



IRELAND'S MORTGAGE MALFUNCTION

Onerous lending rules, lack of supply and skyrocketing rents are making it increasingly difficult for people to buy a property. So what can be done?

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A group of thirtysomethings meet for dinner, somewhere in Dublin. Before long, the conversation turns to property.

Joe wants to buy a modest house in the Dublin suburbs, but can't afford to, thanks to new rules that cap his mortgage at 3.5 times his gross earnings, and so he faces indefinite renting.

Alan and Michelle have mortgage approval, but can't find a suitable property, due to the lack of supply.

John and Louise want to sell their apartment and move to a house with room for their kids, but can't manage the 20 per cent deposit (meaning one less property coming to market for the likes of Alan and Michelle).

Sarah and Barry are renting, but their rent has jumped up and they are struggling to save; they worry they'll never afford to buy a house.

Niamh is stuck in negative equity, while Ciara and Michael are struggling with arrears for the last five years and are afraid of losing their home. These are the realities of Ire-

land's mortgage market, and the housing dilemmas that Irish people face.

Market meltdown

Fianna Fáil's finance spokesman, Michael McGrath, said that the mortgage market was dependent on a normal housing market "where transactions can be easily completed, where first-time buyers do not face a mountain of difficulties to buy a home and where upward and downward mobility is an available option for existing homeowners".

"The current chronic shortage of housing supply is like throwing a spanner into a revolving wheel," he said. "The whole system will become choked if the government doesn't address the underlying reasons why builders are not building enough homes."

Part of the problem is the cost of building, according to McGrath. "The government needs to urgently examine the reasons why the viability threshold has still not been met for builders," he said. "A completely new funding model has to be urgently put in place where builders are

not having to pay 15 per cent or more for funds, as that cost of funds simply makes many projects unsustainable."

Experts agree that the mortgage market and the broader housing market are in disarray.

Ken Murray, director of the Association of Expert Mortgage Advisers, said there was "a lack of joined-up thinking" on housing policy.

"A more consistent approach is needed," he said.

According to Karl Deeter, a financial analyst and adviser at Irish Mortgage Brokers, the housing market is "dysfunctional".

However, change will take time: the housing market is a complex one, and not something that can be tackled overnight. "There are so many cogs to this wheel," said Marian Finnegan, chief economist at Sherry FitzGerald. "There are the mortgage restrictions, the cost of investing, the restrictions to supply, the planning difficulties. It needs to be looked at in its entirety."

"My sense is that the government is looking for a silver bullet in the housing market, but there isn't one."

Grinding halt

Last week, this newspaper reported that the mortgage market could grind to a halt in the final months of this year, as banks run up against lending limits.

Keen to avoid another boom and bust in Ireland's mortgage market, the Central Bank intervened earlier this year with strict lending rules. A prudent step, or a restrictive one? It depends on your perspective.

The lending rules, in force since the

middle of February, mean that borrowers now require bigger deposits and are restricted by tighter income multiples. Banks are allowed to breach the rules in a limited number of cases, but fears are mounting that lenders have limited capacity remaining to grant exemptions to the rules this year.

Exemptions to the lending rules are in demand among would-be buyers in Dublin and other urban centres where house prices are higher than elsewhere in the country.

Finnegan said that if banks used up their quota of exemptions, it "could stymie the market in the fourth quarter".

Financial adviser Kevin McNerney, a member of the Trusted Advisor Group, said that some banks were already "a closed shop for anyone seeking exemptions". However, he said that he was still seeing a "good few" exemptions being granted by lenders.

"We're seeing that most first-time buyers are okay," McNerney said. "The deposit is okay for most people. However, there's an issue for those on lower incomes. Their rent is higher than their mortgage would be."

Finnegan said that the Central Bank rules had delayed the ability to buy for many people. She pointed to the knock-on effect this has on the availability of property, saying that if "developers are nervous, there's no market".

Minister for Finance Michael Noonan has indicated that he wants the Central Bank to review the impact of the mortgage lending limits on the market.

