Mortgage Arrears in Ireland: Introducing the Enhanced Quarterly Statistics

Jean Goggin*

Abstract
This article introduces the recently expanded Residential Mortgage Arrears and Repossessions Statistics published by the Central Bank of Ireland. An overview of developments regarding mortgage arrears since 2009 is provided, and the motivation for expanding the data is outlined. New features of the data, such as the detailed breakdown of longer-term arrears, the performance of restructured accounts, and flows data on restructuring activity, are discussed in detail. The expanded statistics address a number of data gaps and deliver further insights into the trends in arrears formation, and the movement of mortgages through to the more advanced stages of arrears. New data relating to restructured mortgages provide a more detailed analysis of the quantity and nature of restructuring activity taking place on a quarterly basis. They also provide an insight into the level of compliance by borrowers with the terms of their restructure arrangement, or the extent to which they are ‘re-defaulting’.

* The author is an Economist in the Statistics Division of the Central Bank of Ireland. The views expressed in this article are solely the views of the author and are not necessarily those held by the Central Bank of Ireland or the European System of Central Banks. The author would like to thank Lars Frisell and Joe McNell for their helpful comments.
1. Introduction

The extent of mortgage repayment difficulties in Ireland, and the associated implications for households, mortgage lenders and the wider economy, is a major policy concern for the Government and the Central Bank. Given the rapidly evolving nature of the mortgage arrears crisis, the availability of timely and detailed statistics is essential for the effective monitoring of developments and the evaluation of progress towards resolution. Over the past year, the Central Bank has expanded the Residential Mortgage Arrears and Repossessions Statistics to meet the increasing demand for information in this area, and to address a number of gaps in the data. These enhanced quarterly statistics provide a more detailed breakdown of long-term arrears cases, as well as additional information relating to the performance of restructured mortgage accounts. They also provide a more accurate reflection of developments in restructuring activity on a quarterly basis through the collection of flows data.

The purpose of this article is to introduce the new data on mortgage arrears, describe the recent trends in arrears and restructures, and provide an analysis of the current situation and the types of resolution strategies undertaken by lenders to date. Section 2 provides a brief overview of developments in mortgage arrears since the data were first collected in 2009. The motivation for the expansion of the quarterly arrears statistics is discussed in Section 3, while Section 4 describes the new data and how they address the gaps previously identified. Section 5 presents the most recent findings from the data, focussing on the additional information provided by the new metrics and what they tell us about the resolution strategies undertaken to date. Finally, Section 6 concludes.

2. Overview of Developments in Mortgage Arrears since 2009

The Central Bank commenced collecting quarterly mortgage arrears statistics in 2009, with the first data referring to end-September of that year. Information relating to the number of, and outstanding balance on mortgage accounts in arrears was requested from mortgage lenders¹, as well as information relating to repossessions of properties. The data referred to mortgage loans secured on principal dwelling houses (PDH) only. At end-September 2009, the number of PDH mortgage accounts that were in arrears of more than 90 days was almost 26,300, equivalent to 3.3 per cent of the total stock of PDH accounts. In value terms, the outstanding balance on these accounts was €4.8 billion, or 4.1 per cent of the total outstanding balance on all PDH accounts. PDH mortgages in arrears of more than 90 days have almost quadrupled since 2009, amounting to €18.6 billion at end-June 2013. Combined with a steady decline in the total value of outstanding mortgage loans over this period, this accounted for 17 per cent of the total outstanding balance of PDH mortgages at end-June 2013.²

¹ Data are collected from all banks and other lenders providing mortgages in the Republic of Ireland.
² When comparing Irish mortgage arrears statistics over time, it is more meaningful to use outstanding loan values rather than the number of loan accounts. Data referring to the number of accounts have been subject to revisions and reclassifications in multiple reporting periods, due to differences across the various lenders in reporting practices, i.e. at customer level, property level, or sub-account level. Data relating to outstanding balances have not been affected by such issues, and so they produce a more consistent time series.

![Chart 1: PDH Mortgage Arrears](chart.png)

**Source:** Residential Mortgage Arrears and Repossessions Statistics, Central Bank of Ireland.
Also by international standards, the acceleration of mortgage arrears in Ireland has been dramatic, even if one accounts for the severe recession. The absence of consistent data on mortgage arrears makes precise cross-country comparisons difficult. Chart 2, however, illustrates the dramatic increase in mortgage arrears relative to the US and the UK. Although the three series shown are not directly comparable with each other, they provide a useful illustration of the divergent experience in Ireland relative to both countries. At end-September 2009, 4.1 per cent of the total balance on Irish PDH mortgages was accounted for by mortgages in arrears of more than 90 days. At that time, the shares of distressed mortgages in both the UK and the US were similar, at just under 4 per cent of the total. Since then the series for the UK and the US indicate that mortgage repayment difficulties have eased in both countries over this period. At end-March 2013, distressed mortgages accounted for 2.4 per cent and 2.1 per cent of total residential mortgages in the UK and the US, respectively.

