

All you need to know about the **Central Bank** **Mortgage Guidelines**



Background

Under revised regulations in effect since 1 January 2017 and updated in January 2018, the Central Bank set limits on the size of housing loans made by the commercial lenders that it regulates. As a Borrower, this will have an impact on how much you can borrow to buy your new home.

There are two types of limits.

1. Loan-to-value (LTV)

A loan-to-value ratio is the ratio between your property value and the mortgage you require (the loan). The higher the loan-to-value ratio, the higher the risk for the lender.

From 1 January 2017, the ceiling on the loan-to-value (LTV) ratio for all first-time buyers was set at 90%.

Example

John and Mary want to buy a new home valued at €400,000. The mortgage amount they can borrow is restricted to €360,000.

They require a deposit of €40,000 and this means their LTV is 90%.

2. Loan-to-income (LTI)

Mortgage lenders will base the amount you can borrow mainly on a multiple of your income and this is known as the loan-to-income ratio.

Since 1 January 2017, the Central Bank states that loans for the purchase of private homes are subject to a limit of 3.5 times loan-to-gross income.

Example

John and Mary have a combined household income of €100,000 per annum. They are now restricted to borrowing €350,000 ($€100,000 \times 3.5$).

What type of buyer are you?

1. First-time buyer

LTV

As a first-time buyer, the Central Bank amended the guidelines in January 2017. You are now allowed to borrow 90% finance on any purchase price and 5% of first-time buyers are allowed to borrow in excess of 90%.

LTI

This is a multiple of 3.5 times your income or your combined income if a joint application. If you want to borrow more than 3.5 times, you would require an LTI exception. Each bank is allowed 20% of their annual lending to first time buyers with this exception.

2. Mover mortgage

If you are trading-up, the rules have changed slightly, effective from the 1 January 2018. Let us now consider the two limits in the context of trading-up.

LTV

This LTV rule remains unchanged. Your maximum LTV is 80%. If you want to borrow above 80% then the bank has to give you an exception. Each bank can only lend up to 20% of their annual lending with this exception and it is subject to bank capacity.

LTI

This is a multiple of 3.5 times your income or your combined income if a joint application. If you want to borrow more than 3.5 times that figure, you would require a LTI exception. From 1st January 2018 each bank can only lend 10% of their annual lending with this exception. This was changed from 20% up to the end of 2017.

And if you are moving property and looking for an exception, then you can only get an exception for either LTV or LTI. You cannot get an exception on both.

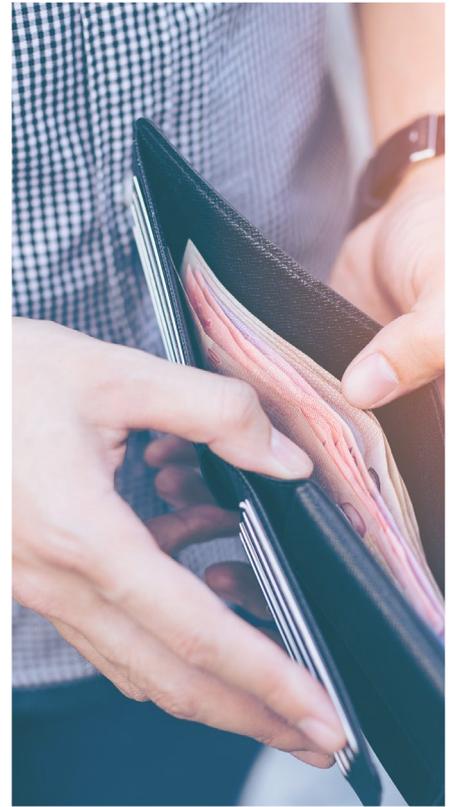
'Switcher' mortgages

Please note that 'switcher' mortgages do not come under the new Central Bank lending rules but are subject to the lenders' criteria.

How we can help

At Sherry FitzGerald Mortgages, we understand that securing your mortgage is one of the biggest financial decisions you will make and is a challenging, complex process. To get the best deal possible, you need an expert in your corner that you can count on at every step. To find out more, call us on **1850 3000 30** or email **financialservices@sherryfitz.ie**.

With your needs in mind, we have developed a series of helpful guides. Visit **sherryfitz.ie** to read our guides on **Getting Mortgage Ready** and the Government's **Help-to-Buy** incentive and stay updated on all aspects of the mortgage process.



Warning: If you do not keep up your repayments you may lose your home.

Warning: Your home is at risk if you do not keep up payments on a mortgage or any other loan secured on.

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