Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Internal Guideline

Sustainable Mortgage Arrears Solutions

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Contents

1. Executive Summary

This paper has been prepared based on internal dialogue and discussion at Financial Stability Committee and provides internal guidance to supervisors as to the important factors to consider when assessing if the modifications provided by lenders are sustainable solutions for mortgage arrears cases. It is for use by Supervisory teams, in conjunction with the principles set out in the Mortgage Arrears Resolution Targets (MART) paper, when auditing the results of targets set in March 2013. However measurement of a bank's compliance with the Code of Conduct on Mortgage Arrears (CCMA) falls outside the scope of this document. These are internal guidelines - previously issued guidance to the banks of a more high-level nature remains in force and is attached at appendix 1.

Sustainable solutions for both Private Dwelling Houses (PDH's) and Buy-to-let (BTL's) are discussed in this paper. Supervisory teams should find that the guidance provided for the different solutions in Section 2 applies to both PDH's and BTL's (with the possible exception of some elements of the split mortgage solutions related to security of tenure in the personal home).

In March 2013 the Central Bank set a series of performance targets for banks in relation to the number of sustainable mortgage arrears solutions that are:

- *proposed* to customers in difficulty;
- *concluded* with customers; and
- *being met* by customers.

Those targets will be monitored quarterly from June 2013 onward when the first targets with regard to proposed solutions apply. To provide assurance that the mortgage arrears solutions that banks conclude (and count in their targets) are truly sustainable, a series of supervisory audits are planned to consider the completeness, accuracy and validity of the outcomes reported by the specified credit institutions. This paper is designed to provide those carrying out such audits with additional guidance to determine what constitutes a sustainable solution.

As the starting point for assessing solutions proposed by banks, the Central Bank will have regard to:

1. the Mortgage Arrears Resolution Process (MARP) as set out in the CCMA;
2. the Sustainability Guidelines issued to lenders in May 2012 as part of the Mortgage Arrears Resolution Strategy (MARS) project (appendix 1); and
3. the definition of sustainable solution set out in its publication Mortgage Arrears Resolution Targets (MART):

    a) "An arrangement concluded under a bank's MARP in accordance with the CCMA, where the borrower is cooperating under the MARP and the bank has satisfied itself that the arrangement provides a sustainable solution which is likely to enable the customer to meet the original or, as appropriate, the amended terms of the mortgage over the full remaining life of the mortgage, including repayment of the original or an agreed revised principal sum where offered. This may include an interest only or other temporary solution for a period if it is likely that full repayment of the original or revised principal will be achieved over time, or where there is a payment plan to return the account to sustainability through the clearance of arrears.

    b) A personal insolvency arrangement effected under the Personal Insolvency Act 2012; or

c) If an arrangement could not be reached or is not appropriate, that the PDH and BTL property securing the loan has been voluntarily sold or, failing that, any situation where a Specified Credit Institution takes possession of the property including by way of voluntary agreement with the borrower or by Court Order or otherwise"

Prudential considerations imply that no simple mechanical formula can substitute for a case-by-case approach, despite the fact that such an approach is time-consuming and resource-intensive. While sustainable solutions will therefore be arrived at on a case-by-case basis, there are some fundamental principles and considerations that arise for lenders from this definition:

