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Lending standards in the Irish mortgage market

*Economics Roundtable, September 5th 2018; Jane Kelly, Macro-Financial Division.
Contributions from Christina Kinghan, Elena Mazza, Fergal McCann*

Credit conditions in 2017

- Focus on distributions of new lending

- LTV and LTI in 2016 and 2017
- Longer term (recent) historical context for FTBs
- The characteristics of borrowers getting allowances in 2017

* *Slides 3-7 from Kinghan-Lyons-Mazza, [Financial Stability Note 2018 No. 1](#)*

- Broader market trends

- Portfolio distribution of lending

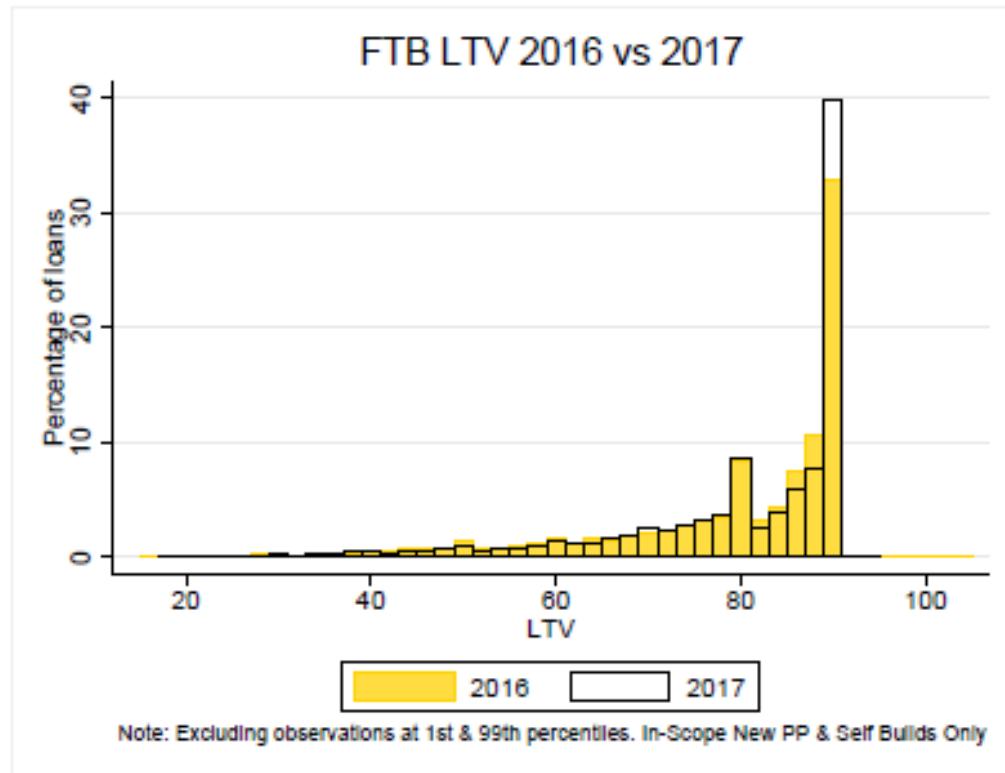


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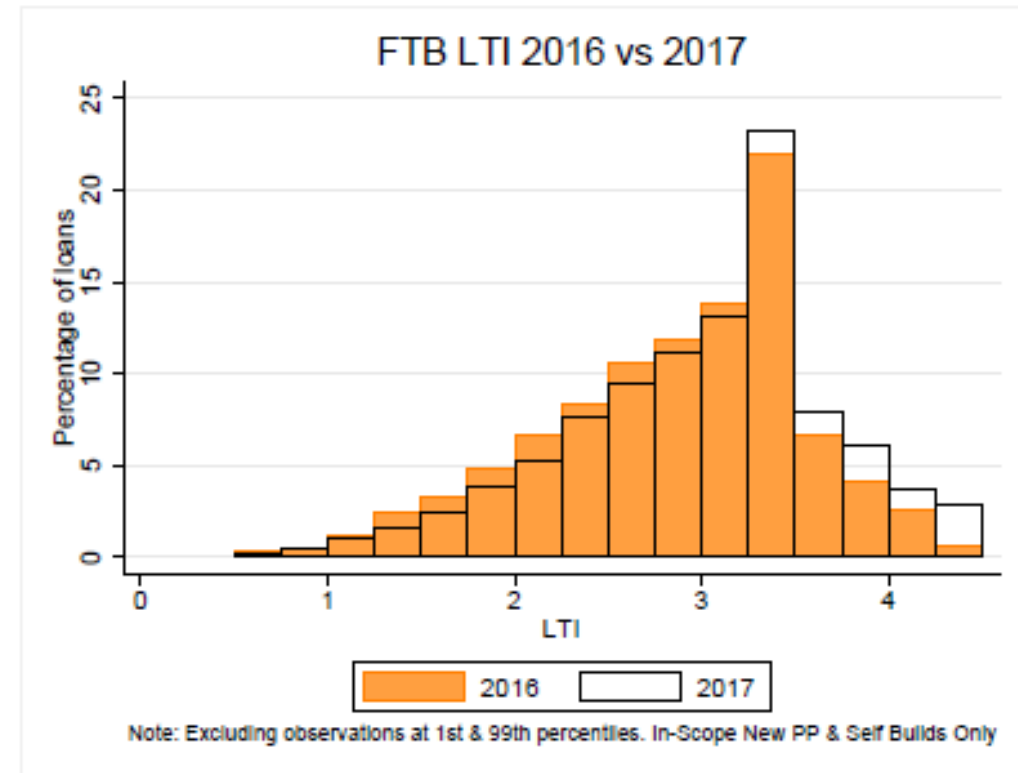
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First Time Buyers 2016 v 2017

3: A: FTB LTV



3: B: FTB LTI



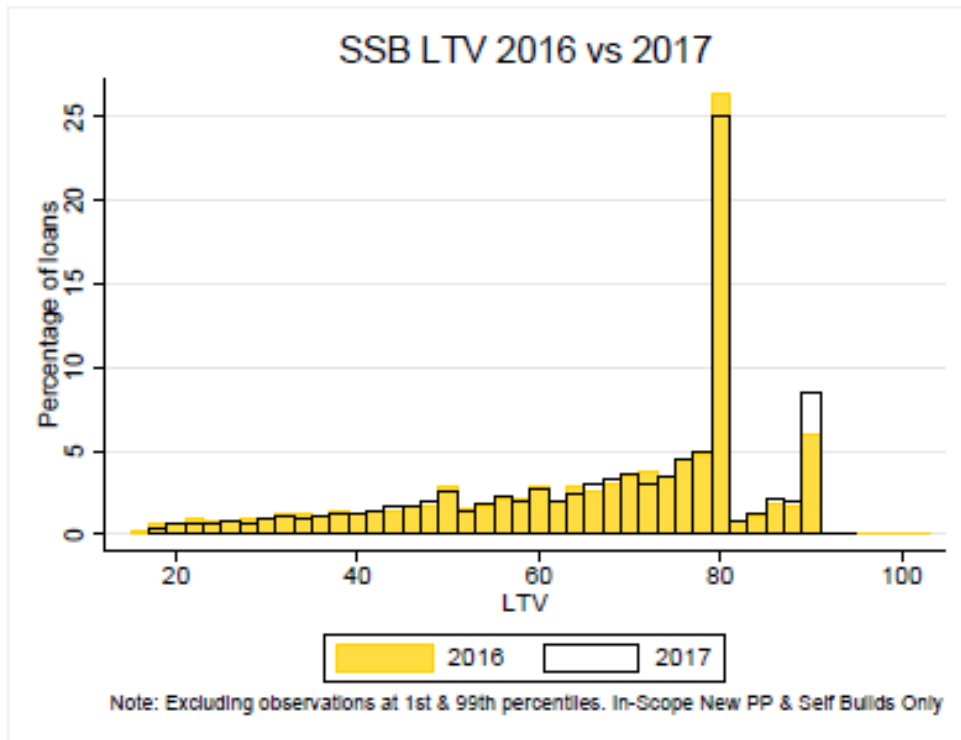
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Second and Subsequent Buyers 2016 v 2017