3. Motivation for the Expansion of the Quarterly Mortgage Arrears Statistics

As the mortgage arrears crisis in Ireland has escalated, the demand for information has increased significantly. A number of shortcomings relating to the original quarterly statistics on mortgage arrears have been identified over the past three years, and some of these have been addressed through earlier enhancements to the data. For example, at end-2010 the Central Bank commenced collecting information on restructured mortgage accounts. Repossessions of residential properties in Ireland have been low by international standards, and resolution strategies have tended to focus on forbearance arrangements as a means of providing more manageable repayment options for borrowers in difficulty. At end-December 2010, the outstanding value of restructured PDH mortgage accounts was €10.4 billion, equivalent to 8.9 per cent of the total value of PDH mortgages at that time. Interest-only repayment arrangements, along with other reduced-payment options, accounted for almost three quarters of all restructures in value terms. The latest data indicate that at end-June 2013, the value of restructured PDH mortgages had increased to €13.4 billion, or 12.3 per cent of the total outstanding value of all PDH mortgages. The share of interest-only and reduced-payment arrangements fell to 64 per cent, as mortgage lenders have begun to switch their focus to more long-term modification options.

The initial focus concentrated on the ability of borrowers to meet repayments on the property that is their primary residence (PDH). The absence of any data relating to mortgage

---

3 The Irish series reflects the outstanding balance on PDH mortgage accounts in arrears over 90 days as a percentage of the total outstanding balance on all PDH mortgages. The UK series reflects the outstanding balance on all residential mortgages in arrears (of any length) as a percentage of the total outstanding balance on all residential mortgages. The US series reflects the number of residential mortgages in arrears of more than 90 days as a percentage of the total number of residential mortgages. See: http://www.bankofengland.co.uk/pras/Pages/regulatorydata/mortgagelending.aspx and http://www.occ.gov/publications/publications-by-type/other-publications-reports/index-mortgage-metrics.html for more details on the UK and the US data.

4 The Dunne Judgement specified that a lending institution could not apply for an order for repossession where a mortgage was issued before 1 December 2009, but a demand for full payment was not made until after that date.
arrears on residential investment properties, i.e. buy-to-let (BTL), however, was another limitation of the original mortgage arrears statistics. BTL mortgages now account for almost one quarter of the total outstanding value of mortgage loans on the balance sheet of Irish resident credit institutions, having increased their share from 17 per cent of the total at end-March 2003. Growth in mortgage loans was significantly higher in the BTL sector during the boom, particularly in 2006 and 2007. Previous research by the Central Bank indicates that mortgage loans originated in these years account for over half of the outstanding value of accounts in arrears (Lydon and McCarthy, 2011). BTL data were incorporated into the quarterly statistics in June 2012, and the data confirmed a significantly higher incidence of arrears among borrowers in this sector. The most recent data indicate that the value of BTL mortgage accounts in arrears of more than 90 days was €8.7 billion at end-June 2013, equivalent to 28.5 per cent of the total outstanding balance on all BTL mortgages.

The original quarterly statistics provided a relatively detailed account of distressed mortgage loans. However, as the efforts to tackle the mortgage arrears crisis have intensified, so too has the necessity for data that can provide meaningful insights into the types of resolution strategies implemented. The quarterly statistics captured the end-quarter stock of restructured mortgage accounts, broken down by restructure type, and by arrears status. Given the relatively short-term nature of some restructure types, these statistics were not sufficiently detailed to allow for accurate monitoring of the restructuring activity by mortgage providers during a particular quarter. For example, stock figures that remain relatively static from one quarter to the next could mask some high frequency underlying flows into and out of one, or multiple, restructure categories. Furthermore, the data only distinguished between restructured accounts that were in arrears and those not in arrears. If a restructured account has an arrears balance, this does not necessarily imply that the restructure has ‘failed’, i.e. that the terms of the restructure arrangement are not being met, as the arrears balance may have been carried forward into the new arrangement. By focusing solely on the arrears status of the restructured account, the data were incapable of providing an accurate insight into the ability of borrowers to comply with their new repayment schedule under the various restructure types.

