



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Credit cycles, macroprudential interventions and housing market access

Some personal views!

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Central Bank of Hungary *Financial Stability Conference: Prudently
Catalyzing Competitiveness*

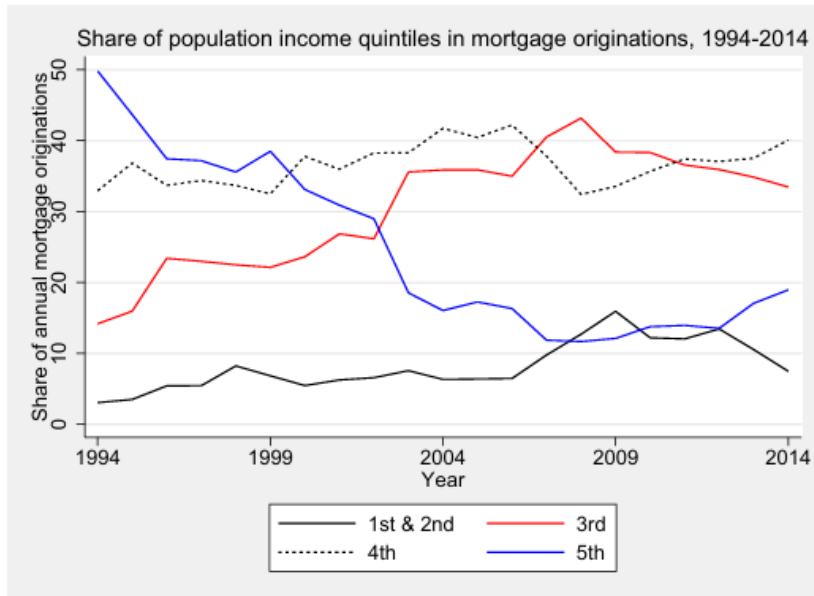


An “inconvenient truth”?

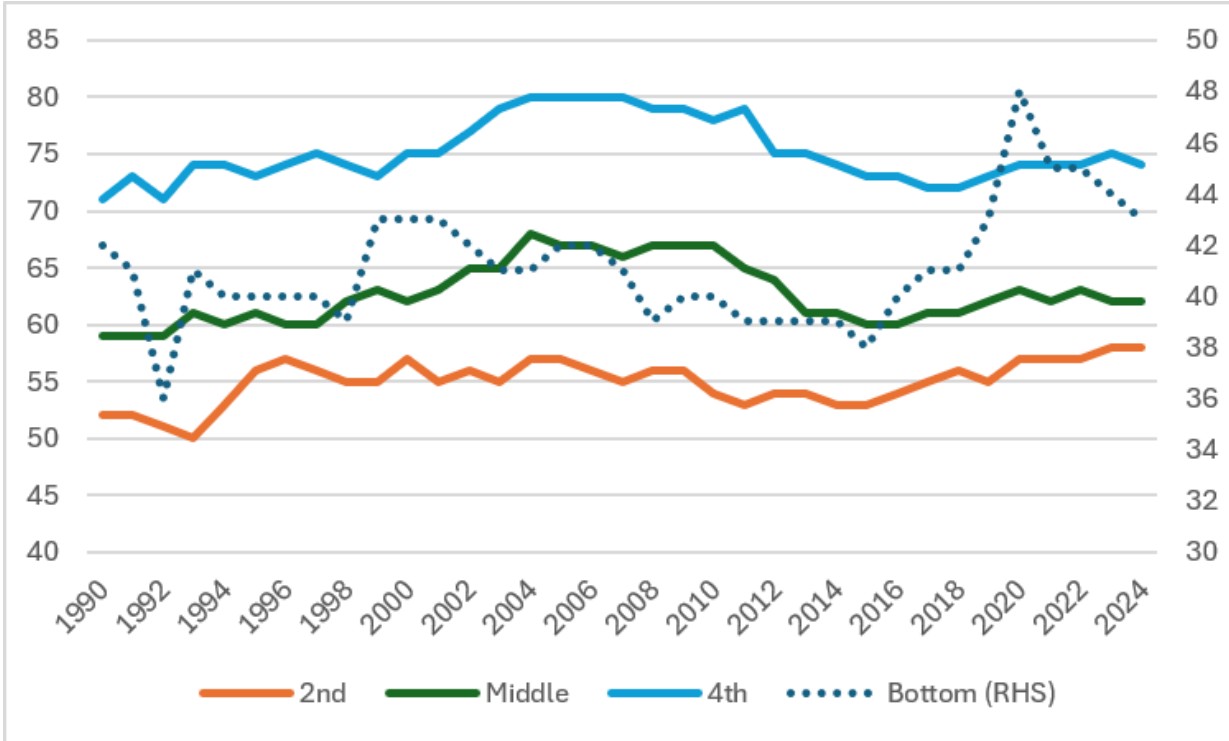
Booms open up middle class housing access; tighter credit conditions can do the opposite

