Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Summary Report

Mortgage Measures Framework Review Listening and Engagement Events

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Mortgage measures framework review - listening and engagement events

This report presents the main findings of the listening and engagement events that took place in June – July 2021 as part of the Central Bank's mortgage measures framework review. This external engagement comprised an online survey alongside a series of listening events, where we asked the public and other stakeholders to share views and experiences on the functioning of the mortgage measures, as well as perspectives on what a sustainable mortgage market looks like. The input gathered through this process will be key to our review of the framework, which will run throughout 2021 and 2022.

The Central Bank's mortgage measures were first introduced in February 2015. The measures are designed to support good lending practices by banks and other lenders. They are also designed to prevent unaffordable and unsustainable debt levels from building up within the Irish financial system.

Since their introduction, a review of the calibration and operation of the mortgage measures has been conducted on an annual basis. Over the course of 2021 and 2022, we are also conducting a review the overarching mortgage measures framework. This review of the framework will allow us to assess the objectives of the mortgage, the tools that we use, and the factors that we take into account when setting their levels. This is to ensure that the mortgage measures continue to remain fit for purpose, in light of changes to our financial system and economy since the measures were first introduced in 2015.

The listening and engagement events conducted in June - July 2021 enabled us to gather the public's and other external stakeholders' feedback on the mortgage measures and the wider housing market. We are very appreciative of the level of engagement from all of our

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external stakeholders. We have reviewed and analysed the feedback, the learnings from which have been a key element of our public consultation document, which marks the next step in the framework review process.[1]

We are very aware of the challenges that the current housing market poses for many people, especially those seeking to buy for the first time and this was a key message from the feedback received. At their core, these challenges stem from an underlying imbalance between the demand for, and supply of housing. Wider housing market sustainability, affordability issues and the delivery of optimal housing supply spatially, socially and from an economic perspective, however, is beyond the scope of the mortgage measures and the mandate of the Central Bank. As our research demonstrates, the economy is likely better served by a policy mix that stimulates additional housing supply through reductions in construction costs, rather than through increased price levels resulting from higher borrower indebtedness.[2] Relatedly, house prices are not in and of themselves a target of the mortgage measures, as they are determined by multiple factors in the wider market.

Given that the mortgage measures interact with many other policy areas, outside the remit of the Central Bank, the information gathered through the listening and engagement events relates to many different policy areas. The feedback provides important information for those policy areas and so the survey findings will be shared with other agencies which have a role in wider housing policy.

The first section of this report provides analysis of the survey responses as well as a summary of the respondents' feedback on the mortgage measures and the broader housing and mortgage markets. A summary of the discussions that took place at the three listening events is presented in the second section of the report. The report concludes with an outline of the next steps in the framework review.

[1] The Consultation Paper is available at http://www.centralbank.ie/cp146
[2] Aikman, D., Kelly, R., McCann, F., and Yao, F., 2021. The macroeconomic channels of macroprudential mortgage policies. Central Bank of Ireland, Financial Stability Note, Vol. 2021, No.11.

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Online public engagement survey

Details of the online survey

The online survey elicited 4,107 responses, of which 99 per cent were from the general public with the remaining 42 responses from organisations/representative bodies. Research panels were also used to supplement responses with representative samples by age and location and accounted for 527 of the responses.

The survey comprised 24 questions, mainly in the form of multiple choice questions or dropdown lists. Some of these questions served to gather information on the profile of the respondents. Four open questions in the survey allowed respondents an opportunity to give additional feedback on the mortgage measures and share their personal experiences. The accompanying detailed survey results summary presents the survey responses in tabular and graphical format.[3] The survey questions are available in Annex 1.

Who took part? (Q1 to Q13)[4]

Responses were received from a broad range of people, but in particular from those planning to take out a mortgage, those renting privately, and those living in areas of more expensive housing. The breakdown of those responding to the survey can be compared to both the representative panel ("the panel") and the wider population using a range of different data sources, to indicate which cohorts are over-represented in the responses to the survey. Given that the operation of the mortgage measures has a direct impact on those individuals seeking to enter homeownership or change home, their feedback has been an important consideration in determining our areas of focus within the framework review. Notwithstanding this, the benefits of the mortgage measures accrue to all households, and so the panel provides us with a broader perspective of the overall public view on the effectiveness and merits of the mortgage measures framework.

While responses were received from all counties, over 50 per cent of participants were located in Dublin, with 74 per cent of all

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[3] See Detailed results of the online public engagement survey.
[4] Survey responses from institutions and organisations, of which there were 42, were reviewed separately and are available in Annex 2.

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respondents located in Leinster, such that there is over representation in areas where affordability considerations are most acute. By way of comparison, Leinster accounts for 55.3 per cent of the population.[5]

Over 70 per cent of respondents are planning to take out a mortgage in the next 12 – 18 months and of these 78 per cent would be purchasing as FTBs. The majority of those planning to purchase are hoping to do so in Dublin and other areas in Leinster such as the commuter counties of Louth, Meath and Kildare.

