

Committee on Finance, Public Expenditure and Reform, and Taoiseach

Competition and Consumer Protection Commission

Opening Statement by Isolde Goggin

Chairman, Committee members, we welcome the opportunity to appear before you today to discuss the CCPC's Mortgages Options Paper, which was requested under the "Programme for Partnership Government". I am joined by Dr. Cormac Keating, the Director who led the development of the Mortgages Options Paper, Harry O'Rahilly, Case Officer Economist and Áine Carroll, the Director with responsibility for financial education and consumer information.

The CCPC is the statutory body responsible for enforcement of competition and consumer protection legislation across the economy. In the financial services sector, Government policy means that the Central Bank of Ireland (CBI) imposes the sectoral rules and codes of conduct under which financial services providers and the market must operate. It is within this context that the CCPC was requested to work with the CBI to set out options for Government in relation to the mortgage market. The CCPC drew extensively on the CBI's extensive knowledge and experience in course of researching this paper, however the research and views expressed are from the CCPC exclusively.

The CCPC's paper is the outcome of extensive consultation and research with various stakeholder groups including consumer representative groups, industry players (in Ireland and internationally) and a public consultation. The CCPC also commissioned research to examine consumers' perceptions and experiences of the market. All of the information was used to develop an evidence-based analysis which then formed the basis of 14 actions which the CCPC believe need to be considered by Government and policy makers.

Time limitation unfortunately means I am unable to go through each of the actions in extensive detail, they are contained in the presentation provided to each Member of the Committee. I will take you through some of the options at a high level now. We are also happy to make ourselves available to any Member of the Committee who would like a more in-depth briefing on the paper at a later date.

Our analysis shows that this market is quite dysfunctional from both a competition and a consumer perspective. The market we have is the legacy of 15 years of boom and bust. In addition, the Members of the Committee will be aware how tightly connected the mortgage market is with the economy and society and the impact that both lenders and borrowers can have on the stability of the banking system as a whole. The mortgage market is also heavily impacted by other policies, including housing strategies, the rental market, public housing policy and policies regarding insolvency and repossession.

It is therefore important to be clear from the outset, having done a significant amount of analysis that unfortunately we do not believe there are immediate remedies that will reduce mortgage rates and fix the other dysfunctional aspects of this market.

But there are some short term and medium to long term measures, which if implemented, will enable Ireland to start building a mortgage market which is more competitive, stable and fit for purpose. Our options are not the end of the discussion but rather the starting point. In order for these options to be progressed it is vital that significant consideration is given by policy makers as to the type of mortgage market Ireland wants in the long-term.

The current market

In terms of how the mortgage market is currently operating, it will not come as a surprise to the Committee that our research found the mortgage market is distorted. There is a high concentration of a small number of lenders, limited competition between these lenders and low levels of entry by new players. Given the potential impact on the economy as a whole, the mortgage market should never operate as a freely functioning one. However, we believe that an appropriate framework of prudential regulation can co-exist alongside robust competition and one is not sacrificed at the others expense.

The issues in the market do not solely lie in weak competition as there are also some unique characteristics to our mortgage market. These include significant government involvement and market distortions caused by the large scale of tracker mortgages. In some cases homes have been used as collateral for property investment, that is consumers who bought houses as investments and used their primary home as security. When the financial crisis happened these consumers were left with declining asset values, falling income and large outstanding debt. Our analysis also indicated that there is a lack of predictable and consistent practices when dealing with mortgage loans that have fallen into arrears. This in return, means banks need to have more capital to write a mortgage in Ireland and capital is costly. We believe the prevailing mortgage rates are a reflection of all of these market characteristics combined.

What consumers want

We believe that it is important that any options we propose build towards a market that is fit for purpose and serves the needs of consumers.

Our consumer research shows a high level of mistrust. This was particularly relevant when considering new entrants and international financial institutions. In recent years we have seen institutions come and go and so consumers are sceptical of their commitment to Ireland. In the course of our research with consumers it also became apparent that there is a real sense of vulnerability which manifests itself in a number of ways, including a reluctance to consider switching mortgage providers or lock into long term mortgage rates. This is important as it limits the impact of any measures to increase competition.

Through the course of our research we talked to consumers about a range of related topics, from mortgage regulation to housing policies and the difficult subject of arrears and repossessions. When we distilled all of the information down, what consumers said that they primarily wanted from the market was to be able to get a mortgage, to have certainty around what they were paying for their mortgage and a clear, fair process if they to find themselves in arrears.

What are the options?

The options that the CCPC puts forward in our paper are how we believe Ireland's policy makers, regulators and financial institutions can create a mortgage market which serves the needs of consumers. These options

address issues, which although sensitive in nature, we believe need to be considered. We have not approached these issues lightly.

First and foremost we feel there needs to be a national vision with regards to what exactly we as a nation want from our mortgage market. This would set the context for all future policy choices that influence both demand and supply in the market and give the context in which the Central Bank of Ireland (CBI) can make effective regulatory decisions.

We think increasing competition is also extremely important. More new entrants would in turn increase competition. Rebuilding our international reputation is central to this, getting the message out there that we are working through the problems and we are an attractive option for reputable new entrants. We also think there are a number of actions which can be taken by the CBI and the Department of Finance to encourage new business lending initiatives and we have some examples in the paper of how that is done in other jurisdictions.

Longer term we would question whether short-term funding of mortgage loans and the use of deposit funding is the optimum funding model for Ireland's mortgage market. As such we are suggesting the Department of Finance and the CBI should look at how to promote longer term funding options for example piloting the "the Danish model" (either in whole or in part) in the Irish market. This model is characterised by match-funding: there is a direct match between the loan and the bonds which a mortgage bank issues to fund the loan.

Finally, there is a lack of a predictable and consistent approach to dealing with those in arrears and we strongly suggest this needs to change. Uncertainty impacts not only on consumers but also it means banks need more capital to write the loans and as a result they are more costly.

The significance and complexity of this market means that any proposed intervention or structural changes should be very carefully considered and only proceeded with following detailed assessment of their implications and consequences. We appreciate this is a very real challenge for you as policy makers but we are confident the options we have set out will help facilitate that consideration and if further progressed, will offer consumers and financial institutions more choice and certainty.