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 31 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:	Pearse Doherty TD
Organisation (if applicable):	Sinn Féin
Submission Type (select one):	
Individual	
Political party	**X**
Government department	
Banking industry	
Academic or research institution	
Consumer group	
Mortgage brokers and advisors	
Property and Construction Industry	
Mortgage Insurance Firm	
Other	
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):

Sinn Féin submission
31 August 2016
Pearse Doherty TD

Sinn Féin wishes to welcome this call for submissions. We were happy to make our original submission during the consultation before the rules were introduced.
In that submission we stressed three points:

(1) The principle and aim of the rules are ones we support and
(2) Any attempt through government policy to undermine or contradict the spirit of the rules would be counterproductive

(3) A socio-economic analysis of the effect of the rules in the real economy and real world should be carried out before the rules are implemented

We are convinced these three points remain relevant and reiterate them below.

The need for greater public engagement and publication of evidence:
Since the announcement of this current review I have put on record my unease that despite the Central Bank's call for evidence based submissions one of the most important pieces of evidence- the figures on the amount of leeway used by the banks was not publicly available.

After discussion with the Central Bank and Minister for Finance this evidence along with some other data was published in an Economic Letter in July of this year. The subsequent extension of the consultation period was I believe an admission that the initial consultation would have failed to attract enough interest to be relevant due to the lack of evidence publicly available.

The required extension period points to another issue- the Central Bank's lack of engagement in the public debate around these regulations. This has led to a lack of understanding regarding the rules among the public with little understanding, for example, of the different LTV rule that applies to First Time Buyers or to the fact that those in negative equity are exempt.

While the Central Bank is independent it cannot be, in a democratic society, immune from public opinion. A perception of these rules as being imposed from above with no explanation of why has not helped the Central Bank win public confidence in rules designed to help the majority.

The effect of the rules:

The stated aim of the rules is "to increase the resilience of the banking and household sectors to shocks in the property market and to reduce the risk of future bank credit and house price spirals". This is generally understood as meaning the rules are about stopping another property/credit bubble.

The Economic Letter of July 2016 states that "Comparing in-scope and out-of-scope lending for 2015, we find that average LTVs and LTIs for principal dwelling house (PDH) lending were marginally lower in-scope". Although it is emphasised in the Economic Letter that because of the overlap period between previously approved loan and loans made under the regulations, this evidence should be considered provisional, it does point to the regulations creating conditions where lower LTVs and LTIs will emerge.

The most recent CSO figures (for June 2016) show that in the past 12 months the average residential property price has risen by 6.6% but only by 0.5% over the three month period. Excluding Dublin these figures are 8.6% and 0% respectively. In the capital they are 4.5% and 1.1% respectively. This evidence would seem to suggest that the regulations are having an effect on house prices.

During this 12 month period mortgage lending rose by 11% annually and was up 29% from Q 1 to Q2 according to the Banking and Payments Federation.

Taken together these figures suggest that the regulations are not preventing new lending but are acting as a weight on inflation in house prices. From a policy perspective it would seem, with due regard to the noted warnings regarding the provisional nature of these figures, that the regulations are performing the role of preventing spiralling prices.

Ensuring coordination in policy with government:

As I noted in my initial submission the regulations should not be undermined by a contradictory government proposal. This prospect again seems to have raised its head as we approach the

Budget.

The concept of a "Help to Buy" scheme and/or "mortgage insurance" scheme is understandably one that most people would see as desirable. However it remains my view that such a scheme has the potential to undo the regulatory approach taken by the Central Bank and could result in increasing housing prices.

When a "mortgage insurance scheme" was discussed at the Oireachtas Finance Committee in the previous Dáil it was widely rejected particularly any attempt to rely on the private sector for such a scheme.

While the form of any such scheme is not yet clear it is difficult to imagine any scheme that could be considered compatible with the principles of the regulations. The Central Bank has a duty to make known its views on any policy proposal which impinges on the spirit of the regulations.

<u>The wider social impact</u>

While the Central Bank's role is as a regulator it does not operate in a vacuum. Its regulations and policies have consequences in the real world affecting the social and economic life of the country.

The country is still experiencing a mortgage arrears crisis and a housing crisis. Vulture funds are swooping to feed on many Irish businesses and households.
It is in this context that these regulations have come into existence. It has not gone without comment that first time buyers perceive the Central Bank as a regulator impacting on them while the owners of much mortgage credit are unregulated.

The real world impacts of these regulations could mean some may require social housing while saving for their first mortgage yet the State is failing abysmally to provide this safety net. The rules prescribe an income to loan value ratio yet wages are at a low point while property prices are, possibly, at a high point.

These facts point to the need for an ongoing socio-economic analysis of the rules. There may be groups such as those with growing families who wish to move to a bigger home but are just out of negative equity that require greater flexibility. The idea of taking consistent payment of rent equivalent to a notional mortgage could be linked to a mechanism permitting a lower deposit in some cases. These cases should be the type of cases on which the lenders should be using the permitted exceptions under the regulations.

<u>Conclusion:</u>

Sinn Féin is grateful for this opportunity to put on record our analysis of the Central Bank's lending regulations.

We are aware that there is as of yet scant evidence given the limited life of these regulations. The public debate must be informed by evidence as much as possible. The Central Bank has not sufficiently entered the public debate and allowed others to influence it too much. The public's perception of the rules may not match the reality.

The rules seem to be preventing rocketing prices in residential properties. That is to be welcomed.

The greatest danger to the progress that has been made comes from government policies that contradict or undermine the rules. The Central Bank has a duty to put on record its opinion on government measures that will have an impact on the mortgage market.

The regulations should act as a spur to, not as a scapegoat for, policy makers to put in place the other elements such as a functioning social housing programme and private house building programme that a mortgage market requires.