

The logo for EBS, consisting of the letters 'EBS' in white, bold, serif font, centered within a solid red square.The logo for DKM Economic Consultants, featuring the letters 'DKM' in a dark red serif font, with a stylized blue and red graphic element to the right. Below 'DKM', the words 'ECONOMIC' and 'CONSULTANTS' are written in a smaller, blue, sans-serif font, stacked vertically.

EBS/DKM Affordability Index

June 30th 2009



Dara Deering
EBS Building Society



Market in Ireland totally changed

- The Irish economy has been contracting for some time and remains weak
- Unemployment has increased significantly and now stands at 11.8%
- Access to mortgage finance severely impacted by global credit crunch
- Confidence levels while still low, rose in June to over 50 suggesting consumers are adopting a more positive outlook
- Growth in lending to private sector declined to a 15-year low
 - New advances for 2009 Q1 at €2bn down 68% vs. Q1 2008
 - Net fall of €100 million in residential mortgages in April
 - First time mortgage lending has fallen since series began in 1990.

Mortgage Market peaked and turned ex-growth in 2006

First-Time Buyer (FTB) more resilient



- Mortgage volumes down significantly in all segments Q1/Q1

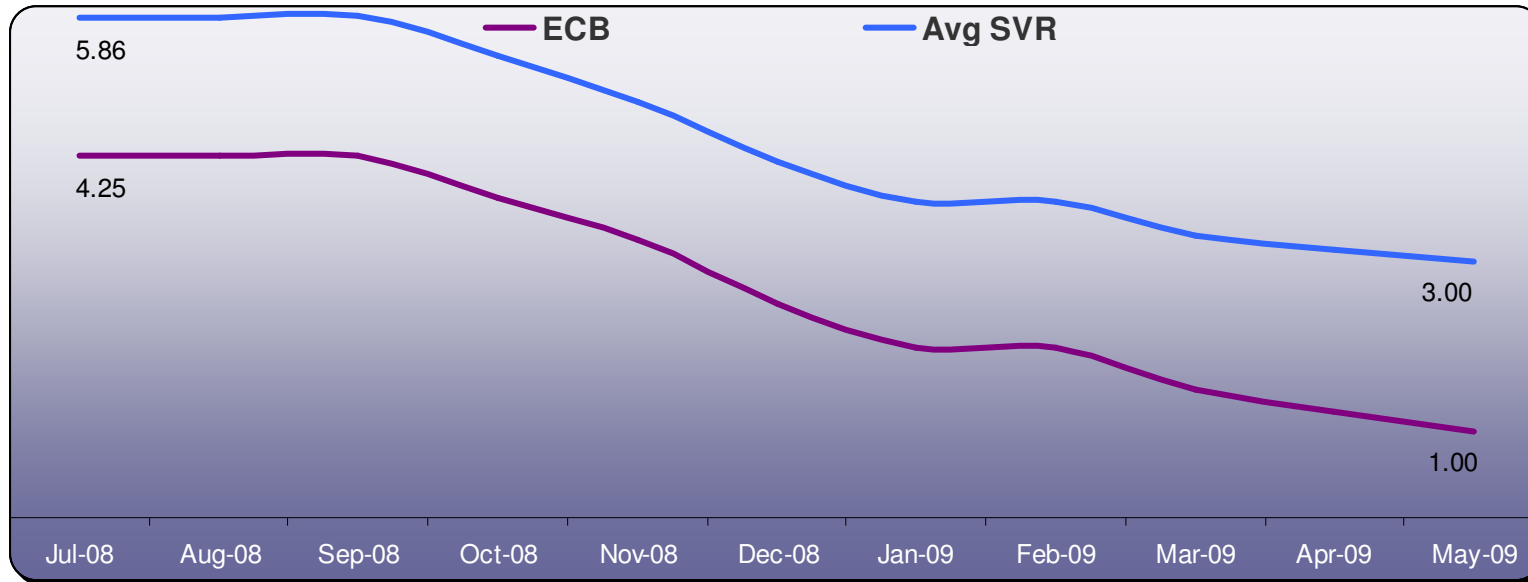
	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
First Time Buyers	€1,090m	€1,526m	€1,322m	€895m	€523m
Second Time Buyers	€1,457m	€1,741m	€1,464m	€910m	€584m
Total BTL	€1,223m	€1,389m	€937m	€547m	€281m
Re - Mortgage	€1,639m	€1,882m	€1,158m	€615m	€290m
Top Up	€856m	€1,028m	€797m	€572m	€320m
Total	€6,266m	€7,566m	€5,678m	€3,539m	€1,998m

