Submission on CP 98

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These proposals are nonsense and should not be implemented

As a general rule, there should be less regulation rather than more regulation. Bringing in silly rules as is proposed will increase the costs for lenders with absolutely no benefit to borrowers. These costs will be passed on to the customers of the banks and increase the rates rather than reduce them.

They will be of absolutely no benefit to borrowers and the proposed regulations might actually lead to an increase in mortgage rates.

This consultation is designed to give the impression that the Central Bank is concerned about and doing something about the outrageous mortgage rates in Ireland. This is an excuse for the inaction of the Central Bank.

Lenders should be obliged to offer existing customers the rates available to new customers

The Consumer Protection Code as it exists already obliges lenders to treat customers fairly. This is a principle. It seems absolutely clear to me that competing for new business by cutting rates for new customers only while not passing on rate cuts to existing customers is not treating customers fairly.

The Central Bank should enforce the current CPC rather than seeking to make silly amendments to it.

As the Central Bank does not seem confident enough to enforce principles but is confident to enforce tight rules, then the CPC should be amended to specifically make it obligatory for lenders to make the rates on offer to new customers available to existing customers.

The clawing back of incentives to new customers should be prohibited or seriously curtailed

Bank of Ireland and permanent tsb offer new customers 2% of the loan back as cash. But they claw this back if the borrower pays off their mortgage within 5 years. This is clearly a huge deterrent to switching and allows these lenders to avoid competing on rates. This practice must be stopped.

The banks argue that other industries offer incentives to new customers. There are three counter-arguments to this:

- Switching is easier and usually does not cost anything.
- The money involved in other industries is usually much lower than the mortgage payments.
- There is no obligation in other industries to treat customers fairly

I suggest the following should be considered

- An outright ban on incentives. This would force the lenders to compete on interest rates alone.
- A cap on incentives e.g. a €1,500 cap would allow lenders to pay for the legal costs of switching and not be a disincentive to future switching
- No restriction at all on incentives but absolutely no penalty or clawback if the borrower pays down the mortgage or switches

- No restriction at all on incentives, but limit the penalty or clawback to one year.

Variable Rate Policy Statement

"As part of a new proposed provision in the Consumer Protection Code 2012, lenders will be required to publish on their websites a summary statement of their policy for setting a variable mortage rate. As part of the summary statement, lenders will be required to:
(i) clearly and unambiguously identify the factors which may result in changes to the variable rate;
(ii) outline the criteria and procedures applicable to setting the rate; and
(iii) clearly outline where the regulated entity applies a different approach to setting the rate for different cohorts of borrowers."

Niall Brady in the Sunday Times of November 15th 2015, explains the fallacy in this proposal much better than I can.

"Transparency can only be a good thing in financial services but what if the information you get is worthless? The Central Bank's latest contribution to the mortgage pricing row is a proposal that lenders should have to explain how variable rates are set. This is unlikely to reveal anything new.

In research published last May, the Central Bank told us why Ireland has some of the highest variable rates in the eurozone: bad debts, difficulties repossessing properties when loans go bad, tracker mortgages that are barely profitable, a lack of competition, the high cost of funds.

Lenders would simply recycle this list, probably without referring to the absence of competition, if required to justify the cost of variable mortgages in writing. Knowing why you are paying over the odds does not sweeten the pill — no matter how sound the explanations."

The notice period for interest rate changes should not be increased

"2.3 Notice of forthcoming interest rate increase

Currently, lenders are required to give at least 30 days' notice of a forthcoming change to a variable rate on a mortgage loan, other than a tracker rate. The Central Bank is considering whether to extend this 30-day notification period in order to give affected borrowers more time to consider their options and to ensure that borrowers are provided with sufficient time in advance of an interest rate increase to allow them to plan ahead and address any affordability issues. It would also allow them more time to consider changing to another mortgage product with their existing provider or seek a lower rate with another provider, including time to shop around and complete the switching process."

Question 5: Do you have any views on the proposal to increase the notification period?

Question 6: If you agree that the notification period should be increased, what do you consider to be an appropriate notice period in order to achieve the objectives set out above?

We have been going through a long period of stable or slowly changing interest rates. If market rates fall, a lender can reduce their mortgage rates, knowing that if market rates increase again, they can change their rates again. If you implement this daft proposal, then lenders would hold off cutting rates until there was a more permanent reduction in mortgage rates.

The pricing decision for a lender is complex. They should be free to match movements in underlying rates and in competitors' rates. A lender might be considering whether to raise rates by 0.5% or 1%. If they have to give 90 days' notice, then they are more likely to raise rates by 1% now, rather than raise them by 0.5% now and then have to wait a further 90 days to raise them again.

I don't believe that increasing the notice period to 90 days will make it any more likely that borrowers will switch lenders.

Mortgage brokers should be allowed to advise on all mortgage products

Mortgage brokers are prohibited from advising clients on any lender for whom they do not have a Letter of Authorisation. This means that a broker cannot advise for or against Bank of Ireland as they do not operate through brokers. If a new lender comes into the market and offers loans directly at a lower rate, brokers would not be allowed to mention them, even for a fee.

Brokers should be allowed to advise on any and all mortgage products.

Mortgage brokers should be prohibited from taking commission. They should be fee based

Brokers should be banned from taking commission and should be fee based. That would ensure that they recommend the best product for their client and not the product which earns them the best commission.