Ireland, share of mortgage transactions per income quintile [McCann and Lydon \(2017\)](#)

Figure 2: Mortgage originations by population income quintile, First Time Buyers, 1994 to 2014.



USA, homeownership by income quintile (FRED)

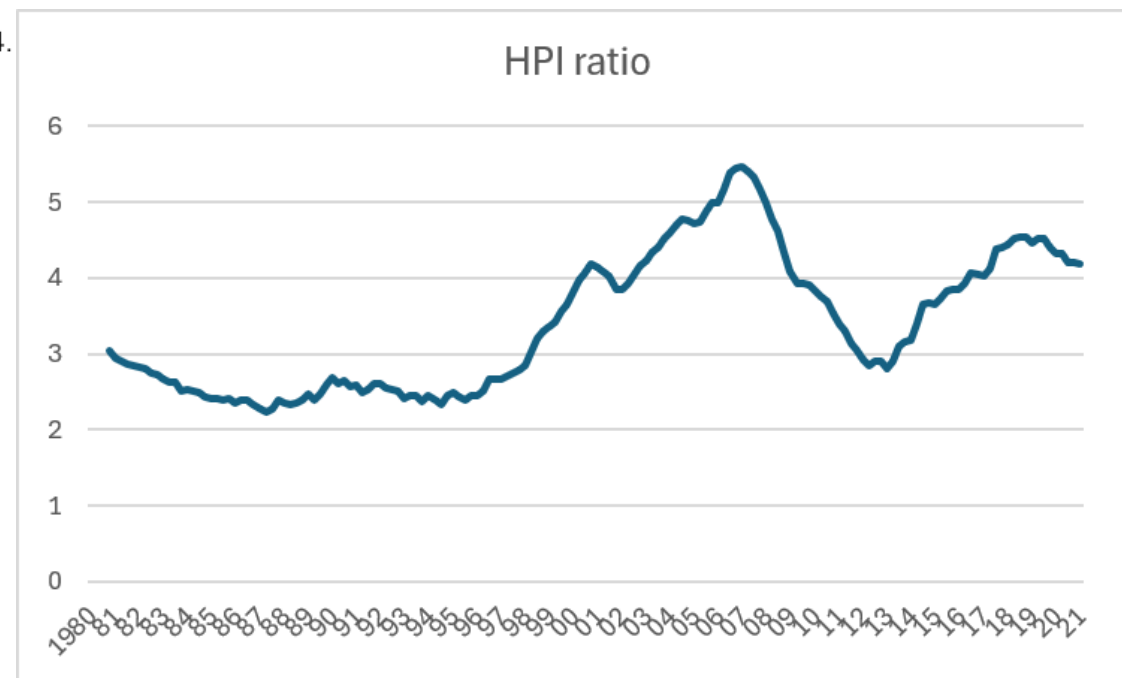
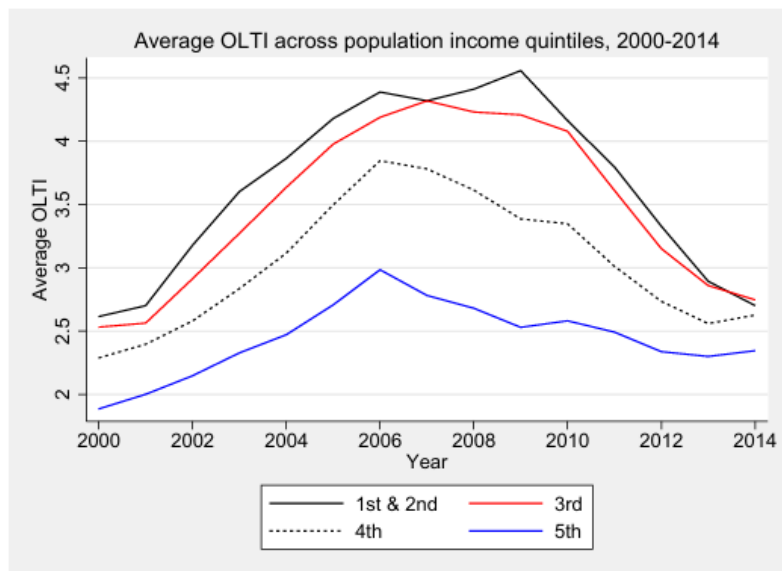