- FTB's more resilient & increasing proportion of the overall market
 - 17% of the overall market in Q1 2008
 - 26% of the overall market in Q1 2009

First-Time Buyers still desire a home of their own

Interest Rates are at an all time low

- ECB rate now at a record low of 1% since May 2009

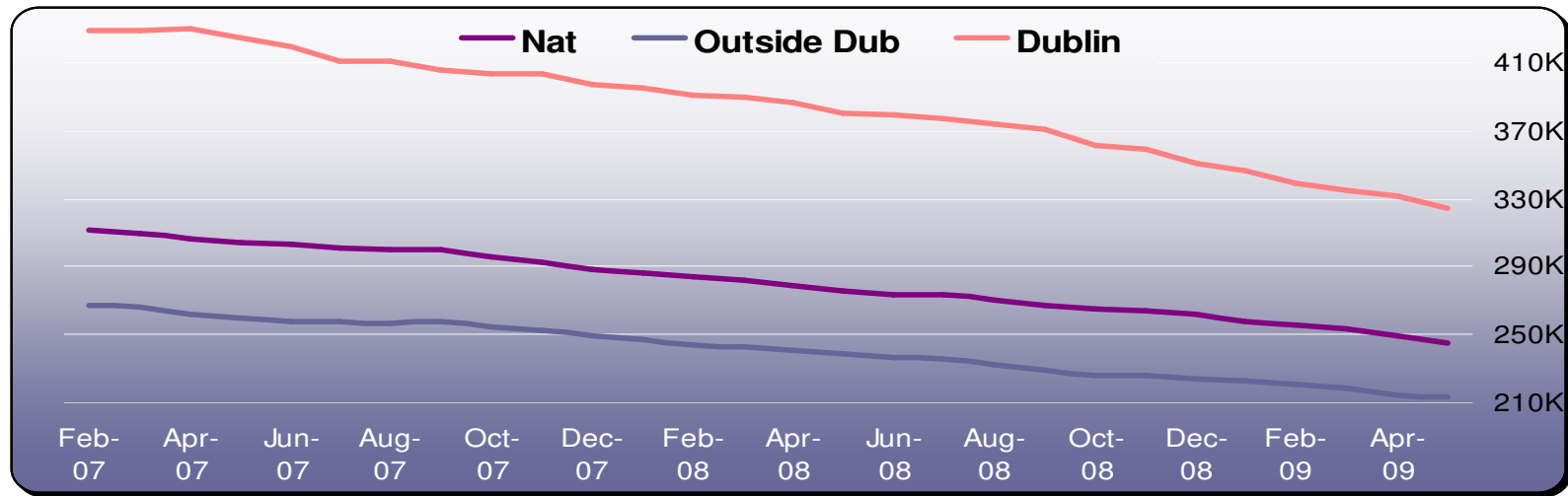


- Mortgage Repayments have reduced significantly since July 2008
 - July 2008 Avg SVR 5.86%- Avg Repayment €1,588
 - July 2009 Avg SVR 3.00%- Avg Repayment €1,185
 - Average savings >€400 on a €250k mortgage

Average savings of over €400 per month

House prices at June 2004 levels

- Over the past year National house prices have dropped 30k to €245k
 - Dublin properties have decreased by 14.8% YOY to €324k
 - Outside Dublin have declined by 10.5% YOY to €214k



