The Irish Mortgage Market – 2018 and beyond.

Introduction

Good morning. I would like to thank the Institute of Bankers for arranging today's event[1].

The housing and mortgage market in Ireland continues to attract significant public attention. The challenges in the housing market are a cause of real concern for many citizens.

The interplay between the availability of suitable housing, house prices and the mortgage market are critical dynamics in the economy and society as a whole. Furthermore, as we continue to deal with the toxic legacies of the financial crisis, both conduct and prudential related, it is clear that elements of dysfunction remain in both the housing market and the mortgage market.

In my remarks today, I will cover:

- the key characteristics of a functioning mortgage market;
- the Irish housing market;
- the Irish mortgage market today;
- macro prudential measures; and
- mortgage interest rates and switching.

I will start by providing an overview of the role of the Central Bank in the context of the mortgage market.

Role of the Central Bank

The mission of the Central Bank is serve the public interest by safeguarding financial and price stability and protecting consumers. My aspiration for the financial services system is that is well-managed, resilient and serves the needs of the economy and its customers over the long term.

This requires that financial services firms:
- have sufficient financial resources, including under a plausible but severe stress;
- have profitable business models over the long-term;
- are well governed, have effective cultures, with effective risk management and control arrangements; and
- can recover if they get into difficulty, and if they cannot, are resolvable in an orderly manner without significant externalities or taxpayer costs.

One key role of the financial services system is to provide borrowers with loans to purchase their homes. The Central bank's role is to ensure, through its economic analysis, its macro prudential tools, its micro prudential supervision (as part of the SSM[2]), and through delivery of its consumer protection mandate, that the economic and social good of mortgage provision (as a critical financial service) is prudent, sustainable, and that the best interests of consumers' are protected. In other words, we strive to ensure that lenders are appropriately mitigating the risks inherent in mortgage lending.

Unfortunately, there are few countries that have a worse experience than Ireland of the economic and human costs that arise when these risks crystallise. This is why the Central Bank and other agencies have taken such interventionist action in the mortgage market since the onset of the

financial crisis. Before considering these issues and risks further, it is worth spending a moment on the key traits of a functioning mortgage market.

A simple functioning mortgage market

In Ireland, the vast majority of mortgage lending takes place through the banking system. As well as pooling risk (collecting savings from depositors and lending to borrowers), banks also undertake maturity transformation – obtaining relatively short term funding and lending over the long term. Banks charge margins above the cost of funding to cover, *inter alia,* operational costs, credit risk costs and to give a sufficient return after these costs to generate a sustainable profit over the long term.

For the market to function well, consumers should be treated fairly and there should be appropriate frameworks in place, such that contractual terms are clear to support their decision-making, and strong protections exist to support them if they get into payment difficulties. In order to differentiate between secured and unsecured lending in the pricing of loans, it is important that lenders have the ability, as a last resort, to realise the underlying security if the borrower defaults on the loan.

A functioning market should deliver a sufficient supply of appropriately priced mortgages to support house prices that are in line with the fundamentals of the economy, without driving credit fuelled house price bubbles.

It is evident that the Irish mortgage market has many of these aspects. Indeed, there has been a significant strengthening across all these areas in the last decade or so. However, it is also clear that dysfunction still exists – and continues to affect the functioning of the mortgage market in Ireland today. I will turn to these shortly, but before I do, it is worth considering briefly, by way of context, the Irish housing market more broadly.

The Irish Housing Market.

Housing market developments are central to understanding both conditions in the mortgage market today and their evolution tomorrow. The housing stock in Ireland was just over two million homes in 2016[3]. This has flat lined since the height of the financial crisis - increasing by just 8,800 since 2011 (less than a half of one per cent of the stock). Over the same period, the Irish population grew by over 170,000 (by 3.8%) to 4.7m. Added to this, with the welcome economic recovery, Ireland is experiencing:

- increasing income;
- increasing employment;
- a longer term trend in a reduction in the size of households[4];
- the increasing presence of foreign private equity firms and real estate investment trusts (REITs), which tend to operate mainly in urban markets; and
- evidence of a trend to increasing use of short term lets in urban areas[5].

In other words, and in line with classical economic theory, the demand for housing has been increasing, at the same time as supply has, until very recently, been flat. Consequently, the strong recovery in house prices and upward pressure on rents are understandable looking at it purely in economic terms. However, while understandable, this does not make it easier for those that are trying to secure housing across the wide spectrum of demand for it.

This clearly has consequences from an affordability perspective, particularly for first time buyers. The relationship between incomes and house prices mean that unless incomes rise or there is a decrease in house prices or there is further access to more affordable housing, the ability to purchase a home supported by mortgage finance will be increasingly difficult for more of the Irish population. The solution to this issue cannot be imprudent lending. The substantive solution to this societal issue is to build more and affordable housing for Irish people.

