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Non-performing Loans in Ireland: Property Development Versus Mortgage Lending

Seamus Coffey

1 Introduction

The case of Ireland is one of a pretty standard banking bust: Irish banks lent out more money than their borrowers could repay. When the economy turned and new lending did not enter the system to sustain repayments on previous lending, there was a huge increase in non-performing loans. For business lending, around one-half of loans became non-performing with lending for land and real estate development dominating this. On the household side, nearly one-fifth of mortgage borrowers were exhibiting some form of repayment distress at one stage.

This chapter briefly sets out the context of the lending bubble in Ireland that accelerated in 2003 and lasted until 2008. It then contrasts the response to how non-performing loans to businesses and households

S. Coffey (✉)
Lecturer in Economics, University College Cork in Ireland, Cork, Ireland

P. Monokroussos, C. Gortsos (eds.), *Non-Performing Loans and Resolving Private Sector Insolvency*, Palgrave Macmillan Studies in Banking and Financial Institutions,
DOI 10.1007/978-3-319-50313-4_5

were dealt with. The response to the massive lending for land and property was relatively rapid with the establishment of a government agency to which the delinquent development loans were quickly transferred. This removed these non-performing loans from the balance sheet of the banks.

The response for non-performing mortgages has been very slow by comparison. The approach has been one of "extend and pretend" with very low levels of legal enforcement. Although around 20 per cent of mortgage borrowers fell into mortgage arrears, it is possible that when the non-performing loans are eventually worked through less than one per cent of borrowers will have suffered a court-ordered repossession of the property. The remaining borrowers will either get back on track as a result of the improved economy or will have been helped by the dominant response of lenders to the non-performing mortgage problem which has been to restructure the loans rather than seek enforcement.

Even though it is almost a decade since the bursting of the lending bubble, Ireland still has one-eighth of mortgage borrowers showing some form of repayment distress. This represents 75,000 borrowers and of these around 12,000 are before the courts facing enforcement and repossessions actions from their lenders.

2 Size of the Irish Banking System

At the end of 2014, the Irish banking system was roughly the same size as it was in 2003. The entire Irish banking system had assets equivalent to nearly 400 per cent of GDP at both points in time. However, such an end-point comparison ignores the massive growth and contraction occurred in the interim.

The assets of the entire banking system in Ireland were below 400 per cent of GDP in 2003 but rose rapidly to reach almost 800 per cent of GDP in 2008. There was little change for a few years, but there was a rapid decline from the middle of 2010, and by 2014 the assets of the banking sector were once again below 400 per cent of GDP.

This level somewhat overstates the relative size of the Irish banking sector as it is in part related to the activities of banks in the designated Irish Financial Services Centre (IFSC) sector which have little links to the Irish economy. If we just look at domestic banks, that is, institutions which have a retail presence in Ireland and the banks which lent to the Irish private sector, we see that these had assets equivalent to around 200 per cent of GDP in 2003 and 2014, which would be in line with international norms. The trouble for Ireland though was that by the end of 2008, domestic banks had assets equivalent to nearly 500 per cent of GDP, which is far in excess of international norms.

Of the domestic banks with retail operations in Ireland, around 80 per cent of the assets originated from Irish-headquartered banks,[1] while 20 per cent were from non-Irish-headquartered banks (Irish subsidiaries of foreign-headquartered banks). The most rapid growth was within the Irish-headquartered group of domestic banks with many of the policy initiatives for tackling non-performing loans focussed solely on this group.

Before considering the loan assets of the Irish banks, it is worth briefly considering the sources of funding used to finance those assets. The largest source of funding for the Irish banking system has always been domestic deposits but what was noticeable during the massive increase in lending up to 2008 was how much of this came from Irish banks themselves. In 2003 around 14 per cent of the deposits of the Irish-headquartered domestic banks came from other Irish-resident banks. By 2008 this had risen to over 40 per cent.

Thus, much of the credit issued by the Irish banking system was created by the Irish banking system itself. At the start of 2003, the Irish-headquartered banks have €10 billion of deposits from other Irish-resident banks. By the end of 2008, this source of financing was contributing almost €100 billion to the funding of the Irish-headquartered banks. Essentially the banks were getting deposits from themselves via their lending to customers that was deposited across the banking system.

