Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Financial Stability Notes

Mortgage lending in Ireland during the 2010s

Edward Gaffney and Christina Kinghan

Vol. 2021, No. 9

Mortgage lending in Ireland during the 2010s

Edward Gaffney and Christina Kinghan[1]

Central Bank of Ireland

October 2021

Abstract

This note assesses residential mortgage market developments in Ireland during the 2010s and in 2020, with a focus on the period since the introduction of the Central Bank of Ireland's mortgage measures in 2015. Lending increased continuously between 2014 and 2019 to almost €10 billion per year, before declining in 2020 amid COVID-19. During the 2010s, income growth among first-time buyers exceeded growth in average incomes, and the average homebuyer was older than previously, reflecting challenges to affordability and pent-up demand after low home purchase volumes during the early 2010s. The mortgage measures reduced lending at high LTI and LTV ratios, assisted by more cautious risk appetites among lenders and borrowers. Around 20 per cent of lending is above the LTI and LTV limits in the mortgage measures, typically offered to relatively young borrowers in Dublin. A growing share of lending is at or close to the LTI and LTV limits. In 2020, 20 per cent of lending was at the LTI limit and 40 per cent was at the LTV limit. This indicates that in the absence of the mortgage measures, new lending would have involved higher levels of indebtedness, especially among first-time buyers and borrowers earning average or low incomes.

1 Introduction

This note describes Irish mortgage lending developments during the 2010s and up to 2020 using loan-level records of newly originated loans. While covering trends that arose in the aftermath of the global financial crisis (GFC), there is a special focus on the introduction of the Central Bank of Ireland's mortgage measures in 2015, which have formed an integral part of the Irish macroprudential policy framework. These borrower-based measures operate by limiting the shares of new residential mortgage lending at high loan-to-income (LTI) and loan-to-value (LTV) ratios. The measures work to increase the resilience of banks and borrowers to negative economic and financial shocks, and to prevent the emergence of a damaging, self-reinforcing cycle of excessive growth in credit and house prices, as occurred during the 2000s (Cassidy and Hallissey, 2016).

Lending to owner-occupiers recovered during the 2010s to reach almost €10 billion in 2019, as a result of more mortgage market participation and higher property prices, before declining in 2020 during the COVID-19 pandemic. Average incomes grew faster among mortgage borrowers than the population as a whole, especially in the period prior to the introduction of the mortgage measures, and the average age of borrowers is now at its highest level since the early 1990s, reflecting demographic change, housing tenure trends and pent-up demand after low home purchase rates following the mid-2000s property bubble and the GFC.

Lending at high LTI and LTV ratios remains at lower levels than during the mid-2000s, thanks to the Central Bank of Ireland's mortgage measures and greater caution among market participants. Around 20 per cent of lending is above the LTI and LTV limits, typically offered to Dublin-based borrowers and younger households. An even greater share of lending is at the maximum loan size

[1] Macro-Financial Division, Central Bank of Ireland. Correspondence: edward.gaffney@centralbank.ie . All views expressed in this note are those of the authors alone and do not represent the views of the Central Bank of Ireland.

under the LTI and LTV limits, which signals demand for larger mortgages than the maximum under the measures, particularly among first-time buyers and borrowers earning average or low incomes.[2]

Section 2 outlines the data used in this analysis. Section 3 describes home purchase lending amounts. Section 4 highlights key trends in borrower characteristics. Section 5 describes the amount and characteristics of lending with LTI and LTV ratios above the mortgage measures limits. Section 6 assesses lending at, or just below, the LTI and LTV limits. Section 7 concludes the note.

2 Mortgage measures monitoring templates data

The primary source describing home loans originated during the mortgage measures is Central Bank of Ireland monitoring templates data, which list approximately 180,000 mortgage originations between 2015 and 2020. The characteristics of these loans are summarised in the Central Bank of Ireland's regular publications on New Mortgage Lending. In total, seven lenders submitted at least one year of monitoring templates data, covering 97 per cent of mortgage lending in Ireland between 2015 and 2020, based on a comparison to the Central Bank of Ireland's Central Credit Register.[3]

For time series including years before 2015, the main source is the Central Bank of Ireland's Loan-Level Data on outstanding residential mortgages at the five main retail banks since 2011. This source is less comprehensive because it excludes mortgages that expired before 2011 and all lenders other than major retail banks, but it still covers most of the mortgage market during the 2000s, and a large majority of home purchase lending during that period.

