



# Actions to address mortgage arrears and over-indebtedness in Ireland

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*Against a context of high (but falling) levels of mortgage arrears and indebtedness, the Irish government in the last months has instituted or updated a number of measures as part of a concerted action to better deal with the issues involved.*

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## Description

There are four new elements involved. First, as part of the dedicated mortgage arrears service, the Money Advice and Budgeting Service (MABS) Helpline will provide assessment in order to channel debtors to the most relevant source of help; specialist advisers will assist mortgage holders in assessing the extent to which the option on offer from their lender is the best and most sustainable option for them, and where required, will negotiate with the lender; court mentors will be available to assist homeowners facing court proceedings.

Secondly, the Mortgage Arrears Plan, which is essentially a set of rolling mortgage arrears resolution targets for the main lenders, introduced initially in 2013, was updated in April 2015 whereby the Central Bank requires the lenders to submit enhanced information on the resolution of non-performing loans.

Thirdly, for homeowners who are at risk of losing their homes, the national mortgage to rent scheme, put in place initially in 2012, is to be extended. The scheme provides an arrangement whereby the homeowner surrenders their home to the lender who then sells it to a housing association which then rents it back to the original owner who can continue

to live in the home as a social housing tenant.

Fourthly, in a reform of the personal insolvency legal framework, the Government has agreed to give Circuit Courts (which have limited and local jurisdiction) the power to review and, where appropriate, approve insolvency deals that have been rejected by lenders and which are considered unreasonable. This essentially removes the veto by the lenders and makes the Court the arbiter of last resort. Court rules and procedures will also be streamlined to guide more cases towards the Insolvency Service of Ireland (set up in 2013). These actions were a follow-up on (and in some instances a realisation and a reform of weaknesses in) measures announced in 2013 under the Mortgage Arrears Plan, which comprised a series of measures including performance targets for the lenders, the aforementioned Insolvency Service of Ireland and the original mortgage-to-rent scheme.

## Outlook & Commentary

Mortgage arrears are a particularly significant problem in Ireland. For example, the latest data from the Central Bank of Ireland for end September 2015 showed that some

65,854 mortgages were in arrears of over 90 days (some 8.7% of all mortgages) (Central Bank 2015). The trend is gradually downwards, partly due to measures to restructure mortgages. Some 120,806 mortgage accounts were classified as restructured at end September 2015 (33.1% of the total stock of mortgages in arrears).

There is a general sense that the Irish government took a long time to put the necessary measures in place to protect mortgage holders after the economic crisis (Joint Committee on Finance, Public Expenditure and Reform 2014).

Against this backdrop measures to address the mortgage arrears situation have featured strongly in the Country-specific Recommendations (CSRs) for Ireland over a number of years. Those to be implemented in 2015 and 2016 included the following recommendation: *Finalise durable restructuring solutions for a vast majority of mortgages in arrears by end-2015 and strengthen the monitoring arrangements by the Central Bank of Ireland. Ensure that restructuring solutions for loans to distressed SMEs and residual commercial real-estate loans are sustainable by further assessing banks' performance against own targets. Take the necessary steps to ensure that a central credit registry is operational by 2016* (Council of the EU 2015).

The latest measures, while generally welcomed, have been criticised as being inadequate and could be argued to fall short of the recommendation. There are three main concerns.

One of the main concerns is the reach of regulation and monitoring. The Free Legal Advice Service (FLAC) has

pointed out that the numbers affected will be small and that the measures put in place to date have not affected large numbers of people (FLAC 2015). For example, only 110 cases under the Mortgage to Rent scheme had been processed by August 2015 since the scheme's inception three years ago.

A second concern is that the creditors remain too powerful in negotiations over arrears and how to deal with them and that the arrangements in place are "too soft". In this regard, FLAC has called for an independent, fair system of identifying what is a mortgage solution and stressed that people should get the financial, legal and money advice that they need to deal with lenders and the courts.

Thirdly, there is the issue of affordability and sustainability of the agreed restructured mortgages. Among the suggestions made in a recent independent review were the following: incorporating an adequate living standard into the provisions to ensure that people are able to "live with dignity" while repaying debts; widening access to debt relief by reducing credit or control/veto; and appointing a "debt ombudsman" with responsibility for determining what is actually sustainable (Stamp 2014). In addition, the sustainability issue was raised by the Joint Committee on Finance, Public Expenditure and Reform (2014) which recommended that the Central Bank should propose a definition of what constitutes a sustainable mortgage from the borrower's point of view (it has already done so from the lender's point of view).

## Further reading

Central Bank of Ireland (2015) "Residential Mortgage Arrears and Repossession Statistics", [Statistical Release](#) December 2015.

Council of the EU (2015) Council Recommendation of 14 July 2015 on the 2015 National Reform Programme of Ireland and delivering a Council opinion on the 2015 Stability Programme of Ireland 2015/C 272/12).

FLAC (2015) "Six months on, where are the mortgage arrears measures?":

<http://www.flac.ie/news/latestnews/2015/11/16/six-months-on-where-are-mortgage-arrears-measures/>

Joint Committee on Finance, Public Expenditure and Reform (2014) Report on Hearings on Matters Relating to Mortgage Arrears Resolution Process, Dublin: Houses of the Oireachtas.

Stamp, S. (2014) "Ireland" in The Over-indebtedness of European Households (pp. 242-280): [http://ec.europa.eu/consumers/financial\\_services/reference\\_studies\\_documents/docs/part\\_2\\_synthesis\\_of\\_findings\\_en.pdf](http://ec.europa.eu/consumers/financial_services/reference_studies_documents/docs/part_2_synthesis_of_findings_en.pdf)

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