The foreign funding of the Irish-headquartered banks was also important but was not a significant driver of the expansion on credit. The net foreign asset position of the Irish-headquartered banks deteriorated from −17 per cent of GDP in 2003 to −52 per cent of GDP in 2008, but this inflow of funding was largely in line with the increase in funding from domestic sources. In fact the net foreign asset position of the Irish-headquartered banks relative to total assets of the banks only moved from −11 per cent in early 2003 to −15 per cent in mid-2008.

The net foreign liabilities of the Irish-headquartered banks increased from €20 billion in 2003 to €90 billion in mid-2008. However, given that the balance sheets of these banks increased from €175 billion to €575 billion, it can be seen that the increase in net foreign liabilities accounted for less than 20 per cent of the increase. The €70 billion increase in total net foreign liabilities is around two-thirds of the increase in deposits that the banks took from Irish-resident monetary financial institutions, that is, credit created within the domestic financial sector. From 2003 to 2008, deposits from Irish-resident banks in the Irish-headquartered banks increased from €10 billion to almost €100 billion. Over the same period, deposits from the private sector increased from €70 billion to €130 billion. This €150 billion increase in domestic deposits is nearly twice as large as the increase in the net foreign liability position of the banks.

The Irish banks did access foreign deposits and of these around 75 per cent were from other banks. Up to 2006, around 40 per cent of these foreign inter-bank deposits were what could be classed "inter-office lending", one part of a bank lending to another, but in this instance, it is the foreign offices of the Irish-headquartered banks. These offices are concentrated in London and New York. After 2006 the share of inter-office lending rose sharply, and by the end of 2008, it accounted for almost 80 per cent of the foreign inter-bank deposits of the Irish banks. It is also worth noting that the majority of this funding was non-euro-denominated. Throughout most of the period, less than 20 per cent of this inter-office lending was euro-denominated with the remainder split between euro and US dollar which is not surprising given the location of these foreign offices. For all foreign liabilities of the Irish-headquartered banks, only around 40 per cent was euro-denominated with sterling and the US dollar always having a larger combined share.

In addition to deposits, the Irish banks also financed their lending by issuing debt securities. For all euro-area banks, around 20 per cent of funding comes from bonds. At the start of 2003, bond financing of the Irish banks was less than 10 per cent and rose to almost 25 per cent by early 2007. However, from this point onwards, the funding conditions for the Irish-headquartered banks changed, and the level of funding from bonds declined and fell by about one-fifth over the next 12 months. The balance sheet of the banks continued to expand and bond funding was back to 15 per cent of total liabilities by mid-2008. The replacement of this funding and the further increase in total liabilities was largely covered by foreign deposits—most of which came from the inter-office lending discussed above.

The Irish lending bubble of 2003–2008 was largely domestically financed and of foreign funding that was accessed less than half was euro-denominated. We now turn to the increase in lending that generated most of this domestic funding.

3 The Lending

Speaking at the World Economic Forum in Davos in January 2012, Irish Taoiseach[2] Enda Kenny said the following: "What happened in our country was that people simply went mad borrowing. The extent of personal credit, personal wealth created on credit was done between people and banks—a system that spawned greed to a point where it just went out of control completely with a spectacular crash".

Lending by banks in Ireland to Irish residents increased from €110 billion in January 2003 to €350 billion by December 2008. This is a rise of 220 per cent in just six years. Total loans to Irish residents went from being around 90 per cent of GDP in 2003 to nearly 200 per cent of GDP in 2008. This would seem to satisfy any criteria for going "mad borrowing", but it is important to look at the sector and purpose of this increased lending.

If loans to businesses in the construction sector and for real estate, land and development activities and loans to households for residential investment buy-to-let mortgages are excluded, loans to Irish residents rose from €83 billion in January 2003 to €195 billion by the end of 2008. This is still a rapid rise but is an increase of 135 per cent rather than the 220 per cent increase seen for all loans. By excluding loans for investment and speculation in the property sector lending to Irish residents rose from 66 per cent of GDP in 2003 to 108 per cent of GDP in 2008. This is a large increase but not catastrophic.