The note describes lending to owner-occupiers only.[4] Statistics about lending above and at the LTI and LTV limits are based on loans in-scope of the mortgage measures only. This includes loans for home purchase or construction, equity releases and some other secured home loans. A small percentage of new home loans are not in-scope of the measures, typically switching and refinancing loans where the borrower takes on no additional credit on net.

3 Mortgage lending amounts per year

The total value of lending in a year depends on the number of mortgages and the average value of a mortgage, which can reflect house prices and underwriting standards. Owner-occupier mortgage drawdowns from Ireland's main lending institutions peaked at €32 billion in 2006 (Figure 1). Lending contracted by 93 per cent over the next five years to a low of €2.4 billion in 2011, as a result of fewer transactions and lower property prices. Lending grew continuously between 2014 and 2019 to almost €10 billion, before declining in 2020, due to a fall in the number of property sales at the beginning of the COVID-19 pandemic in Ireland.

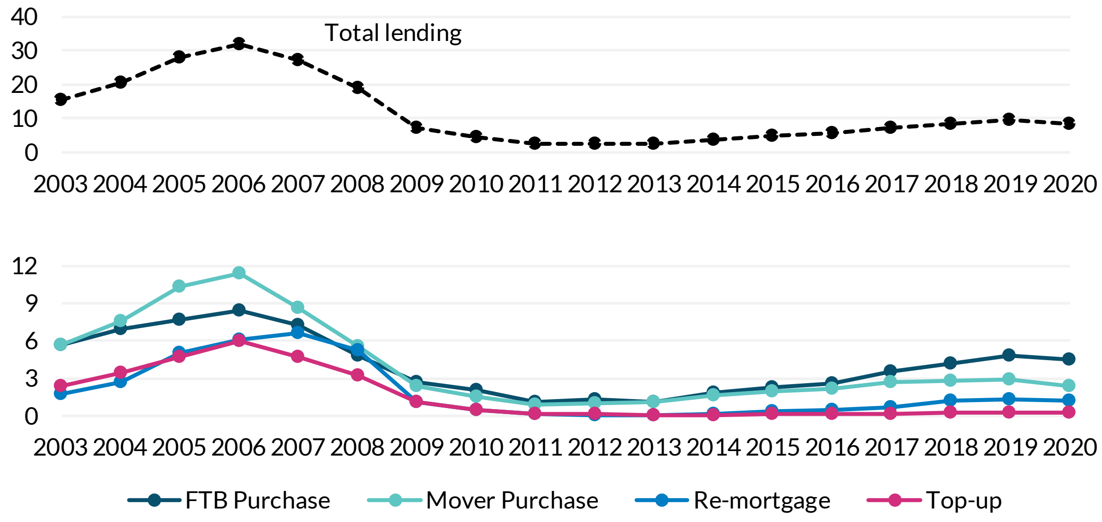
---

[2] In line with the definition in the mortgage measures, lending is measured in euro value throughout the note, except where otherwise specified.

[3] Three per cent of mortgage lending is not covered by monitoring templates data. The providers are smaller lenders, mainly local authorities and credit unions. Regulated financial service providers contribute to monitoring templates data upon advancing at least 50 million euro of mortgage lending during a half-year period.

[4] Buy-to-let (BTL) mortgage transactions fell by 96 per cent between 2006 and 2010, and did not recover significantly during the 2010s. Transactions data from the CSO and BPFI show that most BTL buyers do not use mortgage finance and that non-household buyers like approved housing bodies and institutional investors now purchase most properties in this market segment. Since 2015, the share of BTL lending above the 70 per cent LTV limit established by the mortgage measures has varied between 1 and 5 per cent per quarter, significantly below the annual allowance of 10 per cent.

Figure 1: Mortgage drawdowns per year, EUR billion: total and composition by type of mortgage



Source: Banking and Payments Federation Ireland.
Note: Re-mortgage and top-up mortgage statistics include a small amount of lending for buy-to-let purposes.

