



# Costing Analysis on Mortgage Interest Relief Scenarios for the years 2025 to 2027

27 September 2024

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## Overview

This document publicly releases a series of costing analyses prepared on a confidential basis by the Parliamentary Budget Office (PBO) upon request from Sinn Féin Deputy Pearse Doherty. The request involves estimating the cost of Mortgage Interest Relief scenarios for the years 2025 to 2027. This includes both performing and non-performing bank-owned loans, modelled using Central Bank data.



## Part 1: Mortgage Interest Relief (Bank-Owned Performing Loans)

### 1. Summary of Request

The introduction of a mortgage interest relief, applied at source, for the years 2025, 2026 and 2027, across various scenarios and specifications.

### 2. Outline

Part 1 of this report details our costings of the client-specified mortgage interest relief, in terms of **bank-owned performing** mortgages. The overall methodology generally remains the same as in the previous [similar costings](#). However, we refined our model and updated the underlying data. Therefore, we report the full detail, even if much of it is equivalent to what was in the previous reports.

This analysis is based on aggregate data provided by the Central Bank of Ireland for Principal Dwelling House (PDH) mortgages. Buy-to-let mortgages are not included. The relief is assumed to be applied at source by the financial institutions. No distinction is made between first and subsequent buyers for PDH mortgages.

The client's policy specifications are detailed in Table 1. The scenarios for interest rate increases are applied as percentage point increases to the average rates in June 2022. For each interest rate scenario, the difference in the interest payment is between what would be paid under a reference rate (either the June 2022 rate or a client-specified value) and what would be paid under a scenario increased rate.

**Table 1: Policy specifications**

	Scenario interest increases compared to the June 2022 rate	Qualifying amount for the relief	Cap on the relief	Reference rate
<b>Fixed</b>	+2, +2.5, or +3 percentage points	25% or 30% of the interest payment difference	€1,500 for 2025 €1,250 for 2026 €1,000 for 2027	Average rate in June 2022
<b>SVR</b>	+1.1, +1.5, +2, or +2.5 percentage points	25% or 30% of the interest payment difference	€1,500 for 2025 €1,250 for 2026 €1,000 for 2027	Average rate in June 2022
<b>Tracker</b>	+3.5, +3.75, +4, or +4.25 percentage points	25% or 30% of the interest payment difference	€1,500 for 2025 €1,250 for 2026 €1,000 for 2027	1.5%, 2%, or 2.5%

**Source:** The client

### 3. Overview of Data and Methodology

- We requested loan-level data and their aggregate data, either for June 2024 or for the latest available in case the June 2024 data was unavailable yet, to the Central Bank of Ireland. In return, the Bank provided us with aggregate data from end-December 2023. Therefore, as in the previous similar costings, we simulated loan-level data on the current balances and remaining terms of mortgages, per mortgage interest rate type as of end-December 2023, based on the aggregate data provided by the Central Bank of Ireland.
- We modelled such that greater current balances are associated with longer remaining terms. Regarding the outstanding interest rates, for fixed-rate mortgages only, we also simulated individual



interest rates based on publicly available Central Bank [time-series data](#),<sup>1</sup> rather than using the outstanding average rate of a mortgage type for all simulated individual loans of the same type. This was because the timing of fixing and re-fixing interest rates can significantly differ among individual loans, resulting in a large variation in individual interest rates.