In terms of the housing status of respondents, private renters are over-represented in the survey with 42 per cent in the survey compared with 31 per cent in the overall population according to Eurostat in 2019. A large proportion of respondents were also living with family / friends (21 per cent) with only 29 per cent of responses from homeowners. In 2019, 69 per cent of the population lived in a household owning their home according to Eurostat.

Of those homeowners with a mortgage, over 50 per cent (534 respondents) originated their mortgage ***after*** the introduction of the mortgage measures.

Respondents' purchase price bracket is also consistent with their preferred area of purchase, with those planning to purchase in these areas having the highest price bracket. High shares of those planning to purchase will be doing so as joint applicants.

Analysis of survey responses (Q14 – Q24)

The survey asked respondents to state whether or not they agree with a number of statements relating to the mortgage measures, including whether they have been successful in building resilience, whether they have been successful in preventing damaging spirals between credit and house prices, whether they have had additional effects, and whether they agreed that the mortgage measures should be a permanent feature of the mortgage market.

Overall, respondents' views pointed to broad support for the presence of the mortgage measures framework. A high share of respondents (71 per cent) believe that the mortgage measures have a role to play as a permanent feature of the mortgage market while a

[5] See Census 2016.

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majority (53 per cent) also agree that the measures have been successful at improving borrower and bank resilience. In the case of the panel the shares in agreement were similar at 74 per cent and 56 per cent, respectively.

However, with regard to the effectiveness of the measures in preventing a house price credit boom, only 39 per cent agree that the measures were effective in preventing another credit-fuelled house price boom. In addition, a high share of respondents (61 per cent) believe the measures have had effects on the market outside of their intended objectives. Panel respondents were somewhat more positive regarding the effectiveness of the measures with 43 per cent agreeing that the measures have been successful in preventing a credit-fuelled house price boom and 40 per cent believing that the measures have had effects beyond their objectives.

Looking in more detail at the responses to these questions across the different groups, a higher share of Dublin respondents and a higher share of those not planning to take out a mortgage found the measures were successful in meeting both objectives. Second and subsequent buyer (SSB) single applicants are consistently more negative in their responses towards the measures while homeowners who took out a mortgage under the mortgage measures (i.e., since 2015) are consistently more positive towards the measures.

The survey also asked respondents to rank the three factors that are most important in driving broader housing and mortgage market developments in Ireland. Housing supply (36 per cent) and house prices (28 per cent) were the two most important factors listed. The mortgage measures (13 per cent) emerged as the third most important factor affecting housing and mortgage markets.

Respondents in Dublin were more likely to list the supply of housing while those planning a mortgage / SSBs were slightly more likely to list the mortgage measures than those not planning a mortgage / FTBs.

The survey also asked respondents to rank the most important areas of focus for the Central Bank as part of the framework review. Among those factors, respondents felt that differentiation of the limits by borrower type (30 per cent) and level of the limits (28 per cent) were the most important to include in the review. Only 16 per

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cent stated that the number of allowances permitted and how they operate were the most important factor to be considered during the review.

A higher share of SSBs listed the differentiation by borrower type while those planning a mortgage were more likely to list the level of the lending limits.

Respondents' additional feedback and personal experiences – key themes

There were four free-text questions within the survey, which were optional for respondents to complete. Over 9,000 individual responses to these four free-text questions were received. These responses, often based on the personal circumstances of those responding, provide a rich additional source of information to the Central Bank in relation to the challenges faced by those responding to the survey, in particular those aiming to purchase a property, those renting privately, and those living in higher-priced areas. The free text questions were Q17 (whether measures have had effects beyond their objectives), Q19 (what does a sustainable mortgage market look like), Q23 (any other feedback on measures), and Q24 (how measures have affected you).

Consistent with the responses to the closed-form questions, respondents expressed support for the need for mortgage measures in general, with some acknowledgement that they have prevented a return to unsustainable lending and that house prices would be even higher in their absence. Amongst the cohort who were supportive of the rules, some urged for previous mistakes not to be repeated and for the rules to be maintained as currently calibrated while a small number asked for the measures to be strengthened in certain circumstances. A considerable number of respondents linked affordability challenges directly to a lack of housing supply rather than the mortgage measures themselves.

Nevertheless, the predominant sentiment expressed in the responses to the free-text questions was that the measures are too restrictive. A high share of respondents conveyed a sense of unhappiness or frustration with the property market, particularly in terms of rising house prices and their inability to obtain a mortgage of sufficient value to purchase a property adequate to their needs. A common feeling expressed, including amongst those who are

"I think the measures have been good in that they stop people over borrowing. I don't think the housing crisis and house prices has anything to do with mortgages being capped. I think capping borrowing is a good thing and if these measures are released, it could potentially cause house prices to increase further. I myself don't want to borrow anywhere near the amount I would be allowed to, because I feel I would be overpaying for a house and I also don't want to get myself into too much debt."
Source:
A Survey Respondent

"The current measures are far too restrictive. Even people like myself who work for great companies and are on good salaries can only afford to borrow 3.5 times their salary, and in most cases, this monthly repayment is half of what they are paying in rent every month. Give people the right to a mortgage that they can afford going by their saving ability, not their salary limitations."
Source:
A Survey Respondent

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supportive of the measures, is that the mortgage measures are not flexible enough to deal with individual circumstances. There were repeated calls for more flexibility and not a one-size fits all approach. In terms of the individual limits, most frustration was expressed at the level of the LTI limit, which was considered too low at 3.5 times, and the 20 per cent deposit requirement for SSBs. However, the issue of high rents was the most commonly raised theme in the submissions.

