Response to Public Consultation on Mortgage Lending

Background

My experience of the mortgage market in Ireland started in 2014 when my wife and I took out a mortgage to buy our home. It has been a frustrating and, in my opinion, a distinctly unfair experience which has led me to raise a formal complaint that is currently being investigated by the Financial Services Ombudsman (FSO). I believe my research and experience to date can provide useful context for the investigation into mortgage lending by the Competition and Consumer Protection Commission (CCPC).

My primary concerns relate to how difficult it is for customers to accurately compare mortgage offerings particularly when the banks make their offerings convoluted and non-conforming to market. When customers cannot compare the options the banks do not attempt to compete in a meaningful or valuable way, rather they use distractions and incentives to attract customers that may not represent any tangible value or benefit to the customer.

We took out our Loan To Value (LTV) mortgage with KBC after putting significant time and effort into research mortgages and detailed discussions with our experienced mortgage broker. We decided that a variable rate was the best choice because we wanted the ability to overpay and, based on our research, predicted that variable rates might decrease. Our prediction was correct and KBC decreased the LTV rate multiple times but did not pass on these cuts to us. We queried it with them and they told us that the decreased rates were only available to new customers despite this policy not being explained in any documentation and our mortgage broker confirmed he was unaware such a policy by KBC or any other bank. KBC rejected our complaints on this matter so it was escalated to the FSO and is currently under investigation.

2.1.a

What is your general view of the current level of competition in the mortgage market in Ireland? Please support your views with relevant data, analysis or experience.

The level of competition is very poor in my opinion. Legitimate competition requires the customers being able to compare options on their merits and to choose the best available choice. The ability for mortgage customers in Ireland to compare mortgages is significantly impaired due to the mortgage products on offer.
In the past the mortgage market consisted of fixed rate, tracker rate and Standard Variable Rate (SVR) mortgages. These types of mortgages were relatively easy to compare:

- Fixed Rate – simply compare the rate and term
- Tracker Rate – compare the margin above the ECB rate
- SVR – compare the SVR rate

SVR rates are no longer available for new mortgages and LTV rate mortgages are now offered in their place. LTV rates are variable mortgage rates that are, as the name suggests, supposed to be based the amount of the mortgage compared to the valuation of the property[1]. The risk associated with the loan is deemed to be related to the LTV ratio so higher LTVs have higher rates. LTV rates are typically grouped into bands such as <50%, 50-60%, 60-80%, >80% and, with such categories, potential or switching mortgage customers easily determine the rate applicable to them and examine previous rate changes to determine the best option for them.
If the LTV rates were solely based on the LTV ratio it would be easy to compare the rates in this manner, however, these rates have been manipulated and had so many conditions and variations applied that these rates cannot be easily compared.
KBC offered variable LTV rates that, without customers being informed, excluded customers who took these rates from future cuts to those LTV rates, which were only made available to new customers. Their policy means that rather than there being a single variable rate per LTV category, there can be arbitrarily many rates per LTV category as they set the rates based LTV ratio AND on the date the customer takes out the mortgage. KBC do not increase or decrease these LTV category rates in unison. In fact, to date KBC have repeatedly reduced the rates available to new customers but not passed these cuts on to existing customers. This is contrary to the common understanding and practice of variable rate mortgages and KBC did not inform customers of this policy.
As a result, it was impossible for customers to make a valid comparison of the available rates because the advertised rates may not be the rate that will apply to them. This is anti-competitive in my opinion.
Since this issue was highlighted in the media[2] and at the Oireachtas Finance Committee[3], KBC offered existing customers a once off offer to get the rate available to new customers[4] but required customers sign new terms and conditions[5] that included details of this policy but also contained other unfavourable conditions. This is an attempt to simply allow them to continue the process even though it is unfair to customers and hinders competition in the mortgage market.