- We assumed that no mortgage user would transfer to a different type of mortgage from January 2024 to the end of December 2027 (i.e., we assumed no switching among holders of fixed-rate, SVR and tracker mortgages). We also assumed that, if fixed-rate mortgages are due to expire anytime between January 2024 and December 2027, they will have rates re-fixed and will not have these rates re-fixed again until the end of December 2027.
- We assumed that the number of fixed-rate mortgages having rates re-fixed would be the same across all relevant months (i.e., a uniform distribution is assumed). Similarly, we assumed that the number of new mortgages being issued would also be the same across all relevant months.<sup>2</sup>
- We applied the scenario-specified interest rates to the period of the policy, January 2025 to December 2027. Until the policy begins, we assumed the latest (March 2024) average new lending fixed and SVR rates for the outstanding fixed-rate mortgages whose rates expire and the outstanding SVR mortgages respectively,<sup>3</sup> and the latest ECB-based rate<sup>4</sup> for the outstanding tracker mortgages.<sup>5</sup>
- We projected the principals, terms, numbers, and shares of new fixed-rate and SVR mortgages issued between January 2024 and December 2027, based on the 2023 annual data on new mortgage lending.<sup>6</sup> The interest rates for those projected to be issued before the policy begins were set at the March 2024 new lending rates.<sup>7</sup> No new tracker mortgages were added, as this product is no longer available to new customers in the Irish mortgage market.
- As mortgages are repaid every month, we updated the balances and remaining terms from January 2024. An amortisation calculator was used to determine the interest payable on a reducing balance basis.
- For the policy timeframe period, we calculated the difference in the interest payments arising from the reference rate and those associated with each of the higher interest rate scenarios defined in the costing request (+2, +2.5, or +3 percentage points for the fixed-rate mortgages; +1.1, +1.5, +2, or +2.5 percentage points for the SVR mortgages; +3.5, +3.75, +4, or +4.25 percentage points for the tracker mortgages). Note that for fixed-rate mortgages, the higher interest rate scenarios would apply only to those that are projected to be newly issued or have rates re-fixed during the policy period. We assumed that, for the remaining fixed-rate mortgages, the relief would be applied, only if they had rates re-fixed or were newly issued after June 2022 and their interest rate were greater than the June 2022 reference rate.
- We applied each of the proposed caps to the proposed qualifying amount of 25% or 30% of the interest payment difference, in line with the policy specification.

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<sup>1</sup> [Central Bank of Ireland, Retail Interest Rates.](#)

<sup>2</sup> Without access to the micro data, it was impossible to model the exact month of each current fixed-rate mortgage having their rate re-fixed. With respect to the timing of new mortgage issuance, we make a neutral assumption that an equal proportion of new mortgages is issued per month. More concentration of new mortgage issuance into an early point of the future timeframe could increase the cost of the policy; more concentration of new mortgage issuance into a later point of the future timeframe could reduce the cost.

<sup>3</sup> [Central Bank of Ireland, Retail Interest Rates.](#)

<sup>4</sup> [European Central Bank, Key ECB Interest Rates.](#)

<sup>5</sup> Such a forecasting assumption is called “random walk” in econometrics.

<sup>6</sup> [Central Bank of Ireland, New Mortgage Lending Data.](#) We based our projections on the random-walk method.

<sup>7</sup> [Central Bank of Ireland, Retail Interest Rates.](#)



- Finally, we summed up all (capped) differences in the interest payment across all (simulated) individual mortgages per mortgage type. The sum is the estimated cost of the mortgage interest relief.
- Note that as simulating micro data inherently involves uncertainty, the estimates below should be seen as such – the actual cost could turn out significantly different, for example, because of some of the assumptions in this analysis being violated, or because of unexpected external shocks on society and/or the economy.<sup>8</sup>

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<sup>8</sup> A standard approach to capture uncertainty such as the confidence interval was difficult to use in this analysis, because of the high level of complexity of the factors leading to uncertainty (as outlined in the section “Areas of Uncertainty”).



## 4. Results

The total full-year cost estimates in million euro are reported in Table 2 for 2025, 2026, and 2027.