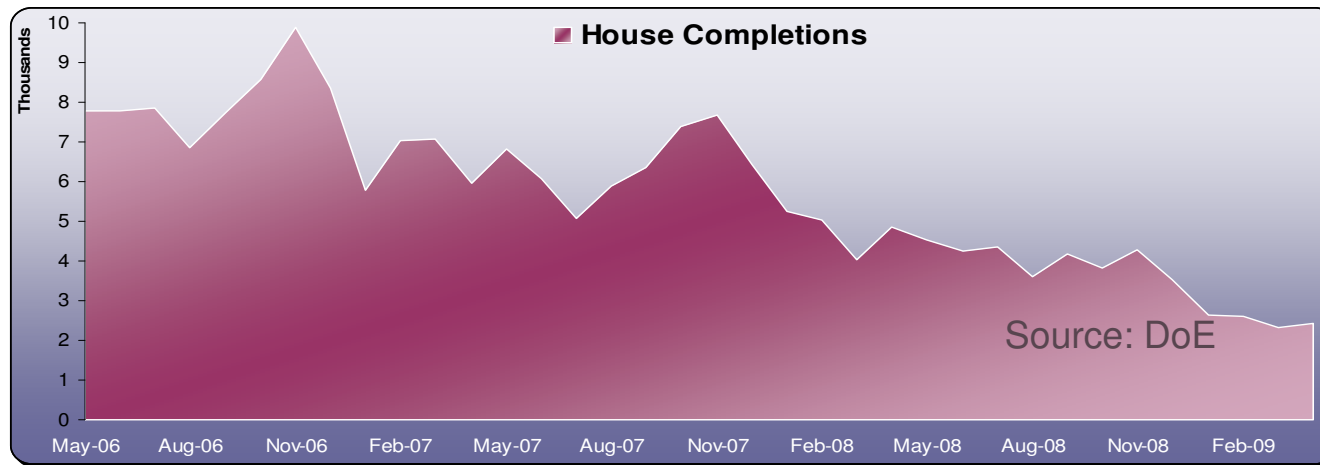
Source: PTSB/ESRI

- Existing properties have seen a decrease of €29k YOY to €246k
- New properties have seen a decrease of €32k YOY to €244k

House prices likely to fall a further c12% in 2009

Housing Supply adjustment well underway

- Projected completions for 2009 range from 18-23k
 - completions have reduced consecutively for 29 months
 - YTD new home registrations down 77%
 - YTD commencements down 76%



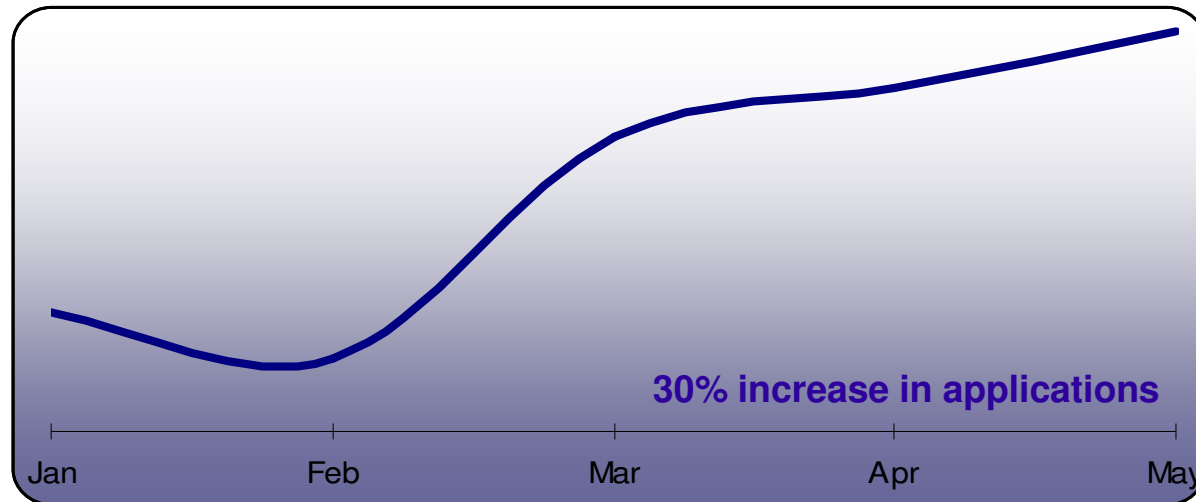
- Planning permissions down 23.7% in Q1; down 22.4% in Q4 2008
- Housing output will remain low until over-hang is cleared

Supply likely to over-correct in the Short Run

Some signs of a 'Pick-Up' in mortgage activity

EBS

- Application levels for Irish Financial institutions are rising again
- Application levels in EBS are up 30% in the last 2 months
 - in excess of 300 FTBs attended 4 seminars in last few weeks



- Emergence of innovative "Rent to buy" schemes and other such innovations encouraging FTB's into the market.
- New builds dramatically reduced in price and this is continuing

Buyers in good negotiating position/ increasing mortgage demand

Mortgage Market Outlook & Conclusion

- Irelands Housing & Mortgage Market landscape has totally changed
- Interest rates are at record lows and should remain so in near term
- Value is returning as house prices continue to adjust downwards
- Buyers have choice with many developers offering incentives
- Some signs of a pick-up in the level of new mortgage applications
- Concerns about job security and employment prospects persist
- Underlying factors are there for market recovery but it will take time
- Markets are driven on sentiment and confidence – still fragile

Despite improved affordability, market will fall to c.€10bn in 2009



Annette Hughes
DKM Economic Consultants



Affordability – revisit of our methodology.....