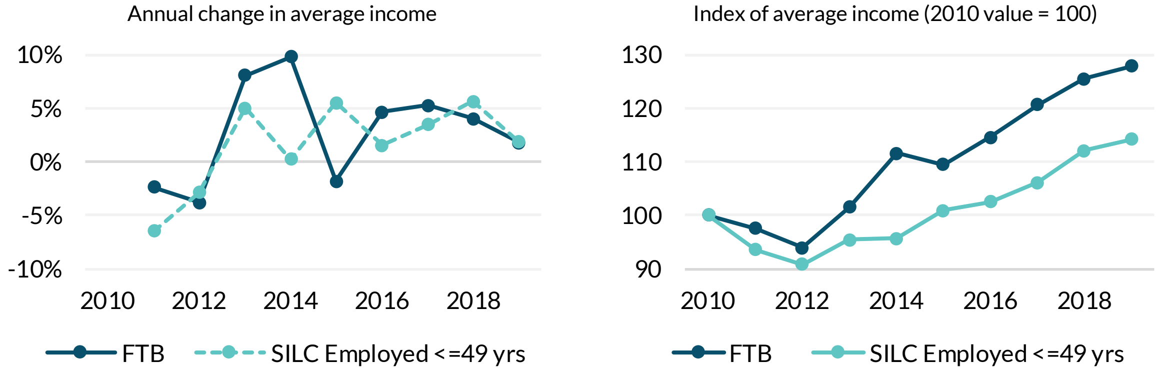
First-time buyer (FTB) mortgage lending fell after 2006, but by less than other mortgage activity, and rebounded faster, reaching €4.9 billion in 2019. Second-time and subsequent buyer (SSB) purchase mortgages fell from €11.4 billion in 2006 to €0.9 billion in 2011, then grew slowly to €2.9 billion in 2019. Re-mortgage activity per year fell from over €5 billion in 2005-08 to less than €100 million in the early 2010s, before returning to around €1.2 billion per year in 2018-20. Top-up and equity release mortgages have not been a significant part of new lending since 2011.

4 Income and age trends among mortgage borrowers

During the 2010s, there was a tendency towards increased selection of above-average earners into the mortgage market. Figure 2 compares the growth rates of average gross incomes of FTB borrowers to a representative sample of households with at least one person who was employed and below 50 years of age.[5] Earnings increased in each group between 2013 and 2019, but overall, incomes of new FTB borrowers grew more quickly than incomes across the population. The largest divergences occurred in the early 2010s, before the introduction of the mortgage measures. Average SSB incomes also increased, but at a slower pace than FTB incomes.

[5] The sample is drawn from the EU Survey on Income and Living Conditions (EU-SILC). The age category is chosen because 98 per cent of FTBs are below 50 years of age. Although average age is expected to differ between the two groups, the trends in incomes are expected to be comparable.

Figure 2: Year-on-year average changes in gross real incomes between 2010 and 2019

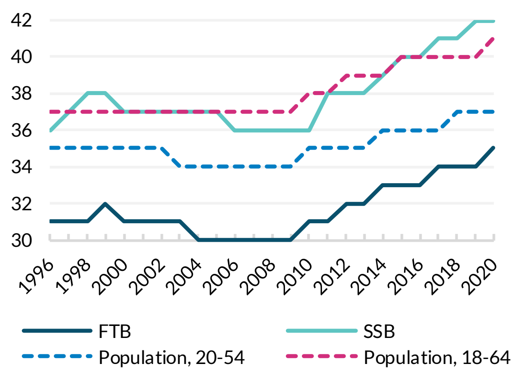


Source: Monitoring templates data (FTB); SILC ISSDA data (SILC Employed and <= 49 yrs).

Since 2009, the average age of new borrowers has increased gradually, by five years among FTB borrowers and six years among SSB borrowers (Figure 3). These are higher than at any time since the mid-1990s, when the time series is first available. In part, this is due to housing affordability challenges, and in part to pent-up demand for home purchases after the low point of the early 2010s. Furthermore, housing tenure patterns have changed in the young adult population since the 1990s, due to inward labour migration and the aftermath of the GFC. However, the average age of the population has also increased. Figure 3 shows that in the portion of the Irish population between 20 and 54 years of age, average age has increased by three years since 2009; 99 per cent of FTBs are in this age range. Average FTB age has therefore increased by around two years in addition to the expected effects of demographic change.

