Press conference on the Review of the Macroprudential Measures 2016

Philip Lane – Central Bank Governor:

Good afternoon everyone. The Central Bank Commission met today to conclude its consideration of the review of the Mortgage Measures. The Bank introduced these measures in February 2015 as part of our role as that national macroprudential authority for Ireland. And our mission is to safeguard stability and protect consumers.

Macro prudential policy is about limiting risk to the financial system as a whole. The mortgage measures are important in achieving this objective. Every person has a stake in this. The mortgage measures are designed to ensure borrower resilience, but they are also designed to ensure banks lend sensibly and that excess credit does not build up within the Irish financial system. In other words, the measures serve a wider purpose: To guard against another credit-fuelled crisis.

The bank first introduced the measures in February 2015. We made clear at the time that they would be assessed on a regular basis, but that, given their importance, they would need to be firm evidence for any changes. Today's review is based on a wide ranging analysis by the staff of the Central Bank. And has benefited from the approximately fifty external submissions we received from our public consultation process over the summer.

Overall, the review has confirmed that the Mortgage Measures have been successfully implemented. The banks are operating within the measures, leading to sensible lending patterns, which in turn are contributing to financial stability. So the overall framework is appropriate.

The evidence shows that the Probability of Default for mortgages taken out under the measures is lower. Put simply those who bought properties under the measures are better prepared to manage their mortgage payments in the event of a future downturn in the economy or in the housing market.

The framework requires borrowers to satisfy two requirements. First, a household can borrow a maximum of three and a half times its gross annual income - known as the loan to income or LTI ratio. This anchor remains firmly in place, and is key to ensuring that mortgage commitments are not too high relative to income levels. Second, a household must provide a sufficient deposit to ensure that the ratio to mortgage loan to the value of the house, the loan to value or LTV ratio, is not too high. Excessively high LTV ratios fail to provide sufficient insulation in the event of a downturn in house prices. Pushing borrowers into negative equity and raising default risk.

Today we are announcing some limited refinements to improve the effectiveness and sustainability of the loan to value regulations. In order to ensure a more durable framework for the long-term, all First Time Buyers will now be required to provide a minimum deposit of 10 per cent of the value of the property, that is, the loan to value ceiling is set at 90 per cent. This replaces the current system whereby a deposit of ten per cent was required on the first €220,000 of the price of a property and twenty percent on the balance above that level.

The requirement for Second and Subsequent Buyers to provide a minimum deposit of 20 percent, that is a loan to value ratio of 80 percent, remains unchanged. The Buy to Let regulations are also unchanged, requiring investors to raise a 30 per cent minimum deposit.

The change for first time buyers is motivated by two main factors. First the current system is complex and would require regular updating. Given that, the economic and financial impact of the €220,000 threshold wouldn't necessarily shift in line with the evolution of incomes, house prices and other factors.

Under the new systems, the measures should require adjustments only if wider macro-financial conditions, such as material shifts in credit patterns or financial stability conditions warrant revisions.

As an illustration of the impact of this shift the simplification shifts the loan to value ratio for a €330,000 mortgage, the ceiling on the loan to value ratio from 87.3 per cent under the previous system to 90 per cent.

The second reason is that there was evidence at the time of the introduction of the measures showing that First Time Buyers defaulted less than Second and Subsequent Buyers, and with a differential in default probabilities, especially strong in the case of lower value properties. However, as we've expanded and updated the data set to include more recent data, the differential in default probabilities is no longer weaker for higher valued homes than for lower valued homes, eliminating an important justification for the current asymmetric treatment of lower valued and higher valued properties in the loan to value regulations for First Time Buyers.

Now, in connection with that refinement, we are also altering the degree to which lenders can grant loans in excess of the LTV limits. Providing some capacity to lend in excess of the loan to value limits allows banks to take into account the specific circumstances of individual borrowers, which sometimes may justify a higher LTV ratio. So under the proposed new system there would be separate allowances for First Time Buyers and Second and Subsequent Buyers.

