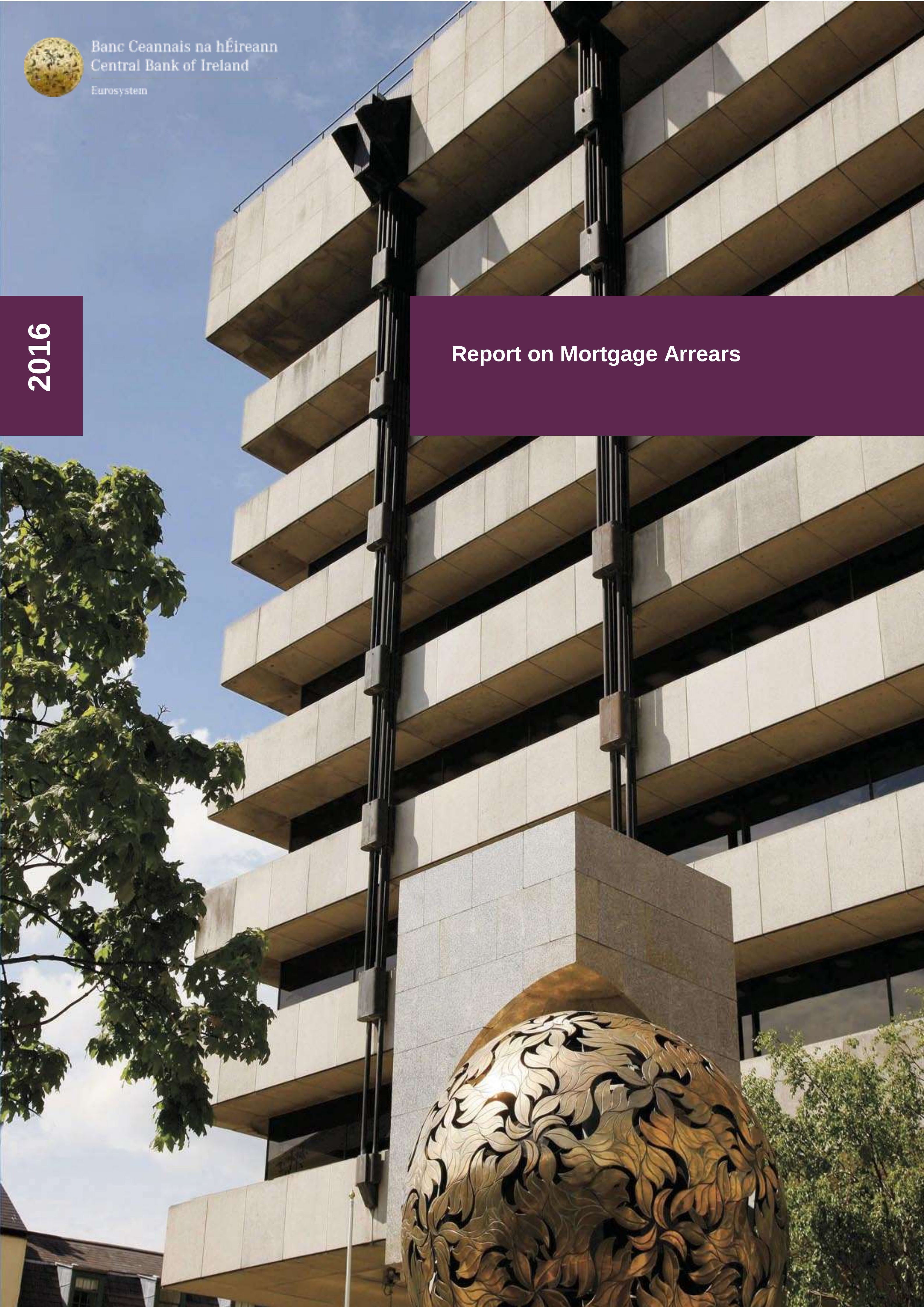
Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

2016

Report on Mortgage Arrears



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Abbreviations

AHB	Approved Housing Body
AIB	Allied Irish Banks
ARA	Alternative Repayment Arrangement
ASU	Arrears Support Unit
BoI	Bank of Ireland
BSA	Balance Sheet Assessment
BTL	Buy-to-Let
CCMA	Code of Conduct on Mortgage Arrears
CPC	Consumer Protection Code
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSR	Credit Servicing Regulation
DCOR	Distressed Credit Operations Review
DCS	Distressed Credit Strategy
DPD	Days Past Due
EBS	Educational Building Society
ECB	European Central Bank
EEA	European Economic Area
FMP	Financial Measures Programme
MARP	Mortgage Arrears Resolution Process
MARS	Mortgage Arrears Resolution Strategies
MART	Mortgage Arrears Resolution Targets
MCC	Minimum Competency Code
MTR	Mortgage to Rent
NCA	National Competent Authority
NPL	Non-Performing Loan
PDH	Primary Dwelling Home
PIA	Personal Insolvency Arrangement
PTSB	Permanent TSB
RCF	Retail Credit Firm
SFS	Standard Financial Statement
SSM	Single Supervisory Mechanism

Response to Request[1]

In June 2016, the Minister for Finance requested the Governor of the Central Bank to provide him with a report detailing the mortgage restructuring activity within banks and non-banks, the range of solutions offered by non-banks, assessing the range of solutions that may affect borrowers' capacity to remain in their primary residences, and whether these are addressing the requirements of over-indebted borrowers. Specifically, the Minister requested the following:

1. "The early assessment of the Central Bank as to the range of available sustainable restructure solutions offered by banks and non-bank entities to facilitate those in mortgage distress in the resolution of their mortgage arrears. There is little publically available information on the solutions offered by non-bank entities in particular and any additional information available on their activities in this area would be most welcome.
2. The assessment should also consider how the options available may impact on the distressed borrower's capacity to remain in the primary residence.
3. The assessment should take account of the success of financial institutions in addressing the requirements of their over indebted borrowers and the extent to which the institutions have exhausted all available options before moving into the legal process".

The Central Bank recognises the interdependencies between the mortgage arrears problem and broader economic and social policy issues related to the supply of private and social housing, the efficacy and usage of the personal insolvency framework and the capacity of the legal system in dealing with repossession proceedings.

In line with our mission of safeguarding stability and protecting consumers, the Central Bank's work on mortgage arrears spans its consumer protection, prudential supervision, and financial stability roles. Within the remit of the Central Bank's responsibilities, the approach to mortgage arrears resolution is focused on ensuring the fair treatment of borrowers through a strong consumer protection framework while ensuring banks are sufficiently capitalised, hold appropriately conservative provisions, and have appropriate arrears resolution strategies and operations.

A high level response to the three issues requested by the Minister is set out below with more detail contained in the executive summary and throughout the report.

[1] The information in this report is classified as "Restricted" according to the Central Bank's information classification policy.

1. There is a broad range of available restructures offered and delivered by both bank and non-bank entities, depending on the individual circumstances of the borrower. However, the restructure mix differs between banks and non-banks. Banks are typically implementing a broad range of solutions including arrears capitalisations, split mortgages, term extensions. Non-banks include both regulated retail credit firms and unregulated loan owners, which have acquired mortgage portfolios (see Box 1). Non-banks are more reliant on arrears capitalisations, which account for more than half of the restructures used to clear arrears. The differences in restructuring strategies between banks and non-banks correlate with the differences in the types of troubled loans held by the different types of institutions but may also reflect the variation in business models across the different types of institutions.

   Since the June 2013 peak, considerable progress has been made in addressing mortgage arrears, primarily through the use of restructures, rather than loss of ownership. Primary Dwelling Home (PDH) mortgage arrears have declined by 43 per cent since the end of June 2013. Over 120,000 PDH residential mortgages have been restructured in Ireland, 88 per cent of these loans are meeting the terms of the restructuring agreement. Notwithstanding the considerable progress, further work is required and momentum needs to be maintained.

2. Broadly speaking, the use of a range of restructuring options for distressed borrowers increases the potential for distressed borrowers to remain in the primary residence. The very sizeable level of restructures that have taken place since 2010 demonstrate a willingness to restructure distressed mortgage debt where there is meaningful engagement between lender and borrower.

   Furthermore, the Code of Conduct on Mortgage Arrears (**CCMA**) provides a strong consumer protection framework to ensure that borrowers in financial difficulty are treated in a timely, transparent, and fair manner by regulated entities. Banks, retail credit firms and credit servicing firms servicing loans on behalf of unregulated loan owners are all required to comply with the CCMA. Borrowers who engage can expect that their specific circumstance will be considered, enhancing their chances of remaining in their homes.

   The CCMA includes requirements that arrangements be sustainable and based on a full assessment of the individual circumstances of the borrower and that repossession be used only as a last resort. Borrowers who engage, therefore, benefit from the protections afforded under the Mortgage Arrears Resolution Process (**MARP**). Analysis conducted by the Central Bank shows that meaningful engagement between banks and borrowers is key to the successful restructuring of distressed mortgages.

The MARP process is a four-step process that regulated entities must follow and must consider the most suitable arrangement from the suite of options they offer. Each regulated entity must consider the borrower's situation in the context of the range of solutions it offers, which may differ from firm to firm. The CCMA does not prescribe the solution which must be offered and this remains a commercial decision for the lender (outside of a Court process such as insolvency). In addition, the Central Bank has published guidance for supervisors on what constitutes sustainable mortgage arrears solutions.[2] At the end of the MARP, regulated entities are required to provide a three-month notice period to allow co-operating borrowers time to consider their options, such as voluntary surrender or an arrangement under the Personal Insolvency Act, before legal action can commence.

Regarding potential court proceedings, under the CCMA, a regulated entity may only commence legal proceedings for repossession of a PDH where it has made every reasonable effort to agree an alternative repayment arrangement (**ARA**) with the borrower and other clear requirements are met. This framework requires lenders (and credit servicing firms in the case of loans held by unregulated loan owners) to exhaust the options available from the suite of alternative repayment arrangements offered before taking action which may result in the borrower losing their home (whether by voluntary sale or repossession).

3. In some circumstances, however, loss of ownership may be unavoidable. Approximately 66 per cent of the PDHs repossessed to date are attributable to the property being voluntarily surrendered or abandoned, with the remainder due to court orders. The retail banks report, that of the legal cases in progress, 70 per cent of proceedings were initiated due to the borrower being deemed non-cooperating, and 87 per cent are in arrears over 720 days with an average arrears balance of over €53,000.[3]

During the legal process, borrowers have opportunities to re-engage with lenders to find a solution and Central Bank aggregate data show that, on average, 19 per cent of legal cases that have concluded are due to terms and conditions being renegotiated. While repossession

[2] https://www.centralbank.ie/regulation/industry-sectors/credit-institutions/Documents/Internal%20Guideline%20-%20Sustainable%20Mortgage%20Arrears%20Solutions.pdf
[3] This information is only available for the retail banks.

proceedings should only be initiated following the MARP, the ability to undertake secured lending is ultimately dependent on the institution’s right to realise the security if needed and to price accordingly. This is a cornerstone of secured lending and, by extension, an effectively functioning mortgage market.

Overall, there is strong evidence that banks and non-banks are looking to exhaust available options before moving into the legal process.

Executive Summary

- The Central Bank has taken a range of actions to achieve these outcomes as outlined in ***Section 2*** and Annex 1 of this report. These include:
    a. the development and oversight of the implementation of the CCMA and various codes;
    b. an array of prudential measures including the imposition of targets to ensure banks are investing in operations and facilitating engagement with borrowers to devise sustainable restructures for mortgage arrears cases; and
    c. detailed reviews of the restructuring process, adequacy of provisions and loan classification, and overall governance and controls.
- At present, the MARP provides a clear and effective framework for PDH borrowers in arrears to engage with institutions. There is a clear process in place for the protection of borrowers that places specific obligations on all regulated entities. This requires mortgage lenders and credit servicing firms regulated by the Central Bank to have appropriate resolution strategies and operations in place aimed at examining the suitability of all alternative repayment arrangements offered by the lender (or unregulated loan owner in the case of a credit servicing firm), before taking action that might lead to the borrower losing their home. In line with this framework, where feasible, sustainable restructures are being found for borrowers who engage with their lenders (or credit servicing firm).
- Where loans have been transferred or sold to unregulated entities, the Central Bank has worked with the Department of Finance to develop legislation to ensure that affected borrowers retain the same level of consumer protection as they had prior to the sale. On foot of this legislation, the Central Bank has designed and published a specific set of standards and requirements for a new category of regulated firm (a credit servicing firm). The Central Bank is currently assessing applicant credit servicing firms against these standards and requirements before making an authorisation decision.[4] Firms awaiting authorisation decisions are subject to all applicable consumer protection requirements, including the CCMA.
- The Central Bank considers the range of restructures offered by banks to be broadly appropriate in balancing consumer protection imperatives, and maintaining a mortgage

[4] As the legislation is relatively recent, credit servicing firms are still in the process of being authorised, and they are considerably smaller than the banks, the available information, data and the intensity of supervisory engagement between the Central Bank and these firms is not currently as extensive as for the banks.

market for all borrowers, and a functioning banking system. As noted above, there has been very significant progress in reducing the level of mortgage arrears, primarily through the use of these restructures. The Central Bank does have some concerns that there is a risk of slowing momentum in arrears resolution by the banks. Consequently, it remains a supervisory priority to continue to drive down mortgage arrears across the system. Where there are bank-specific issues, these are being addressed through consumer protection or through relevant SSM supervisory activities.

- The Central Bank continues to engage with credit servicing firms, including through the authorisation process. Once the authorisation process has been completed, engagement will continue to ensure that consumer protection requirements are met by these firms.
- At the height of the systemic banking crisis, there was an implicit recognition of the potential adverse dynamics between mortgage arrears, repossessions, and the residential property market. Since that time, as the financial system and the economy have recovered, appropriate actions by the Central Bank, as well as legislative reforms, have provided the foundations for continued arrears reduction. This objective also requires a range of supports provided through the social welfare system and civic society, including advice for homeowners in financial difficulty and advice on insolvency.[5]

Recent Trends

- An effective CCMA process, enhancement of banks' strategies and operational capability for addressing mortgage arrears, and improved economic developments, have meant mortgage arrears continue to decline. Details on trends by banks and non-banks are contained in ***Sections 3 and 4*** of this report.
- PDH mortgage accounts in arrears over 90 days past due have decreased in 11 consecutive quarters, representing a 42 per cent reduction (equivalent to approximately 41,000 accounts) since the peak in late 2013. Progress is well established and clearly moving in the right direction.
- Coinciding with the introduction of the Mortgage Arrears Resolution Targets (**MART)** in 2013, there has been a noticeable change in the mix of restructures agreed, with a shift away from interest-only type arrangements to more sustainable solutions. This is consistent with the MART's objectives to move away from the repeated use of short-term forbearance.

[5] Key reference sites are the "Keeping Your Home" site, which is provided by the Money Advice and Budgeting Services (MABS) and the Citizens Information Board (CIB); and the Insolvency Service of Ireland site. The new Abhaile Mortgage Arrears Resolution Service will provide at no charge a range of supports for insolvent households at risk of losing their homes.

Over 120,000 PDH accounts are classified as restructured, with 88 per cent classified as meeting the terms of the arrangement, the highest level since the start of recording this data.

