



Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Call for Evidence Based Submissions on the Loan-to-Value and Loan-to-Income Regulations

Please complete this form and return to mortgagesubmissions@centralbank.ie before **10 August 2016** along with any supporting documents.

Please note: It is the policy of the Central Bank of Ireland to publish all responses and such responses will be made available [on our website](#). Stakeholders should thus not include commercially-confidential information in responses and the Central Bank of Ireland accepts no liability whatsoever for the content of stakeholder responses that are subsequently published by the Central Bank of Ireland. We shall not publish any information which we deem personal, potentially libellous or defamatory.

Name:	Sarah Thatt-Foley
Organisation (if applicable):	Cork Chamber of Commerce
Submission Type (select one):	
Individual	
Political party	
Government department	
Banking industry	
Academic or research institution	
Consumer group	
Mortgage brokers and advisors	
Property and Construction Industry	
Mortgage Insurance Firm	
Other	X (Business Representative Organisation)
Does your submission relate to (select one):	
General comment	
Loan-to-Value (LTV) measure	
Loan-to-Income (LTI) measure	
Both LTV/LTI measures	
BTL component	
Other aspects of the Regulations	
All/Some of the Above	X
Evidence based submission (please attach any supporting documentation):	



Submission to the Central Bank re Review of Loan-to-Value and Loan-to-Income Regulations

Cork Chamber of Commerce is the leading business representation organisation in the South of Ireland, representing over 1,100 members employing over 100,000 people in the region. Cork Chamber has a mandate to influence policy at both a regional and national level to ensure a business environment and economic landscape that is conducive to the operations and needs of our members.

In the past two years Cork City and County has experienced strong economic growth. This growth has brought about numerous business expansions, new jobs announcements, increased investment into the region, and with that also increasing demand for housing.

Preliminary Census 2016 figures confirm that Cork is among the fastest growing areas in the country. Since 2011, the city's population has increased by 5.4% while the county population has increased by 4.5%. With more people, additional strain has been put on our housing supply across all three sectors: Social housing, rental properties, and homes for purchase.

Against this reality, Cork Chamber proposes some amendments to the loan-to-income (LTI) and loan-to-value (LTV) regulations introduced in February 2015. Now 18 months into existence, we believe that it is appropriate and necessary to adjust the mortgage rules to ensure that those who wish to and can afford to purchase/trade-up a home can do so without being forced out of the market due to overly stringent regulations, while at the same time continuing to protecting borrowers from taking on unsustainable levels of debt.

In parallel, Cork Chamber deems it necessary for this review to consider in broad terms the interrelation between mortgage requirements and the wider housing sector; specifically the delaying impact of higher deposit thresholds for First Time Buyers (FTBs) being able to purchase a home/obtain mortgage approval, thus adding additional strain on our already squeezed rental sector.

1. Introduction of Macro Prudential Mortgage Lending Restrictions

Cork Chamber recognises the importance of prudent lending and suitable regulation of Ireland's mortgage market. Not only does the introduction LTV and LTI regulations protect the resilience of our banks, it also protects home purchasers and investors from taking on onerous and unsustainable levels of debt. In connection herewith, we note how household debt by Q1 2016 has fallen to the lowest level (€31,216 per capita) since 2006, which indeed is a welcome achievement.

Yet, while macro prudential regulations are appropriate and serve desirable outcomes, it is important to also recognise that the simultaneous introduction of LTI and LTV regulations in February 2015 has had some unintended knock-on effects across the Irish housing market.

First and foremost, the new regulations have increased the deposit levels required to obtain a mortgage, meaning that prospective home-owners now have to save more in order to be approved for a loan. For the majority of First Time Buyers (FTBs), this translates into delaying plans to seek mortgage approval – in other words: remaining within the rental sector for a longer period of time. In this context, it is worth noting that the average age of FTBs in-scope of the new regulations is 33 years¹, an increase of four years since 2006. At the same time, it should be noted that in many areas of the country it is actually more expensive to rent a property than to buy. This is currently true for Cork where the average cost of renting a 3 bed in the city is €1,087 per month, whereas a mortgage for the same property only would be €834, i.e. 23% less.²

For Second and Subsequent Buyers (SSBs) new deposit requirements have had the same impact. As evident from the Central Bank's own data on mortgage lending, the average age of SSBs have increased by 1 year from 40 to 41 for lending in scope of the LTV and LTI regulations as they are holding on to their first time properties for a longer period of time.

Secondly, the introduction of LTV and particularly the 10% deposit requirement for FTB lending up to €220,000 and 20% above, has imposed a defacto cap on (or indicator of) the optimal price of a first time buyer property. Effectively, the new rules are signalling to the market that FTBs should target properties costing no more €220,000.

This defacto cap is highly significant, not least because the construction of new properties marketed at FTBs cannot feasibly be built at such cost. Evidence from Cork shows how the cost of constructing a typical three bedroom semi-detached property of 1,200 sq. ft. amounts to approximately €270,000 including VAT but excluding land costs.³ Effectively, the difference between the cost of build and the deposit threshold results in a viability gap of minimum €50,000 between what is signalled as appropriate by the mortgage market vis-à-vis actual construction costs. Until this gap is closed, developers will have little incentive to increase the supply of new FTB properties and excess demand will continue to trigger growing house prices.

