



Housing Agency  
Submission to the Central Bank of Ireland

Consultation Paper CP87:  
Macro-prudential Policy for Residential Mortgage  
Lending

Executive Summary

December 2014

## **Comments on Proposals**

The Housing Agency is broadly supportive of the new macro-prudential measures for mortgage lending proposed within Consultation Paper 87, with the objectives of ensuring that:

- a) Mortgage borrowers do not over stretch in securing home ownership,
- b) Property price inflation is kept in check, and
- c) Hard rules are in place to support existing lending principles and standards.

Measures which can protect home buyers from the distress experienced in recent years arising from the shocks in the financial and property markets are welcome. However, the proposals could have the immediate impact of:

1. Reducing housing supply,
2. Increasing rental costs,
3. Imposing additional demand on the state's finances and
4. Making homeownership less achievable for credit worthy households.

## **Recommendations**

The Housing Agency recommends the following:

### **1. Loan to Income (LTI)**

Restriction of new lending to 3.5 or 4 times LTI is the most important and effective measure in ensuring that mortgage borrowers do not over stretch and that property price inflation is controlled.

### **2. Underwriting Criteria**

Application of robust and prudent underwriting criteria in assessing suitability and capacity is essential in protecting mortgage borrowers.

### **3. Deposit Size and Composition – First time buyers**

Research shows that it is the presence of and not the size of a meaningful deposit that is critical. Where the deposit is saved, as opposed to receiving it as a gift or borrowed, the performance in repaying a mortgage is significantly better. A lower value deposit should be considered adequate for first time buyers who have accumulated the deposit through consistent and proven savings.

### **4. Education – First time buyers**

Completion of an approved buyer/borrower education programme should form part of the loan application process for first time buyers. This programme would be designed with the purpose of ensuring more informed choices in property and loan finance commitments undertaken and better financial and budgeting management, before and after mortgage loan drawdown. Approved buyer/borrower education programmes should be introduced on an independent delivery and certification basis.

## Back-up Information

Detailed information in support of our recommendations can be made available to the Central Bank by the Housing Agency, including:

- Underwriting criteria used by the Housing Agency in assessing loan applications
- Underwriting criteria used on a national basis in other countries
- Research in relation to deposit payments and loan performance  
<http://ccc.unc.edu/contentitems/community-advantage-panel-study-sustainable-approaches-to-affordable-homeownership/>
- Details of educational programmes in the United States  
<http://www.vhda.com/Homebuyers/HomeownershipEdu/Pages/Homeownershi pEdu.aspx>

## Questions Posed by Consultation Paper CP87

Specifically responding to two of the questions, the Housing Agency considers:

Question 1: Which of the tools or combination of tools available to the Central Bank would, in your opinion, best meet the objective of increasing the resilience of the banking and household sectors to shocks in the Irish property market and why?+

Restriction of new lending to 3.5 or 4 times LTI is the most important and effective measure in ensuring that mortgage borrowers do not over stretch and that property price inflation is controlled. This limits the borrowing capacity and the amount that can be subsequently offered for property purchase.

Question 10: What unintended consequences do you see from the proposed measures and how could these be avoided?+

Restriction of new lending above 80 per cent LTV could reduce housing supply, increase rental costs and increase housing cost burdens on households. Application of prudent underwriting criteria and a moderate value deposit requirement for first time buyers, accumulated through consistent and proven savings, could negate these unintended consequences.

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