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Abstract

In this *Note*, we outline the growing role that non-bank lenders are playing in the Irish mortgage market. We show that market share of new lending has increased from 3 per cent in 2018 to 13 per cent in 2021. Non-bank lending is currently concentrated in the buy-to-let and refinance segments of the market, when compared to lending by retail banks. On loan pricing, we show that non-banks had higher interest rates in 2018, but have reduced rates to the point where average interest rates were lower than retail banks in 2021. Among home buyers, customers of non-banks and retail banks have similar characteristics, with the exception that non-bank customers access mortgage finance almost uniquely through mortgage brokers. We complement the data with a discussion of the economic benefits that non-bank lending can bring, as well as sources of potential financial stability risks.

1 Introduction

In this *Note*, we study the growth in importance of non-bank lenders, those entities lending to domestic borrowers without a retail banking license, in the Irish mortgage market since 2018.[2] Under the Irish regulatory framework, the non-banks active in new mortgage lending are classified as Retail Credit Firms (RCF), while non-banks holding outstanding mortgage debt are a combination of RCF and Credit Servicing Firms (CSF). We use granular Central Bank of Ireland data to provide new insights on the evolution of new lending shares within specific segments of the mortgage market, the composition of borrowers relative to banks, and interest rate pricing. To frame these findings from the point of view of the Central Bank's role as macroprudential policy maker in Ireland, we explore both the benefits and the potential risks that need to be managed stemming from this evolution in the sources of financial intermediation available to domestic borrowers.

In aggregate, the role of Non-Bank Financial Intermediaries (NBFIs) in financing the global real economy has grown significantly during the past decade. In the mortgage market, which is the subject of this *Note*, this growth has not been as marked in most advanced economies when compared to the expansion of NBFI lending to companies. Nonetheless, in the USA, mortgage

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[1] Macro-Financial Division, Central Bank of Ireland. Correspondence: fergal.mccann@centralbank.ie. We thank Peter Dunne, Raffaele Giuliana, Manasa Gopal, Victoria Ivashina, Robert Kelly, Paul Lyons, Vasileios Madouros, Niall McGeever, Ralf Meisenzahl, Kitty Moloney for helpful comments and discussion, and for sharing material. All views expressed in this Note are those of the authors alone and do not represent the views of the Central Bank of Ireland.

[2] NBFIs are defined in this *Note* as any financial intermediary that does not possess a retail banking license, and is therefore not subject to the prudential regulatory regime for retail banks; does not provide deposit-taking services; and does not avail of governmental deposit insurance; furthermore, government bodies and agencies are excluded from consideration.

lending from NBFIs constituted more than half of new mortgage lending in 2020.[3] In the US dollar leveraged lending market, where lending to riskier corporate borrowers takes place, the share of NBFIs has risen from just over 10 per cent of dollars lent in 2009 to close to 55 per cent in 2021, while in riskier segments of the market, the share has reached over 80 per cent (Erel, 2021). Gopal and Schnabl (forthcoming) show that NBFI shares of lending to US businesses have risen from 50 to 60 per cent between 2009 and 2016. Schnabel (2021) shows that, in the euro area, the ratio of bonds to loans in euro area corporate financing has risen from 15 to 30 per cent between 2008 and 2021. Aramonte et al. (2021) show that banks funded approximately 30 per cent of non-mortgage debt in the USA through loans in the 1980s, and that this share has fallen to 10 per cent. They also show that bonds and commercial paper now account for 65 per cent of global corporate financing, with the role of non-banks as investors in these securities having grown since the 2008 crisis.

In the wider financial system, NBFIs have become central to a wide range of functions, from asset management to market intermediation to market infrastructure, a process that has "turned NBFIs into indispensable building blocks of the financial system, (with) a profound impact on the demand and supply of liquidity" (Aramonte et al., 2021). There is such a wide variety of NBFI lenders and investors that the term "non-bank" risks over-simplifying the range of activity under discussion. Even within the realm of financing to corporate and household borrowers, NBFIs can vary widely in their make-up: among larger corporates, market-based borrowing takes place through bond issuance and through the syndicated loan market, where lending is often packaged into securities in markets such as the Collateralized Loan Obligation (CLO) market. Investors in these assets are typically large institutional investors and other funds. Among medium-sized corporate borrowers, direct private lending by specialist finance companies is the more common mode of NBFI lending. For households and small businesses, private finance companies are again likely to play a role, along with a range of FinTech providers including peer-to-peer platforms.