For Second and Subsequent Buyers 20 per cent of the value of new lending will be allowed above the 80 per cent LTV limit. While just 5 per cent of the value of new lending to first time buyers will be allowed above this cohort's 90 per cent LTV limit

Separate allowances for the two groups will ensure that there is not excessive lending above the limits to either cohort. And in the long term it will give the bank flexibility to adjust these specific limits in a calibrated way if threats to financial stability emerge.

The 20 per cent allowance for banks to lend in excess of the LTI ceiling remains unchanged. Finally, we have also decided to extend the current valuation period from 2 months to 4 months. To take account of the fact that some sales can take longer than the average of 3 months.

Now, it is critically important to appreciate that our framework sets limits or ceilings on the size of mortgages. The LTI and LTV ratios are not targets but ceilings. In buying a home, households should take into account the risk protections offered by higher deposits, so going beyond the minimum deposit, meaning that they have less reliance on mortgage debt.

Equally, lenders should assess the loan-bearing capacity of each mortgage customer and restrict the size of the mortgage if indicated by their credit risk analysis.

Today's revisions do raise the maximum loan size for First Time Buyers seeking to buy homes above €220,000 in value. However, it is important to bear in mind several contextual factors.

First, borrowers also had to satisfy the LTI requirement. For many households this will limit the capacity to increase their mortgage size.

Second, under the current system a significant fraction of First Time Buyers in this category were receiving allowances. Such that the actual LTV ratios were not far below the ninety percent new limit.

Third, many first time buyers after mortgage loans below this ceiling. So even under the current system 73 per cent of First Time Buyers above €220,000 had put down a deposit in excess of the minimum. So these are minimums, they are not typical or recommended levels.

Fourth, to the extent that revisions lead to an increase in aggregate mortgage credit volumes, this should be interpreted in the context of the subdued level of lending in the aftermath of the crisis.

Fifth our framework is designed to avoid spiral dynamics between house prices and credit volumes. Since the mortgage measures were initially flagged in late 2014 there has been a sharp moderation in expectations for annual gains on house prices. It is widely understood that a persistently high rate of increase in house prices are not likely in a system in which measures place ceilings on LTI and LTV ratios. Moreover, our macroprudential regulations can be tightened if there is emerging evidence of elevated risks in the mortgage market.

Let me also point out that the fact that we're now restricting the allowances for First Time Buyers to only 5 per cent of new loans. Is also relevant in assessing the impact of this measure.

Finally let me also highlight that many factors influence the dynamics of house prices. While rising incomes, as we currently observe, typically might support some gain in house prices, the prospect of future expansion in housing supply and tightening in the global funding conditions for lenders are significant factors that may place downward pressure on house prices over the medium term.

Now, the more important point is that the range of uncertainty about the future path of house prices is an important risk factor that motivates the need for ceilings on LTI and LTV ratios. These refinements will improve the design of the framework and will take effect from January 1 2017.

Looking to the future the revised framework should require adjustments only if there are material changes in the macro financial environment that require a tightening of loosening of the measures. It is important to appreciate that saving a deposit for a house is a basic

requirement that ensures better long term outcomes. Both for the borrower and the lender. In terms of more affordable mortgages and lower credit risk. Everybody gains from the prudent borrowing and lending patterns that are essential for stable financial system. Our mortgage measures are designed to deliver this objective. Thank you.

Charlie Weston – Irish Independent:

Governor, did you bow to political pressure here? I mean obviously the help-to-buy scheme was very much aimed at undermining these deposit restrictions. Is this a sign that you've buckled here?

Governor Lane:

Let me make a few comments on that. Two sets of questions there. One is of course the Central Bank is independent and we value that independence very much. And I, as Governor, have a special responsibility in terms of preserving the independence of the bank. So as part of our consultation process the Department of Finance made a submission. Various political parties and various individual politicians made submissions. And we're releasing all of these submissions on the website.