The mortgage measures

LTI rules

There was a widespread disagreement with the current 3.5 LTI limit, particularly among single income applicants and those seeking to purchase a property in Dublin. A majority of respondents believed that the calibration of this instrument is too restrictive and prevents people buying a house in their chosen location and suitable for their needs – it was described as "locking people out of the market". There were numerous calls to abolish the loan-to-income ratio limit and that borrowers should be able to borrow as much as they can afford to service at time of application, for example, their mortgage repayment could be equivalent to their current rent payment. There were also calls to raise the LTI limit with many suggestions of a 4 – 5 LTI limit and some proposals for an even higher limit. It was frequently suggested that single income applicants should be allowed to borrow more so that they can compete with joint applicants. Wider definitions of income were suggested to account for bonuses, share options and future earning potential. The point was made that people are being extended a mortgage based on their current income which will in all likelihood increase/change as they progress in their careers over the following 20/30 years.

LTV rules

The challenge in saving a deposit in the current housing market, especially in Dublin, was repeatedly raised. High rents make it difficult to save and rapidly increasing house prices are constantly changing the bar of what is needed as a deposit which is causing a real sense of frustration among respondents. Many respondents called for deposit requirements to be removed or reduced, citing that a deposit is not proof of ability to service a mortgage particularly in

"3.5 LTI limit is extremely difficult /restrictive for single income mortgage applicants in Dublin and surrounding counties. LTI exceptions difficult to obtain even with 6+ years with same employer and 50k income and 35k+ savings. 10% of the bank's mortgage lending is too small a limit for banks to give exceptions"
Source:
A Survey Respondent

"Many couples find it extremely difficult to save deposit for their first home. Their current rent is very high, more than a mortgage would be but they cannot afford rent and save."
Source:
A Survey Respondent

"I think 2nd time buyers with a proven track record of paying mortgages for years should be allowed trade up with a 10 % deposit unlike first time buyers who only have to show 6 month bank statements of savings."
Source:
A Survey Respondent

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circumstances where the deposit has been gifted to mortgage applicants.

The unfairness of the 20 per cent deposit requirement for SSBs was a recurring theme, with particular issues highlighted: the perceived unfair treatment of joint mortgage applications where one partner has previously had a mortgage and the other has not (as they are both regarded as SSBs under the rules); SSBs do not necessarily have equity in an existing property; and separated/divorced applicants do not necessarily have an existing property to sell as it is being retained as the family home. A common 10 per cent deposit across the board for the purchase of a primary dwelling was the most common suggestion for change to the LTV limit. It was also noted that the proven track record of making mortgage repayments by SSBs should be seen as a positive.

"I feel they are too restrictive and not enough exemptions are available. I am single, working in Dublin and looking to buy. I have 40k saved and (what would be seen as a good salary) will barely qualify for a mortgage of 162k. As we all know 200k will get you nothing in Dublin more allowances need to be made for where people are looking to purchase."
Source:
A Survey Respondent

The consequences of SSBs being unable to sell their properties and move to a bigger house due to family size, space, etc. was noted as blocking the potential supply of properties for FTBs.

Among those who expressed support for the measures, some urged that there be no return to 100% mortgages.

Allowances

Allowances are perceived to be few and far between and only go to high-income borrowers. However, the role of allowances, so often mentioned in the media is much less commonly referenced as an issue by respondents, coming up in only around 10 per cent of answers. Frustration was expressed relating to the uncertainty and lack of transparency around the process of obtaining an allowance.

There were repeated calls for additional allowances as a means of providing for the individual circumstances of particular cohorts, for example, low and middle-income earners and those with secure employment.

Disenfranchised

A common feeling is that the measures are not flexible enough to deal with individual circumstances with a wide variety of examples of challenging situations/unfairness throughout the responses. Where respondents were asked to share their personal experiences in Q24, a large share of respondents discussed that there was a social impact

"They have affected me. I work full time have a degree, two jobs and still I cannot afford to buy alone. Many of my friends are the same - we deserve some help - it affects mental health and sense of well-being which can lead to a society of people exhausted and burnt out from trying their best to be responsible and independent- overall mental health is affected for people that contribute to society on a whole."
Source:
A Survey Respondent

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from the measures (31 per cent) and a large share of respondents feel disenfranchised (27 per cent). The most common of these relates to single income applicants but there are a range of others also including those attempting to purchase in Dublin, changes in personal circumstances, lack of financial support from family, those who have immigrated/moved to Ireland, greater LTV requirement for SSBs, self-employed and others with variable income etc. Many respondents argued for a case-by-case approach for assessing such applications. A number of respondents expressed concerns that the mortgage measures are creating further inequity between those who can own a home and those who cannot, while a real sense of despair and hopelessness was evident in some of the responses.