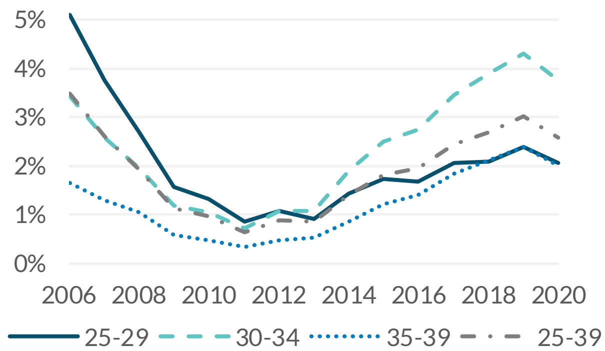
In tandem with the increase in age of the average mortgage borrower, the share of joint applicants is now higher than during the early and mid 2010s (New Mortgage Lending, 2020). Figure 4 estimates the shares of the Irish population within key age groups that drew down a mortgage as a FTB at the main retail banks in each year between 2006 and 2020, using the total numbers of single and joint borrowers to account for the change in the share of joint applicants.

Figure 3: Median age of home purchase mortgage borrowers and the population of Ireland, by year



Source: Central Bank of Ireland Loan-Level Data; Central Statistics Office Population and Migration Estimates.

Figure 4: New FTB borrowers per year as an estimated share of the population, by key age groups



Source: Central Bank of Ireland Loan-Level Data; Central Statistics Office Population and Migration Estimates.
Note: Number of borrowers on new FTB mortgages per year as a share of the estimated population of Ireland within age groups.

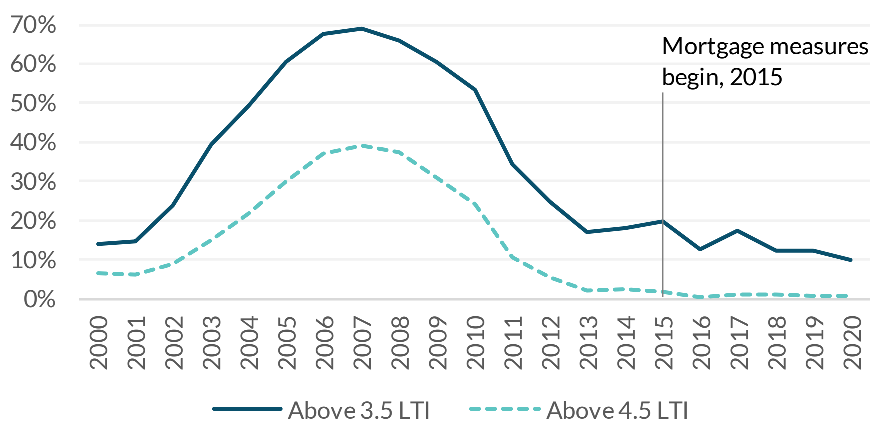
During the early 2010s, less than 1 per cent of the population between the ages of 25 and 39 drew down FTB mortgages each year. The transition rate to FTB had rebounded among people aged 30 years and over by 2020. In part, this is because many borrowers delayed home purchases during the early 2010s, so the population of potential FTB borrowers was large in 2020. By contrast, the number of FTB borrowers below 30 years of age is much smaller than during the mid-2000s, which has reduced transition rates into home ownership compared to the era of the property price bubble. There are insufficient data before 2006 to describe trends by age group, but it is very likely that transition rates were similar to 2006 rates for several years during the mid-2000s.

5 Lending above the LTI and LTV limits

Lenders may exceed the LTI and LTV limits in the mortgage measures on a portion of their lending each year. The limits, and allowances to exceed the limits, varied during the first years of the mortgage measures, but have been stable since 2018. Between 17 and 23 per cent of lending to home purchasers was above the LTI and/or LTV from 2015 to 2019. The share fell to 13 per cent in 2020 (New Mortgage Lending, 2020).