A Central Bank spokeswoman said that the bank was "continuing to monitor the implemented measures on an ongoing basis, particularly with regard to achieving the stated objectives of the measures and monitoring any unintended consequences".

Rental crisis

For those who want to buy a home, the new Central Bank rules are just one consideration. Another potential stumbling block to having the financial capacity to secure a mortgage is the cost of renting a place to live.

Figures published by the Private Residential Tenancies Board (PRTB) last week pointed to further increases in rents during the second quarter of this year.

"The big picture is that Dublin rents are now close to pre-recession peaks, while the recovery outside the capital is only now beginning to emerge," a broker note from Davy Stockbrokers said.

"Rental increases look set to persist in the near term."

Spiralling rents, and the resultant decline in savings potential, puts home ownership beyond the reach of some would-be buyers, and means a much longer wait for others as they struggle to accumulate the amount required to satisfy the Central Bank's deposit requirement.

"While wages are recovering, tenants are now spending an ever-increasing share of their incomes on rents," Davy said.

Landlords maintain that the tax treatment of residential landlords has increased the cost of providing rental accommodation, reduced the amount of accommodation available and left the rental market in an unsustainable position.

Stephen Faughnan, chairman of the Irish Property Owners' Association, said that 70 per cent of landlords had loans and 71 per cent of those had insufficient income from their rental property to cover the mortgage repayment.

"The difficulty is the tax treatment of the sector; it is treated as unearned, costs that are clearly expenses are not allowed as costs," Faughnan said. "Some 25 per cent of the interest paid to the banks is not allowed as an expense, and therefore is taxed as income."

"The local property tax is not an allowable expense."

While the Central Bank lending rules grant some leeway to first-time buyers, those trading up require a 20 per cent deposit.

Some argue that this leaves families stuck in homes not fit for purpose, and also acts as a blockage in the wider market.

"Many homeowners can never see their way to trading up, meaning that they are trapped and the supply of starter homes is affected," McGrath said.

Other homeowners dismiss the idea of trading up for fear of losing their valuable tracker rate. For this cohort, there are options, albeit limited ones.

Over the course of 2013 and last year, banks introduced tracker mover mortgages, allowing customers to move house and hang onto their tracker rate.

Typically, borrowers pay a premium above their existing tracker rate, and any additional borrowing required to fund a new home is subject to market rates.

Market sources suggest, however, that few homeowners actually qual-

ify for the tracker mover offers, thus leaving thousands of them trapped where they are, and preventing starter homes from coming back onto the market.

The Central Bank's macro-financial review pointed to a small stock of secondhand property for sale as one of the constraints on supply in the market.

While some borrowers are afraid of losing their trackers, others have been fighting to hang onto theirs.

Earlier this summer, Permanent TSB announced a redress and compensation scheme for nearly 1,400 mortgage customers, after a Central Bank enforcement investigation related to tracker mortgage overcharging.

Meanwhile, AIB is facing legal action from customers alleging they were overcharged, as the bank didn't switch them on to a low-priced tracker mortgage rate.

Mortgage experts predict that tracker mortgage overcharging is likely to become a much wider problem than has been reported to date, saying that the existing cases are an indicator of more to come.

In recent months, the prevailing narrative on the mortgage market has hinged on the suitability – or otherwise – of the Central Bank's intervention on lending rules. The debate has raged on and on, citing the cohort of renters who face an uphill battle to buy.

That story has replaced another narrative, that of the tens of thousands of homeowners swamped by mortgage debt. But the arrears issue has not gone away.

The search for a solution to the mortgage arrears crisis continues. Banks have recently agreed a deal with British debt charity StepChange which will see the charity provide a telephone-based advisory service for struggling debtors here from November 16 onwards.

Mike O'Connor, StepChange's chief executive, said the charity would not come into the Irish market with "a magic wand", but would give debtors another option. He said it wanted to provide long-term solutions for Irish debtors.

"We don't want to just mop up the problem – we want to turn off the tap," he said.