- The affordability assessment of the borrower (see section 2.2) needs to be based on both their current and prospective future servicing capacity for all borrowings; assumed prospective future increases in the debt servicing ability of the borrower must be credible and conservative;
- Lenders need to apply a realistic valuation of the borrower's assets, in particular their property. This also applies to any assumption of potential asset price appreciation, as well as the estimated costs related to a potential foreclosure of property;
- Lenders need to use an appropriate interest rate when discounting future income flows, which should take account of the lender's cost of funds;
- Lenders must have adequate policies, procedures, systems and controls to assure itself that the range of solutions it is offering are indeed sustainable for the individual circumstances of the borrower;
- Lenders need to satisfy themselves that the solution will be effective for the full remaining life of the mortgage and take account not just of capacity to pay interest for an interim period but also to service the (revised) mortgage contract on a lasting basis. A sustainable solution must be likely to enable the customer to meet the original or, as appropriate, the amended terms of the mortgage over the full remaining life of the mortgage, including repayment of the original or an agreed revised principal sum where offered. (This is to be understood to include the specific treatment of the warehoused portion of the split mortgage as outlined above). The revised mortgage servicing terms may be conditional on borrower's income;
- Lenders therefore need to be able to satisfy themselves – and demonstrate to the Central Bank – that any temporary term arrangement is part of a sustainable solution because the borrower will have a sufficiently improved capacity to service the debt at the end of the temporary arrangement;
- In endeavouring to recover mortgage debt owing, lenders should consider the consequences of non-payment of unsecured debt by the borrower, particularly in cases where non-payment of unsecured debt could impact on the employment and earning capacity of the borrower;
- Each case is different, depending in particular on the circumstance and prospects of the borrower. This means that finding a sustainable solution that fits each case is challenging and time-consuming; no simple mechanical formula can substitute for a case-by-case approach. Yet experience shows that delays in treating loan arrears worsen the outcome for both borrower and lender;
- It is understood that the process of putting a sustainable solution in place may require a trial period of payment on a revised schedule before all of the elements of the solution are confirmed; and

- Cooperation[1] by the borrower is essential to sustainability of a mortgage.

These key considerations have been incorporated into the guidelines set out in section 2.

[1] As defined in the CCMA where the mortgage loan of a borrower is secured by their primary residence.

2. Sustainability Guideline

2.1. Bank Policies, Procedures, Systems and Controls

Banks should have adequate policies, procedures, systems and controls documented and available for review by the Central Bank that describe:

- the types of solutions that are available to borrowers;
- the criteria that are used to establish whether they are sustainable for an individual borrower's circumstances; and
- the reasoning used to establish such sustainability.

These policies, procedures, systems and controls should also describe how lenders formally review the appropriateness of that solution for the borrower and the review periods for each type of solution available.

The Central Bank will rigorously assess banks' performance against the targets (including whether genuinely sustainable solutions have been offered).

Lenders must maintain an audit trail that captures the inputs; outputs and rationale for option(s) offered to borrowers evidencing that a solution is sustainable.

Lenders must document key assumptions in relation to:

- Current and future income levels including income increases;
- Current and future expenditure levels;
- Repayment levels (increases / step-ups etc.) over the life of solutions distinguishing between interest and principal payments; and
- Future interest rates, foreclosure costs, collateral and other asset valuation and asset appreciation.

Lenders should have a consistent approach to such assessments and application of decision trees to support their consideration of a sustainable solution to offer an individual borrower.

2.2. Assessment of Affordability

The affordability assessment of the borrower needs to be based on both their current and prospective future servicing capacity for all borrowings. Assumed prospective future increases in the debt servicing ability of the borrower must be credible and conservative.

- Current affordability assessment should be based on verified borrower income and expenditure levels.
- Lenders should satisfy themselves, and be able to demonstrate, that appropriate conservatism has been applied in relation to the variable elements of current income that are taken into account. For example, variable elements of pay and/or rental income etc. should be discounted to reflect the possibility that they will not be realised. Any assumptions should be documented in the audit trail.

- Future income increases should only be taken into account where there is good reason to expect that those increases will be realised. Lenders should also satisfy themselves, and be able to demonstrate, that adequate conservatism has been applied in considering the extent to which future increases are taken into account. Unless specific information exists to the contrary, assumed salary increases, bonuses, overtime, career progression, increases in rental income and any other increases should not be out of line with industry/sector/market norms and may need to be discounted to reflect the risk that they will not be fully realised.
- Assessment of borrower expenditure levels should take account of likely future expenditure increases. At a minimum lenders should be able to demonstrate that increases in line with inflation have been considered but lenders should also be able to demonstrate that increases specific to the borrower and their unique circumstances have been taken into account (for example an increase in dependents or future education costs etc.)
- Where future and specific expenditure decreases are being taken into account (dependents exiting education and entering the workforce for example) lenders should be able to demonstrate that a conservative approach has been taken in considering those decreases.
- Where a borrower is required to reduce expenditure levels in order to service mortgage debt repayment, lenders must satisfy themselves, and be able to demonstrate, that those reductions are plausible and practical over the life of the revised solution and that those reductions will not place an unreasonable burden on the borrower.
- Lenders should ensure, and be able to demonstrate, that, where a revised solution includes increases in amortisation schedule / step-ups in repayment, there is good reason to expect that those increases can be met by the borrower.