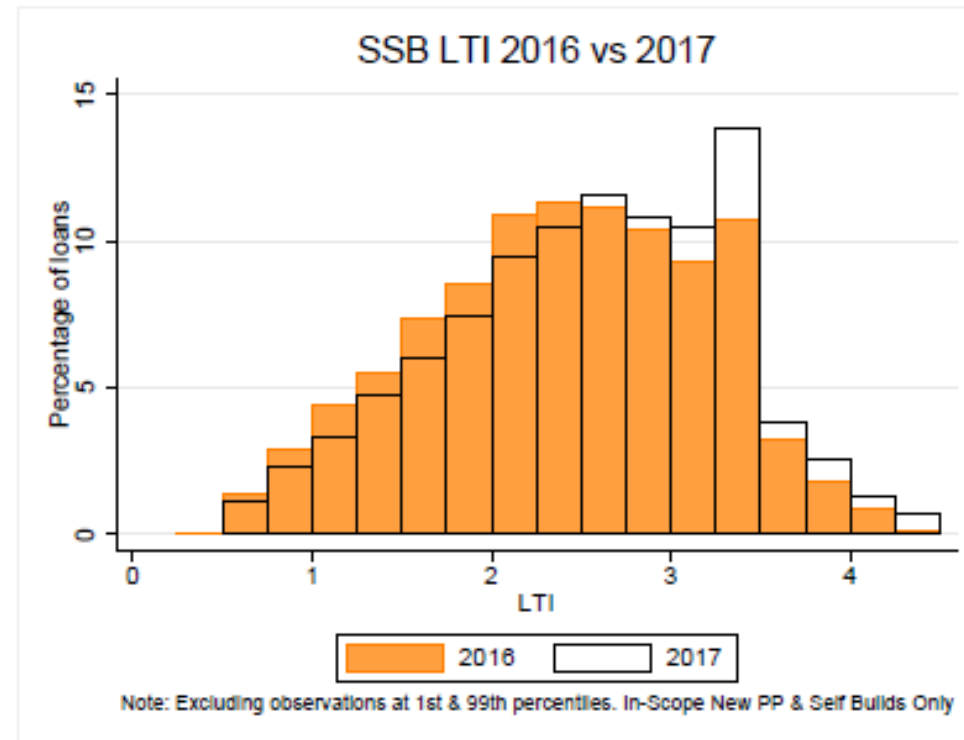
3: C: SSB LTV

SSB LTV 2016 vs 2017



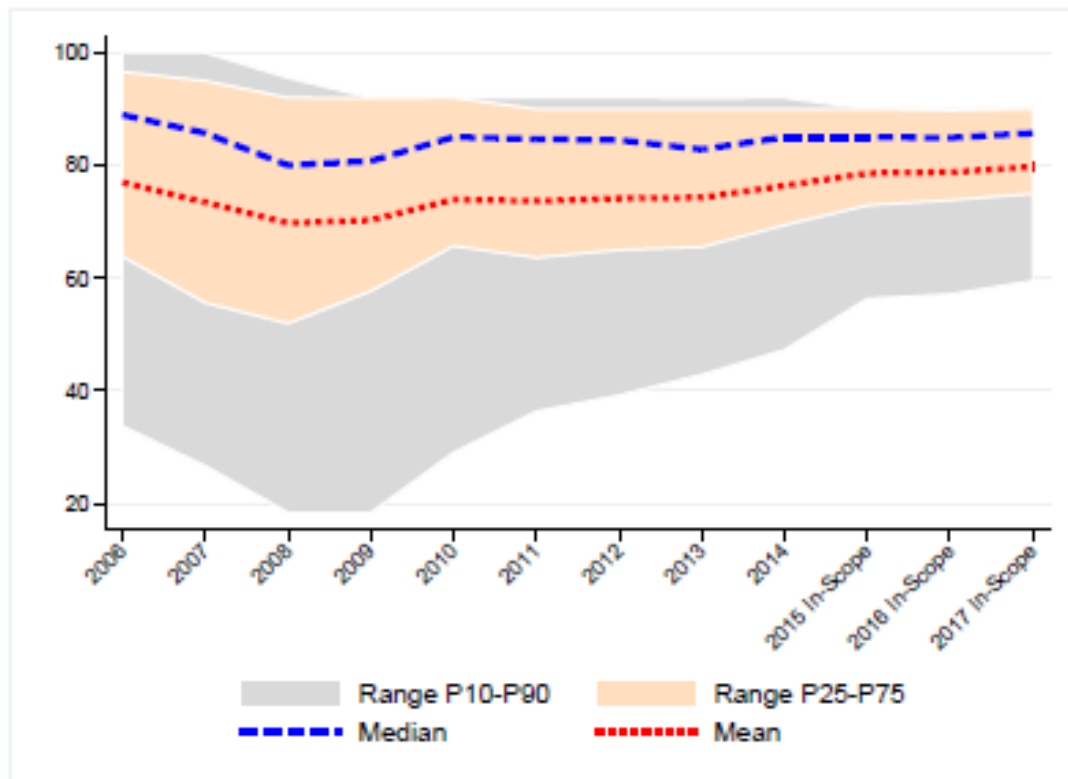
3: D: SSB LTI

SSB LTI 2016 vs 2017

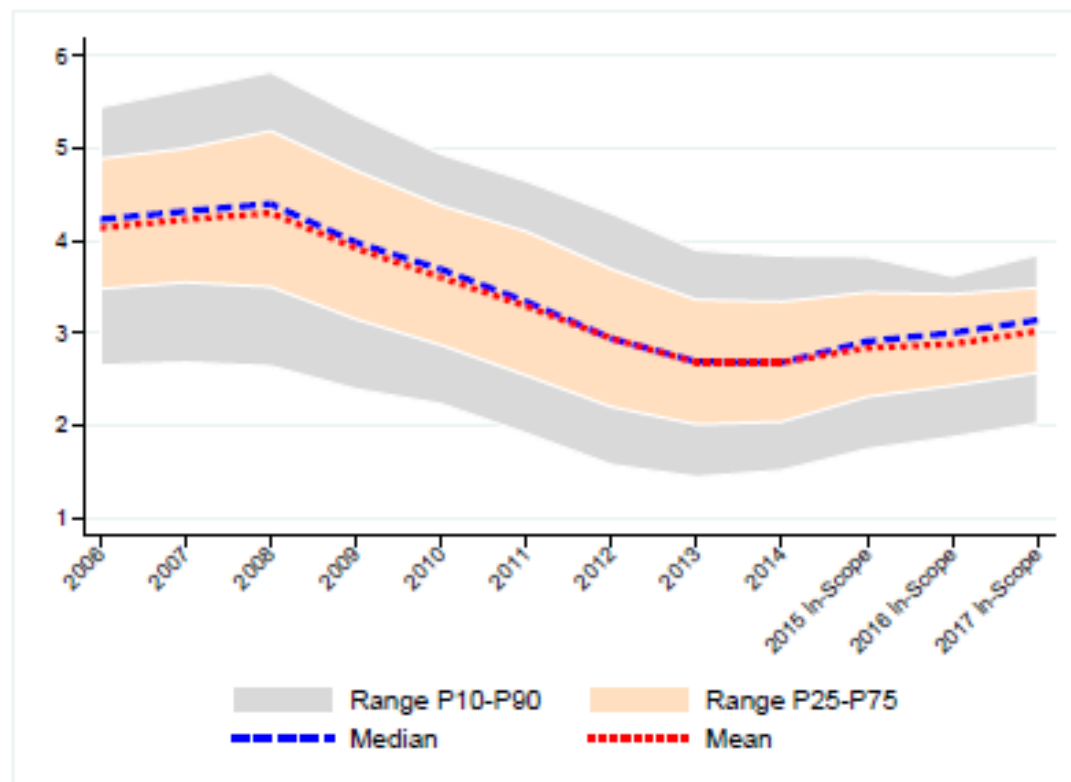


Historical context for FTB credit conditions

4: A: FTB LTV



4: C: FTB LTI



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2017, FTBs, comparison of those with and without an LTI allowance

| Loan Characteristics | | | |
|---------------------------|---------|---------|-----------|
| Loan Size (€) | 192,038 | 266,138 | 74,101*** |
| Property Value (€) | 255,376 | 344,335 | 88,958*** |
| Loan-to-Value (%) | 79.4 | 81.1 | 1.7*** |