"The mortgage limits are fine. Supply and the role of institutional money as competitors to individuals are the causes of the current strained market. Increasing mortgage limits will directly cause the price of housing generally to rise. Given the low level of supply, people will be pressured into taking on more debt to compete for houses."
Source:
A Survey Respondent

Broader housing and mortgage market

Housing supply

A considerable number of respondents linked affordability challenges directly to a lack of housing supply rather than the mortgage measures themselves. Frustration was also expressed by respondents that incomes are not keeping pace with house price increases and that there is a need for further social and affordable housing and rental options. Others called for direct intervention in the property market to cap house price increases and to deal with vacant sites and properties through levies or compulsory purchase orders.

Rents/rental market

The issue of high rents was the most commonly raised theme in the responses. One view expressed was that the mortgage rules have contributed to an inflation of rental costs, with respondents feeling trapped in renting due to their inability to access mortgage finance because of the rules.

"Impossible for younger people to get on the property ladder, big deposits needed and already paying huge rent prices making it difficult to save money and actually live their life"
Source:
A Survey Respondent

Considerable numbers cited high rents as a barrier to saving for a deposit. There was also a strong sense of frustration expressed in about a fifth of responses that people are often paying higher rents than the monthly payments associated with the mortgage they can secure. Proposals suggested to address these concerns included repeated requests to allow respondents' track record of paying high rents to count towards the creditworthiness of their mortgage

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application or to allow the reduction/removal of the deposit requirements.

Role of institutional investors

The view was also expressed that the effects of mortgage measures on rental costs, coupled with housing supply, are making it more attractive for funds and large-scale investors to purchase property for BTL purposes. This then has the effect that "ordinary" people are being crowded out of the home ownership market, especially in Dublin and larger cities where house prices are relatively high. There was strong support for such activity to be limited with policy proposals including stricter deposit requirements for non-PDH purchasers and for institutional investors to be subject to higher taxation or for their role in the mortgage market to be limited or even prohibited.

"Many developments are being bought up by investment funds. This has kept house prices high and seems to be cementing the situation that normal people are tenants to foreign investors. The effects of this will be felt long into the future"
Source:
A Survey Respondent

Banking sector

There was a clear sense of frustration regarding peoples' interactions with the banks/mortgage lenders. For example, being difficult to deal with, the lack of harmonisation of banks' credit policies, the lack of transparency in the mortgage approval process and the treatment of children in mortgage assessments were raised as issues by some respondents. A number of respondents felt that lenders were allocating allowances in an unfair manner and that allowances should be available to lower and middle-income earners.

There was widespread dissatisfaction with the fact that interest rates are higher in Ireland than in the rest of Europe and there were some calls for the regulation/capping of interest rates. There were also calls for the ending of the practice of penalising early loan repayments.

The view was expressed by some respondents that the repossession process should be such that it is easier and quicker for banks to repossess homes. The rationale for this was twofold: it would make more properties available for sale to those that are willing and able to make mortgage repayments; and it would signal to new borrowers the importance of keeping up their mortgage repayments.

There were some references to the departure of some banks from the Irish mortgage market and the need for increased competition in the market.

"For some banks you tell them all the details on the phone, then they send paperwork that does not match what you have told them (amounts incorrect, savings details incorrect, etc.) For some banks it is not clear what they want on the forms - if they want something changed it seems that you are then pushed again to the back of their list and have to wait another 2 weeks for their next response ..."
Source:
A Survey Respondent

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Role of Government

There was some recognition that changes to the mortgage measures in and of themselves would not fix the housing market. There were numerous calls for Government intervention with suggestions including incentives to increase housing supply, for example, more social housing, taxing vacant properties, and limiting the role of institutional investors. Respondents' views on schemes such as the Help to Buy (HTB) and First Home shared equity scheme were somewhat mixed with some viewing them as helpful and/or advocated broadening them further for FTBs and to include SSBs while others felt that they drove house prices higher. There was some calls for caps on house prices in line with estate agents' valuations.

"If you make it easier to borrow, prices will skyrocket and we will have a new bubble. Government measures should focus on increasing supply by making it easier for individuals and developers to build houses"
Source:
A Survey Respondent

Listening Events

Overview of events

The Central Bank of Ireland hosted three listening events in July 2021. The events were virtual and each scheduled for 90 minutes. The first event, on 14 July, brought together representatives of the Irish property and mortgage industry, including property developers, real estate agents and mortgage providers, with 18 representative bodies registered to attend. The second event, on 15 July, involved business representatives from organisations across the country. In total, 8 business representatives registered for the event representing small and large businesses. The third event, on 15 July, sought views from civil society with a broad representation, including organisations focused on homelessness and consumer protection. In total, 16 civil society bodies registered to attend the event.

Governor Gabriel Makhlouf opened the events. This was followed by an introductory presentation by Robert Kelly, Head of Macro-Financial Division. A discussion then ensued on a diverse range of issues pertaining to the Central Bank's mortgage measures and the housing market more generally. Diverse and differing views were expressed across the three events. In summary,

- While participants expressed broad support for the objectives of the Central Bank's mortgage measures, it was noted, particularly at the Property and Mortgage Industry (P&MI) event, the interaction

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of the mortgage measures with wider housing market considerations give rise to a number of supply side challenges.