In addition to the deceptive policy from KBC there are many other approaches and incentives in the Irish mortgage market that distract or confuse customers when comparing mortgages.
Many banks such as EBS, Ptsb and Bank Of Ireland[6] offer cash incentives but

[1] http://www.consumerhelp.ie/mortage-interest-rates

[2] http://www.independent.ie/business/personal-finance/property-mortgages/noonan-to-be-quizzed-on-banks-reluctance-to-reduce-variable-mortgage-rates-35142436.html

[3] http://www.oireachtas.ie/parliament/media/committees/finance/2016/Opening-Statement---Fair-Mortgage-Campaign.pdf

[4] http://www.irishtimes.com/business/financial-services/kbc-cuts-mortgage-interest-rates-for-new-and-existing-customers-1.2843834

[5] https://www.kbc.ie/our-products/mortgages/existing-customers/faqs

[6] http://www.independent.ie/business/personal-finance/property-mortgages/boi-forced-to-offer-new-3pc-cashback-loan-deal-35006002.html

while these cash back offers appear appealing they often distract from uncompetitive rates or poor terms and conditions. It is also not clear to many mortgage applicants how to evaluate the benefit of cash back compared to a lower mortgage rate.
Some banks, such as KBC[7] and Ulster Bank, require customers to hold or open current accounts to avail of mortgage rates. Other mortgage incentives such as paying or reducing for insurance or legal fees are also available from many banks.
All of these factors make it extremely difficult for customers to compare and evaluate the various offers. Most people who take out mortgages are not mortgage experts or mathematicians and even with the help of experts such as brokers it can be very difficult to understand the value of different options. This is only exacerbated by all the variations meaning it is not a like for like comparison.

Another significant issue with mortgage competition in Ireland is the unexplained higher rates when compared to the Eurozone. The average Eurozone rate is almost half that in Ireland[8] but there does not appear to be any detailed information available to justify the expensive rates here. There are anecdotal suggestions that low repossession rates and the financial crisis in 2007 has affect the costs to the banks but they do not provide details of this[9].

Banks in Ireland do not appear motivated to compete on variable interest rates. There have been some reductions in the past few years but even the Minister for Finance has had prompt the banks into action[10]. In fact some banks ignored his calls for cuts and Bank Of Ireland have openly declared that are not interested in attracting variable mortgage customers[11]. In a functioning competitive mortgage market, mortgage providers should actively be attempting to attract customers with competitive rates that do not discriminate against other customers, this is clearly not happening in Ireland.

2.1.b

What would be, in your opinion, the characteristics of a properly functioning competitive mortgage market in the Irish context?

In a functioning market the banks should be able to offer profitable but fair and competitive mortgage rates that customers can clearly understand and compare. The banks should not be permitted to manipulate existing mortgage policies to suit their needs. If a bank determines that they want to change their offering

---

[7] http://www.independent.ie/irish-news/news/bank-cuts-mortgage-rate-for-its-new-customers-30482756.html

[8] http://www.irishtimes.com/business/economy/irish-mortgage-rates-still-nearly-double-euro-area-average-1.2935937

[9] http://www.thejournal.ie/variable-mortgage-rates-bill-central-bank-2-3127851-Dec2016/

[10] http://www.independent.ie/business/irish/variable-interest-rates-noonan-to-call-in-banks-to-discuss-cuts-31175030.html

[11] http://www.irishtimes.com/business/financial-services/bank-of-ireland-deliberately-keeping-variable-rates-high-1.2872069

they should offer a new mortgage product, possibly discontinuing the other rates, without impacting existing customers. The banks must show some responsibility to existing customers rather than discriminating against and compromising them to offer better rates to new customers.

In a functioning mortgage market, it should be clearer why mortgage rates in Ireland differ so significantly from the Eurozone average. As a member of the EU, the costs of providing mortgages should be similar so the rates available should be similar. If there are risks or costs that mean Irish banks cannot provide equivalent rates, this information should be published in detail.

2.4

Given that mortgage products in other jurisdictions may be significantly different to those offered in the State, is comparing SVRs across countries a valid comparison? For example in other jurisdictions mortgage lenders offer teaser rates for an initial term, or longer-term fixed rates, or tie borrowers to other products such as life assurance. Please support your views with relevant data, analysis or experience.

It makes little sense to compare SVR mortgages because SVR rates are no longer available to customers in Ireland, LTV mortgages are dominant variable rate offering currently. Any new or switching customer cannot avail of SVR rates so SVR rates are not very relevant to competition or attracting new entrants to the market.
It may be worth comparing the SVR rates to Eurozone rates to determine why the rates in Ireland are higher because the SVRs in Ireland and Eurozone should be comparable but it should be for this purpose only rather than examining future rate competition.