In this *Note*, we will limit our discussions of economic benefits and potential financial stability risks to those NBFIs that provide loan financing directly to households and smaller businesses. In Ireland, recent evidence suggests that even within this narrow definition, NBFIs play an important role: Heffernan et al. (2021) estimate that 28 per cent (or €1.6bn) of SME lending in 2020 was provided by NBFIs, with further work suggesting this share rose during 2021. NBFIs are distinct from banks from a financial stability perspective, due to the differing nature of their business models, funding structure and risk appetite, which mean that NBFI participation may increase cyclical pressures during boom phases, while potentially exacerbating reductions in credit supply to the real economy during downturns.

We provide a number of empirical facts relating to the Irish mortgage market. We highlight an important distinction between the *stock* of outstanding mortgage debt, where growing NBFI importance has been driven by portfolio sales to specialist investors of predominantly non-performing loans issued before the financial crisis, and the *flow* of new lending, where a different set of finance companies has increased their market share from 3 per cent in 2018 to 13 per cent in 2021. In a detailed analysis of the market segments and types of borrower that account for most NBFI financing, we highlight the role that NBFIs have played in price competition in recent years, the focus of NBFIs on buy-to-let (BTL) and refinance mortgages (those switching lender, whether with or without an increase in balance owed), as well as the striking similarity in the profile of home purchase borrowers across bank and NBFI lenders. Finally, we show that the method of intermediation differs greatly: almost all NBFI mortgage loans are issued through mortgage

[3] "Nonbank lenders are dominating the mortgage market", Wall Street Journal, June 22, 2021

brokers, likely driven by the greatly differing business and operational model of NBFIs, which rarely relies on physical branch networks. This growth has potential longer-term implications for the ways in which the mortgage consumer in Ireland engages with the mortgage origination process.

2 Forces explaining the growth in non-bank intermediation

There are a multitude of factors that are likely to play a role in explaining the growth of NBFIs in financial intermediation in the last decade.

First, monetary policy rates have been close to or below zero in developed economies during much of the past decade, which has reduced the return on safe assets and led many investors to "search for yield" in a wider set of asset classes. This yield-seeking behaviour has brought a range of NBFIs further into lending markets that may have traditionally been dominated by retail banks in the past.[4]

Second, there has been a revolution in data processing power, connectivity, and analytics capacity during the past decade which has facilitated the entry of a wider set of participants into lending markets globally. Examples include "peer to peer" lending platforms that match borrowers directly with investors, disintermediating traditional lenders, as well as finance companies that lend directly to households and businesses online without the need for physical branches that may represent a legacy cost disadvantage for retail banks.[5] The Financial Stability Board's *Global Monitoring Reports* provide a valuable information source on the growth of the various types of NBFI entities in the global financial system.

Third, post-crisis reforms to the prudential framework for banks have greatly improved the resilience of the retail banking sector to adverse shocks. However, as surmised by Kashyap, Stein and Hanson (2011), increasing capital requirements and increasingly intrusive supervision has risked pushing some of the traditional activities of banks to sectors not subject to the same regulations. A number of studies have confirmed that NBFIs have increased their market share most in markets where regulatory requirements on banks have been most restricted (see for example Gopal and Schnabl (forthcoming) for a study of US business lending, and Irani et al. (2021) for a study of the US syndicated corporate loan market).

These three wide-sweeping economic changes have occurred simultaneously during the past decade or so, without historic precedent. Given the timing of these changes, it is difficult to rank the importance of each, and empirical research struggles to cleanly provide answers, given the simultaneous and far-reaching effects of the changes. For our purposes, it is sufficient to summarise that the three forces have created the conditions for increased competition across almost the entirety of the set of services comprising the traditional retail banking model (lending, deposit-taking, book-keeping, payments and wealth management).

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[4] Examples include the growing share of insurance companies, pension funds, hedge funds and other vehicles in investments in physical real estate, higher-yield corporate bond markets, and syndicated and leveraged corporate lending. The topic of financial stability risks related to the low interest rate environment has been a focus of the European Systemic Risk Board in recent years.

[5] Berg, Fuster and Puri (2021) show that, while they continue to represent a relatively small share of total lending, FinTech lenders have recorded average annual lending growth of 33 per cent in the US mortgage market between 2016 and 2020.

3 Financial stability considerations

NBFI lending may differ from bank lending in ways that benefit the real economy. NBFIs have been shown to fulfil borrower demand in cases where retail banks have lowered credit supply in response to tightened regulation or changes in risk appetite. In particular, there is evidence that "marginal" credit applications may be more likely to receive credit from NBFIs, although this channel may be stronger for FinTech-type NBFIs, who are not present in the Irish mortgage market at the time of writing. Barkley and Schweitzer (2021) show that "fintech lenders have (reached) borrowers less likely to be served by traditional lenders and that businesses using online lenders are younger, smaller, and less profitable than the average small or medium-sized enterprise in the United States". NBFIs have also been shown to stimulate competition with retail banks, leading to lower borrowing costs and greater volumes of external financing for both bank and NBFI loans (Ongena et al., 2021). NBFIs may also broaden the reach of the monetary policy transmission mechanism, particularly when policy is conducted via asset purchases (Schnabel, 2021).

