



**PIBA Submission on  
the Loan-to-Value and Loan-to-Income Regulations**

**AUGUST 2016**

## **Introduction**

The Professional Insurance Brokers Association (PIBA) is a representative body of Mortgage, Financial and Insurance Brokers. With over 860 member firms PIBA is the largest representative body for brokers in Ireland.

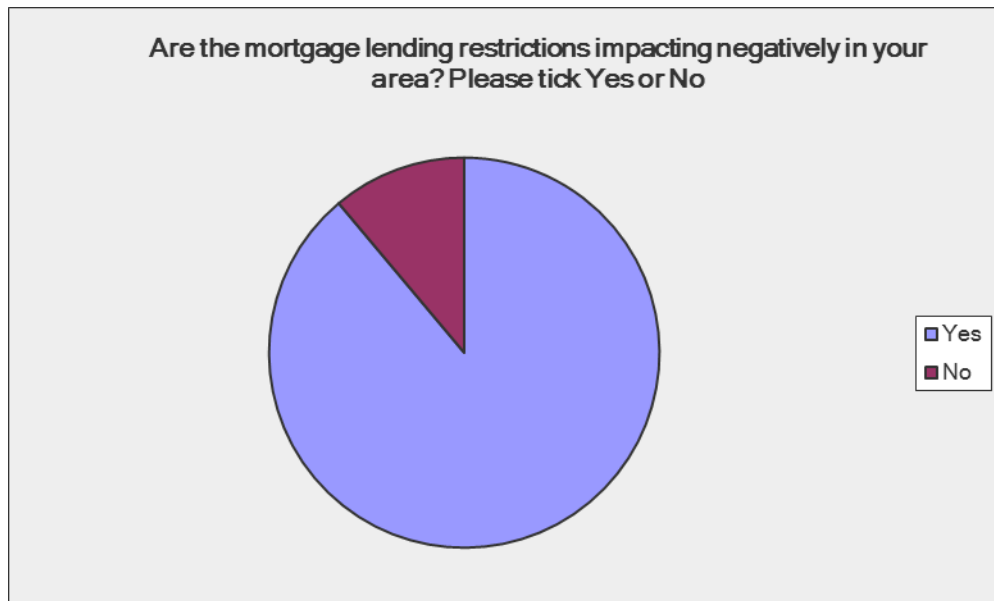
As mortgage intermediaries, PIBA members see first-hand how mortgage applicants and aspiring home owners are impacted by the Macro-prudential rules for residential mortgage lending introduced in early 2015.

PIBA has fundamental concerns about the impact of the current requirements. We acknowledge the need for some controls to prevent the kind of excessive lending we have seen that precipitated the financial crash leaving individuals, families and businesses devastated and unable to meet debt commitments.

However, a recent survey of members has confirmed that the existing macro prudential requirements are too onerous and are hampering a return to what could be considered a normally functioning market.

## Impact of the current requirements

PIBA conducted a survey of both its own and IBA members to ascertain the real impact of the requirements on those who are seeking to obtain a mortgage. Of 171 Brokers surveyed, 89% stated that the mortgage lending restrictions are impacting negatively in their area.



Approximately 92% stated that the rules are serving to keep people renting for longer.

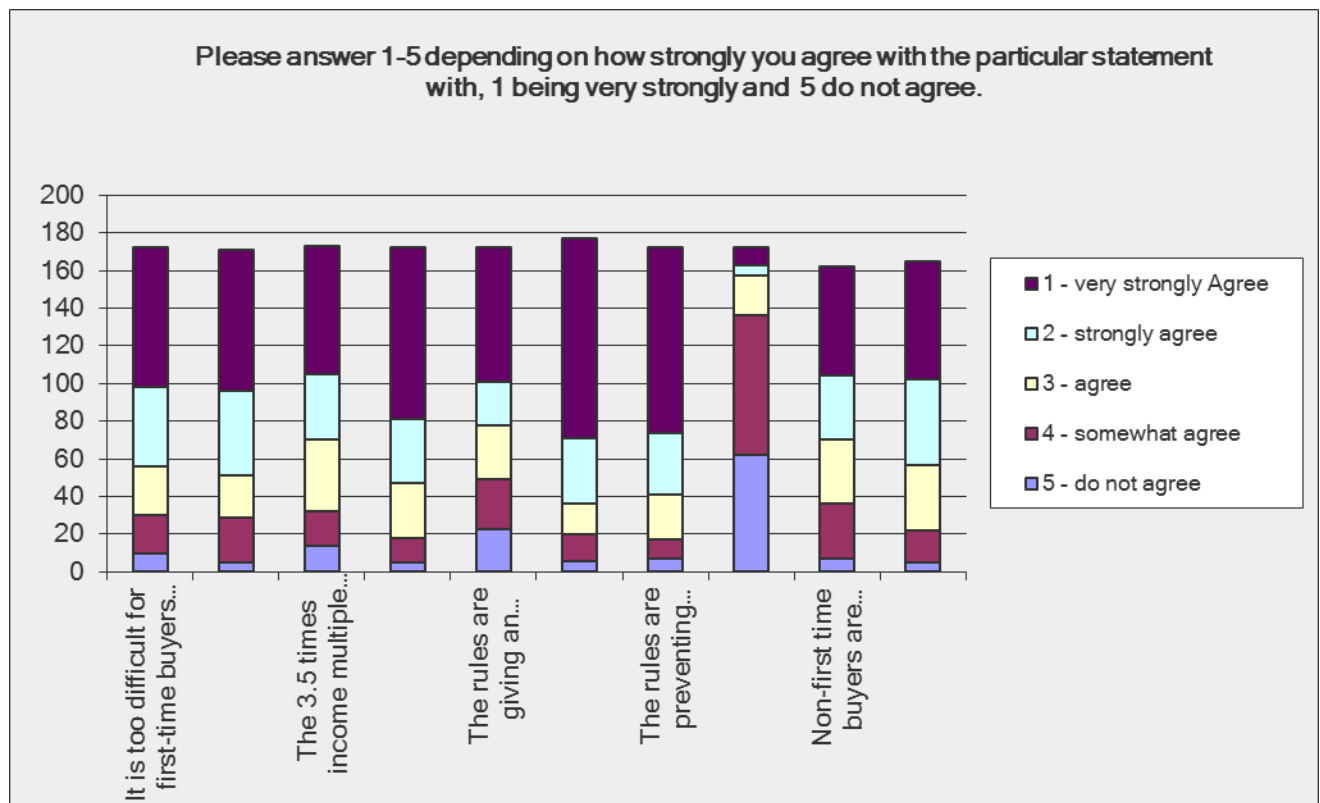
The First-Time-Buyer (FTB) market has cooled dramatically since the introduction of the new requirements. According to the BPFi Report for Quarter 1 2016, FTB mortgage drawdowns fell on a year-on-year basis for the second successive quarter, down 13.7%, to 2,599.

