning and local government, CSO and Goodbody Stockbrokers.  
 Notes: The adoption of new building codes from March 2014 resulted in a significant front-loading of commencements in the first quarter of 2014, the impact of which remained in the statistics until 2015Q1. This period is represented by the jagged red line.

**Stock listed for sale or rent on Daft.ie**



Source: Daft.ie  
 Latest observation: Sales stock – September 2017. Rent stock - August 2017

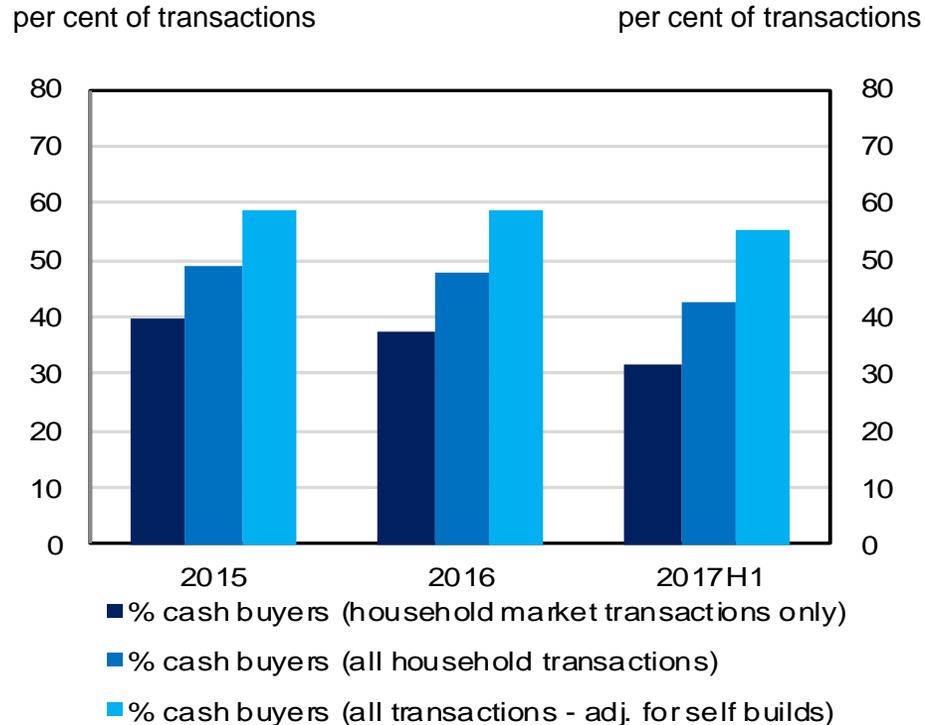


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# The role of non-household buyers and non-mortgage financed transactions in the overall housing market remains significant