- The challenges characterising the housing market in Ireland were highlighted as multifaceted and broader than the Central Bank's mortgage measures. Issues raised included housing supply challenges, the role of Government, the importance of competition in the mortgage market as well as the social and economic effects of affordability challenges in the housing market.

- Participants suggested an array of potential changes which should be considered during the Central Bank's framework review such as changes to the LTI limit and deposit requirements, consideration of a DSTI ratio, the functioning of the system of allowances and consideration of impact of the measure on particular cohorts of society. The property industry and business representatives highlighted the benefits of having a stable framework of mortgage measures, as frequent changes to the framework can act as an impediment to the delivery of housing supply, which requires a multi-annual horizon.

Key themes addressed in discussions

Effectiveness and impact of the mortgage measures

Participants expressed broad support for the objectives of the Central Bank's mortgage measures while also noting that they have given rise to a number of challenges since they were introduced in 2015. Business and Civil Society representatives expressed the view that the mortgage measures have been effective in preventing the accelerating effect between credit and house prices seen in the past. Reference was also made to the economic and social costs of previous unsustainable lending practices, particularly by the Civil Society representatives, and in this regard the importance of the mortgage measures and sustainable lending was emphasised. Representatives of the Mortgage Industry also acknowledged the mistakes made in historical lending (and borrowing) practices, stating their commitment to a lending approach that was right for the country as well as their members. They noted that the LTI and LTV limits have helped to keep lenders' mortgage books in a safer condition.

Business and Civil Society representatives expressed the view that the mortgage measures have been effective in preventing the accelerating effect between credit and house prices seen in the past.

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Participants highlighted the effectiveness of the mortgage measures as evidenced during the pandemic, but some highlighted that the housing market had evolved since their introduction. The benefits of the resilience built since the introduction of the mortgage measures could be seen from the experience of the COVID-19 crisis. In particular, loans issued since the introduction of the mortgage measures in 2015 are less likely than the average mortgage to be on a payment break. However, Property and Mortgage Industry (P&MI) representatives shared a view that the housing market is now in a very different phase compared to when the measures were introduced in 2015 and consequently there are shortcomings in the mortgage measures as they stand at present.

P&MI representatives shared a view that the housing market is now in a very different phase compared to when the measures were introduced in 2015 and consequently there are shortcomings in the mortgage measures as they stand at present.

The role of the measures in affecting the demand and supply of housing was referenced by participants. Business representatives viewed the mortgage measures as influencing housing demand and the noted potential for unintended consequences such as influencing the potential suboptimal location of new housing. Participants at the P&MI event emphasised that the rules were preventing the delivery of housing supply by preventing certain cohorts from accessing the credit required to purchase a residential property at prices that – in the view of P&MI participants – would make construction of new units viable. They cited an ESRI study showing that home ownership had fallen amongst younger cohorts.

The measures were considered by some participants to be restrictive. It was noted by Business and P&MI groups that the measures could be restricting people to buying houses they can afford rather than those that are more suitable to their needs in terms of size and location. In particular, it was stated by P&MI representatives that the current 3.5 LTI limit meant that front-line workers and other public servants (single/individual or as part of a couple) face affordability constraints to buying an average priced house in most of the country's urban centres where they were likely to be employed. In the past, according to one contributor, such workers with "permanent and pensionable" jobs would have been seen as a low credit risk. Another speaker pointed out that the LTI limit would likely become even more binding in the near-term as house prices continued to rise and incomes remained static due to the fallout from the COVID-19 pandemic.

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Broader housing and mortgage market considerations

The challenges characterising the housing market in Ireland were widely acknowledged to be multifaceted and broader than the Central Bank's mortgage measures. Concern was expressed at the lack of supply of affordable and appropriately located housing. There was broad agreement among P&MI representatives that Ireland's annual housing requirement was in the region of 34,000 to 36,000 units with expectations for the delivery of new housing units in 2021 to be in the range of 18,000 to 21,000 units. It was suggested that it may be 2024 before the construction sector has the capacity to build 30,000 units per annum. A continuation in such undershooting of requirements and household sizes continuing to converge with the European average would further deepen the demand/supply imbalance.

The challenges characterising the housing market in Ireland were widely acknowledged to be multifaceted and broader than the Central Bank's mortgage measures.

P&MI representatives stressed that there are a number of impediments to the supply of viable housing schemes. Several participants made the distinction between actual housing demand (i.e., all those needing a home) and realisable housing demand (i.e., those who have the means/credit required to purchase). The latter, they observed, was currently lower than the former, partly as a consequence of the mortgage measures, and this is making developers concerned about building units they fear they may be unable to sell at prices that – in the view of P&MI participants – would make construction of new units viable. In relation to the provision of housing in more rural locations, it was remarked that current prices make build-for-sale schemes unviable, with difficulties attracting bank funding for projects outside the main urban centres.