4. Closing the Data Gaps

In light of the shortcomings outlined above, the Central Bank introduced a number of new requirements in its reporting template. This followed a period of consultation with both internal and external users of the data, and the new measures introduced were designed to improve the quantity and quality of publicly-available information relating to mortgage arrears, while not compromising the timely nature of the data. The changes were implemented in the end-September 2012 data.

Firstly, the decision was taken to collect and publish more detailed information relating to the length of time in arrears. This allows users...
of the data to distinguish early arrears (less than 90 days), which can be quite volatile and not necessarily an indication of financial distress, from longer-term arrears (over 90 days) that indicate more serious problems. The publication of data relating to mortgages in arrears of less than 90 days helps to bring greater transparency around trends in early arrears and allows for the monitoring of lenders’ progress in slowing the transition of potential problem cases into arrears. In relation to longer-term arrears, the very rapid increase of loans in arrears of more than 90 days suggested that there could be a potentially large cohort of mortgage loans in even deeper arrears. While mortgage lenders were already providing the number, balance and arrears amount relating to mortgages in arrears of more than 180 days, this was expanded to include those in arrears of more than 360 days and 720 days. This further disaggregation of longer-term arrears cases allows for the identification of seriously delinquent cases, and provides an insight into the scale of potential losses on such loans.

The second enhancement to the data related to the collection of information on flows into and out of the stock of restructured accounts during the reference quarter. Data are provided for each individual category of restructure. Flows are captured on a gross basis, where ‘additions’ refer to all accounts in the stock of restructures at the end of the reference quarter that were not in the stock of restructures at the end of the previous quarter. These flows facilitate the monitoring of the quantity and nature of restructuring activity undertaken by mortgage lenders during each quarter.

Finally, it was deemed necessary to introduce an additional measure regarding the performance of restructured loans. Information relating to accounts that are still in arrears but are meeting the terms of their current restructure arrangement is requested for each restructure type. ‘Meeting the terms of the arrangement’ implies that there has been no material increase in the arrears balance since the borrower entered the arrangement, i.e. the borrower is, at a minimum, meeting the agreed monthly repayments according to the restructure arrangement. Modified accounts that are not meeting the terms of their current arrangement have essentially ‘re-defaulted’.

5. Recent Findings from the Expanded Quarterly Data

5.1 Arrears by Duration

The expanded quarterly data have delivered some important insights into the developments in mortgage arrears. The series relating to arrears by duration collected since September

### Table 1: Changes to the Quarterly Mortgage Arrears Data

<table>
<thead>
<tr>
<th>Arrears by duration</th>
<th>Pre-September 2012</th>
<th>Additions post-September 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 90 days</td>
<td></td>
<td>181-360 days</td>
</tr>
<tr>
<td>91-180 days</td>
<td></td>
<td>361-720 days</td>
</tr>
<tr>
<td>Over 180 days</td>
<td></td>
<td>Over 720 days</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Restructured accounts</th>
<th>End-quarter stock of restructured accounts</th>
<th>Flows into and out of the stock of restructured accounts during the reference quarter. Data available for all types of restructures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance of restructured accounts</td>
<td>Not in arrears</td>
<td>Meeting the terms of the arrangement</td>
</tr>
<tr>
<td>In arrears up to 90 days</td>
<td>In arrears over 90 days</td>
<td></td>
</tr>
</tbody>
</table>

Mortgage Arrears in Ireland: Introducing the Enhanced Quarterly Statistics

2009 highlight the divergent trends in short-term versus long-term arrears. As shown in Chart 4A, the outstanding value of PDH mortgage accounts in arrears of up to 90 days peaked at end-December 2011, at approximately €8.4 billion. Early arrears have been declining since then, and the quarter-on-quarter rate of change in the value of accounts in arrears up to 90 days has averaged minus 2.7 per cent in the six quarters since end-2011. This trend in early arrears reflects the active management of pre-arrears cases by mortgage lenders in recent years and indicates that they have been relatively successful in their efforts to arrest the transition of such cases into arrears. It is also influenced by developments in the wider economy including improvements in the labour market. By contrast, the value of PDH accounts in arrears over 90 days has increased significantly since September 2009, as discussed in Section 2 and shown in Chart 1. However, Charts 4A and 4B indicate that the 91-180 days category of arrears has also declined since early 2012, both in terms of the outstanding value of PDH mortgages in this category (Chart 4A) and the share of this cohort in total value of PDH mortgages (Chart 4B). It is the longer-term arrears category, containing mortgages in arrears of more than 180 days, that has experienced the most significant increase since 2009, with the value of mortgages in this cohort increasing from €3.2 billion to €15.6 billion at end-June 2013. The share of PDH mortgages in arrears over 180 days reached 14.3 per cent of the total value of PDH mortgages at end-June 2013. The new data relating to longer-term arrears allow us to explore the dynamics in this category further.