Potential FTBs are finding it difficult to save 20% of the total property cost (over €220k) while also paying rent. The natural consequence of this was, as we predicted in November 2014, that demand for rental accommodation increased, thus pushing up rents and causing a vicious circle for those attempting to save up the deposit.

The Quarter 2, 2016 Daft.ie rental report published on 23<sup>rd</sup> August, 2016 shows rents rose nationwide by an average of 3.9% in the second quarter of this year, the largest three-month increase since early 2007. In Dublin the annual rate of inflation in rents in the year to June 2016 was 11.1%, the highest since late 2014, bringing rents in the capital 5.2% higher than their previous peak in early 2008.

The current issues with property prices are more an issue of supply than that of credit and it is this issue that requires urgent attention by policymakers. In the daft.ie Quarter 2 2016 House price report the stock of properties on the market was just over 25,000 available for sale in June, slightly above the figure three months previously but still one of the lowest totals in 9 years.

90% of Brokers surveyed stated the combination of both the deposit rule and income limit is too restrictive.



The measurers are currently impacting those who have recently emerged from negative equity and who wish to trade up.

While most reasonable people would agree that another property bubble is undesirable and should be prevented, in reality certain cohorts of the market are being more severely impacted by the rules raising issues of equality of opportunity and ability to plan financial futures.

87% felt that because non-FTBs cannot trade up in the current market, the rules are having a negative impact on the number of suitable properties available for FTBs on lower incomes.

## **Proposed Solutions**

In the current environment we believe that the restriction on the LTV of 70% for those who are purchasing a Residential Investment Property is appropriate. We believe that there is no need for exemptions in this area.

In relation to the LTV restriction, we believe that the 90% should be extended to non-FTBs and FTBs up to a maximum of €300k. 74% of Brokers surveyed agreed that the rules should be amended to change the loan to value for non-FTBs to 90%.

This would have a significant impact on, for example, a young family who are trapped living in an unsuitable apartment by negative equity as a result of the last boom. They may have recently emerged from negative equity due to a combination of paying down their mortgage and rising property values. The macro prudential rules mean they now find they have to save a 20% deposit in order to move on. This would be insurmountable for many such families while managing other financial commitments, unless they are in the fortuitous position of having wider family financial support. Many such families are likely to be in the early years of their careers and have experienced salary cutbacks or curtailments directly arising from the fallout from the financial crisis.

We believe the LTI threshold should be extended from 3.5 times to 4 times the gross salary. Of the Brokers surveyed, 70% agreed that this would improve the current rules.

There are clear regional characteristics emerging in the property market, and urban areas, Dublin and surrounding counties have very different trends from 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. Potential borrowers on a combined income of €73,630.96\* can qualify for €257,708.36. 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.

We are aware that there are a number of countries that use LTV restrictions. However unlike what is currently in place in Ireland there are no lender portfolio level restrictions. In other countries lenders can lend over the LTV cap where there is mortgage insurance in place. We suggest that this should be an option for lenders who are willing to accept mortgage indemnity insurance.

\* Working on an average weekly wage for two people of €707.99 -CSO statistical release, 26 May 2016

## Conclusion

PIBA represents almost 900 Broker firms.

Our focus is on assisting consumers to secure their futures through sound financial planning over the short, medium and long-term. Diversity is central to such financial planning. In Ireland and internationally home ownership has formed an important element of such planning and it is our understanding that international research supports the value of home ownership as an important contributory factor towards growth in personal wealth.

However, home ownership must be achieved at affordable prices, underpinning sustainability and good financial planning. The lessons of the financial crisis need to be learned. But if our country goes overboard in attempting to eliminate all risk then we believe there is a grave danger that in doing so it will also eliminate opportunity for individuals and families to grow their personal wealth.

Our intelligence along with well documented research emanating elsewhere indicates that the macro prudential lending rules introduced in early 2015 are creating distorting effects such as, forcing young people to rent for longer while the most avid buyers who cannot meet the requirements are moving further into the suburbs and those lucky enough to have family financial support have an advantage, along with investment funds.

We believe this is not a healthy situation, particularly in a country with a population of less than 5 million people. We support evidence based solutions over popular commentary than would seem to suggest that Ireland should aspire to or emulate some international so-called 'norm' of renting long-term over buying properties.

We recognise that such a debate goes beyond the strict remit of the Central Bank of Ireland, lending is but one part of the property equation. The issue needs an approach that is informed by a balanced socio-economic perspective.

It is in this context that we put forward these proposals.