Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

T +353 (0)1 224 6000

Bosca PO 559
Baile Átha Cliath 1

PO Box 559
Dublin 1

www.centralbank.ie

Mr Pearse Doherty TD
Dáil Éireann
Kildare Street
Dublin 2

3 December 2019

Dear Deputy Doherty

I refer to your letter to Governor Makhlouf regarding pricing in the mortgage market, received on 20 November 2019. The Governor has asked me to respond to you on his behalf.

Your letter refers to some of the issues present in the Irish mortgage market, primarily focusing on different interest rates banks are charging for different products.

There are a number of aspects of the mortgage market in Ireland, some of which are not functioning in an optimal way. Current and historical mortgage arrears remain higher than the Eurozone average. This, together with the lower level of competition in the Irish mortgage market compared to most Eurozone countries, contributes to higher mortgage interest rates in Ireland, excluding tracker mortgages. Moreover, the level of switching in Ireland remains low compared to the number of borrowers that could save money by switching product or provider.

However, it is also true to say that the mortgage market has improved somewhat in recent times. The market has become more competitive in terms of price and product offerings. There is evidence of more risk-based pricing, and the level of switching has increased, at least partly helped by the actions the Central Bank has taken.

The Central Bank is committed to maintaining and enhancing a strong consumer protection framework, including for mortgage borrowers, at all stages of the mortgage life cycle. The Consumer Protection Code 2012 (the 'Code') is a central component of that framework, defining how firms must interact with their customers when selling and delivering these products. The Code requires that a regulated entity must ensure that any product or service offered to a consumer is suitable to and affordable for that consumer.

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Transparency and choice are critical elements in how we assess issues in financial markets from a financial conduct and consumer protection perspective. While pricing strategy is a commercial decision for each lender, it is critical that the decisions made by banks are transparent to customers and that customers have the ability to switch products, should they choose to do so.

As I highlighted in my remarks that you refer to, there are also legitimate questions as to whether the banks are serving their customers in a manner that is consistent with their public statements. However, that is not to say that any inconsistency automatically means there is a breach of their legal obligations, including under the Consumer Protection Code.

The Code was strengthened in recent years to provide additional protections for mortgage customers and improve transparency and facilitate switching in the mortgage market. This work included the introduction of increased protections for variable rate mortgage holders in 2017 and enhanced measures regarding transparency and switching in the mortgage market in 2018.

These measures have brought increased transparency to the market and ensure consumers are equipped with the necessary information to make informed choices. Furthermore, existing customers are not precluded from rates offered to new customers. Therefore, the Central Bank does not believe that a review of pricing in the mortgage market, similar to that being undertaken in the insurance market, is required.

The Central Bank is currently undertaking work in order to better understand the choices made by customers in relation to switching, in particular the reasons why borrowers do not choose to switch. This work is being informed by behavioural economics to assess if mortgage customer engagement can be improved. It will inform our considerations for any policy enhancements of the regulatory framework.

Your letter refers to other aspects of the mortgage market, including bank profitability and the protections that are in place for older borrowers. These are important to our broader work on mortgages, but I have not covered in detail above, as the main thrust of your letter related to the differences in pricing for different mortgage products. I am of course happy to discuss these areas in more detail.

Yours sincerely

Ed Sibley
Deputy Governor Prudential Regulation

Appendix:

The Code requires that a regulated entity must ensure that any product or service offered to a consumer is suitable to and affordable for that consumer, having regard to the facts disclosed by the consumer and other relevant facts about that consumer of which the regulated entity is aware. Additionally, in advance of the transaction being entered into, firms must make full disclosure of all relevant material information, including all charges, in a way that seeks to inform the customer.

