ESRB
European Systemic Risk Board
European System of Financial Supervision

EUROPEAN CENTRAL BANK
EUROSYSTEM

Notification template for borrower-based measures

Please send/upload this template to:

- macropru.notifications@ecb.europa.eu when notifying the European Central Bank (ECB);
- DARWIN/ASTRA when notifying the European Systemic Risk Board (ESRB).

This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure[1].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority	Central Bank of Ireland
1.2	Country of the notifying authority	Ireland
1.3	Type of borrower-based measure	Please select one of the measures listed below: ☐ Debt-service-to-income (DSTI) ☒ Loan-to-income (LTI) ☒ Loan-to-value (LTV) ☐ Debt-to-income (DTI) ☐ Loan maturity ☐ Other (please provide a short, name-like description here and provide more details in Section 2)

[1] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

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1.4	Type of notification	What do you intend to notify? ☐ Activation of a new measure ☒ Change to an existing measure ☐ Extension of an existing measure ☐ Termination of an existing measure
2. Description of the measure		
2.1	Description of the measure	The Central Bank of Ireland's mortgage measures take the form of LTI and LTV limits. The limits are differentiated by borrower type and a certain proportion of lending is allowed above the limits. ▪ **First-time buyers (FTB)** o LTI limit for FTBs increasing from 3.5 to 4 times income. o LTV limit: 90 per cent (No change). ▪ **Second and subsequent buyers (SSB)** o The LTI limit will remain at 3.5 times income. o LTV limit for SSBs is being increased from 80 per cent to 90 per cent. ▪ **Buy-to-let borrowers (BTL)** o LTV limit only: 70% (No change). ▪ **Proportionate allowances:** o The proportion of lending allowed above the limits will now apply at the level of the borrower type (e.g. FTB) rather than the individual limit (e.g. FTB LTI). • 15 per cent of FTB lending can take place above the limits. • 15 per cent of SSB lending can to take place above the limits. • 10 per cent of BTL lending can take place above the limits. There are a number of exemptions to the measures: • Negative equity mortgages are exempt from the LTV limit. • Life-time mortgages are exempt from the LTI limit.

		• The measures do not apply to switcher mortgages where there is no increase in loan principal.
2.2	Definition of the measure	**"housing loan" means –** (a) the amount advanced or the total sum of amounts advanced by a lender to a borrower which are or are to be secured on a residential property, **"income" means** the total gross annual income, before tax or other deductions, of the borrower; "**loan-to-value ratio" means** the ratio of the total amounts advanced under a housing loan to the value of the residential property as determined in accordance with the following equation and expressed as a percentage of that value: Where: LTV = loan-to-value ratio L = the total amounts advanced under the housing loan V = the value of the residential property; **value" means**: (a) where the borrower already has a housing loan secured on the residential property, the market value of that residential property; or (b) where the housing loan agreement is entered into for the purpose of either: (i) purchasing land with the intention of constructing a building on that land; or (ii) constructing a building, the value is the lower of: (i) the market value of the land on which the building is to be constructed and the estimated cost of construction of that building at the time of entering into the housing loan agreement, or (ii) the value of the residential property, the subject of that housing loan agreement, as assessed by a suitably qualified person appointed by the lender, where that suitably qualified person's assessment of value is based on the estimated amount for which the residential property should exchange between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, where that estimated amount includes the estimated amount by which completion of all proposed construction works should alter the value of the land or buildings of that residential property; or (c) in any other case, the price agreed in the contract of sale between the buyer and the seller for the residential property excluding associated costs for such sale, such as legal fees and stamp duty or, if lower, the market value of the residential property.

2.3	Legal basis and process of implementation of the measure	The measures are legally binding, implemented through the making of regulations by the Central Bank in accordance with Section 48 of Central Bank (Supervision and Enforcement) Act 2013.
2.4	Coverage	a. *Which types of credit providers will be covered by the measure?* The measures apply to any regulated financial services provider which provides mortgage lending. As such, the measures applies to both bank and non-bank lenders.
		b. *Which types of borrowers will be covered by the measure?* Natural persons
		c. *Which types of lending will be covered by the measure?* Mortgage loans i.e. loans secured on residential property in Ireland
2.5	Calibration	The measures aim to ensure sustainable lending standards in the mortgage market. Like all policy interventions, the measures entail both benefits and costs for society. Acknowledging both the benefits and costs together, the targeted recalibration is considered as providing *net benefits* to the Irish economy and society In reaching this judgement, the assessment covered four broad elements - models of credit available and drawn down, borrower resilience, the aggregate house price to income ratio, and borrowers' access to the housing market. For further information on our approach to calibration, see the calibration section of our framework document.
3. Timing for the measure		
3.1	Timing for the decision	What is the date of the official decision of the notified measure? 18/10/2022