Share of non-mortgage financed buyers per market segment



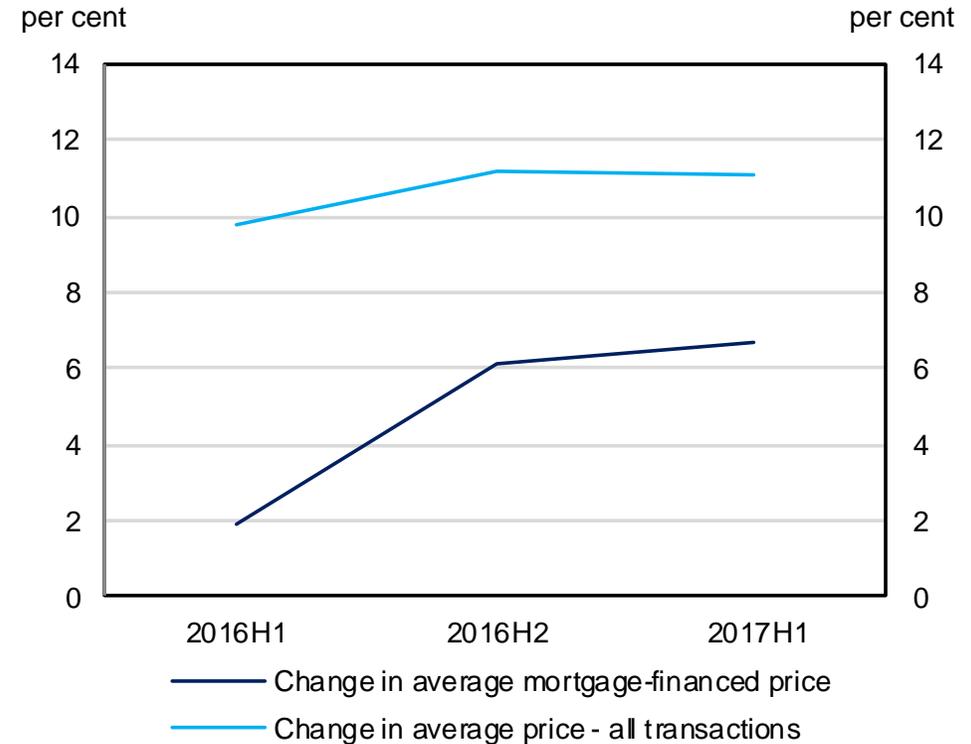
Source: CSO and Central Bank of Ireland calculations.



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Developments in average prices for total and mortgage-financed residential property transactions.

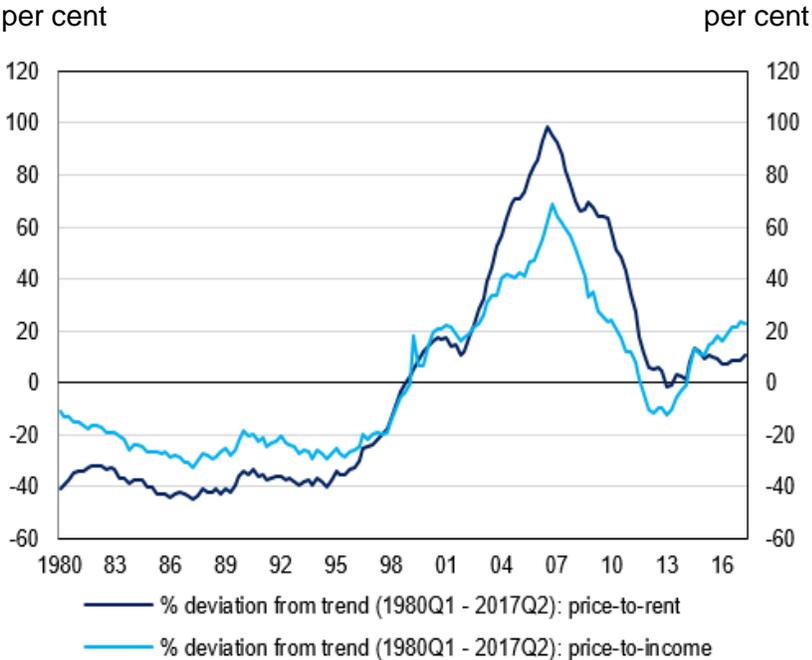


Source: CSO RPII (Average Total Price) and Central Bank of Ireland Monitoring Templates Data (Mortgage-Financed Price).

Note: Average (all transactions) price is not based on a hedonic price index. Mortgage financed price series is based on Average collateral value for in-scope PDH loans on new property purchases during each time period, where no outliers have been removed. Data excludes self-builds.