**Table 2. Costs in million euro by policy specifications, bank-owned performing mortgages**

Fixed rate scenario increase (June 2022 reference rate)	Relief @ 25%			Relief @ 30%		
	2025	2026	2027	2025	2026	2027
June 2022 average rate + 2.00 p.p.	126.5	191.4	240.3	142.8	210.2	258.7
June 2022 average rate + 2.50 p.p.	139.9	208.6	257.9	154.7	225.0	274.4
June 2022 average rate + 3.00 p.p.	149.4	220.4	270.6	163.1	235.5	285.9
<b>SVR scenario increase (June 2022 reference rate)</b>	<b>Relief @ 25%</b>			<b>Relief @ 30%</b>		
	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
June 2022 average rate + 1.10 p.p.	34.2	35.4	36.1	40.6	41.7	41.9
June 2022 average rate + 1.50 p.p.	45.8	46.7	46.3	53.8	54.1	52.5
June 2022 average rate + 2.00 p.p.	58.9	58.7	56.4	68.3	66.9	63.0
June 2022 average rate + 2.50 p.p.	70.5	68.9	64.6	80.7	77.5	71.5
<b>Tracker rate scenario increase (reference rate at 1.5%)</b>	<b>Relief @ 25%</b>			<b>Relief @ 30%</b>		
	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
June 2022 average rate + 3.50 p.p.	85.3	74.2	63.4	97.9	84.5	71.3
June 2022 average rate + 3.75 p.p.	90.5	78.5	66.8	103.4	88.9	74.7
June 2022 average rate + 4.00 p.p.	95.4	82.5	69.9	108.5	93.0	77.8
June 2022 average rate + 4.25 p.p.	100.0	86.3	72.8	113.3	96.8	80.7
<b>(reference rate at 2%)</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
June 2022 average rate + 3.50 p.p.	74.4	65.3	56.5	86.2	75.1	64.2
June 2022 average rate + 3.75 p.p.	80.0	70.1	60.3	92.3	80.1	68.1
June 2022 average rate + 4.00 p.p.	85.4	74.6	63.8	98.1	84.8	71.7
June 2022 average rate + 4.25 p.p.	90.6	78.8	67.2	103.5	89.2	75.1
<b>(reference rate at 2.5%)</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
June 2022 average rate + 3.50 p.p.	62.4	55.4	48.5	73.1	64.3	55.8
June 2022 average rate + 3.75 p.p.	68.6	60.6	52.8	79.9	70.0	60.3
June 2022 average rate + 4.00 p.p.	74.5	65.6	56.9	86.3	75.4	64.6
June 2022 average rate + 4.25 p.p.	80.1	70.4	60.7	92.4	80.4	68.5

**Source:** PBO's own calculation based on data from the Central Bank of Ireland

**Note:** p.p. denotes percentage point. The scenario percentage point increase is applied to the average June 2022 rate of the then outstanding mortgages of each type. The cap on the relief per mortgage is €1,500 in 2025, €1,250 in 2026, and €1,000 in 2027 in all scenarios. Costs in million euros are rounded to one decimal place.



## 5. Areas of Uncertainty

Some points of uncertainty and important caveats are listed below.

### *Data uncertainty*

- Data uncertainty is considered **low**. The aggregate data on the end-2023 bank-owned performing PDH mortgages were provided by the Central Bank of Ireland.

### *Modelling uncertainty*

- Modelling uncertainty is **high** for two reasons. First, it was necessary to make assumptions to simulate loan-level data based on the aggregate data. The costing estimates are sensitive to the validity of these assumptions.
- As the global economy has been experiencing significant volatility in recent years, there is significant uncertainty in the projection of new mortgages being issued and the probability of currently performing mortgages becoming non-performing.

### *Behavioural uncertainty*

- Behavioural uncertainty is **high**. The costing was prepared on a static basis. However, it is possible that if the policy were implemented, there would be more people who will borrow mortgages than otherwise. If this turned out to be the case, the cost of the policy could increase.



## Part 2: Mortgage Interest Relief (Bank-Owned Non Performing Loans)

### 1. Outline

Part 2 details our costings of the client-specified mortgage interest relief, in terms of **bank-owned non-performing loan (NPL)** mortgages. The overall methodology generally remains the same as in the previous similar costings. The same points mentioned in the Outline section of Part 1 of this public release apply here, but note that the fixed-rate mortgages have the same scenario interest increases as the SVR, as we assume that NPL fixed-rate mortgages will move to SVR once their fixed rates expire.

**Table 1: Policy Specifications**

	Scenario interest increases compared to the June 2022 rate	Qualifying amount for the relief	Cap on the relief	Reference rate
<b>Fixed</b>	+1.1, +1.5, +2, or +2.5 percentage points	25% or 30% of the interest payment difference	€1,500 for 2025 €1,250 for 2026 €1,000 for 2027	Average rate in June 2022
<b>SVR</b>	+1.1, +1.5, +2, or +2.5 percentage points	25% or 30% of the interest payment difference	€1,500 for 2025 €1,250 for 2026 €1,000 for 2027	Average rate in June 2022
<b>Tracker</b>	+3.5, +3.75, +4, or +4.25 percentage points	25% or 30% of the interest payment difference	€1,500 for 2025 €1,250 for 2026 €1,000 for 2027	1.5%, 2%, or 2.5%