3.2	Timing for publication	What is the date of publication of the notified measure? 19/10/2022
3.3	Disclosure	Information on the mortgage measures can be found on the Central Bank's website – here. On this occasion as the changes to the measures arise from a comprehensive framework review, the announcement was supported by additional communications including a press conference and press release.
3.4	Timing for the application	What is the intended date for application of the measure? What is the intended timeline for phase-in of the measure, if relevant? 01/01/2023 The changes to the measures come into effect on Jan 1 2023. Until then the existing measures remain in effect.
3.5	End date (if applicable)	Until when is it presumed that the measure will be in place? If applicable, please give an end date. Click here to enter a date. The Central Bank views the mortgage measures as a permanent feature of the market. The measures are monitored on an–ongoing basis alongside broader monitoring of risks in the housing and mortgage market, providing the scope for policy changes to be made as appropriate in the context of the objectives and proper functioning of the measures.
4. Reason for activation of the measure		
4.1	Description of the macroprudential risk	The importance of real estate markets and their financing for financial stability is well known. As noted in the ESRB Concept Note (March 22) "*RRE markets have recurrently been prone to boom/bust cycles with detrimental effects on financial stability and the real economy. These cycles are typically characterised by patterns of reinforcement and procyclical patterns in price developments and risk-taking among lenders and borrowers. RRE busts are common causes of banking crises, reflecting the*

		importance of real estate in the balance sheets of households and credit institutions. Recessions following RRE busts tend to be particularly deep and prolonged, with severe repercussions in terms of consumption, investment and employment." The Central Bank views the mortgage measures as an essential part of its toolkit to maintain financial stability. The objectives of the measures are to ensure sustainable lending standards in the mortgage market and to prevent an unsustainable relationship between credit and house prices from emerging. The Central Bank considers a combination of a collateral-based instrument (LTV) and income-based instrument (LTI) to be appropriate for this objective. Each instrument achieves different, but complementary, aims. The LTI limit provides a long-term link between developments in the housing market and the real economy, by restricting mortgage borrowing relative to household incomes. It also provides for affordability at mortgage origination, directly ensuring sustainable lending standards. An LTV limit provides a buffer against the risk of house price falls, which could leave borrowers in negative equity. The equity cushion provided by a minimum deposit requirement supports borrowers, as negative equity can lead to many negative economic and social outcomes.
4.2	Indicators used for activation of the measure	A range of mortgage and housing market indicators covering mortgage lending developments, price and valuation metrics, housing market and construction activity underlie the monitoring and assessment of the mortgage measures. These indicators are considered regularly in the Central Bank's FSR. These are also discussed in our framework document and selected indicators can be found in the accompanying chart pack (available here). The Central Bank regularly publishes an overview of new mortgage lending under the mortgage measures – see here.

4.3	Effects of the measure	The mortgage measures remain an essential macroprudential policy instrument to safeguard economic and financial stability. The measures foster sustainable lending standards and prevent an unsustainable relationship between credit and house prices from emerging. Since their introduction in 2015, the mortgage measures have worked as intended. The measures have fostered high levels of borrower resilience and ensured that, even in an environment of rapidly rising house prices, credit was not an amplifying factor and lending standards remained prudent. It is now the case that 49 per cent residential mortgage lending at the main retail banks has been issued under the mortgage measures. At the same time, underlying structural challenges in the housing market remain and have intensified over the past seven years. At the heart of these challenges is an ongoing imbalance between the demand for, and supply of, housing. The continued housing supply challenges, leading to persistently higher house prices relative to incomes, imply higher economic costs of the measures, relative to when they were introduced. The targeted recalibration of the measures can relieve some of the costs of the measures, without unduly reducing their benefits. The recalibration of the measures could imply a somewhat greater degree of macro-financial risk. However, broader developments over the past decade, including the strengthening of the resilience of the banking sector and continued deleveraging of the household sector as a whole, reduce the magnitude of these risks.
5.	**Sufficiency, consistency and non-overlap of the policy response**	
5.1	Sufficiency of the policy response	The calibration of the limits under the refreshed framework remains very prudent and it is considered that the recalibrated limits will be sufficient to achieve the objective of ensuring sustainable lending standards. The changes to the headline limits are partially offset by the streamlining and reducing of the proportionate allowances for lending allowed above these limits. From a borrower resilience point of view, estimates of stressed DSTIs for the average FTB and SSB are deemed overall to provide an

		appropriate cushion in terms of affordability to reasonable adverse shocks. Without unduly reducing the benefits of the measures, the targeted recalibration can relieve some of the economic costs of the measures which have increased since the introduction of the measures.
5.2	Consistency of application of the policy response	The measures as outlined in this notification are consistent with ESRB/2013/1.
5.3	Non-overlap of the policy response	The mortgage measures are targeted at systemic risks relating to the residential real estate sector. The mortgage measures are seen as being complimentary to the Central Bank's active macroprudential capital buffers (O-SII, CCyB) which target different sources of systemic risk. The Central Bank's framework for macroprudential capital can be found here. The strengthening of the resilience of the banking sector that has occurred over the last decade, supported by macroprudential policies, is seen as a contributory factor reducing the magnitude of any increase in risk associated with the targeted recalibration of the mortgage measures.
6. Cross-border and cross-sector impact of the measure		
6.1	Assessment of cross-border effects and the likely impact on the Internal Market (Recommendation ESRB/2015/2[2])	Given the composition of the lending market and the design of the measures, alongside the targeted nature of the recalibration, the changes are not expected to have material cross-border impacts.

[2] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).

6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	The measures cover all new mortgage lending, not only loans offered by banks, therefore regulatory arbitrage within Ireland is not considered a potential risk.
6.3	Request for reciprocation	Do you intend to ask the ESRB to issue a recommendation to other Member States to reciprocate the measure? No - If yes, please provide in Section 6.4 the justification for that reciprocity. - If no, what are the reasons for not requesting reciprocation?
6.4	Justification for the request for reciprocation	NA
7. Miscellaneous		
7.1	Contact person(s)/mailbox at notifying authority	Niamh Hallissey Niamh.hallissey@centralbank.ie Eoin O'Brien Eoin.obrien@centralbank.ie Macroprudential@centralbank.ie
7.2	Any other relevant information	
7.3	Date of the notification	Please provide the date on which this notification was uploaded/sent. 24/10/2022