Loans for investment and speculation in the property sector rose from €27 billion at the start of 2003 to €150 billion at the end of 2008. There was an increase from 25 per cent of GDP in 2003 to 83 per cent of GDP in 2008. There is no doubt that borrowings by Irish people increased dramatically from 2003 to 2008 but a lot of the increase was concentrated in the construction, property and development sectors.

Loans to Irish businesses outside of the property-related sectors were €29 billion at the start of 2003 and reached €60 billion by the end of 2008. This rise from 20 per cent of GDP in 2003 to 33 per cent of GDP in 2008 has not put us in the position we are in now.

Excluding buy-to-let investment mortgages loans to households rose from €52 billion to €140 billion. Residential mortgages for primary dwelling houses (PDHs) increased from €40 billion to €110 billion and other consumer borrowings rose from €13 billion to €30 billion.

With property-related loans perceived as being the source of our ills, it is worth noting that household residential mortgages rose by €70 billion, while investment and speculative loans in the property sector rose by more than €130 million. Both increases are excessive, but it must be realised that one is almost twice as large as the other and also that the increase in mortgage debt was spread over hundreds of thousands of households rather than being concentrated like the property loans.

When the National Asset Management Agency took over the property development loans of the Irish-headquartered banks in 2010, they found that the largest 180 debtors with individual exposures in excess of €75 million had aggregate loan liabilities of €62 billion. This €62 billion of lending to 180 billion can be considered "mad" relative to the €70 billion increases in PDH mortgage lending to the entire household sector.

Looking at how Ireland dealt with the problem of non-performing loans in the €350 billion of lending to Irish residents in December 2008, we will focus on the largest purpose category for the household and business sectors.

For the household sector, this is the €110 billion of mortgages for primary dwelling houses, and for the business sector, this is the €112 billion of loans for development and property. The growth in these mortgages was 175 per cent in the six years to the end of 2008 while loans for property development grew by 490 per cent.

4 Non-performing Loans in the Business Sector

As outlined above, most of the increases lending to the business sector during the credit bubble in Ireland was for loans to development and property sector. It was also the case that lending to other sectors was linked to commercial real estate as many small- and medium-sized enterprises (SMEs) developed their existing premises or purchased new premises, with many including residential units as part of the development.

When the lending bubble ended in 2008, the first loans to get into major difficulty were the loans of property developers who could not find borrowers to buy the properties they were completing and could not get the loans on existing developments rolled over. As mortgage lending began to fall, property prices fell away from their peaks, but it falls in the price of land that had the biggest impact on the collateral behind the property development loans issued by the banks.

In early 2009, the Irish government announced plans to set up a body to take responsibility for the property and development loans in the six Irish-headquartered banks. This led to the establishment of the National Asset Management Agency (Nama). This agency acquired €74 billion of loans from the Irish-headquartered banks. This €74 billion included about half of the €112 billion of loans given to the Irish property sector in total (with the other half coming from non-Irish-headquartered banks) and over €20 billion of property loans that the Irish-headquartered banks had issued outside of Ireland.

In total Nama paid a consideration of around €32 billion for these loans, which included €6 billion of state aid to the participating institutions as the price reflected a notional "long-term economic value" rather than the current market price. This sum represented an average write-down of 57 per cent on the nominal value of the loans. Nama was tasked with maximising the value that could be recovered from the loans while it was hoped that by removing these bad loans from the balance sheets of the banks, they would return to normal lending. This did not happen as the banks carried other bad loans on their balance sheets that were not resolved.

Up to the end of 2015, Nama had recovered €8.5 billion through the onward sale of loans and €15.7 billion through the sale of the underlying assets behind the loans it acquired. Nama has also generated around €8.5 billion from loan redemptions, rental income and the acquisition of unencumbered and non-real-estate assets of its creditors. At the end of 2015, Nama expected to generate a surplus of €2.5 billion over the price it paid for the loans it acquired, including the state aid granted to the participating banks.

The banks were still left with many smaller property-related loans. Borrowers who had property-related loans of less than €20 million did not have their loans transferred to Nama while the banks were also left with business lending to non-property sectors.

At the end of 2008, banks in Ireland had lent about €175 billion to Irish-resident businesses. By the end of 2015, this had fallen to just under €50 billion—fall of more than 70 per cent. More than half of the fall can be attributed to the loans transferred to Nama, but the remainder is due to the banks working through the loans themselves.

