

## **Patrick Honohan: Progress and developments in relation to implementing the mortgage arrears resolution targets**

Speech by Mr Patrick Honohan, Governor of the Central Bank of Ireland, to the Joint Committee on Finance, Public Expenditure and Reform, Dublin, 30 April 2014.

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*Accompanying data tables can be found on the Central Bank of Ireland [website](#).*

Thank you for inviting me to discuss the progress and developments in relation to implementing the mortgage arrears resolution targets. I welcome the opportunity to discuss the issue and I am also happy to discuss other matters the Committee may wish to raise.

When I was last before the Committee in September I noted that there were indications the mortgage arrears resolution process was working and, while there was still some way to go, momentum was building. Based on the evidence of recent months it is evident that the momentum has been established and we are starting to see progress by all banks in working to address mortgage arrears issues. Although it is still fair to say that the full resolution across the system will take a significant amount of time.

As you are aware under the Mortgage Arrears Resolution Targets imposed by the Central Bank last year the banks are required to meet quarterly targets on the resolution of mortgage arrears. To date we have received returns from the banks for three quarters and we reported the outcomes of our first assessment in November.

We have recently concluded our audit and assessment of a sample of the banks' end 2013 target returns, which you discussed recently with the various institutions. Based on the information submitted the banks have proposed sufficient numbers of solutions to meet the targets of proposing solutions to 50 per cent of those in arrears and concluding 15 per cent of these cases.

The audit effort this time was channelled towards what we viewed as the highest risk areas. We focused on examining the areas and issues which have caused us most concern and areas which the banks must address now if they are to build a sustainable, long-term process to deal with arrears. The audit process involved examinations of individual loan files, based on institution-specific samples, distinguishing for example between situations where a bank could be perceived as still relying on short-term solutions, and where a bank seemed to be relying on what might be called "bulk campaigns" (offering similar solutions across the board to a range of cases).

All in all, I would summarise our findings by saying that although we have noted, in the course of the audit, a number of areas of deficiency (as I will mention below), by and large, the evidence is consistent with a process which is working more or less to target.

A number of key issues emerged in our latest audit, all of which have been communicated to the banks to address. The main issues include:

- In some banks, communications with borrowers on proposed sustainable solutions were too frequently verbal in nature, and they did not provide sufficient clarity to borrowers on what the ultimate solution proposed was.
- There is evidence that despite the requirements for proposed solutions to be sustainable in the long-term, short-term loan modifications are still too prevalent in some banks.
- Affordability assessments were often not evident on files reported as sustainable.
- In a limited number of cases, we found issues of potential breaches of the Code of Conduct on Mortgage Arrears (CCMA) relating to the timing of the letters in advance

of legal proceedings for repossessions commencing. The Central Bank will commence a review of CCMA compliance in the second half of the year and these findings will be taken into account as part of this review.

We are communicating the specific issues and actions identified for each bank, including the actions arising in from our wider insights into the effectiveness of the specific banks' strategies to resolve mortgage arrears.

While these issues are significant, and it is important that action is taken to address them, they should not impede progress on dealing with arrears cases. We expect the banks to continue to progress cases to sustainable and long-term solutions.

We will continue to review the banks' operations and strategies and where there are deficiencies or we think things should be done better we will let them know.

Addressing mortgage arrears was never going to be a short-term issue. We have always believed it was going to take time to tackle the issues and take a number of years to work out. We are now at a point where progress is evident and, notwithstanding specific areas for improvement by banks, we are moving along the right path. Mortgage arrears remain a significant priority for the Central Bank and we will continue our programme of intensive oversight of the banks' progress.