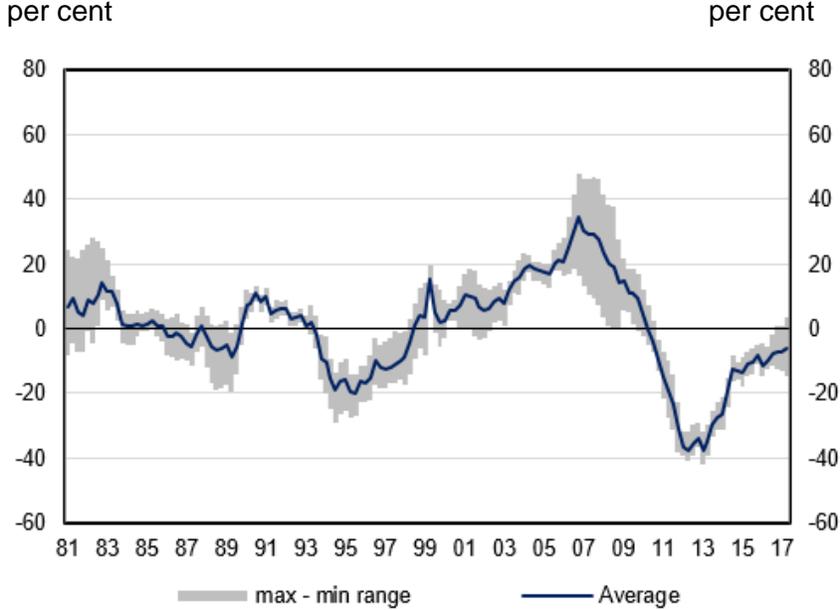
# Property price levels in-line with economic fundamentals, but careful monitoring required given expected and potential paths of supply and demand factors

**Deviation of house price-to-rent & house price-to-income indices from long run average values**



Source: CSO and Central Bank of Ireland calculations

**Model based measure of Irish house price misalignment**



Source: Central Bank of Ireland calculations



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# Overview of H1 2017 lending by banks reporting Monitoring Templates

	Total Value	No. Loans	% Value		
			H1 2017	H1 2016	2016
<b>Total Lending</b>	<b>3,054</b>	<b>14,997</b>	<b>100</b>	<b>100</b>	<b>100</b>
In-Scope Lending*	2,826	13,940	93	93	92
of which:					
<b>PDH Lending</b>	<b>2,736</b>	<b>13,237</b>	<b>97</b>	<b>96</b>	<b>97</b>
FTB Lending	1,443	7,210	53	51	51
of which FTB over LTV Cap	6	30	0.4	8	9
SSB Lending	1,293	6,027	47	49	49
of which SSB over LTV Cap	255	884	20	14	15
<b>PDH Lending LTI **</b>					
FTB Lending	1,443	7,210	52	51	50
of which FTB over LTI Cap	350	1,336	24	16	18
SSB Lending ***	1,327	6,198	48	49	50
of which SSB over LTI Cap	137	506	10	7	8
<b>BTL Lending</b>	<b>90</b>	<b>703</b>	<b>3</b>	<b>4</b>	<b>3</b>
BTL over LTV Cap	2	11	2	2	2
<b>Exempt from Regulations</b>	<b>227</b>	<b>1,057</b>	<b>7</b>	<b>7</b>	<b>8</b>

Source: Central Bank Monitoring Templates Data. \* This figure excludes negative equity loans which are in-scope for LTI purposes only.

\*\* Total PDH loans (FTB + SSB) over the LTI allowance were 18 per cent in H1 2017.

\*\*\* Includes negative equity loans in-scope for LTI allowances.