In some cases, the banks themselves will have rescheduled or restructured the loans with the borrowers while the banks will have taken possession of and sold the underlying assets in other cases. There were also instances where the banks sold the loans to investment groups.

For example, lending to the hotels and restaurants sector fell from €12 billion in 2008 to €4 billion in 2015. Even with this substantial reduction, the Central Bank of Ireland reports that 20 per cent of loans to hotels and restaurants by outstanding balance were classified as non-performing. For all business lending by Irish banks, 12 per cent of their loans by outstanding balance were classified as non-performing. This compares to peak of over 30 per cent which was seen in early 2013.

While not as concentrated as lending to the property and development sector—where a couple of hundred of borrowers accounted for tens of billions of lending—lending to other business sectors was also concentrated. Excluding property and development, 80 per cent of business lending was accounted for by just 20 per cent of businesses. Most businesses did not have large amounts of debt and many of those that did, did so in relation to their premises and related development.

5 Non-performing Loans in the Household Sector

As we have already discussed, mortgage debt for primary dwelling houses (PDHs) rose from €40 billion in 2003 to €110 billion in 2008. One of the most prolonged features of the private debt crisis in Ireland has been the extent of the delinquency for PDH mortgages.

Ireland comprises around 1.7 million households. Of these, 600,000 are outright owners and 500,000 are renters with two-thirds of these renting from the state. The remaining 600,000 are owner-occupiers with a loan or a mortgage. At the peak, around one-fifth of these were showing some signs of mortgage distress.

Unlike the response to non-performing loans in the business sector where the response was a combination of rescheduling, write-downs, asset repossessions and loan sales, the response to the mortgage debt crisis was one of "extend and pretend". Write-downs and repossessions have been very lightly used in response to the massive mortgage arrears problem that arose in Ireland.

Irish lenders have attempted to resolve their non-performing mortgages by restructuring the loans. Enforcement through the courts to take possession of the property has been little used relative to the scale of the problem in Ireland.

Although almost 120,000 households were in some form of mortgage arrears at one stage in the six years from 2010 to 2015, there were just 1783 court-ordered repossessions of PDHs due to mortgage delinquency. This is around 1.5 per cent of households who fell into mortgage arrears. Data from the Central Bank of Ireland show that there are around 30,000 households who fell into mortgage arrears of more than two years, that is, behind on their mortgage by the equivalent of 24 monthly payments or more. Court reports show that there are cases before the courts where no payments have been received on the mortgages for periods of up to six years. The Irish banks and legal system have been very slow in dealing with the problem of non-performing mortgages.

The most common response of the banks has been to try and restructure non-performing mortgages so as to make them performing, but almost none of these restructures has involved a direct write-down of the balance outstanding. Most of the restructures have attempted to reschedule the repayments so that the full amount is repaid by borrowers.

The initial response of the banks was to place borrowers on "interest-only" terms. This involves suspending capital payments by the borrower and requiring that the borrower only pay the interest accruing on the account each month. By the middle of 2012, around 30,000 borrowers had been moved to interest-only terms by their lenders. Another 15,000 borrowers were making a reduced payment but one which was above the level of an interest-only payment, while 10,000 borrowers had a term extension applied to their loan. This reduces the monthly payments as the repayments are spread over a longer term. If the reduced payment offered by restructure is successful, then the temporary relief offered is helpful but these approaches do mean that the borrower will repay more to their lender over the lifetime of the loan.

There were few restructures that offered debt relief to the borrowers. There were no cases reported where the outstanding balance on the mortgage was reduced while there were only 150 borrowers who were offered a permanent interest rate reduction which reduces their monthly repayments over the lifetime of the loan.

In fact, most non-performing mortgages did not have a restructure applied to them at all. In the middle of 2012, there were 70,000 borrowers who were repaying their mortgages on restructured terms. This represents one-eighth of all borrowers. However, half of these accounts were not in arrears either because the restructure was applied before the account fell into arrears or because the restructure allowed the borrower to make repayments to move out of arrears. These 35,000 borrowers in arrears had restructured accounts which represents little more than one-quarter of the total of 120,000 borrowers who are in some form of arrears at that time. The response in the case of most non-performing mortgages was to do nothing.