But of course booms can bring credit risk and drive unsustainable house price growth, with many general equilibrium and financial spillovers

LTI of new loans over the Irish credit cycle [McCann and Lydon \(2017\)](#)

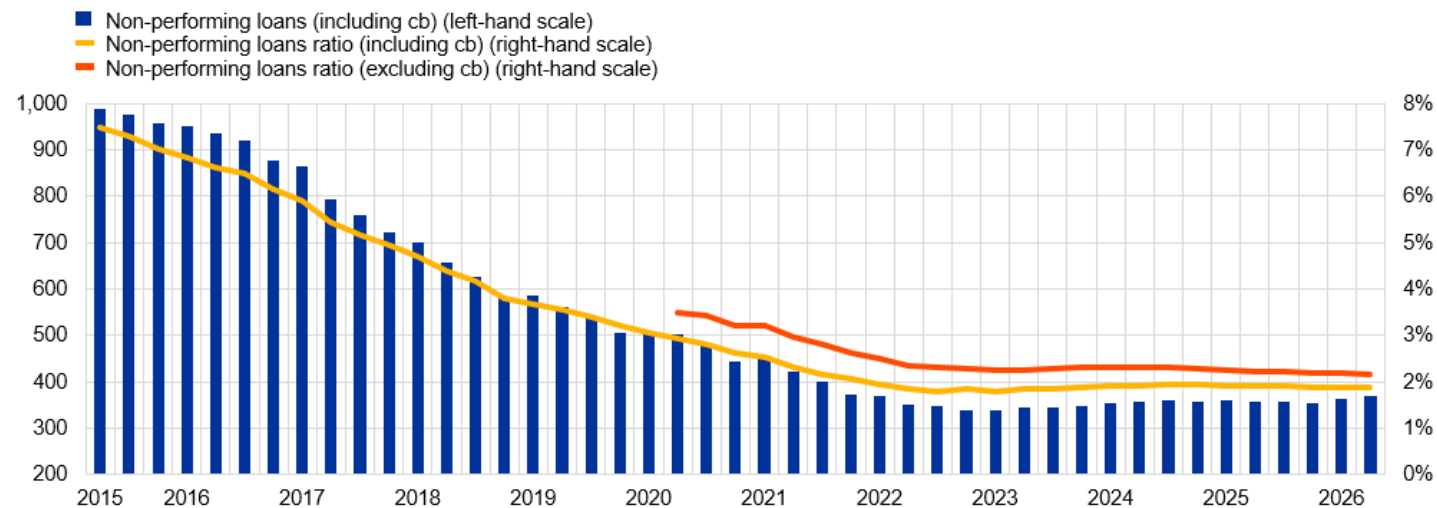
Stable house-price-income regime until mid-90s; huge cyclical variation since

Figure 6: Originating Loan to Incomes by population income quintile, First Time Buyers, 2000 to 2014.



