

Submission to Central Bank consultation on Macro-prudential policy for residential mortgage lending

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Summary of Sinn Féin's proposals:

- **Sinn Féin believes that strong regulation is required on a macro-prudential level to prevent the possibility of another housing bubble developing. However there is no extremely urgent reason why this process should be rushed at this point.**
- **The government's "mortgage guarantee scheme" is a distraction at this point and has confused the debate. It should be dropped.**
- **Sinn Féin believe that the combination of a Loan to Value (LTV) of 85% ,as opposed to 80%, and Loan to Income (LTI) rule do make sense at this point of the economic cycle.**
- **There is need for an absolute ban on any mortgages over a LTV of 90% even within the range of deviation from the rules allowed.**
- **We agree with the Central Bank's proposals on Buy to Lets.**
- **The above rules should not come into effect until there has been a social and economic impact assessment of the regulations looking at the impact of the rules given the ongoing issues with social housing, rent controls and tenants' rights. The impact assessment should measure the likelihood of the regulations leading to a situation where many cannot save due to the cost of rented accommodation and new LTV requirement.**
- **Following this impact assessment the government should make a policy statement as to how it will remedy the issues raised in the impact assessment. A short public consultation including Oireachtas scrutiny should follow. This process should be concluded by June 2015 at the latest.**
- **These steps are necessary because of the confusion caused by the government and Central Bank's conflicting policy positions on mortgage credit and the Central Bank's apparent change of position during the consultation period. This issue is too critical to be decided in the murky confusion spread by government and the Central Bank over the last few months.**
- **Once introduced the rules should be under regular review with a full, formal review within 12 months of its operation.**

Context:

118,000 or 15.5% of family homes were in mortgage arrears at the end of September this year, 85,000 are in arrears of over 90 days. Although this figure has thankfully plateaued and started to decline it is still a huge figure. For most of these families the crisis they face is linked to the crash of Ireland's banking system and the subsequent economic disaster.

The plight of these 118,000 families is just one symptom of the illness still pervading Irish society.

Sinn Féin believes that strong regulation is required on a macro-prudential level to prevent such a situation developing once more.

Policy coherence:

The extent of the homelessness problem in Dublin and across the State is well documented and shameful. The lack of political will from this or previous governments to develop a social housing programme is equally obvious.

These policy areas cannot be divorced from the Central Bank's proposals. What the State does with one hand it must not contradict with the other.

Minister Michael Noonan's commented in May of this year that there would be a State backed mortgage guarantee scheme in place by the time of the Finance Bill. Recently this commitment has been dropped and replaced by a vague commitment to a private scheme in the future. Nevertheless, the government's stated position of extending a guarantee to some mortgages of up to 10% is a contradiction of the Central Bank's move to limit credit availability for buying houses.

The premise of the government initiative of boosting demand by boosting supply has been dismissed by experts.

There is little policy coherence to be seen within government or between government and the Central Bank. The government has backtracked enormously already and have kicked the issue to the Oireachtas Finance Committee.

The mortgage guarantee scheme announcement by Minister Noonan was a poorly thought out policy and should now be dropped.

What type of regulation?

The Central Bank's proposals do represent a genuine attempt to create a better and more responsible lending culture.

Sinn Féin believe that the combination of a Loan to Value (LTV) of 85% and Loan to Income (LTI) rule do make sense at this point of the economic cycle. Any review should look at varying the LTV gradually if necessary.

It is noteworthy that in countries where such rules do exist they are considered temporary rather than permanent fixtures. Once established these rules should be kept under review on an annual basis.

Regulation can't be made in a vacuum

Sinn Fein recognises the Central Bank has no mandate to seek or implement rent controls or a social housing policy but its decisions cannot be taken in a vacuum. The medium term goal of any such regulation is prevent bubbles and to create a stable housing sector. Progress on mortgage regulation without progress on the building of social housing, in implementing rent controls and an improvement in the rights of tenants risks creating a trap where young people in particular are unable to save due to the cost of accommodation and unable to but because of the LTV rules.

Unfortunately the government has shown little or no willingness to progress any of these factors. The Central Bank regulations implemented without progress could have severe consequences on young families in particular. As outlined above a more careful approach is needed.