Chart 5 shows the more detailed breakdown of PDH mortgages in arrears over 90 days, for the four quarters for which data are available. While overall this cohort of mortgages has increased in value terms during that period, focusing on this group masks the underlying differences across the sub-categories. The value of mortgages in arrears of between 91 and 360 days has fallen by €0.6 billion between September 2012 and June 2013. In contrast, the value of mortgages in arrears of more than 360 days has increased significantly rising by more than €2.3 billion or 25 per cent over the same period. Arrears in the over 360 day category now constitute over 62 per cent...
Mortgage Arrears in Ireland: Introducing the Enhanced Quarterly Statistics

While the trends in all of the shorter-term arrears categories are encouraging, insofar as they suggest the formation of new arrears cases is declining, the reverse is true for longer-term arrears. There is a significant quantity of distressed mortgages in longer-term arrears showing no signs of improvement and simply transitioning through to the more advanced stages of arrears. Chart 6 shows the quarter-on-quarter percentage rates of change in the value of PDH mortgages in each of the categories of arrears over 90 days. The most recent data show that while all other categories of arrears experienced a decline between Q1 and Q2 of this year, the value of PDH mortgages in arrears of more than 720 days increased by 12.8 per cent over the period. At end Q2 2013, mortgages in arrears of over 720 days constituted one-third of all mortgages in arrears over 90 days. The rapidly growing proportion of loans in this category is a source of serious concern, as these loans are effectively over two years behind on their repayments, and the scale of potential losses on these loans could be quite significant. It also indicates that the various resolution strategies implemented to date have, thus far, had little impact on longer-term arrears.

5.2 Restructured Accounts – Flows Data

The collection of flows data in and out of each restructure category requires a significant level of quality checking and validation, including a process of reconciliation with end-quarter stock figures. As a result, and as these data are still relatively new, the quantity of information that is of publishable quality is still relatively limited. Nonetheless, these data can provide some useful insights into the level of restructuring activity that is taking place on a quarterly basis, and the nature of that activity.

The outstanding stock of restructured accounts has remained reasonably static in recent quarters, leading to suggestions that there may be a slow-down in the quantity of restructures being agreed between mortgage lenders and borrowers. However, the most recent flows data show that during the second quarter...
of 2013 about 23,500 PDH accounts were granted new restructure arrangements, of which 5,000 were already in the stock of restructures at the end of the previous quarter. Chart 7 shows the breakdown of the new restructure arrangements during Q2 2013. Interest-only and reduced-payment (greater than interest only) arrangements accounted for over half of these new arrangements. This is in spite of the decline in the share of interest-only and reduced-payment arrangements in the overall stock of restructured accounts over recent quarters.

Early indications suggest that mortgage lenders are making efforts to move away from the practice of rolling-over short-term forbearance arrangements, and instead offering more long-term, or sustainable modification options to borrowers in distress. It will take some time for this to be reflected more clearly in the stocks and flows data relating to restructured accounts.

5.3 Performance of Restructured Accounts

New data relating to the performance of restructured accounts allows users to distinguish between accounts that are meeting the terms of their current arrangement, and those that have ‘re-defaulted’. In this framework, a borrower has ‘re-defaulted’ if there has been an increase in the arrears balance on the account since the inception of the current restructure arrangement. At end-June 2013, 76.5 per cent of restructured PDH accounts were deemed to be meeting the terms of the arrangement, implying that these borrowers are, at a minimum, meeting the agreed monthly repayments according to the restructure arrangement. Meeting the terms of the arrangement should not be interpreted as a measure of the sustainability of a particular restructure type, as restructures do not necessarily represent long-term sustainable solutions. However, ‘re-defaults’ would imply that the arrangement put in place was not sustainable. Table 2 shows the percentage of restructures that were deemed to be meeting the terms of their arrangement at end-June 2013. Low numbers indicate a higher incidence of ‘re-default’, and these are particularly evident amongst arrears capitalisation cases, as well as cases in which a permanent interest rate reduction has been granted. As the figures in Table 2 only reflect compliance with the terms of the current restructure arrangement, we should expect to see a higher percentage of compliance among the restructure types that are likely to be shorter-term. Nonetheless, the figures imply that of the total stock of accounts in the arrears capitalisation category, 52.6 per cent of PDH accounts and 69.6 per cent of BTL accounts have ‘re-defaulted’, i.e. the arrears balance has increased since the arrangement was put in place. This would suggest that the particular course of action taken is likely to be insufficient, or unsuitable, for a large number of borrowers in this cohort.