2.3. Assessment of Temporary Arrangements

Temporary arrangements[2] will only be considered sustainable where the bank has satisfied itself (and can demonstrate to the Central Bank) that the borrower's circumstances are likely to change such that the original (or agreed modified) terms of the mortgage can be fully serviced commencing from the end of the agreed period over the remaining life of the mortgage. Examples of such situations include but are not limited to the borrower/s returning to full-time paid employment form career break, parental leave, long-term sick leave or maternity leave.

These situations are likely to involve:

- An assessment that certain short-term expenses are likely to cease or reduce; and/or
- An assessment that there is good reason to expect that household income will increase to improve debt serviceability.[3]

While such temporary forbearance will be sufficient to assist many borrowers experiencing only temporary difficulties, there are other cases where temporary forbearance is not a sustainable solution and for which a more lasting or permanent[4] solution will be necessary.

[2] Temporary solutions are those designed to have a specific term and which will "expire" at some point in the future, for example a six-month interest only restructure
[3] This assessment should take account of specific borrower circumstances such as education level, age, length of unemployment and specific skills. Any assumptions used, including assumptions around re-employment, should be realistic and clearly captured in the audit trail by the lender.
[4] Permanent restructures are those which are point in time events and can never expire, for example, term extension.

Some examples of short/medium term forbearance at reduced payment levels which will not be counted towards the sustainable solution targets include:

- Interest only (or reduced payment) arrangements agreed for short or medium terms where the borrower's level of affordability and repayment capacity at the end of this term has not been assessed;
- Arrangements in which assessment has not addressed what the borrower's required level of payment at the end of the interest only (or reduced repayment) period will increase to;
- Arrangements in which assessment has not addressed (on the basis of tangible evidence) the likelihood of a change in the borrowers circumstances which will allow this increased level of payment; and
- Arrangements in which future increased payments typically dependent on a generic 'hope' that the borrowers situation will improve, without a specific identified factor which can support this.

2.4. Assessment of Term Extension and Capitalisation Solutions

The Central Bank will typically consider a term extension or capitalisation solution (or combination of both) to be sustainable only where:

- For a term extension, the borrower's age has been taken into account. In this regard, if the borrower is subject to a compulsory retirement age, for a mortgage extension beyond that term such extension will only considered sustainable where the lender has assessed and can demonstrate and evidence that the borrower can, through pension or other sources of verified income, service the revised loan repayments to maturity on an affordable basis. An overall ceiling of 70 years of age will apply for the Central Bank to consider a term extension sustainable unless there is firm evidence that an older age limit can apply;
- For the capitalisation of arrears, the lender has assessed and can evidence that the borrower's verified income and expenditure levels are sufficient to enable them service the revised loan repayment on an affordable basis for the duration of revised repayment schedule and the borrower has been performing against the revised arrangement for 6 months before arrears are capitalised; and
- For either solution, the lender can demonstrate that the customer has been made fully aware of the implications of a term extension / the capitalisation of arrears in terms of revised repayment, revised loan maturity and any additional interest and charges (above the original loan terms) that will apply.

A term extension or capitalisation that includes increases in repayment level over time will not be considered sustainable unless the lender can demonstrate that a verifiable, or otherwise credible and conservative, cause exists to believe that the borrower will be in a position to meet those repayment levels (see section 2.2 Assessment of Affordability).