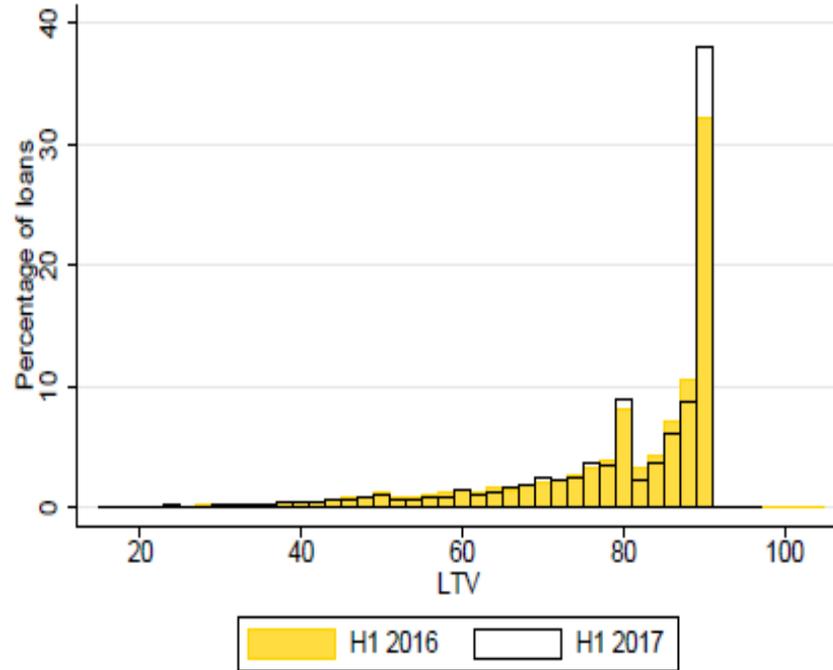
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# Marginal shift upwards in FTB LTV and LTI distribution, with clustering at the limits remaining common to post-implementation period.

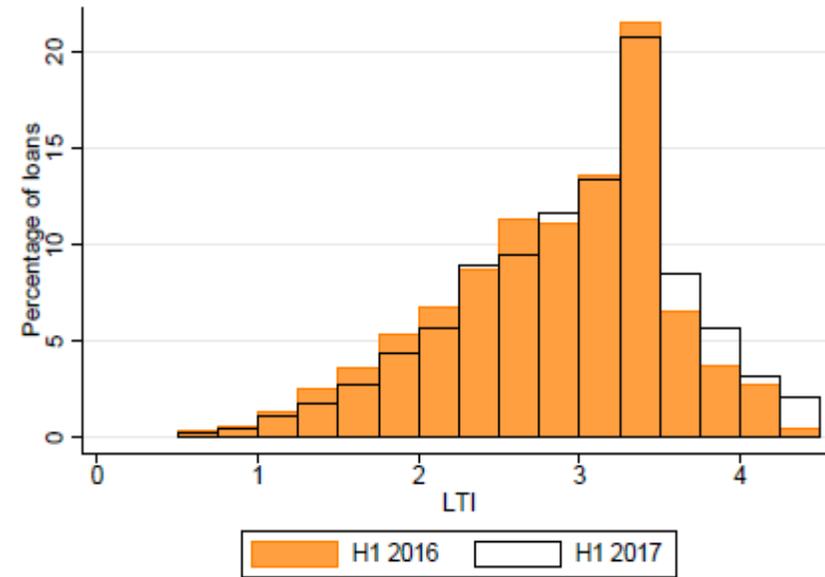
### FTB – LTV H1 2016 vs H1 2017

Percentage of loans



### FTB – LTI H1 2016 vs H1 2017

Percentage of loans



Source: Monitoring template data. Excluding observations at 1<sup>st</sup> & 99<sup>th</sup> percentiles. In-scope new property purchases & self-builds only