- Banks account for 95 per cent of the PDH mortgage market. Approximately 6 per cent, or just under 44,000 accounts are greater than 90 days past due. Within the bank category, 3.7 per cent or approximately 26,000 of the accounts are over 720 days past due.
- For banks, progress on early-stage arrears is adequate but the pace needs to be maintained. For example, approximately 20 per cent of accounts more than 90 days past due are not restructured, do not have a proposed restructure and are not in the legal process. The Central Bank/Single Supervisory Mechanism (SSM) will maintain its intrusive stance to accomplish this. Progress is slower for long-term arrears due to a significant proportion of the long-term arrears cases moving through various stages of the legal process.
- Although the share of non-bank entities in the overall PDH mortgage market is just 5 per cent, their share of greater than 720 days past due cohort is considerably higher at 26 per cent.
- Within non-banks, the regulated Retail Credit Firms (**RCFs**) account for 26,878 mortgage accounts or 3.6 per cent of PDH mortgages outstanding. Arrears levels for RCFs are significantly higher than for banks with 31 per cent of accounts in arrears over 90 days and 19 per cent in arrears over 720 days. The highest level of arrears, however, applies to loans held by unregulated loan owners, which account for 1.4 per cent of the mortgage market. Within this category, 51 per cent of accounts are in arrears over 90 days, with 38 per cent in arrears over 720 days.
- The range of solutions offered by banks and non-banks is broadly similar. Banks and non-banks potentially offer a range of sustainable solutions including split mortgages, term extensions, arrears capitalisations, and reduced payment options.
- However, the prevalence of solutions differs across banks and non-banks. In relation to banks, restructures are primarily composed of arrears capitalisations (29 per cent), split mortgages (23 per cent), and term extensions (14 per cent). For non-banks, 53 per cent of restructures are arrears capitalisation, with reduced payment options accounting for a further 14 per cent. However, within the two categories of non-banks, there are also differences in the restructure solutions agreed. The main solution offered by RCFs is arrears capitalisation, which accounts for 59 per cent of all restructure arrangements. For unregulated loan owners, arrears capitalisation and reduced repayment options both account for around one third of solutions agreed.

- In terms of the restructured accounts held by banks, 88.8 per cent are meeting the terms of the new arrangement. Approximately 74.1 per cent of restructured accounts held by non-banks are meeting their new terms. The figures for RCFs and unregulated loan owners are 72.9 per cent and 77.9 per cent respectively.
- An important reason for the disparity between banks and non-banks is that the non-banks either originally offered higher-risk mortgages or in many cases purchased non-performing portfolios from banks exiting the market. These differences in the underlying characteristics of the loans correlate with differences in the extent of arrears and the types of restructuring solutions offered, while variation in business models across the different types of lending institution may also be a factor in determining resolution strategies.
- The Central Bank plans to examine further the progress that non-bank lenders are making, particularly with those in longer-term arrears, to ensure the lenders are prioritising the implementation of appropriate solutions.

Risks / Issues

- There are a number of risks and related issues associated with mortgage arrears. These are described in ***Section 5*** of this report.
- The high numbers of restructured mortgages meeting terms are evidence of the willingness and ability of both borrowers and lending institutions to enter into arrangements that address mortgage arrears. However, these also represent a sizeable cohort of borrowers that will remain vulnerable in the long term to economic shocks and interest rate rises. Furthermore, they will in many circumstances have extended their repayment obligations for longer, with a resultant impact on the total cost of credit.
- Relative to many other European jurisdictions, including those with lower levels of non-performing loans, the legal process through which lenders effect security is substantially longer in Ireland.
- The Central Bank also notes the low utilisation of personal insolvency for borrowers, and encourages exploring additional ways to increase usage of this option where it is appropriate for the specific circumstances of individual borrowers.

- The time taken to go through the court process for residential property repossessions will mean that there will continue to be a cohort of borrowers that remain in arrears, with limited restructuring activity taking place.
- While there is clear momentum behind the reduction in PDH mortgage arrears, the overall level of arrears remains high, and reduction to a more normalised level will take time. As a consequence, there will continue to be economic and social effects, as well as risks from both consumer protection and prudential supervision perspectives. The sustainable resolution of mortgage arrears will therefore remain a Central Bank priority for the foreseeable future.
- Regarding the significant vulnerabilities that remain from a prudential perspective, these include a significant proportion of arrears cases that are more than two years past due. Longer-term issues include the durability of restructures in a low interest rate environment that will eventually normalise; the ability of borrowers to sustain payments in long-duration restructures (e.g., into retirement); the transparency of the provisioning policies of banks; and market perceptions of the risk profiles of Irish banks.
- The Consumer Protection (Regulation of Credit Servicing Firms) Act 2015 has brought the activity of 'Credit Servicing' (as defined in that Act) within the regulatory remit of the Central Bank. This means that, where a loan is held by a bank or RCF, it is the loan owner which is regulated by the Central Bank. In the case of a loan held by an unregulated loan owner, the 'credit servicing' carried out by the credit servicing firm appointed by the loan owner is similarly regulated. While the credit servicing firms are subject to Central Bank authorisation requirements, including fitness and probity requirements, and the supervision and enforcement powers of the Central Bank, the unregulated loan owners are outside the scope of these requirements and powers.

Box 1 - Institutions Holding PDH Mortgages in Ireland

Banks

Banks are regulated financial institutions that receive deposits (and other repayable funds) and grant credit. Banks holding Irish PDH mortgages are either credit institutions authorised under Irish legislation to carry on banking business in the State or are authorised in other Member States of the European Economic Area (**EEA**) to carry on business in the State without receiving further authorisation from the Central Bank.[6]

Banks are required to comply with an array of prudential and consumer protection requirements including for example the Capital Requirements Directive IV (**CRD IV**), the Capital Requirements Regulation (**CRR**) and the CCMA. Depending on the type of institution, prudential supervision is either conducted directly by the Central Bank or for the larger institutions operating in Ireland, via joint teams led by the European Central Bank (**ECB**) and consisting of supervisors from both ECB and Central Bank as part of the Single Supervisory Mechanism (**SSM**).[7]

Retail Credit Firms

Retail credit firms are non-deposit taking firms and, while regulated by the Central Bank, these are not subject to the prudential requirements applied to banks. However, RCFs are subject to the same consumer protection standards and requirements as banks. These include the CCMA and other consumer credit legislation. Some RCFs are no longer providing new mortgages and are working down their loan books. Others have acquired loan books from banks.

Unregulated Loan Owners

The third category of mortgage owners includes entities which are not regulated lenders (unregulated loan owners) which acquired PDH mortgages from banks, building societies and Irish Bank Resolution Corporation (**IBRC**). These loan owners are largely based outside of Ireland. By virtue of the Consumer Protection (Regulation of Credit Servicing Firms) Act 2015, an unregulated loan owner must appoint a regulated lender or a 'credit servicing firm' authorised by the Central Bank to service the loan.

Table 1 – Summary of Institutions Holding PDH Mortgage Loans – Q2 2016

	Banks	Non-Bank Entities	
		Retail Credit Firms	Unregulated Loan Owners
PDH Mortgage Accounts / Market Share	703,771 / 95%	26,878 / 3.6%	10,185 / 1.4%
Description	Comprised of the active retail banks as well as authorised credit institutions no longer active in the Irish market.	Comprised of RCFs which provide mortgages, RCFs which previously provided mortgages and which are still authorised to provide credit as RCFs, a former bank that has surrendered its banking licence and which is now authorised as an RCF and firms which acquired mortgages from	Includes loan owners which have purchased loans originated by banks and retail credit firms. Loan owners are not regulated by the Central Bank.

[6] Pursuant to the terms of the EU Directive, 2013/36/EU relating to the taking up and pursuit of the business of credit institutions.

[7] See Annex 1 for further information on the SSM.

		banks.	
Central Bank consumer protection requirements such as Consumer Protection Code (CPC) and CCMA	Yes	Yes	Applicable to the firm appointed by the loan owner to service the loan. This servicing firm may be a regulated lender (i.e. bank or RCF) or a 'credit servicing firm' authorised by the Central Bank.
Link	For further details on the relevant institutions see http://registers.centralbank.ie/DownloadsPage.aspx		

1. Introduction

In keeping with its mission of "Safeguarding Stability, Protecting Consumers", the Central Bank has prioritised the resolution of the high volume of mortgage arrears that developed in the wake of the crisis. Non-performing loans (including mortgage arrears) are a significant cause for concern for supervisory authorities due to the implications these can have for financial institutions and the wider economy. These include reduced financial buffers for banks, increased risk profile of banks, constrained lending to the real economy, the impact on borrowers and related consumer protection issues.

The Central Bank's work has involved an extensive and intrusive regulatory approach both in terms of the requirements imposed on the firms regulated by the Central Bank and ensuring compliance with those requirements. Throughout this work, the Central Bank has adopted a holistic approach that is based on its various statutory objectives, founded on the following key principles:

A. A consistent framework of protections for the consumer regardless of the regulated entity with which they are dealing (be that a bank, retail credit firm or credit servicing firm), with additional protections for borrowers in arrears on mortgages secured on their principal residence in the State.

B. Ensuring banks are sufficiently capitalised and hold appropriately conservative provisions, to enable institutions to resolve non-performing loans.

C. Clear obligations on all the firms regulated by the Central Bank, regardless of their category of regulation, to have appropriate resolution strategies and operations. This includes the requirements that arrangements be sustainable and based on a full assessment of the individual circumstances of the borrower and that repossession be used only as a last resort.

This report covers banks and non-banks, the latter are sub-divided between regulated entities (retail credit firms) and unregulated loan owners. A brief description of each type of institution and summary information is provided in Box 1 and Table 1 (above).

The remainder of this report is organised as follows: Section 2 discusses the Central Bank's regulatory framework and outlines some of the key actions taken in recent years in relation to the resolution of mortgage arrears; Section 3 provides an overview of PDH mortgage arrears trends, relevant restructuring and loss of ownership activity; Section 4 focuses on the activities of retail credit firms and unregulated loan owners; while Section 5 outlines some risks and issues regarding mortgage arrears.

2. Overview of Regulatory Framework and Actions for the Resolution of Mortgage Arrears

The Central Bank's work is aligned with its consumer protection, prudential, and financial stability mandates. A summary of key consumer and prudential actions is contained in Table 2 below and Annex 1. The Central Bank has worked cohesively throughout this period, and applied the lessons learned from its own experience and advice from partners in the programme of external support.

The initial focus was to put in place a consumer protection framework in 2009. The CCMA provided specific protections for borrowers in arrears where the mortgage was secured on their primary residence in the State. The original CCMA also specifically restricted regulated entities from commencing legal proceedings for repossession until at least 6 months from the date when arrears first arose (extended to 12 months in 2010), except in cases where the borrower was not co-operating.

This was followed by the Financial Measures Programme aimed at ensuring that Irish banks were adequately capitalised in the wake of the financial crisis and appropriately provisioned. The actions from this programme concluding in Q1 2011 resulted in a total recapitalisation requirement of €24 billion for the going-concern banks (AIB, EBS, BoI, PTSB).

Table 2 - Summary of Actions Taken

Date	Description
2009	CCMA
2010-11	Financial Measures Programme
2011-2012	Distressed Credit Operations Review (**DCOR**), Mortgage Arrears Resolutions Strategies (**MARS**) Developing and applying best practice to establish operational processes, and improvements in early arrears interventions
2013	MART / Publication of Internal Guidelines on Sustainable Mortgage Arrears Solutions (**Sustainability Guidelines**) Revised CCMA including strengthening the protections in place for borrowers Balance Sheet Assessment (**BSA**)
2013-2014	MART Audits, CCMA themed inspections, Comprehensive Assessment
2015-2016	Onsite credit inspections, provisioning reviews, SSM High Level Group (HLG) on NPLs

A range of increasingly-intrusive measures was implemented by the Central Bank between 2011 and 2013 in order to require regulated lenders to place a strategic focus on the resolution of mortgage arrears and mobilise adequate resources in support of those strategies. These measures included requiring regulated lenders to prepare and submit board-approved Mortgage Arrears Resolutions Strategies (**MARS**) to ensure the fair treatment of borrowers, supported by detailed implementation plans to deal with their arrears cases and the completion of a review of the CCMA which introduced the MARP process. The Central Bank challenged regulated lenders on their MARS plans and required them to remediate shortcomings identified during their MARS assessments.

In 2012, recognising that the banks' operations for dealing with customers in arrears needed to be improved significantly, the Central Bank engaged Blackrock Advisory Solutions to undertake an independent Distressed Credit Operations Review (**DCOR**) of the operational capacity of banks to deal with the level and nature of arrears on their books.[8]

The Central Bank undertook this work on foot of concerns that regulated lenders' strategies and operational capabilities to support mortgage arrears resolution were not appropriate. Strategies tended to be aspirational and featured a range of shortcomings, including an insufficient set of workout solutions to resolve arrears cases sustainably and an over-reliance on short term forbearance strategies. There was also a "one size fits all" approach that was both ineffective and inconsistent with the requirement of the CCMA that lenders seek to resolve arrears cases and consider each arrears case based on its individual circumstances.

2.1 Ensuring the Framework is Appropriate

While significant progress had been made through these Central Bank interventions, the aggregate level of mortgage arrears continued to increase. By early 2013, the Central Bank remained dissatisfied with the quality of response by regulated lenders. This resulted in the imposition of the MART framework and a revised (more prescriptive) CCMA. Through MART, the Central Bank imposed quarterly quantitative targets on the six main mortgage lenders (accounting for approximately 90 per cent of the Irish mortgage market) with respect to their Republic of Ireland principal dwelling home/primary residence (PDH) and buy-to-let (BTL) mortgage portfolios. The targets centred on resolving accounts in arrears greater than 90 days and comprised the following components:

[8] DCOR also examined banks' operational capacity to resolve SME distressed loans. Further information on DCOR can be found in Annex 1.

- Proposing sustainable solutions to borrowers;
- Concluding those sustainable solutions;
- Subsequent performance rates on the concluded solutions.

The Central Bank also published its Internal Guidelines on Sustainable Mortgage Arrears Solutions (**Sustainability Guidelines**) which are used by supervisors to assess restructuring solutions. The Central Bank also introduced enhanced supervisory reporting requirements to monitor and challenge progress by banks in implementing sustainable solutions. On-site credit inspections by the Central Bank examined samples of these sustainable solutions during the MART programme.

The 2013 review of the CCMA clarified when a borrower can be considered 'not co-operating' and the serious impact of being so classified. Lenders are now required to have a board-approved communications policy, provide borrowers with the Standard Financial Statement (**SFS**) template and offer assistance to borrowers to complete it.

Crucially, the restriction on lenders commencing legal proceedings was refined. At the end of the MARP process, lenders are required to provide the borrower with alternative options in the event that an ARA could not be agreed or was not appropriate. These options must be outlined in written communication to the borrower and may include voluntary surrender or an arrangement under the Personal Insolvency Act before legal action can commence (Box 2). Legal proceedings can only commence after three months from the issuance of written communication or eight months from the date the arrears arose, whichever date is later. Following the reforms of the CCMA, the Central Bank undertook an extensive programme of supervisory work to confirm whether regulated entities were demonstrating compliance with the measures introduced for the resolution of mortgage arrears (Table 3).

Box 2 - MARP: A Fair and Consistent Process for Consumers

The MARP applies to banks, retail credit firms and credit servicing firms and sets out the steps which regulated entities must adhere to when dealing with borrowers in arrears or pre-arrears, as follows:

Step 1: Communicate with borrower;
Step 2: Gather financial information;
Step 3: Assess the borrower's circumstances; and
Step 4: Propose a resolution.

All cases must be handled sympathetically and positively by regulated entities, with the objective at all times of assisting the borrower to meet his/her mortgage obligations. A regulated entity must examine each case on its individual merits and it must base its assessment on the full circumstances of the borrower, including:

- personal circumstances;
- overall indebtedness;
- the information provided in the standard financial statement;
- current repayment capacity; and
- previous repayment history.

The CCMA also has specific provisions covering:

- **Alternative Repayment Arrangements offered:** The CCMA obliges firms to explore all of the options for alternative repayment arrangements (ARA) offered by that regulated entity under step 4 of the MARP (rather than requiring lenders to offer and apply a particular set of options). This is consistent with the CCMA requirements that a lender must examine each case on its individual merits and base its assessment on the full circumstances of the particular borrower.
- **Commencement of Legal Proceedings:** A regulated entity may only commence legal proceedings for repossession where the firm has made every reasonable effort under the CCMA to agree an alternative repayment arrangement with the borrower or his/her nominated representative, and the specific timeframes set out in the CCMA have been adhered to or the borrower has been classified as not co-operating.
- **Right of Appeal:** A regulated entity must have an appeals process to enable a borrower to appeal in relation to a decision of the lender to offer an ARA (and the borrower is not willing to enter into the ARA), decline to offer an ARA, as well as an appeal of decision by the lender to classify a borrower as not co-operating.
- **Appeals Board:** Regulated entities must establish an Appeals Board to consider and determine any such appeals submitted by borrowers.
- **Complaints:** If a borrower is unhappy with the service they have received, they are entitled to make a complaint by writing directly to the regulated entity concerned. If they remain dissatisfied with the outcome of that complaint, they can bring the issue to the Financial Services Ombudsman.

