Group Briefing

November 2016

Central Bank Mortgage Regulations: Results of review announced

The Governor of the Central Bank of Ireland, Philip Lane, announced the results of the Central Bank's review of its 2015 Mortgage Regulations on 23 November 2016. The Central Bank's view is that the Regulations are appropriate, have been successfully implemented and are leading to a reduced probability of default under mortgages taken out within the framework of the Regulations. A number of changes are being made to the Regulations, with effect from 1 January 2017. These changes are designed to "*improve the sustainability and effectiveness of the current framework*" and are set out in detail in the "***What is changing, and what will remain the same?***" table later in this Briefing. The changes can be summarised as follows:

- first-time buyers must now provide a minimum deposit of 10% of the property value, with a loan-to-value (**LTV**) ceiling of 90%;
- for lenders:
  - 5% of the value of new lending to first-time buyers will be allowed above the 90% LTV limit for those buyers;
  - 20% of the value of new lending to second and subsequent buyers will be allowed above the 80% LTV limit for those buyers;
- the valuation period has been extended from 2 months to 4 months; and
- the scope of the Regulations will be linked to the definition of "*consumer*" in the Consumer Protection Code (and to the definition of "*consumer*" used by the Financial Services Ombudsman) to confirm that large commercial landlords and developers are out of scope.

While the Central Bank described these changes as "*limited refinements*", others have viewed them as significant in practice. The changes are welcome, and it is hoped that they will have a positive impact on the supply of mortgage loans.

BACKGROUND

The Central Bank introduced the Regulations in February 2015. The Regulations imposed caps on LTV and loan-to-income (**LTI**) ratios applicable to new residential mortgage lending from 9 February 2015 onwards.

In June 2016, the Central Bank sought submissions on the Regulations by 1 September 2016. 51 submissions were received by that deadline, including a submission from the Department of Finance (for further detail, see our recent Client Briefing: Resolving the Mortgage Arrears Crisis Volume 3/2016).

The Central Bank had emphasised that changes would only be made to the Regulations if it was presented with strong evidence to justify change.

WHAT IS CHANGING, AND WHAT WILL REMAIN THE SAME?

RULE	CURRENT POSITION	POSITION FROM 1 JANUARY 2017
	LTV RESTRICTIONS	
LTV: First time buyers	LTV maximum of 90% for loans ≤€220,000. LTV maximum of 80% for amount of loan > €220,000.	10% minimum deposit. LTV maximum of 90%.
LTV: Second and subsequent buyers	20% minimum deposit. LTV maximum of 80%.	No change.
LTV: Buy-to-lets (BTLs)	LTV maximum of 70%.	No change.
LTV: Exemptions	Negative Equity Mortgage Loans. Refinancing/Switcher Mortgages. Alternative repayment arrangements (ARAs) to deal with arrears cases.	No change.
LTV: Lending Caps:	Up to 15% of total lending for primary dwellings (first-time, second and subsequent buyers) and up to 10% of total lending for BTLs can exceed the LTV limits.	Up to 5% of the value of new lending to first-time buyers can exceed the 90% LTV limit. Up to 20% of the value of new lending to second and subsequent buyers can exceed the 80% LTV limit. No change in relation to BTLs.
	LTI RESTRICTIONS	
LTI: First time buyers	Ceiling is 3.5 x borrower's income.	No change.
LTI: Second and subsequent buyers (including those in negative equity)	Ceiling is 3.5 x borrower's income.	No change.
LTI: Exemptions	BTL investors. Refinancing/Switcher Mortgages. ARAs to deal with arrears cases.	No change.
LTI: Lending Caps	Up to 20% of total lending for primary dwellings (first-time, second and subsequent buyers) can exceed the LTI limits.	No change.
	OTHER	
Valuation Period	Valuation must take place within the 2 months before the housing loan is advanced.	The valuation period has been extended to 4 months as average house sales take longer than 3 months.

IMPACT ON BORROWERS

The impacts listed below are subject to any other restrictions contained in either the relevant lender's lending/credit policies or any other rules or restrictions to which that lender is subject, and to the exceptions to the Regulations' caps available to lenders:

IF AN INDIVIDUAL BORROWER IS:	THE FOLLOWING RESTRICTIONS APPLY FROM 1 JANUARY 2017:
A first-time buyer:	A deposit of at least 10% must be provided, the maximum LTV is 90% and the borrower can borrow up to 3.5 times his/her income.
A second or subsequent buyer (other than a buyer in negative equity):	A deposit of at least 20% must be provided, the maximum LTV is 80% and the borrower can borrow up to 3.5 times his/her income.
A buy-to-let investor:	A deposit of at least 30% must be provided, the maximum LTV is 70% and the investor is not subject to an LTI limit.
A borrower under a negative equity loan:	There is no minimum deposit or maximum LTV, but the borrower can only borrow up to 3.5 times his/her income.
A borrower under an ARA put in place to deal with mortgage arrears:	That borrower is not subject to the Regulations.
A borrower availing of a switcher mortgage:	That borrower is not subject to the Regulations.

The LTV and LTI limits set out in the Regulations remain subject to the credit policies of the individual lenders, and lenders must still assess each mortgage loan application on its facts.

IMPACT OF THE REGULATIONS

The Economic and Social Research Institute, in its Autumn 2016 Quarterly Economic Commentary, analysed the implications of the Regulations on the Irish housing and credit sector and noted that the LTV and LTI limits had caused lending in the Irish market to contract, but that the impact on the housing sector had, to date, been negligible. However, it forecast (over a longer period of time) that housing supply will decrease more significantly than it would have if the Regulations had not been introduced.

In its FAQs on the Regulations published on 23 November 2016, the Central Bank noted that as the Regulations are designed to increase the resilience of banks and borrowers in the medium-term, it is too soon to establish whether they have been effective but that both banks and households will be better protected due to the reduced exposure to negative equity.

KEY CONTACTS

For further information please speak to your usual Arthur Cox contact or:

CORMAC KISSANE
PARTNER, CAPITAL MARKETS
+353 1 618 0529
cormac.kissane@arthurcox.com

ORLA O'CONNOR
PARTNER, FINANCIAL REGULATORY
+353 1 618 0521
orla.oconnor@arthurcox.com

ROBERT CAIN
PARTNER, FINANCIAL REGULATORY
+353 1 618 1146
robert.cain@arthurcox.com

MAEDHBH CLANCY
PROFESSIONAL SUPPORT LAWYER, FINANCE
+353 1 618 0586
maedhbh.clancy@arthurcox.com