The potential negative impact on housing supply arising from construction cost inflation and supply chain disruption, due to the pandemic and global shipping issues, was noted by P&MI representatives. The risk that construction activity under the auspices of the latest National Development Plan could crowd out or divert scarce resources away from residential development was raised as a potential concern. Additional factors cited as impediments to the delivery of housing supply included current taxation policy, planning and development guidelines, VAT on the purchase price of new homes and Part V contributions. Participants noted that land prices were constantly mentioned as a factor holding back supply,

The potential negative impact on housing supply arising from construction cost inflation and supply chain disruption, due to the pandemic and global shipping issues, was noted by P&MI representatives.

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even though they typically accounted for just 10-12 per cent (€30,000 - €40,000) of the total cost of an average unit.

A number of challenges to the viability of housing development were raised. In the face of the challenges to viable housing development, P&MI representatives' view was that "super normal" profits are not being made by those involved in property development in Ireland. Some participants called for the reintroduction of "certificates of value", which would help demonstrate this point. Others cited publically available information, such as the comparatively lower return on equity figures for listed Irish home builders, in support of the argument that property developers were not making large profits at this time. Unviable housing development, they stressed, puts the onus on the State to meet the country's entire housing needs through public development schemes.

There was broad agreement among Civil Society and P&MI representatives that the Government has a role to play in addressing some of the challenges in the housing market, particularly in the areas of housing supply and affordability. There was consensus amongst civil society representatives that a lack of supply is the primary driver of increasing house prices. There was also agreement that addressing housing supply and affordability challenges are primarily a fiscal policy issue that need to be addressed by Government rather than through the Central Bank's mortgage measures. P&MI participants noted that while the government's support for potential house purchasers through the shared equity scheme (SES) was helpful in terms of stimulating supply, it is not enough. Conversely, some individuals considered the SES and other incentives, such as the help-to-buy scheme, to be unfair as they create a system of inequality among potential buyers. Incentivising owners of vacant units to make such properties available and the reintroduction/expansion of an urban renewal scheme were suggested as additional measures which could increase supply.

There was consensus amongst civil society representatives that a lack of supply is the primary driver of increasing house prices. There was also agreement that addressing housing supply and affordability challenges are primarily a fiscal policy issue that need to be addressed by Government rather than through the Central Bank's mortgage measures.

There were calls from participants at the P&MI event for greater cohesion regarding housing policies specifically and for a more joined-up approach amongst the agencies/institutions (including the Central Bank) that have an impact on wider housing policy

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issues. Anomalies in policy were noted, including the apparent preference for the development of apartments on "brown field" urban sites, making the delivery of units less viable and less affordable, relative to "green field" options. The inconsistency between the difficulties experienced by borrowers seeking to access funding for retrofit projects, and the necessity of these projects if Ireland is to meet its obligations under the climate change agenda were also pointed out. In relation to the impact of its own activities on the housing market, it was stated that the Central Bank needed to be mindful and accepting of the "limit to its mandate" in the area of housing with Civil Society groups advising that the amount borrowers are permitted to borrow should inform wider housing policy discussions.

The changing structure of the mortgage market was noted. Reference was made to the role of mortgage providers at the P&MI event. In particular, the need for competition in the mortgage market, at a time when some institutions have announced plans to exit the market. The role of non-retail banks' lending to households as new entrants into the mortgage market were noted as an important development.

Wider societal issues were also of concern to participants. Civil Society and Business groups raised the issue of increased inequality between those who can own a home and those who cannot. The uneven distribution of wealth, including the role of cash in the market, was noted as creating a situation whereby those with access to resources are feeding price inflation and increasing the affordability challenges faced by other cohorts. The challenges faced by potential home buyers in having to compete with institutional investors, in an environment where housing is increasingly regarded as an asset class, was also noted. P&MI representatives stated that a situation whereby individuals are faced with the prospect of renting for life, less security of tenure and the prospect of meeting rental payments from post-retirement income could have a stark societal impact in the future.

Broader economic implications arising from housing costs were highlighted by Business representatives. Affordability challenges, particularly in urban areas, can create issues for businesses in terms of attracting labour while the cost of accessing housing services

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(either via rental payments or mortgage repayments) has implications for households' ability to consume goods and services in other areas.

Suggested key areas of focus for the Central Bank's mortgage measures framework review

Many participants highlighted that the 3.5 times LTI limit, in particular, was posing challenges for house purchasers in obtaining a mortgage. House purchasers particularly affected by the LTI limit were noted to be those attempting to purchase a home in urban areas, single people, lone parents, average income earners and those who are separated or divorced with a family home and cannot access the mortgage market as first time buyers (FTBs). A number of suggestions were put forward by participants for consideration by the Central Bank including:

- the introduction of a "step break", such that those earning up to €60,000 would be able to avail of a 4.5 LTI limit, thereby assisting lower income households (in rural locations)

- the use of tiered or targeted measures, which would see LTI/LTV rates vary by the location or type of property, to address the issue of affordability particularly in urban areas; and basing the LTI limit on net rather than gross income, with the 3.5 LTI limit being re-calibrated accordingly.