These measures ensure that borrowers are regularly reminded of the rate they are currently on (in the case of variable rates), of when their rate is due to expire (in the case of fixed rates), and of other rates that are available to them. Lenders must now:

- Tell borrowers about cheaper options 60 days before they come to the end of a fixed rate mortgage;
- Notify borrowers of alternative mortgage options that could provide savings if they hold a variable rate mortgage, both on an annual basis and if the variable rate is due to increase;
- Tell borrowers if they can switch to a cheaper mortgage based on how much equity is in their home;- clearly explain the pros and cons of any mortgage incentives, such as cashback offers;
- On request, give a comparison of current mortgage costs relative to other options offered by the lender;
- Give switchers all the information they need to switch, including how long it will take; and
- Give a decision within ten business days of receiving a completed mortgage application.

Overview of enhanced consumer protection measures for mortgage holders

Increased protections for variable rate mortgage holders

Following a public consultation in 2015, the Central Bank introduced a number of increased protections for variable rate mortgage holders in an addendum to the Consumer Protection Code (July 2016). The measures took effect on 1 February 2017. In summary, these enhanced measures require that:

- Lenders explain to borrowers how their variable interest rates have been set, including in the event of an increase.
- Lenders produce and publish a summary statement of its policy for setting each variable interest rate, which must include the factors that impact on the calculation of their variable rate and their criteria and procedures applicable to the setting of rates. If the lender applies a different approach to setting the variable interest rate for different cohorts of borrowers, e.g., new borrowers, the summary statement must state that and must give the reasons for the different approach.
- The summary statement must be provided to borrowers when they are offered a variable rate mortgage and also made available on the lender's website on an on-going basis.
- Lenders notify affected borrowers of changes to the statement and make available an updated summary statement on their website.
- The measures also improve the level of information required to be provided to a borrower with a variable interest rate mortgage about other products offered by their lender that could provide a saving to the borrower and signpost borrowers to information on switching available from the Competition and Consumer Protection Commission (CCPC). Lenders are required to notify variable rate borrowers of alternative mortgage options provided by that lender that could provide savings for the borrower, both on an annual basis and also when notifying borrowers of an increase in the variable interest rate. This will include details of where the borrower can get more information and a link to the relevant section of the website of the CCPC in order to assist consumers wishing to switch mortgage providers.

Enhanced mortgage measures: transparency and switching

Following a public consultation in 2017, the Central Bank introduced further enhanced protections in an addendum to the Code (June 2018), to help consumers make savings on their mortgage repayments, provide additional protections to consumers who are eligible to switch, and facilitate mortgage switching through enhancing the transparency of the mortgage framework. The new and enhanced requirements took effect from 1 January 2019. The changes made to the Code are as follows:

- For consumers with fixed rate mortgages, lenders are required to inform their consumers at least 60 days in advance that they are about to come off their fixed rate and provide details of the new rate applicable from the expiry date. The lender should provide information on other possible options that may be available to the consumer.
- For consumers on variable rate mortgages (other than on a tracker rate), lenders will be required to notify consumers every year as to whether they can, or cannot, move to a cheaper interest rate as a result of a move in their Loan to Value interest rate band, subject to the provision of an up-to-date valuation and any other requirements that may apply.
- In relation to potential switching savings, the changes would require all lenders to provide, on request, an indicative comparison of the total interest payable on the consumer's existing mortgage and the interest payable on the new mortgage or alternative interest rate on offer by that lender. Where the lender provides this information, they would also be required to provide a link to the relevant section of the CCPC's website to allow consumers to compare potential mortgage switching savings available from other lenders.
- The changes will impose a time-bound mortgage application process on lenders, including requirements to acknowledge receipt of a completed mortgage application within three business days and make a decision within 10 business days following receipt of all required information for assessment of a mortgage application.
- In relation to incentives, the existing provision in the Code will be extended to apply the same protections to all mortgage holders i.e. for new, existing and switching mortgage holders. This is to ensure that consumers have sufficient clarity about the precise nature and scale of the benefit of an incentive to them, including the potential impact of an associated incentive on the cost of their mortgage.
- The standardised pack of switching information from the lender is to at least include the lender's mortgage switching guide, including prescribed information; application forms; and information on timelines, mortgage process and documents required from the consumer.