A Central Bank report published in May 2016 provided an overview of participants' experience of the operation of the CCMA and showed that:

- Of those borrowers included in the study who completed the MARP with the reporting institutions, the percentage who were offered an ARA has ranged between 89 per cent in H1-2014 and 87 per cent in H2-2015.
- From H1-2014 to H2-2015, between 91 per cent and 94 per cent of ARAs offered by the lenders were accepted by the borrower.[9]
- The proportion of appeals made by borrowers included in the study against an offer of an ARA, or a lender's decision not to offer an ARA, which were upheld or partially upheld in favour of the borrower ranged between 33 per cent in H1-2014 and 23per cent in H2-2015.[10]
- The proportion of appeals against being classified as not co-operating that was upheld/partially upheld in favour of the borrower ranged between 31 per cent in H1-2014 and 39 per cent in H2-2015.

Table 3 - Central Bank Monitoring of Regulated Entities Compliance with CCMA Requirements	
2013 and 2014: MART Audits	The Central Bank committed to periodically auditing banks' performance against the MART targets, assessing whether the proposed and concluded solutions were sustainable solutions (taking account of the Sustainability Guidelines and other key

[9] This excludes those cases where the borrower had yet to decide on the offer of an ARA within the reporting period.
[10] This excludes those appeals that were yet to be considered and adjudicated on within the reporting period.

	documents). The audits also involved challenging banks on their progress, as well as remediation of the findings. These audits have been both intensive and intrusive. Banks reported that they satisfied all the target requirements to end-2014. While the majority of borrowers engaged and achieved sustainable restructure arrangements, about one third of concluded PDH solutions reported were linked to potential "loss of ownership" outcomes (including voluntary sale / surrender / repossession). Over this period (2013 to 2014) there was a sizeable increase in legal action being taken by the banks, particularly where borrowers were deemed to be not cooperating. However, it is worth noting that in the years preceding the introduction of the targets, repossessions were effectively prohibited due to the Dunne lacuna, and legislation to address the gap was passed by the Government in mid-2013. See Section 3.4 for more information.
2013: Revised CCMA Implementation themed review	Upon issuing the revised CCMA in 2013, the Central Bank required all mortgage lenders to submit monthly reports to the Central Bank detailing their progress towards implementation. On-site assessments of implementation were carried out in several mortgage lenders. The boards of directors of all lenders were required to sign-off that all of the provisions of the revised CCMA had been fully implemented and tested and that staff training had been completed. The Central Bank also required the Internal Audit Functions of mortgage lenders to include compliance with the revised CCMA in their 2014 audit plans.
May 2015: CCMA Themed Inspection	The Central Bank's most recent CCMA themed inspection, focused on: ➢ Resolution of Arrears in a Timely Manner; ➢ Transparency; ➢ Fair Process; and ➢ Process Improvement and Controls. The inspection found that, overall, lenders have implemented frameworks as required by the CCMA and a number of good lender practices were identified that went beyond the minimum regulatory requirements to assist distressed borrowers. It was also evident that lenders engaged with borrowers and attempted to resolve arrears, even when borrowers had been classified as not co-operating by the lender and when legal proceedings had commenced. However, the Central Bank identified weaknesses of varying degrees in some lenders' policies, procedures, systems and controls which it followed up with the lenders concerned.

Reflecting the importance of correct prudential classification and provisioning of arrears, the Central Bank also conducted an intensive Balance Sheet Assessment (**BSA**) in 2013. The outcome was that banks amended their classification of certain loans and increased the level of provisions held against these loans. Prior to transitioning to the SSM, the Central Bank completed the ECB Comprehensive Assessment in 2014 which included an Asset Quality Review (**AQR)** and a stress test. More recently, a further impairment provisioning review was undertaken in 2015. The prudential focus on mortgage arrears has continued to be a priority within the SSM, through the work of the Non-Performing Loans (**NPLs**) High Level Group and dedicated on-site credit and related inspections. Chaired by Deputy Governor Sharon Donnery, the Group's mandate is to deliver a consistent approach to the supervision of banks with high levels of NPLs.[11]

[11] https://www.bankingsupervision.europa.eu/press/pr/date/2016/html/sr160912.en.html

2.2 Development of Legislative Framework

During the same period (2011 to 2013), the Central Bank also contributed to the enhancement of the wider legislative framework applicable in this area. This included the development of the personal insolvency legislation and the introduction in 2015 of the Consumer Protection (Regulation of Credit Servicing Firms) Act (the 'Credit Servicing Act'). The Credit Servicing Act was introduced in order to address an emerging concern that, where loans were sold by regulated lenders to unregulated third parties, those third parties were not required to be a regulated financial service provider. Therefore borrowers would lose certain consumer protections, including the protections of the CCMA and the right to bring a complaint to the Financial Services Ombudsman. The Credit Servicing Act takes the approach of placing specified "credit servicing" activities in respect of a relevant loan under the regulation of the Central Bank.

Where these credit servicing activities are carried out in Ireland by a third party acting on behalf of the loan owner, the loan owner is not required to be a regulated financial service provider in Ireland. In addition, the unregulated owner of the credit retains control over certain key decisions including "the determination of the overall strategy for the management and administration of a portfolio of credit agreements". The Central Bank has no oversight of the strategies adopted by unregulated loan owners.

It is too early to determine what the impact of regulating the credit servicing firm as opposed to the unregulated loan owners will be in terms of treatment of, and outcomes for, consumers.

2.3 Development of the Credit Servicing Regime

Following enactment of the Credit Servicing Act, the Central Bank has focused on developing a robust regime for this new category of regulated firm. The objective is to ensure that borrowers whose loans are transferred from a regulated lender have the same level of consumer protections they had prior to the sale under the various statutory codes issued by the Central Bank (including under the CCMA and the Consumer Protection Code (**CPC**) 2012).

To increase transparency, one measure introduced by the Central Bank was the development and publication of a register of credit servicing firms. This enables consumers to verify whether the firm servicing their loan is regulated by the Central Bank. The Central Bank has developed detailed Authorisation Requirements and Standards for credit servicing firms which set appropriately high requirements on applicant firms. These include requirements on how these firms deal with their loan owner in order to ensure that borrowers receive the full protections of Irish financial services legislation, including Central Bank codes.

The Central Bank is currently putting applicant firms through a rigorous application process to ensure that only firms that demonstrate compliance with these authorisation standards are authorised.[12] Applicant firms have informed us that while the decision on the overall suite of ARAs offered to borrowers is taken by the unregulated loan owner in the main, the credit servicing firm primarily decides which ARA from this suite to offer the individual borrower, having followed the MARP and based on the specifics of each individual case. The credit servicing firm's responsibilities and the level of discretion that they have over the loan portfolios are set out in the credit servicing agreement with the unregulated loan owner.

The Central Bank will continue to engage with credit servicing firms on this matter as part of our assessment of their application for authorisation. This will include understanding the manner by which the credit servicing firm, through its commercial arrangements with loan owners, seeks to ensure that it is meeting its responsibilities as a regulated entity under the CCMA.

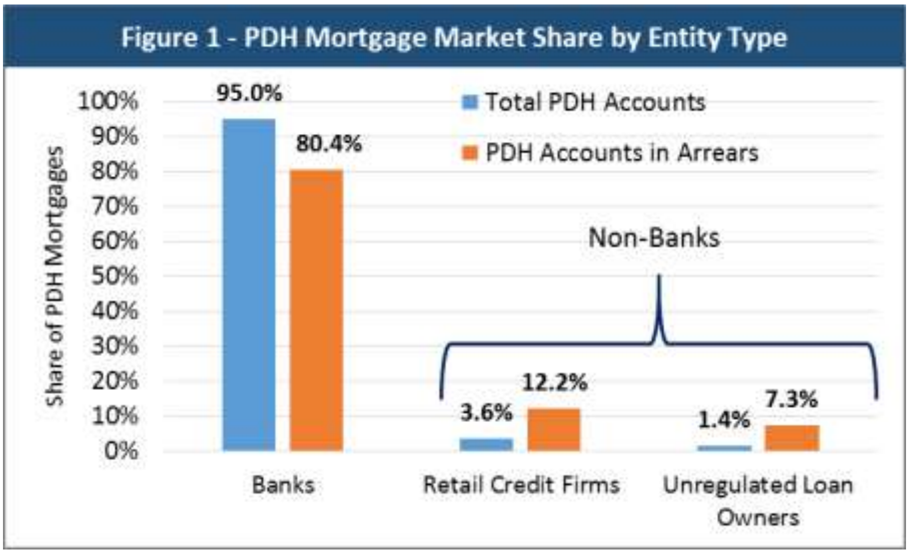
These responsibilities include acting at all times with the objective of assisting the borrower to meet his/her obligations, as well as the extent and manner by which unregulated loan owners are aware of and meeting their obligations under the Credit Servicing Act. Unregulated loan owners themselves have a duty because, under the Credit Servicing Act, they are only exempt provided they do not act in a manner that would be a prescribed contravention (e.g. of CCMA) were they a regulated financial service provider.

For credit servicing firms, the Central Bank's approach will be the same as for the existing categories of regulated lenders. This includes the full application of consumer protections in the context of credit servicing firms' regulated activities, underpinned by an expectation of high standards and a professional and consumer-focused approach to compliance consistent with the Bank's Consumer Protection Framework. In this regard it should be noted that, under the Credit Servicing Act, credit servicing firms cannot implement an instruction from the loan owner inconsistent with the requirements of Irish financial services legislation as it applies to regulated lenders.

[12] A detailed overview of the work completed in establishing the credit servicing regime is included at Annex 2.

3 Mortgage Arrears Trends: Context and Recent Developments

This section discusses the overall market, which consists mainly of bank mortgages. There are currently over 740,000 Principal Dwelling House (PDH) mortgage accounts in Ireland (equivalent to over €100 billion in loan balances) held by a range of different institutions including banks, retail credit firms and unregulated loan owners. The stock of outstanding PDH mortgage accounts is overwhelmingly attributed to loans held by banks, which account for 95 per cent of all PDH accounts in Ireland as shown in Figure 1. These institutions also account for just over 80 per cent of PDH accounts in arrears. Within non-banks, retail credit firms account for 3.6 per cent of all outstanding PDH accounts and 12.2 per cent of PDH accounts in arrears. The remaining 1.4 per cent of accounts are held by unregulated loan owners, which also account for 7.3 per cent of PDH accounts in arrears.



Source – Mortgage Arrears and Repossession Statistics including banks and non-bank entities, end-June 2016.

3.1 Mortgage Arrears: Market Overview

At the time of the first publication of these data in September 2009, there were over 63,000 PDH mortgage accounts in arrears. This represented 8 per cent of the total stock of outstanding PDH accounts in Ireland. The level of PDH arrears increased significantly from 2009 onwards and by June 2013, the number of PDH accounts in arrears had more than doubled to approximately 143,000, equivalent to 18.5 per cent of the total outstanding stock.[13] There was not meaningful progress dealing with the flow of accounts into arrears over 90 Days Past Due (**DPD**). Of further concern, was that once arrears went over 90 DPD, they continued to worsen. This led to the late-stage share of total arrears increasing between 2009 and 2013. PDH mortgage arrears trends are shown in Figure 2.

[13] It is important to note that there is not a one-to-one relation between the number of accounts and the number of households. The mortgage arrears data published by the Central Bank relate to accounts, which exceeds the number of households for a number of reasons including that some households may have two or more loans secured on the same property (e.g. the original mortgage used to finance the purchase of the property and a subsequent top up / equity release mortgage used for home improvement or renovation purposes).

Figure 2 - PDH Mortgage Accounts in Arrears

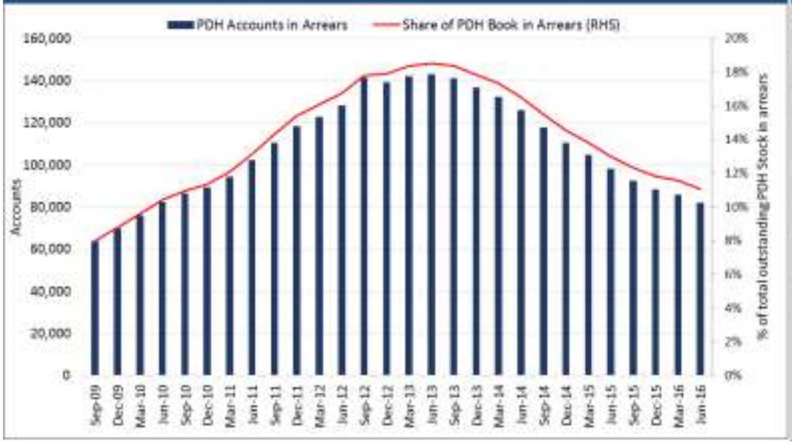


Figure 3 - PDH Mortgage Arrears Composition

Source – Mortgage Arrears and Repossession Statistics including banks and non-bank entities.

There were several factors leading to the deterioration in mortgage arrears levels. These have been the subject of much research, including by the Central Bank, and were linked to the deterioration in the economy at the time. The weaknesses in the banks' distressed credit operations did not address increasing arrears. More specifically, banks did not address the movement of borrowers from early to late stage arrears and an over-reliance on short term forbearance. The continued deterioration of accounts in late arrears, the lack of sustainable solutions, and absence of clear plans to deal with this crisis were some of the key considerations behind the imposition of the MART in March 2013. The banks subject to MART were specifically set targets in respect of mortgage loans that were over 90 days in arrears (see Annex 1 for further information on the MART).

To provide greater transparency on the level of mortgage arrears in the domestic financial system, the Central Bank commenced publishing additional information on accounts in arrears over 360 DPD and over 720 DPD in late 2012.[14] A summary of how the composition of PDH mortgage arrears has evolved is provided in Figure 3. Despite the overall reduction in the number of PDH accounts in arrears (which have declined in twelve consecutive quarters up to end Q2 2016), there has been an increasing share of accounts in very long term arrears (those over 720 DPD). In September 2012, loans in very long term arrears constituted 15 per cent of total arrears (or 20,622 accounts); by June 2013 this had increased to 20 per cent (or 28,860 accounts) and as of Q2 2016 the figure stood at 43 per cent (or 34,980 accounts).

PDH mortgage accounts in arrears over 90 DPD (late arrears) peaked in Q3 2013 at under 99,000, representing 12.9 per cent of the total stock of outstanding PDH accounts. Accounts in late arrears improved considerably over the next two and a half years, declining for eleven consecutive quarters. Based on Q2 2016 data, there are now over 41,000 accounts less in arrears over 90 days,

[14] Details on the evolution of the Central Bank's quarterly mortgage arrears statistics are provided in the Annex.

representing a 42 per cent reduction from the peak. Despite these improvements, over 57,000 PDH accounts are still in late arrears, equivalent to 7.8 per cent of the total PDH stock. However, progress is well established (especially within banks) and continued improvements are expected.

Progress is also being made in dealing with the number of accounts in arrears over 720 days past due, which have declined in the last four consecutive quarters. However, this cohort will take time to resolve given the scale, levels of distress and the high share of accounts that are linked to court repossession proceedings.

