



Philip R. Lane *Gobharnóir/Governor*

T +353 (0)1 224 6001

Bosca PO 559
Baile Átha Cliath 1
PO Box 559
Dublin 1

www.centralbank.ie

Mr Pearse Doherty TD
Dáil Éireann
Leinster House
Kildare Street
Dublin 2
D02 XR20

2 July 2018

Re: The calculation of mortgage ‘break fees’

Dear Deputy Doherty

Thank you for your email dated 28 May 2018 in which you refer to specific concerns of relevance to the early repayment provisions contained in the European Union (Consumer Mortgage Credit Agreements) Regulations 2016. The Central Bank welcomes all information which will assist it in fulfilling its objectives of regulating financial service providers and ensuring that the best interests of consumers of financial services are protected.

In that regard, I can assure you that the information provided in your email is being actively considered by the relevant supervision team.



As you are aware, the European Union (Consumer Mortgage Credit Agreements) Regulations 2016 (“the Mortgage Credit Regulations”) were signed into law by the Minister for Finance in March 2016, and transpose the Mortgage Credit Directive (MCD). The Mortgage Credit Regulations provide a framework within which lenders in the European Union must operate and applies to relevant credit agreements that came into effect after 21 March 2016. Appendix 1 to this letter contains more information regarding the specific relevant provisions of the regulations.

The Central Bank cannot comment specifically on the compliance by individual financial service providers with their obligations under financial services legislation due to the Central Bank’s confidentiality obligations and the requirement to apply fair procedures. In addition, complaints by individual consumers with respect to the conduct of a financial service provider can be referred to the Financial Services and Pensions Ombudsman for adjudication.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Philip Lane'.



APPENDIX

a) Mortgage Credit Regulations

Part 10 of the Mortgage Credit Regulations provides that a consumer has a right to discharge fully or partially his or her obligations under a credit agreement prior to the expiry of that agreement. In such cases, the consumer shall be entitled to a reduction in the total cost of the credit to the consumer, such reduction consisting of the interest and the costs for the remaining duration of the contract.

A creditor shall be entitled to fair and objective compensation, where justified, for possible costs directly linked to the early repayment, but shall not impose a sanction on the consumer, and any such compensation shall not exceed the financial loss of the creditor. The creditors' entitlement to compensation only arises where the borrowing rate provided for in the credit agreement:

- may not be changed, or
- may not be changed over a period of at least one year, or
- may not, for a period of at least five years, exceed the rate applicable on the date of the credit agreement by more than 2%.

Where a consumer seeks to discharge his or her obligations under a credit agreement prior to the expiry of the agreement, the Regulations require the creditor to provide to the consumer without delay the information necessary to consider that option. That information shall at least quantify the implications for the consumer of discharging his or her obligations prior to the expiry of the credit agreement and clearly set out any assumptions used, which must be reasonable and justifiable.

b) Consumer Protection Code

All regulated entities providing financial services within the State are also required to comply with the Central Bank's Consumer Protection Code 2012 ('the Code'). The Code's General Principles provide that a regulated entity must ensure that in all its dealings with customers and within the context of its authorisation, it makes full disclosure of all relevant material information, including all charges, in a way that seeks to inform the customer. Provision 4.25 of the Code provides that where a regulated entity:

“ a) offers credit on a fixed interest rate to a personal consumer; or



b) offers a personal consumer the option to fix their rate or to switch to a fixed rate, on an existing credit agreement
the regulated entity must provide, in the credit documentation, a worked example specific to the personal consumer of the early redemption charge in monetary terms and details in relation to the calculation of this charge”.