Labour Party Submission to the Central Bank of Ireland's Mortgage Measures Framework Review

16 March 2022

1) Background Context:

- The Labour Party is concerned that Ireland has among the highest mortgage interest rates in the Eurozone.
- We note that the average mortgage interest rate for January 2022 was 2.76%, which is more than double the average of 1.31pc for the Eurozone. We note that Finland has the lowest average mortgage rate in the Eurozone at 0.79%[1].
- We are concerned that mortgage interest rates increased by the largest amount in nearly five years in January 2022 (0.7%).
- In addition, we note the limited choice for Irish mortgage holders with regards to long-term fixed interest rates, given that only two lenders offer a full range of fixed rates for 15+ years below 3%[2].
- We note that rises in the ECB interest rates are increasingly likely over the coming years which will put upward pressure on domestic mortgage interest rates.
- Similarly, the exit of Ulster Bank and KBC from an already uncompetitive Irish banking sector will undoubtedly lead to less consumer choice and the potential for remaining lenders to further increase borrowing rates and exploit their dominant position in the market.
- We also note that despite the potential for significant savings, Ireland currently has a low rate of mortgage switching (1% of all mortgages in 2021), with the rate of switching lagging behind other wealthy countries.
- Specifically, we note international evidence which shows that "older households, those with lower education, income and wealth are less likely to consider switching or refinancing" (Byrne et al. 2020, 6[3]).
- However, behavioural factors alone cannot account for Ireland's comparatively low rates of mortgage switching, and that other structural barriers must be reviewed and addressed by the Central Bank. For instance, we note a recent Central Bank review has found unacceptable delays in waiting times on some customer support lines across the five main retail banks here.
- In this context, we share the concerns of the Financial Services Union (FSU) and others regarding the significant reduction in employee numbers within the banking sector. Specifically, we note research from the Irish Times (2018) which highlighted "employee numbers in Ireland's banking

[1] Mortgage rates in Ireland rise at highest amount in five years - Independent.ie
[2] Focus on 'limited choice' in Irish fixed-rate mortgages as ECB debates rate hikes (irishexaminer.com)
[3] Room to improve: A review of switching activity in the Irish mortgage market (centralbank.ie)

industry have fallen by almost 50 per cent in the years since the financial crash[4]".

- Layoffs in the sector have escalated since the pandemic, with this trend likely to continue. For example, in 2020 Deloitte Ireland forecast that Irish retail banks are likely to cut a further "20-30 per cent of jobs – or as many as 7,650 positions – in the next five years[5]".
- In short, we are deeply concerned at the shedding of staff within the Irish banking sector and the inevitable implications this may have for mortgage customers (among others), particularly vulnerable and less financially literate customers.
- The increase in mortgage interest rates comes against the backdrop of high demand for housing and rapidly increasing accommodation costs.
- Banking & Payments Federation Ireland (BPFI) 2021 figures highlight the highest value of mortgage drawdowns in Ireland since 2008 and the highest volume since 2009[6].
- We note that residential property prices rose by 14.4% on an annual basis in December 2021 accordingly to the CSO.[7] Similarly, nationally, rents grew by 8.3% year-on-year in Q3 2021, the highest national growth rate seen since Q4 2017 (RTB 2021, Q3)[8].
- Given these conditions, we also note "the difficulties being experienced by potential buyers in saving for the deposit required by the LTV limits"[9] as cited in the Central Bank Stakeholder summary report.
- We are concerned that conditions attached to approval in principle (e.g. timeframe) may be too restrictive given the current rate of housing development and market conditions.
- We also note the difficulties experienced by a significant number of prospective homeowners whose employers have or continue to avail of State support (e.g. Employment Wage Subsidy Scheme) in drawing down their mortgage and the collective failure by the Minister for Finance, Central Bank and commercial banks to act on this issue.
- We believe that the current mortgage and housing market, in addition to the rapidly rising cost of living, significantly increases the risk of households falling into mortgage arrears.
- We note the decline in the number of those in mortgage arrears in recent years.
- However, we are concerned that the total number of mortgage accounts that are more than three months in arrears was 34,182 in September

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[4] Irish banks have shed 50% of staff since crash (irishtimes.com)
[5] Union to raise fears of job cuts in banking with Department of Finance (irishtimes.com)
[6] Mortgage drawdown values reach highest levels since recession (irishexaminer.com)
[7] Annual home price growth at highest level in six years (rte.ie)
[8] RTB publishes the Rent Index Q3 2021 | Residential Tenancies Board
[9] Summary Report Mortgage Measures Framework Review (centralbank.ie)

2021. We are concerned that a significant number of these accounts are in long-term arrears[10].

- We are particularly concerned that credit servicing firms and retail credit firms, colloquially referred to as "vulture funds", hold 67% of all residential mortgage accounts that are in arrears according to Central Bank statistics. This is particularly worrying given that these firms hold only 14% of all residential mortgages in the State[11].