2.5. Assessment of Split Mortgage Solutions

The Central Bank is concerned that lenders persist in relying on temporary forbearance measures even where a demonstrable ability of the borrower to resume the original contractual repayments at the conclusion of this forbearance term is unlikely. Therefore, where the borrower is unable to service fully the mortgage payments but where there is some reasonable prospect of the borrower's circumstances improving over a longer term, a split-mortgage solution may be considered as offering a sustainable solution. In the case of PDH loans, a split mortgage can allow the borrower the opportunity to remain in their home, while enabling the lender to recover an additional portion of the loan should the borrower's circumstances improve. A split mortgage divides the sum owed into a base loan (Part A) and a warehoused loan (Part B).

When determining a sustainable solution the lender must attempt to match a solution from the available range that best matches a borrower's current and future affordability. Because of this, various designs of split mortgage may be considered as sustainable solutions by the Central Bank depending on the circumstances of the intended cohort. Sustainability of a split mortgage will be assessed by the Central Bank *inter alia* with regard both to the affordability of the un-warehoused debt payment schedule and with regard to the treatment of the warehoused loan at maturity.

Transparency to a borrower of the terms and conditions of a split mortgage at the outset of such a solution is essential to the sustainability of this solution, in particular how the bank will treat future increase of income and the repayment of the warehoused loan at maturity.

a. Treatment of the base loan of a split mortgage

The Central Bank will typically consider a split mortgage sustainable if the new term and interest rate on the base loan (Part A) result in a newly contracted payment schedule which leaves the borrower with sufficient funds in line with established norms. In order to reduce the incentive for a borrower to reject a particular offer in the hope of receiving something better through the PIA process, lenders will want to consider how the schedule offered compares (i.e. in terms of monthly disposal income post debt repayment).

More generally, for a split mortgage to be considered sustainable, the lender should be able to demonstrate that, given their current and prospective economic circumstances, the borrower will be able to service Part A fully throughout the term or, failing that, will be able to cover any servicing shortfall of Part A from other resources that the lender has a good reason to expect the borrower will possess at the end of term.

As the split is designed to help the borrower stay in the family home, in the event of a sale during the term of the mortgage, the lender and borrower will renegotiate the terms of the restructure.

b. Treatment of future increase of income

The Central Bank will typically only consider a split mortgage to be sustainable if provision is made for any future increase in the borrower's income to be shared in a reasonable proportion between the borrower and the bank. In considering this, the bank should be conscious of how such increase in income would be treated under a Personal Insolvency Agreement.

c. Treatment of term of warehoused part of split mortgage

In order for a split mortgage to be considered sustainable the lender must inform the borrower regarding the repayment of the unpaid warehoused loan at maturity. The bank must set-out the potential options it may deploy in recovery of the outstanding debt at the maturity of the loan.

Any such repayment must consider the circumstances of the borrower at that time and the ability of the borrower to acquire suitable alternative accommodation if required. In particular;

- The loan arrangements should state the percentage of any lump sums received by the borrower that must be paid towards reduction of the warehouse loan.
- To be deemed sustainable the cooperating borrower should not be made homeless at the loan maturity. Options for recovery of debt that would be deemed sustainable include: (i) Borrower is required to dispose of the property but permitted to retain borrowings or proceeds sufficient to acquire alternative suitable accommodation (trade down). There should be disclosure regarding the % of value of disposed property that will be available for purchase of trade-down accommodation.(ii) Borrower is provided with right of tenure with recovery of all outstanding debt on disposal of the property e.g. from the borrower's estate after death, if not sold earlier.

The lender may determine other suitable sustainable arrangements that fulfil the same principles regarding suitable accommodation such as debt/equity swaps or other structures.

A split mortgage solution which does not ensure the sustainable treatment of the warehoused part of the mortgage, as outlined above or with other measures of equivalent effect, will not be counted as a sustainable solution in the context of the targets.

2.6. Medium-term restructures

Medium-term Restructures may be created that substantially change the payment structure for a defined period but they will not entirely resolve the borrowers' debt position and by itself would not be regarded as a sustainable solution. For such restructures to be regarded as sustainable they must contain clauses to state that at the end of term of the restructure a cooperating borrower will retain the loan (and property), that future payments are matched with borrower affordability and the bank must set-out the potential options it may deploy in recovery of any potential outstanding debt at the maturity of the loan.