NBFIs also bring diversification benefits to the macro-financial system. Compared to the counterfactual where all financing of economic activity occurs via a concentrated domestic retail banking system, a mixed system of NBFIs and retail banks may be beneficial. In particular, a mixed model may mitigate the risk relating to concentrated, correlated events posing high degrees of aggregate systemic risk, such as occurred in Ireland during the post-2008 crisis.

However, like all forms of financial intermediation, increased NBFI lending can also contribute to potential financial vulnerabilities. NBFIs are not subject to the same range of regulations as banks. In particular, as non-deposit-taking institutions, they are not subject to the same internationally-agreed regulatory capital requirements as banks, nor are their loans subject to the risk-weighted asset regime, which may affect their appetite to take risks, as evidenced by NBFIs' willingness to supply credit to borrowers constrained by banks in certain jurisdictions. By contrast, regulations relating to financial conduct and consumer protection apply equally to retail banks and NBFIs in the mortgage market. There are also potential "second-round" vulnerabilities, given that many NBFIs are themselves partially funded through borrowing from banks.

There may be structural financial risks posed by NBFIs' balance sheets. In many cases, NBFIs rely on market-based funding sources with more volatile funding costs than retail banks, which increases the volatility of their lending during times of stress. This funding risk arises structurally from a lack of access to deposit-insured customers on the liability side of the NBFI balance sheet. Outside of equity, NBFI loans are often funded through loan sales, securitisation, or debt issuance, all of which are likely to be more volatile than traditional insured bank deposits. This means that a more direct link may emerge between global financial market pricing and borrower interest rates for NBFIs than for banks. Indeed in Ireland in recent months, media reporting suggests that NBFIs are likely to increase mortgage interest rates more quickly than retail banks during the period of higher inflation and interest rates that is currently emerging globally.[6]

These risks relating to funding structure and risk appetite mean that NBFI participation may increase cyclical pressures during boom phases, while – depending on the source of the shock – potentially exacerbating reductions in credit supply to the real economy during downturns. Cyclical risks are a target of macroprudential capital regulation of the retail banking sector. Although there are supervisory requirements about leverage and liquidity on certain types of NBFI investors, the

[6] "Non-bank mortgage lenders most exposed in rising rates", Irish Times.

broad range of capital regulations applying to banks does not exist vis-à-vis the NBFI sector in its role as lender, meaning the presence of NBFI lenders may increase cyclicality in the financial system and wider economy, even in the presence of enhanced macroprudential regulation of banks.

Research confirms the greater cyclicality of NBFI lending relative to bank lending. In global syndicated lending markets, NBFI flows fell by greater magnitudes than bank lending during the 2008 downturn and at the onset of the COVID-19 pandemic, as well as exhibiting greater growth during periods of economic expansion such as 2015-2019 (Fleckenstein et al., 2020). Aldasoro et al. (2022) also confirm the greater volatility of NBFI lending in syndicated loan markets, as well as showing that NBFIs lend to riskier borrowers at higher spreads. Ivashina and Sun (2011) show, using pre-2008 data, that periods of increased "demand pressure", where greater pools of institutional funding are available, lead to falls in credit spreads charged by NBFIs on corporate loans, compared to retail banks lending to identical borrowers. Ben-David et al. (2021) also show that small business lending by FinTech companies in the USA collapsed during the March 2020 episode of the pandemic, driven by a dry-up in funding sources on financial markets for these lenders.

In the Irish mortgage market, which is the subject of this article, borrower-based macroprudential regulation has applied to NBFI loans since the introduction of mortgage measures in 2015. The mortgage measures, as a product-based rather than entity-based regulation, ensure a "level playing field" between banks and NBFIs in their implementation. This mitigates the potential for disproportionate build-up of cyclical risks in the mortgage market due to increased NBFI penetration, in so far as this would happen through a loosening of originating LTV and LTI. However, these mortgage measures do not directly influence competition on either the *volume* or the *price* of lending. Our analysis suggests that, particularly in the recent period of low interest rates, NBFI presence in the Irish mortgage market has been important in stimulating competition on mortgage pricing.