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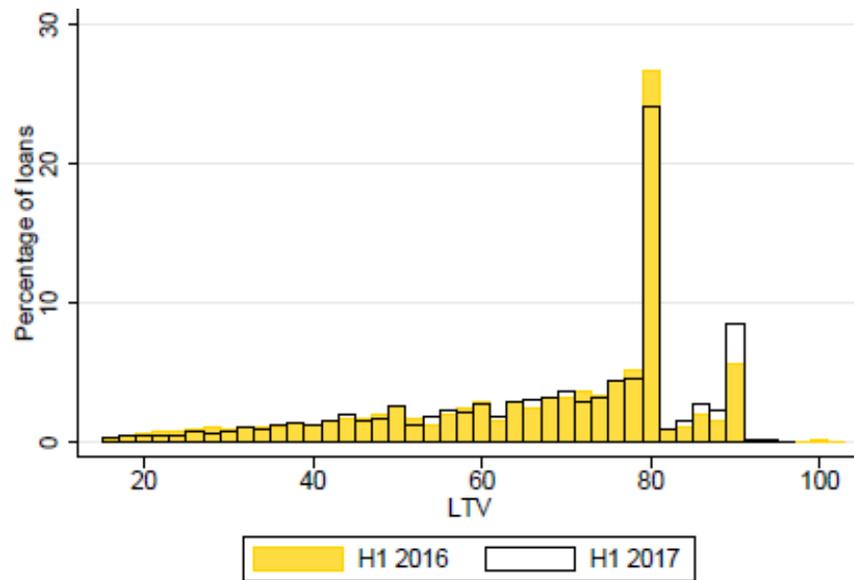
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# Similar upward shift in LTV and LTI distribution for SSBs

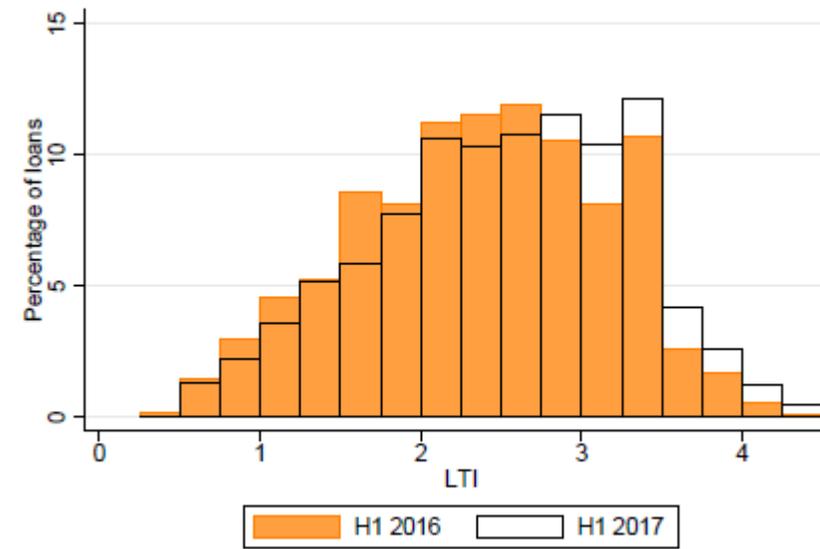
## SSB – LTV H1 2016 vs H1 2017

Percentage of loans



## SSB – LTI H1 2016 vs H1 2017

Percentage of loans



Source: Monitoring template data. Excluding observations at 1<sup>st</sup> & 99<sup>th</sup> percentiles. In-scope new property purchases & self-builds only