2) Labour's Proposals to Combat Rising Interest Rates:

- Given the prevailing high average mortgage interest rates in Ireland, the Labour Party believes urgent action is needed to bring rates in line with the Eurozone average.
- We note prior Bills introduced in the Oireachtas aimed at combatting rising rates (i.e. Central Bank {Variable Rate Mortgages} Bill 2015 and 2016)[12].
- The Labour Party previously supported these initiatives and believes that within the current environment of rising domestic and ECB rates such caps on the rate of borrowing, particularly for mortgages, must be seriously considered.
- We note there is precedent for such caps on the rate for borrowing within Irish and EU law (e.g. caps on moneylenders[13]).
- We also note that other EU Central Banks, for example the Central Bank of Portugal (i.e. Banco de Portugal) "calculates and publishes quarterly the maximum interest rates in force for each type of consumer credit" with these rates constituting "maximum limits on the charges that can be contracted in each type of credit agreement".
- While we are aware the issue of an interest rate cap is a question for the Oireachtas rather than the Central Bank, as the introduction of an interest rate cap would require a legislative amendment, we call on the Central Bank to consider the application of caps within other jurisdictions and the potential scope for such caps within the Irish context.
- We welcome the Local Authority Home Loan (LAHL) scheme which provides an additional source of credit to first-time buyers while having the potential to put downward pressure on existing interest rates.

[10] Mortgage arrears continue to fall despite impact of pandemic - Independent.ie

[11] Mortgage arrears continue to fall despite impact of pandemic - Independent.ie

[12] Central Bank (Variable Rate Mortgages) Bill 2015 – No. 54 of 2015 – Houses of the Oireachtas
Central Bank (Variable Rate Mortgages) Bill 2016 – No. 24 of 2016 – Houses of the Oireachtas

[13] Consumer Credit Directive

- However, we note that rates provided under the LAHL scheme are significantly above the current Eurozone average rate. We therefore call on the Central Bank to examine the potential impact of reducing the rate of borrowing provided under the LAHL scheme in line with eurozone average.
- As noted, the lack of competition within the Irish banking sector has potentially significant implications for present and future mortgage interest rates, and we call on the Central Bank to examine proposals to ensure a greater diversity of credit sources at competitive rates.
- The Labour Party reiterates our call for a public bank and community banking model to serve social-economic objectives, including the provision of affordable long-term credit to prospective homeowners.
- We note international evidence which suggests that public banks lend more and at lower rates than commercial banks.
- We therefore call on the Central Bank to review the potential of a majority State-owned bank (for example, Permanent TSB in which the State currently owns at 74% shareholding) to examine providing mortgages at rates in line with the current eurozone average.
- We also call on the review to explore an expanded role for Credit Unions in providing mortgages and the necessity for a community banking (i.e. “Sparkassen”) model in light of existing market failures.
- Given the current low rates of mortgage switching in Ireland despite the potential for significant savings, the Labour Party re-iterates our call for a comprehensive government-funded social marketing campaign to promote switching, particularly with respect to “gender, education, financial literacy and behavioural characteristics (that) can help explain the degree of reported inhibition towards switching” (Byrne et al. 2020, 2[14]).
- However, the Labour Party strongly believes that structural factors which prohibit switching must also urgently be addressed. We therefore call on the Central Bank to review the effect of operational issues (e.g. poor customer services), staff levels, layoffs and branch closures on (prospective) mortgage holders and to ensure robust enforcement with regard to regulatory requirements on retail banks.

3) Labour’s Proposals to Improve Access to Credit.

- Given the cited difficulties in saving for a deposit and the high rents faced by many prospective homeowners, the Labour Party believes that proof of rental payments should be formally counted as part of

[14] Room to improve: A review of switching activity in the Irish mortgage market (centralbank.ie)

the credit rating for mortgage applicants when considering their ability to pay a mortgage.

- Moreover, given the disparity between wage growth and the rapidly rising cost of housing, we welcome discussions regarding a "step break" so that those earning up to €60,000 would be able to avail of a 4.5 LTI limit. Additionally, increasing the percentage loan to income exception, particularly for first-time buyers and fresh starts, should also be seriously considered.
- Furthermore, given the shortage of housing stock and development delays, we also call for the Central Bank to urgently review guidelines and rules regarding the duration period and renewals of Approval in Principle (AIP).
- The Labour Party also re-iterates our call for a ban on practices that prevent creditworthy individuals from mortgage approval or drawdowns.
- Specifically, Deputy Ged Nash, Labour's Finance Spokesperson, has repeatedly raised the issue whereby banks are refusing approval and drawdowns to applicants whose employer is availing of State support (e.g. the Employment Wage Subsidy Scheme)[15].
- It is particularly alarming that creditworthy individuals who have seen no change to their financial circumstances were refused mortgage drawdowns only due to the fact their firms availing of the EWSS. Moreover, evidence is available to show that even those employees working for firms availing of the EWSS but whose own wages were not directly supported under the scheme have been refused mortgage drawdowns.
- Similarly, regarding joint applications, we deeply regret the refusal of mortgage approval or drawdowns to couples wherein one of the joint applicant's employers has been availing of the EWSS, despite this making no material difference to the application (i.e. the second applicant has had a requisite loan to income ratio for the mortgage).
- Since October 2020, Labour has raised these matters directly with the Central Bank, the Minister for Finance and respectively CEOs of the banks in question. We are deeply disappointed this practice has been allowed to continue.