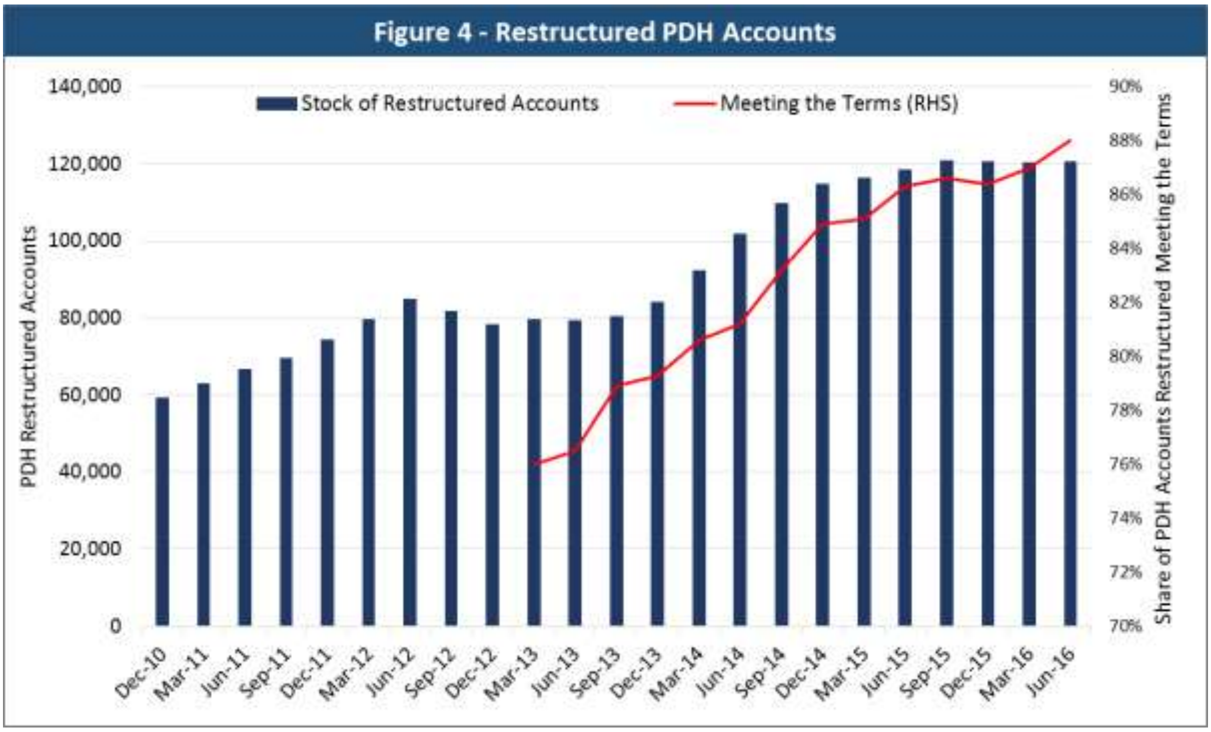
The aggregate statistics demonstrate that appropriate restructuring solutions are being found where borrowers meaningfully engage with their institution. Further insights into restructuring trends are provided in Section 3.2. However, loss of ownership of the property has also occurred through either voluntarily surrender/sale or court enforcement, and further information on these activities is provided in Section 3.3.

3.2 Restructuring

One of the key objectives in a sustainable restructuring arrangement is to enable a borrower to meet the original or amended terms of the mortgage over the remaining term, given the borrower's unique set of circumstances. While the range of restructuring options may differ across institutions, there are a number of important considerations based on the CCMA and prudential requirements to ensure appropriate solutions. These include:

- requiring institutions to have adequate policies, procedures, systems and controls to support the entire process;
- conducting appropriate and conservative affordability assessments based on verified income and expenditure information on a case by case approach; and
- applying realistic valuations to collateral.

Since the start of the series in 2010, there has been a steadily increasing stock of restructured accounts, from over 59,000 at the end of 2010 to over 120,000 at the end of Q2 2016 as shown in Figure 4. 16 per cent of the total stock of outstanding PDH accounts are now classified as restructured, doubling from 8 per cent at the end of 2010.



Source - Mortgage Arrears and Repossession Statistics including banks and non-bank entities.

There has also been a significant compositional change in the restructure categories over time as highlighted in Table 4. In Q4 2010, interest only arrangements represented 38 per cent of the total restructured PDH accounts, while reduced payment arrangements (of less than interest only) accounted for another 13 per cent.

At end Q1 2013, while the stock of restructured accounts had increased to almost 80,000, the composition mix was broadly similar with a high share of interest only type arrangements (33 per cent), the vast majority of which were of less than one year durations. In the Central Bank's view, lenders were overly reliant on the use of such short-term forbearance with minimal assessment of what was likely to change in the borrower's circumstances at the end of the arrangement. Temporary arrangements may be sufficient to assist borrowers in temporary financial difficulties; however, there were other cases that required longer-term sustainable solutions.

Following the introduction of the MART framework in early 2013, the restructure mix began to broaden and change as banks subject to the targets were required to implement sustainable solutions to resolve mortgage accounts in distress. In addition, the Central Bank also published Sustainability Guidelines to provide supervisory guidance as to the important factors to consider when assessing if the modifications provided by banks were in fact sustainable solutions for resolving mortgage arrears cases.

The most recent data (Q2 2016) show that reliance on short-term forbearance has greatly declined. Interest-only arrangements now constitute 4 per cent of the total stock of PDH accounts. Another substantial change can be seen in the split mortgage category. In Q1 2013, 151 accounts were classified under the split mortgage category. That figure is now over 26,200 representing 22 per cent of all PDH restructures. The 'Other' category has also increased and this mainly comprises accounts that have been offered a long-term solution, pending the completion of a trial period.[15] The 'Other' category also includes a small number of simultaneously-agreed hybrid arrangements combining term extensions and arrears capitalisation arrangements.

Table 4 - Composition of PDH Restructured Accounts - Selected Dates

	Q4 2010	Q1 2013	Q2 2016
Total PDH Accounts Classified as Restructured at the of end of the Quarter	59,229	79,658	120,614
Interest Only	38%	33%	4%
Reduced Payment (less than interest only)	13%	9%	1%
Reduced Payment (greater than interest only)	15%	22%	8%
Term Extension	12%	17%	13%
Arrears Capitalisation	12%	15%	30%
Payment Moratorium	4%	3%	1%
Split Mortgage	0%	0%	22%
Interest Rate Reduction	0%	0%	6%
Other	5%	1%	15%
Restructures Not In Arrears	59%	53%	78%
Percentage Meeting the Terms of the arrangement	N/A	76%	88%

Source - Mortgage Arrears and Repossession Statistics including banks and non-bank entities.
Note that the 'Other' category mainly comprises accounts that have been offered a long-term solution, pending the completion of six months of successful payments. When these accounts transition into their permanent arrangement, the figures are updated accordingly. The 'Other' category also includes a small number of simultaneously-agreed term extensions and arrears capitalisation arrangements.

The level of arrears capitalisation solutions has increased over time. At end Q2 2016, this category accounted for 30 per cent of PDH restructured accounts. This solution, when implemented on a standalone basis, increases the required monthly payments. Therefore, for this solution to be sustainable, the financial distress that contributed to the build-up of arrears must be resolved (e.g. return to full time employment, clearance of other debts, living expenses reduced).

Given the improvements in the Irish economy throughout 2013 to 2016, the increasing prevalence of this option is not unexpected (e.g. the number of people in employment has increased, interest rates have declined). In addition, the Central Bank provided information in the Sustainability

[15] When these accounts transition into their long term arrangement, the figures will be updated accordingly.

Guidelines regarding the use of arrears capitalisations and their sustainability including a requirement that the borrower should perform against the arrangement for 6 months to demonstrate affordability before the arrears are capitalised.

In Q1 2013 the Central Bank began publishing additional information on restructures, providing statistics on the percentage of accounts deemed to be meeting the terms of the arrangement. Meeting the terms of the arrangement means that the borrower is, at a minimum, meeting the agreed monthly repayments according to the current restructure arrangement.

The percentage of restructured loans reported to be meeting the terms of the arrangement has steadily increased from the 76 per cent first reported in Q1 2013. Based on the most recent data (Q2 2016), 88 per cent of restructured PDH accounts were reported to the Central Bank to be meeting the terms of their arrangement. This is the highest level since the series began as shown in Figure 4.

Box 3 – Borrower Engagement and Modification

Central Bank of Ireland data on Standard Financial Statement (SFS) can be used to assess the debt sustainability of households in mortgage distress. The SFS is filled out by all borrowers engaging with their lenders upon experience of difficulty meeting their financial obligations. Information is available on the household's declared monthly income, their monthly expenditures, and all debt repayments. In all cases, the most recent SFS completed by the household is analysed. The information is available for approximately 120,000 mortgages, equating to 86,260 facilities.[1]

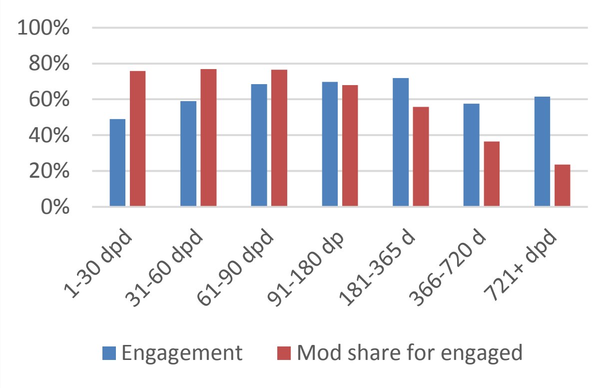
One important caveat to the analysis is that SFS information is only available for borrowers who have engaged with their lender. For those borrowers in arrears who have not engaged with the SFS process, it is not possible to analyse their *current* financial position. Chart A shows that, across all arrears groups, half or more of all loans have had an SFS engagement. This share is highest in the 91 to 360 days past due (DPD) category, where 70 to 72 per cent of loans have had engagement. Among those engaging with the SFS process, roughly three quarters of those with less than 90 DPD arrears have received some form of modification, while this number falls to 56, 36 and 24 per cent in the 180, 360 and 720 DPD groups. Given that DPD is measured at December 2015 in this analysis, some of those in the lower-DPD categories may have engaged while in deeper levels of arrears, and have subsequently reduced their arrears through loan modification. Previous Central Bank internal research has shown that where DPD is measured at the date of SFS engagement rather than at a fixed date such as December 2015, a similar pattern of engagement rates across the DPD categories to that in Chart A is observed. This suggests that the findings in Chart A are not driven by the engagement of high-DPD borrowers who have subsequently reduced arrears balances.

The analysis calculates a "household financial position" for all engaged households. The information is presented in descending order of financial difficulty, with borrowers classified into the following groups:

1. Those whose declared non-debt expenditures surpass their monthly income.
2. Those who are in deficit once monthly primary mortgage repayments are added to (1).
3. Those who are in deficit once unsecured debt payments are added to (2).
4. Those who are in deficit once property investment loan repayments are added to (3).
5. Those who are in financial surplus when all expense items (1) to (4) are included.

Chart B shows that between 10 and 17 per cent of households submitting an SFS, depending on the DPD group, do not have the income to meet their reported monthly non-debt-related expenditures with the share higher among high-DPD categories. When monthly mortgage payments are considered along with household expenses, between approximately 50 and 60 per cent of households are in deficit, leaving 40 to 50 per cent of households who would be in a position to meet their mortgage obligations in the absence of other debts. When unsecured debts are included, the share of borrowers in deficit rises by an additional 10 to 16 percentage points across all arrears groups, while the inclusion of property investment loans acts to bring an additional 1 to 2 percentage points of households into deficit. This cascading method implies that, when all declared expenditures and debt repayments are accounted for, about 15 to 25 per cent of households are in a position to repay their debts at the time of SFS submission, while some 75 to 85 per cent require some combination of reductions in household expenditure and debt restructuring. In some cases, it is possible that subsequent modification has been offered since the point of the last SFS submission, indicating that repayment prospects may have improved for some households relative to that reported in Chart B.

Chart A: Engagement and Modification per DPD Group; December 2015



Source: Central Bank of Ireland Loan Level Data and Standard Financial Statement.
Notes: "Engagement" is calculated as the share of all loans within a given Delinquency Bucket at December 2015 who have completed an SFS at any point since 2012. "Mod share for engaged" calculates the share of loans, having completed an SFS, that have received a permanent or temporary mortgage modification up to end-2015.

Chart B: Financial Position of Households as of Their Most Recent SFS Submission, by DPD Status at December 2015

DPD Dec. 15	**1-90**	**91-365**	**366-720**	**721+**
Household in financial deficit when following items included:				
Non-debt expenses	10.8%	14.2%	15.6%	17.0%
+ primary mortgage	47.0%	47.4%	53.4%	56.9%
+ unsecured debt	16.1%	14.1%	11.3%	9.6%
+ investment property debt	1.2%	1.2%	1.2%	1.1%
Household in financial surplus with all expenditures and debt payments accounted for				
Surplus	24.9%	23.1%	18.5%	15.4%

Source: Central Bank of Ireland Standard Financial Statement returns.
Notes: For all households, the most recent SFS completed up to end-2015 is used to make calculations.

[1] The data are from four retail banks. A "facility" is the closest definition available in the data to an individual household, which may have multiple mortgage loans with distinct identifiers associated with the same household identifier.

3.3 Loss of Ownership

Where a sustainable restructuring arrangement is not appropriate or cannot be agreed between a lender and borrower, one consequence is that potential loss of ownership outcomes may be initiated (either voluntary or enforced). Indeed, when the MART framework was introduced, it was recognised by the Central Bank that some level of loss of ownership would be inevitable, particularly where the borrower was not co-operative.

However, there are a number of steps in the process to protect the borrower. When a borrower is in mortgage arrears, a regulated entity may only commence legal proceedings for repossession of the borrower's primary residence after it follows a number of steps. These include:

- making every reasonable effort under the CCMA to agree an ARA with the borrower;
- time bound requirements to inform the borrower the regulated entity is not willing to offer an ARA and of his/her options;
- time bound requirements to inform a borrower, who is not willing to enter into an ARA, of his/her options; and
- a decision to classify the borrower as non-cooperating.

Potential loss of ownership outcomes may take the form of voluntary (voluntary sale or surrender agreements) or enforced (legal proceedings) actions. For example, the bank and borrower may agree consensual strategies to dispose of the property where the mortgage repayments are unsustainable.

In other situations, the borrower may voluntarily surrender the property back to the bank. However, in a significant number of cases, the bank has initiated legal proceedings through the courts to seek possession of the property.

3.4 Repossession Proceedings

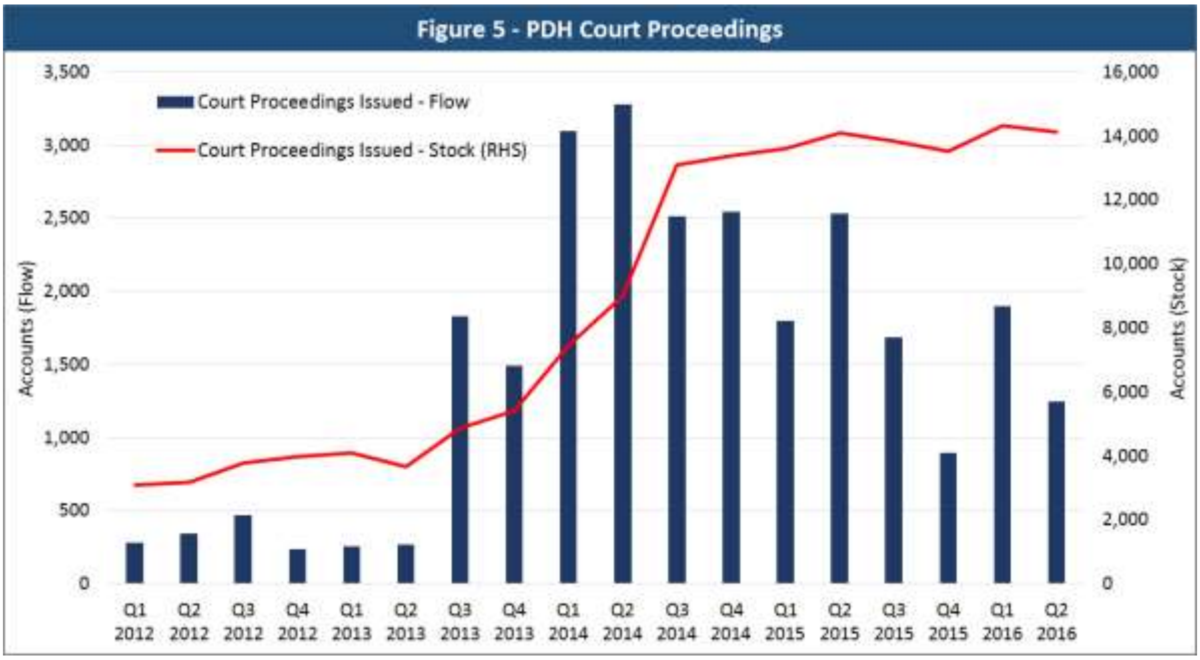
In a decision in July 2011, Justice Dunne ruled that the enactment of the Land and Conveyancing Law Reform Act 2009 created a legal loophole or 'lacuna' in the legislation with respect to certain mortgages subject or potentially subject to repossession proceedings.[16] One of the consequences of this was that repossession proceedings were effectively halted as lenders generally opted not to pursue the legal route until the legislation was rectified. This was reflected in the low levels of legal activity between 2011 and when the lacuna was fixed by the passing of the Land and Conveyancing Law Reform Act 2013. Another consequence was that arrears continued to build where the accounts were in a legal process and no restructuring agreement could be found between the bank and borrower.

