



CP63 Review of the Code of Conduct on Mortgage Arrears

Submission from the Irish League of Credit Unions

Irish League of Credit Unions, April 2013

1. Introduction & Background

1.1 The Irish League of Credit Unions (“the League”) welcomes the opportunity to make a submission on CP63 Review of the Code of Conduct on Mortgage Arrears.

1.2 The League is the principal trade and representative association for credit unions in Ireland. There are 383 credit unions in the Republic of Ireland affiliated to the League, with approximately 2.6 million members.

2. **Submission on main issues under consideration**

1. **Co-operation and engagement**

The definitions and advance warning seem reasonable and should ensure that borrowers are more motivated to co-operate with the lender. Having said that, the consequences of not co-operating are severe and it is important to recognise that non co-operation is not always a deliberate strategy on the part of the borrower. The relationship between a borrower and a lender is not an equal one because the balance of power rests with the lender. In order to rebalance the relationship, we believe that there should be an **independent advisory body** (or honest broker), to act as intermediary between banks and borrowers where non-cooperation is in the process of developing. It may be that some borrowers are afraid to talk to the bank, have buried their heads in the sand or are simply not sufficiently financially literate to be in a position to engage with the bank and would benefit from independent, external assistance. An intermediary could **proactively** contact the borrower to explain, assist, attend meetings with both parties, etc. The borrower would not have to engage with this process, but non-engagement would be a further indicator on non-cooperation.

2. **Contact between the lender and the borrower**

There may be merit in removal the limit of 3 contacts per month in certain circumstances so long as the contacts continue to be proportionate and fair. Also there obviously certainly shouldn't be unlimited contacts if the limit of 3 per month is removed.

3. **Link between the CCMA and the Personal Insolvency Act**

We would welcome any efforts that seek to make the process for insolvent borrowers who have been through MARP to enter a Personal Insolvency Arrangement as smooth as possible. The requirements that the lender must provide information about the insolvency service, link to their website etc. is also to be welcomed.

The suggestion that lenders should be required to give a 30 day notice period, before commencing legal action against a borrower who has declined an arrangement is a reasonable one.

In relation to point 2; 30 days seems an insufficient period of time to consider his or her options in this circumstance.

4. Use of the Standard Financial Statement (SFS)

The proposals in this regard seem reasonable.

5. Reviews of the alternative repayment arrangements

Given that mortgage lenders will now have to restructure many more mortgages than heretofore and that there will also be a wider range of alternative repayment arrangements the introduction of different frequency of reviews seems like a sensible and workable proposal. The requirement that lenders provide information to borrowers to explain when and how the review will be undertaken and the potential impact is to be welcomed.

A related issue is that of interest rate increases. What happens to these arrangements if mortgage rates rise significantly? An increase of 0.25% would typically increase the monthly repayment by around €30 per €100,000 borrowed. A 2% increase on an outstanding mortgage of €300,000 would increase the monthly repayment by €300 approximately. The League therefore believes that any alternative repayment arrangements that have been put in place would need to be reviewed immediately when interest rates rise, particularly if we enter a cycle of frequent interest rate increases.

6. Treatment of appeals and complaints

The proposals in relation to appeals and complaints seem reasonable.

7. Information on other options

The proposal that a lender must outline other options such as voluntary surrender or trading down and to ensure that borrowers have a full understanding of the options before making a decision is also to be welcomed. One would have thought that this would be a minimum requirement rather than having to be proposed / imposed by the Central Bank.

8. Tracker mortgages

We believe that CCMA should continue to prevent a lender from requiring a borrower to change from an existing tracker rate to another rate as part of any alternative arrangement. Even in the case where a lender has offered for example a loan write-down the borrower should be allowed to retain their tracker mortgage particularly as tracker rates are currently significantly lower than variable rates and likely to remain lower in the future. In a nutshell debt write-down and the tracker rate should not be mutually exclusive, to suggest that they should be is at best mean-spirited.

3. Further Information

The League will be happy to provide additional information if required. Contact details for the purposes of this submission are:

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