*Our definition – **the proportion of net income for a FTB working couple required to meet net mortgage repayments on the 'average' house price based on a 90% loan to value ratio and a 25-year mortgage***

How do we measure affordability?

- **Data on average new house prices:**

monthly tsb/ESRI data for first-time buyers nationally and for Dublin buyers we assume FTBs pay 84% of the average Dublin house price;

- **Average earnings after tax (disposable income):**

assume average industrial earnings for all employees plus 10% for Dublin workers; earnings unchanged since July 2008 = €41,200 per person; increases in health and income levies also included;

- **Mortgage rates** - average monthly mortgage rate for house purchase loans (Source CSO);

- **Loan-to-value ratios** - assume 90% loan to value ratio;

- **Mortgage interest relief** – reflects changes in successive budgets, currently max of €5,000 for married couple = €417 per month;

Developments in the key affordability variables....

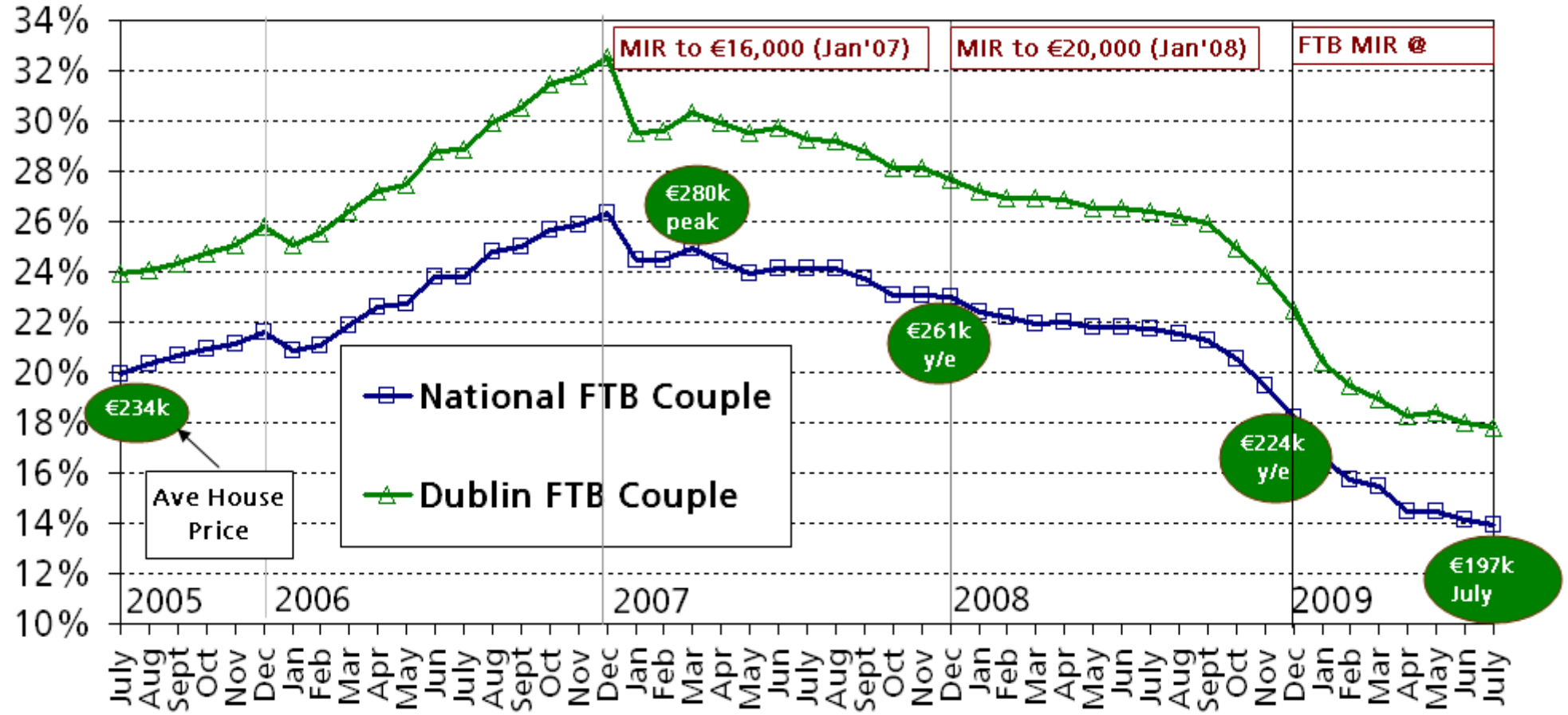
- ECB interest rates reduced seven times since their peak in July'08 to 1% on 28th April'09.
- Average Irish **mortgage rates** reduced from 5.86% in Sept'08 to 3% currently.
- Average **house prices** in May - **down up to 28% in real terms**
 - nationally 21.1% below their peak in January 2007 (-€66,000)
 - FTB prices 27.2% below their peak in March 2007 (-€76,000)
 - Dublin prices 24.6% below their peak in April 2007 (-€106,000)
- **Average earnings after tax:** started at €70,000 in June 2005,
 - increased under terms of Sustaining Progress, expired end March'08;
 - a further 3.5% in July 2008; average increase 4.3% in 2008;
 - no increase since July'08;
 - 2009 figures reflect increases in health and income levies;
 - average tax rate increased from 20% at end of 2008 to 23% by end of June'09.
- **Loan-to-value ratios** – continue to assume 90% LTV ratio;