2.7. Other Requirements and Solutions

Other than for temporary solutions (see section 2.3) forming part of a sustainable solution, revised repayments should be profiled (between interest and capital elements) in the usual manner of mortgage repayments. This requirement applies across the life of the revised mortgage and, therefore, precludes the introduction of repayment step-ups in a long term solution unless the lender, in line with affordability assessment per section 2.2, can demonstrate good reason to expect a future increase in borrower income / reduction in expenditure that would enable a step-up. The lender must also be able to demonstrate that the borrower has been made fully aware of the scale and timing of the step-up(s).

In all cases, a solution will only be considered sustainable where the resolution of outstanding / historic arrears is fully addressed.

Situations will arise in which lenders determine that borrower expenditure levels are beyond the norm and that the existing mortgage repayment would otherwise be affordable. In such cases lenders will advise borrowers that forbearance has been declined that the borrower must commence meeting current repayments. Such outcomes will be considered sustainable where;

- The lender can demonstrate that it has made an individual determination, based on assessment, of the expenditures that could be reduced and has communicated these to the borrower; and

- The lender has communicated to the customer an affordable repayment schedule, again based on demonstrable assessment, to resolve any outstanding arrears balance.

In such circumstance, should the borrower reject / refuse to comply with that decision (and barring a successful appeal by the borrower), the lender may commence legal proceedings subject to the CCMA provisions. Situations will arise, and notably where a borrower is not cooperating or a sustainable solution (such as those outlined in this document, mortgage-to-rent, trade-down, debt write-down or other sustainable solutions) cannot be achieved and where voluntary surrender, voluntary sale or legal action for repossession may be required. In the case of voluntary sales or surrenders the lender must clearly state how it will treat the outstanding debt, after the property is sold, and any arrangements proposed for the continued repayment of such debt. For example, clearly stating the borrower will continue to be liable for any shortfall arising (where that is the case), and payments should be based on what the borrower can afford to pay and contingent on the borrower meeting certain agreed hurdles.

If a borrower is, inter alia, insolvent then he/she may apply for a Personal Insolvency Arrangement (PIA). These outcomes, while sustainable from the perspective of the targets, should be a last resort and only where the lender has been unable to agree a sustainable loan modification solution or has concluded that one is not appropriate in the circumstances. In all of these cases, the long-term interests of both borrower and lender are better served by determining, agreeing and adhering to a sustainable payment plan.

2.8 Mortgage Solutions beyond retirement (updated 13 June 2014)

On 13 June 2014 the Central Bank provided a clarification to the banks covered by the Mortgage Arrears Resolution Targets that there are instances in which sustainable mortgage arrears solutions may extend into the borrower's retirement.

Furthermore, borrowers and banks may agree, on a case by case basis, to lifetime tenure of the home in instances in which the anticipated proceeds from the estate are sufficient to pay off the outstanding debt[1].

In recent audits of banks mortgage restructuring solutions, the Central Bank noted variations in the interpretation of the guidelines provided by the Central Bank insofar as:

1. Most banks apply an upper age limit 'rule' of 70 on term extensions in accordance with guidelines published by the Central Bank. The guidelines set out the circumstances in which evidence of affordability to service repayments to maturity will be considered sustainable. An older age limit can apply to restructure arrangements in cases where there is appropriate evidence to support it[2].

[1] The outstanding debt is the original debt less any amount repaid less any amount agreed by the bank to be written-off now or in the future. The amount of write-off need not be a specific amount if it refers to a residual balance after disposal of the property at the end of tenure.

[2] In cases where both the borrower and the bank are in agreement, a borrower may continue to make payments from on-going pension benefits.

2. Banks have been reluctant to consider solutions which involve recovery of residual loan balances after the death of a borrower from his/ her estate. The Central Bank is of the view that, where the borrower wishes to remain in his/ her home, long-term payment arrangements with lifetime tenure may be sustainable where the sale of the property provides sufficient surplus funds on death to redeem the outstanding mortgage balance[3].

This guidance is issued in the limited context of the resolution of distressed loans, where the Central Bank recognises that, in many instances, banks and borrowers are striving to solve very difficult situations. Moreover, the Central Bank considers that, even in that context, these solutions will apply only in limited circumstances.