[15] Minister Must Stop Mortgage Blacklisting for Workers Whose Employers Receive Wage Subsidy Support (EWSS) - The Labour Party

- With some 51,900 firms and 722,300 employees having availed of wage subsidy supports (i.e. TWSS and EWSS respectively) to date[16], we request the Central Bank to fully examine the scale and impact on this practice as part of their review.
- Moreover, given the extension of the EWSS until 31 May 2022, we call on the Central Bank to urgently call for this discriminatory practice to be immediately halted until a full review into this practice has been conducted.
- Given the potential for additional business supports in light of the uncertain economic climate, this proposed review should inform future policy and rules regarding the conduct of commercial banks where mortgage (or loan) applicants are employed in firms availing of forms of State financial support.

4) Labour's Proposals to Protect Mortgage Homeowners:

- The Labour Party call on the Central Bank review to explore and propose innovative solutions to deal with the reality of Long-Term Mortgage Arrears and to assist borrowers who are chronically in debt with no realistic market solution open to them.
- In this regard, we welcome the Deputy Governor of the Central Bank's call for "meaningful engagement" between lenders and those in long-term mortgage arrears to try and find the right solution to overcome the debts.
- Given the number of households currently in (long-term) arrears and the increased potential for households to have difficulties meeting repayments (due to the rapidly rising cost of living combined with inadequate wage and welfare growth), we re-iterate our call on the Central Bank to urgently review the Code of Conduct on Mortgage Arrears (CCMA), which sets out the guidelines on mortgage arrears.
- Specifically, the Labour Party believe the CCMA must be immediately strengthened to provide a specific list of enforceable options that may be suitable for a borrower who is in difficulty.
- As it stands, under the current CCMA, commercial banks have the power to pick and choose which alternative payment options they offer to struggling households in mortgage arrears.

[16] COVID-19 Support Schemes Statistics Update 10 March 2022 (revenue.ie)

- In addition to the obvious power disparities, this creates more stress, more uncertainty and narrows the options for a successful repayment and for people to keep their homes.
- If we are to prevent a wave of repossessions in the coming years, it is clear that our highly profitable banks – many in which the State holds a majority shareholding – must work with, not against their customers.
- In short, the Labour Party believe that CCMA must be immediately strengthened to ensure that banks must consider a specific list of options that may be suitable for a borrower who is in difficulty and we call on the Central Bank to include this as a priority issue within their review.
- Additionally, other tools are also needed to prevent the trend of selloffs of distressed mortgages to credit servicing firms who often purse aggressive strategies to secure homes.
- For example, it is essential that banks engage much more pro-actively with the mortgage to rent scheme.
- The three proposals (below) among others may also be explored as part of the review process:

- **Proposal 1:** Consideration ought to be given to the creation of a new agency, or a new arm of an existing agency to take control of distressed mortgages by purchasing them from the banks and funds while guaranteeing them a modest return over time. If they have already achieved this, the State would not be obliged to pay them any extra other that the principal amount. Subsequently, a number of large credit unions, for example, could administer the loans which would be restructured. Any amount not repaid prior to the borrower reaching retirement age could transform into a percentage equity stake in the property held by the State which will be realised when the owner(s) passes away

- **Proposal 2:** Appointment of an independent arbitrator such as a Personal Insolvency Practitioner (PIP) who would be empowered to review a mortgage in long term arrears. The first step is to examine the potential to write off some of the arrears and arrange for affordable repayments. Thereafter the scheme mirrors Proposal 1.

- **Proposal 3**: This proposal again uses the services of a PIP to review the case, write off the arrears and restructure the mortgage to arrive at a solution that is sustainable for the borrower. In many instances the principal will not be fully repaid by retirement age, and this time the bank or fund takes an agreed long-term equity stake in the property which can only be realised when the owners are deceased.

Conclusion

In conclusion, the Labour Party believes in, and supports the ambition for people to own their own home. This is a positive social and economic aspiration and should be within the reach of working people providing them and their families with security and comfort. The fact that it isn't is damaging for the fabric of society and has created social and demographic divisions that are already having political, economic, and cultural repercussions. We cannot view this issue in mere financial terms. It is a broader social issue and must be viewed as such by the Central Bank and the government through their policies and regulatory framework.