Irish Mortgage Holders Organisation

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Macro-prudential policy for residential mortgage lending

Consultation paper CP87

Response from The Irish Mortgage Holders Organisation – 8th December 2014

The Irish Mortgage Holders Organisation ("IMHO") is a not for profit organisation which provides advocacy, insolvency and bankruptcy services and negotiation services to those who are facing a variety of financial difficulties primarily related to difficulties with mortgages.

This has given IMHO an unrivalled understanding of the issues and consequences that arose as a result of extremely lax lending policies in Irish lending institutions up to 2008 along with the consequences of a failure to adequately deal with the problem over the last number of years.

We welcome the fact that 6 years after the economy collapse in Ireland, led by reckless lending in the commercial property sector that the Central Bank has decided to finally take some action. However it is strange that residential properties – those of families – are being targeted as oppose to the commercial developers and speculators that led us to the position we found ourselves in.

It is IMHO's view that Central Bank intervention to ensure that the mistakes seen up to 2008 are not repeated. There is a role for an effective regulator to ensure that no repeat of what was seen in 2008 is seen again and that prudent lending policies in financial institutions are enforced. This requires action by the central bank to ensure that new lending by banks is sustainable and based clearly on the borrower's ability to make ongoing repayments.

However any regulation must be cautious to ensure that access to the market is freely available for as many creditworthy applicants as possible and that those who are looking to purchase a home for the first time and who are credit worthy are not in a position where the capital cost of access to the market is prohibitive and first time buyers are either left in an un-reformed rental market or seeking alternative sources of finance to provide for up front capital cost.

The IMHO suggest that the regulations be amended to take account of first time buyers. The requirement for a 20% deposit is prohibitive to allowing first time buyers access the housing market and it would be more appropriate for this category of buyer to be exempted from the regulations or subject to a deposit requirement of 10%.

David Hall	Stephen Curtis
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Response to questions:

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

LTV and LTI caps are the appropriate tools to ensure that the banking and household sectors are resilient to shocks in the property market. They seek to ensure house price increases are maintained in line with income growth in an economy and seek to prevent bubbles occurring. However caution is required to ensure that caps do not prevent access to the housing market for those who have capacity and income are not prevented from access as a result of high upfront capital costs to enter the market. Capacity to repay loans is not perfectly correlated to price fluctuations and whilst a shock to house prices is generally accompanied by a shock to the economy generally the primary decision tool in lending should remain as capacity to repay debts from disposable income.

Do you agree that the measures should apply to all lending secured by residential property (which will include lending on property outside the State)?

Measures should apply to all lending secured by residential property and the Central Bank should be careful to ensure that a competitive advantage cannot be gained by classifying certain loans in a certain fashion.

Do you agree with the exemptions set out? Are there any additional exemptions which you consider appropriate, taking into account the objectives of the proposal and the balance between the benefit of any exemptions and the resulting increase in potential for unintended consequences?

We would consider it appropriate that an exemption be set for first time buyers. There is a real danger that those who are entering the market for the first time will find access impossible by virtue of the fact that they do not have property (possibly with some equity in it) to sell. The difficulty of sourcing or saving 20% of the purchase price of a property is prohibitive and there is a real danger that it would force many first time buyers to use alternative, potentially non-regulated sources of finance in generating the required deposit.

If there are any significant operational difficulties envisaged by regulated financial services providers in complying with the measures as outlined above and in the draft Regulations (Annex 1) and the proposed exemptions, please submit brief details of same.

Irish Mortgage Holders are not a financial services provider and it would not be appropriate to provide a detailed comment.

Should some adequately insured mortgages with higher LTVs be exempted from the measures and if so what should be the criteria for exemption?

Yes, in the event that adequate insurance is in place to the satisfaction of the relevant credit provider the loan should be exempted from the measures.

Do you consider restrictions on loan-to-income ratios as suitable for buy-to let mortgages? What impact would a restriction on such loan-to-income ratios have on buy-to-let lending in the State?

No, Buy-to-let mortgages are typically for the purposes of an investment loan. Given this the loan to income ratios are not necessarily an appropriate measure as to the credit worthiness of a particular loan. There needs to be cognisance given to the rent generated from the property, the potential for capital increases, other assets in the investor's portfolio and how the proposed property affects the balance of the portfolio and all other considerations generally taken by lenders in making investment loans.

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

Primarily IMHO believe that the unintended consequence of these measures would be that first time buyers, who typically would not have access to a 20% initial deposit to purchase a house would find themselves unable to enter the housing market and be left with a choice between either utilising alternative sources of finance to provide the upfront capital (expensive unsecured short term debt) or remain in a currently dysfunctional unreformed rental market where long term stable leases are not typically available.

Is the threshold of €50 million over 2 quarters an appropriate threshold and time period for reporting requirements? If not, please indicate a threshold you believe to be appropriate and provide reasons why you believe this is the case.

Irish Mortgage Holders are not a financial services provider and it would not be appropriate to provide a detailed comment.

Are there any significant obstacles to compliance by regulated financial services providers with the limits?

Irish Mortgage Holders are not a financial services provider and it would not be appropriate to provide a detailed comment.

Please provide comments on the following draft Regulations.

The regulations as presented represent a positive step in seeking to ensure that mortgage lending is based on an ability to make repayments on an ongoing and sustainable basis. Similarly moves to protect homeowners from price shocks in the housing market are to be welcomed.

However, as outlined above, care needs to be taken to ensure that the regulations do not prevent first time buyers from entering the housing market.

The regulations already provide for a number of exemptions and IMHO would call on the Central Bank to urgently review the regulations and make a provision to exempt first time buyers.

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