

**SUPPORTING MORTGAGE
HOLDERS WITH RISING
INTEREST RATES:**



**THE
MORTGAGE
INTEREST
SUPPORT
SCHEME**

APRIL 2023



Introduction

The cost-of-living crisis has put huge strain on the finances of workers, families and households.

The sharp rise in the cost of essentials such as energy, food and travel costs has eroded living standards for many.

In the past number of months, a new front has been opened in the cost of living crisis.

From July 2022 to March 2023, the European Central Bank has increased its key lending interest rate six times from 0 to 3.5 percent, with further increases under consideration. This has led to a sharp rise in mortgage costs for hundreds of thousands of households.

Over 250,000 tracker mortgage customers have seen immediate and sharp rises in their mortgage costs.

More than 43,000 variable rate mortgage borrowers with loans held by non-banks and vulture funds have seen significant hikes in their mortgage repayments, with many seeing interest rates rise to as high as 8 percent.

A wider cohort of borrowers, including First Time Buyers, have or are likely to face significantly higher mortgage repayments in the time ahead.

The Money Advice and Budgeting Service have said that recent *"interest rate hikes serve as a particularly alarming trend during a cost-of-living crisis and are having disastrous effects"*, while the FLAC have warned that *"spikes in the cost of living and interest rates threaten an increase in new arrears cases"*.

With the State expected to run a surplus in excess of €10 billion in 2023, the State is well positioned to provide relief for mortgage borrowers.

Sinn Féin propose introducing temporary and targeted mortgage interest relief, absorbing 30 percent of the increased interest costs facing mortgage borrowers, with total relief capped at €1,500 - providing a maximum benefit of €1,500 per household during the operation of the scheme.

This is a sensible and necessary measure to support households in the grip of a cost-of living crisis.



The Mortgage Interest Support Scheme

Mortgage Interest Relief was in operation until 1 January 2021. At the time of its operation the relief was based on the overall interest paid on a qualifying home loan.

Speaking in March 2017 at the time of its operation, Finance Minister Michael McGrath said:

“This tax relief is a very important financial support for families, particularly those struggling with very high variable mortgage rates. The sudden withdrawal of this relief from existing homeowners would have represented a severe blow to families... Many of these families are now juggling huge outgoings including their monthly mortgage, childcare costs and medical bills.”

At a time of sharply rising interest rates, in the midst of a wider cost-of-living crisis, Sinn Féin are proposing the introduction of a targeted and temporary form of mortgage interest relief, to absorb a portion of the increase in mortgage interest costs since July 2022.

The relief would apply:

- Only to Principal Dwelling Homes (not to second or rental properties);
- To existing and new mortgage agreements;
- At Source (your lender will apply the relief automatically);
- For a period of 8 months to end-2023 (to be reviewed before its expiry).

The relief would be:

- Applied with reference to the interest rate charged in June 2022;
- Equivalent to 30 percent of the additional interest paid per month relative to the interest rate charged in June 2022;
- Capped at a maximum benefit of €1,500 per mortgage loan for the period of its operation.

Consider a mortgage-holder with an outstanding balance of €200,000 and a remaining term of 20 years, whose mortgage was sold by a retail bank to a vulture fund. With variable interest rate of 7.5 percent in April 2023 compared to 4 percent

in June 2022, their mortgage interest costs will be approximately €400 higher per month this year and €4,800 higher on an annual basis.

Under the Mortgage Interest Support Scheme, they would receive relief of approximately €120 per month and €960 during the operation of the scheme.

At end of December there were 712,145 outstanding mortgage loan accounts held between banks and non-banks/vulture funds. The table below shows how this is split by different mortgage lenders and service providers.

Mortgage Type (Private Homes)

MORTGAGE TYPE	Banks	Non-Banks
Total Mortgage Accounts	596,886 (84%)	115,259 (16%)
% accounts by type[^]		
Tracker	35%	33%
Variable	23%	38%
Fixed	41%	29%

[^]estimates based on Central Bank data

Sinn Féin have engaged with the Parliamentary Budget Office on the costings associated with the introduction of this Mortgage Interest Support Scheme.

Sinn Féin are therefore allocating €400 million for the operation of the scheme.

This allocation is based on a number of assumptions – including standard variable rates increasing by 2 percentage points, fixed rates increasing by 3 percentage points and tracker rates increasing further compared to June 2022, all with immediate effect; and full relief being applied to all tracker and standard variable rate mortgage accounts held by non-banks and vulture funds.

Therefore, the value of claims made under the scheme will likely be lower than the funding allocated to it.

Conclusion

In December 2022, the average interest rate on outstanding Irish mortgages stood at 2.88 percent, compared to a European average of 1.89 percent.

Already facing high interest costs, households have received a further income shock with the sharp and sudden rise in interest rates.

As households grapple with the rise in mortgage interest rates in the context of a wider cost-of-living crisis, now is the time to introduce temporary and targeted support.



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