As their importance in the mortgage market grows, analysis of their lending profile will become increasingly important for macroprudential policy and financial stability assessments. The rest of this *Note* will provide insights from recent data gathered by the Central Bank of Ireland.

4 NBFIs in the real economy: evidence in Ireland up to now

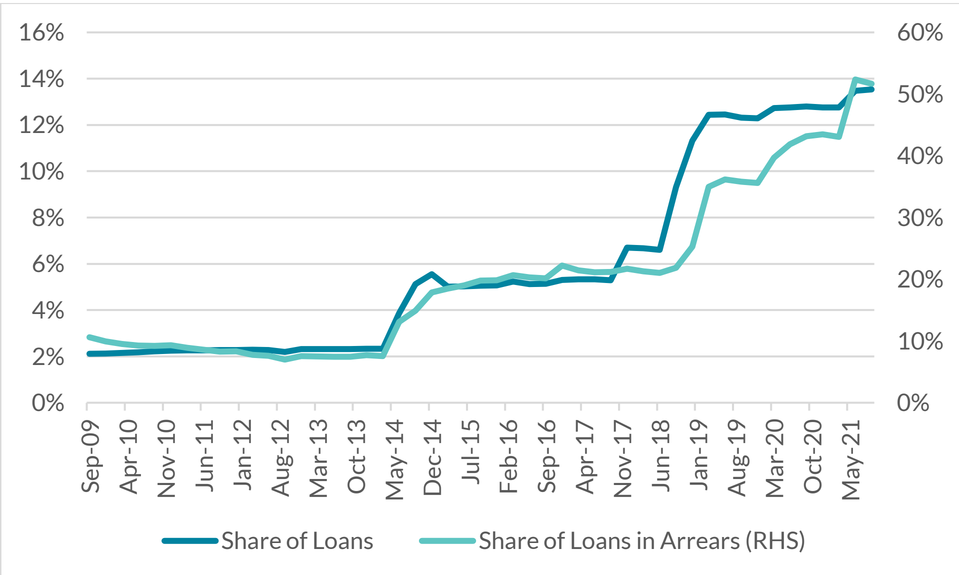
In response to the global trends listed above, and to Ireland's status as one of the largest global centres for market-based finance activity, the Central Bank of Ireland has greatly increased its data collection and analytical capacity in this area. The Central Bank of Ireland's [Market Based Finance Monitor] is an example of this heightened focus, which estimated that asset under management of Irish-domiciled NBFIs totalled €5.2tn in late 2021. Previous research includes Lane and Moloney (2018), who provide estimates of the size of the market-based finance sector in Ireland in total, while also providing detail on asset and liability locations, currencies, and types of entities located in Ireland. Cima, Killeen and Madouros (2019) provide a comprehensive overview of the composition and growth of the sector up to 2019. One notable feature is the limited direct linkages between most of these entities and the Irish economy: among more than €3 trillion of assets managed by funds domiciled in Ireland at the time of the study, for example, the authors estimate that just €33 billion were Irish real-economy investments, predominantly at commercial real estate investment funds and equity funds.

In the first study to directly measure the role of NBFIs in *lending* to local borrowers in the Irish economy, Heffernan et al. (2021) use the Central Bank of Ireland's Central Credit Register to show that the NBFI share of SME lending in 2019 and 2020 ranged from 40 per cent of credit to the real estate sector to under 10 per cent of credit to sectors such as hotels and restaurants and agriculture; on aggregate, an estimated 28 per cent of lending to Irish SMEs in 2020 was from NBFIs. The authors also identify the business models of lenders, estimating that the vast majority of NBFI lending to Irish SMEs was provided by property lenders, leasing companies and asset finance companies.

5 NBFIs in the Irish mortgage market

We begin to describe the role of NBFIs in the mortgage market by highlighting the increased holdings of the *stock* of outstanding mortgage loans by NBFIs (Figure 1). This trend is distinct from the increasing activity of NBFIs in intermediating new lending flows in the mortgage market; instead, the trend in Figure 1 is predominantly explained by the rapid growth in loan portfolio sales by Irish banks to specialist servicing companies and investment funds during the last decade. These sales were precipitated by both demand- and supply-side factors. The growing search for yield among global investors, and the increased globalisation of financing flows that has facilitated overseas investment in distressed assets, explain a growing demand for these portfolios since the 2008 crisis. On the supply side, retail banks sold loan portfolios in response to regulatory and market scrutiny of high Non-Performing Loan (NPL) ratios, as well as the high cost of holding NPLs on balance sheet through capital charges and increasing loan-loss provisioning requirements. These factors resulted in NBFIs holding 14 per cent of all Irish PDH mortgages and 52 per cent of PDH mortgages in arrears in 2021: up from 2 and 3 per cent respectively in 2009, as outlined in Figure 1 using Central Bank of Ireland aggregate mortgage arrears statistics. The equivalent figure for *loans not in arrears* rises from 1 per cent in 2009 to 12 per cent in 2021.

