



Modest rise in drawdowns dampens mortgage hype

The would-be resurgence of property prices has to be qualified against the small number of mortgage drawdowns revealed in the IBF's latest data, writes **Emma Kennedy**, Personal Finance Correspondent

Hype about rising house prices threatens to push some would-be buyers off the fence – but, for now, the mortgage market remains somewhat muted, with the latest figures revealing only a small increase in mortgage drawdowns.

The headline data from the Irish Banking Federation (IBF) last week was a year-on-year increase of 9.7 per cent in the level of mortgage approvals between the second quarter of 2012 and the second quarter of this year. But behind this was a much more telling figure: the deeply modest 0.7 per cent increase in the level of drawdowns for the same period.

The mortgage market is a lot livelier than it was a year ago, with more active lenders. However, despite more approvals, the level of drawdowns remains well below boom-time levels, and below what most experts feel is the appropriate level for a normally functioning property market.

There are a number of reasons why this is the case. Some experts point to the lack of supply of suitable properties, while others say that people are still nervous about their financial future and reluctant to take on a mortgage.

According to Michael Dowling, spokesman for the Independent Mortgage Advisors Federation (IMAF), the competition for starter homes in certain areas of Dublin is "intense", with first-time buyers facing a lack of supply. It is this shortage of properties that's driving prices up in certain pockets of the capital.

However, one of the main reasons cited for the low levels

of mortgage lending is the number of cash buyers in the market, who are snapping up properties without relying on mortgage finance. "There's still a large number of cash buyers out there," Dowling said.

Trevor Grant, chairman of the Association of Expert Mortgage Advisors, agreed that cash buyers were still a major factor in the market. However, he predicted that, as prices rose, some of the would-be cash buyers would have to supplement their cash savings with a small mortgage.

"Also, they are increasingly aware of what could go wrong, and have concerns about the future, so some people might choose to hang on to some of their cash, and borrow a small amount," he said.

Banks are keen to point out that they have money to lend prospective mortgage applicants. For example, Bank of Ireland recently announced that it was launching a further €2 billion fund for first-time buyers and movers and said that it had already approved about €1.2 billion in mortgage finance from its current €2 billion fund.

At the start of this year, Permanent TSB announced plans to increase lending significantly, with the bank saying it wanted to lend about €450 million this year, up from less than €90 million in 2012. And in June, KBC made it clear that it was back in the hunt for first-time buyers when it increased its maximum loan to value (LTV) ratio to 90 per cent, meaning borrowers need just a 10 per cent deposit to access its mortgage products.

The sector is now likely to

become even more active, with reports last week that Investec is poised to enter the mortgage market here. Investec remained tight-lipped about its plans when questioned by *The Sunday Business Post*, saying that it was "always looking at opportunities to increase its footprint in the Irish marketplace and, as part of that, regularly undertakes assessments of opportunities within the corporate and retail banking markets".

Dowling said it was encouraging that a bank like Investec felt that "the time was right to start lending". Any new lender, he said, would be in a position to "go after the safer bet" and "cherry-pick" less risky customers.

However, he said it was unlikely that a new entrant to the market would draw a major response from the current crop of lenders. "A new entrant is positive, but will have little impact on rates. Increased competition might hold future increases in variable rates off, though," he said.

Grant said a new lender would shake things up a little, especially important for the intermediary market. "Investec don't have a legacy tracker issue, so they will be able to offer attractive rates and cherry-pick borrowers," he said.

However, he added that a new lender was unlikely to have much effect on the overall market. "The challenge for prospective buyers is getting approved, not getting credit."

Experts expect some changes for the mortgage market in the months ahead, with predictions of competition on rates for lower LTV customers and new types of products.