Response from *Brendan Burgess* *www.askaboutmoney.com* to CP 139 Review of the Standard Financial Statement received 20.04.201 by email consumerprotectionpolicy@centralbank.ie

Submission on Consultation Paper 139 Review of the Standard Financial Statement

From Brendan Burgess www.askaboutmoney.com

As I participated in the pre-consultation, I won't repeat my views on proposed revised SFS. I will confine my comments to Part 2.

Question for discussion: Do you have any views or comments you wish to raise on the MARP, and/or the CCMA more widely?

The MARP is the equivalent of using a hammer to crack a nut. It is appropriate only for very serious, long-term arrears cases which will require a major permanent restructuring of the mortgage. It is not appropriate in most cases which require temporary or minor rescheduling.

The lender should develop a triage system and treat borrowers based on the seriousness and potential duration of the problem. A customer who engages with their lender proactively, who has overpaid their mortgage over the past ten years who has plenty of positive equity who needs a three-month payment break should get a very different treatment from someone who has lost their job shortly after drawing down their mortgage three years ago and who accumulated a year's missed payments.

Factors suggesting MARP is appropriate	Factors suggesting MARP an overkill
A record of missed payments	A good record of mortgage payments
Arrears over 90 days	No arrears or overpayments made
Permanent reduction in income or permanent increase in expenditure	Temporary problem of reduced income or increased expenditure
Applying for a major restructuring of their mortgage.	Applying for a short-term solution or modest term extension
Other loan commitments	No other loan commitments
Inability or unwillingness to pay anything	Able and willing to pay at least the interest
High Loan to Value or Negative Equity	A low current Loan to Value
Not engaging with lender	Engages pre-emptively with the lender
Separation of joint borrowers	

The MARP is very demanding and time consuming for both the borrower and the lender. Its complexity means that the lender will often experience delays in processing it and giving the borrower a decision. This is very frustrating for the borrower who may go into arrears while waiting for a decision.

The Macroprudential Rules should reduce the risks generally for lenders and borrowers.

The MARP was an appropriate response at a time when many borrowers had taken out 100% mortgages at massive multiples of their income, resulting in an inflated house price market. There was serious risk to the lenders and to the borrowers.

During the last crisis, most of the borrowers fell into the category where the MARP was appropriate.

With the introduction of the Macroprudential Rules, and the resultant moderation of house prices, the systemic risk has been greatly reduced and the responses should be adapted accordingly.

The mortgage system and the CCMA should recognise that life happens.

It is unrealistic to expect that all households will always be able to pay the mortgage in full with certainty every month to the end of the term.

Since the standard mortgage product was introduced, the environment has changed where jobs are often not for life and it usually requires two people to pay the mortgage.

Taking a payment break, switching to a period of interest only, or extending the mortgage term should be expected, should be treated as normal and the lender should not be required to classify the mortgage as non-performing.

Some examples of where the MARP is an overkill.

- The borrower is struggling with their monthly mortgage repayments but can meet them most of the time. Extending the term of the mortgage would bring the repayments down to a more manageable level.
- The borrower has built up moderate arrears due to the loss of their income but now has a new job and can afford to meet their revised repayment in full if the arrears are capitalised.
- The borrower is considering taking a year long career break but could only afford to do so if the mortgage payments are reduced for that year.
- The borrower has just lost their job but has no visibility over how long it will take them to get a new job and when they can resume mortgage payments. The SFS is irrelevant in this situation as the key issue is the person's employment. The SFS may become relevant if the borrower takes 6 months to return to work and will be unable to afford their mortgage without a substantial restructuring.
- In better times, the borrower has overpaid their mortgage and the current balance is below what the original scheduled balance would be.
- The borrower has been diagnosed with a terminal illness and the mortgage is going to be cleared anyway by the mortgage protection policy. The unfortunate borrower in this situation should not have their problems accentuated by the MARP hammer.

The Covid Payment Breaks experience shows that the MARP is an overkill in about 90% of cases.

The panic over Covid allowed the lenders to do a test run of what I am proposing. 90% of those who took advantage of the payment breaks returned to full payments. This was a positive experience for both the lender and the borrower.

The 10% who did not return to normal payments probably represent the percentage of people who would require the full MARP in normal times. In other words, the MARP is an overkill for about 90% of the people who are forced into it.

Applying the MARP to every case is an example of the very expensive over-regulation.

Applying the MARP to every arrears case irrespective of the duration and extent of the arrears, is a very good example of where massive and inappropriate over-regulation imposes a very heavy cost on the lender and pushes up the cost of doing business in Ireland. It is a major contributor to the extremely high mortgage rates in Ireland.