| Income (€) | 71,605 | 69,641 | -1,964*** |
| Loan-to-Income | 2.8 | 3.9 | 1.1*** |
| Loan Term (Years) | 29 | 32 | 3*** |
| Interest Rate (%) | 3.4 | 3.3 | -0.0 |
| Borrower Characteristics | | | |
| Borrower Age (Years) | 34 | 33 | -1*** |
| Marital Status, of which: | | | |
| <i>Couples (%)</i> | 45.6 | 31.7 | -13.8*** |
| <i>Single (%)</i> | 53.1 | 67.7 | 14.6*** |
| <i>Other (%)</i> | 1.4 | 0.6 | -0.8*** |
| Broker (%) | 20.1 | 24.1 | 4.0*** |
| Employed (%) | 90.1 | 90.8 | 0.8 |
| Dublin (%) | 28.1 | 62.6 | 34.6*** |

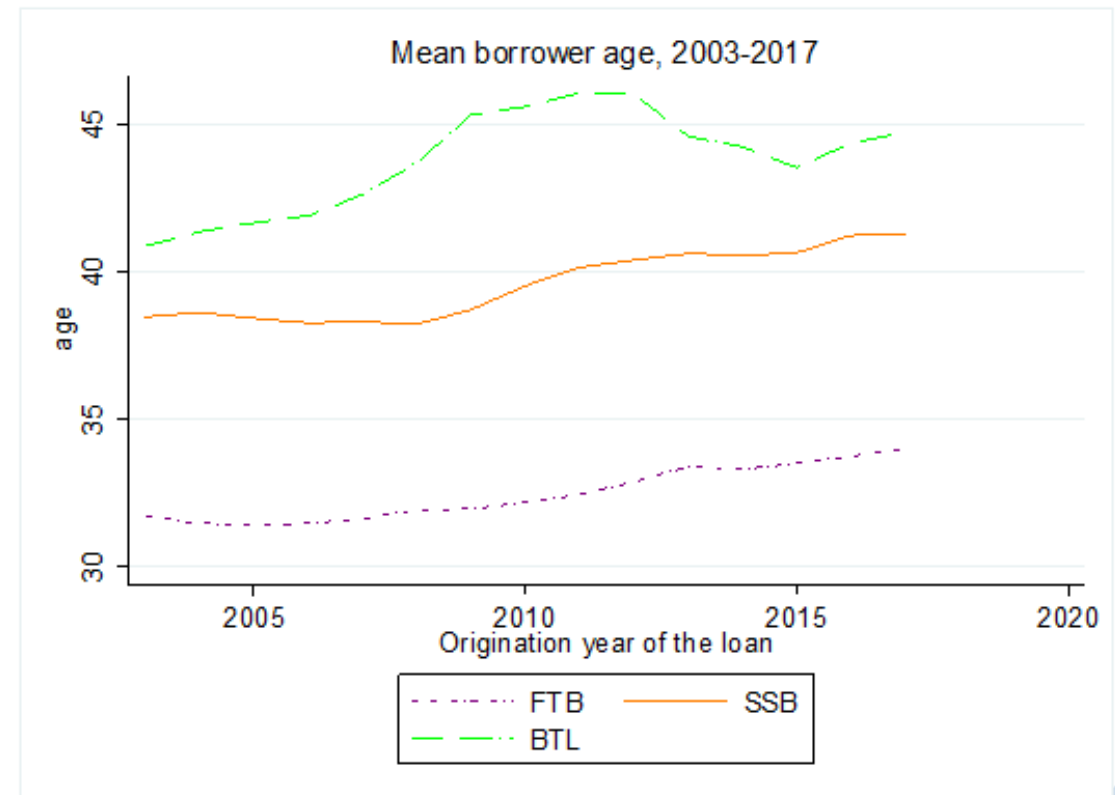
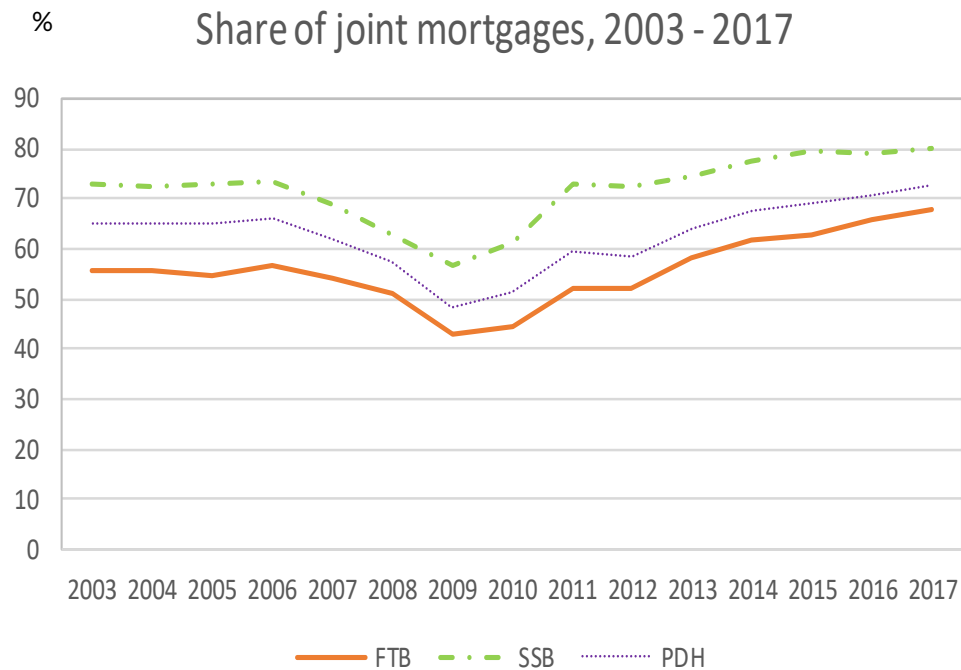