In light of this, the Central Bank of Ireland moved to introduce Mortgage Arrears Resolution Targets (MART) requiring lenders to have proposed long-term solutions to their borrowers in arrears. Moving a borrower to an interest-only payment was not considered a long-term solution as the borrower's payments would have to increase in the future when the interest-only period ended. By the end of 2015, only 4000 PDH borrowers were on restructured interest-only terms compared to 30,000 three years earlier. By the end of 2015, the bulk of mortgage restructures were comprised of two types: arrears capitalisation and a split mortgage.

A split mortgage is relatively straightforward. A borrower's mortgage is divided into two and the borrower makes interest and capital payments on an amount that their repayment capacity can sustain. The remaining part of the loan is not written off but is warehoused and set aside. In some cases, if the repayment capacity of the borrower improves, the warehoused amount may be returned and added back to the principal outstanding, while in other instances, the warehoused amount may remain there for a significant period. For most lenders, interest does not accrue on the warehoused balance so the amount owing does not increase. Although a split mortgage does offer some debt relief to a borrower in difficulty (through reduced interest payments), there is no nominal reduction in the balance outstanding which is something that lenders in Ireland have been unwilling to do. By the end of 2015, around 20,000 mortgage borrowers had been granted a split mortgage of some description.

However, the largest restructure was something that is known as "arrears capitalisation" and nearly 30,000 borrowers had this applied to their accounts by the end of 2015. When the Central Bank of Ireland introduced the long-term targets for lenders, arrears capitalisation became the most commonly used restructure. In 2012, arrears capitalisations were around 12 per cent of all account restructures. By the end of 2015, 40 per cent of restructured mortgages had this applied to them. The popularity of this restructure and the vagueness of the title means it is something that we should look at in more detail.

One question that arises is what exactly does arrears capitalisation mean and what has happened to the 30,000 borrowers who have had this applied to their mortgage accounts? The Central Bank of Ireland use the following definition: "Arrears capitalisation is an arrangement whereby some or all of the outstanding arrears are added to the remaining principal balance, to be repaid over the life of the mortgage".

However, this does not reflect what happens. Arrears capitalisation does not add any of the arrears to the balance; it sets the arrears to zero and recalibrates the payment based on the principal outstanding and the term remaining on the loan at the time of the restructure.

This new payment will actually be higher than the payment set out under the original mortgage agreement but this is not because arrears are added to the balance. The new payment will be higher because a greater principal amount and more interest needs to be repaid over the remaining term of the loan than was originally expected. This is undoubtedly because the borrower missed payments and went into arrears, but the higher payment can be calculated automatically and is not the result of any arrears being "added on".

Consider a 20-year, €200,000 mortgage at 4 per cent fixed interest which is five years into its term. The monthly repayment is €1212, and after five years, the balance should be reduced to €163,800.

Assume that in the fourth year, the borrower missed 12 full payments in a row and then resumed making the "full" payments of €1212 in the fifth year. The borrower is 12 × €1212 = €14,544 in arrears, and the balance owing at the end of the fifth year will be approximately €179,250.

At the end of the third year, the balance would have reduced to €179,180. During the fourth year of no payments, the interest will be added as per usual, and with no offsetting payments, this will bring the balance up to around €186,400 at the end of the fourth year. The resumption of the monthly payments of €1212 for a year will reduce the balance to €179,250 at the end of the fifth year instead of the expected €163,800.

The borrower owes €179,250 and has arrears of €14,544. It should be noted that the quantum of arrears has nothing to do with the amount owed. They are calculated separately. The amount owed is the principal plus daily interest (added monthly) less any repayments made. The arrears are the amounts of missed repayments relative to those set out in the original contract.

So what to do with the €14,544 of arrears? The borrower has failed on a necessary contractual obligation so they need to make good the shortfall. One option is for the borrower to pay €14,544 in a lump sum and have that amount offset against the balance immediately clearing their arrears. The amount owing would drop to €164,706 (close to where it should be under the original contract) and the borrower could continue making the monthly €1212 payments to repay the loan over the original 20-year term.

A second option is to repay the arrears, or catch up on their contractual obligation, in instalments. If the borrower paid an additional €500 per month on top of the €1212 payment, they would have the arrears of €14,544 cleared in 29 months and would be roughly back on track and could again continue with the original €1212 payment for the remaining 12.5 years or so.