If we look to the future, the population is expected to grow. Project Ireland 2040 estimates that by 2040 the population of Ireland will reach almost six million. This will result in a need for 550,000 more homes with current estimated housing demand of 30,000-35,000 per annum to overcome the current shortfall and then this will reduce to 25,000 new homes per year. In this context, Central Bank research points to house completions of approximately 23,500 units in 2018 and 28,500 in 2019[6].

The profile of the housing stock is also changing with an increase in the number of apartments. Recent CSO data shows that within the Dublin City local authority area, apartments (74,537) were the main dwelling type for the first time - replacing terraced houses (74,446)[7]. However, the proportion of apartment living in Ireland is the lowest in the European Union and the number living in semi-detached or detached housing in Ireland is the highest across the European Union[8].

These dynamics require funding to be available for building and for purchase. It is unlikely and strongly undesirable, that this funding would all come through the banking system, as was largely the case leading up to 2008. The presence, therefore, of non-bank financial institutions such as private equity, pension funds and insurance undertakings, in Ireland should be welcomed – providing as it does funding for development, and reducing the risks to the domestic financial system in the event that there is a downturn or a correction.

The Irish Mortgage Market today

The stock of existing mortgage loans at the end of December 2017 was €120.5 billion[9]. This is made up of Private Dwelling Home (PDH) loans of €98.5 billion and Buy to Let (BTL) lending of €21.9 billion; and is comprised of c.852,000 mortgage accounts (c.730,000 PDH and c.122,000 BTL)[10].

In 2017, there was €7.4bn of new lending for 35,400 loans[11]. This was a 30% increase in the total lending from 2016 to 2017. The average loan size for first time buyers was €206,216 and €232,275 for second and subsequent buyers. Of the mortgages in scope of the Macro prudential mortgage measures, 54% relate to first time buyers and 46% to second and subsequent buyers.

Mortgage lending is important for the economy. It is critically important to the domestically focused retail banks. At the end of 2017, residential mortgages represented 58% of banks' total gross loans[12]. In 2017, new mortgage lending amounted to 38% of all new lending activities by the five retail banks, including lending outside of Ireland.

Recent Central Bank research has indicated that near term developments in the volume of new mortgage lending warrants careful monitoring such that high levels of activity are not accompanied by the emergence of excessive cyclical systemic risk[13]. The macro prudential rules (which I will touch on later) and the micro prudential regulation and supervision of the retail banks are, therefore, critical to the continued safety and soundness of the domestic banking system.

It is one of the paradoxes of the Irish mortgage market that there are potential increases of cyclical risks, at the same time as we have the continued human suffering and financial stability risks of elevated non-performing mortgage loans.

At the end of December 2017, c.48,000 PDH loans (7%) and c.18,000 BTL loans (15%) were more than three months in arrears on their repayments. Within these figures, c.29,000 PDH (4%) and c.13,000 BTL (11%) loans are greater than two years past due. 10 years since the first waves of the financial crisis started buffeting Ireland, and five years since the peak of non-performing loans in Ireland, at a time when we are almost certainly closer to the next downturn than we are to the start of the last one, we still have a crisis in the mortgage market.

First and foremost this matters because behind each account in arrears there is distress and, in the case of PDH loans, the vulnerability of borrowers at risk of losing their home. This is why there are a significant number of protections and supports for consumers facing mortgage arrears.

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 in place.

This includes, regulatory requirements such as the Code of Conduct on Mortgage Arrears (CCMA), which was put in place to ensure the fair and transparent treatment of financially-distressed borrowers and governs how lenders interact with these borrowers. 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. Firms must also follow the Mortgage Arrears Resolution Process (MARP) when dealing with borrowers facing arrears. The MARP process also requires alternative options if a restructure could not be agreed or was not appropriate.

Within the broader Irish consumer protection framework, there is a range of advice and support for those in arrears, including the Money Advice and Budgeting Service (MABS), the national mortgage Arrears Resolution Service (Abhaile) and a Court Mentor service to assist debtors faced with court proceedings.

The Government also introduced the Personal Insolvency Act 2012, which introduced three debt resolution processes: A Debt Relief Notice, A Debt Settlement Arrangement and a Personal Insolvency Arrangement. The Insolvency Service was established in March 2013 as an independent statutory body. The Government also introduced a national mortgage-to-rent scheme. There are also a number of other non-statutory organisations providing assistance to those in mortgage arrears.

However, these protections, safety nets and restructuring options are not going to address the underlying problems if distressed borrowers do not engage with their lenders or the supports that are in place. In this context, it is noteworthy that:

- circa 44% of PDH loans that are more than two years past due are also more than five years past due[14];
- 38% of borrowers of PDH loans that are more than two years past due had not engaged with their lender as of end 2017[15].

