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Re: Queries with respect to mortgage accounts held by non-bank non-lenders

Dear Deputy Doherty

Thank you for your letter to Governor Makhlouf of 6 September 2023, which requested updated data to the information provided in our response of 4 July 2023.

As outlined in that response, we have engaged intensively with firms since last year on the operation of specific aspects of the consumer protection framework to ensure regulated firms:

- Enhance the supports available to borrowers in or facing arrears. This includes enhancing and monitoring of early warning indicators as rate increases impact on borrowers and the analysis conducted by firms to identify those borrowers who may require additional support;
- Have sufficient operational capacity in place to manage applications by borrowers to switch their mortgage or mortgage provider, and that there is no discrimination against borrowers based on where they currently hold their mortgage; and
- That increases in mortgage interest rates are in line with mortgage terms and conditions, firms' published variable rate policy statements and the regulatory framework for which the Central Bank is responsible.

As outlined in the update published in April, the initial phase of our work established that, properly applied, the regulatory framework is well positioned to deliver for consumers, in this current context. Our analysis has also shown that there is no evidence of discrimination for switching applicants coming from non-banks based purely on where their mortgage is currently held.

As we have progressed our current phase of work, we have seen tangible outcomes emerge from individual firms and collectively including:

- Firms have further developed their early warning indicators to improve their identification and proactive engagement with customers who are in, or in danger of, falling into arrears.
- In response to these early warning indicators, firms have introduced a range of measures to help support borrowers including increased resources to support customers.
- Firms have continued to enhance the alternative repayment arrangement supports (or ARAs) for borrowers in or facing arrears including the introduction of fixed rate ARA options which has been announced publicly.
- Firms have enhanced borrower communications initiatives on switching and some have launched proactive outreach campaigns aimed at specific groups of borrowers.
- We have also seen a system-wide initiative across all firms with the recent announcement of the new support measures for borrowers in the BPFI "Dealing with Debt" campaign, that has introduced system wide initiatives to support mortgage switching for the first time and increased coordination with MABS and mortgage brokers to enhance how the mortgage market operates for consumers.

These are important outcomes that matter to people. While measures taken by firms to date are welcome, the Central Bank will continue to engage with firms to ensure that actions meet our expectations and all industry participants are extending themselves to support consumers in difficulty.

Enclosed below is information in relation to your specific questions.

1. Could the Central Bank update the estimates of the distribution of interest rates of outstanding PDH mortgages across banks, non-banks and non-banks non-lenders (NBNLs)?

Table 1 below updates estimates of the changes in the mortgage interest rates on outstanding loans from June 2022 to June 2023. It is clear that there are differences in the mortgage lending rate distributions between retail banks and non-bank firms, but also there are differences between nonbank lenders and NBNLs.

As an example, in June 2023, 67 per cent of retail bank mortgages were at an interest rate of 4 per cent or lower, down from 93 per cent at the 4 per cent or lower rate 12 months prior. For non-bank lenders, 91 per cent of mortgages had rates of 4 per cent or lower in June 2023, down from 99 per cent 12 month prior, while for NBNLs, the rate at 4 per cent or lower fell to 21 per cent in June 2023 from 78 per cent in June 2022.

Table 1: Estimates of the distribution of Interest Rates of Outstanding PDH Mortgages: June 2022 versus June 2023 ***(cumulative percentage of mortgages at each interest rate interval)****

End-June 2022

Interest Rate Intervals (%)	Banks	Lending RCFs	Non-lending firms
<= 0.5	2%	0%	14%

End-June 2023

Interest Rate Intervals (%)	Banks	Lending RCFs	Non-lending firms
<= 0.5	2%	0%	11%

<= 1.0	15%	0%	35%
<= 1.5	30%	3%	55%
<= 2.0	32%	17%	57%
<= 2.5	44%	45%	60%
<= 3.0	68%	69%	65%
<= 3.5	83%	98%	69%
<= 4.0	93%	99%	78%
<= 4.5	99%	99%	94%
<= 5.0	100%	100%	96%
<= 5.5	100%	100%	98%
<= 6.0	100%	100%	99%
<= 6.5	100%	100%	99%
<= 7.0	100%	100%	100%
<= 7.5	100%	100%	100%
<= 8.0	100%	100%	100%
<= 8.5	100%	100%	100%
<=9.0	100%	100%	100%

<= 1.0	2%	0%	12%
<= 1.5	2%	0%	12%
<= 2.0	2%	16%	13%
<= 2.5	16%	45%	14%
<= 3.0	36%	70%	16%
<= 3.5	56%	87%	18%
<= 4.0	67%	91%	21%
<= 4.5	71%	92%	39%
<= 5.0	86%	93%	70%
<= 5.5	98%	95%	76%
<= 6.0	99%	97%	80%
<= 6.5	100%	99%	89%
<= 7.0	100%	100%	93%
<= 7.5	100%	100%	98%
<= 8.0	100%	100%	99%
<= 8.5	100%	100%	100%
<=9.0	100%	100%	100%

**Estimates based on CCR data. These are not official Central Bank Statistics.*

Some key findings of the Central Bank's analysis[1] of interest rates in the non-bank sector are as follows:

- Generally, non-banks have a greater reliance on wholesale funding (often tied to EURIBOR) than retail banks as they are not authorised to accept deposits. As such, the pass through of rising interest rates is more strongly linked to their funding model and tends to happen quicker.
- Most of the mortgages serviced by NBNLs are assets in securitised portfolios owned by investors who are not regulated by the Central Bank. NBNLs are paid on a fee basis which does not rise in line with interest rate increases. A typical securitisation will contain terms and conditions for the bonds within the structure that will dictate the return the NBNL is expected/contractually required to provide to the investor(s). Usually, this is EURIBOR plus somewhere between 1.4 and 4 percentage points.
- NBNLs are broadly increasing rates for variable rate loans as the ECB rates and wholesale market rates have trended higher. We have also seen that not all increases have been passed on to the fullest extent possible (in terms of increases in ECB or wholesale funding rates). In some cases, firms have exempted certain borrowers on affordability grounds.