So these submissions from all quarters were taken seriously. There's a feedback statement from the staff on the Central Bank website. So the political system made submissions in line with our requests and they were taken as seriously and in the same way as all other submissions.

The second comment you have I think is not my interpretation of help-to-buy. Help-to-buy is in order to allow those who qualify to fulfil our conditions. If those who qualify for the tax rebate, it's in order to allow them to meet our conditions for a 10 per cent minimum deposit. And in many cases I would hope that it allows someone who is targeting a higher deposit to add yet more to their deposit and reduce reliance on mortgage debt. So in no sense do I interpret the help-to-buy as an escape from our rules, it's in order to help people to satisfy our rules.

David Murphy – RTE:

Governor one of the main criticisms of the mortgage rules, as they were, came from the ESRI and it said that the mortgage rules effectively limited the supply of new housing at a time when there's a homelessness crisis. How do you respond to that criticism, particularly in view of the fact that the adjustment you have made here is really a relatively small adjustment in comparison to what you could have done?

Governor Lane:

I think, in fairness to the ESRI, and I hope I'm interpreting their work correctly, is they find the impact of mortgage finance conditions on supply is relatively small in the grand scheme of things, that there are many factors influencing the supply of housing and there is a housing strategy developed by the government to work on the many factors behind the supply issues.

So of course in any supply-demand situation the supply may respond to some degree to movements in the availability of credit and the availability of pricing. But the strength of that compared to many other factors influencing supply is, I think, relatively limited. I should also say the development of extra supply has to be in the context of sound financing. It cannot be at the price of putting financial stability at risk or putting the financial demands on households at risk.

So our measures are essentially designed to provide enough insulation so that households and lenders have some level of protection from downturns. You know the full impact of our measures will really only come into play the next time there's a downturn in the economy. Or downturn in house prices. And that's what we have to guard against.

Ciaran Hancock – Irish Times:

Governor two questions. One I just wonder what impact you think your small adjustment in terms of the macroprudential rules, coupled with the help-to-buy scheme that the government is introducing, what impact they might have on house prices next year, let's say. And secondly I'm just wondering on your view of the capacity of the banks to increase their lending for mortgages. In the next year or two. If demand increases, if supply increases etc. do they actually have the head room to do that in your opinion.

Governor Lane:

So on the first question, in the statement I went through, I think there's quite a number of reasons why the impact of this measure should be relatively limited. First and foremost, we've a belt and braces approach. We have the loan to income ceiling as well. So essentially what I've indicated and it's in the review is 73 percent of borrowers above €220,000, have a deposit larger than the minimum. In part that's because the 3.5 times income LTI ceiling means that to buy the house someone wants to buy, they need to raise a bigger deposit because their income, 3.5 times their income, will not be big enough to hit that target.

So that's number one. People should remember the LTV ratios we have are in parallel to the loan to income ratio. I have already said that many have raised more than the minimum deposit. And also in the other direction as a matter of fact there's quite a number of people have above €220,000 were availing of our limited allowances. So quite a lot of them were actually quite close to the 90 per cent anyway.

So all of that would say the direct impact of this, there will be more capacity to raise mortgage debt above €220,000. but I think in a reasonably limited way. Then I think it's very important when you think about house prices, all sorts of factors are going on. I think the dominant factor is the economy is growing. Remember the economy is growing, unemployment is coming down. There's more signs of rising incomes. So we have, there's many economic letters coming out saying, giving the detailed analysis and of course the core fundamental driver of house prices, is the level of income.

So what we will be keeping track of is the interaction. What we saw in the mid-2000s and what we vowed to avoid in the future is the interaction where a certain credit raises house prices above where they could be justified by fundamentals. And we will be keeping track of that. If we see there's a material shift so that the trajectory of house prices in combination with the trajectory of credit, is raising red flags, we can tighten these requirements.

