Chambers Ireland Submission on Macro-prudential policy for residential mortgage lending

Chambers Ireland is the largest business organisation in the State. With over 50 member Chambers, we represent the interests of those doing business in every region and industry sector in Ireland. An efficient residential housing market is an important component of a well functioning economy, and as such we believe that the impact of any regulations on residential mortgage lending will have a significant impact beyond regulated financial services providers and individual households.

Chambers Ireland supports the Central Bank's objectives to increase the resilience of households and the banking sector to risks associated with the property market. However, we believe that given the current characteristics of the Irish housing market, a measured approach should be adopted when considering the introduction of any new regulations. There is a concern that given a lack of a supply of suitable housing stock in many regions, the proposed regulations may render home ownership unaffordable for the majority of the population. This will have a knock on impact throughout the economy as the construction of housing stock slows, home improvement projects are reduced, and a corresponding reductions in sales of home furnishings, appliances and white goods.

Prioritise the introduction of LTI ratios over LTV ratios

Chambers Ireland believes that the introduction of Loan to Value ratios of 80% for no more than 15% of aggregate value of all housing loans will leave many consumers unable to secure credit. Consumers are unlikely to be in position to save sufficient capital for a deposit of over 20% of the house purchase price, particularly given that many consumers will also be shouldering a burden of high rental costs. The imposition of such a regulatory framework is likely to be socially inequitable as those who are in position to be supported by gifts or transfers from family members will be enabled to access credit and home ownership, whereas those not in a position to raise the capital will be excluded from the market. LTV limits may also encourage the practice of household's taking on additional non-mortgage debt in order to secure the deposit levels required.

Chambers Ireland favours the introduction of Loan to Income ratios as a more equitable measure, and a more realistic methodology for assessing a household's capacity to repay mortgage debt. The effectiveness of such a methodology will be increased by the introduction of a Central Credit Register.

Ensure transparency in the internal operations and credit decisions of regulated financial services providers

The “proportionate limits” outlined in the regulatory framework will allow some flexibility for lenders, but the overall effect will be to reduce the aggregate availability of housing loans with high LTV or LTI ratios. There is a concern that unless some measures are introduced to ensure transparency in the credit decision process, financial services providers may be encouraged to allocate the higher ratio loans to applicants based on criteria other than credit worthiness, for example personal connections or organisational affiliations.