Government's Housing Action Plan sets a target of delivering 25,000 additional houses per annum by 2020. However, as long as it remains difficult for both FTBs and SSBs to obtain mortgages, in particular raising the required deposits, builders will have little incentive or appetite to increase construction output. Cork Chamber therefore believes that it is appropriate for the Central Bank to give careful consideration to any knock-on effects on the supply stream that this and future reviews of the LTI and LTV requirements may have.

Thirdly, data from the Central Bank suggest that single individuals under the new rules largely are prevented from accessing a mortgage. Following the introduction of LTV and LTI regulations, the number of single FTB borrowers have decreased by 3.6% and it is clear that single individuals in particular rely on LTI allowances in order to be able to purchase a home.

In light of these effects, Cork Chamber considers it reasonable to adjust elements of the regulations to ensure that our mortgage market continues to be accessible to those who can and wish to

¹ Macprudential measures and Irish Mortgage Lending: A Review of Recent Data (2016) p. 9

² <http://www.daft.ie/report/q2-2016-daft-report-rental.pdf>

³ <http://www.corkchamber.ie/UserFiles/file/Rebalancing%20the%20Irish%20Housing%20Market%20-%20A%20Policy%20Paradigm.pdf>

purchase a home as well as to prevent additional strain being put on our already overstretched rental market.

2. Loan-to-Income Requirements

While income levels is a key determining factor of a mortgage applicant's ability to repay their loan, a track record of having paid rent should also be factored into whether or not a prospective home owner can comfortably afford to repay their mortgage.

In current market conditions, many renters will have paid more in rent than they will ever have to do for a mortgage for a similar type property. Cork Chamber believes that LTI requirements should be made more flexible to take into account payment records.

Furthermore, an LTI of 3.5 will in many cases prove insufficient for mortgage applicants in their early careers to be able to purchase a home in city environs. Recent figures confirm that house price inflation has been particularly strong in commuter areas such as Co. Meath, Co. Westmeath and Co. Kildare where house prices are lower than in Dublin City. To prevent further urban sprawl and to limit long commuting distances with negative impacts on both the environment, traffic congestion and work-life balance, we suggest that the LTI limit is increased in city areas in circumstances where applicants have a proven ability to pay market rents.

In respect of income, it is furthermore important to recognise that 'jobs for life' are becoming increasingly rare within the labour market. When assessing incomes, future earnings prospects based on an applicant's experience and educational background should also be taken into account rather than solely existing contracts.

Conclusively, the fact that up towards 90% of deposits may be granted in gifts defeats the purpose of having a deposit threshold. It is our view that savings ability should be granted greater consideration than the ability to raise funds from relatives, which otherwise risks creating a two-tier market in which only those with financial support from their families can aspire to become home owners.

3. Loan-to-Value Requirements

The threshold of €220,000 and the arrival at this figure for determination of deposit requirements appears arbitrary and fails to reflect current market conditions and the significant differences in house prices nationwide.

From data published by the Central Bank it is evident that the mean property value for FTBs in-scope of the new regulations is €234,559.⁴ At minimum, it would be appropriate to increase the deposit threshold to this level to reflect current market figures. Under current deposit requirements, a FTB would have to save a deposit of €24,900 in order to purchase a house valued at €234,599. If the minimum threshold was increased to match the mean FTB property value, the deposit requirement would be €23,400, or €1,500 less.

However, as noted above, the feasibility of new developments is well above the mean value presented in the Central Bank's mortgage lending data. In light of this, consideration should also be given to raising the deposit threshold to reflect the true cost of new builds. By doing so, the Central Bank will close the viability gap that currently discourages new construction and improve the ability of prospective borrowers to raise the high deposits currently required.

⁴ Macropprudential measures and Irish Mortgage Lending: A Review of Recent Data (2016) p. 9

Going forward, Cork Chamber deems it appropriate that the annual review of LTI and LTV regulations take into account mean FTB property values and the cost of new developments for the determination of appropriate deposit thresholds.

4. Recommendations

- The 10% deposit requirement up to a value of €220,000 has introduced a defacto cap on the optimal price of FTB. In addition, the €220,000 threshold has created a viability gap between the cost of development vis-à-vis price signals in the mortgage market. Until this gap is closed, developers will have little incentive to increase the supply of new FTB properties and excess demand for few available properties will continue to trigger growing house prices.
- Cork Chamber recommends that the 10% deposit threshold is increased to (at minimum) match the current mean value of a FTB property (€235,000). Further increases to the deposit requirements for buyers in city environs should also be considered to reflect the true cost of new starter homes which in Cork currently stands at minimum €270,000 excluding land costs.
- In determining a suitable LTI value, recognition should be given to track records of paying rent for private residential accommodation.
- The ability to save for a deposit should be given greater consideration than an applicant's ability to raise financial support from family members.
- Future earnings prospects based on an applicant's current employment and educational background should be taken into consideration for LTI purposes.
- Recognition should be given to the LTI and LTV requirements having had implications on the length of time that prospective FTBs remain in rented accommodation as saving for a deposit has become more difficult, thus increasing the amount of people remaining in rented accommodation for longer. Similar recognition should be given to SSBs staying in starter homes for longer due to the LTV requirement of 80%.