

EU Hearing on
Responsible Lending
and Borrowing
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Systemic Issues: Role for Consumer Information, Warnings or Codes?

- Informing consumers, Codes or consumer warnings would not have averted systemic problems
- Required: Macro-prudential measures, and more intrusive and intensive regulation
- Consumer information and warnings help individual consumers understand own exposures
- Individual mortgage or borrowing decisions taken at point in time based on incomes and reasonable expectations of ability to repay
- Better warnings may have encouraged lower borrowings

Regulation in Ireland has changed

- Learned lessons from past
- Irish system of regulation has changed
- More intensive and intrusive regulation of guaranteed credit institutions - focus on business models, strategies and risk
- Reform of regulatory structure – Government Plan
- Macro-prudential measures

Irish Statutory Codes and Warnings

- Statutory v Voluntary Codes: Irish Codes statutory
- Irish Statutory Consumer Protection Code - key concepts: knowing your customer, suitability, acting in best interests of the customer
- Review 2009/2010
- Irish Statutory Code of Conduct on Mortgage Arrears
- Annex contains examples of Irish Statutory Code Warnings
- Enforcing Codes – themed inspections
 - Examining mortgage suitability and
 - Procedures for handling arrears and repossessions
 - Other best practice standards identified

Protecting Consumers: Role of Information

- Consumer information and warnings help individual consumers understand their own exposures
- Firms must give consumer written details of the firm and the service it provides prior to providing the first service, and, the terms and conditions of the service before the consumer enters into contract for that product or service
- Financial Regulator provides information in plain English on the costs, risks and benefits of financial products and services – helpline, website, publications
- Well informed consumers can make better financial decisions: role of education in building financial capability

The Future: What should regulators do?

- Mispricing of credit risk?
- Better macro-prudential analysis
- More intensive prudential regulation examination at EU level
- Statutory Codes – best way but too late for current crisis
- EU Consultations e.g. Responsible Lending & Borrowing

Actions

- EU wide examination of regulatory structures
- Codes - Statutory rather than Voluntary
- Regulators must Enforce – resources must be allocated
- Responsible Lending – Suitability, Risk Management, Codes
- Responsible Borrowing - Consumer information & education
- Financial Capability for Consumers – self protection through good financial decisions



Annex
**- Examples of Irish Statutory
Code Warnings**

Protecting Consumers: Examples of Irish Statutory Code Warnings

- Debt consolidation mortgage:
Warning: This new loan may take longer to pay off than your previous loans. This means you may pay more than if you paid over a shorter term.
- Fixed-rate loan:
Warning: You may have to pay charges if you pay off a fixed-rate loan early.
- Interest-only mortgage:
Warning: The entire amount that you have borrowed will still be outstanding at the end of the interest-only period.

Protecting Consumers: Examples of Irish Statutory Code Warnings

- Warning for guarantors

Warning: As a guarantor of this loan you will have to pay off the loan, the interest and all associated charges if the borrower does not. Before you sign this guarantee you should get independent legal advice.

- Non-mortgage lending

Warning: If you do not meet the repayments on your loan, your loan account will go into arrears. This may affect your credit rating.

- Lifetime mortgages

Warning: Purchasing this product may negatively impact on your ability to fund future needs.

Thank you



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