2017, SSBs, comparison of those with and without an LTI allowance

| | | | |
|---------------------------------|---------|---------|------------|
| Loan Size (€) | 226,391 | 302,862 | 76,471*** |
| Property Value (€) | 397,309 | 523,748 | 126,440*** |
| Loan-to-Value (%) | 67.4 | 70.0 | 2.6*** |
| Income (€) | 107,874 | 95,879 | -11,994*** |
| Loan-to-Income | 2.4 | 3.9 | 1.4*** |
| Loan Term(Years) | 24 | 28 | 4*** |
| Interest Rate (%) | 3.2 | 3.1 | -0.1*** |
| Borrower Characteristics | | | |
| Borrower Age (Years) | 41 | 38 | -3*** |
| Marital Status, of which: | | | |
| <i>Couples (%)</i> | 73.7 | 65.9 | -7.8*** |
| <i>Single (%)</i> | 19.1 | 30.3 | 11.3*** |
| <i>Other (%)</i> | 7.3 | 3.8 | -3.5*** |
| Broker (%) | 17.4 | 18.9 | 1.5 |
| Employed (%) | 88.8 | 89.5 | 0.7 |
| Dublin (%) | 38.0 | 69.2 | 31.2*** |

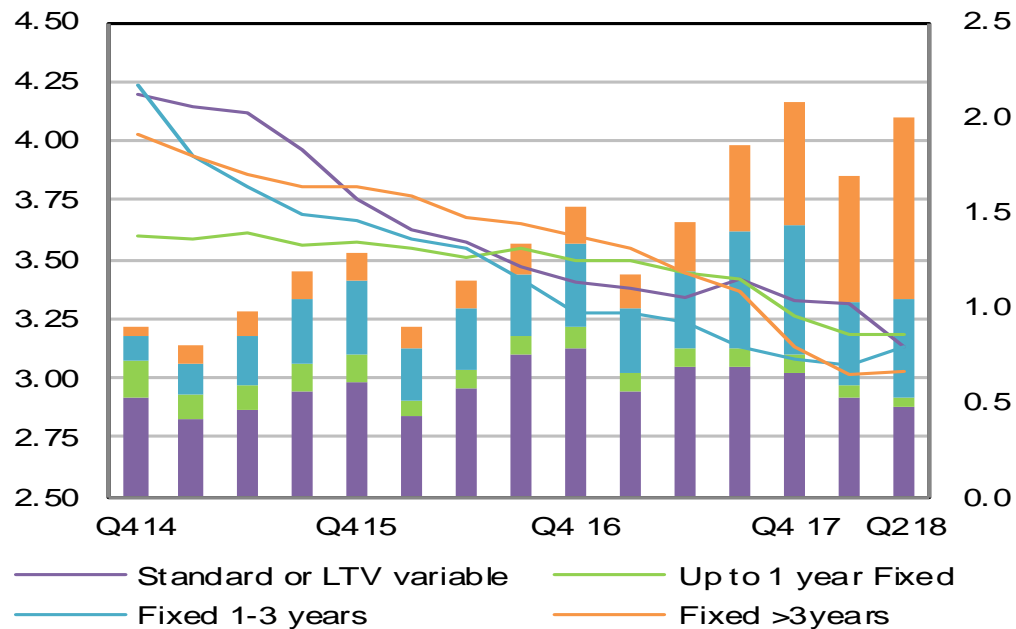


Borrower focus; increasing trend of joint applications in recent years and borrowers are older....



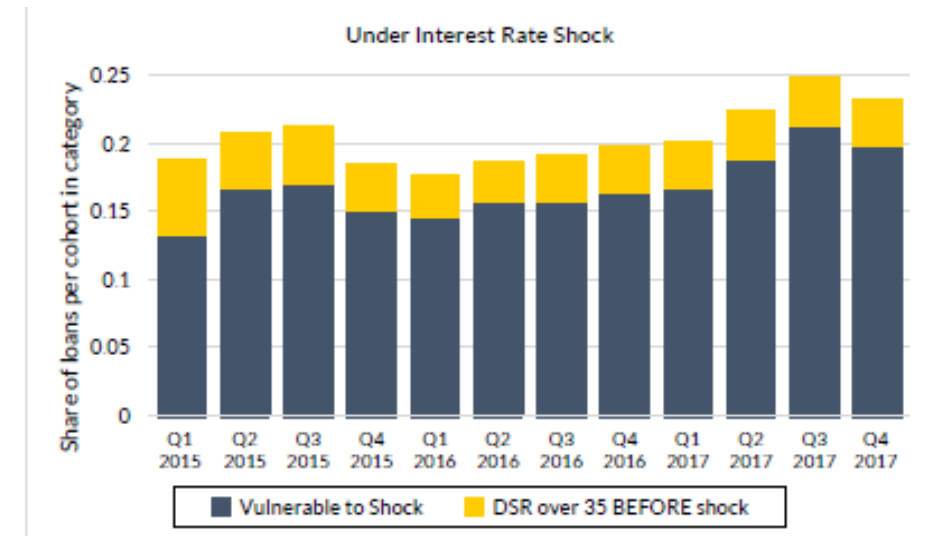
Fixed rate lending continues to grow but vulnerabilities remain

New PDH lending: volumes and interest



Source: Central Bank of Ireland.
Notes: Lines represent interest rates (lhs) while bars represent volumes (rhs). Last observation: 2018Q2

DSR on new lending under hypothetical interest rate shock of 242bps



Source: Central Bank of Ireland, loan level data.
Provisional and preliminary data; subject to revision before publication

