



New house rules: call for greater education of mortgage applicants

Mortgages issued in 2013
were smaller, as banks kept
a tight rein on lending



Ken Murray

According to the Irish Banking Federation (IBF), the official body tasked with collating Ireland's mortgage data, the total value of new mortgage lending in the third quarter of 2013 was €750 million, which is less than a tenth of what it was in 2007.

However, this data does not tell the full story, as there is general consensus among industry experts that the volumes at the peak were too high. The optimum size for Ireland's mortgage market is now about €10 billion, and this is what the industry should be working towards.

Mortgages issued in 2013 were far smaller and more manageable with first-time buyers borrowing an average of just over €150,000, while the "mover-uppers" with higher incomes were qualify-

ing for an average of just under €220,000. This indicates we don't need the same market size to fund our housing needs.

Based on demographics - which have changed considerably in recent years - and greater consumer interest in, and demand for, renting, the optimum market size is now about €10 billion - roughly three times what it is now and just a quarter of what it was in 2007.

2014: who will buy?

First-time buyers remain the largest single segment, making up just over half of all loan applications. Most of the balance will come from buyers looking to move to a bigger home or a higher value one located in a preferable area.

The remaining balance of mortgage loans will be made up of a resurgent professional landlords sector and greater interest in re-mortgages and top-ups, particularly following the home improvements tax incentive announced in the budget.

Aside from the main play-

ers we are also likely to see the re-emergence of two dormant sectors of the market - namely residential investment and re-mortgages. KBC have launched a new re-mortgage product recently which is the first in a very long time, and



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Permanent TSB also recently introduced their residential investment product. As a result we certainly think these sectors will see considerably more activity in the New Year - a multiple of the volumes over the past five years.

Challenges

The shortage of properties in the key urban areas and the resultant house price inflation has been well documented. Negative equity and tracker traps are further restrictions. However, there seems to have been some abatement in the former, resulting in a higher volume of applications in the last quarter of 2013 as many homeowners were finally freed from this vice.

This has boosted confidence among those considering trading up and, with the chronic lack of new family homes being built, there is a growing need for each purchasing segment to "shuffle up" to create space at the bottom for first-time buyers.

For many reasons we are probably a long way off a single European mortgage market. Lenders have their own problems in their own countries without looking to get into other territories.

The focus over the next number of years will be on repairing balance sheets and treating non-performing and non-sustainable debt.

New products

As the volume of non-performing loans seems to have peaked, it is likely that banks will become more aggressive in looking for new business. There is strong evidence to support this with promises of greater funding from some lenders. While this is to be welcomed, consumers should take a cautious approach and carefully analyse any special offer to ensure it is as good as it claims.

Will it still be hard to get a mortgage?

Unfortunately the answer is yes; the underwriting requirements and extensive paperwork are a challenge even for the experienced advisors, and that position is likely to remain.

The proportion of consumers seeking professional support and advice has in-

creased considerably, and this will continue to be the case, such is the complexity of the process.

Criteria will undoubtedly relax over the coming years, but not to an excessive degree. Remember, those who cannot remember the past are condemned to repeat it.

Ultimately though, we want people to have the best chance possible of securing a mortgage so we would like to see greater education of would-be applicants, particularly first-time buyers to en-

able them to get their finances in order months in advance of the mortgage application.

We believe that the market size in 2014 will exceed €3 billion and potentially grow to €4 billion if the new products planned come to fruition.

Many people forget that banks need new mortgage lending if they are to return to profitability.

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