NPLs can create huge problems, but even in extreme scenarios most people never become NPL

- Lots of cross-country heterogeneity
- At a euro area level, even when NPLs were high, **92% of loans performing**.
- Policy challenge – most who take out a loan **do not default**,
- and in the mortgage market, these people can remain homeowners for life *once they get initial market access*.
- Core challenge for Macroprudential regulation
 - Balance costs v benefits
 - Ex-post resolution (modifications) can mitigate *some* impact of looser ex-ante conditions?



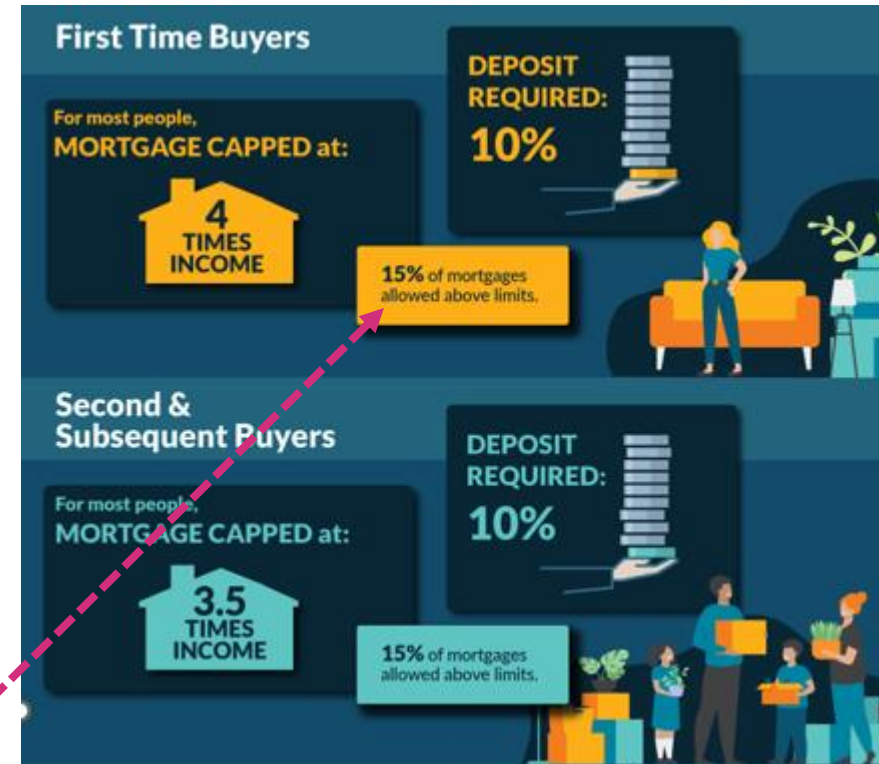
Macroprudential policies against the backdrop of the distributional impact of credit conditions – Irish example

Original, 2015

LTV limits	For primary dwelling homes:	<u>Until 31/12/16</u> FTBs: Sliding LTV limit from 90%* Non-FTBs: 80%	15% of all new lending allowed above limits
		<u>From 1/1/17</u> FTBs: 90% Non-FTBs: 80%	5% of new lending to FTBs allowed above 90% 20% of non-FTB new lending allowed above 80%
	For buy-to-let borrowers (Investors):	70% LTV limit	10% of new lending above the BTL limit is allowed
LTI limit	For primary dwelling homes:	3.5 times income	20% of new lending above the LTI limit is allowed

Differential LTV treatment for First Time Buyers

Recalibration, 2023



"Speed limit" approach - Detailed allowance regime to facilitate banks' underwriting of exceptional cases