Figure 1: Share of mortgage loans held by NBFIs since 2009



Source: Central Bank of Ireland Mortgage Arrears and Repossessions statistics. Shares are as a proportion of loans held by Irish-resident banks, retail credit firms (RCF) and credit servicing firms (CSF). Both RCF and CSF are included in definition of NBFI for purposes of this graph. Quarterly data reported; Last observation: 2021q3.

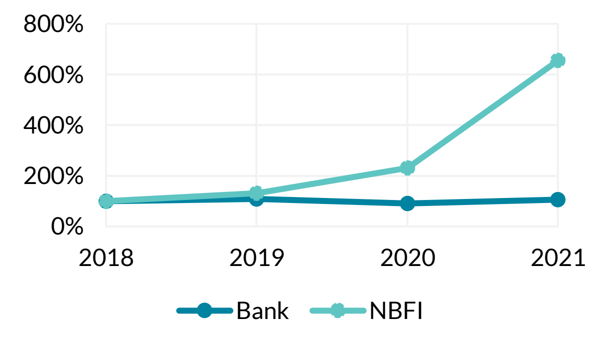
We next turn to new mortgage lending. The NBFI entities involved in new lending in the Irish mortgage market are distinct from those involved in the distressed asset purchases that have driven changes in the stock of mortgage debt in Figure 1. In most cases, NBFI new mortgage lending in Ireland is carried out by a mix of financial firms that are funded directly on financial markets, and entities with linkages with overseas parent banks. In all cases, these entities are classified as Retail Credit Firms under the domestic regulatory framework.

In the rest of the paper, we use Central Bank of Ireland "Monitoring Template" data. This loan-level data return is mandatory for all entities issuing more than €50m of mortgage lending in a six-month period, in order to ensure compliance with the measures. It has been received at half-yearly intervals since June 2015.[7]

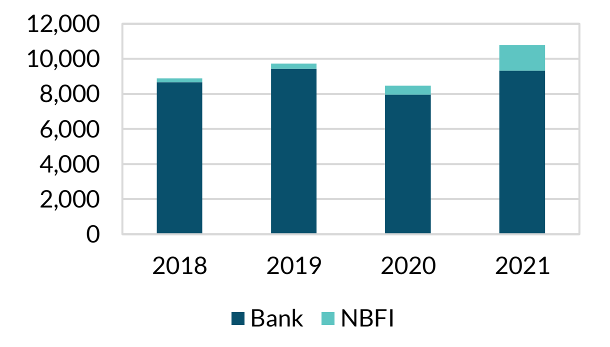
Figure 2 contextualises the growth in NBFI lending in the mortgage market. Figure 2A shows that lending by NBFIs was 655 per cent of its 2018 figure by 2021, in contrast to 107 per cent for banks, highlighting the disproportionate nature of the growth in this new form of lending in Ireland, a natural consequence of the small size of the NBFI market in 2018. Figure 2B highlights that new lending by banks was of almost identical magnitude in 2021 compared to 2019, and that it remains dominant at 87 per cent of lending in 2021. Total lending growth of just below €1bn in the mortgage market between 2019 and 2021 can be explained almost entirely by the expansion of NBFI lending flows.

Figure 2: growth in non-bank new mortgage lending (€ value) since 2018

2A: lending by banks and NBFIs relative to 2018 level



2B: € value of bank and NBFI lending 2018-2021



Source: Central Bank of Ireland "monitoring template" data, required of all lenders carrying out over €50m of lending in a 6-month period. Note: due to omission of certain smaller lenders, totals reported in Figure 2B will not match precisely with definitions of total mortgage drawdowns used in other sources.