Figure 5 shows shares of home purchase lending at high LTI ratios during each year since 2000. (The trend in the share of high-LTV home purchase mortgages is broadly similar.) Lending at LTI ratios above 3.5 fell from over 60 per cent of lending during the mid-2000s to less than 20 per cent in 2013. The share fell further after the introduction of the mortgage measures in 2015.

Figure 5: Shares of home purchase lending at high loan-to-income ratios, 2000-2020



Source: Central Bank of Ireland Loan-Level Data.
Note: Shares of value of mortgages for home purchase only at the the five main retail banks during this time period.

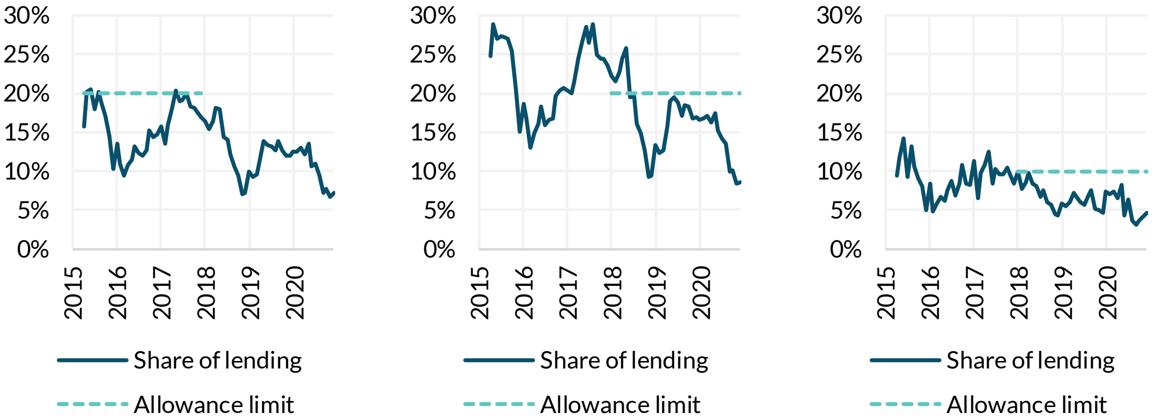
Figure 5 also shows evidence that credit risk appetite would have been relatively conservative during the 2010s compared to before the GFC, in ways not explained by the mortgage measures. First, high-LTI lending contracted strongly between 2010 and 2013, with only small signs of reversal by 2015. Second, the initial calibration of the measures accommodated market conditions at the time, and did not try to be more restrictive. Third, the share of mortgages above 4.5 LTI has fallen disproportionately, from almost 40 per cent during the mid-2000s to one per cent by 2020; however, there is no direction in the mortgage measures distinctive to mortgages above 4.5 LTI, so this reflects preferences of market participants.

Figures 6 and 7 show the shares of owner-occupier mortgage lending above the LTI and LTV limits and the shares of lending by which lenders may exceed the limits.[6] Since 2018, the limits and allowances have remained stable; prior to 2018, the measures changed from time to time in a manner described in the notes to the figures. The typical share of mortgage lending in excess of LTI and LTV limits has been between three and five percentage points below the maximum allowance. However, lending to FTBs above the LTV limit has been very rare since the limit was raised to 90

[6] Expressed as a share of new mortgage credit in-scope of the limits. Compliance with the allowances under the measures is measured at each lender separately on an annual basis