Figure 5 shows the quarterly additions to the total number of accounts for which court proceedings have been issued for PDH properties since Q1 2012. The significant increase evident in Q3 2013 is attributable to a number of factors, including the 2013 Act, and the imposition of the MART earlier in 2013. It was recognised at the time of the introduction of MART that, in certain cases, the only avenue available to the bank may involve legal action for repossession, having considered the borrower's degree of co-operation and/or the borrower's actual and prospective ability to service the debt.

Given the high levels of mortgage distress at the time and the fact that repossession proceedings effectively could not be initiated prior to mid-2013, it was expected that there would be an increase in repossession-related activity. The stock of accounts with court proceedings issued against them at the end of each quarter is also shown, and has remained at approximately 14,000 accounts over the past 18 months.[17]

[16] Start Mortgages & Ors v Gunn & Ors [2011] IEHC 275.

[17] It is important to note that the Central Bank data and data available from the Court Service will differ as court service data refers to properties not accounts, and the former is larger.



Source - Mortgage Arrears and Repossession Statistics including banks and non-bank entities.

There was a noticeable decrease in the pace of issuance of court proceedings against PDH accounts during the second half of 2015, potentially affected by a number of factors including the introduction of new court rules in September 2015 which required solicitors to comply with more consistent documentation standards when issuing legal proceedings. The level of proceedings issued during the first half of 2016 was broadly consistent with average volumes during 2015.

Banks cite borrower non-cooperation as the most common reason for beginning repossession proceedings. Of the PDH accounts reported by banks in the repossession category in Q2 2016, 70 per cent of proceedings were initiated due to the borrower being deemed non-cooperating in line with provision 29 of the CCMA.

The most recent Central Bank loan level data submissions (June 2016) can be used to provide insights into the loan and borrower characteristics for PDH accounts in arrears over 90 DPD currently reported in the repossession category by the retail banks (excluding cases where the property has already been repossessed). [18] Of the accounts currently in a legal process (approximately 12,000)[19]:

- 87 per cent of the accounts are over 720 DPD, while over half are over 4 years in arrears;
- 60 per cent have had some type of forbearance / modification;

[18] Loan-level data are provided semi-annually by AIB, BoI, PTSB, UBIL and KBCI.

[19] Based on Q2 2016 data, there are 14,134 accounts for which court proceedings have been issued to enforce the debt/security on a mortgage. Approximately 12,000 relate to the retail banks with the remainder attributable to other banks no longer actively lending in the Irish market and non-bank entities.

- 66 per cent were originated between 2005 and end-2008, with a further 29 per cent relating to pre-2005 loans;
- The average loan balance is €195,000 while the average arrears balance is over €53,000;
- 53 per cent of the number of accounts were in negative equity at that date based on indexed property values (although this rises to 65 per cent when based on loan balances).

Central Bank of Ireland data provide a breakdown of reasons for where court proceedings have concluded.[20] On average (based on proceedings concluding from Q1 2013 onwards relating to over 8,600 accounts), just over 40 percent of legal proceedings are concluded due to an order for possession or sale being granted. A further 5 per cent of cases relate to accounts where the property has been surrendered or abandoned. Terms and conditions were renegotiated (i.e. restructuring) in 19 per cent of cases concluded. This suggests that initiation of legal proceedings is resulting in some level of restructuring. The remaining 33 per cent are settled on other terms.[21]

Figure 6 - Concluding PDH Court Proceedings

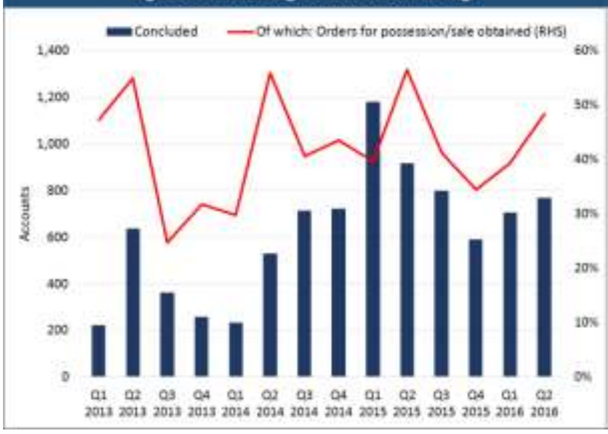
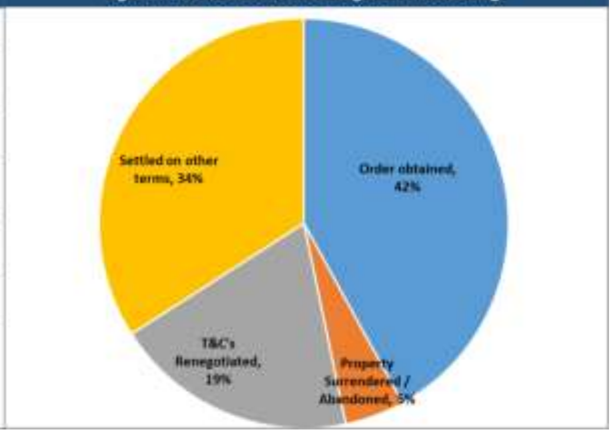


Figure 7 - Reasons for Concluding Court Proceedings



Source - Mortgage Arrears and Repossession Statistics including banks and non-bank entities.

3.5 Properties Repossessed

The number of Irish residential properties that were voluntarily surrendered/abandoned or repossessed based on a court order are shown in Figure 8. This graph also illustrates the number of properties sold and the stock of properties in possession at the end of each quarter. Since Q3 2009, 6,214 PDH properties have been repossessed in Ireland. Over the period since data collection began, the majority of properties (66 per cent) repossessed were voluntarily surrendered or abandoned by the borrower.

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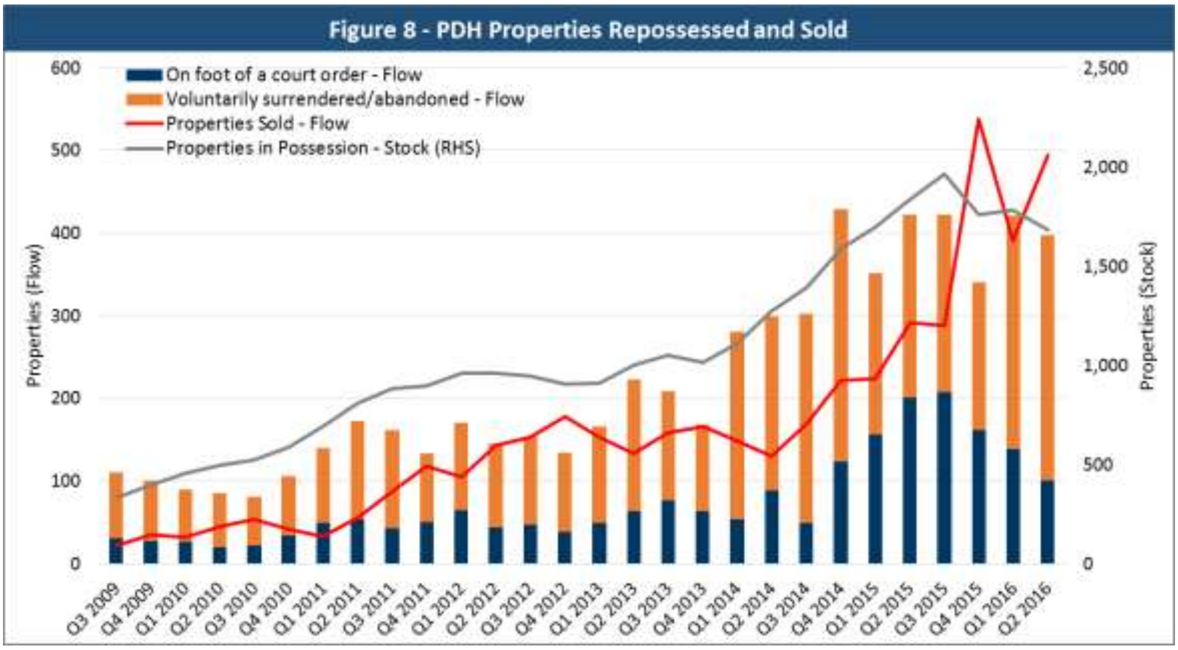
[20] Mortgage Arrears and Repossessions Statistics.

[21] This covers a number of different scenarios including for example cases where proceedings are struck out and cases where the arrears are cleared in full by the borrower.

The number of PDH properties repossessed each quarter during 2015 and 2016 has increased from previous years, albeit from a low base. The average quarterly PDH repossession rate in Ireland is 0.7 per cent based on the 6 most recent quarters and the number of PDH accounts in arrears over 90 days (which are converted to an equivalent property figure). The equivalent figure in the UK is approximately 1.7 per cent (based on internal calculations using UK Council of Mortgage Lenders published data).[22] The UK repossession rate is well above the Irish figure, even taking into account that the level of arrears in the UK is at the lowest level since 1994.

There has been an increase in lender-related property sales since mid-2014 and to date 4,609 PDH properties have been sold in aggregate by banks and non-banks. In aggregate, 1,683 properties were in the possession of the various banks and non-bank entities at the end of Q2 2016.



Source - Mortgage Arrears and Repossession Statistics including banks and non-bank entities.

3.6 Mortgage to Rent

The mortgage to rent (**MTR**) scheme was launched by the Government in 2012 to provide support to borrowers at risk of losing their homes who engaged with their institution through the MARP but whose mortgages were deemed unsustainable. The scheme was subsequently amended in 2015 to make it more flexible and accessible for borrowers including flexibility in relation to property size and allowing some cases with marginal positive equity. The changes also included increasing the valuation threshold of properties located in certain counties.[23]

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[22] https://www.cml.org.uk/news/press-releases/arrears-and-possessions-continuing-to-fall-reports-cml/
[23] Cork, Dublin, Galway, Kildare, Louth, Meath and Wicklow.

Two schemes are currently overseen by the Department of the Environment: the local authority MTR scheme is for borrowers with unsustainable Local Authority (**LA**) mortgages, while the Approved Housing Body (**AHB**) MTR scheme is for borrowers with mortgages issued by traditional lenders (e.g. banks and retail credit firms). Based on the most recently available statistics and other information, 162 AHB MTR cases have successfully completed since the scheme launched in 2012 while 193 LA MTR cases have completed.[24,25]

3.7 Personal Insolvency / Bankruptcy

The personal insolvency regime in Ireland has recently undergone several changes. The Personal Insolvency Act 2012 introduced three types of debt resolution mechanisms: the Debt Relief Notice (**DRN**), the Debt Settlement Arrangement (**DSA**) and the Personal Insolvency Arrangement (**PIA**). A PIA can include secured (e.g. a mortgage on a PDH or BTL) and/or unsecured debt. Additional legislative changes were introduced in 2015 including provisions allowing for a debtor to request a review by the Court where a PIA was rejected by creditors.[26]

The PIA 2012 act modified the personal bankruptcy regime. One of the main changes reduced the duration of bankruptcy from twelve to three years. The bankruptcy term was subsequently reduced to one year via the Bankruptcy (Amendment) Act 2015, which became effective in January 2016. At the end of Q3 2016, 1,365 PIAs have been approved while there have been 1,330 bankruptcy adjudications.[27]

4. Non-Bank Entities – Retail Credit Firms and Unregulated Loan Owners

[24] AHB MTR Statistics (end April 2016) http://oireachtasdebates.oireachtas.ie/debates%20authoring/debateswebpack.nsf/takes/dail2016061400067?opendocument
[25] LA MTR Statistics - http://www.housing.gov.ie/housing/home-ownership/schemeservice/local-authority-mortgage-rent-lamtr-scheme (December 2015).
[26] The Personal Insolvency (Amendment) Act 2015.
[27] https://www.isi.gov.ie/en/ISI/ISI_Statistics_2016_Quarter_3.pdf/Files/ISI_Statistics_2016_Quarter_3.pdf

This section provides further detail on non-bank entities – retail credit firms and unregulated loan owners. It also provides a comparison where relevant with banks as they account for 95 per cent of the total stock of outstanding PDH mortgage accounts in Ireland. The 5 per cent of loans held by non-bank entities includes mortgage loans issued by retail credit firms. It also includes mortgage loans issued by banks (and other institutions) and subsequently sold to other entities, some of which are not currently regulated by the Central Bank.

Of this 5 per cent, PDH mortgages held by retail credit firms account for the majority (73 per cent); unregulated loan owners accounted for 27 per cent of those held by non-bank entities at end-June 2016. Unregulated loan owners share of the overall PDH mortgage market was 1.4 per cent at end June 2016.

The share of mortgages held by non-bank entities has increased in recent years from 2 per cent at end 2013 to 5 per cent of the balance of PDH mortgage loans at end June 2016. Sales of mortgage loans by a number of banks during 2014 and 2015 explain the bulk of this increase. Another contributing factor was the return of banking licenses of a small number of mortgage-lending institutions as they exited the Irish market. While this was, for the most part, preceded by sales of loans to other entities, some residual mortgage loans are still held by these former banks. Data relating to these mortgages are still collected by the Central Bank, but the entities are now classified as retail credit firms.

4.1 Mortgage Arrears

The aggregate statistics have reflected an improving situation in terms of overall arrears since late 2013, however the data for the non-bank entities indicate much higher arrears levels among these institutions (Table 5). While the number of PDH accounts in arrears over 90 days among all institutions has fallen to 7.8 per cent of total mortgages at end Q2 2016, 37 per cent of PDH loans held by non-banks are in arrears of more than 90 days. The figure for retail credit firms is 31.3 per cent but is significantly higher for unregulated loan owners at just over 50 per cent. Arrears of over two years at end-June 2016 are also significantly higher for unregulated loan owners at 38.3 per cent compared to 19.1 per cent for retail credit firms.

Table 5: PDH Arrears Profile								
Arrears Rates	All Institutions		Banks		Non-Bank Entities			
					Retail Credit Firms		Unregulated Loan Owners	
	Number	Value (000)	Number	Value (000)	Number	Value (000)	Number	Value (000)
Total PDH loans	740,834	100,292,569	703,771	93,825,648	26,878	4,556,625	10,185	1,910,296
In arrears	82,092	15,044,769	66,032	11,654,454	10,050	2,075,309	6,010	1,315,006
% of total	*11.1%*	*15.0%*	*9.4%*	*12.4%*	*37.4%*	*45.5%*	*59.0%*	*68.8%*
In arrears over 90 days	57,571	11,518,031	43,975	8,481,849	8,413	1,832,450	5,183	1,203,732
% of total	*7.8%*	*11.5%*	*6.2%*	*9.0%*	*31.3%*	*40.2%*	*50.9%*	*63.0%*
In arrears over 720 days	34,980	7,828,165	25,940	5,523,170	5,141	1,294,980	3,899	1,010,015
% of total	*4.7%*	*7.8%*	*3.7%*	*5.9%*	*19.1%*	*28.4%*	*38.3%*	*52.9%*

Source – Residential Mortgage Arrears and Repossession Statistics, end-June 2016.

4.2 Restructuring Activity

Among all institutions, about one in six mortgage accounts is currently classified as restructured. While the proportion of restructures for banks is in line with the total profile, retail credit firms have a higher incidence at 23 per cent. This reflects other factors including poorer credit quality of the underlying loan portfolio. The level of retail credit firm restructures is somewhat above the level of 19 per cent recorded for unregulated loan owners at end Q2 2016.