**Source:** The client

### 2. Overview of Data and Methodology

- The definition of NPLs draws from the composition of the Central Bank data. There is no categorisation of NPLs (e.g., 30 days, 90 days, 2 years, etc.) within the analysis.
- We simulated loan-level data on the current balances and remaining terms of NPL mortgages for principal dwelling houses, per mortgage interest rate type as of end-December 2023, based on the aggregate data provided by the Central Bank of Ireland, using the same method as for bank-owned performing mortgages.
- We assumed that no NPL SVR mortgages and NPL tracker mortgages would transfer to a different interest rate type of mortgage from January 2024 to the end of December 2027. We also assumed that if the fixed rates of NPL fixed-rate mortgages are due to expire anytime between January 2024 and December 2027, they will move to SVR.
- We extrapolated the proportion of NPL fixed rates expiring between January 2024 and December 2027, based on that of fixed-rate performing mortgages whose data were provided by the Central Bank of Ireland. The number of those NPL fixed-rate mortgages moving to SVR per month was assumed to be the same across all relevant months (i.e., a uniform distribution was assumed).<sup>9</sup> Those NPL fixed-rate mortgages moving to SVR are considered to become subject to the scenario interest increases, and the June 2022 reference rate, of SVR.

<sup>9</sup> Without access to the administrative micro data, it was impossible to model the exact month of each current NPL fixed-rate mortgage having their rate expiring.



- We assumed that no existing performing loans would become NPLs between January 2024 and December 2027. Note that the cost of the interest relief on bank-owned performing mortgages is covered in Part 1 of this report.
- As in the previous requests, we assumed that all NPL mortgages would be required to make repayments on the outstanding balance after the month of the data (December 2023).
- We applied the scenario-specified interest rates to the period of the policy, January 2025 to December 2027. Until the policy begins, we assumed the latest (March 2024) average new lending SVR rate for the outstanding fixed-rate mortgages whose rates expire and the outstanding SVR mortgages,<sup>10</sup> and the latest ECB-based rate<sup>11</sup> for the outstanding tracker mortgages.<sup>12</sup>
- As NPL mortgages are assumed to be repaid every month from January 2024, we updated the balances and remaining terms from January 2024. An amortisation calculator was used to determine the interest payable on a reducing balance basis.
- For the policy timeframe period, we calculated the difference in the interest payments arising from the reference rate and those associated with each of the higher interest rate scenarios defined in the costing request (+1.1, +1.5, +2, or +2.5 percentage points for the fixed-rate and SVR mortgages; +3.5, +3.75, +4, or +4.25 percentage points for the tracker mortgages). Note that for NPL fixed-rate mortgages, the scenario interest increases would apply only to those that are projected to move to SVR between January 2024 and December 2027.<sup>13</sup>
- We calculated the full-year cost estimates of the policy, in the same way as in Part 1 of this report.
- Note that as simulating micro data inherently involves uncertainty, the estimates below should be seen as such – the actual cost could turn out significantly different, for example, because of some of the assumptions in this analysis being violated, or because of unexpected external shocks on society and/or the economy.<sup>14</sup> In particular, NPLs are more challenging to model and, therefore, involve greater uncertainty than performing loans. See section “Areas of Uncertainty”.

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<sup>10</sup> [Central Bank of Ireland, Retail Interest Rates.](#)

<sup>11</sup> [European Central Bank, Key ECB Interest Rates.](#)

<sup>12</sup> Such a forecasting assumption is called “random walk” in econometrics.

<sup>13</sup> For bank-owned performing loans, we assumed that the relief would be applied if fixed-rate mortgages had rates refixed or were newly issued after June 2022 and their interest rate were greater than the June 2022 reference rate. For NPLs, we assumed that no performing fixed-rate mortgages refixed or newly issued after June 2022 would become non-performing and, therefore, would remain out of the scope of this costing report.

<sup>14</sup> A standard approach to capture uncertainty such as the confidence interval was difficult to use in this analysis, because of the high level of complexity of the factors leading to uncertainty (as outlined in the section “Areas of Uncertainty”).



### 3. Results

The total full-year cost estimates in million euro are reported in Table 2 for 2025, 2026, and 2027.