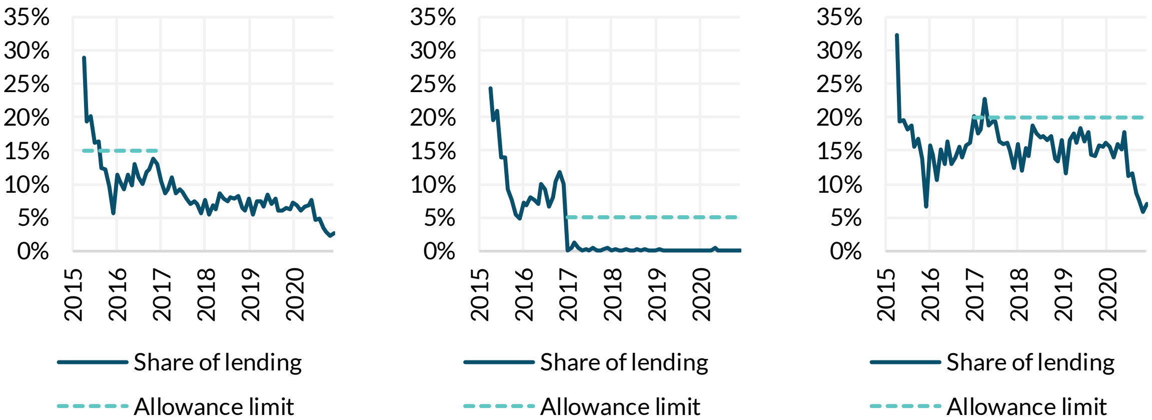
per cent in 2017, because lenders do not usually offer mortgages above 90 per cent LTV. There was a reduction in lending above the limits at the beginning of the COVID-19 pandemic in early 2020.

Figure 6: LTI limit: share of lending per month above limit and maximum allowance share per year
All owner-occupiers FTB SSB



Source: Central Bank of Ireland Monitoring Templates Data.
Note: LTI limit was 3.5 times gross annual income. Allowance basis was all owner-occupiers in 2015-17, followed by separate FTB and SSB bases from 2018 on.

Figure 7: LTV limit: share of lending per month above limit and maximum allowance share per year
All owner-occupiers FTB SSB



Source: Central Bank of Ireland Monitoring Templates Data.
Note: LTV limits were between 80 and 90 per cent, proportionate to property value, for FTB in 2015-16; 90 per cent for FTB in 2017-20; and 80 per cent for SSB. Allowance basis was all owner-occupiers in 2015-16, followed by separate FTB and SSB bases from 2017 on.

Mortgages above the LTI and LTV limits differ systemically from other mortgages, as a result of the characteristics of highly-leveraged loans in general and the requirement on lenders to limit issuance at high LTI and LTV ratios. These differences have been noted in the Central Bank of Ireland's regular descriptions of new lending (see New Mortgage Lending, 2020), and are summarised below.

Mortgages with high LTI ratios tend to be more common in regions with high house prices relative to incomes, and where relatively few properties are available for purchase at lower prices, such as Dublin.[7] This regional tendency has become more pronounced since the introduction of the mortgage measures. Focusing on FTB borrowers in Dublin, the cohort of borrowers with LTI ratios

[7] Dublin comprises between 40 and 50 per cent of the value of national mortgage lending. Dublin and the Mid-East region in total comprise almost two-thirds of the value of national mortgage lending.

above 3.5 had lower incomes, larger loans, and purchased more expensive properties on average, compared to borrowers at or below 3.5 LTI. Nationwide, FTBs above 3.5 LTI had lower average incomes than those at or below 3.5 LTI between 2015 and 2017, but had higher incomes from 2018 to 2020. This reversal is mostly due to a rise in high-LTI Dublin borrowers; within each region, income tends to be negatively correlated to LTI. FTB borrowers above 3.5 LTI are younger than average, borrow to longer maturities, and are more likely to be single applicants. Similar trends prevail among SSB borrowers.

SSB borrowers with an allowance to exceed an 80 per cent LTV ratio have higher average incomes and loan sizes than the average SSB borrower, but they tend to purchase lower-price properties. These trends hold nationally and within regions such as Dublin. On average, SSB borrowers above 80 per cent LTV are younger and have longer terms to maturity, are more likely to be joint applicants and to purchase in Dublin than borrowers at or below the 80 per cent LTV limit.