There is clearly a high level of personal distress in individual borrower circumstances that are reflected in these numbers. However, particularly where borrowers are not engaging, and the hole is simply getting bigger, a functioning secured lending market has to have meaning to that security. There are costs to all other borrowers through the impact on secured lending pricing together with financial stability risks where this security is undermined.

In other words, the high level of non-performing mortgage loans continues to affect the functioning of the Irish mortgage market today. Key determinants of mortgage pricing include the risk of default and the associated capital that a bank is required to hold to cover this risk. It is a statement of the obvious, but this is why unsecured lending rates are higher than secured. Not only do current default levels matter, but so do historical levels. This is reflected in the Irish banks holding considerably more capital for mortgage lending than some European peers[16]. It is also why the higher interest rates and net interest margins in the Eurozone are typically, albeit not exclusively, found in the countries with higher levels of NPLs.

There is also a correlation between these same countries and the shrinkage in their banking sector, and so a reduction in competition in the sector, as has been the case in Ireland. The exit of providers and the impact on the attractiveness of the Irish market for new providers is also attributable to the level of non-performing loans. Both of these factors also have obvious implications for mortgage pricing.

From economic and financial stability perspectives, high levels of non-performing loans tie up capital and operational capability, which may otherwise be used in more productive ways. Furthermore, the uncertainty of banks' balance sheet strength and the subsequent reduction in market confidence make them more vulnerable to funding shocks.

A comprehensive account of the history of non-performing loans in Ireland and the policy responses to them is outlined in the Central Bank's paper on Resolving Non-Performing Loans in Ireland: 2010-2018[17].

Banks' provisioning models, which determine the amounts they set aside for loan losses, include assumptions about house price movements. In Ireland, the significant recovery in house prices has led to some reduction in the level of provision coverage of non-performing mortgage loans. The continued high level of non-performing loans makes them highly vulnerable to future economic downturns, from both the existing non-performing loans, and potentially new defaults. While all the Irish retail banks are significantly better capitalised than pre 2008, they are more vulnerable than those without this legacy to future economic shocks.

While recognising that eaten bread is soon forgotten, it is worth spending some time outlining what has been done. The hard work and sacrifices of those borrowers in distress that have engaged, the pressure and the requirements of the Central Bank, the banks' willingness to sustainably restructure mortgages (enforced by the Central Bank's requirements that legal action can only be done as a last resort[18]), all underpinned by economic growth, have resulted in the number of mortgage accounts in arrears being halved, primarily[19] through restructure, since the peak of 2013.

At the end of 2017, approximately one in six (c.118,000) of all PDH loans in existence had had some form of restructure. 87% of these loans were meeting the terms of this restructure, and 79% of them are no longer in arrears[20]. Repayment probabilities of modified mortgages increase where permanent or longer-term, more sustainable modifications (i.e. in line with the Central Bank's sustainability guidelines[21]) are put in place, rather than modifications of a temporary nature. Other factors more generally associated with mortgage payment difficulty such as higher loan to value

ratios, higher interest rates, loan origination cohort effects, geographic factors and interest rate type effects are all shown to have explanatory roles when focussing specifically on the repayment probabilities of modified mortgages.[22]

Unfortunately, there has also been loss of ownership. If we, economically and societally, want a functioning mortgage market, where secured lending is priced in a different way to unsecured, then that security must mean something. Between September 2009 and December 2017, 8,506 PDH properties were repossessed. This equates to around one in 16 of those that were in arrears at the 2013 peak, or 7% of the restructured accounts, providing evidence that this action has been taken as a last resort as required under the CCMA. Approximately two thirds of these were surrendered or voluntarily sold, with the remainder repossessed through the courts. The majority of those in the legal process now have been deemed non-cooperating before the legal process was initiated. 87% are in arrears over 720 days with an average arrears balance of over €53,000[23].

Recognising the individual distress these numbers represent, I would again urge anyone in arrears to engage with their lenders and / or the supports that are available.

The Central Bank, as part of the SSM, continues to require banks to reduce non-performing loans in a sustainable way. There are multiple tools available, including: re-engaging with borrowers, restructures, accounting write downs, mortgage to rent, engaging through the Insolvency Service, sales and securitisations and the legal process.

It is in this context that the Irish retail banks have submitted updated NPL reduction strategies. These strategies include both planned workout and potential sales[24]. In the three years to December 2017, about one quarter of the €45bn of NPL reduction in the Irish retail banks was achieved through portfolio sales. The remainder was due to on-going restructuring, workouts and write-offs. Similar proportions could be expected for the next three years. Portfolio sales are a legitimate and necessary approach for banks to use to address non-performing mortgage loans.

