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Re: Payment Breaks – the Central Bank's expectations

Dear [CEO],

The Central Bank of Ireland (Central Bank) is focused on ensuring that the interests of borrowers affected by COVID-19 are appropriately protected through this unprecedented stress. It is essential that regulated firms take a pro-active and consumer-centric approach to all issues arising from COVID-19 to protect the interests of their borrowers.

The purpose of this letter is to set out the Central Bank's supervisory expectations on how COVID-19 payment breaks, extended under the Irish non-legislative moratoria programme, should operate across participating regulated firms within the State. In particular, the Central Bank has set out its expectations in respect of extending payment breaks from three to six months, and to the management of the end of the payment break term as outlined in the appendices to this letter:

- Appendix I details our overarching supervisory expectations, as communicated to the Banking & Payment Federation Ireland (BPFI) on 26 May.
- Appendix II sets out what the Central Bank expects, at a minimum, must be included in communications with borrowers related to COVID-19 payment breaks.[1]

[1] These expectations are provided following a review of payment break-related communications and call scripts for Private Dwelling House (PDH) mortgage borrowers. The Central Bank expects that firms will consider these expectations in their communications on all COVID-19 payment breaks.

It is imperative that all regulated firms communicate with borrowers in a fully transparent and clear manner, ensuring that all relevant information is provided at appropriate junctures.

Our ongoing supervisory engagement with your firm will aim to assess the extent to which it has satisfied the Central Bank's expectations in respect of COVID-19 payment breaks, as articulated in the appendices to this letter.

Where banks, which are party to the Irish non-legislative moratoria programme, wish to separately avail of the prudential flexibility on risk classification provided for in the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (the EBA Guidelines), all conditions contained within the guidelines must be fully satisfied. Based on the clarifications provided to date through the BPFI regarding general measures, the Central Bank has identified a risk that the proposed application of certain payment breaks may not be in compliance with the EBA Guidelines in relation to non-retail exposure classes (larger SME/Corporate/Commercial borrowers) and this will be an area of supervisory focus.[2]

Next Steps

The application of payment breaks and the treatment of borrowers in financial distress will continue to receive significant supervisory attention. There will be increased engagement to understand and assess the levels of compliance with the expectations and effectiveness of your firm's operating models and capabilities.

In order to inform this engagement, please provide the following information **no later than four weeks from the date of this letter** (if not stated otherwise):

1. Confirmation of your firm's adherence to the expectations set out in in the appendices of this letter. This should include confirmation that a review has been/will be completed of borrower communications, policies and procedures to establish the level of adherence to all expectations. Where gaps are identified, please provide the firm's plan including timelines to address those gaps. This confirmation should be furnished **no later than two weeks from the date of this letter**.

[2] The Central Bank's concern is borne from a list of general measures, outlined by the BPFI on behalf of its relevant members, which lack a necessary level of consistency required to demonstrate a general approach. In addition, there is a concern that such general measures go beyond amendments of repayment schedules (i.e. it includes covenant waivers, term extensions, originating new lending etc.).

2. Board-approved strategic plan to deliver an assessment of all borrowers on payment breaks to ensure that appropriate and sustainable solutions are identified in a timely manner for those borrowers who are not able to return to paying full capital and interest at the expiry of the payment break. An assessment of the key challenges and risks associated with the execution of the strategy should be fully outlined and should detail key milestones to end 2021.
3. Board-approved operational plan to support strategy delivery. The operational plan should detail, at a granular-level, the proactive steps currently underway and planned in the near-term, including the approach and objectives regarding the effective governance, management and approach to those borrowers unable to return to performing status following the payment break, for each portfolio. Operational plans must include, at a minimum, details of:
    - Customer contact plans, including timing;
    - Proposed restructuring decision trees and approach to the rollover of payment breaks;
    - A risk-based approach to borrower assessments and timing of borrower unlikely to pay assessments prior to the end of payment breaks;
    - The customer pathways post-payment breaks;
    - Operational resourcing to support delivery of the plan, including details on sourcing mix (e.g. internal redeployment of existing staff, new hires, outsourced);
    - A detailed projection of the full financial impact arising from payment breaks, both with respect to profitability and capital adequacy. The underlying assumptions to such projections are required to be clearly outlined.
4. The assumptions underpinning the strategic and operational plans should be clearly outlined and include clear, measurable milestones for agreement with the relevant supervision team.

Please acknowledge receipt of this letter by return email to the relevant supervision team, together with a commitment to meeting the requests outlined above within the specified timeframes.

