MABS Submission to The Central Bank on Macro-prudential policy for residential mortgage lending CP87

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MABS National Development Limited

Draft 1

The Money Advice and Budgeting Service (MABS) was established in 1992 to help people on low incomes to cope with debts and take control of their own finances. It is a free, confidential and independent service. It currently comprises 53 MABS Services, located in over 60 offices nationwide. It is funded by the Citizens' Information Board, which has overall responsibility for the management of the MABS service, including monitoring, financial administration, executive decision-making, facilitating regional networking and funding the MABS service in its entirety.

MABS National Development Limited was established in 2004 to further develop the MABS Service in Ireland. It provides training and technical support to MABS staff nationally. MABSndl also assists the MABS service in providing educational and informational supports as well as assisting in highlighting policy issues that arise in the course of the money advice work on behalf of clients. MABSndl has responsibility for the on-going development of the MABS website www.mabs.ie and for providing the MABS national helpline service.

Introduction:

It is a core value of MABS that consumers should only enter agreements that are affordable and sustainable over time. This is particularly true when it comes to the purchasing of a family home. We therefore welcome efforts by the Central Bank to appropriately regulate the mortgage market and generate a pro-consumer culture in the industry with responsible lending as a core principle.

MABS Submission to Consultation Paper CP87

Question 1: 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 shock in the Irish property market and why?

Answer 1: It is the MABS view that a combination of LTV and LTI ratios on mortgage borrowing is appropriate in that both the protection of borrower and creditor is enhanced while bringing a greater level of security to the mortgage market. The task is a very difficult one, as both reckless lending and reckless borrowing must be curtailed but the market must remain accessible, in so far as this is possible, for people who can demonstrably save for, and repay a mortgage. It is the level at which these ratios are set that is the primary consideration from the prudential, affordability and market access perspectives.

In the period since the mortgage crash began a number of important infrastructural developments have been put in place or are planned? which, in combination, and if utilised fully and monitored robustly, should provide a more substantial basis for making informed lending decisions. This infrastructure includes: 1) comprehensive micro-prudential supervision, 2) lenders own risk management structures, 3) Reasonable living expenses (RLE) standards and/or use of the SFS to assess capacity to repay and 4) the proposed introduction (in 2016) of the new comprehensive credit register. As such, it is MABS view that the levels at which LTV and LTI are set should reflect the more robust analysis now required ***before*** credit is advanced. Consideration should be given to loan to disposable income (LTDI) as it is the applicants' disposable income that will be funding the payment of the mortgage. It is evident in MABS casework that it is this factor which determines capacity to meet contractual payments, and that too often credit was advanced without due consideration to stability of income/ future loss of earnings (unemployment, retirement) or essential costs (child-care) which should have been anticipated.

Levels of unsecured debt are also a key consideration in relation to lending decisions. In many cases MABS has seen debtors with accumulated unsecured debt levels which far exceed the total amount of mortgage debt owed and the total contractual repayment on a mortgage. While not a matter essential to this consultation, it should nevertheless be noted that the proposed thresholds will only have the effect of shifting difficulties to other parts of the market if accumulated unsecured debts are not considered by lenders in their overall lending/affordability assessments both before and after a mortgage is taken out[1].

How the deposit has been secured should also be a consideration i.e. there must be proof of capacity to save an amount equivalent to, or greater than, a mortgage payment over a sustained period There will be a difference in this regard between those who can save more because they don't currently have any accommodation costs and those who are

A MABS research report *'A profile of MABS clients in mortgage difficulty and factors associated therewith'* (2013), based on almost 6,000 active MABS clients with a mortgage difficulty, found that 97% of all clients on which the research was based, also had 'secondary' (mainly unsecured) debts. Of this cohort, 16% had 'secondary' debts valued between €20,000 and €30,000 and almost 19% (n=951) were valued in excess of €50,000.

making a rental payment. MABS has a concern that the rising cost of rent and the consequential limits on what renters can save towards a deposit, may mean that renters with a solid income who could afford a mortgage will not be able to save the full deposit of 20% in a reasonable period of time. Where exceptions are made to the ratio in relation to savings for the deposit it should be with the express intention of redressing the balance for this group.

Question 2: Do you agree that the measures should apply to all lending secured by residential property (which includes lending on property outside the state)?

Answer 2: MABS agrees that these measures should apply to all lending secured on residential property.

Question 3: Do you agree with the exemptions set out? Are there 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?

Answer 3: MABS agrees with the exemptions set out. There must be serious financial penalties for any abuse of the exemptions by lenders.

Question 4: If there are any significant operational difficulties envisaged by regulated financial service 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.

Answer 4: Non Applicable

Question 5: Should some adequately insured mortgages with higher LTV's be exempted from the measures and if so what should be the criteria for exemption?

Answer 5: MABS is of the view that where there is a robust affordable mortgage insurance scheme in place greater ***<u>supervised</u>*** flexibility should be allowed.

Question 6: Do you agree that the measures should apply to all lending secured by residential property (which includes lending on property outside the state)

Answer 6: It is the MABS view that these measures should apply to all lending secured by residential property.

Question 7: 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 the potential for unintended consequences?

Answer 7: As above.

Question 8: 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?

Answer 8: It is the MABS view that where buy-to-let mortgages are being advanced for the purchase of such a property to an unincorporated entity it should be subject to a loan-to income ratio. This will protect consumers who intend to purchase buy-to-let properties as an alternative to a pension.

Question 9: If there are any significant operational difficulties envisaged by regulated financial service providers in complying with the measures outlined above and in the draft Regulations (Annex1) and the proposed exemptions, please submit a brief detail of same

Answer 9: Not Applicable

Question10: What unintended consequences do you see from the proposed measures and how could these be avoided?

Answer 10: There may be consequences for market activity, property prices and entry levels as well as impacting the rental sector. Our comments at 1) above, in relation to the situation of those in rental accommodation are relevant. It is the MABS view that a robust market impact study should be carried out as soon as possible to ascertain the possible effects on market activity, property prices and how the regulations impact on entry to the property ladder for the citizen. Ongoing monitoring should also take place so that corrective action can be speedily introduced.

Question 11: Is the threshold of €50million 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.
Answer 11: Non applicable

Question 12: Are there any significant obstacles to compliance by regulated financial service providers with the limits
Answer 12: Not Applicable

<u>**Additional Observation**</u>

There is reference made in the draft regulations to the valuation regime viz.
*' (a) the **lender** shall appoint an **appraiser** to calculate the **market value** and such **appraiser** shall:*

*(i) be professionally competent and sufficiently independent from the **housing loan** underwriting process so that he can provide an impartial and objective valuation; '*

This process and the absolute independence and professional competence of those that conduct such appraisals are critical parts of the mortgage market. MABS has been dealing with clients with mortgage difficulties for some time and due to the nature of their work, Money Advisers have very good practical insight into the dynamics of the property market at local level. Based on active work in the years ***preceding*** the crash, MABS has long been of the view that too many properties were over-valued ***at the time*** the loan was granted and the role of the appraiser and the valuation process is one which is too often overlooked.