According to available data, of the loans purchased by unregulated loan owners from banks, a small number had existing restructure arrangements already in place when the loans were purchased from banks. Similarly, some restructures of loans held by former banks (now classified as retail credit firms), were in place prior to the revocation of their banking licence. Nonetheless, the quarterly data collected by the Central Bank indicate that non-bank entities are also restructuring the accounts they hold. In the four quarters ending in Q2 2016, a total of just over 44,000 new restructure arrangements were agreed by all institutions. Retail credit firms accounted for around 3,900 of these (equivalent to 9 per cent), while unregulated loan owners accounted for around 1,900 (5 per cent).

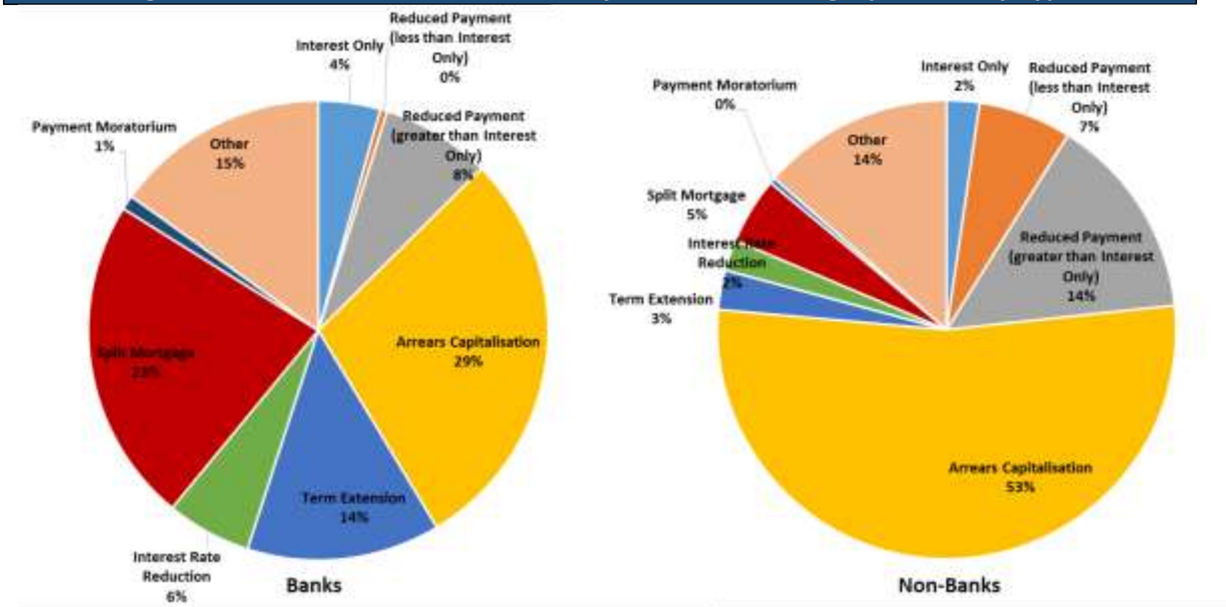
Table 6: PDH Restructuring Activity by Entity Type				
	All Institutions	Banks	Non-Bank Entities	
			Retail Credit Firms	Unregulated Loan Owners
Total PDH loans	740,834	703,771	26,878	10,185
Restructured	120,614	112,644	6,071	1,899
% of total PDH loans	*16.3%*	*16.0%*	*22.6%*	*18.6%*
Meeting the terms of the arrangement	105,960	100,052	4,428	1,480
% of total restructures	*87.9%*	*88.8%*	*72.9%*	*77.9%*

Source: Residential Mortgage Arrears and Repossession Statistics, end-June 2016.

The performance of restructures differs significantly between banks and non-banks. For banks, 16 per cent of accounts are restructured, of which 88.8 per cent are meeting the terms of the new arrangement as of end Q2 2016 (Table 6). For non-banks, there is a much higher level of restructures within RCFs. Almost one quarter of RCF accounts are restructured, with almost 73 per cent of these meeting the terms of the arrangement.

Just under 19 per cent of accounts held by unregulated loan owners are restructured, despite very high levels of arrears, as shown in Table 5. However, close to 78 per cent of the restructured loans held by unregulated loan owners are meeting the terms of the arrangement. Restructure arrangements involving arrears capitalisation account for over half of all restructured mortgage loans held by non-bank entities (Figure 9). Approximately 29 per cent of restructured accounts held by banks are in the arrears capitalisation category.

Figure 9 - Restructured PDH Accounts by Restructure Category and Entity Type



Source: Residential Mortgage Arrears and Repossession Statistics, end-June 2016.

The most recent aggregate statistics show that accounts not meeting the terms are particularly high among the arrears capitalisation category. At end-June 2016, over 78 per cent of accounts in the arrears capitalisation category were meeting the terms of their arrangement (Table 7). This implies that 22 per cent were not meeting the terms, i.e. the arrears balance had increased since the arrangement was put in place. Accounts not meeting the terms are also high among reduced payment arrangements where the borrower is paying less than interest only. The highest rates of accounts meeting the terms are among split mortgage restructures – one of the largest categories of restructures for banks.

Table 7: Percentage of PDH Restructures 'Meeting the Terms of the Arrangement'	
Restructre Categories	**% Meeting Terms**
Interest Only - up to one year	87.4%
Interest Only - over one year	94.7%
Deferred Interest Scheme	64.0%
Reduced Payments (less than interest only)	73.7%
Reduced Payments (greater than interest only)	91.5%
Temporary Interest Rate Reduction	93.8%
Payment Moratorium	94.4%
Arrears Capitalisation	78.1%
Term Extension	93.0%
Permanent Interest Rate Reduction	48.9%
Split Mortgage	95.0%
Other	88.4%
Total	**87.9%**

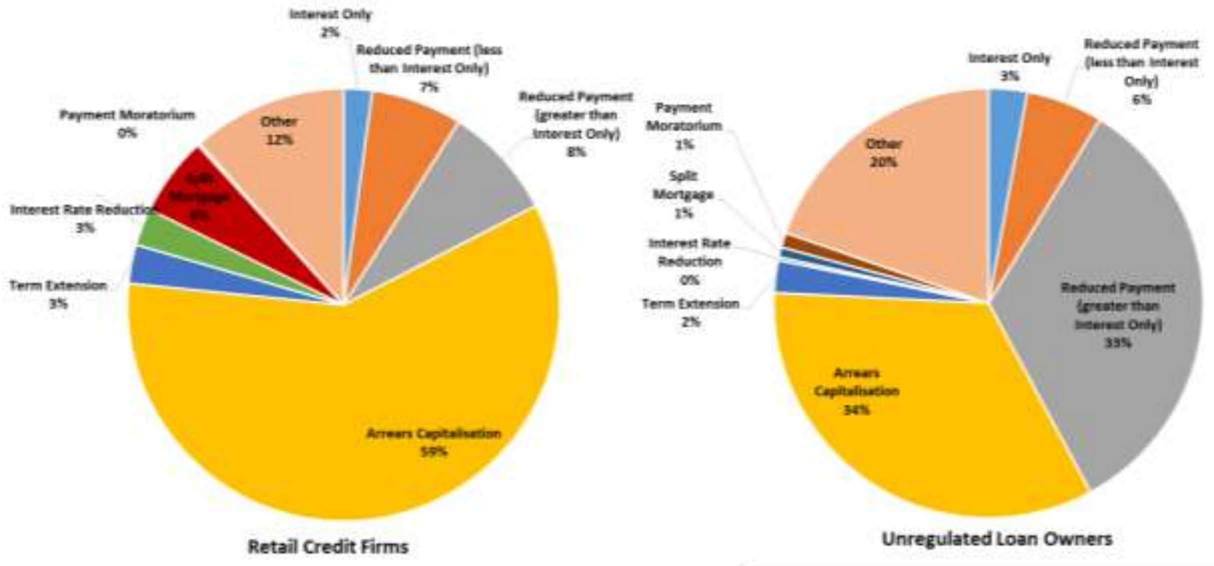
Source: Residential Mortgage Arrears and Repossession Statistics including banks and non-bank entities, end-June 2016.

While the type of restructure arrangements made available by both non-bank groups is broadly similar, regulated retail credit firms rely more heavily on arrears capitalisation restructures – these account for 59 per cent of all restructured accounts. Arrears capitalisation arrangements account for one third of restructured accounts among the unregulated loan owners (Figure 10). Reduced payment arrangements involving a payment of interest and some principal amount account for an additional one third of restructures for the unregulated loan owners. Split mortgages implemented by the non-banks represent 5 per cent of total restructures, in comparison to the bank's share at 23 per cent.

As noted in earlier in this section, some non-bank entities are actively restructuring loans. Over one third of newly-implemented restructures over the past year by non-banks were arrears capitalisations (with a higher prevalence amongst regulated retail credit firms). The corresponding figure for the banks is one in five. Based on the flow of newly-agreed restructures from June 2015 to June 2016, the range of solutions offered by the banks are broader and more diverse than those offered by both categories of non-bank entities. For example, banks offer more split mortgages, term extensions and interest rate reductions than non-bank entities.

An important reason for the disparity in performance between banks and non-banks is that the non-banks either originally offered higher-risk mortgages or in many cases purchased non-performing portfolios from banks exiting the market. These differences in the underlying characteristics of the loans correlate with differences in the extent of arrears and the types of restructuring solutions offered. However, variation in business models across the different types of lending institutions may also influence resolution strategies but as noted in Section 2.2 the Central Bank has no oversight of the strategies adopted by unregulated loan owners.

Figure 10 - Restructured PDH Accounts by Restructure Category – Non-Bank Split

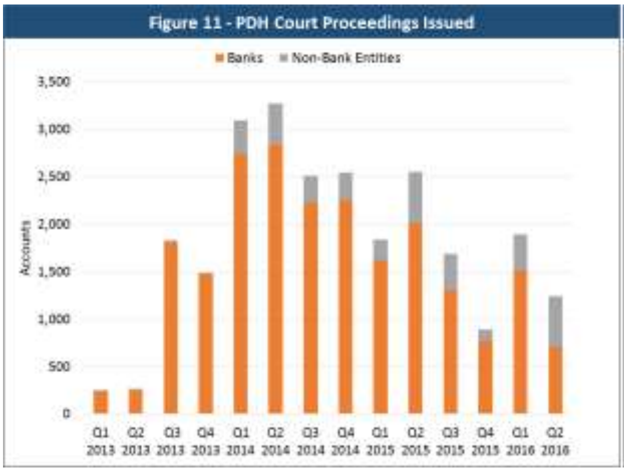


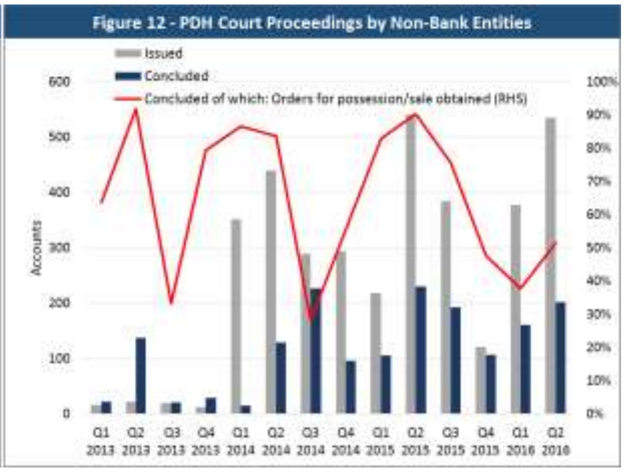
Source: Residential Mortgage Arrears and Repossession Statistics, end-June 2016.

4.3 Legal Proceedings

Non-bank entities accounted for 17 per cent of the total stock of repossessed PDH properties in possession as of end-June 2016, with banks accounting for the remaining 83 per cent. Figure 11 shows the number of accounts for which court proceedings were issued in each quarter over the past three years. Over this period the non-bank entities accounted for 14 per cent of the total on average, although this has increased in the last four quarters to an average of 25 per cent. At an aggregate level (based on data for both banks and non-bank entities), conclusions of court proceedings have resulted in an order for possession in approximately 40 per cent of cases in the past year.

As discussed in Section 3.4, conclusions of legal proceedings appear to result in a new restructure arrangement in 19 per cent of cases among all institutions. However, the proportion of legal proceedings that result in an order for possession is considerably higher among the non-bank entities, averaging 64 per cent since Q1 2015. The equivalent figure among banks is 38 per cent while for the group of unregulated loan owners it is 70 per cent. This possibly reflects the higher volume of accounts in deep distress among these entities. Nonetheless, in terms of accounts for which an order for possession is granted, it remains low among non-bank entities, averaging just over 100 per quarter (Figure 12).





Source - Mortgage Arrears and Repossession Statistics including banks and non-bank entities.

5 Risks and Policy Issues

This section describes the risks associated with the elevated level of mortgage arrears and wider policy issues. There has been a pronounced reduction in arrears since 2013 and, where feasible, solutions are being found for borrowers that engage with their mortgage lender (or credit servicing firm). Developments in mortgage arrears resolution are affected by policy and legislative measures in Ireland and Europe including the SSM.

The high numbers of restructured mortgages meeting terms are evidence of the willingness and ability of borrowers and lending institutions to enter into arrangements that address mortgage arrears. However, this category also represents a sizeable cohort of borrowers that will remain vulnerable in the long-term to economic shocks and interest rate rises. Furthermore, these borrowers will, in many circumstances have extended their repayment obligations for longer, with a resultant impact on the total cost of credit.

The length of time taken to reduce arrears is due, in part, to a lag between improved borrower circumstances due to improvements in the economy as well as the duration between the initiation of restructures and continuing to meet the terms of their arrangement. The broader effects of positive economic developments in recent years have led to a slowdown in new arrears cases. Central Bank research suggests that both unemployment and housing equity are both important factors, similar to findings in other countries. Unemployment has a more pronounced effect on the probability of default than negative equity in the Irish mortgage market. In addition to targets/modifications, improved labour market and economic conditions are also contributing to curing arrears cases through improved employment prospects.[28]

Arrears formation was also due to fragile types of employment, with significant drops in income and changes in employment conditions associated with the crisis. For long-term arrears, research conducted by the Central Bank suggests that the change between debt service ratios at origination and subsequent distress is a key factor in long-term arrears.[29]

The time taken to go through the court process for residential property repossessions will mean that there will continue to be a cohort of borrowers that remain in arrears, with limited restructuring activity taking place. In such cases, it is particularly important that there are options and supports available to facilitate insolvent borrowers, resolving their debts in a timely way as they go through

[28] McCarthy, 2014; Kelly & O'Malley, 2014.
[29] Kelly and McCann (2015).

the process. The Central Bank welcomes the recently-introduced Mortgage Arrears Resolution Service ('Abhaile') to further assist borrowers who may be at risk of losing their homes.[30]

Despite the progress made in terms of actions and the economic recovery, arrears levels remain elevated and the pace of arrears resolution needs to be maintained. The sustainable resolution of distressed mortgage loans continues to remain a key priority for the Central Bank / SSM as significant vulnerabilities remain from a prudential perspective.

Regarding the significant vulnerabilities that remain from a prudential perspective, these include market perceptions of Irish banks vulnerabilities and the significant proportion of arrears cases that are more than two years past due. Longer-term issues include the durability of restructures in a low interest rate environment which will eventually normalise; the ability of borrowers to sustain payments over long-duration restructures (e.g., into retirement), and the transparency of banks' provisioning policy.

Furthermore, the ability to undertake secured lending is ultimately dependent on the power to realise the security if needed. This is a cornerstone of secured lending and, by extension, an effectively functioning mortgage market. Relative to many other European jurisdictions, including those with lower levels of non-performing loans, the legal process through which lenders effect security is now substantially longer in Ireland.

The Oireachtas has introduced the Credit Servicing Act in order to help protect borrowers where their loans have been sold to unregulated firms. The measures introduced in this legislation will help borrowers by requiring credit servicing firms to be a regulated financial service provider, ensuring their activities fall within the regulatory perimeter of the Central Bank's consumer protection framework. The Central Bank will continue to engage with this new category of regulated firm in order to ensure compliance with the CCMA and other regulatory requirements. However, the underlying resolution strategies determined by the unregulated loan owners may be different to those adopted by banks due to differences in the nature of the underlying loan portfolios and variation in business models across the different types of lending institutions.