[1] Outlined in greater detail in the Governor's letter to the Minister for Finance dated 6 June 2023

- We have not seen rate increases that are contrary to customers' terms and conditions or increases beyond what the underlying securitisation structures would envisage.

2. You provided data on the number of PDHs held by non-bank non-lenders which are performing, non-performing, restructured and in arrears. Can you update this estimate?

The latest available data set is for Q2 2023 is available here.

Of the total 712,347 PDH accounts (across banks and non-banks), 112,630 are held by non-banks.

Of those accounts held by non-banks 25,620 were in some form of arrears as at end of June 2023. This means that a total of 87,010 accounts held by non-banks (non-bank lender and NBNLs combined) are either (i) performing without a prior restructure or (ii) restructured and performing.

Of those accounts held by non-banks, 22,984 are currently restructured and 78.6 per cent are meeting the terms of the restructure.

3. Can the Central Bank provide an estimate of the number of PDH accounts held by nonbank non-lenders that satisfy the 'initial eligibility criteria' agreed by the main lenders?

The Central Bank welcomes the second phase of the BPFI's Dealing with Debt campaign, which follows on from the Central Bank's engagement with industry as part of Phase 2 of our ongoing work[2]. As the Deputy will be aware, the Dealing with Debt campaign covers a range of new and existing supports available for mortgage customers who may be experiencing financial difficulties in light of the continued cost of living pressure and recent increase in interest rates. These include enhanced collaboration with MABS and additional supports for customers of credit servicing firms who wish to discuss their mortgage switching options (e.g. dedicated phone lines and additional published information on switching). The Central Bank encourages all borrowers to engage with these supports, which are themselves set against the backdrop of a high protective regulatory regime.
As part of this package of measures, BPFI members listed in the recent announcement agreed and published initial eligibility criteria, to provide clear guidelines for home mortgage customers of NBNLs who are seeking to switch their mortgage. The Central Bank welcomes the clarity provided by the publication of these criteria. We reiterate that the most important thing is for consumers at credit servicing firms to seek the advice of their lender or a third party (such as a regulated mortgage intermediary or MABS) to explore their options (including the option of switching and how their

[2] In its publication of April on the Central Bank's ongoing work to protect consumers in a changing economic landscape, the Central Bank said it would arrange an industry engagement to discuss areas where consumers could be better supported through greater coordination amongst participants (e.g. in the area of switching) and where the information or options available to affected consumers could be enhanced. An industry meeting was held in June from which the industry participants progressed the initiatives outlined in the BPFI's announcement of 6 September, following the further roundtable meeting with the Minister for Finance on 31 August.

circumstances relate to the criteria published by the BPFI). The Central Bank will continue to monitor the level of engagement by borrowers with these supports, through our ongoing engagement with the firms we regulate and with the BPFI, while noting there is a low base in terms of existing switching activity. The latest data on mortgage approvals shows that remortgage/switching activity fell by 54.4% year on year in volume terms.

In terms of your specific question on numbers therefore, our focus will be on the degree to which affected consumers seek to access these supports and are supported to switch. What is clear, however, is that the population to which the BPFI's initiative speaks is substantial.

For example, in our last letter, we set out that initial internal calculations, based on Central Bank data indicate that the number of accounts held by NBNLs that have been assessed as never been in financial difficulties[3] was just under 23,000 in March 2023. We estimate, based on the criteria of accounts which have not been in arrears for 2 years or more, and paying full capital and interest, that there are approximately 27,000 accounts currently in NBNLs that may potentially be able to switch. Of this 27,000, approx. 15,500 are on tracker rates and approx. 11,000 are on variable rates (where we see the higher rates amongst NBNLs). However, this estimate must be considered in the context that any switching application would be subject to an individual credit assessment and there are other criteria that will need to be considered.

While it is not possible to predict with precision the level of accounts that may be able to avail of switching on foot of the BPFI announcement, it is clear that the initiative has the potential to be availed of by a substantial number of borrowers currently with NBNLs, including borrowers on higher rates. Much will depend on the scale of engagement by consumers and, importantly, the quality of support regulated firms provide to those consumers who do engage, alongside the equally important supports for consumers in or facing arrears.

I hope that this information, together with the above explanation of our continuing work on this matter, is of assistance and we remain available to discuss this important matter further with you at any stage.

Yours sincerely,

Derville Rowland

Derville Rowland
Deputy Governor, Consumer and Investor Protection

[3] Account has never been in arrears, as defined in the CCMA, and the customer has never sought, or been granted, an alternative repayment arrangement for the account.