Sales have proved to be controversial, particularly for PDH loans, in part due to a perception that the non-banks will seek to foreclose more aggressively than banks. To date, this has not been the case. There has been no material difference in the number of legal proceedings issued between banks and non-banks, as a percentage of the total number of PDH accounts in arrears[25].

It is also important to emphasise that the Central Bank has, with the support of the Oireachtas, ensured that the protections of our Codes of Conduct, including the CCMA, travel with the loans – it is the activity of credit servicing that is regulated, not the ownership of credit. A credit servicing firm cannot take an action on behalf of or on the instruction of an unregulated loan owner, which would be a prescribed contravention of the Code or the CCMA.

This approach already being taken in Ireland is consistent with the approach being developed across Europe[26]. The European Commission has identified the presence of well-developed secondary markets for NPLs as one of the building blocks of Capital Markets Union (CMU), which is focused on providing new sources of financing for EU businesses, SMEs and high-growth innovative companies in particular, reflecting both the continued importance of banks' financing of the European economy and the associated need to resolve NPLs. The proposal creates a common set of rules that third party credit servicers need to abide by in order to operate within the Union. The proposal sets common standards to ensure their proper conduct and supervision across the Union. It is focused on the activity, rather than regulating the ownership.

More problematically, it is evident that the restructures undertaken by the non-banks have typically been more limited or have simply continued with shorter term forbearance, with a much greater reliance on arrears capitalisations and temporarily reduced payments. There are also concerns regarding the potential sale of loans where the borrowers have engaged, agreed and are meeting the terms of a long term restructure (such as a split mortgage) and are in many ways locked in to the arrangements with their lender – i.e. cannot re-mortgage.

To this end, the Central Bank has committed to complete a review of the CCMA, focused primarily on its effectiveness as regards the sale of loans, which were not a significant feature of the market at the time of the last CCMA review.

The protections of the CCMA only apply to buy-to-let mortgages if the residential property is the only residential property in the State owned by the borrower. For mortgages in arrears that do not fall within the scope of the CCMA (e.g., buy-to-let properties which are not the only residential property in the State owned by the borrower), the provisions of the Code apply where the borrower is a 'personal consumer'. With respect to arrears resolution, the Code requires a lender to seek to agree an approach that will assist the personal consumer in resolving the arrears. Where the borrower is a micro, small or medium sized enterprise, the SME Regulations apply, which include specific requirements that regulated firms must comply with as regards handling arrears and financial difficulties. There is significant progress in restructuring buy to let mortgages with over 22,000 restructures, and a 44% reduction in the level of BTL arrears since the September 2013 peak. Of these, 78% are performing in line with their restructure agreements. However, there remains over 22,000 buy to let mortgages in arrears that are not restructured or performing in line with their restructure agreement. Of these over 13,000 buy to let mortgages have accumulated more than 720 days of arrears. While there are many complex cases behind these figures, it is important to recognise that investors were purchasing properties to gain an investment return.

It is also important to note, that the Central Bank's codes of conduct cannot offer further protections for those borrowers who are not engaging and are getting deeper into arrears. As conduct regulator, the Central Bank does not have the power in regulating the conduct of business of regulated financial service providers to interfere with the strategy and commercial decisions or the legitimate contractual rights of lenders. If lenders could not rely on their contractual rights or make their own commercial decisions within a consumer protection framework, it is likely to impact on the provision of and the cost of providing credit in the market. Rather, in regulating lenders' conduct of business, the Central Bank seeks to ensure that lenders comply with relevant conduct of business rules, including, through providing consumers with all relevant information, putting in place a process for the management of customers' financial difficulties and not exerting undue pressure or influences on customers.

Macro-prudential mortgage measures

As I have touched on already, the Central Bank has taken numerous measures to both address the mortgage arrears crisis in Ireland as well as mitigate the risk of recurrence. These include significant enhancements in our micro prudential supervision, which includes intensive and intrusive supervision of, *inter alia,* the sustainability of business models, funding risks, governance and risk appetite, capital and credit underwriting, all of which are relevant to the provision of mortgages. These actions also provide enhanced protections for borrowers, as do the enhancements to consumer protection codes and the CCMA.

Furthermore, the Central Bank of Ireland's macroprudential mortgage measures were introduced on 9 February 2015. The measures aim to increase both bank and borrower resilience and mitigate the

risks of credit-house price spirals emerging, by limiting the Loan to Value (LTV) and Loan to Income (LTI) ratios applying to new residential mortgage lending[27]. The macroprudential mortgage measures form an integral part of the Central Bank of Ireland's macroprudential policy framework.

The Central Bank can also strengthen the resilience of the banking system by using the countercyclical capital buffer. The countercyclical capital buffer (CCyB) is a time varying capital requirement. It is designed to make the banking system more resilient and less pro-cyclical by requiring firms to hold more capital at the appropriate time so they are prepared for a downturn. The CCyB is currently set at 0%.