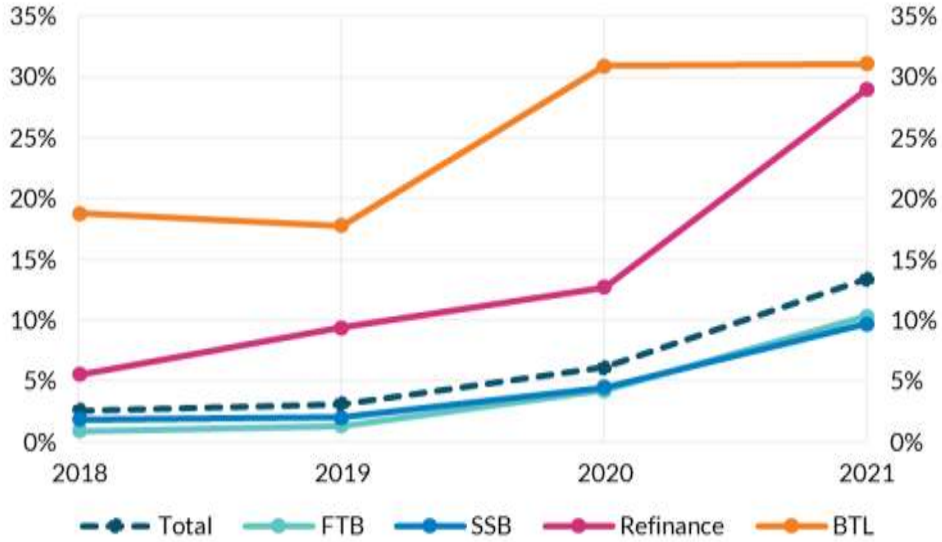
Figure 3 reports the share of NBFIs in new mortgage loans from 2018 to 2021. In total, NBFIs have grown from accounting for 3 per cent in 2018 to 13 per cent in 2021 (dashed line).[8] The four market segment series show important underlying variation, relevant both from a financial stability standpoint (given the potential for NBFIs to take on higher-risk positions) and from an economic standpoint (given that NBFI lending may facilitate access to borrowing for certain groups, and NBFIs may stimulate competition in the lending market among incumbent banks). NBFIs now account for 31 and 29 per cent of new lending in the BTL and refinance (those switching lenders without moving home) markets. By contrast, they comprise only 10 per cent of the larger first-time

[7] This paper uses data on new lending both in-scope of and exempt from compliance with the mortgage measures. Specifically, refinances without an increase in capital are exempt from both the LTV and LTI Limit. 55-60 per cent of refinances in each year have been exempt or out of scope of the mortgage measures

[8] This share is based on a time-varying sample of the largest lenders. Across all lenders, the NBFI share was below 3 per cent in early 2018, based on estimates from Central Credit Register data.

buyer (FTB) and second-time and subsequent buyer (SSB) segments, respectively, which account for 85 per cent of new mortgages since 2015.

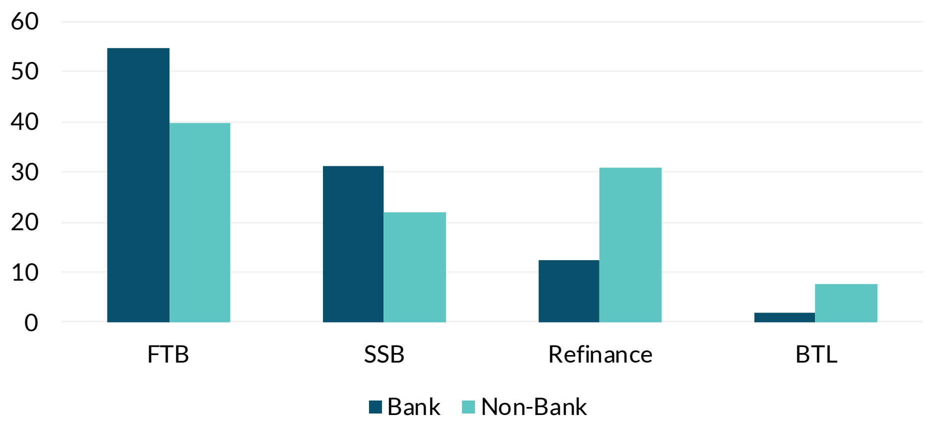
Figure 3: share of non-banks in new mortgage lending 2018-2021 by market segment



Note: Data are weighted by number of mortgage accounts issued per year per segment. Source: Central Bank of Ireland "monitoring template" data, required of all lenders carrying out over €50m of lending in a 6-month period. Refinance captures borrowers switching lenders without moving home, both with and without increases in loan balances.

We next re-cast the data in Figure 3 and measure the degree to which NBFIs are serving a different type of mortgage customer. Figure 4 shows that the two types of lender focus their activity on different parts of the mortgage market. BTL loans account for 10 per cent of non-bank lending, while Refinance mortgages account for 31 per cent. Banks, by contrast, have more than half of new lending to FTBs, and 31 per cent to SSBs. This suggests that, to some extent, the two entity types are specialized within different segments of the Irish mortgage market, although this appears to be changing over time. Further increases in NBFI penetration into the purchase markets (FTB and SSB) may follow from the exits of two lenders from the mortgage market during 2022.