Housing Affordability - Recent Trends for FTB Working Couple with Forecasts to July 2009

	Dec'05	Dec'06	Dec'07	Jun'08	Dec-08	Jan-09	Mar-09	Apr-09	May-09	Jun-09	July'09
Average Mortgage Rate	3.63%	4.81%	5.35%	5.54%	4.79%	4.16%	3.67%	3.34%	3.10%	3.00%	3.00%
National First Time Buyer Working Couple											
Monthly Repayments	1018.1	1323.2	1227.6	1178.9	1006.8	912.3	850.3	794.2	767.0	748.8	736.8
As % of Net Income	21.6%	26.4%	23.0%	21.8%	18.2%	16.6%	15.5%	14.4%	14.5%	14.2%	13.9%
Ave. House Price (000s)	249.5	279.0	260.8	246.5	224.2	222.4	215.4	206.5	203.2	200.0	196.8
Dublin First Time Buyer Working Couple											
Monthly Repayments	1295.5	1740.7	1573.0	1525.3	1324.6	1193.3	1110.0	1069.9	1036.3	1014.9	1001.7
As % of Net Income	25.8%	32.5%	27.7%	26.5%	22.5%	20.4%	19.0%	18.3%	18.4%	18.0%	17.8%
Ave. House Price (000s)	309.6	359.0	333.9	319.0	294.9	290.9	281.3	278.2	274.6	271.0	267.5

Assumptions: 1) house prices decline c.1.6% per month in June and July; 2) Mortgage interest rates unchanged up to July'09; 3) Gross earnings unchanged since July'09 4) Budget changes take effect from Jan'09.

Recent Trends with Forecast to July 2009



..affordability back to 1996 levels

Budgets can help and hinder housing markets.....

2007 and 2008 Budgets helped affordability....

By providing increases in the maximum relief thresholds for mortgage interest relief (MIR): from €8,000 to €10,000 for single person and from €16,000 to €20,000 for a married couple

...but 2009 Budgets damaged affordability

- On income side: Increased income and health levies (plus pension levy for public sector). Further increases in 2010?
- MIR abolished for all after first seven years of a mortgage.
- MIR phased for FTBs: relief at 25% Yrs 1-2 = max of €417/month, 22.5% yrs 3-5, 20% yrs 6-7.
- A reduced level of relief for investors plus increase in CGT to 25%
- €200 second-homes tax plus speculation about a property tax

Impact for our typical FTB working couple on twice average earnings...

- ✓ Gross income = €82,370 for working couple
Since Dec'08 income has been reduced by €2,875 due to Income Levy (€1,647) and increase in Health Levy (€1,647) but small increase in tax band reduced income tax by €420.
- ✓ Thus overall effect in a full year disposable income reduced by 4.3%, assuming no change in gross income.
- ✓ If gross income reduced by 10% in Jan'09 then full impact would be a €7,000 reduction or a 10.4% reduction in disposable income.
- ✓ **Impact on Housing Affordability:**
- ✓ % of net income in June 2009 = 14.2% (income unchanged)
- ✓ % of net income in June 2009 = 15.1% (income reduced by 10%)
- ✓ % of net income in June 2009 = 16.6% (income reduced by 20%)

*If house prices were to fall by a further 1% per month by the end of 2009, generating an average FTB house price of **€190,000**, then Affordability would improve further to **13.4%**, all other elements unchanged*

*If house prices were to fall by a further 10% by the end of 2010, generating an average FTB house price of **€170,800**, then Affordability would improve further to **12.1%**, all other elements unchanged*

But uncertainty over the future direction of house prices, unemployment and the economic recession is damaging confidence, resulting in limited mortgage transactions as potential first timers postpone their decisions to buy

The market urgently requires a restoration of confidence and credit



Questions?