**Table 2. Costs in million euro by policy specifications, bank-owned NPL mortgages**

Fixed rate scenario increase (June 2022 reference rate)	Relief @ 25%			Relief @ 30%		
	2025	2026	2027	2025	2026	2027
June 2022 average rate + 1.10 p.p.	0.21	0.33	0.45	0.24	0.39	0.53
June 2022 average rate + 1.50 p.p.	0.28	0.43	0.59	0.33	0.51	0.69
June 2022 average rate + 2.00 p.p.	0.36	0.55	0.75	0.42	0.64	0.86
June 2022 average rate + 2.50 p.p.	0.43	0.66	0.88	0.50	0.76	1.00
<b>SVR scenario increase (June 2022 reference rate)</b>	<b>Relief @ 25%</b>			<b>Relief @ 30%</b>		
	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
June 2022 average rate + 1.10 p.p.	1.28	1.19	1.10	1.53	1.42	1.30
June 2022 average rate + 1.50 p.p.	1.73	1.60	1.46	2.04	1.88	1.70
June 2022 average rate + 2.00 p.p.	2.25	2.07	1.87	2.65	2.41	2.16
June 2022 average rate + 2.50 p.p.	2.74	2.50	2.23	3.20	2.89	2.55
<b>Tracker rate scenario increase (reference rate at 1.5%)</b>	<b>Relief @ 25%</b>			<b>Relief @ 30%</b>		
	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
June 2022 average rate + 3.50 p.p.	4.72	4.11	3.48	5.30	4.58	3.83
June 2022 average rate + 3.75 p.p.	4.96	4.31	3.63	5.55	4.78	3.98
June 2022 average rate + 4.00 p.p.	5.19	4.49	3.77	5.78	4.96	4.11
June 2022 average rate + 4.25 p.p.	5.40	4.66	3.90	5.99	5.13	4.24
<b>(reference rate at 2%)</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
June 2022 average rate + 3.50 p.p.	4.19	3.69	3.16	4.76	4.15	3.51
June 2022 average rate + 3.75 p.p.	4.47	3.91	3.33	5.05	4.38	3.69
June 2022 average rate + 4.00 p.p.	4.72	4.12	3.49	5.31	4.59	3.85
June 2022 average rate + 4.25 p.p.	4.97	4.32	3.65	5.56	4.79	4.00
<b>(reference rate at 2.5%)</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
June 2022 average rate + 3.50 p.p.	3.59	3.20	2.77	4.13	3.64	3.12
June 2022 average rate + 3.75 p.p.	3.91	3.46	2.98	4.46	3.91	3.33
June 2022 average rate + 4.00 p.p.	4.20	3.70	3.17	4.77	4.16	3.53
June 2022 average rate + 4.25 p.p.	4.47	3.93	3.35	5.05	4.40	3.70

**Source:** PBO's own calculation based on data from the Central Bank of Ireland

**Note:** p.p. denotes percentage point. The scenario percentage point increase is applied to the average June 2022 rate of the then outstanding mortgages of each type. The cap on the relief per mortgage is €1,500 in 2025, €1,250 in 2026, and €1,000 in 2027 in all scenarios. Costs in million euros are rounded to two decimal places.



## 4. Areas of Uncertainty

Some points of uncertainty and important caveats are listed below.

### *Data uncertainty*

- Data uncertainty is considered **high**. The aggregate data were provided by the Central Bank of Ireland. However, the regulatory data on the NPL mortgages are more uncertain than those on performing loan mortgages. This adds to uncertainty.

### *Modelling uncertainty*

- Modelling uncertainty is **high** for two reasons. First, it was necessary to make assumptions to simulate loan-level data based on the aggregate data. The costing estimates are sensitive to the validity of these assumptions.
- As the global economy has been experiencing significant volatility in recent years, there is significant uncertainty in the projection of new mortgages being issued and the probability of currently performing mortgages becoming non-performing. Note that this costing assumed that no outstanding and newly issued performing mortgages would become non-performing until end-2027.

### *Behavioural uncertainty*

- Behavioural uncertainty is **high**. The costing was prepared on a static basis. However, it is possible that if the policy were implemented, there would be more people who will borrow mortgages than otherwise, which might in turn also increase the number of NPL mortgages. If this turned out to be the case, the cost of the policy could increase.