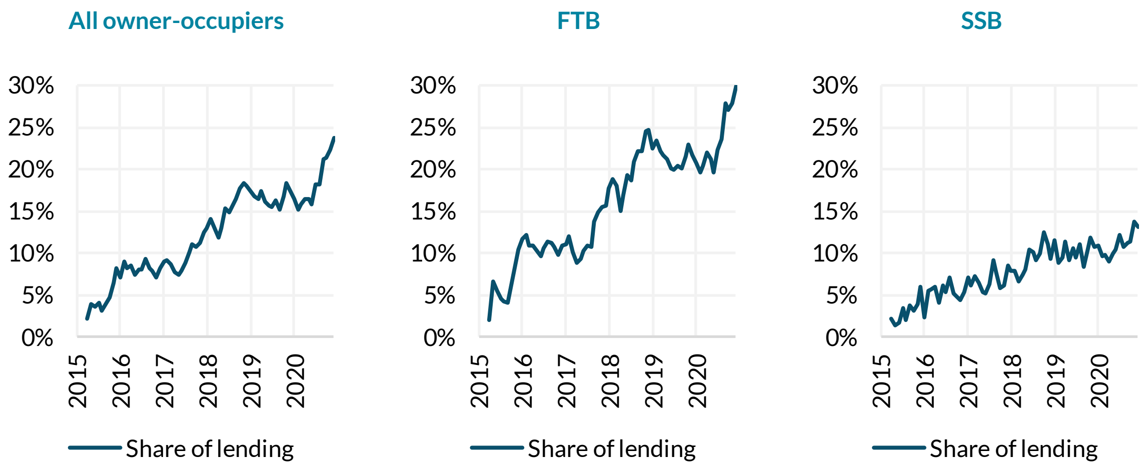
6 Lending at the LTI and LTV limits

Since the introduction of the mortgage measures, many loans have been agreed at or just below the limits on LTI and LTV ratios. This section describes lending between 3.45 and 3.5 LTI, and lending between 0 and 1 per cent below the relevant LTV limit, which has varied by year and buyer type. These can be classified as borrowers at the LTI and LTV limits.

Some borrowers and lenders would arrange larger loans in the absence of the mortgage measures. For example, they may have otherwise preferred a more leveraged investment, committing a smaller share of their liquid assets to housing equity, or they may have preferred to buy a more expensive property with a larger mortgage. There is evidence that many borrowers and lenders at the limits agreed their loan amounts to conform closely to the maximum credit available under the mortgage measures. Prior to the mortgage measures, only two per cent of home purchase borrowers transacted in the LTI band between 3.45 and 3.5. This share rose to over 16 per cent by early 2019 (Gaffney, 2019). However, many LTV ratios were already at, or close to, 80 and 90 per cent prior to the mortgage measures, due to lenders' policies such as LTV pricing; furthermore, most lenders do not typically lend above 90 per cent LTV under their credit policies.

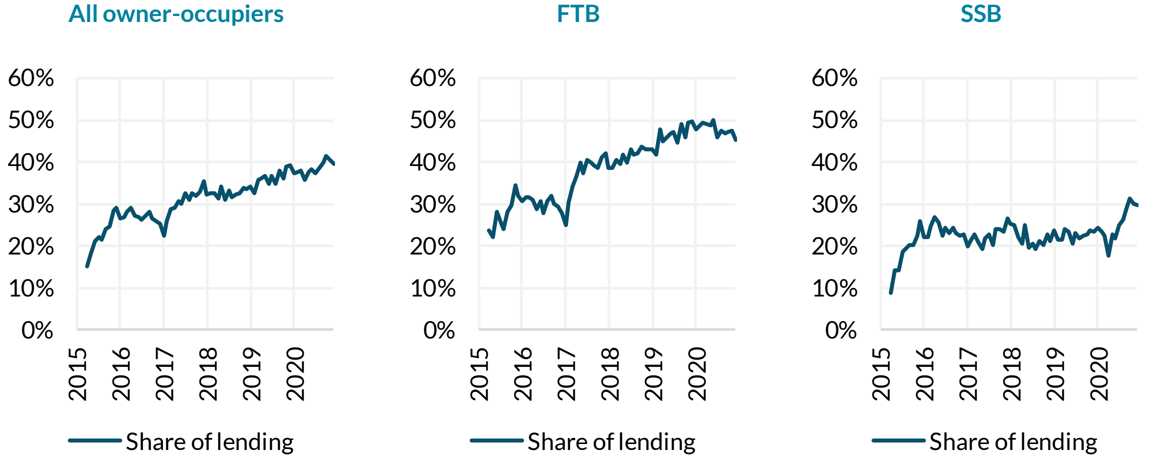
Figures 8 and 9 show the shares of lending at the LTI and LTV limits respectively in each month since the introduction of the mortgage measures.