Deputy Governor Roux:

Our banks are now well capitalised. I think this is credit to the work done and to the effort of the Irish people. And so there is some room there. Capital requirements are evolving anyway. They're evolving as we speak. Today the European Commission is unveiling a revision of the regulation of banks, of the so-called CRD, a directive and CRR, the regulation. And so exactly what capital requirements and what proportion of capital you need for lending out mortgages will be revised and we'll know more in the months to come. So I'd say the Irish banks are adequately placed to meet the demand.

Governor Lane:

Let me reemphasise, our framework is setting a framework of ceilings. The banks need to work out for themselves what, in each individual case, they are willing to lend. So our framework does not remove the responsibility from the banks in order to make prudent lending decisions. And let me reemphasise what I also said in the statement, is it also does not remove the responsibility from households to really take a hard look at their own finances. So these are ceilings, we're not recommending people go to 90 per cent for first time buyers. We're not recommending that you stretch at 3.5 times income. These are ceilings and individuals know their own circumstances best. And I think in many cases we already see, I think an interesting feature of the work we did is just basically in many cases people do apply a much larger deposit than the minimum which is going to be a wise strategy in many cases.

Eamon Quinn – Irish Examiner:

If house prices do rise by more than 10 per cent on that trajectory, will we be back next year hearing another tweaking of these rules?

Governor Lane:

The commitment is to an annual review. So I would expect you will be back here one year from now because it's important to have an annual review. What I think is, the review next year will focus on the macro-financial conditions. We've gone through a big exercise this year to assess whether the operation of the framework makes sense. I think we need a run of the 2017 data to do a review of the framework. So the review of how the banks are operating and so on. The detailed review of that I think will be in 2018.

But in November next year we will proactively make a call on whether there's been a material change in the macro-financial conditions. This you should remember, we already, on a quarterly basis, have to review credit conditions in the economy. Because we also have another instrument called the countercyclical capital buffer. Which by law we have to review every quarter.

So we are all the time looking at credit conditions in the economy. We have a model of house prices and we now have a range of instruments here within this framework tightening allowances, altering the ratios... Which we can do if we see there's an issue.

So I think it's very important to have the annual frequency. That you don't let conditions drift. So we will be back here next year but as I say the assessment next year will be of the macro-financial conditions rather than for any adjustment in these parameters. The full scale framework review we'll do in 2018.

Eamonn Quinn:

And in that model what have you got for house price rises next year?

Governor Lane:

It's not a forecasting model. Because by and large these models look at the evolution of indicators such as income, income per capita… Also looking at indicators such as the level of interest rates. You might also think about employment and so on. So we have to assess what's going on. How are those conditions changing? How is the volume of credit changing? Because our core concern is the interaction between credit and house prices. So there's a range of factors there which we will look at. But it's not a forecasting exercise. It's assessing as we go along. Does what we see in house prices align with what we see in these other fundamental factors.

Fiachra Ó Cionnaith – Irish Examiner:

Just three quick questions if I can Governor. Firstly just I'm a little curious on this. You're saying that so salaries are increasing, that this previous system in place helped to allow for economic stability. So if that's the case and if you didn't come under pressure from government to change the system, why exactly did you change the system? Secondly in terms of the governments help to buy scheme, which came up earlier. Is there still a need for that help to buy scheme to be in place? Or does it need to be altered in light of the announcements today. And then thirdly just I know this whole issue is going to be reviewed as you're saying to Eamon, but is there a risk that house prices may increase in the short term on the back of people being able to have, to receive more money from banks?

Governor Lane:

Ok, so in the statement I went through two primary reasons for the change. Number one is our assessment is the current system is complex and would require frequent adjustment because the meaning of €220,000 in the housing market obviously changes over time. As incomes go up and as changes in the typical house prices change. So if we keep the current system we would have to move that number somehow. So either I would have been announcing now we move from €220,000 to something else.

