AEMA
ASSOCIATION OF EXPERT MORTGAGE ADVISORS
Association Of Expert
Mortgage Advisors

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By Email
Consumer Protection – Retail Intermediaries and Payments Institutions,
Central Bank of Ireland,
PO Box 559,
Dame Street
Dublin 2

4 December 2014

Re: Response to Consultation Paper on Macro-prudential policy for residential mortgage lending (CP87).

Dear Sir/Madam,

This document has been compiled by the Association of Expert Mortgage Advisors setting out some practical issues which are of concern to us as detailed in the Consultation Paper Macro-prudential policy for residential mortgage lending (CP87).

The Association of Expert Mortgage Advisors represents a group of Financial Advisers who specialise in the area of mortgages. Our experienced and qualified members have practical and direct hands on experience in assisting borrowers on a daily basis obtain the mortgage most suitable to their needs and requirements. Our members promote professional standards and are well regarded by both their clients and the Lenders they transmit business to. We develop long-term relationships with our customers who, in turn, can rely on our experience, expertise and knowledge in all aspects of their mortgage requirements.

Whilst welcoming and endorsing the introduction of any reasonable measures designed to protect the consumer and prevent a reoccurrence of the property crash and subsequent consequence of mortgage distress, we believe that the proposed macro prudential measures as outlined in CP87 will not resolve the current issues and instead will have significant and negative consequences.

Clearly any measures which assist in the prevention of a repeat of the mortgage crisis experienced in Ireland over the past 6/7 years can only be viewed positively and are to be welcomed. Prudent lending practices and the capacity to withstand potential economic or property market shocks in the future without financial distress are essential for our economic well-being. Such measures will undoubtedly contribute to a stable and well-functioning mortgage lending market.

There are real and genuine concerns about rapidly increasing house prices, particularly in Dublin. Recent CSO figures report a 15% increase in property values nationally over the past 12 months. However the question must be asked whether this increase is due to the correction of a previous over correction and/or the very obvious supply side issue of a lack of suitable family homes being available for would be purchasers? We do not believe these price increases are credit fuelled.

There will be an estimated 11,000 new home completions this year compared with 90,000 per annum at the peak of the market. Based on demographics it is estimated that the required level of completions is close to 25,000 units. Just over 30,000 homes were for sale on October 1, the lowest national total since March 2007, and less than half the highest figure seen in 2009.

Despite recent price increases, it is important to note that nationally prices are still down 35% approximately from their peak.

It is essential that such proposed measures solve the problems they are meant to and do not in turn, create a whole new set of unintentional consequences. Whilst the proposed measures are to be welcomed in the context of buy to let mortgages and to a lesser extent high value trade up mortgages, the announcement of the proposed implementation of macro prudential instruments by the Central Bank has already created some unnecessary and unintentional consequences among would be first time buyers. Many of them, some approved and others in the process of applying for approval, have become concerned and distressed that the announcement will result in them being unable to purchase their home as planned.

If introduced as proposed, we believe that the proposed measures may also create further unnecessary consequences, for first time buyers including;

(i) Many first time buyers are likely to be unable to purchase a home as a result of being required to save a 20 per cent deposit (currently estimated at €40k nationally and €60k in Dublin).

(ii) Rents will be driven upwards potentially exposing would be first time buyers financially and preventing them from being able to save for a deposit. Many may be driven from the rental market creating further an unwanted pressure on social housing requirements. Rents have already increased nationally in excess of 10 per cent in the last 12 months.

(iii) Demand may fall because people cannot afford to buy. This will discourage builders to build much needed family homes and potentially cause property values to fall. This may put further pressure on related labour markets.

(iv) Potentially two different first time buyers might be offered different mortgage terms by the same Lender depending on the manner in which they sourced the mortgage (e.g. direct v intermediary distribution channels as banks may be forced due to proposed restrictions to offer better terms to direct customers). This would represent anti - consumer behaviour.