6. Conclusion

The expanded Residential Mortgage Arrears and Repossessions Statistics have addressed a number of data gaps and have delivered some crucial insights into the developments in arrears and the level of progress towards resolution achieved to date. The detailed breakdown of arrears by duration allows for a more comprehensive understanding of trends in arrears formation and the movement of accounts. The Central Bank has set public targets for lenders in relation to mortgages in arrears over 90 days. By the first target date of June 2013, lenders were required to have proposed sustainable solutions in place for 20 per cent of mortgages in arrears over 90 days.

7. The Central Bank has set public targets for lenders in relation to mortgages in arrears over 90 days. By the first target date of June 2013, lenders were required to have proposed sustainable solutions in place for 20 per cent of mortgages in arrears over 90 days.
mortgages through to the more advanced stages of arrears. This breakdown provides a clearer picture of the areas in which much progress has been achieved, and those which continue to display signs of deterioration. Flows statistics detailing the quantity and type of restructuring activity undertaken during the reference quarter reflect the ongoing efforts by mortgage lenders to tackle the issue of arrears, while the enhanced data relating to the performance of restructures provide an insight into the level of compliance by borrowers with the terms of their restructure arrangement, or the extent to which they are ‘re-defaulting’.

The most recent trends in the quarterly data indicate that the formation of new arrears is declining. This is evident in the early arrears figures, which have been on a downward trajectory since end-2011. The data on restructures suggest that of the total stock of restructured PDH accounts, 53 per cent are not in arrears. While some of these may previously have had an arrears balance that was either capitalised or cleared through additional repayments, it is likely that a significant cohort of these accounts are ‘pre-arrears’ cases, in which the borrower anticipates future difficulties with meeting repayments. The proactive restructuring of such cases by mortgage lenders, which may be preventing their transition into the early arrears figures, is certainly a welcome development.

The substantial increase in the value of mortgage loans in arrears of more than 720 days suggests that there is a significant cohort of distressed loans that continue to deteriorate. The various resolution strategies implemented thus far have either failed to effectively tackle such problem cases, or they have not been targeted at these particular cases. The latest data on arrears and restructures indicate that of the total stock of PDH mortgages in arrears over 90 days at end-June 2013, 76 per cent were not classified as restructured at that time. The recent implementation of the Mortgage Arrears Resolution Targets (MART) for the main mortgage lenders should go some way towards addressing this. The Central Bank has set out specific performance targets for banks to ensure borrowers in arrears will be put on more sustainable solutions, tailored to their individual situation. Banks are now required to meet specific targets for proposing and concluding sustainable solutions for borrowers in arrears over 90 days. The first targets relating to the proposal of sustainable solutions applied for the quarter-ending June 2013. As such, it is too early to expect any impact of these targets to be reflected in the quarterly statistics.

---

### Table 2: Percentage of Restructures ‘Meeting the Terms of the Arrangement’: end-June 2013

<table>
<thead>
<tr>
<th>%</th>
<th>PDH</th>
<th>BTL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>76.5</td>
<td>77.4</td>
</tr>
<tr>
<td>Interest-Only</td>
<td>88.0</td>
<td>76.0</td>
</tr>
<tr>
<td>Deferred Interest Scheme</td>
<td>43.2</td>
<td>n/a</td>
</tr>
<tr>
<td>Reduced Payment (less than interest only)</td>
<td>71.5</td>
<td>84.8</td>
</tr>
<tr>
<td>Reduced Payment (greater than interest only)</td>
<td>85.1</td>
<td>88.2</td>
</tr>
<tr>
<td>Temporary Interest Rate Reduction</td>
<td>62.3</td>
<td>80.0</td>
</tr>
<tr>
<td>Payment Moratorium</td>
<td>89.8</td>
<td>91.1</td>
</tr>
<tr>
<td>Arrears Capitalisation</td>
<td>47.4</td>
<td>30.4</td>
</tr>
<tr>
<td>Term Extension</td>
<td>79.7</td>
<td>82.7</td>
</tr>
<tr>
<td>Permanent Interest Rate Reduction</td>
<td>32.5</td>
<td>43.9</td>
</tr>
<tr>
<td>Split Mortgage</td>
<td>92.7</td>
<td>n/a</td>
</tr>
</tbody>
</table>


---

8 It should be noted that while the figure for ‘Total’ in Table 2 reflects data provided by all mortgage lenders, the figures for the individual restructure categories exclude a small number of lenders that were incapable of providing the data at this level of disaggregation. However, the data used to construct these figures represent 82 per cent of all restructures.
References