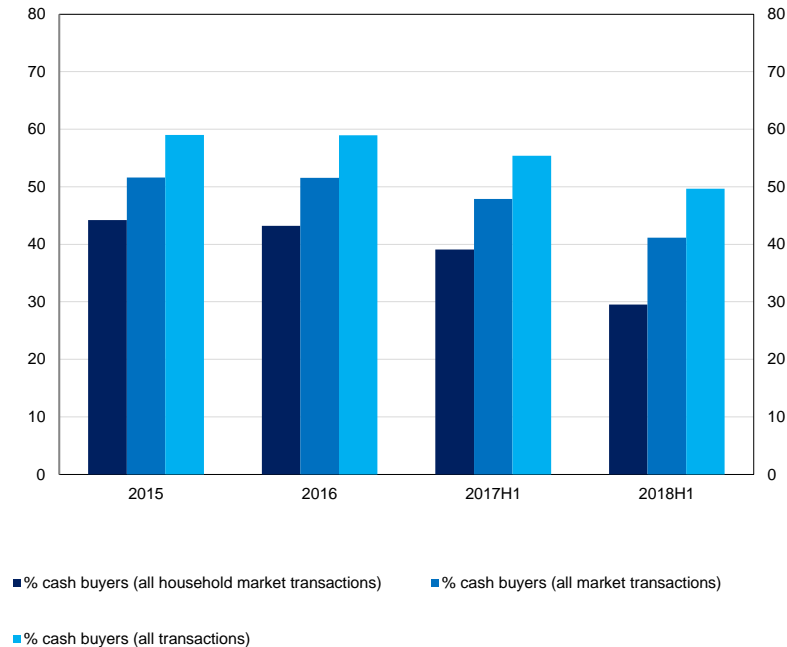


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Cash buyers remain a significant element of the housing market

Share of non-mortgage financed buyers per market segment



Source: CSO, BPI and Central Bank of Ireland calculations.

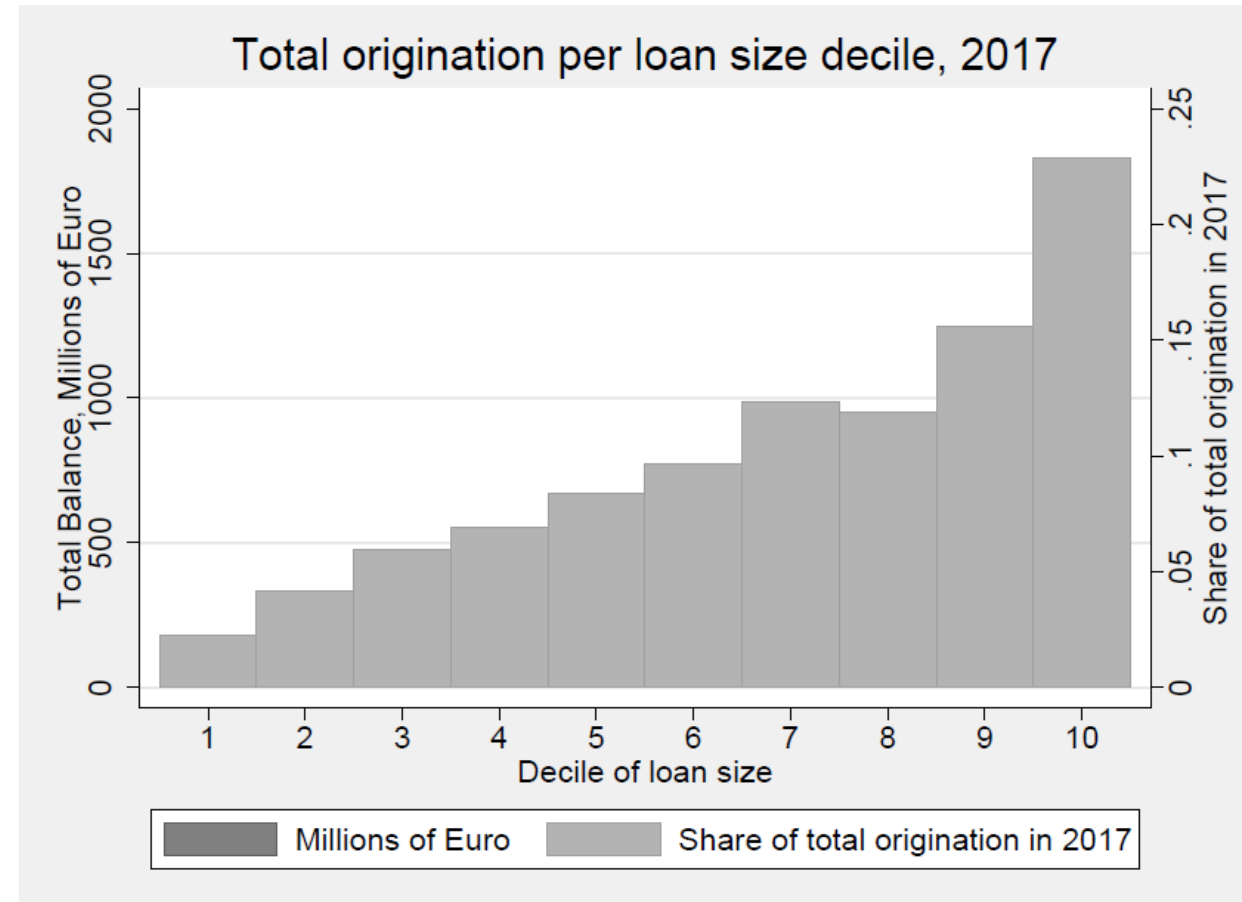


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Developments across the loan size distribution

- Looking at loan counts is sensible when thinking about borrowers and households.
- For *banking* stability at the *portfolio* level, balance-weighted numbers are what matters.
 - NPL ratios are always quoted as a % of balance
- 40% of loan origination in 2017 was in the top two deciles of loan size.
- Relative to other asset classes, this is not particularly concentrated.
- Nonetheless, developments at the top end will matter most for portfolio developments.



Source: Central Bank of Ireland, loan level data.