While there were calls for increasing the LTI limit, concerns were also expressed about the potential consequences of any increase. Comparisons were made by P&MI representatives between the level at which the Irish LTI limit is currently set and the level at which it operates across Europe. Conversely, some Civil Society and Business representatives expressed the need for caution in increasing the LTI limit of 3.5 as it could result in further increases in housing demand, resulting in higher house prices, particularly in urban areas. Civil Society representatives warned of the risk that any possible access to greater levels of debt could result in unsustainable mortgages in the future were interest rates to increase.

Participants also suggested that borrowers' ability to repay or a debt-service-to-income (DTSI) be considered as an alternative to a LTI ratio. In this regard, it was suggested that the longstanding payment of rent should be considered positively give that rental

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payments are likely to be equal to, or in excess of the typical mortgage repayment on an average priced house. However, some concerns were expressed about the additional complexity of moving away from a loan-based limit.

The difficulties being experienced by potential buyers in saving for the deposit required by the LTV limits were emphasised by participants at both the P&MI and Civil Society events. While the fairness of the 20 per cent LTV requirement for movers/second and subsequent buyers was questioned by some P&MI representatives, the lower deposit requirements for FTBs was welcomed by Civil Society representatives given the empirical evidence that FTBs are less likely to default. It was suggested that there could be some differentiation between deposits that have been saved and those that have been gifted, such that the borrowing capacity of the former should be looked upon more favourably.

The functioning of the system of allocating allowances on an annual (year-to-year) basis at the end of every year was highlighted by mortgage provider representatives. The adoption of a more flexible approach was advocated for, whereby the system would operate on a continuous rolling basis or on a carry-over approach. This, it was argued, would overcome the problems and uncertainty created by individuals making multiple mortgage applications across numerous credit providers or delays in the drawdown of loans. Civil Society representatives suggested that a secondary upper limit be placed on LTV and LTI allowances.

A number of participants noted that the review of the mortgage measures on an annual basis created unwarranted uncertainty. P&MI representatives stressed that such uncertainty presented real challenges for residential property developers in assessing the viability and profitability of future schemes culminating in potential consequences for housing supply. Business representatives also pointed to the benefit of there being stability in the mortgage measures. Where many (changing) policies are interacting to influence peoples' purchasing decisions, additional uncertainty around the mortgage measures that could defer consumption is not helpful. Business representatives also noted that the framework should not be overloaded with additional objectives that could add confusion and complexity.

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Participants of the Civil Society event suggested that the calibration of the mortgage measures should factor in the impact of an ageing population in the context of the potential for economic growth to slow down as the population ages, given that mortgages can last for 30 years. The Central Bank was asked to consider the requirements of older people as a specific cohort in terms of their need for mortgages later in life for home adaptation or when they have reduced/limited income but also expenditure.

Next steps

The review of the framework for, and strategy around, the mortgage measures will run over the course of 2021 and 2022. The wider framework review will explore the appropriateness of the stated objectives of the measures, the choice of instruments, the framework and strategy used for calibration, the role that external factors play in our calibration decisions, as well as a focus on operational and communications aspects.

The next step for the review is the publication of the mortgage measures consultation paper. This consultation paper builds on the work done in 2021, including the information gathered through the listening events and presented in this report. The consultation paper takes the result of this information, along with our own internal research and analysis around the operation of the mortgage measures, and puts forward the Central Bank's thinking regarding the future of the mortgage measures. The public consultation will remain open until 16 March 2022 and we invite all interested stakeholders to respond.

As discussed in the introduction, the strong response rate to the online survey leaves us with a rich source of information on housing and mortgage markets more broadly, beyond the areas within the Central Bank remit. Given this, the survey findings will be shared with other agencies who have a role in wider housing policy.

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Annex 1:
Online public engagement survey questions

Q1. I am completing this survey as:

- A member of the public
- An organisation or representative body

Q2. Where do you currently live?

Q3. If "Other", please specify.

Q4. What is the name of your organisation or representative body?

Q5. Please specify your organisation/representative body type.

Q6. What is your current housing status?

Q7. Are you planning to take out a mortgage to buy a property in the next 12-18 months?

Q8. What is the main reason you don't plan to take out a mortgage in the next 12-18 months?

Q9. If "Other", please specify.

Q10. Where are you planning to purchase a property?

Q11. If "Other", please specify.

Q12. If taking out a mortgage in the next 12-18 months, what will your buying status be? Please tick the options that apply to you.

- First-time buyer – individual
- First-time buyer – joint (i.e. a couple)
- Second-time or subsequent buyer – individual
- Second-time or subsequent buyer – joint (i.e. couple)
- Purchase of additional dwelling for personal use (i.e. holiday home)
- Purchase of additional dwelling to let (buy-to-let)

Q13. If taking out a mortgage in the next 12-18 months, what price range of property would you be considering?

- Less than €100,000
- €100,000 - €200,000
- €200,000 - €300,000
- €300,000 - €400,000
- €400,000 - €500,000
- €500,000 - €600,000
- €600,000 +

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Theme 1 – Evaluating effectiveness & impact of the mortgage measures

Q14. The mortgage measures were introduced in 2015. Do you think that the mortgage measures have been successful in increasing the resilience of banks and borrowers to negative economic and financial shocks?