But then next year we'd have to go through the whole exercise again. You know it would be continually moving. And then the question is if you see house prices go up, do you raise that threshold or do you cut it. You know and there's other ways to respond to movements in house prices. So I think the new system will be cleaner, can deliver the same outcomes in a kind of easier, simpler way. So that's kind of a design issue.

And just by the way I think one interesting number is the median house price in Dublin in 2013 was €220,000. So there's a match there. The median house price today in Dublin is around €280,000. So the meaning of €220,000 today compared to three years ago is quite different. That's one reason, just a design.

Second is one factor to treat higher and lower valued homes differently was potentially a difference in default behaviour. With updated data, again we're a kind of data driven organisation. When you look at the difference in default probabilities between first time buyers and second time buyers. Back when the first measures came in, it looked like the difference in default probability between second and first time buyers was bigger at lower valued homes. So you would treat the lower valued homes differently. Now that's not true in the updated data. So again in response to the fact that there isn't a difference in default probabilities in the same way, the second motivating factor to change.

And third is really just the practicalities is for the various reasons I've given you, the fact that you know many people are above that minimum deposit and so on. We don't think it's going to have a gigantic impact.

On help to buy, first of all today there's no change to the regime for first buyers for homes below two hundred and twenty thousand. So there's no change there. And then above that there is this change. But help to buy is ultimately about helping, it's a governmental strategy to help those who qualify to meet our conditions. And that is you know I think part of the range of options facing the government. It's helping individuals to meet our rules. So it doesn't directly I think interact with us, with our framework.

So as I indicted the circumstances under which there's a clear interaction between house prices and credit conditions is when you see the feedback. When you see rising house prices, encouraging more speculation, for existing home owners rising house prices mean rising equity levels, encouraging some to trade up on a speculative basis. That is not the current condition of the market. So house prices rising of falling is not a metric to evaluate these rules. Because I have indicated there are natural reasons why house prices might go up. Because of rising income levels in particular, rising employment and so on.

I am also signalling, I can think of many reasons why house prices can fall, if there's a reversal in economic conditions. So we're not trying to determine house prices. But what we are very minded and conscious of is if we see that there's a perverse, unwelcome interaction between excessively rapid lending and excessively rapid increases in house prices. then we can intervene.

But by the way for those who are minded to speculate. They understand this, they understand that the rules are now such that if there is you know rapid increase in house prices there will be a Central Bank response. And one of the real fundamental key effects of the introduction of this framework was the moderation expectations. So relative to 2014 after these initial framework was introduced, it became clear to everyone that there was a system whereby there would be year on year on year double digit increases in house prices, would not be very likely under this scenario. You know, unless we see double-digit increases in income levels and so on.

Vincent Boland:

Just to clarify something, the measures that you're announcing today are not going to reduce the cost of house pricesprices. So can I just clarify two things with you, one is does the bank think that house prices in Dublin in particular in 2016 are fairly valued, undervalued, or overvalued? You know the European Central Bank appears to think that they are relatively undervalued.

Governor Lane:

The European Commission I think.

Vincent Boland:

Sorry commission, I beg your pardon, yes sorry. So the second point is will it, from the first of January next year will the cost, will first time buyers be able to afford to buy a house from next year in the way that they can this year?

Governor Lane:

I think there's several levels to your question. One is part of what we do here is run a kind of fundamentals analysis of house prices and that is being released this afternoon. So you can see from that modelling work, house prices are in the neighbourhood of fundamentals. We don't see evidence that they're over valued compared to fundamentals.

I think in the Irish economy it's really important to be aware that fundamentals can change course. So because prices are at more or less in the neighbourhood of fundamentals does to rule our house prices falling next year. Because the fundamentals could decline. You could see a fall in incomes for all sorts of reasons.