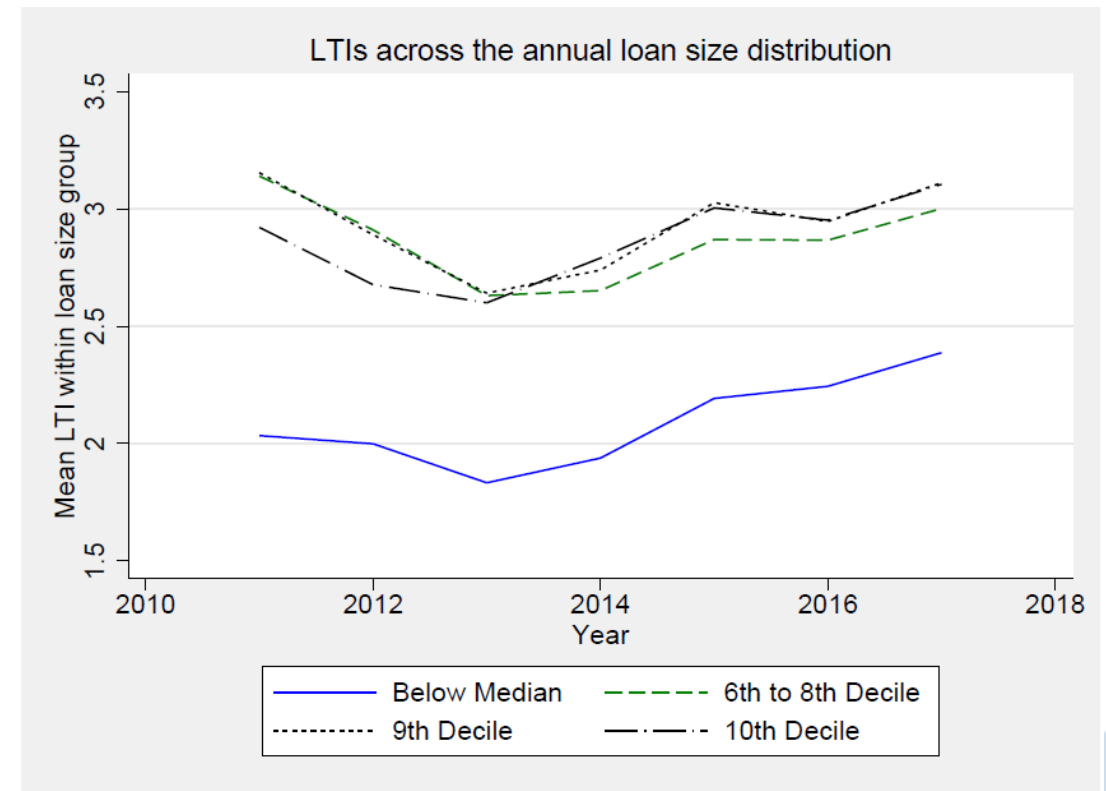
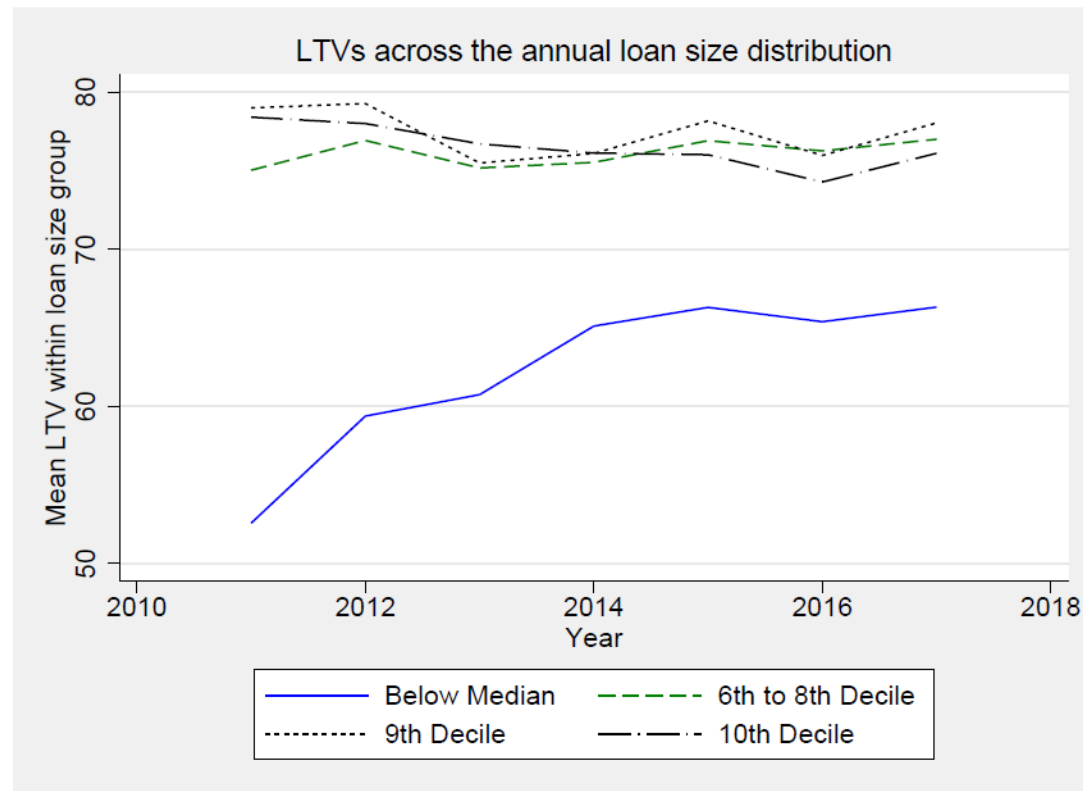
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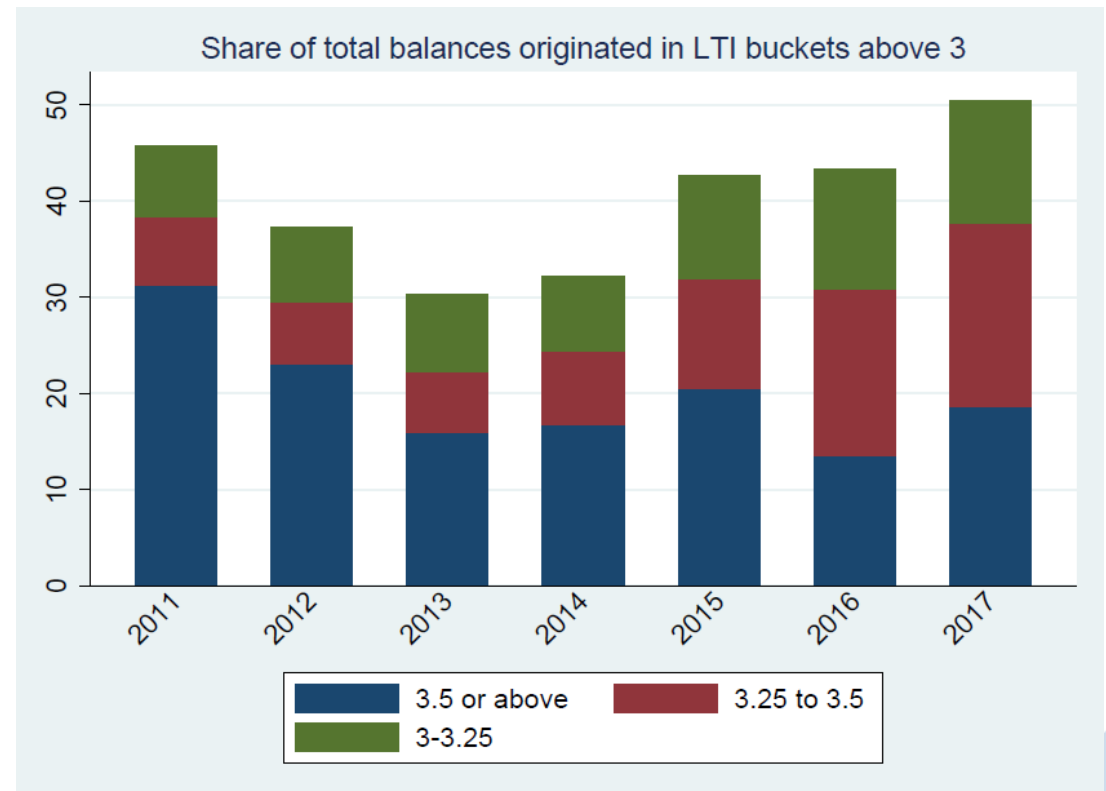
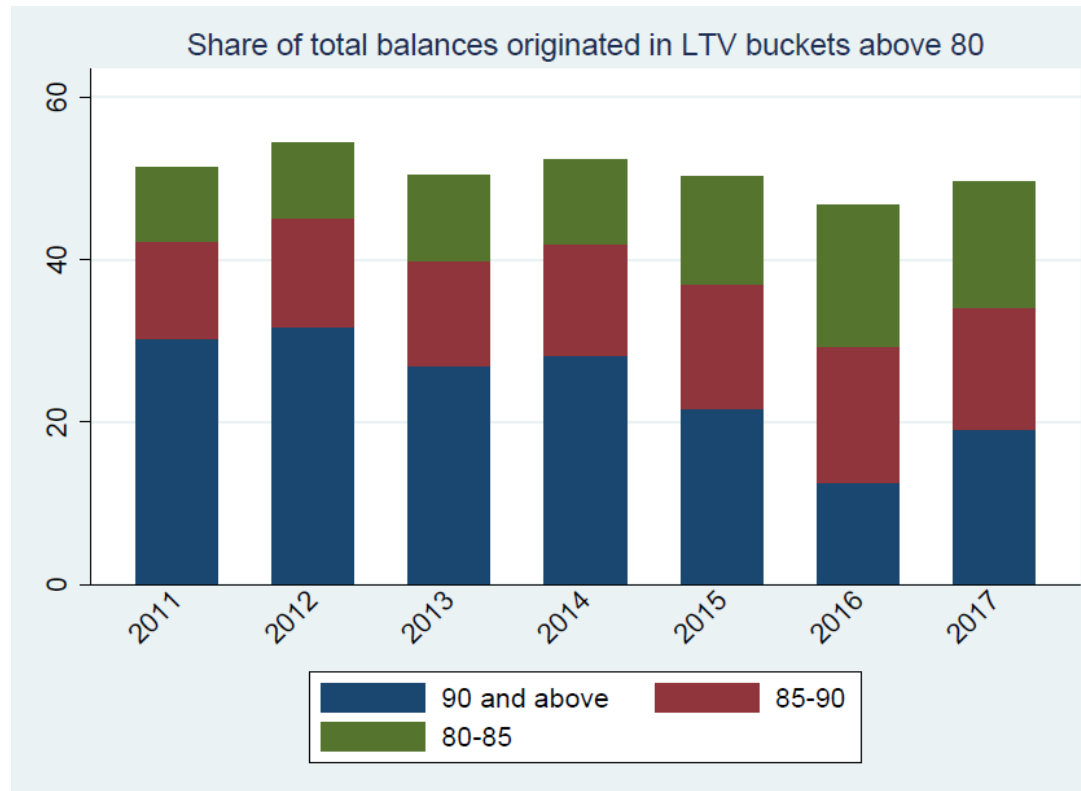
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Minimal evidence of high LTV growth in large-loan deciles; some evidence since 2016 of LTI growth across entire distribution