BBMs shape borrower behaviour and profile

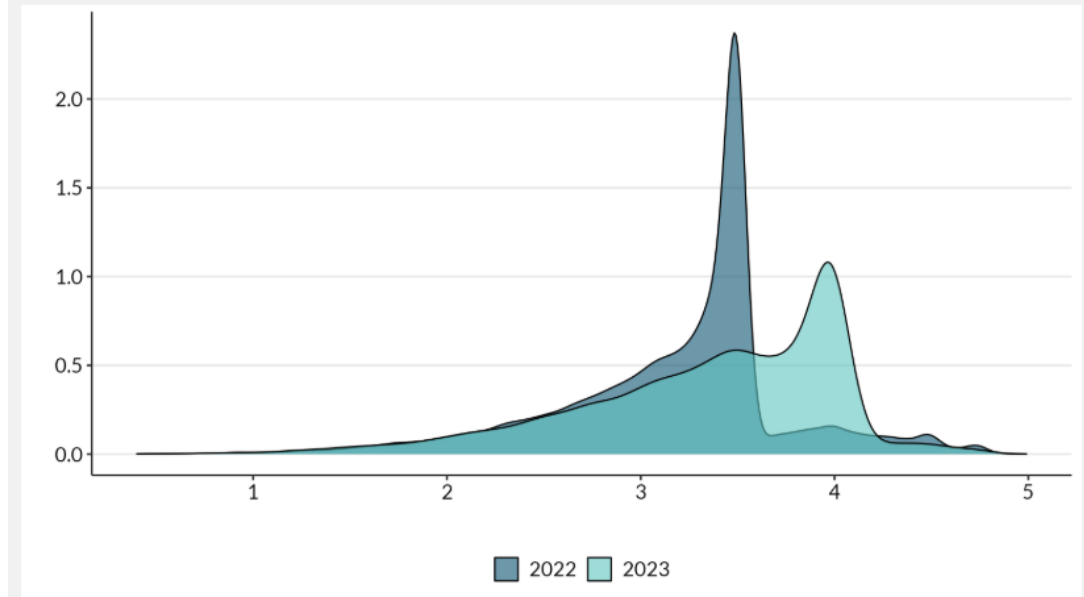
2015 to 2022

- Use of allowances:
 - allowances for First Time Buyers (FTBs) typically go to borrowers who are at low to middle incomes, predominantly in Dublin and more likely to be single
- Bunching at limit:
 - FTBs at 3.5 LTI rose from 4 to 20%, 2015-2019
 - Close to half of FTBs borrow at LTV max of 90%
- Profile of those borrowing their maximum LTI:
 - €10k lower income
 - 10pp more likely Single
 - Much higher downpayments, lower LTVs
 - €15k higher gifts to fund downpayment

Jump in LTI after the 2023 increase for FTB; [Singh, Stradi and Yao \(2026\)](#)

The LTI Distribution Exhibited Sharp Bunching at the 3.5 Threshold Pre-Policy Reform, Reflecting Binding Borrowing Constraints for a Substantial Share of Borrowers

Figure 1: LTI Distribution of FTBs Between 2022 and 2023



Source: Monitoring Templates Data, Central Bank of Ireland (confidential dataset).

Note: This figure plots the distribution of loan-to-income (LTI) ratios for first-time buyers at mortgage origination in 2022 and 2023. Dashed lines represent the LTI limit for FTBs at 3.5 in 2022 and 4.0 in 2023. A certain proportion of lending over the limits (exemptions/allowances) is allowed. The x-axis represents the LTI ratio (ranging from approximately 2.0 to 4.5) and the y-axis represents the density or frequency of mortgages at each LTI level.

Policy debate and challenge – where macroprudential sits

- Macroprudential policy design
 - Calibration
 - Choice of tools
 - Balance costs and benefits - allowances
- Ex-post restructure/modification tools (supervisory or consumer protection
 - If effective, can “mop up” many repayment shocks
- Government policy counter-action
 - Help to Buy example
- Wider policy environment
 - Housing supply difficulties
 - Exogenous construction cost, energy shocks
 - Demographics, lifecycle



Thank you



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