Figure 4: new lending by purpose as a share of total new lending, 2020-21



Do NBFIs engage in riskier mortgage lending in Ireland, as has been documented in other jurisdictions? Figure 5 focuses on to FTB and SSB, which are predominantly for the purchase of properties, to allow a closer comparison, and shows that NBFI lending is remarkably similar to bank lending in these market segments. NBFIs lend to slightly lower income borrowers on average, while property values, LTIs, LTVs, and borrower age are very close to identical. Dublin accounts for 41 per cent of non-bank loans, compared to 30 per cent for banks. This may reflect a number of factors, including a business model specialization on higher-priced properties or higher-income borrowers among certain NBFIs, geographic targeting/specialization, or their lack of regional bank branch networks. NBFIs issue slightly more fixed-rate lending, with slightly longer fixation periods and shorter loan terms. They use allowances beyond the LTI and LTV limits slightly less frequently than banks.

One key difference is the way in which customers interact with NBFIs during the origination process, with 95 per cent of loans intermediated through brokers or tied agents, compared to just 32 per cent for banks. Continued growth in market share of the NBFI sector is likely therefore to continue to erode the traditional model of a borrower engaging with a local bank branch to make a loan application. The emergence of a strong broker-led channel facilitating origination on NBFI balance sheets means that competition may increase on both on pricing and non-pricing features (speed and convenience of origination, for example). As NBFI market penetration grows, and the digitalisation of the mortgage origination process continues its evolution, these factors are likely to result in greater choice amongst consumers.

Figure 6 repeats the exercise for refinance mortgages only. In this segment of the market, where NBFI penetration has been particularly noteworthy, certain clear differences emerge. NBFI customers are 11 percentage points more likely to be in Dublin, and have higher incomes and higher property prices, partly due to this geographic difference. The predominance of broker-intermediated mortgages is similar to that reported in Figure 5.

Figure 5: Borrower profiles across the lender types, FTB and SSB loans, 2020-21

	Bank	Non-Bank
Income	€91,903	€86,687
Property Value	€351,553	€354,678
LTI	2.89	3.04
LTV (%)	75.49	73.80
Dublin	30%	41%
Fixed Rate	83%	96%
Age	37.2	38.4
Allowances	10%	8%
Broker	32%	95%
Loan Term	27	26
Duration of fixed term	3.80	4.34

Source: Central Bank of Ireland "monitoring template data", required of all lenders issuing more than €50m in a 6-month period. Note: only FTB and SSB loans included. Average values reported in all cases where figures are not percentages. Terms and durations measured in years.

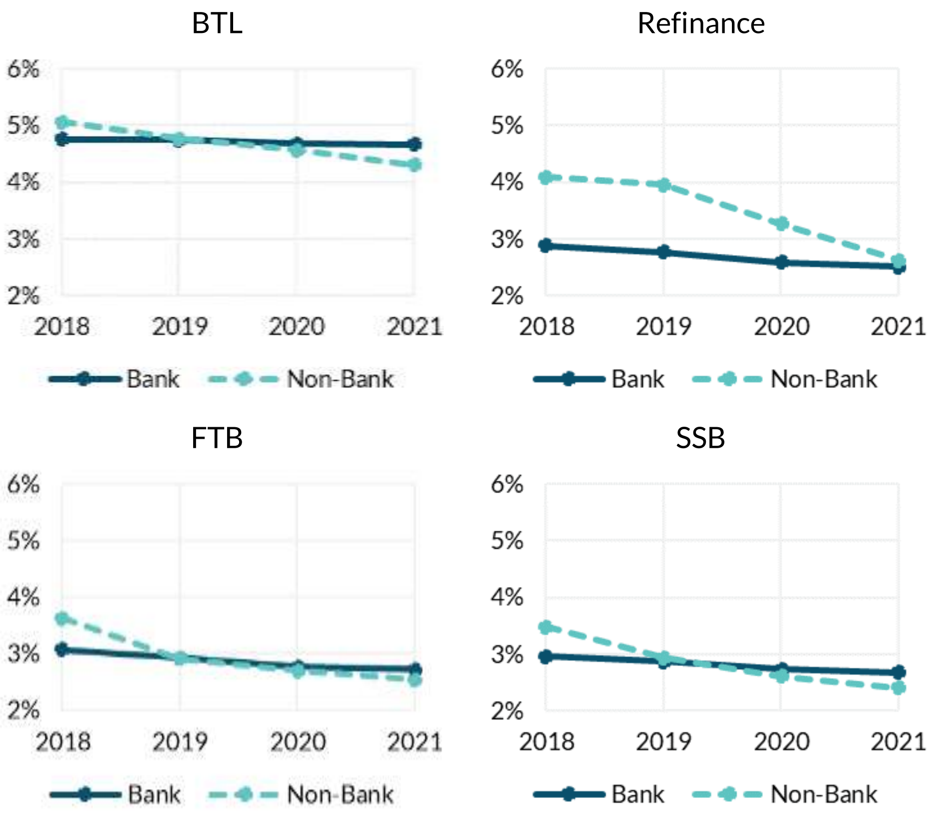
Figure 6: Borrower profiles across the lender types, refinance mortgages, 2020-21