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Yours sincerely,

Ed Sibley,

Deputy Governor, Prudential Regulation

Derville Rowland,

Director General, Financial Conduct

<u>Appendix I</u>

The Central Bank's expectations regarding payment breaks

The Central Bank expects that:

1. Regulated firms act in a way that protects the best interests of borrowers and in line with the relevant codes and regulatory requirements.
2. Regulated firms give appropriate support to borrowers whose incomes and affordability have been affected by COVID-19.
3. Payment breaks should be a generally available option to affected borrowers, including those borrowers' already in financial distress, forbearance and/or in an Alternative Repayment Arrangement (ARA). Those borrowers in arrears but not in a performing restructure should be considered on a case-by-case basis, and be granted a payment break if that is an appropriate short-term support for their circumstances. Regulated firms should ensure approaches are consistent with existing arrears strategies and operations. It is expected that all borrowers are allowed to make partial repayments where they wish to, while availing of a payment break.
4. There is a substantial level of consistency in the application of temporary supports across firms and borrower types, however regulated firms can go beyond the expectations set out.
5. Regulated firms are operationally ready and prepared to engage with borrowers during, or at expiry of, the six-month payment break in order to identify whether or not the borrower requires further support, and if so, to consider appropriate and sustainable solutions, as soon as possible. To support this, an assessment of the borrower's circumstances is required as per the relevant regulatory framework (e.g. CCMA, etc.). Where a modification is required, it is to be reported as forborne and appropriately reported to the Central Credit Register. Such an assessment shall not inform the granting of the payment break in the first instance.
6. Regulated firms are fully transparent and clear to borrowers as to what will happen after the term of the payment break, including setting out the available options to repay the loan and the full costs of the payment break. Such options should include, but are not limited to, extending the term of the loan, by the period of the payment break, as well as increasing the monthly repayments to retain the original tenor of the loan. Regulated firms should also make clear to borrowers, how their case will be treated if they continue to experience financial difficulties after the term of the payment break.
7. Regulated firms have board approved plans to deliver an assessment of all borrowers on payment breaks to ensure that appropriate and sustainable solutions are identified in a timely manner for those borrowers who are not able to return to paying full capital and

interest at the end of the payment break. Engagement with the borrower now and throughout the term of the payment break should have this outcome in mind.

8. The prioritisation of borrower engagement, assessment and determination of an appropriate and sustainable solution should be determined by the risk profile of the borrower i.e. those at higher risk of not being able to return to paying full capital and interest should be prioritised to ensure that they can avail of appropriately tailored treatments at the earliest possible stage (i.e. potentially before the end of the payment break term).
9. The level of distress in the regulated firms' loan books should be prudently considered and be reflected in provisioning levels, notwithstanding that provisions may not yet be taken at an individual borrower level and noting that this expectation is confined to existing regulatory frameworks.
10. Sufficiently granular and timely reporting of the take-up of payment breaks across borrower type and sector should be readily available and used to inform key decision-making processes in regulated firms.

Appendix II

The following expectations are provided following a review of payment break-related communications and call scripts for Private Dwelling House (PDH) mortgage borrowers. The Central Bank expects that firms will consider these expectations as part of communications on all COVID-19 payment breaks. Letters to borrowers should be clear and transparent, and only contain information that is relevant to COVID-19 payment breaks. The Central Bank expects that at a minimum, the following information is provided to borrowers at appropriate junctures:

a. Start and end dates for the payment break.
b. That repayments are zero for the duration of the payment break, or include clear monetary amount of the repayment agreed between the borrower and firm, as relevant.
c. Where a borrower wishes to make partial repayments while availing of a payment break, this option must be clear in regulated firms' communications with borrowers, in addition to providing full information on the impact of a partial repayment option.
d. The impact on borrowers who are in receipt of Tax Relief at Source.
e. Advise borrowers to consider that the payment break may impact life assurance, mortgage protection or payment protection cover, as relevant.
f. The borrower's account will not go into arrears due to availing of the payment break.
g. The impact of the payment break on legal proceedings, as relevant.
h. Whether and/or how the payment break will affect the borrower's credit record.[3]
i. How interest is treated during and after the payment break.
j. Individualised repayment amounts and cost of credit after the payment break term, along with an explanation as to why these amounts have increased. This is to provide the borrower with individualised amounts to facilitate borrower decisions on whether to extend the term of the loan[4], or to retain the original tenor of the loan. While these are not the only options that are to be available to the borrower, at a minimum, individualised repayment amounts and cost of credit should be included for both these options. Where an option has been chosen by the borrower only that cost of credit should be provided.
k. When the firm will contact the borrower prior to expiry of the payment break to discuss next steps. Next steps should be briefly outlined and should be relevant to the letter content. For example, whether the letter relates to an extension of the payment break from

[3] When a lender agrees a payment break with a borrower, the lender should not report this to the Central Credit Register as being payments being "missed" or "past due" or the loan as being "restructured", during the period of the payment break. Lenders should provide clear and transparent information in relation to any other relevant reporting to private credit bureaux.

[4] To note that the offer of such a term extension may not be considered forbearance if the effect of the term extension is to restore the customer to a similar level of monthly repayment prior to entering the payment break arrangement; therefore not constituting a concession or an event of forbearance.

three to six months, or whether the letter relates to expiry at three or six months, the borrower should be made aware that if financial difficulties continue a financial assessment will be required to assess individual circumstances.

l. Whether and how the payment break will impact on the original terms and conditions.

m. Only warnings required by the regulatory framework and appropriate to the payment break letter should be included.

n. Where variations to terms and conditions are referenced, these must be clearly disclosed in plain English for borrowers to easily understand which terms and conditions are amended and the impact of those changes. Firms should provide a cooling off period to customers availing of payment breaks, to afford them the opportunity to consider the cost of availing of a payment break.