Regarding the consideration of additional policies or measures, there are costs and potential side effects associated with exceptional policies such as repossession moratoria or the potential imposition of retrospective solutions on bilateral contractual relationships between borrowers and lenders. Therefore, the implications of such proposals should be very carefully considered. The side

[30] http://www.keepingyourhome.ie/en/mortgage_arrears_aid_and_advice_scheme.html

effects of such proposals may delay resolutions for borrowers, could undermine payment discipline, and may lead to lower supply of mortgage credit/higher interest rates for the overall market.[31]

Taking into consideration the wider policy discussions that will affect a successful resolution of this issue, the Central Bank is cognisant of recent initiatives including the review of housing, advice for borrowers in financial difficulty, and advice on insolvency and bankruptcy options.[32]

[31] Andritzky (2014).
[32] http://www.keepingyourhome.ie/en/ ; https://www.isi.gov.ie/ ; http://rebuildingireland.ie/

Annex 1 - Prudential Supervisory Measures Taken By the Central Bank

The Central Bank's approach to resolving mortgage NPLs and improving the quality of bank's balance sheets has been extensive and intrusive from 2010 onwards. The initial focus was on ensuring that the Irish banks were adequately capitalised and appropriately provisioned to cover expected and unexpected losses, concluding in the Financial Measures Programme (2011). Following the bank recapitalisations, emphasis shifted to NPL resolution strategies, operational capabilities (including treatment options), and deployment of sufficient resources to mitigate inflows into arrears to gradually reduce arrears over time. Targets were added in 2013, to encourage resolution action. With the advent of SSM, bank-by-bank requirements remain in place.

Financial Measures Programme

One of the key objectives of the Financial Measures Programme (FMP) was to ensure that the domestic banks were adequately capitalised and provisioned for expected and unexpected losses under a severe but plausible stress scenario. [33] The programme completed in Q1 2011 and resulted in a total recapitalisation requirement of €24bn for the going-concern banks (AIB, EBS, BoI, PTSB).

Mortgage Arrears Resolution Strategies

Following this, in late 2011, the Central Bank further intensified its engagement with lenders with regard to mortgage arrears resolution. In the Central Bank's view, bank strategies and operational capabilities to support mortgage arrears resolution were not adequate. Strategies tended to be aspirational and featured a range of shortcomings. This included an inappropriate "one size fits all" approach (e.g. lack of PDH / BTL segmentation) and an insufficient set of workout solutions to appropriately deal with distressed borrowers. Furthermore, banks were overly reliant on short term forbearance strategies.

To press banks to remediate these shortcomings and ensure appropriate board-level focus, in October 2011, mortgage lenders were required to submit to the Central Bank board-reviewed and approved mortgage arrears resolution strategies (MARS). The purpose was to ensure the fair treatment of borrowers, supported by detailed implementation plans to deal with their stock of arrears cases as well as new inflows. Clear Central Bank expectations were outlined with specific areas to address including:

- Pre- Arrears

[33] The FMP comprised a number of elements including an independent Loan Loss Forecast (conducted by BlackRock Solutions); a Prudential Liquidity Assessment Review (incorporating deleveraging and liquidity requirements) and a Prudential Capital Assessment Review (PCAR) capital stress test.

- Arrears / Forbearance
- Post-Forbearance / Resolution
- Resources / Infrastructure
- Governance / Management
- Specific strategy for Buy to Lets and owner occupiers.

This exercise helped to mobilise resources within institutions to strategically address mortgage NPLs. The depth and quality of response varied across institutions and, again in many cases, plans were often aspirational rather than operational.

Operational Capability Assessments

The introduction of the Code of Conduct on Mortgage Arrears (CCMA) in 2009 set out the framework that lenders must use when dealing with borrowers in mortgage arrears or in pre-arrears. One additional provisions of the CCMA in 2011 was to mandate lenders to establish a centralised arrears support unit (**ASU**), which must be adequately staffed, to manage cases under the Mortgage Arrears Resolution Process (MARP).

The focus in early 2012 centred on further examining and challenging bank's operational capacity to resolve NPLs, and pressing banks to remediate shortfalls identified during their MARS assessments. Blackrock Solutions was commissioned to undertake an independent Distressed Credit Operations Review (DCOR) focusing on residential mortgage and SME distress management, covering the below broad categories.

- Organisational Structure and Resource Capacity
- Skill and Experience of Staff including Quality of Training
- Workout Strategy and Execution Ability
- Relevant Documentation, Management Information Systems (MIS), including Key Performance Indicators (KPIs)
- Data and Reporting Related to Outsourced and/or Delegated Functions
- Quality Assurance and Internal Controls
- Sample Based Review of Loan Modification Practices

The DCOR highlighted significant deficiencies within banks workout units (highlighted in Table 8) including that the infrastructure and operational capability was inadequate to deal with scale of the problem. The Central Bank's subsequent actions were driven by the deficiencies identified including setting out clear time-bound goals (such as requesting revised operational plans and further on-site inspections).

Table 8 - Deficiencies Identified During 2012 DCOR
➢ Most restructurings reflect short-term forbearance
➢ Servicing units significantly under-resourced
➢ Standard Financial Statements (SFS) not being adequately processed and used
➢ Use of branch network staff without appropriate restructuring skills
➢ Collection systems in need of significant upgrade and/or redesign
➢ Low level of Quality Control
➢ Key Performance Indicators not in place
➢ Banks hesitant to commence foreclosure proceedings
➢ Lack of differentiating strategy for PDH vs BTL

During the latter part of 2012 and throughout 2013, the Central Bank continued to challenge banks regarding their operational capabilities and undertook a number of different inspection related activities to review banks ASUs to assess if meaningful progress was being made in their approach to resolving distressed loans. While progress was being made, gaps were identified particularly in the 2012 and early 2013 inspections.

Mortgage Arrears Resolution Targets

Mortgage arrears continued to deteriorate throughout 2012, and banks were over reliant on use of short-term treatments, particularly interest-only arrangements. Following extensive engagement outlined in the previous sections, in March 2013, the Central Bank introduced the Mortgage Arrears Resolution Targets (MART) framework. [34]

The MART framework imposed quarterly quantitative targets on the six main mortgage lenders (accounting for circa 90 per cent of the Irish mortgage market) with respect to their Republic of Ireland principal dwelling home / primary residence (PDH) and buy-to-let (BTL) mortgage portfolios. [35] The targets centred on resolving accounts in arrears > 90 days and comprised the following components:

- Proposing sustainable solutions to borrowers;
- Concluding those sustainable solutions;
- Subsequent performance rates on the concluded solutions.

[34] http://www.centralbank.ie/press-area/press-releases/documents/approach%20to%20mortage%20arrears%20resolution%20-.pdf

[35] ACC Bank plc, Allied Irish Bank plc (including AIB Mortgage Bank, EBS Limited and EBS Mortgage Finance), The Governor and Company of the Bank of Ireland (including Bank of Ireland Mortgage Bank and ICS Building Society), KBC Bank Ireland plc, Permanent tsb plc and Ulster Bank Ireland Limited.

The Central Bank also published Internal Guidelines on Sustainable Mortgage Arrears Solutions and introduced enhanced supervisory reporting requirements to monitor and challenge progress by banks in implementing sustainable solutions. On-site credit inspections by the Central Bank examined samples of these sustainable solutions during the MART programme.

The Central Bank committed to periodically auditing banks' performance against the MART targets, assessing whether the proposed and concluded solutions were sustainable solutions (taking account of the Sustainability Guidelines and other key documents).

The audits also involved challenging bank senior management on progress to date and findings, as well as remediation of the findings. These audits have been both intensive and intrusive.

Table 9 –Aggregate Performance against the MART Targets (including PDH and BTL Accounts)

Target Components	2013			2014			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Proposed [Target 1]	**20%**	**30%**	**50%**	**70%**	**75%**	**80%**	**85%**
Reported by banks	*33%*	*43%*	*59%*	*77%*	*87%*	*93%*	*97%*
2. Concluded [Target 2]	N/A	N/A	**15%**	**25%**	**35%**	**40%**	**45%**
Reported by banks			*23%*	*33%*	*46%*	*56%*	*62%*
3. Terms Being Met [Target 3]	N/A	N/A	N/A	**75%**	**75%**	**75%**	**75%**
Reported by banks				*90%*	*88%*	*89%*	*91%*

Banks reported that they satisfied all the target requirements to end-2014 (PDH performance is in Table 9 above). While the majority of borrowers engaged and achieved sustainable restructure arrangements, about one third of concluded PDH solutions reported were linked to potential "loss of ownership" outcomes (including voluntary sale / surrender / repossession). Over this period (2013 to 2014) there was a sizeable increase in legal action being taken by the banks, particularly where borrowers were deemed to be not cooperating. However, it is worth noting that, in the years preceding the introduction of the targets, repossessions were effectively prohibited due to the Dunne lacuna, and legislation to address the gap was passed by the Government in mid-2013.

Loan Provisioning Exercises

The Central Bank has conducted numerous exercises to ensure that provision adequacy and loan classifications are appropriately conservative. In 2011, the Central Bank published guidelines that set out best practice regarding the policies, procedures and disclosures banks should adopt with regard to impairment provisioning. An updated version of the guidelines was subsequently published in 2013.

During 2013 a Balance Sheet Assessment (BSA) was conducted by the Central Bank. The primary objective was to conduct a robust and comprehensive assessment of banks' balance sheets through an intensive Asset Quality Review (AQR) in order to assess the adequacy of provisions, risk classification, and Risk Weighted Assets (RWA) appropriateness of selected risky (loan) portfolios. The BSA resulted in the banks amending loan classifications and increasing provisions.

In 2015 the Central Bank completed an impairment provisioning review. The purpose of which was to ensure that appropriate practices were being maintained by the retail banks in relation to their credit loss provisioning. The assessment comprised both qualitative and quantitative reviews.

SSM Supervision

On 4 November 2014, the Central Bank became part of the Single Supervisory Mechanism (SSM). This is the system for prudential supervision system of credit institutions in the euro area, comprised of the European Central Bank (ECB) and the national competent authorities (NCAs) from euro area countries. This resulted in supervisory responsibilities and decision-making powers moving to the ECB. Credit institutions are categorised into Significant Institutions and Less Significant Institutions. The former are supervised by Joint Supervision Teams (JSTs) led by the ECB and are comprised of both ECB and Central Bank staff, while the latter continue to be directly supervised by Central Bank supervision teams.

Before transitioning to SSM supervision, the Central Bank completed the ECB Comprehensive Assessment which included an AQR and a stress test. The results of the Comprehensive Assessment were published on 26 October 2014.

The transition to SSM supervision has also led to the establishment of dedicated on-site inspection teams. There have been five inspections covering Distressed Credit undertaken in 2015/2016 for the Covered Banks. These deep-dive on-site credit inspections will continue to challenge the progress made with respect to arrears resolution and the sustainability of solutions.

SSM NPL High Level Group

Across the euro area, in the aftermath of the crisis, the rise in Non-Performing Loans, and how they were being dealt with are a priority area for the SSM. A high-level group on NPLs was established in 2015 by the SSM and is chaired by the Deputy Governor (Central Banking) of the Central Bank. The high level group on NPLs was mandated by SSM's Supervisory Board in July 2015 to develop a consistent supervisory approach to NPLs and is expected to finalise mandated tasks by mid/end

2017. A stocktake of practices in the relevant member states and draft supervisory guidance on NPL resolution has been published by the SSM.[36]

Distressed Credit Strategies

In light of developments since March 2013, following the finalisation of the MART programme and the transition to the SSM, the Central Bank adapted its supervisory approach, working with the SSM, to continue the focus on arrears resolution and reduction in mortgage arrears. The outcome of this was the introduction of the Distressed Credit Strategy review (**DCS**) in 2015. The DCS review represented a move towards a more bank-specific approach to arrears resolution for both mortgage and commercial portfolios.

As part of the DCS review, banks were asked to provide their strategies for resolving residential and commercial portfolios. In summary, while the individual bank submissions were detailed, the overall quality did not meet supervisory expectations. Following a thorough assessment of bank strategies and supporting information (both qualitative and quantitative), additional supervisory requirements were made. This includes requiring banks to have time bound plans to sustainably restructure / conclude the vast majority of their distressed mortgage borrowers.

Summary of Measures

Under the Central Bank's assertive supervisory strategy, banks' approach and operational capability for sustainably addressing mortgage arrears have substantially improved and progress in resolving NPLs is now well established across all banks. Prudential supervisory engagement by the Central Bank, working in conjunction with the ECB (as part of the SSM), continues to be intensive and intrusive.

For mortgage loans in arrears, the focus continues to be on banks having appropriate strategies and operational capability to resolve arrears cases, and the ability to track resolution, as well as ensuring they are appropriately provisioned. This is all done within the context of the Central Bank's work regarding Consumer Protection and the CCMA to ensure that financial stability and consumer protection issues are both considered and given due prominence in the approach taken. As in previous years, thematic and targeted inspections conducted by on-site inspection teams will continue to remain an important measure in judging the effectiveness of arrears resolution strategies within banks.

[36] https://www.bankingsupervision.europa.eu/legalframework/publiccons/html/npl.en.html

Annex 2 - Data Sources

Residential Mortgage Arrears and Repossession Statistics

The quarterly data collection on mortgage arrears first began with reference to Q3 2009, and covered mortgages secured on Principal Dwelling Houses (PDH) in Ireland. Information on the number of accounts in arrears, outstanding balances of those accounts and data on property repossessions were initially collected. Data were broken down by accounts in arrears of up to 90 days, 91-180 days and over 180 days. The reporting population extended to all mortgage providers, i.e. banks and other lenders providing mortgages in Ireland. Information on restructured mortgages was first collected in Q4 2010. This provided information on the end-quarter stock of restructured mortgages, broken down by type of restructure and whether the restructured account was in arrears.

In 2012, additional enhancements were made to the quarterly mortgage arrears data collection. In Q2 2012, the data coverage extended to Buy-to-Let (BTL) mortgages. In Q3 2012, further detail was collected on the length of time in longer-term arrears expanding the duration data to differentiate those loans that were over 180 days in arrears to include those of over 360 and over 720 days in arrears. Data collection on restructured loans was also enhanced to capture the flow of loans into and out of the stock of restructured accounts in the quarter. The final enhancement was to collect information on the performance of restructured loans. The breakdown of restructured accounts were supplemented by further detail on 'meeting the terms' of their arrangement.

Annex 3 - Development of the CCMA

The Central Bank introduced its Code of Conduct on Mortgage Arrears (CCMA) in February 2009. It replaced the voluntary Code of Practice on Mortgage Arrears issued by the Irish Banking Federation and built on the provisions contained in that code. The CCMA is a statutory Code which sets out the framework that regulated entities must use when dealing with borrowers in mortgage arrears or pre-arrears. The CCMA is intended to ensure the fair and transparent treatment of vulnerable, financially- distressed consumers, and has due regard to the fact that each case of mortgage arrears is unique and needs to be considered on its own merits.

There have been a number of reviews of the CCMA since its introduction and the current CCMA came into effect on 1st July 2013.

27 February 2009 – 16 February 2010

The first CCMA, which was imposed under Section 117 of the Central Bank Act 1989, became effective from 27th February 2009. The original CCMA built on the provisions of the Irish Banking Federation's (IBF) voluntary Code of Practice on Mortgage Arrears and applied to all mortgage lenders, not just banks.

The most significant development introduced on foot of the first CCMA (in addition to the fact that this was a statutory Code) was the obligation requiring mortgage lenders to wait six months from the date arrears first arose on an account before applying to the courts for repossession of a property.

17 February 2010 – 31 December 2010

The CCMA was subsequently amended in February 2010 to extend the moratorium on repossession from six months to twelve for co-operating borrowers.