(v) Because of loan to value restrictions, cash buyers or those with generous families and large gifts, will get more of an opportunity to purchase a home than others less fortunate but equally deserving. Some borrowers might be tempted to borrow a portion of the deposit required. We have already seen the disastrous consequences this can have on borrowers.

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(vi) Planning for retirement is equally as important as saving for a deposit and purchasing a home. Having a requirement to save additional monies for a deposit could have a severe and negative impact on first time buyers who wish to commence contributing to a pension for retirement.

Is any of this equitable from a consumer perspective, surely within our society it should be an attainable ambition for credit worthy first time buyers to own their own home?

In our view a more appropriate set of solutions could incorporate the following;

(i) The most crucial issue to be addressed is the supply of suitable family homes for first time buyers. The cost of building such homes should not be prohibitive and builders should be encouraged to build new homes. Equally those whose families who have grown up and left the family home may find themselves in properties larger than their requirements could be incentivised to trade down.

(ii) 90% finance should available to first time buyers who can demonstrate that they have saved the required 10% and passing stress testing and repayment capacity criteria.

(iii) More stringent criteria should be applied to trade up mortgages (notwithstanding exceptions which are required to be made for those in negative equity) in excess of pre - determined reasonable loan amounts.

(iv) Borrowing capacity should only be assessed on net disposable income, demonstrated repayment capacity and stress testing. It has never been more difficult to get mortgage approval. Borrowers are thoroughly vetted by having to display repayment capacity (i.e. that they can afford the repayments) and all mortgage applications are stress tested at rates of 6% plus. The arrears profile of mortgages advanced in recent years based on the above criteria are well within prescribed limits. This criteria was not present at the time many of those in current distress were approved for their facilities. If it had been things would have been very different. Year to date lending figures suggest an annual figure of less than €3.75bn which is only a fraction of the €40bn plus borrowed at the peak. It is widely accepted that in a normalised market this figure should be closer to €10 bn per annum.

(v) A suitable private insurance scheme to protect Lenders against any fall in property values, in circumstances where losses are incurred between 80-90 per cent of the property value as a result of arrears should be considered. Premiums should be incurred by the Lender and there should be no recourse against the borrower for the Insurer. Government participation in such a scheme should be prohibited given the possible exposure to the tax payer.

(vi) The market should be allowed a further period of review before the introduction of any measures. Property industry sources confirm that activity and demand levels in the Dublin second hand Property Market (where the majority of price increases have occurred) have reduced in the past 3/4 months. We are not in a normalised mortgage market. In addition the implementation of any measures should have at least a 6 month lead in period to allow borrowers and Lenders time to adjust to the new measures.

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The Central Bank proposes to introduce regulations placing ceilings on the proportion of mortgage lending at high loan to value ratios and the on the proportion of mortgage lending at high loan to income ratios. We are not aware of any jurisdiction where two such measures have been introduced simultaneously and therefore question why this is being proposed in the context of our market. Surely this is overly restrictive?

We concur with the proposals outlined in respect of the buy to let market from a loan to value ratio perspective. Purchasers in this area should be experienced and professional investors with the capacity to withstand sudden shocks and negative consequences of ownership.

Some commentators have referred to other jurisdictions where stricter lending guidelines exist than those presently in Ireland. However it is important to note that in these other jurisdictions the rental market is subject to strict regulation and in most cases normalised mortgage market exists.

There is an old saying. Those who cannot remember the past are condemned to repeat it. Let's remember the past but in an appropriate manner. The economy is beginning to recover. Exports, investment, employment and consumer spending are all moving in the right direction. The property market is still relatively fragile. We need stability. Perhaps therefore a rock hammer and not a sledge hammer would be a more appropriate instrument to deal with this problem.

As a representative body and industry stakeholder, we would welcome the opportunity to meet and discuss these points with you before any formal decisions are made in relation to this matter.

Yours sincerely,

Trevor Grant

Trevor Grant
Chairman
For and on behalf of The Association of Expert Mortgage Advisors