- Disagree
- Somewhat disagree
- Neither agree nor disagree
- Somewhat agree
- Agree

Q15. Do you think the mortgage measures have been successful in preventing another credit-fuelled house price boom?

- Disagree
- Somewhat disagree
- Neither agree nor disagree
- Somewhat agree
- Agree

Q16. In your view, have the mortgage measures had effects beyond those outlined above?

- Disagree
- Somewhat disagree
- Neither agree nor disagree
- Somewhat agree
- Agree

Q17. Please elaborate further on your previous answer if you wish.

Q18. Central Bank of Ireland has stated that the mortgage measures are permanent feature of the mortgage market. Do you agree that the mortgage measures have an important role to play on an ongoing basis?

- Disagree
- Somewhat disagree
- Neither agree nor disagree
- Somewhat agree
- Agree

Theme 2 – Describe a sustainable mortgage market.

Q19. What does a sustainable mortgage market mean to you? For example, what do you think is a manageable and sustainable amount of debt to take on in order to purchase a property? What are the best

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ways to avoid repeating mistakes of the past in terms of excessively loose lending standards leading to widespread financial distress?

Theme 3 – Broader housing and mortgage market considerations

Q20. Rank the three factors you think are most important in driving housing and mortgage market developments in Ireland.

Q21. If "Other", please specify.

Theme 4 – Areas of focus for the Central Bank's mortgage measures framework review

Q22. What do you think the Central Bank should focus on as part of its framework review of the mortgage measures? Rank them 1-5 in order of importance.

- The differentiation of the loan-to-value and loan-to-income limits by type of borrower
- The number of allowances permitted and how they operate
- The appropriateness of using loan-to-income and loan-to-value ratios
- The level of the lending limits
- Other

Q23. Do you have any other feedback on the mortgage measures? For example, are there any other areas the Central Bank should focus on as part of its framework review of the mortgage measures?

Q24. Do you have any insights you would like to share on how the mortgage measures have affected you or people you know?

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Annex 2: Responses of Institutions/Organisations to the online public engagement survey

Submissions from institutions/organisations accounted for 42 of the responses from different sectors, namely, financial services firms and credit unions (9), property and construction firms (6) and NGOS/charities. The survey was completed on an anonymous basis and so it cannot be confirmed if these responses are the official response of the organisation or if they were completed in a personal capacity by one individual in the organisation.

Most financial services firms suggested that the measures should include rental payments and repayment capacity when assessing affordability, with two suggesting that DSTIs are better suited than LTIs. Two others suggested that LTI limits could vary, and could be higher for single borrowers or higher salaries. One credit union proposed credit unions as potential mortgage providers. Firms in the property and construction sectors generally suggested changing the rules or providing additional flexibility. Two bodies suggested increasing the LTI limit (to 4 and 4.5, respectively).

Charities' and NGOs' responses were quite diverse. Two organisations highlighted that being driven out of urban spaces by high house prices results in high commuting costs and social impacts in terms of the environment, time loss and childcare. There was also a suggestion to differentiate measures by region and type of property, to incentivise buying higher density property types. The role of rental payments to demonstrate affordability was suggested, as well a move from LTIs to DSTIs. Two respondents each highlighted the issue of high interest rates and the importance of strong regulation.

One political party also replied to the survey, and expressed their appreciation of the rules to avoid past mistakes.

Across all types of institutions, several bodies criticised the lack of transparency in allowance lending, as well as their management during the calendar year. Suggested changes included the use of a rolling basis and a carry-over approach while there was one preference for higher LTI limits instead of allowances. Several respondents also mentioned LTV requirements, with some in favour of a loosening for SSBs to 90 per cent, while one NGO respondent was in favour of stricter LTV limits but no amortisation requirements.

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Annex 3: List of Registered Participants for Listening Events

Property and mortgage industry	Business	Civil society
Association of Expert Mortgage Advisors	Credit Review	Age Action
BPFI	Dublin Chamber of Commerce	Alone
Cairn Homes	Dundalk Chamber of Commerce	Circle VHA
CBRE	Fás	Citizens Information
CIF/IHBA	Forsa	Clúid Housing
EY Economic Advisory Services	IBEC	Community Action Network
IBEC/PII	Restaurants Association of Ireland	Competition and Consumer Protection Commission
IIP	William Fry	FLAC
IHBA		Insolvency Service of Ireland
IPAV		Irish Mortgage Holders Association
Irish mortgage brokers		Irish Rural Link
JLL		MABS
McCann Fitzgerald		One Family
MyHome.ie		Social Justice Ireland
O'Flynn Group		Simon Communities
Savills		Nevin Institute
SCSI		
Sherry Fitzgerald		

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Abbreviations

BTL	Buy to let
DSTI	Debt service to income
DTI	Debt to income
ESRI	Economic and Social Research Institute
FTB	First time buyer
LTI	Loan to income ratio
LTV	Loan to value ratio
NGO	Non-government organisation
PDH	Primary dwelling house
SSB	Second and subsequent buyer

T: +353 (0)1 224 5800
E: publications@centralbank.ie
www.centralbank.ie

Banc Ceannais na hÉireann
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