Higher-Risk Loans as share of a year's origination. Steady for LTV, evidence of increases for LTI

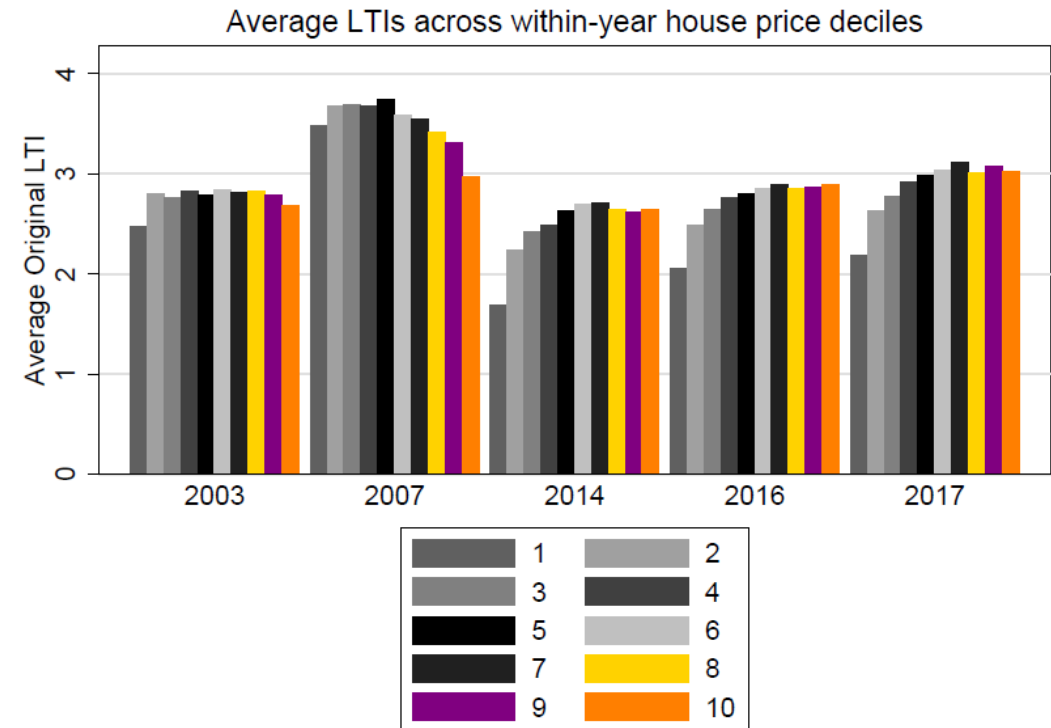
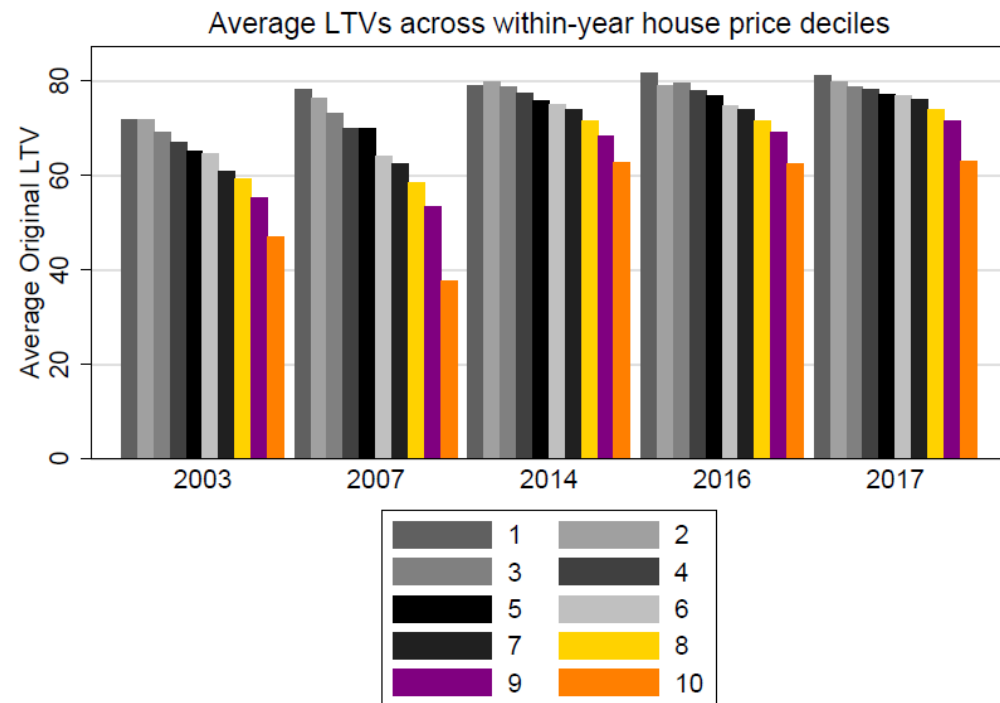