So it's important not to take too much reassurance from the fact that house prices are in the neighbourhood of model estimates of fundamentals because those fundamentals could change. I think behind your question is the more general question about affordability. And this is I think the governmental strategy is there's a general recognition that I think where everyone wants to end up is a situation where there's a sufficient supply of affordable housing, social housing, there's a well-functioning rental market for those who choose to rent rather than to buy. And that house prices are in line with fundamentals. That's essentially I think where everyone would like to get to.

And there are various initiatives to increase housing supply in the coming years. You know so I think the situation will change over time. Maybe another way of saying this is I'd reiterate that point which is in my statement, which is as more housing supply comes on stream, you know in the grand scheme of things that's going to put downward pressure on house prices. So buying today, people should work out what their risk appetite is.

Some forces may indicate house prices will continue to rise because of rising income levels. But other forces, whether recession threats, or because of increased supply could put downward pressure on house prices. So it's very important for people to take the appropriate risk assessment. And equally for banks, you know banks have the responsibility. So our framework is as a ceiling-type framework, where within those ceilings both the applicant and the bank need to make their own risk assessments

Niall Brady – the Sunday Times:

Yeah I'm just wondering in the context of what are we to read into the fact that lenders haven't been using the exemptions, the existing exemptions they have to the full extent. I mean, what does that tell us about the rules as they've existed up to now?

Governor Lane:

So I think there are a number of different factors. One is if you sub-analyse the use of allowances - the use of allowances for Second and Subsequent Buyers is running, I think, around 17 per cent. Because remember it's the 15 per cent, at the moment it's 15 per cent of the total loan book. So roughly half of purchasers are First Time Buyers. Half of purchasers are second-time buyers. So that 15 per cent for the total could mean up to 30 per cent being applied to second time buyers or 30 per cent being applied to First Time Buyers.

So one reason why we're splitting the allowances is to have greater control. Because they're essentially quite different segments of the housing market. So the 20 per cent for second time buyers, partly is banks do want to leave some buffer. Because they don't want to violate the regulations. So there will always be some buffer by which they, you know don't go all the way to the ceiling.

Second is I do recognise with rising house prices there's a category that we have to keep in mind, which is people in negative equity are exempt from our rules. But as house prices go up and as people save their way out of negative equity, there's going to be cohorts now who have existing homes where the loan to value ratio is now below one hundred percent. And so going from below one hundred percent to eighty which is the requirement, allowing a little bit of wiggle room by moving the allowances to 20 per cent for second time buyers. Is partly recognising there are very special cases including that special case of people coming out of negative equity.

But in the end it's up to banks to make the assessment. Again, if risk goes up they may opt not to use a lot of the allowances and that is essentially a commercial decision. Again we're not recommending, we're providing a ceilings framework and within that framework banks have to make their credit decisions.

Emma Kennedy – Sunday Business Post:

Just a quick question in relation to stability in the market, there was a sense when the rules were introduced, we saw people try to get in ahead of them. Then we had people waiting, maybe holding off until the point of review. When you now have a kind of a regular interval of which the rules could change. Do you think that's going to create an unstable market?

Governor Lane:

I think it's really, it's a fact of life that we are, you have to balance. I agree there is a lot of value to having stable rules. On the other hand, the world can move quite quickly. So we saw in the mid-2000s, 2003 into 2004 into 2005 the world moving very quickly in terms of credit conditions. So I think an annual review is I think reasonable compromise between providing stability versus being responsive to world conditions.

I think we would take seriously that you cannot respond to every bump and wiggle in the conditions. So there would be I think a significant threshold effect before we change the framework. We recognise that model based estimates of fundamentals, model based estimates of safe credit growth. Are all going to be models estimated under uncertainty? But if we see a material threat to financial stability we would act.

I mean if you remember, I mean people always have to assess fixed rates versus variable rates. And the interest rate decision can change every six weeks. You know so people do have to live with some degree of uncertainty. But I would hope the main message from today is the framework by and large remains in place. We have made some, I would call limited changes but it's by and large remaining in place.

And for those who might have hoped that there was going to be some radical scaling back of the framework, that's not what we're saying. We're saying the framework has been implemented in a successful way. The true test of it will be in the next downturn. So it's insurance against future downturns. But the main message is this framework is here for the long term. There may be adjustments on the precise numbers over time. But the framework is really a permanent feature of the system.

Joe Brennan – Irish Times:

Just a quick question in terms of the submissions you received, any kind of big unintended consequences emerged in terms of submissions from the instruments that were brought in last year?

Governor Lane:

Let me first of all thank everyone who submitted. I mean I read them all and the staff read them all. And there were many interesting ideas. And I did take, I think we explored many avenues suggested by the submissions. Let me also mention for example. I think a group of people in the industry commissioned a survey from Behaviour and Attitudes. So there was quite an interesting survey about people who had not yet bought a home. About their attitudes and how the rules affected them. So I think there was plenty of interesting information and analysis. Which is what we had hoped to receive.

But by and large I think more or less everyone, I wouldn't say more or less everyone but I'd say the general consensus was we welcomed that the framework exists, here's specific tweaks to the system.

Juliette Gash – Today FM

Did you ever consider having geographical differences? So having different rules in Dublin and the rest of the country or in urban areas and rural areas.

Governor Lane:

Yeah so that's clearly one option and we retain that option for the future. New Zealand by the way have, that's what their strategy has been. So Auckland has been treated differently to the rest of New Zealand. Now of course there are significant downsides to that approach. For example just pushing demand into properties outside the geographical perimeter.

You know this is an option that we don't currently choose to use but in terms of the range of what is possible, geographic limits or geographically targeted policies, we reserve the option to use those in the future.

David Murphy – RTE:

Philip you mentioned the issue of incomes and rising incomes and the impact of that on the rules. Can you talk to us a little bit more about that and why rising incomes had an impact and in what way you looked at them and looked at what might happen in the future?

Governor Lane:

I think there's two important dimensions. One is of course many properties are bought by a couple. And with rising employment you have more couples with two incomes. So that's important. So you have house buying couples who now have a greater total income. And then second of course with some evidence now with the tightening labour market that more and more people will be receiving wage increases. Then of course the ability to afford a higher mortgage payment goes up.

So, you know, of course this is most obvious when you look at decade by decade trends in house prices. Of course house prices will go up as an economy gets richer. So it's a fundamental fact that house prices going up have to be assessed compared to what are the driving factors. Where disposable income and also total incomes in terms of total employment and so on matter for the evolution of house prices.

Over the longer term some of that would fade away because there would be also supply increase. As house prices go up, more building takes place and so on. But over, you know especially in built up cities like Dublin there's still going to be a trend increase of house prices if incomes go up. But I think it's really important, the main message you know for the Irish economy is the possibility of reversals. At any point in time you may not be able to pinpoint where the next recession is coming from. But we all have to live in a world where we know incomes can go up, but they can also go into reverse and that is essentially, you know, in the end this whole framework is built to make sure that the next downturn is less painful.

Ciaran Hancock – The Irish Times:

Governor there were many in the housing sector, builders and so on, construction industry people who wanted the loan to income ratio increased to the UK level of four and a half times from the current level of three and a half times. Just wondering why those calls fell on deaf ears?

Governor Lane:

I think it relates to what we just talked about there. That 3.5 times income I think is a robust measure which allows for the fact that essentially what if incomes fall. So 3.5 times incomes, you know can rapidly become 3.7 or 3.8 or 4 times income if the economy goes into recession. So you want a number which is robust to the fact that incomes may fall.

And, you know, I think it's fair to say for small economies like Ireland, highly open economies like Ireland, the range of possible outcomes for income is far wider than for the UK. You know we know we can grow more quickly and we know we can have bigger recessions. So if 4.5 is the number landed on in the UK, a significantly lower LTI ratio would be appropriate here.