Deputy Governor Sharon Donnery recently spoke in relation to the CCYB[28]. The speech considered Ireland's intrinsic volatility and the scale of legacy debts which increases vulnerability to future cyclical reversals, the likely minimal impact on credit growth and economic activity, the measurement and outlook uncertainty alongside data and implementation lags, how to enhance the effectiveness of already active macroprudential instruments and the role of new accounting standards.

The speech concluded that the arguments in favour of setting a positive CCyB sufficiently early in the cycle, to build in resilience and mitigate pro-cyclicality in a downturn, are compelling.

Interest rates

A common and justifiable complaint about the Irish mortgage market is the interest rates charged relative to the eurozone average interest rate. While averages can be misleading, as is the case in Ireland if tracker rates are included, it is undoubtedly the case that mortgage interest rates for new lending are higher in Ireland than the average for other eurozone countries. There are multiple reasons for this and to illustrate them, it is worth comparing the Irish market with another with significantly lower rates, such as France. This can be done through a number of lenses:

1) *Credit risk*:
   The historical and current level of defaults in the Irish system are materially higher than most other Eurozone countries, including France, which has an NPL ratio of 3%[29]. Uncertainty regarding effecting collateral, and the use of guarantees in France (for 58% of loans[30]), which customers pay for and which protect the banks in the event of the borrower defaulting are also relevant factors.

2) *Fixed vs variable interest rates*:
   In parts of continental Europe, mortgages are offered at long dated (15-20 years) fixed rates. In France, as at the end of 2016, fixed rate loans accounted for 97.9% of new lending and 90.7% of outstanding loans[31]. In Ireland, 81% of loans are on floating rates and the remainder mostly on short dated fixed rates (three years or less)[32]. Currently there are two banks that offer 10 year fixed rate mortgages and no banks have a term that exceeds 10 years[33]. This characteristic translates interest rate risk from the banks, who can typically hedge it, to the borrower, who typically cannot, so increasing the vulnerability of Irish borrowers to interest rate shocks and the credit risk associated with the loan.

3) *Size, depth and concentration of the market:*
   In France, outstanding housing loans were €955 billion at the end of 2017, about eight times the size of the Irish mortgage market. There are obvious economies of scale for firms in materially larger markets, which may enable them to spread their costs over a larger customer base.

Perhaps more importantly, the level of competition is greater. In Ireland there is currently a limited number of lenders operating in the market and the largest lenders have a significant market share. Central Bank research shows significant concentration in the Irish market[34], with each of the main lenders also still facing some degree of legacy weaknesses and therefore costs.

The low level of new entrants into the Irish market, given the relatively low barriers to entry for other European banks, which do not require further authorisation to offer mortgages in Ireland, is noteworthy and is plausibly connected with the levels of NPLs remaining in the system, as well as the relatively small size of the market.

4) *Switching*

The lower levels of competition in the Irish market combined with lower levels of switching reduces the level of market discipline being applied, allowing higher margins to be charged. Some lenders take advantage of this inertia to differentiate between new lending and old and charge higher margins on the older lending, which are unlikely to be justified by the factors I have described.

Central Bank research[35] shows that circa 8% of new loans arose from switching between providers. This is significantly less than in many other European markets (including France and the UK). While there are 41% of accounts that are on tracker mortgage interest rates and are unlikely to be able to make savings, a sizeable majority of other borrowers could, either by switching products with their existing provider or by switching provider.

The Central Bank conducted research on switching in Ireland in 2017[36]. The research showed that many consumers in Ireland have not considered switching their mortgage unless they are moving home and that many are concerned that the process is too difficult and complex – notwithstanding that they have been through the process at least once before in taking out their mortgage in the first place. One of the key findings from the CCPC research in 2016 was that “Only about one in seven mortgage holders have thought about switching or actively engaged with their mortgage provider in the past five years. Just 2% have actually switched their mortgage in the past five years”[37] In 2017, of the total count of new loans circa 8% were switchers (2,853 of 35,472).

For a first time buyer taking out the average size of a new loan (€206,216) with a 20% deposit for a 30 year term, the current rates on offer vary from 2.60% to 4.2%[38]. The potential amount saved between the low rate of 2.6% and the highest rate of 4.2% is significant. The monthly difference is €183, the yearly difference is almost €2,200 the difference over 5 years is almost €11,000. While this is may be an extreme example, even smaller differences in interest rates matter, offering the potential for significantly reduced monthly payments and / or reduced mortgage terms.

In August 2017, the Central Bank published a Consultation Paper on, *Enhanced Mortgage Measures: Transparency and Switching*[39], which set out a series of proposed new mortgage switching and transparency measures. Submissions received during the public consultation process are currently being analysed with the intention to issue amendments to the Consumer Protection Code 2012 in the near future.

