Settlement Agreement between the Central Bank of Ireland

and

Springboard Mortgages Limited trading as Springboard Mortgages

The Central Bank of Ireland fines Springboard Mortgages Limited trading as Springboard Mortgages €4,500,000 in respect of breaches of its obligations to tracker mortgage customers

The Central Bank of Ireland (the "**Central Bank**") has issued a reprimand and imposed a fine of €4,500,000 on Springboard Mortgages Limited trading as Springboard Mortgages (the "**Firm**") for serious failings in its obligations to tracker mortgage customers. This follows an enforcement investigation which found significant breaches of the Consumer Protection Codes 2006 and 2012. The breaches have been admitted by the Firm.

In addition to the fine and reprimand, the Central Bank required the Firm to implement a major redress and compensation programme under which the Firm has provided redress and compensation to customers impacted by the breaches in the amount of approximately €5,800,000 to date.

The Central Bank's investigation found that the Firm failed to apply the correct interest rates to 222 customer mortgage accounts over a seven year period between August 2008 and July 2015. In doing so, the investigation concluded that the Firm failed to:

- Act with due skill, care and diligence and in the best interest of its customers;

- Effectively employ adequate and/or appropriate resources and procedures; and
- Have adequate systems and controls in place.

The failures were significant and had serious consequences for impacted customers, all of whom had to make higher mortgage repayments than required. Further, the failures resulted in some impacted customers going into mortgage arrears and some being subjected to legal proceedings in respect of arrears on their accounts.

Derville Rowland, the Central Bank's Director of Enforcement said:

"Taking on a mortgage is one of the biggest financial commitments that a customer will make. Every mortgage customer must have trust and confidence that their account is being managed properly by the firm providing their loan.

The Consumer Protection Codes 2006 and 2012 place a clear obligation on regulated firms to act in the best interests of their customers and to have the proper systems, controls and resources in place at all times to comply fully with their obligations under these codes. Over a seven year period the Firm failed to apply the correct interest rates to 222 mortgage accounts. The consequences for impacted customers were serious and totally unacceptable. All 222 customers paid more than required, some fell into mortgage arrears and some were subjected to legal proceedings.

The Central Bank required the Firm to cease applying incorrect interest rates to customers' mortgage accounts and to implement a major customer focused redress and compensation programme. The programme was designed to put impacted customers back in the position that they should have been in and to compensate them for the detriment and loss caused to them. The Firm has paid approximately €5,800,000 in redress and compensation to date.

The imposition of the fine and reprimand, in addition to the redress and compensation programme, demonstrates the Central Bank's determination to take all necessary action in order to protect customers' best interests, and serves as a clear and timely warning to all regulated firms of their obligations to customers.

This concludes the Central Bank's investigation into Springboard Mortgages."

TRACKER MORTGAGE EXAMINATION

The Central Bank has now commenced an examination of the wider tracker mortgage market. Pursuant to that review, the Central Bank has requested lenders dealing with tracker mortgage customers to review their tracker mortgage loan book to ensure that the lenders have met both their contractual and regulatory obligations to their customers, including in respect of disclosure and transparency of customer communications. The Tracker Mortgage Examination is a priority for the Central Bank and enforcement action will be considered where appropriate.

BACKGROUND

The Firm is a wholly owned subsidiary of permanent tsb p.l.c. (**"PTSB"**). It was an authorised prescribed credit institution within the meaning of Section 2 of the Consumer Credit Act 1995 and subsequently became an authorised retail credit firm as defined in Part V of the Central Bank Act 1997. The Firm ceased issuing new loans from June 2009. The Firm has now sold its entire loan portfolio to a third party.

In January 2007, the Firm commenced lending and offered tracker interest rate products to customers. From August 2008 onwards, the Firm changed its mortgage product offering and no longer offered tracker interest rate products, instead offering only variable rate products. The breaches at issue in this investigation occurred primarily as a result of decisions taken by the Firm as to how the change in its mortgage product offering would affect customers with tracker entitlements.