Figure 8: Share of lending per month at the LTI limit (between 3.45 and 3.5 LTI)



Source: Central Bank of Ireland Monitoring Templates Data.
Note: LTI limit was 3.5 times gross annual income.

Figure 9: Share of lending per month at the LTV limit (between 0 and 1 per cent below the limit)



Source: Central Bank of Ireland Monitoring Templates Data.
Note: LTV limits were between 80 and 90 per cent, proportionate to property value, for FTB in 2015-16; 90 per cent for FTB in 2017-20; and 80 per cent for SSB.

More borrowers have been at or close to the LTV limit compared to the LTI limit since 2015, to an extent not explained by the shares of lending above the LTI and LTV limits. This is consistent with a preference for highly leveraged LTV ratios regardless of down-payment capacity.

FTBs have been more likely to borrow to the mortgage measures limits than SSBs. Among 2019 and 2020 FTB mortgages, over 20 per cent of lending was at the LTI limit, while almost half was at the LTV limit. By contrast, approximately 10 per cent of SSB lending was at the LTI limit and almost 25 per cent was at the LTV limit. By accumulating housing equity, SSBs can borrow with less leverage than FTBs, on average.

The shares of lending at mortgage measures limits have increased since 2015, particularly at times when lenders tightened credit availability above limits, as happened during the COVID-19 pandemic, and after variations in the shares of lending allowed to exceed the limits, such as in 2017 (LTV) and 2018 (LTI). This tendency confirms that many borrowers choose LTI and LTV ratios at the limits in response to changes in the availability of high-LTI and LTV mortgages. The trend also reflects rising house prices and credit demand.

In summary, it is likely that a large number of borrowers would have taken on more debt if the mortgage measures had not been in place, especially FTBs, and that many of these borrowers transacted at the limits of the mortgage measures. Gaffney (2019) analyses mortgage borrowers at the LTI limit between January 2018 and June 2019. Borrowers at the limit earned less than borrowers at any other LTI ratio between 2 and 4.5, in part because they were more likely to be single-income households. They purchased houses of lower value than borrowers above the limit, which may be due in part to the regional distribution of high-LTI loans. Finally, FTBs conformed to the LTI limit by reducing LTV ratios by six per cent on average compared to borrowers above the LTI limit. They pledged larger deposits as a share of property value or income, in spite of their relatively low incomes. In this manner, the LTI limit also reduces average LTV ratios.

7 Conclusion

This note has described the market for new residential mortgage lending in Ireland during the 2010s. Lending recovered during the 2010s, particularly among homebuyers, above-average earners and older borrowers. However, lending at high LTI and LTV ratios remained lower than during the GFC, thanks to the Central Bank of Ireland's mortgage measures and more cautious attitudes to leverage among borrowers and lenders. Loans at high LTI and LTV ratios tend to be offered to younger borrowers in more expensive segments of the housing market. More recently, there have been signs of growing demand for larger mortgages, in the form of an increase in the share of mortgages of maximum size under the LTI and LTV limits. After accounting for prevailing trends in mortgage lending, there is evidence that the Central Bank of Ireland's mortgage measures have helped to limit lending at high leverage ratios and high income multiples, with the aims of improving resilience of Irish borrowers and banks, and ensuring that excessive debt does not lead to unsustainable cycles between lending and house prices.

References

Cassidy, Mark, and Niamh Hallissey, 2016. "The Introduction of Macroprudential Measures for the Irish Mortgage Market," *The Economic and Social Review*, vol. 47 (2), pp. 271-297.

Gaffney, Edward, 2019. "Mortgage borrowers at the loan-to-income limit." Financial Stability Notes vol. 2019 (11), Central Bank of Ireland.

T: +353 (0)1 224 6000
www.centralbank.ie
publications@centralbank.ie

Bosca PO 559, Baile Átha Cliath 1, Éire
PO Box 559, Dublin 1, Ireland

Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem