BSI Insolvency Limited

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Macro Prudential Policy Division
Central Bank of Ireland
Dame Street
Dublin 2

03 December 2014

Dear Sirs

Re : Consultation Paper CP87 – Policy for Residential Mortgage Lending

BSI Insolvency Limited provides debt settlement solutions to distressed borrowers in the South East of Ireland. We have witnessed the financial and personal trauma of families burdened by over-indebtedness, and the reluctance of the Banks to support the solutions offered by the Insolvency Service of Ireland. We welcome the opportunity to provide comments on the Consultation Paper and hope that they contribute to reducing the risk of residential mortgage default in the future.

1. Loan to Value Ratios (LTV ratios).
    a. The draft regulations seem to favour a Loan to value ratios of 80% for primary dwelling purchases (PDH mortgages) and 70% for Investment Properties (BTL Mortgages)

        i. In relation to PDH mortgages, the document makes no distinction between low value mortgages and high value mortgages. As a result it does not recognise that 300 lower income borrowers having an average mortgage of €100,000 is less risky than 150 higher income individuals having an average mortgage of €200,000. There is also a much lower risk of house price inflation in lower value houses than higher value houses.
        ii. In relation to PDH mortgages, BSI Insolvency Limited recommend that
            1. Where the value of the mortgage is below €150,000 – an LTV of up to 90% should be allowed. This would allow the purchaser to pay up to €166,000 for the house- (150/90%). Using current variable rates of 4.5% over a term of 30 years, the monthly repayment would be circa €760 per month. This would be lower than the current market rent on such properties. In this instance the purchaser would need €16,000 of equity.
            2. Where the value of the mortgage is between €150,000 and €200,000 an LTV of 85% should be allowed. This would allow the purchaser to pay up to €235,000 for the house. Using current variable rates of 4.5% over a term of 30 years, the monthly repayment would be circa €1,190 per month. This again is similar to what the monthly rent would be. In this instance the purchaser would need a maximum of €35,000 of equity.

3. For mortgages of €200,000 to €300,000 an LTV of 80% would be required
4. For mortgages over €300,000 an LTV of 70% would be required.

By tiering the LTV is such a fashion for PDH mortgages, you are giving an opportunity for lower income households to get on the property ladder. If their income grows or their family size grows, they can aspire to bigger houses and bigger mortgages. However they will have to set more money aside for their equity contribution, given that the LTV falls as the mortgage value increases.

In relation to BTL mortgages, we agree with the consultation papers recommendation of an LTV of 70%. From our experience Buy to Let investments were acquired either for speculative capital growth or as a pension. To prevent the speculative housing investments that contributed to the housing bubble, and to promote BTL investments as a form of saving, the borrower should be able to show a good savings record. BSI Insolvency Limited believe that the need for a 30% equity contribution on BTL investments would demonstrate an ability to save.

We would also recommend that BTL mortgages should have a maximum term of 25 years.

2. Loan to Income Ratios (LTI ratios).

   BSI Insolvency Limited agree with the proposed LTI ratio of 3.5 times for principal private residency mortgages.

   In relation to BTL mortgages, BSI Insolvency Limited recommend that the maximum LTI ratio for these mortgages should be 3 times. As mentioned above, BTL mortgages are normally taken to acquire investments. BTL mortgages should be provided primarily to higher income earners who wish to invest. As the BTL borrower's income level is higher, his/her tax rate will be higher, and so his/her marginal net income is likely to be taxed at 50% plus. Thus the lower LTI of 3, recognises that there is a much lower percentage of after tax income to support the mortgage.

   This lower BTL multiple of 3 for BTL mortgages is also more consistent with the recommended lower LTV of 70% for BTL mortgages.

In relation to some of your specific questions, we have the following answers

1) Which tools or combination of tools best meet the objective of increasing resilience of the banking and property sectors to shocks in the Irish Property market
   a. The best tools are those which address the Supply side and the Demand side.

   b. In our opinion the supply side can be best regulated by imposing limits on the value of loans that Banks can lend for individual construction projects and lend to any particular property developer. Property Developers should also have LTV ratios applied. The Property Developers should be required to put up at least 20% of the amount borrowed. This would limit the size of their borrowing and also the number of houses that they can build. There should also be a requirement that the loan on each project should be repaid as they sell properties before that developer can borrow on new projects from the lending bank or any other bank. If such guidelines were introduced during the boom, we would have avoided the huge loan exposures that banks had with a small number of property developers who had kept on borrowing money, and building more properties, without being able to sell the properties they had already built.

c. In relation to the demand side, as detailed above we suggest tiered LTV ratios for PDH mortgages based on the value of the mortgage. On BTL mortgages, LTV's should be a maximum of 70%. These LTV's should be compatable with the LTI ratios of 3.5 times for PDH mortgages and 3 times for BTL mortgages.

2) Should the LTV and LTI measures apply to all measures secured by residential property ?
   a. YES

3) Do you agree with the exemptions set out re LTI's
   a. BTL – As explained above we would strongly recommend that lower LTI's are applied to BTL mortgages and would not agree that they should be overlooked. LTI's are the most important ratio, as they are a good measure of the borrowers ability to repay the loan. Many distressed personal borrowers that we meet, never stood a chance of being able to repay the capital on their BTL loans and a LTI review would have identified this.
   b. Switcher Mortgages – We think that these mortgages should also be subject to LTI's. The switch should ensure that the LTI ratio is no higher than if the switch was not made, based on the Income earned at the date of the proposed switch.
   c. Mortgages in Arrears – We agree that no LTI should be applied.

4) Do you agree with the exemptions set out re LTV's
   a. YES

5) Should some adequately insured mortgages with higher LTVs be exempted ?

   We do not agree that to reduce the Bank's risk, the borrower should have to insure the excess. If the borrower does not have the equity to cover the loan, he/she should save more, and be more patient.
   We also recommend that Banks who exceed the recommended LTV limit or LTI ratios, do so at their own risk. That is, if the borrower should default on the loan, the Bank cannot recover any part of the loan that exceeded the LTI/LTV limits from the borrower.

We suggest that the Banks and Lending institutions will seek a number of exemptions, but would urge that you resist these. The standards suggested are based on universally accepted norms. BSI Insolvency Limited believe that the purpose of these regulations is to reduce risk, and as reduced risk reduces the Banks short term profitability, the Banks will try to resist or amend them to protect their profitability. In our opinion any such attempts should be opposed as the more we deviate from the current policy proposals, the greater the risk that the loans provided will be subject to default during the term of the loan.

Yours Sincerely

Alice Shanahan