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Association of Expert Mortgage Advisors

Submission on the Loan to Value and Loan to Income Regulations 2016

Denshaw House, 120 Lower Baggot Street, Dublin 2.

This document has been compiled by the Association of Expert Mortgage Advisors in response to the Economic Letter on Macro Prudential Measures and Irish Mortgage Lending: A Review of Recent Data, published 22nd July 2016.

The Association of Expert Mortgage Advisors represents a group of Financial Advisers who specialise in the area of mortgages. Our experienced and qualified members have practical and direct experience in assisting borrowers on a daily basis in obtaining the mortgage most suitable to their individual needs and requirements. Our members promote professional standards and are well regarded by both their clients and the lenders they transact business with. We strive to develop long-term relationships with our customers who, in turn, can rely on our independent advice in all aspects of their mortgage requirements, based on our substantial experience, expertise and knowledge. According to independent sources, we currently account for approximately 50% of all residential mortgage loans arranged by intermediaries.

Whilst welcoming and endorsing the introduction of any reasonable measures designed to protect the consumer and prevent a recurrence of the property crash and subsequent mortgage distress that occurred, the macro prudential measures as outlined in CP87 have had some unintended consequences.

The measures introduced will undoubtedly assist in the prevention of a repeat of the mortgage crisis experienced in Ireland and, in general, can only be only be viewed positively and are to be welcomed. Prudent lending practices and the capacity to withstand potential economic or property market shocks in the future are essential for Ireland's economic well-being. Such measures will undoubtedly contribute to a stable and well-functioning mortgage lending market. However, like many recently introduced rules, these may need to be adjusted, from time to time, to reflect a changing marketplace and deal with any unintentional consequences caused by the introduction of the rules.

In this instance, we believe the new measures have created a set of unintentional consequences including the following:

(i) Many home buyers are unable to purchase a home as a result of being required to save a 20 per cent deposit (currently estimated at €40,000 nationally and €60,000 in Dublin). As indicated by our survey, 35% of respondents spontaneously referenced deposit size as a negative influence (this is as many as mentioned "high prices"). Furthermore, 44% of FTBs referenced deposit size negatively.

(ii) Whilst undoubtedly property supply is an issue, rents have increased, and have exposed would be first time buyers financially and prevent them from being able to save for a large deposit. Many have been driven from the rental market creating an unwanted pressure on the requirement for social housing provision. Monthly rents are now almost 10% higher than they were a year ago. Recent Sherry Fitzgerald data suggested that the number of private landlords leaving the market greatly exceed the number joining the market.

(iii) Because of loan to value restrictions, cash buyers or those who can avail of large gift from generous families, will get more of an opportunity to purchase a home than others less fortunate, but equally deserving. Moreover, 42% of respondents in our survey confirmed that they will need to obtain monies from family members to be able to purchase a home. Some borrowers might be tempted to borrow a portion of the deposit required. We have already seen the disastrous consequences this can have on borrowers.

(iv) Planning for retirement is equally as important as saving for a deposit and purchasing a home. Having a requirement to save additional monies for a deposit is having a severe and negative impact on first time buyers who wish to commence contributing to a pension for retirement.

(v) The rule that valuations are valid for two months only is putting additional pressure and cost on the purchaser. In an environment of stable or increasing property prices this rule is unnecessary onerous in our opinion.

These unintended consequences are extremely important as our research enclosed indicates that 71% of both FTB's and movers are impacted by them, the vast majority negatively.

Is any of this equitable from a consumer perspective? Surely within our society it should be an attainable ambition for credit worthy, first time buyers to own their own home? These issues are particularly relevant in Dublin.

There are clear regional characteristics emerging in the property market. Dublin, urban areas and surrounding counties have very different trends to those of the rest of the country. This should be acknowledged when reviewing the requirements. As they stand currently the rules apply equally to the entire property market, regardless of grossly differing house prices and as such they discriminate disproportionately in large urban centres, particularly Dublin. According to the daft.ie House Price Report for Quarter 2, 2016, the average property prices in quarter 2, 2016 in Dublin were; City Centre €253,520, North Dublin €286,257, North County €268,361, West County €270,881, South County €517,719, South City €346,794.

Based on an average weekly wage for 2 people of €707.99 (CSO Statistical Review dated 26th May 2016), potential borrowers on a combined income of €73,630.96 can qualify for a mortgage of €257,708.36. This represents 80% Loan to Value mortgage based on the average purchase price in Dublin.

As part of the review process the AEMA came together with the following to prepare the enclosed research on the impact of the Central Banks macro-prudential lending rules on prospective mortgage-holders and home-buyers:

- Society of Chartered Surveyors Ireland
- Banking and Payments Federation
- Construction Industry Federation
- Lisney
- Irish Mortgage Brokers
- DNG
- Hooke and MacDonald
- IPAV
- Property Industry Ireland
- Irish Brokers Association

The poll of over 1,000 prospective home-owners was independently undertaken by Behaviours and Attitudes to help inform our collective opinion regarding the financial position of those affected by the macro-prudential rules, and is enclosed here to provide a sound evidential base on which to inform your own review.

Dermot O'Leary, chief economist at Goodbody Stockbrokers has examined the survey findings and has provided his own independent analysis of the results.

While each of these organisations have prepared their own submissions to you containing individual recommendations, there is a common consensus on the need for this review to result in the re-calibration of the mortgage lending rules, particularly the Loan to Value rules which are especially burdensome on first-time buyers in general, and in Dublin in particular.

We draw your attention to the results of the research which are set out on page six of the Behaviours and Attitudes research report, and we urge the Central Bank to have regard to these findings as you complete your review.

From an AEMA perspective and based on the information contained in this paper, we respectfully request that the Central Bank give due consideration to the following:

1. Increasing the threshold for 90% Loan to Value finance to a purchase price of €324,000 to reflect the average purchase price of a property in Dublin;
2. Allow those purchasers who are trading up, but who are in negative equity, to be able to avail of 90% Loan to Value finance. There is the presumption that those trading up have equity to contribute to the purchase, however this is not always the case;
3. Increase the Loan to Value threshold on buy to let mortgages to 75% to encourage private investors to return to the market and provide much needed rental accommodation;
4. The Loan to Income multiple to be increased to four times income to reflect increased average purchase price of property in Dublin.
5. We suggest that the initial valuation be valid for 6 months and that an additional valuation is required thereafter.

As a representative body of intermediaries and an industry stakeholder, we would welcome the opportunity to meet and discuss these points with you.

Yours sincerely,

Trevor Grant
Chairman
For and on behalf of The Association of Expert Mortgage Advisors