



Government scheme to provide mortgage credit is misplaced, warn experts

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Mortgage experts are concerned that the government's new proposals to improve the availability of mortgage credit is a case of misplaced energy.

The government last week unveiled new plans for the construction sector, with the Construction 2020 strategy document highlighting the need for "an appropriate and sustainable supply of mortgage lending to support the market".

The government's strategy document said that proposals would be developed for "additional models of mortgage financing in Ireland, including the concept of a mortgage insurance scheme".

As yet, details of how the proposals could shape the mortgage market are scant, but experts have suggested that the plans could see a return to higher loan-to-value (LTV) ratios for buyers, meaning first-time buyers would need smaller deposits to take their first steps on the property ladder.

However, mortgage experts say that the market needs

more supply, not bigger mortgages.

Ken Murray, director of the Association of Expert Mortgage Advisors (AEMA), said that, based on the details so far, he was not a "great fan" of the government's proposals for a mortgage insurance scheme.

"I really don't see the need for it. The key issue in the market is supply, not availability of credit.

"The availability of suitable properties is where the problem lies," said Murray.

"I've never been a believer of government intervention in the property market," said mortgage adviser Michael Dowling. "We have seen many instances where that has proved far from a resounding success."

According to Dowling, there's little evidence that first time buyers can't come up with the required deposit to purchase a property. "It's really a question of supply, not availability of credit," he said.

"We didn't need 100 per cent finance in 2006, but banks used it to grow market share," Dowling said. "Higher loan-to-value ratios diminish the investment that someone puts into a property purchase, and reduces their

personal responsibility. You need a degree of discipline and commitment."

According to Murray, today's would-be first time buyers have strong deposits and don't need higher LTVs.

"It's the positive story of years of recession. The buyers looking to enter the market now are from a generation of savers. We're seeing people on average incomes with incredible savings records, so 95 per cent finance is not what the market needs."

"We're seeing lots of people who are fully loan approved, but just can't get a suitable property," Murray said.

Figures published last week by the Irish Banking Federation (IBF) showed that a total of 3,425 new mortgages to the value of €568 million were drawn down by borrowers during the first quarter of 2014.

However, Felix O'Regan, the IBF's director of public affairs, said that its latest data showed "growing divergence" between the number of mortgages being approved and the number of loans being drawn down. "The view is that this is driven by the challenge of the supply problem," he said.

"There's a shortage of supply of suitable properties in key locations where there's

demand. People have approval but increasingly are chasing the same properties."

O'Regan said that the banking sector welcomed the government's plans to address housing supply issues, but said the IBF was concerned that any proposals did not "exacerbate the problems already identified".

"Banks provide finance to those with the capacity to repay. In the main an LTV of 90 per cent applies, and in some cases a little higher.

"That is considered prudent. Anything above that needs to be looked at very carefully," he said.



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