The Central Bank requires transparency to be provided to the borrower in relation to the terms and conditions at the outset of any such solutions and borrowers must be treated in accordance with the Central Bank's Consumer Protection Code and the Code of Conduct on Mortgage Arrears where applicable. The implications of the solution in terms of payment schedules, stressed interest rate increases, additional interest and charges (above the original loan terms) and future redemption obligations must be clearly communicated in a new contract with the borrower in order for it to be considered sustainable. The lender must also explain the advantages and disadvantages of the offer made by reference to the circumstances of the individual borrower[4].

[3] Banks must be able to demonstrate that they have assessed borrowers' ability to meet the payments post retirement based on appropriately conservative assumptions.

[4] The CCMA provides the process by which a lender is required to establish the appropriate solution for each borrower's individual circumstances. Provision 39 of the CCMA lists a number of alternative repayment arrangement types and recognises 'interest only repayments on the mortgage for a specified period of time' as a solution which may be viable for certain borrowers. Where a lender offers such an arrangement, it must be satisfied of the sustainability and appropriateness of the solution for the borrower over the full term of the mortgage including the borrower's ability to repay the capital outstanding in future. Provision 40 of the CCMA further requires the lender to document its considerations of each option examined, including the reasons why the option is appropriate and sustainable. Under provision 42, a lender must explain in the offer letter the reasons why the alternative arrangement offered is considered to be appropriate and sustainable and must explain the advantages and disadvantages of the offer made together with details of any residual mortgage debt remaining at the end of an alternative repayment arrangement and owed by the borrower. If a lender does not offer a borrower an alternative repayment arrangement, for example, where it is concluded that the mortgage is not sustainable, the lender must provide the reasons for this decision to the borrower in accordance with provision 45 of the CCMA.

Appendix 1

Guidance previously issued to banks on sustainability:

SUSTAINABILITY GENERAL GUIDELINES

- The framework mortgage lenders use to determine the appropriate solutions for mortgage accounts in pre-arrears or arrears (MARP) should incorporate the guidelines below;
- All lenders should have a transparent framework in place for assessing the borrower personal circumstances and the economic value of any options offered;
- The framework should allow for borrowers to be considered on a case-by-case basis on their own merits, as per the Code of Conduct on Mortgage Arrears ('CCMA') and regularly reviewed;
- This framework should be based on a two strand approach, incorporating core considerations from both the borrower and lender perspective, i.e.;

Borrower: **Affordability** – what is the repayment capacity of the borrower.
Lender: **Minimise Capital Impact** – appropriate solutions at minimum cost from both a portfolio and individual account perspective.

SUSTAINABILITY GUIDELINES

Borrower – Personal Circumstances/Affordability

1. All cases should be handled sympathetically and positively, with the objective at all times of assisting the borrower to meet their mortgage obligations, as per the CCMA. Borrowers who fall into arrears should be given time in order to address the situation and to allow the lender the opportunity to assess affordability and determining of longer-term solutions.

2. The affordability assessment should be based on both the current and future repayment capacity of the borrower.
   - **Current repayment capacity** - assessed on the full circumstances of the borrower, as per the CCMA. The factors to be considered include, but are not limited to, those set out in the attached overview.
   - **Future repayment capacity** - Any assumptions used should be fair and reasonable and should incorporate key economic indicators relevant to the future capacity of the borrower. Factors to be considered include, but are not limited to, those set out in the attached overview

3. When assessing affordability of a borrower, the lender should consider the overall indebtedness of the borrower, as required in the SFS assessment under the CCMA. This should include consideration of the

Lender - Economic Value/Capital Implications

1. Lenders should have in place a range of short, medium and long term options for borrowers. In this regard, lenders should undertake a full assessment of their range of options against the criteria set out in the attached. A wide range of resolution options must be available to find the most suitable option for borrowers varied circumstances.

2. Lenders should conduct an analysis of the portfolio to identify the size of various cohorts. In this regard lenders should assess:
   - the range of possible solutions for each cohort; and
   - the capital implications for each cohort.

