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“Mortgage Rules Decision “Disheartening” - IPAV

Responding to the Central Bank announcement today of no change in its mortgage rules, IPAV, the Institute of Professional Auctioneers & Valuers, said it was disheartening that the Central Bank couldn't see a way towards tapering the severity of the rules, especially in how they are impacting those on average wages, many of whom are paying high rents, much higher than mortgage repayment would be.

Pat Davitt, IPAV's Chief Executive said those on average incomes have been locked out of the property market over a prolonged period, “a period during which interest rates were, and still are, historically low in an Irish context.”

He said IPAV had written to the Central Bank highlighting its concerns not alone in the short term but particularly the longer-term consequences of diminished or depleted financial power arising from not owning one's own home.

“This is especially so in an Irish context where our welfare system is based on the assumption that most citizens will own their own homes by pension age. And further, the good savings discipline inherent in mortgage repayments also helps people over time to acquire financial independence and a sense of financial wellbeing.”

He said the rules, as currently constituted, are preventing those of a younger age cohort, and those on average wages from achieving home ownership.

Under the existing mortgage rules someone on an average wage of €45k can borrow a maximum of €157,500, assuming they have already saved 10pc (€17,500) towards a deposit. They can buy a property up to a value of €175k. But there are few properties available at this level.

If the Central Bank enabled those earning up to €50k to borrow 4.5 times income, as opposed to the current 3.5 times gross salary a person on €45k could borrow €202,500 and with a salary of €50,000 one could borrow €225,000.

“This change would mean a much-improved ability to buy a first home,” he said.

“Now fixed interest rates of 10, 20 and even 30 years are available The guarantee of tenure these new long-term fixed mortgages give is exactly what is needed for mortgage purchasers, giving them long-term security way above that of renting.

“Ironically the Government's Rebuilding Ireland Home Loan is available for a full 30 years at up to 4.5 times earnings for a single person and over 5 times earnings for couples,” he said.

Mr Davitt said we should not allow what happened leading up to the property crash of 2007 haunt the property and lending markets today.

“Prior to the financial crash of 2007 to 2013 mortgagees could borrow up to 7 times and possibly much more of their gross income, property prices were at an all-time high, interest rates were also high and very little fixed term rates were available. This left purchasers bidding against each other for the same properties, ironically, often with the same bank's money.”

“However, we do appreciate that the Central Bank of Ireland has but a limited amount of leverage over the policy decisions that impact the property market.

“Many of those who have been locked out of the property market are now advancing towards middle age and may well find their options limited, not only for a 30-year mortgage but also for pension planning,” he said.

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