The aim of the proposed new measures will be to help consumers make savings on their mortgage repayments, to support consumers considering switching their mortgage and to ensure that such activity takes place within a transparent framework that protects the best

interests of consumers. When implemented, these measures will build on the strong framework of protections already in place for mortgage borrowers, including the enhanced transparency measures introduced for variable rate mortgage holders in 2016[40].

Future developments

As well as looking to the past, and at the present, it is important that we look to the future. The projected levels of growth in the Irish mortgage market, high net interest margins, regulatory developments, financial innovation and the continued reduction in non-performing loans are likely to lead to increased competition in the market.

Completion of Banking Union[41] will hopefully increase the level of cross border activity within the Eurozone. Similarly, Capital Markets Union[42] should increase the fungibility of capital and liquidity across borders and so enhance cross border competition.

Non bank mortgage lending is also likely to increase. If we look at the US, Quicken Inc. is an entirely on-line provider of mortgage credit. In 2000, Quicken Loans shifted its business model to an online platform. In the fourth quarter of 2017, Quicken Loans became the largest residential mortgage lender in the US ahead of all US Banks[43]. We also see Bank's partnering with fintech firms. JP Morgan has recently partnered with Roostify which "…has made [their] digital mortgage process simpler and has reduced the time it takes to refinance by 15%"[44]. Furthermore, other technological innovation may reduce costs and enhance efficiency of mortgage provision in Ireland. For example, the Central Bank agrees that the proposed introduction of e-conveyancing would enhance the mortgage switching process.

In other words, the Central Bank welcomes and is supportive of technological innovation in the financial services sector[45] and mortgage provision more specifically, given the improvements in the functioning of the Irish mortgage market that may accrue.

Nonetheless, as we look to the future, we need to do so with caution and remember the lessons of the recent past. The OECD has recently concluded that for Ireland "risks to the outlook are elevated, the most immediate one being Brexit. Property prices may increase more strongly, which would boost further construction activity in the near term but may induce another property bubble associated with a strong surge in credit growth. Persistently high private indebtedness also poses a downside risk, as it leaves the economy sensitive to rising interest rates."[46]

Conclusion

I will conclude here.

A key function of the financial services system is to provide borrowers with loans to purchase their homes. The financial services system should support the housing market and, more importantly, home seekers through the provision of sustainable mortgages.

The regulatory framework, including the macro-prudential measures, the counter cyclical capital buffer, the prudential regulation of banks and consumer protection requirements are necessary to safeguard financial stability and to protect consumers.

It is fair to say that while the Irish mortgage market has undoubtedly improved, the acute legacy issues that remain within the system are still causing significant dysfunction. Actions to address this dysfunction, and manage the associated risks, require continued efforts by all involved to sustainably address mortgage arrears, while maintaining an eye to the future. 10 years after the financial crisis, banks must continue to resolve these legacy issues to enhance resilience ahead of the next

downturn. This requires continued engagement with borrowers, a willingness to enter into sustainable restructures and other avenues including sales of loans – while ensuring the fair treatment of borrowers through adhering to the consumer protection framework.

The Central Bank's approach is focused on serving the public interest by seeking to:

- address the legacy issues affecting the market (including those related to the tracker mortgage scandal);
- ensure the lessons of the past are not forgotten and that mortgages are provided in a safe, sustainable manner that protects the best interests of consumers, through our economic analysis, macro prudential interventions, micro prudential supervision and conduct supervision; and
- enhance the functioning of the market through enhancing transparency and market discipline, facilitating technological development and supporting, through our wider European engagement, initiatives that will enhance cross border provision.

I thank you for your attention.

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[1] I would like to thank Trevor Fitzpatrick, Triona Forde, Fergal McCann, Tim O'Hanrahan and Adrian Varley and for their contribution to my remarks.

[2] The Single Supervisory Mechanism (SSM) refers to the system of banking supervision in Europe. It comprises the ECB and the national supervisory authorities of the participating countries. In Ireland, the Central Bank is the national supervisory authority. The main decision making body of the SSM is the Supervisory Board and the Central Bank is represented by Ed Sibley, Deputy Governor Prudential Regulation. The ECB oversees banking supervision from a European perspective by establishing a common approach to day-to-day supervision and taking harmonised supervisory actions and corrective measures. The ECB directly supervises the 118 significant banks of the participating Member States. These banks hold almost 82% of banking assets in the euro area. This includes Bank of Ireland, Allied Irish Banks, Permanent TSB and Ulster Bank Ireland DAC. Ongoing supervision of the significant banks is carried out by Joint Supervisory Teams (JSTs). Each significant bank has a dedicated JST, comprising staff of the ECB and the national supervisors. The indirectly supervised banks, are known as "less significant" institutions. These banks are supervised by their national supervisors, in close cooperation with the ECB. At any time, the ECB can decide to directly supervise any one of these banks.