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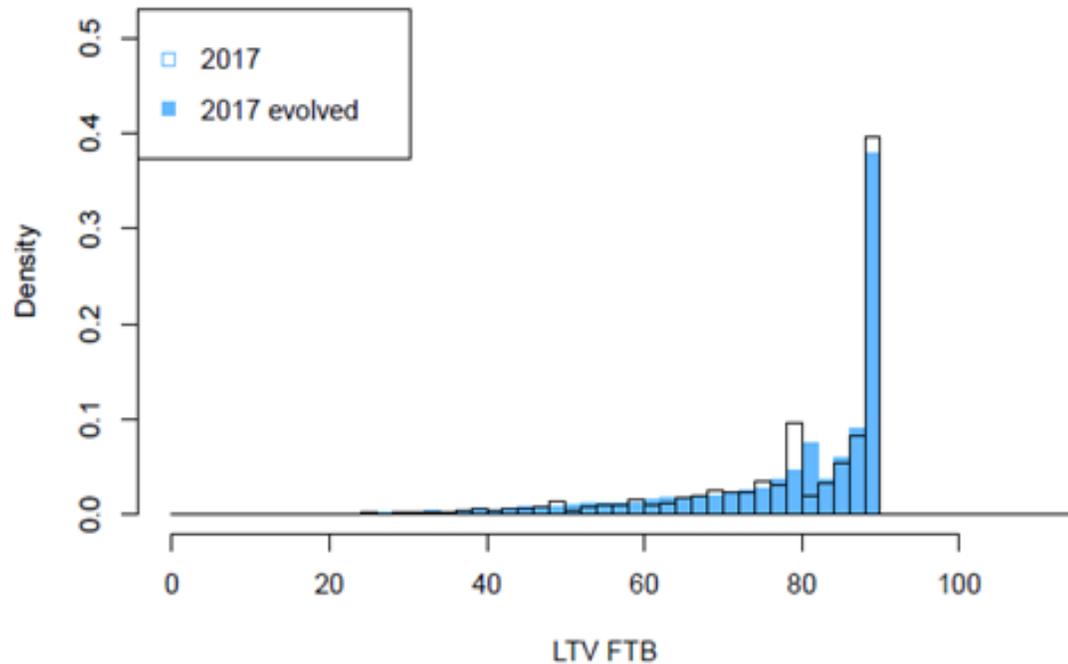


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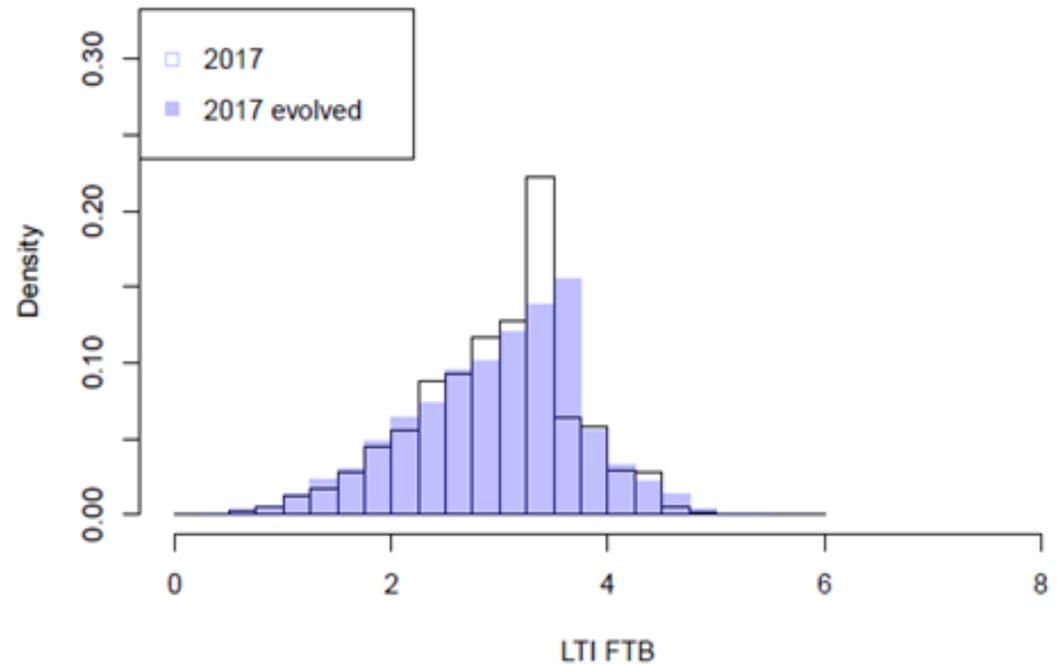
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# H1 2017 FTB LTV and LTI patterns in-line with what would be expected given market developments

H1 2017 observed vs H1 2017 evolved



H1 2017 observed vs H1 2017 evolved



Source: Box E1 of *2017 Review*. H1 2017 evolved distribution based on applying regional growth rates of income over H1 2016 to H1 2017 to H1 2016 Monitoring Template (MT) data on incomes and deposits, and similar regional house price growth over the period to H1 2016 MT data.



