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Deputy Michael McGrath, TD
Main Street
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Dear Deputy McGrath

I refer to your letter of 25 April regarding the loan-to-income (LTI) limits in operation as part of the macroprudential mortgage measures.

The measures are a key part of the Central Bank's macroprudential policy toolkit. In our annual reviews, we aim to ensure that their calibration is consistent with achieving the overall objectives of the measures in enhancing bank and borrower resilience and in mitigating the risk of credit-house price spirals emerging. Limiting the volumes of high LTI lending is an anchor of the measures, and promotes sustainable mortgage lending for the benefit of the borrower, the bank, and the system as a whole. Increasing the LTI limit could further increase demand, which in the context of an already constrained housing supply, would put further upward pressure on house prices and run the risk of a credit-house price spiral taking hold.

An important feature of the measures since their introduction have been the proportionate allowances lenders have to extend mortgages above the LTI and loan-to-value (LTV) limits. These allowances are in place because certain borrower categories have different characteristics and circumstances, which can justify receiving loans above the LTV and LTI limits.

The Central Bank regularly publishes data on new mortgage lending activity, including the use of the allowances.[1] During 2017, 18 per cent of mortgages received an LTI allowance and the majority (74.8 per cent) of LTI allowances were related to first-time buyer (FTB) mortgages.

Following the latest annual review (November 2017), we introduced a refinement to the allowances related to the LTI limits, effective from January 1 2018.[2] This refinement introduced separate LTI allowances for lending to FTBs and second or subsequent buyers (SSBs). With this refinement, the framework sets an allowable maximum of 20 per cent of the value of new lending to FTBs and 10 per cent of the value of new lending to SSBs, respectively, above the LTI limit in any given year. Permitting a larger share of lending at high LTIs for FTBs relative to SSBs reflects how FTBs tend to be younger and at an earlier stage in their income lifecycle relative to SSBs, and therefore being more likely to experience income growth over the term of their loan. This particular calibration also closely matches that which was in operation in the market anyway during 2017.

The next annual review of the measures will conclude in November 2018. As the macroprudential authority, the Central Bank stands ready to recalibrate the parameters of these measures, and other macroprudential policy tools as may be appropriate, to ensure that these continue to remain relevant and effective in promoting the long-term sustainability of Irish mortgage lending and to promote financial stability.

Yours sincerely

Philip Lane

[1] The latest data covering 2017 are available in "Macroprudential Measures and Irish Mortgage Lending: An Overview of 2017", available at https://www.centralbank.ie/docs/default-source/publications/financial-stability-notes/no-1-2018-macroprudential-measures-and-irish-mortgage-lending-an-overview-of-2017-(kinghan-lyons-mazza).pdf?sfvrsn=5 .

[2] See https://www.centralbank.ie/docs/default-source/financial-system/financial-stability/macroprudential-policy/policy-documents/2017-review-of-mortgage-market-measures5485cb134644629bacc1ff0000269695.pdf?sfvrsn=2