The property price distribution

- Larger loans are also generally for more expensive houses.
- Number of considerations on relationship between property price and default risk:
 - Price volatility higher at high end. (+)
 - Higher income borrowers, (with lower unemployment probabilities?) (-)
 - Greater family wealth and financial buffers at high end. (-)
 - Greater “income delta” in case of job loss for those at higher end. Post-job-loss LTI is greater. (+)

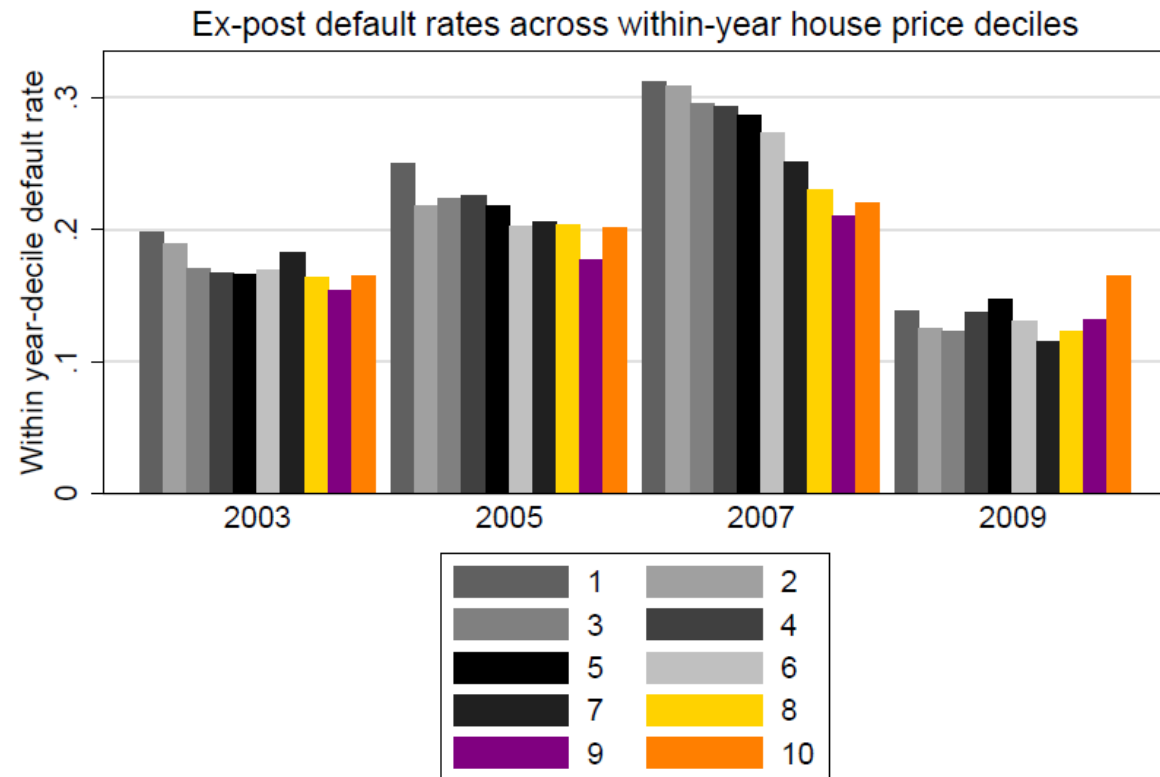


High-value properties typically have *lower LTVs and similar LTIs*



Defaults

- Ultimately, default rates from 2009 to 2015 are relatively similar across the property price deciles from 2003 and 2005 (and 2009, barring the top decile).
- Among the 2007 cohort, default rates are in fact lower for the most expensive properties.



Loan classified as defaulted if EVER experiencing 90 days default between 2009 and 2015

Source: Central Bank of Ireland, loan level data.

Provisional and preliminary data; subject to revision before publication

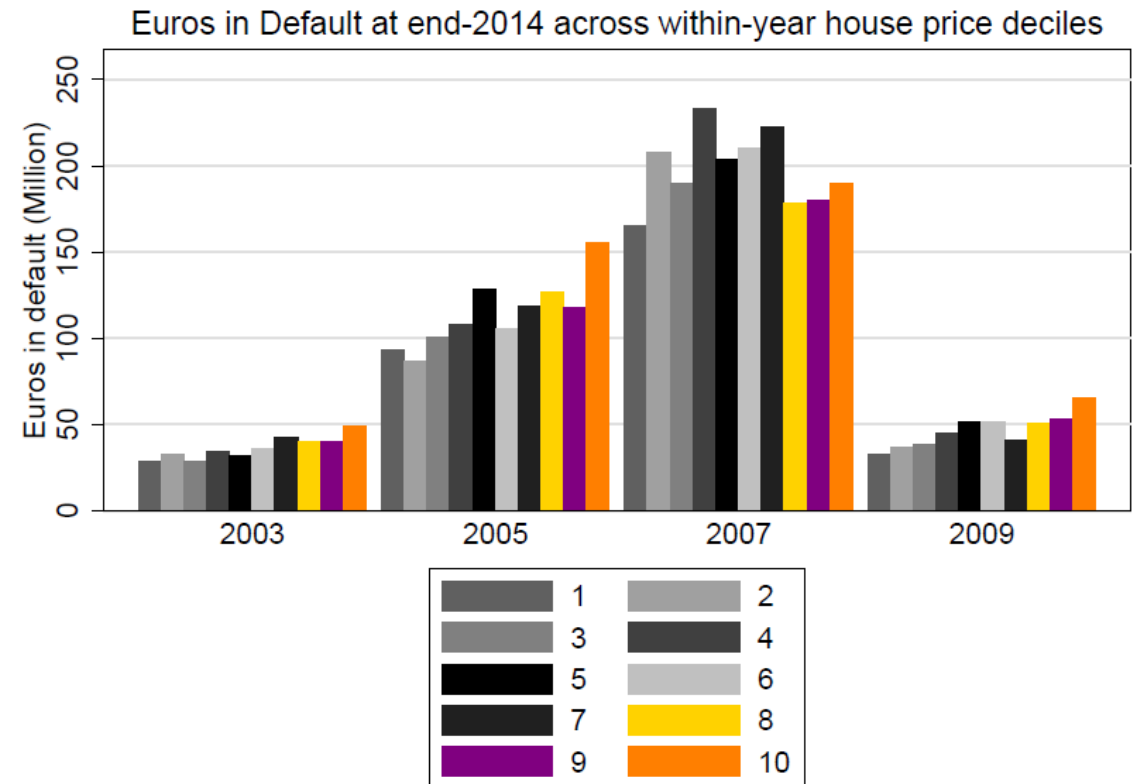


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Portfolio perspective: Euros in default

- Given that high-value loans and properties account for most of the portfolio, even with lower default rates they might have important effect on bank losses.
- Chart here suggests no major differences across the distribution.
- For 2005 cohort, there are more € in default from loans coming from top property price decile than any other.
- For 2007 cohort, the 3rd to 7th deciles have the most € in default.



Source: Central Bank of Ireland, loan level data.

Provisional and preliminary data; subject to revision before publication



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