[3] See Central Statistics Office - Census of Population 2016 - Profile 1 Housing in Ireland.

[4] See Central Statistics Office. Census of Population 2016 - Profile 1 Housing in Ireland. Figure 2.2. This shows a long term decrease in the number of average persons per household since 1966 to 2011. From 2011 to 2016, the trend changed and there was a small increase of the average number of persons per household.

[5] See The Joint Oireachtas Committee Joint Committee on Housing, Planning & Local Government report on The Impact of Short Term Lettings on Ireland's Housing and Rental Market. The report noted the lack of detailed information on the topic but did advise that "Preliminary research conducted by Dublin City Council in March 2017 on the extent of Airbnb activity in Dublin suggests that a total of 6,729 listings existed on Airbnb for all of Dublin, with 5,377 listings located within the Dublin City Council area at that point in time. Of these, 50% were listings for entire houses or apartments".

[6] See The Central Bank of Ireland Quarterly Bulletin 2018 Q2. Box C "Leading Indicators of New Housing Output".

[7] See Central Statistics Office Census of Population 2016 - Profile 1 Housing in Ireland.

[8] See Eurostat - Key figures on Europe 2017 edition

[9] Source - Internal Central Bank reports. Data as at 31 December 2017.

Overview of Irish Mortgage Market						
	PDH		BTL		Total	
	€bn	%	€bn	%	€bn	%
Banks	€90.6	92%	€19.0	87%	€109.6	91%
Retail Credit Firms	€5.9	6%	€1.2	5%	€7.1	6%
Unregulated Loan Owners	€2.1	2%	€1.7	8%	€3.8	3%
Total	€98.5	100%	€21.9	100%	€120.5	100%

[10] It is important to note that these are individual mortgage accounts. Some households may have more than one mortgage on a property. In the 2016 census, The Central Statistics Office note that the total number of households with a mortgage was 535,675 and this is down 8% since 2011 – See Central Statistics Office - Census of Population 2016 - Profile 1 Housing in Ireland – Tenure and Rent

[11] Source: "Macroprudential Measures and Irish Mortgage Lending: An Overview of 2017".

Overview of New RoI Mortgage Lending						
Section 1: Irish Mortgage Lending - Macroprudential Measures	**New RoI Mortgage Lending (€ millions)**			**New RoI Mortgage Lending (Number of Loans)**		
Note: *2017 includes the 5 retail banks and 2 retail credit firms.*	**2016**	**2017**	**% Change**	**2016**	**2017**	**% Change**
Total RoI Mortgage Lending	€5,728	€7,430	30%	29,893	35,472	19%
PDH - in scope	**€5,094**	**€6,708**	**32%**	**26,159**	**31,618**	**21%**
FTB Lending	€2,611	€3,618	39%	13,974	17,453	25%
SSB Lending	€2,482	€3,091	25%	12,185	14,165	16%
BTL Lending	**€173**	**€197**	**14%**	**1,408**	**1,517**	**8%**
Exempt from Regulations	**€462**	**€525**	**14%**	**2,326**	**2,337**	**0%**
Switcher	€331	€408	23%	1,459	1,713	17%
Negative Equity	€99	€87	-12%	600	411	-32%
Other	€31	€29	-6%	267	213	-20%

[12] Source Internal Central Bank reports.
[13] See Enda Keenan and Martin O'Brien (2018) "New Mortgage Lending Activity in a Comparative Context", Central Bank of Ireland Economic Letter, Vol 2018 No 5.
[14] See Sharon Donnery, Trevor Fitzpatrick, Darren Greaney, Fergal McCann, and Mícheál O'Keeffe "Resolving Non-Performing Loans in Ireland: 2010-2018"in Quarterly Bulletin 2018 Q2.
[15] Central Bank internal loan level data for the five main retail banks in Ireland. Engagement is defined along three criteria: either the borrower has filled out a Standard Financial Statement, has a permanent restructure to the terms of their loan in place, or is currently in a temporary restructure arrangement.
[16] See 2016 EU-wide stress test results
[17] See Sharon Donnery, Trevor Fitzpatrick, Darren Greaney, Fergal McCann, and Mícheál O'Keeffe "Resolving Non-Performing Loans in Ireland: 2010-2018"in Quarterly Bulletin 2018 Q2.
[18] See Central Bank of Ireland Code of Conduct on Mortgage Arrears.
[19] June 2013, 182,840 Mortgage accounts in arrears, December 2017, 92,949 Mortgage accounts in arrears. See Mortgage Arrears Statistics.
[20] See Mortgage Arrears Statistics.
[21] See Central Bank Internal Guideline - Sustainable Mortgage Arrears Solutions
[22] See Fergal McCann (2017) –"Mortgage Modification in Ireland. A Recent History" Central Bank of Ireland Economic Letter, Vol 2017 No 16.
[23] See Report on Mortgage Arrears 2016 Central Bank of Ireland

