Property Industry Ireland

Ibec

While the Mortgage Measures have been successful in meeting the Central Bank's main objectives, PII believes they have stopped many families with good finances from being able to buy a home, particularly because of the LTI restriction.

THE CENTRAL BANK'S CURRENT LENDING RULES

The Central Bank of Ireland introduced the Macroprudential Mortgage Measures in 2015.
The measures were introduced to ensure that:

Banks are lending sustainably	Borrowers are not borrowing at levels they can not afford	Any house price increases are not because of too much credit being offered
SUSTAINABLE	**AFFORDABLE**	**CREDIT LEVELS**

There are different limits depending on if the borrower is a first-time buyer, second-time buyer, or investor, and banks are allowed a certain number of exemptions each year

THE CURRENT MORTGAGE MEASURES ARE:

A limit on how much homebuyers can borrow relative to their income **(Loan-to-Income, LTI)**

A limit on how much homebuyers can borrow relative to the price of the home **(Loan-to-Value, LTV)**

These measures are separate from and in addition to the assessment banks do on a borrower's ability to repay a loan

WHY PII THINKS LENDING RULES NEED TO CHANGE

The existing rules have several unintended consequences, including:

- Keeping families in the rental market - unable to buy a new home
- Having more people in rental properties which has contributed to increased rents
- Rents in many places being higher than the monthly mortgage cost for a new home
- Homebuilders build homes based on funded demand (the number of people able to get a mortgage)
- The current rules are too restrictive. This means there have been fewer homes built since 2015 than there could have been

WHAT PII RECOMMENDS AS AN ALTERNATIVE LENDING RULE

Property Industry Ireland (PII) believes a new measure called Debt Service Ratio, or DSR, should replace the current Loan-to-Income (LTI) limit.

A Debt Service Ratio (DSR) calculates how much a household has available to spend after taxes and other loan repayments are taken into account.

This sets a limit on how much a household can pay in mortgage repayments based on affordability.

PII believes DSR is a better measure as it takes into account any possible changes in interest rates. It is fairer on households because it is focussed on how much a household can repay instead of what their income is.

A DSR, rather than an LTI, measure is more common in most Europe Union countries.

We show the example of a two-earner household with an income of €75,000.

€75,000 household income: 3.5 LTI limit vs DSR%

	LTI 3.5	DSR @ 25%	DSR @ 30%
Gross Income	€75,000	€75,000	€75,000
Maximum mortgage	€262,500	€312,650	€375,034
Maximum house price	**€291,667**	**€347,389**	**€416,704**
Net annual income	€61,570	€61,570	€61,570
Net monthly income	€5,131	€5,131	€5,131
Average mortgage interest rate	2.79%	2.79%	2.79%
Maximum Monthly mortgage repayment	€1,077	€1,283	€1,539
Debt Service Ratio (DSR)	**21%**	**25%**	**30%**

We also look at what the current maximum house price is for two earner households earning €50,000 and €90,000.

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