1 January 2011 – 30 June 2013

In 2010, the Central Bank made significant revisions to the CCMA to take into account issues which had arisen since the introduction of the CCMA in 2009 as well as the recommendations of the Mortgage Arrears and Personal Debt Expert Group. The Expert Group was established by the Government in February 2010 and was charged with making recommendations to the Minister for

Finance on options for improving the current situation for families with mortgage arrears on their principal private residence and with personal debt.

The revised CCMA set out more detailed rules, including, among other things:

- the requirement to follow a formal Mortgage Arrears Resolution Process (MARP) for dealing with borrowers in arrears and those who notify their lender that they are facing financial difficulties and may be at risk of mortgage arrears i.e. pre-arrears cases; [37]
- the requirement to establish a centralised and dedicated Arrears Support Unit (ASU) to manage cases under the MARP;
- the requirement to establish an Appeals Board (comprising three of the lender's senior personnel) to hear appeals in relation to the decision of the ASU, the lender's treatment of the borrower's case under the MARP process, or the lender's compliance with the CCMA.

1 July 2013 – To Date

In 2013, an extensive review of the CCMA was carried out, in the context of a growing arrears problem and, in particular, increases in the level of long-term arrears. The purpose of this review was to strengthen the protections in place for borrowers under the CCMA while ensuring that the framework continued to facilitate and promote the effective and timely resolution, by lenders, of each borrower's arrears situation.

The revised CCMA incorporated feedback from engagement with key consumer and industry stakeholders and responses to the public consultation, which received a large volume of submissions. The review also took account of ongoing compliance monitoring, inspections and research conducted by the Central Bank.[38]

The review also fulfilled a commitment to the External Partners (the EU Commission, European Central Bank and International Monetary Fund) to complete a review of the CCMA by end-June 2013.

As part of the implementation by regulated firms of the revised CCMA in 2013, the Central Bank required all mortgage lenders to submit monthly reports to the Central Bank detailing their progress

[37] Pre-Arrears: A pre-arrears case arises where either: a) the borrower contacts the lender to inform it that he/she is in danger of going into financial difficulties and/or is concerned about going into mortgage arrears; or b) the lender establishes that the borrower is in danger of going into financial difficulties which may impact on the borrower's ability to meet his/her mortgage repayments.

[38] To inform the 2013 review, the Central Bank commissioned independent research into the experience of borrowers in mortgage arrears who were engaging in the CCMA's MARP. [38] In February 2013 the Central Bank published the findings.

towards implementation. On-site assessments of implementation were carried out in several mortgage lenders. The boards of directors of all mortgage lenders were required by the Central Bank to sign-off that all of the provisions of the revised CCMA had been fully implemented and tested and that staff training had been completed. It had also requested the Internal Audit Functions of mortgage lenders to include compliance with the revised CCMA in their 2014 audit plans.

Annex 4 - Outline of Credit Servicing Act 2015 and Work Undertaken by the Central Bank since Enactment

Credit Servicing Act – Roles and Responsibilities of Credit Servicing Firms and Unregulated Loan Owners

The Credit Servicing Act describes the activity 'credit servicing' in detail and required that this must be undertaken by a regulated entity. 'Credit servicing' includes interactions with the borrower in respect of the credit agreements such as:

- Notification of changes in interest rates or payments due;
- Collecting repayments due under the credit agreement;
- Managing or administering any of the following:
    - repayments under the credit agreement;
    - any charges imposed on the borrower;
    - any errors made in relation to the credit agreement;
    - any complaints;
    - assessing the consumer's financial circumstances in cases of financial difficulties;
    - alternative arrangements for repayment or other restructuring;
    - assessing the consumer's financial circumstances and their ability to repay under the credit agreements; or
- Communicating with the borrower in respect of any of the above matters.

Section 5 of the Act prohibits a Credit Servicing Firm from implementing an instruction from the Unregulated Loan Owner if, in complying with the instruction, it would be a 'prescribed contravention' of Irish financial services legislation, were it done by a retail credit firm.

Section 1(f)(2) of the Act excludes certain actions from the definition of 'credit servicing', namely:

- determination of the overall strategy for the management and administration of a portfolio of credit agreements,
- the maintenance of control over key decisions relating to such portfolio, or taking such steps as may be necessary for the purposes of enabling the undertaking of credit servicing by another person, or
- enforcing a credit agreement.

These actions are excluded from the definition of 'credit servicing' provided the action is not taken by the Unregulated Loan Owner in a manner which, if it were so taken by a regulated financial service provider, it would be a prescribed contravention of Irish financial services legislation.

Date	Description
July 2015	• **Enactment** of Credit Servicing Act • Credit Servicing becomes **'regulated activity'** • Financial services legislation, including the Central Bank's **Codes apply** in respect of credit servicing • **Consultation Paper (CP96)** on draft Authorisation Standards and Requirements for credit servicing firms is published by the Central Bank • Stakeholder **FAQ on credit servicing** is published on the Central Bank's website • **Addenda** to the various Central Bank **Codes** are published to make explicit that the activity of credit servicing is a 'regulated activity' within the meaning of the Codes and firms carrying out that activity are 'regulated entities' in their own right with respect to that activity.
October 2015	• Deadline by which firms who were already providing credit servicing had to submit a **Stage 1 Application Form** to the Central Bank in order to continue to provide such services ('transitional arrangements').
December 2015	• **Register** of credit servicing firms published on the Central Bank's website. Consumers whose loans are sold on from a regulated lender can verify that the firm servicing their loan is regulated by the Central Bank (for example, where they receive correspondence about their mortgage) • Letter issued to regulated lenders and credit servicing firms in respect of Provision 3.11 of the Consumer Protection Code (CPC) 2012. The letter specifically highlighted firm's obligations under the Code to provide **two month's advance notice** to both the Central Bank and affected consumers, before transferring all or part of its loan book covered by the CPC to another person, including where the transferee is an unregulated entity. • **Finalised Authorisation Standards and Requirements** for credit servicing firms are published. In order to obtain an authorisation as a credit servicing firm, all applicants are required to demonstrate that they are in a position to meet these Standards. • **Stage 2 Application Form** for Authorisation as a credit servicing firm is published, together with a **Guidance Note** on completing the application form.

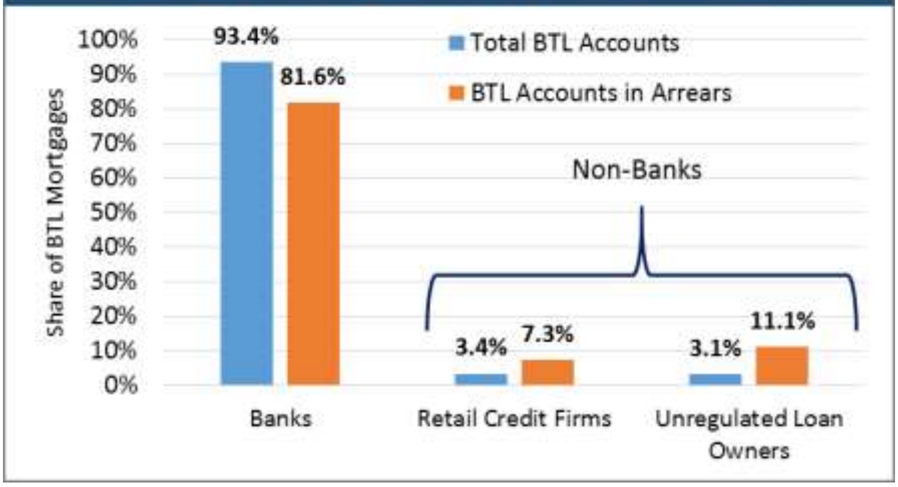
February 2016 onwards	• Deadline by which credit servicing firms had to complete **Stage 2 Application**, which required applicants to:
	    ○ provide detailed information and supporting documentation to demonstrate how they are in a position to meet each of the Standards; and
	    ○ demonstrate how they are in a position to comply with the requirements of Irish financial services legislation including the various statutory Central Bank codes of conduct (including the CCMA).
	• Detailed and robust **assessment** of each application for authorisation as a credit servicing firm is underway by the Central Bank.

Annex 5 – BTL Arrears

While the Minister's letter did not include a request for information on Buy-to-Let (**BTL**) mortgages, the Central Bank has decided to include a short summary of trends and the latest position for completeness. It should be noted that BTLs are purchased for investment purposes and are not covered by the CCMA unless the property is the borrower's only residential property in the Irish state.

There are currently over 134,000 BTL mortgage accounts in Ireland (equivalent to over €25 billion in loan balances). Banks hold the majority of BTL mortgage accounts, representing 93.4 per cent of all BTL accounts in Ireland as shown in Figure 13. These institutions also account for 81.6 per cent of BTL accounts in arrears. Retail credit firms account for 3.4 per cent of all outstanding BTL accounts and 7.3 per cent of BTL accounts in arrears. The remaining 3.1 per cent of accounts are held by unregulated loan owners, who also account for 11.1 per cent of BTL arrears cases.

Figure 13 - BTL Mortgage Market Share by Entity Type



Source – Mortgage Arrears and Repossession Statistics including banks and non-bank entities, end-June 2016.

BTL arrears began to show signs of stabilisation in the first half of 2014 (Figure 14). There has been a gradual reduction in arrears levels from Q3 2014 onwards and BTL accounts in arrears have now declined in eight consecutive quarters. Overall, BTL arrears have reduced by 33 per cent since the peak at over 40,000 accounts in Q3 2013. Furthermore, there are tentative indications of progress with the over 720 days arrears cohort, with reductions reported in this category in each of the last seven quarters. However, similar to PDH trends, accounts in very late arrears (over 720 DPD) now constitute a significant (and increasing) share of BTL mortgage arrears at 55 per cent (Figure 15).

Despite improvements noted above over the past two years, the stock of arrears in BTL portfolios is significant with approximately 1 in 6 BTL accounts in arrears over 90 days.

Figure 14 - BTL Mortgage Arrears

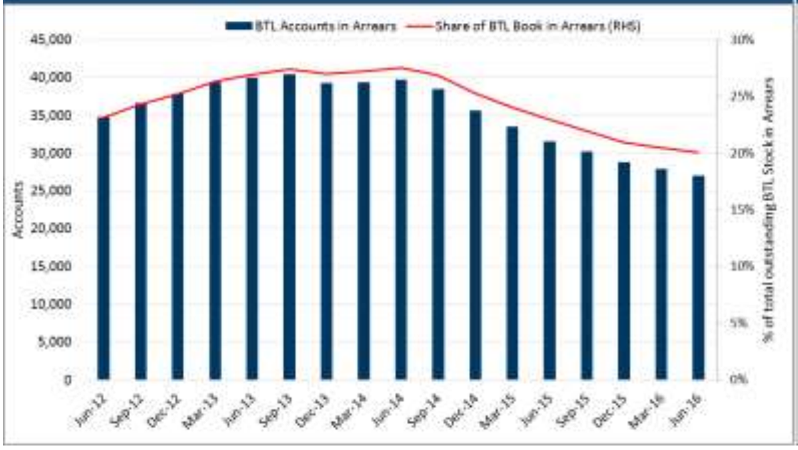
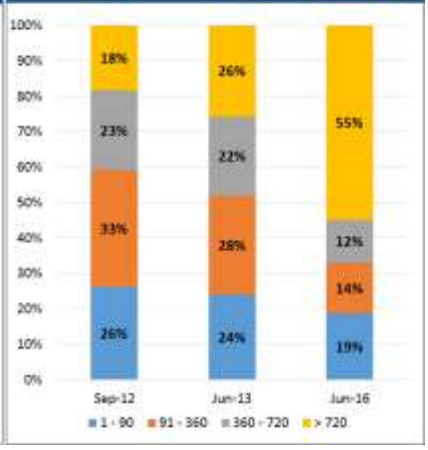


Figure 15 - BTL Mortgage Arrears Composition



Source – Mortgage Arrears and Repossession Statistics including banks and non-bank entities.

A high share of the BTL accounts in arrears is held by non-bank entities as shown in Table 10. Non-bank entities account for 6.6 per cent of all BTL mortgage accounts outstanding, but over 18 per cent of the BTL accounts in arrears over 90 days, while they account for one quarter of the 720 cohort. A significant share of the BTL accounts in arrears are held by unregulated loan owners, which have purchased distressed BTL portfolios from banks.

Table 10: BTL Arrears Profile

	All Institutions		Banks		Non-Bank Entities			
					Retail Credit Firms		Unregulated Loan Owners	
	Number	Value (000)	Number	Value (000)	Number	Value (000)	Number	Value (000)
Total BTL Loans	134,993	25,217,242	126,107	23,097,636	4,636	816,998	4,250	1,302,608
In Arrears	27,042	7,133,506	22,070	5,641,349	1,962	506,531	3,010	985,626
% of total	*20.0%*	*28.3%*	*17.5%*	*24.4%*	*42.3%*	*62.0%*	*70.8%*	*75.7%*
In Arrears over 90 days	21,962	6,076,864	17,314	4,642,078	1,759	477,215	2,889	957,571
% of total	*16.3%*	*24.1%*	*13.7%*	*20.1%*	*37.9%*	*58.4%*	*68.0%*	*73.5%*
In Arrears over 720 days	14,828	4,414,053	11,079	3,196,038	1,196	368,038	2,553	849,977
% of total	*11.0%*	*17.5%*	*8.8%*	*13.8%*	*25.8%*	*45.0%*	*60.1%*	*65.3%*

Source – Mortgage Arrears and Repossession Statistics including banks and non-bank entities end-June 2016.

The stock of BTL accounts classified as restructured has steadily increased since Q1 2013, when 21,504 accounts were reported as restructured (equivalent to 14.4 per cent of the outstanding BTL stock). Based on Q1 2016 data, approximately 27,000 accounts are classified as restructured, representing 19.9 per cent of all BTL accounts. The composition of restructures has changed significantly during this period. For example, in Q1 2013 interest only arrangements accounted for 50 per cent of all restructures, while only very few split mortgages were implemented. Currently, the share of interest only restructures stands at 15 per cent while the share of split mortgages is 7 per cent.

Restructuring activity is dominated by the banks, who account for 98 per cent of all restructured accounts. To put this into perspective, 20.9 per cent of outstanding BTL loans held by banks were classified as restructured at end Q2 2016, in comparison the equivalent figure for RCFs and unregulated loan owners was 7.4 per cent and 6.7 per cent respectively as shown in Table 11. Restructures implemented by banks are also performing better, with almost 87 per cent classified as meeting the terms. Within the non-bank category, the equivalent figure for RCFs and unregulated loan owners was 78.1 per cent and 70.3 per cent respectively.

Table 11 - BTL Restructuring Activity by Entity Type

	All Institutions	Banks	Non-Bank Entities	
			Retail Credit Firms	Unregulated Loan Owners
Total BTL Loans	134,993	126,107	4,636	4,250
Restructured	26,930	26,302	342	286
% of total BTL Loans	*19.9%*	*20.9%*	*7.4%*	*6.7%*
Meeting the terms of the arrangement	23,234	22,766	267	201
% of total restructures	*86.3%*	*86.6%*	*78.1%*	*70.3%*

Source – Mortgage Arrears and Repossession Statistics including banks and non-bank entities – data refer to Q2 2016.

The restructuring activity shows that institutions are seeking to agree appropriate solutions with BTL borrowers where feasible. Where a sustainable restructuring solution cannot be found (e.g. where affordability is not evident), consensual sale strategies are often agreed with borrowers. However, where enforcement is required, lenders typically appoint receivers where the mortgage contract provides such powers. Receivers have been appointed in over 5,700 cases with banks accounting for 74 per cent of this activity with the remaining 26 per cent relating to non-bank entities. Receivers typically allow tenants to remain in the property for the remainder of the lease, and then agree disposal strategies with the relevant institution.

At the beginning of 2016, institutions had, in aggregate, 668 BTL properties in possession. During the first half of 2016, 312 BTL properties were repossessed based on a court order. Another 295 were voluntarily surrendered or abandoned by the borrower while 621 properties were sold. At the end of Q2 2016, 644 BTL properties were in possession in aggregate, with the majority (82 per cent) held by banks.[39]

[39] The end Q2 2016 figure for the number of properties in possession at the end of the quarter is affected by a small number of property reclassifications from PDH/BTL categories.