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# Technical amendment – collateral valuation

- Clarifies the value of the collateral in the case of all mortgages issued for construction purposes.
- At the time of entering a loan agreement, when calculating the value of the collateral lenders will be required to take the lower of
  - The estimated market value of the property after completion of all works, or
  - The sum of the site cost plus the cost of works, as estimated at the time of entering into the loan agreement.
- By taking the lowest available valuation estimate, a more prudent perspective on borrower LTV is achieved.
- We are satisfied that this reflects the dominant practice in the market at the moment, with the amendment being made to ensure that the prudent practice is continued into the future.



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# APPENDIX



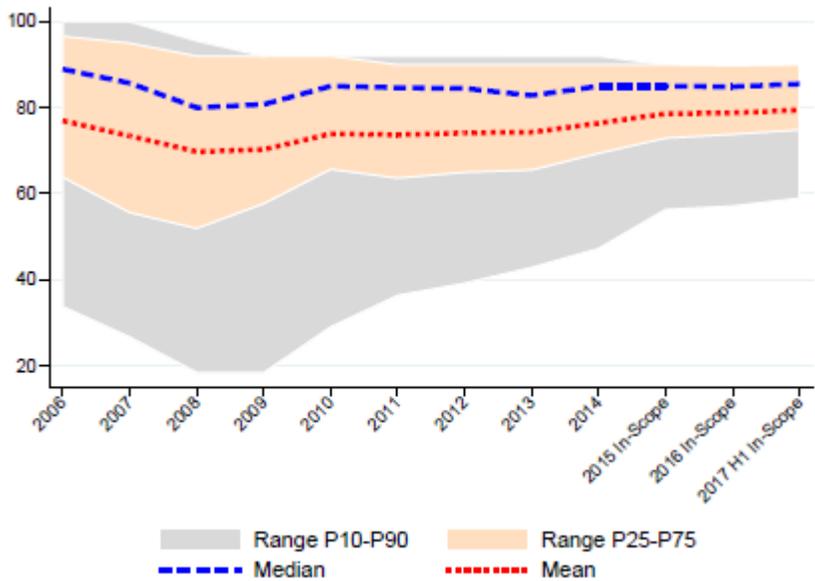
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# Very little change in average LTV ratios, and compression at upper end relative to before the measures has remained

## FTB LTV

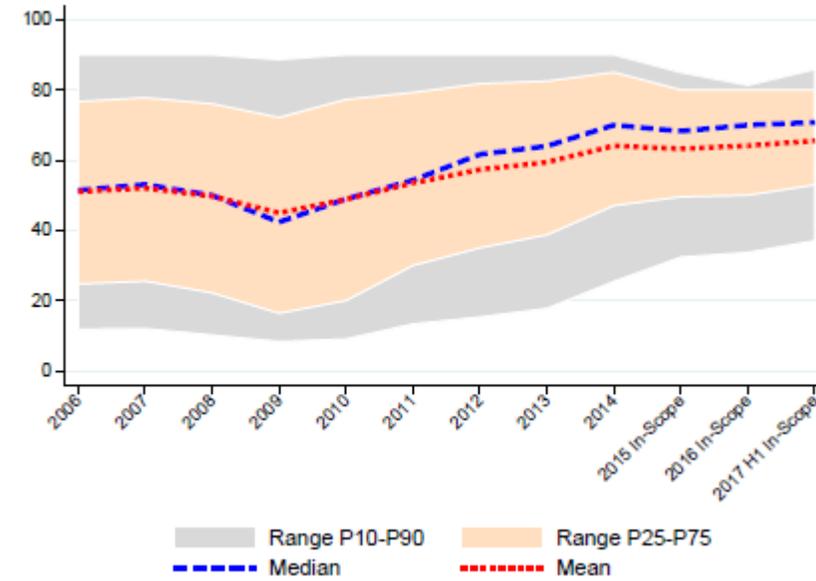
Per cent



Source: Authors calculation combining Central Bank of Ireland Loan-Level-Data and Monitoring Template Data

