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29 January 2021

Mr. Roger Harrington,

Principal,

CALF-HAA-MTR Section,

Department of Housing, Heritage and Local Government.

Re: Mortgage-to-Rent Scheme

Dear Roger,

Thank you for your letter dated 12 January 2021 in relation to Mortgage-to-Rent (MTR) Scheme for borrowers from private lending institutions encountering serious mortgage difficulties. The Central Bank welcomes the opportunity to submit its views on the above scheme. The MTR scheme is an important component of a system-wide approach to the resolution of mortgage arrears in Ireland, with the desirable feature of allowing households experiencing serious financial difficulty to remain in their home, and we welcome the opportunity to participate in your review. In our response, we will discuss the current outstanding long-term mortgage arrears (LTMA) situation in Ireland, along with some analysis of the cohort of loans remaining in LTMA and the Bank's view of the scheme.

The current long-term mortgage arrears situation

The number of households in long-term mortgage arrears remains a key concern of the Central Bank. While progress had been made in the years preceding the pandemic in reducing the overall level of mortgage arrears remaining since the last crisis, the numbers in arrears of more than two years (the group we refer here to as LTMA) have remained stubbornly high. Of the 26,228 accounts in LTMA at June 2020, over 16,000 were in arrears of more than five years, of which 4,701 were in arrears of more than ten years, with such cases dating back to the last financial crisis.[1] These extremely long-dated arrears cases highlight the difficult nature of the challenge we continue to face. In terms of the lenders involved, which will be of relevance for your review, it is noteworthy that while non-bank entities[2] held 13 per cent of all mortgages, they held 57 per cent (or almost 15,000 accounts) of all PDH mortgages in LTMA in June 2020.

Borrower-Lender Engagement

The Central Bank is of the view that MTR forms part of a wide suite of solutions that will be required to resolve a variety of cases remaining in LTMA. There is no “one size fits all” solution available, with the appropriate solution likely to depend on the depth of arrears, repayment capacity, age of borrower, housing equity and other factors. Statistical data on mortgage arrears from the Central Bank show that the deeper in arrears a borrower is, the less likely it is that a borrower is co-operating with their lender. However, there are currently 11,551 PDH mortgage accounts that are in LTMA and co-operating with their lender, and not yet restructured. Of these, just over 7,000 accounts are over 5 years in arrears. These data highlight the large potential pool of borrowers for whom some solution must be arrived at, and for whom the system has not delivered thus far. In looking to expand take-up of schemes such as MTR, this group of borrowers appears particularly worthy of consideration.

In addition to this, there is a significant cohort of borrowers that are categorised by their lender as not-cooperating, and around 12,000 are in the LTMA group. Clearly, solutions such as MTR cannot be arrived at without the meaningful engagement of lender and borrower. It is a continued focus of the Central Bank to encourage lenders to engage with their borrowers in arrears, to work towards appropriate and sustainable solutions, one of which may be MTR. Given the range of potential partners in the MTR scheme and wider stakeholders that work towards the resolution of mortgage arrears, the Central Bank welcomes all endeavours to increase clarity of supports available for those in LTMA, to encourage engagement, and to communicate effectively with each cohort of borrowers and the advocacy groups working on their behalf.

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[1] Data relating to the June 2020 situation are reported in https://www.centralbank.ie/statistics/statistical-publications/behind-the-data/understanding-long-term-mortgage-arrears-in-ireland

[2] Retail credit firms and credit servicing firms are referred to as ‘non-banks’.

Repayment capacity

Another important factor in the consideration of LTMA is repayment capacity. Loan-level data, covering the five retail banks only, indicate significant variation in the proportion of accounts making a payment depending on the length of time in arrears. Two-thirds of those in arrears of over two years made some payment towards their mortgage in the six-months of loan data analysed to end-2019, although internal estimates suggest the proportion of borrowers making full contracted payments, or even payments equivalent to their interest owed, is lower than this.[3]

Our data tell us that there is a wide range of financial health among the loans remaining in LTMA; in some cases, restructures already available to lenders (such as arrears capitalizations, term extensions and split mortgages) may be sufficient to arrive at the full repayment of capital and interest. It is a priority for the Central Bank that regulated entities explore all such possible avenues available to them to restructure LTMA loans while continuing to service them, before options such as MTR are used. However, in an unfortunately large number of cases, our data tell us that repayment capacity is so challenged that solutions such as MTR, which involve the social safety net to support borrowers' housing costs, will be required. In this latter group, our data tell us that expenditure is already at or below the "reasonable living" amounts recommended by the Insolvency Service of Ireland, while loan-to-income ratios and debt service burdens are far beyond levels we would deem appropriate or sustainable. The resolution of LTMA for this group of borrowers is unlikely to be achievable through restructure arrangements typically used when retaining loans on-balance-sheet by lenders and will require a system-wide effort, involving all key stakeholders. The Central Bank is currently undertaking further research in this area, and is willing to engage with the Department when the research has been completed and concrete numbers can be shared.

Borrowers' age

The age profile of borrowers remaining in long-term arrears is relevant when considering future policy options. Referring to loans at the retail banks, our data tell us that the vast majority of long-term arrears cases are between the ages of forty and sixty. However, one-fifth are over sixty years of age, with one-tenth already beyond 65. In this relatively sizable cohort of older LTMA borrowers, for whom the likelihood of future income growth is low, the MTR scheme may be particularly worthy of consideration for targeting. In such cases, the costs of not arriving at a solution such as

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[3] Data behind this figure was published in https://www.centralbank.ie/statistics/statistical-publications/behind-the-data/understanding-long-term-mortgage-arrears-in-ireland.

MTR must also be considered: in cases where the alternative is loss of ownership, costs may arise for the exchequer in terms of the provision of social housing, given the likelihood of a continued weak income position for these households.

The Central Bank's perspective on the MTR Scheme

While it is to be welcomed that MTR has so far achieved results for so many families, there is no doubt that changes to the system may result in even more families benefiting from the scheme. As one of a wide suite of solutions available to lenders, the MTR has acted to help the reduction of non-performing loans and arrears levels across the financial system, with a range of important financial stability and prudential benefits.

The Central Bank also recognises, however, that changes to the scheme can result in a significant cost to the exchequer, and that the commitments made by the State when signing up to a MTR agreement are substantial and long-lasting. Given the importance of prudent use of public funds, any scale-up in the use of the MTR scheme as an arrears resolution tool should be weighed up against a range of other solutions that can keep borrowers in their homes, some of which require state subsidy, some of which do not.

It is worth considering as part of your review the issue of participation, as it appears from our engagement with stakeholders that take up of the scheme has been mixed across the lender types. At a meeting the Central Bank hosted in October 2020 with both banks and non-banks, the MTR scheme was discussed. The feedback we received at this meeting from the lenders indicated that the scheme has benefits and many lenders were engaged with the scheme, but the administrative burden of the scheme was significant. In addition, given the number of cases that have terminated or are judged ineligible, there is a cost for all involved to bring a case some way through the process before it is terminated.

Feedback received at a recent roundtable hosted by the Central Bank in January 2021 with organisations involved in supporting households and business borrowers, from a borrower's perspective, as they move through the entire Mortgage Arrears Resolution Process, to potential MTR or personal insolvency arrangement, the administrative burden on a borrower is significant, and that a system-wide, or "once and done", approach to the information required for arrears resolution should be implemented. This may also help to increase the level of engagement across the system. The Central Bank would welcome the opportunity to reflect with key stakeholders such as the Department, in order to assess whether there are ways to alleviate the administrative burden on both borrowers and lenders of the MTR scheme. Similar stakeholder engagement in the form of a group recently established by the Central Bank to review the Standard Financial Statement (SFS), has worked successfully to develop a proposal for a more streamlined version of the form.

Borrower Eligibility

One way in which participation in schemes such as MTR can be improved is through the relaxation of eligibility criteria. While it is beyond our remit to issue concrete recommendations on the calibration of these criteria in the case of this scheme, our data can provide some useful background information for making such decisions. Our internal estimates suggests that based on the current income, LTV and property price criteria, an estimated one quarter of LTMA cases would be eligible for MTR.[4] Given that other solutions have so far not been arrived at, and loan repayment is unlikely, there may be merit in exploring the ways in which eligibility could be loosened to allow borrowers outside this estimated one-quarter of LTMA cases to avail of the MTR scheme. Looking at the criteria individually, our internal estimates suggest that the LTV criterion may currently be limiting more potential cases from eligibility than either the income or property value criteria.

Given the improvement in house prices since the previous financial crisis, the number of borrowers now in positive equity has increased substantially relative to the period when the scheme was introduced. It is also worth recalling the uncertainty around precisely where an individual loan stands relative to positive equity thresholds, given that property values can only be estimated when borrowers are engaging with the MTR scheme. Further, while a borrower may be in positive equity when applying for the scheme, a downward swing in national property markets may change that situation in the future. Worth further consideration is the fact that, for borrowers with small amounts of positive equity, housing options may be limited in cases where such loans are cleared through arrangements such as voluntary sale.

The Central Bank notes that solutions such as MTR are only achievable in cases of constructive lender-borrower engagement. Given that "non-cooperation" is flagged in close to half of very long-term arrears cases, we reiterate our expectation for lenders, and call on borrowers and all relevant stakeholders, to do everything in their power to encourage engagement with the solutions available. Ireland is an outlier globally in the number of mortgages in LTMA, and unless appropriate

[4] This estimate is from an internal Central Bank analysis of borrowers in LTMA filling out SFS at retail banks only, and is therefore used as an indicative guide rather than a formal statistic representing the population of LTMA cases. It does not capture income information for those not engaging with the MARP.

and sustainable solutions are implemented, loss of ownership remains an unfortunate potential outcome for many borrowers.

We encourage your department and your colleagues across government to approach the issue of long-term arrears resolution from as holistic a standpoint as possible. The MTR scheme has a major advantage in that it keeps financially distressed households in their homes while clearing the arrears issue for the lender. However given the substantial costs involved, MTR should be considered as one of a number of potential options for arrears resolution that share this desirable feature. Additional innovative solutions outside of MTR are potentially available, which may involve state support to keep borrowers in their home. Some solutions may require transferring loans off lender balance sheets, others are achievable without any transfer of loan ownership. Given the length of time that this crisis has continued, we encourage the consideration of all possible solutions. We remain at your disposition to continuously engage in order to constructively move forward towards an appropriate resolution to the arrears problems facing those remaining in long-term arrears.

Yours sincerely,

Aisling Menton

Aisling Menton,

Head of Function,

Consumer Protection.