[24] Unregulated loan owners account for c.3% of the outstanding value of Irish mortgage loans. This comprises €2 billion of PDH loans (2% of the PDH market) and €1.7 billion of BTL loans (8% of the BTL market).
[25] Figures derived from analysis of legal proceeding issued for loans in arrears as at 31 December 2017 by statistics division of the Central Bank.
[26] See http://ec.europa.eu/finance/docs/policy/180314-proposal-directive-non-performing-loans_en.pdf
[27]

Macroprudential Regulations for Mortgage Lending

LTV limits	For primary dwelling homes:	FTBs: 90%	5% of new lending to FTBs allowed above 90% limit
		SSBs: 80%	20% of SSB new lending allowed above 80% limit
	For buy-to-let borrowers (BTLs):	70% LTV limit	10% of new lending allowed above 70% limit
LTI limits	For primary dwelling homes:	3.5 times income	20% of new PDH lending allowed above 3.5 limit **From 01/01/18** 20% of new lending to FTBs allowed above 3.5 limit 10% of new lending to SSBs allowed above 3.5 limit
Exemptions	**From LTV Limit:** Borrowers in negative equity	**From LTI Limit:** BTL borrowers	**From both limits:** Switcher mortgages Restructuring of mortgages in arrears

[28] See Donnery 2018 "When is the right time? Macroprudential policy and the cycle?"
[29] See T03.07.2 Asset quality: non-performing loans and advances by country
[30] See ACRP/Banque de France - Housing finance in France in 2016 - No. 82 – July 2017.
[31] See Footnote 24.
[32] See Table 3.b.1 Retail Interest Rates. Floating rates include Standard of Loan to Value Variable rates, Tracker Rates and Fixed Rates up to 1 year. This totals to 81% of outstanding Loans. Fixed Rate loans for a period of 1 to 3 years is 10.3% of outstanding balances and fixed rate loans over 3 years is 8.7%.
[33] See CCPC website on Mortgage Information
[34] See Box A: Competition in the Irish Mortgage Market
[35] See Box C "Leading Indicators of New Housing Output" in Quarterly Bulletin 2018 Q2.
[36] See Mortgage Switching Research Central Bank of Ireland April 2017.
[37] See CCPC, 'Mortgage Holding & Mortgage Switching Market Research Findings', B&A January 2016.
[38] See CCPC website on Mortgage Information (accessed on 24/5/2018).
[39] See Enhanced Mortgage Measures: Transparency and Switching Consultation Paper CP112
[40] In July 2016 a further addendum to the Consumer Protection was published following a public consultation process on Increased Protections for Variable Rate Mortgage Holders (CP98), and to give effect to consequential amendments to the Consumer Protection Code arising from the transposition of the EU Mortgage Credit Directive.
[41] Banking Union - In response to the financial crisis, The European Commission introduced a number of initiatives to create a safer financial sector. The proposals included, stronger prudential requirements for banks, improved protection for depositors and rules for managing failing banks. "The first two pillars of the banking union – the SSM and the SRM – are now in place and fully operational. However, a common system for deposit protection has not yet been established and further measures are needed to tackle the remaining risks of the banking sector (in particular, those related to non-performing loans, or the initiatives to help banks

diversify their investment in sovereign bonds)." See https://ec.europa.eu/info/business-economy-euro/banking-and-finance/banking-union/what-banking-union_en for further details.

[42] Capital Markets Union - In September 2015, the European Commission adopted an action plan setting out a list of over 30 actions and related measures to establish the building blocks of an integrated capital market in the EU by 2019.

The objectives of Capital Markets Unions are to

•develop a more diversified financial system complementing bank financing with deep and developed capital markets

•unlock the capital around Europe which is currently frozen and put it to work for the economy, giving savers more investment choices and offering businesses a greater choice of funding at lower costs

•establish a genuine single capital market in the EU where investors are able to invest their funds without hindrance across borders and businesses can raise the required funds from a diverse range of sources, irrespective of their location

See https://ec.europa.eu/info/business-economy-euro/growth-and-investment/capital-markets-union/capital-markets-union-action-plan_en for further detail.

[43] See https://www.ft.com/content/88b10240-0869-11e8-9650-9c0ad2d7c5b5

[44] JP Morgan Annual Report 2017 (page 50)

[45] See Derville Rowland "Innovation and technology in financial services: a regulatory perspective"

[46] OECD (2018), OECD Economic Outlook, Volume 2018 Issue 1: Preliminary version, OECD Publishing, Paris