## SSB LTV

per cent



Source: Authors calculation combining Central Bank of Ireland Loan-Level-Data and Monitoring Template Data



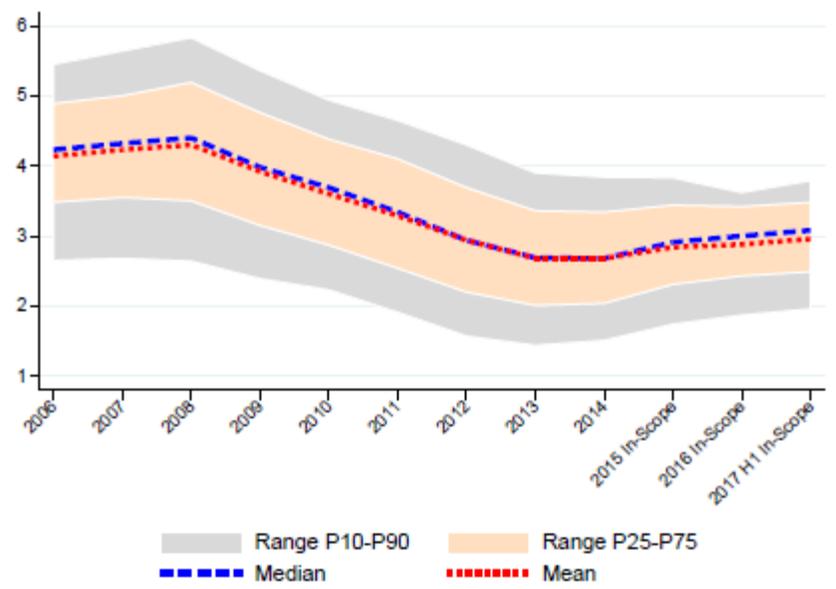
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# A similar pattern evident for average LTI ratios

## FTB LTI

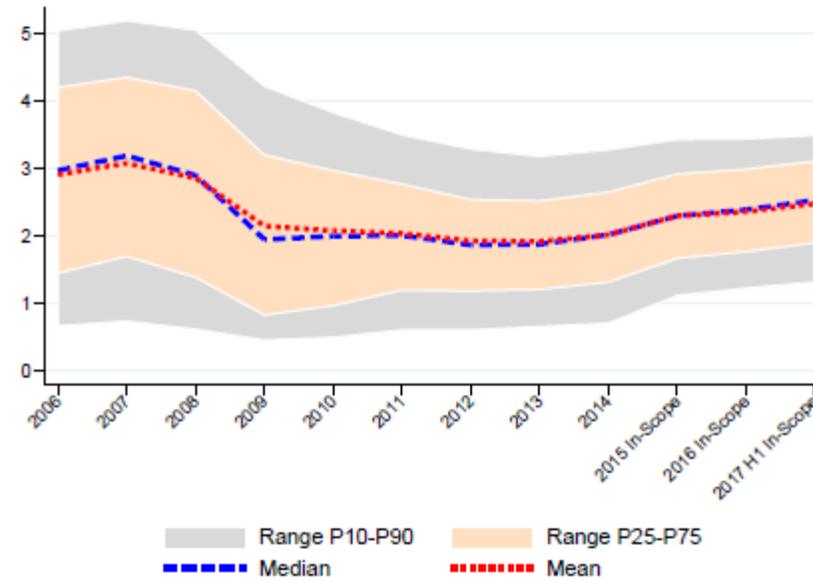
Per cent



Source: Authors calculation combining Central Bank of Ireland Loan-Level-Data and Monitoring Template Data

## SSB LTI

per cent



Source: Authors calculation combining Central Bank of Ireland Loan-Level-Data and Monitoring Template Data



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