	Bank	Non-Bank
Income	€114,157	€125,608
Property Value	€451,147	€490,750
LTI	2.4	2.4
LTV (%)	58.6	53.2
Dublin	45%	54%
Fixed Rate	91%	79%
Age	40.5	42.9
Broker	42%	92%
Loan Term	22	21
Duration of fixed term	3.29	4.92

Source: Central Bank of Ireland "monitoring template data", required of all lenders issuing more than €50m in a 6-month period. Note: only FTB and SSB loans included. Average values reported in all cases where figures are not percentages. Terms and durations measured in years.

The role of NBFIs in price competition is one important potential economic benefit to Irish consumers, while also having the potential to be a source of financial stability risk if it were to lead to a material erosion of retail bank profit margins. In Figure 7, we plot average interest rates for banks and non-banks since 2018, across the four main segments of the mortgage market. These graphs do not provide "like for like" comparisons, given that there is variation in fixed rate lending, cash-back offering, and overpayment options, between the two lender types. In all cases, non-banks began the period with higher rates than banks, but have been reducing prices on average by substantially more than banks. In each segment apart from refinances, non-banks in 2021 had moved to lower average interest rates on new lending than banks. This may be due in part to the changing characteristics of customers in the growing NBFI segment of the new lending market. The differing funding model, with NBFIs more reliant on market sources of funding while banks are more reliant on stable customer deposits, means that the current upward pressure on inflation rates and interest rates globally may mean NBFI interest rates are more likely to rise earlier than those of banks as the interest rate cycle turns.

Figure 7: new lending interest rates by lender type and market segment



Source: Central Bank of Ireland "monitoring template data", required of all lenders issuing more than €50m in a 6-month period Note: average interest rates per year presented. Data will not align precisely with official Central Bank of Ireland interest rate statistics, due to differing data inputs and use of count-based, rather than balance-based, weighting.

6 Conclusion

In line with a global trend towards increasing NBFI participation across lending markets of all types, there has been a marked increase in the role that these entities play in the Irish mortgage market in recent years.

In this *Note*, we have highlighted that these entities bring economic benefits in the form of a more diversified set of financing sources and credit availability for otherwise-constrained borrowers. However, like with all forms of financial intermediation, there are risks that need to managed: in other contexts, NBFI entities' lending flows have been shown to be more cyclical, contributing to credit boom periods and contracting credit faster during downturns. NBFI balance sheets can also be structurally more sensitive to global financial conditions, as their funding profile does not include stable domestic deposits.

We provide a range of insights from granular data. We highlight that NBFIs now hold 14 per cent of total mortgages in Ireland, with this being driven mostly by the purchase of non-performing assets, a legacy of the 2008 crisis. On new lending, we show that a different set of NBFIs has expanded market share from below three per cent in 2018 to 13 per cent in 2021. We show that the business model varies between banks and NBFIs: these entities currently differ from banks in their disproportionate focus on the BTL and refinance market segments.

We show that, within the home purchase market (FTB and SSB), non-banks and banks have been lending to very similar borrower types, indicating a lack of evidence that NBFIs target a riskier pool of borrowers. The main difference in NBFI lending has been the almost-exclusive usage of the broker channel, driven by the NBFI lenders' operational model, with potential implications for the future of consumer-facing financial intermediation in Ireland. Finally, we highlight that since 2018, NBFIs have engaged in much more pronounced interest rate reductions on new lending by banks, having started by charging higher prices in 2018 in all market segments. The research literature suggests that this price competition was facilitated by the availability of low cost financing in global bond markets, which at the time of writing is at risk of being less available and at higher prices in a prevailing higher-interest rate environment. A question for future analysis is what impact these global interest rate changes may have on NBFI credit supply in the Irish mortgage market, as well as the evolution of NBFI activity in the context of changes to the structure of the retail banking sector.

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T: +353 (0)1 224 6000
www.centralbank.ie
publications@centralbank.ie

Bosca PO 559, Baile Átha Cliath 1, Éire
PO Box 559, Dublin 1, Ireland

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