Submission in response to Central Bank Consultations on Residential Mortgage Lending Policy-CP87 from Councillor Ronan McKenna.

It is clear from the documentation published by the Central Bank that the "consultation" on which it has allegedly embarked is merely a box ticking exercise to say it complied with its obligations under its Consumer Charter. The document published clearly shows the Central Bank intends to introduce the measures irrespective of what submissions are made. This therefore can hardly be described as a "Consultation", it is more of a "Notice of Intent"

The document clearly states: "While the regulations are not yet in place, regulated lenders are instructed to take account of the likely introduction of such a regime and to begin to adapt their lending practices already in anticipation of its introduction. Draft regulations are also contained in Annex 1."

Later in the document it is stated:

"Regulated financial service providers should be aware that, if it is decided to introduce these limits, there will not be a long period between making the regulations and their coming into effect. Regulated financial service providers are therefore advised to consider the steps necessary to prepare for compliance with the proposed rules. Likewise, the Central Bank expects regulated financial service providers not to act in a way which might undermine or circumvent the Central Bank's macro-prudential objectives in imposing LTV and LTI limits as described in this consultation paper, such as offering secondary mortgage products to finance in part the down payment made by the borrower."

Finally, near the end of the document, the Central Bank not only underlines its intention to introduce the new regime very quickly once the consultation is completed but also make it clear that they expect lenders to start acting as if the regime is already in place:

"While the Central Bank will take full account of all such submissions, it can be assumed that a regime of the type foreshadowed in this document is likely to be introduced. . ….lenders are instructed to take account now of the likely introduction of such a regime and begin to adapt their lending practices already in anticipation of its introduction."

While there can be little argument with the desirability of ensuring we have no repeat of the collapse of the property market and all that entailed the proposals take little or no account of anything but finance and economics. There is no consideration of the possible social consequences of what is proposed or the effect it will have on the uniquely Irish attachment to home owning.

The proposals will exclude all but the wealthy from being in a position to purchase their own homes for the foreseeable future. Anybody on the average industrial wage of €32,000 will be unable to put down the proposed 20% deposit (€52,000) for the average priced Dublin house at €263,000 or even for the average priced house outside Dublin which would require €38,000 approximately.

The possibility that only the sons and daughters of the wealthy in this generation of potential house buyers will be in a position to become property owners could have frightening social consequences with a large proportion of the young population of this generation having no “stake” in society. This could have serious consequences in the future when another economic downturn occurs. It is no accident that, despite the fact that Irish people probably suffered more than most in this great recession we had considerably less social unrest than other countries. This is largely because most people in Ireland in the age bracket that might lead such unrest were and are stakeholders in society. Sadly that will not be the case in the future if these regulations are introduced in their present form.

The proposed restrictions will add significantly to the Social Housing lists of all local authorities and will exacerbate the already chronic situation in relation to the numbers of people on waiting lists for housing. This will lead to more pressure on the public finances to provide the necessary for capital expenditure in this area.

While I accept that Central Bank has a specific remit in relation to banks and lending this intervention in the housing market should not be done in isolation from other policy instruments. If these rules are to be implemented then consultations should take place with the relevant Government Departments to ensure there are not a huge amount of unintended consequences with large numbers of people having to go on the social housing list, large scale termination of tenancies by landlords looking to cash in on a significant increase in the number of relatively well paid people looking for accommodation and the possible hiking of rents to cash in on the shortage of available rental accommodation in Dublin and elsewhere. It has been estimated that the proposals put forward by the Central Bank will increase rents in Dublin by as much as 30%. There is little doubt it will have similar effects in many other areas where there is a shortage of rented accommodation. Again this will have major effects on housing waiting lists and ultimately on homelessness which is at unprecedented levels currently.

I note from your consultation that the proposed LTV levels are at the upper end of the examples cited by you. Is this a typical Irish thing where we go from one extreme to another in an over-reaction? Norway, Sweden, Finland and New Zealand have LTV’s above the levels proposed in Ireland. It would seem that the 85% to 90% might be a more suitable for our particular circumstances as outlined above.

The Central Bank could avoid some of these serious consequences by adopting a different approach:

- Make sure that Government, which has a responsibility for social and housing policy, engages fully with them to ensure all aspects of the housing and mortgage market are dealt with in a fair and balanced manner.
- Introduce a Mortgage Insurance Scheme which will assist the Central Bank in its role in ensuring the viability of our banking system without causing the major problems outlined above. It is not good enough for the Central Bank to say “we are taking these measures to protect the banking system against the possible stupidity of our banks by preventing ordinary people from getting mortgages” when there is another instrument which could do a similar job or at least help to alleviate the worst consequences of what is currently proposed.