3. Following the trial period/pilot of each option, a lender should conduct a review of the assessment of capital implications and operational capacity.

4. As per the CCMA, a lender must explore all available options for an alternative repayment arrangement in order to determine which options are viable for each particular case. All options, including long term options, should be considered in order for a lender to have made every reasonable effort to agree an alternative arrangement.

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borrower's unsecured debt repayment commitments and the consequences of non-payment. 4. The affordability assessment should be used to determine the most appropriate solution for the borrower. This takes into account reasonable amendments the borrower may need to make to their expenditure. 5. Where the affordability assessment shows a borrower has a current or future capacity to repay but the borrower fails to meet the mortgage repayment or the agreed alternative repayment and refuses to engage, forbearance or loan modification options should not be considered for the borrower unless they begin to co-operate with the lender. 6. As provided for in the CCMA, forbearance options should be regularly reviewed to assess affordability in the longer-term 7. The borrower will have recourse to the lenders Appeals Board as per the CCMA.	5. The affordability assessment should be used to determine the appropriate solution for a borrower. The lender should consider all solutions and have a path, a decision tree, to provide guidance on the best economic resolution for both parties while still allowing for case-by-case consideration of the full circumstances. 6. For long term solutions which may require the sale of the property at the end of the term, lenders must consider the future approach to any shortfall that could remain after the sale of the property. 7. Each lender should have a documented exceptions policy. 8. Lenders are not restricted to the resolution options set out in the Keane Report. Other options can be provided once they are consistent with the CCMA and these Guidelines. 9. Lenders should review the range of options on an on-going basis and investigate the feasibility of new/alternative options. 10. Options should be reviewed in conjunction with insolvency legislation. 11. A lender should use an NPV to determine if a medium/long term resolution provides a more economical resolution than repossession in a particular case.

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Framework should allow case-by-case assessment and outcome

Consumer – Personal Circumstances

CORE CONSIDERATION:
Affordability/ Repayment Capacity (current and future)

Key Elements:

Current Affordability:
- SFS information
- Overall indebtedness
- Personal Circumstances – dependants, household needs, etc.
- Current Repayment Capacity
- Previous Repayment History
- Reason for Arrears – reduced income, job loss, separation etc.
- Age and level of Arrears
- Appropriateness of the property size to the borrower's accommodation needs

Future Affordability:
- Income
- Health
- Years to retirement/length of mortgage
- Life cycle stage
- Dependents
- Employment status/prospects, industry sector, training etc.
- Savings and assets
- Debts and financial commitments
- Current repayment capacity funded by Government Support (e.g. MIS/ TRS)
- Future Repayment Capacity
- Known future changes to circumstances
- Debt Service Ratio & Debt: Net Income
- Minimum Living Standard
- Additional cost of forbearance
- Age, level and reason for Arrears
- Commitment to the property
- Relevant economic labour market indicators

While affordability is the main driver, equity in the property may also need consideration, e.g., a social housing solution would not apply in positive equity cases.

Lender – Economic Value

CORE CONSIDERATION:
Strategy that provides appropriate resolutions at a minimum cost that are sustainable for the lender

Key Elements:

NPV of modification V's NPV of repossession taking into account:

Standard Forbearance – Ultimately full capital and interest will be repaid
- Interest only for a set period
- Reduced payment > or < interest amount
- Moratorium on all or part of repayment
- Change in mortgage type
- Capitalising arrears
- Term extension
- Combination of standard options, where possible
- Reduced mortgage repayment to facilitate resolution of unsecured debt
- Debt Settlement Agreement

Loan Modification – some modification of income stream of lender by altering the interest rate or write-down capital:
- Permanent Interest Rate reduction
- Split Mortgage (with/without write-off)
- Write-off

Resolution- Mortgage Contract Ends:
- Trade Down - Positive Equity
- Trade Down - Neg. Equity (with/without write-off)
- PIA
- Voluntary Sale with Neg. Equity (assisted/unassisted sale)
- Voluntary Surrender (with/without write-off)
- MTR (with/without write-off)
- MTL (with/without write-off)
- Repossession (with/without write-off)