PRESCRIBED CONTRAVENTIONS

The Firm's failure to apply correct interest rates to customers' mortgage accounts occurred as:

- The Firm failed to act with due skill, care and diligence in the best interests of its customers when applying interest rates to their mortgage accounts during the periods between August 2008 and December 2011 (in breach of Chapter 1, General Principle 2 of the Consumer Protection Code 2006 (the **"2006 Code**")) and January 2012 to July 2015 (in breach of Chapter 2, General Principle 2.2 of the Consumer Protection Code 2012 (the "**2012 Code**"));

- The Firm failed to have and/or effectively employ adequate and/or appropriate resources and procedures and systems and control checks to ensure compliance with the 2006 Code during the period between August 2008 and December 2011 (in breach of Chapter 1, General Principle 4 of the 2006 Code) and to have and/or effectively employ adequate and/or appropriate resources, policies and procedures, systems and control checks including compliance checks and staff training to ensure compliance with the 2012 Code during the period between January 2012 to July 2015 (in breach of Chapter 2, General Principle 2.4 of the 2012 Code); and
- The Firm also failed to have adequate systems and controls in place to ensure compliance with the 2006 Code in breach of Chapter 2, Provision 57 of the 2006 Code during the period between August 2008 and December 2011.

Effect of the Breaches

As a result of the breaches higher interest rates were applied to 222 customer mortgage accounts and impacted customers therefore made higher mortgage repayments than they were required to during the relevant period. The length of time customers were required to make higher mortgage repayments than required ranged between 12 months and 6 years and 11 months. The average amount overcharged to a customer's account was €19,351. Overcharged amounts ranged from approximately €100 to approximately €68,000.

Having to make higher mortgage repayments caused serious difficulties for customers with some customers going into mortgage arrears and some being subjected to legal proceedings. In order to address the serious detriment suffered by impacted customers the Central Bank required the Firm to implement a major redress and compensation programme in July 2015.

Key elements of the Firm's redress and compensation programme are as follows:

- The restoration of impacted customer accounts to the correct tracker interest rate;
- The adjustment of the balance of impacted customer accounts to the position the accounts would have been in if the correct interest rates had always been applied;
- The refund of any overpayments to customers after their account balances have been adjusted;

- The provision of compensation payments to impacted customers to reflect the detriment suffered by them as a result of the breaches;
- The provision of additional payments to impacted customers to enable them to take professional advice in respect of the redress and compensation offered to them by the Firm;
- The establishment of an independent appeals process to ensure that impacted customers can challenge the redress and compensation offered to them in an expeditious and customer friendly manner;
- The provision of redress and compensation to impacted customers up-front, regardless of whether or not they appeal;
- The Firm agreed not to invoke any statutory limitation period (that might otherwise apply) in respect of any complaint that impacted customers may choose to make to the Financial Services Ombudsman and the Courts for a certain amount of time.

PENALTY DECISION FACTORS

In deciding the appropriate penalty to impose, the Central Bank considered the following matters:

- The impact on affected customers (higher mortgage repayments, entering into mortgage arrears and being subjected to legal proceedings for arrears on their mortgage accounts);
- The number of customer mortgage accounts impacted by the breaches;
- The duration of the breaches (approximately 7 years);
- The action taken by the Firm in self-identifying the failures and the action taken to remedy the breaches once identified;
- The co-operation of the Firm during the investigation;
- The previous compliance record of the Firm.

NOTES TO EDITOR

1. The Consumer Protection Codes 2006 and 2012 are available on the Central Bank's website www.centralbank.ie or to download here.

2. The 2006 Code ceased to have effect on 31 December 2011 and the 2012 Code came into effect on 1 January 2012.

3. The fine reflects the application of the 30% settlement discount as per the Early Settlement Discount Scheme set out in the Central Bank's "Outline of the Administrative Sanctions Procedure" which is here.

4. The Tracker Mortgage Examination commenced in December 2015. The Examination requires all lenders to review their loan book to ensure compliance with both regulatory and contractual requirements in relation to tracker mortgages. Where impacted customers are identified, the Central Bank expects that those customers will receive redress and compensation commensurate with the detriment suffered. Updates on the examination are available on the Central Bank's website www.centralbank.ie or to download here.

The Central Bank confirms that the matter is now closed.

- End –