The concept of arrears capitalisation is similar to this, but it has the borrower catch up with the repayments right at the end of the original term so it is based on time rather than some monthly overpayment amount on the arrears.

In our case, the borrower owes €179,250 after five years of the original 20-year term. At the 4 per cent interest rate, this cannot be repaid with monthly repayments of €1212 over the remaining 15 years. In fact, if the borrower continues to make these monthly repayments, there will still be around €41,000 owing at the end of original 20-year term.

An alternative is to recalibrate the repayment so that the €179,250 owing at the end of the fifth year is repaid over the remaining 15 years of the mortgage. To do this at the 4 per cent interest rate would require a monthly repayment of €1326. If the borrower makes this monthly repayment to this level, the full amount owing will be repaid over the original 20-year term of the loan set out in the original contract.

The monthly payment has increased, but it is not because any "arrears are added to the remaining principal balance". The arrears figure was not used to calculate the new repayment. The arrears figure is a memo item that reflects the level of missed repayments and, by itself, does not feed into the principal, interest and repayment calculations on the loan.

The new repayment figure is higher because the borrower has borrowed more money for longer than originally intended. The borrower owes more interest. Instead of having the balance down to €163,800 by the end of the fifth year, the balance was only reduced to €179,250. Obviously the difference is because of missed payments (and a small amount of interest on interest) but regardless of the level of arrears the amount owing will be automatically calculated—interest is usually calculated on the closing balance each day and added monthly or quarterly.

Arrears capitalisation is simply recalibrating the monthly repayment so that the balance owing is repaid over the remaining term of the loan. It also involves setting the arrears to zero as the contractual obligations have changed rather than having them cleared by a once-off or temporary overpayment.

It is also possible to combine the arrears capitalisation with other restructures, primarily term extensions. In the above example, it would be possible to keep the repayment at €1212 and instead repay the loan over 17 years instead of the remaining 15.

The borrower loses nothing from the arrangement. It is a win–win for the borrower. There is nothing added to their loan balance, and their credit record will be restored faster with the arrears cleared.

If the borrower in the example here had stuck to the original repayment schedule, the full amount repaid over 20 years (240 months) would have been €290,880. As a result of the missed payments and the recalibration at the end of the fifth year, the amount to be repaid over the 240 months will actually be €296,856. And if the arrears capitalisation is combined with a two-year term extension, the total repayments are €305,424.

In the latter two cases, the borrower has to repay more, but it is not because any arrears were ever added to their balance; it was because they had borrowed money for longer and additional interest is added in the standard way that interest is calculated.

The description of "arrears capitalisation" is a bit of a misnomer. It is possible that "arrears amortisation" might be a better description as the borrower has agreed to catch up on their repayments over the remaining term of the loan.

So why did this restructure become so popular when the long-term targets were introduced by the Central Bank? If the borrower can stick to the recalibrated payment, it has the advantage of returning the loan to the performing category and removes the loan from the arrears statistics. Are the borrowers meeting the new repayments? Some are, but many aren't.

The Central Bank of Ireland also provides figures for the "success" of each type of restructure. At the end of 2015, there were 100,000 borrowers with restructured accounts. Of these, 86 per cent were meeting the revised terms of the restructured loans suggesting that many of the restructures can work to return the loans to performing status. However, the success rate for the most popular restructure is also one of the lowest. For accounts that had the arrears capitalised as described above, 75 per cent were meeting the terms of the restructure. Thus, there is 25 who are not meeting the new terms. There is some underlying reason why they fell into arrears in the first place. Unless that was temporary in nature and the borrower's repayment capacity has been restored, they will not be able to meet the new repayment, which will probably be higher than the original contract unless combined with a term extension as well. If these borrowers cannot meet these new higher payments, then the arrears capitalisation will not have cured the non-performing loan.

While up to one quarter of mortgage borrowers have exhibited some form of repayment distress at some stage, many other borrowers have continued to make full repayments with some likely making payments ahead of their contractual obligations. This means that the total stock of mortgage debt has declined since peaking in 2009 but by nothing close to the rates seen for business lending.

Mortgage lending to Irish-residents for PDHs was €118.7 billion in the third quarter of 2009. By the first quarter of 2016, this has reduced to €100.9 billion. While new lending has been muted for the past few years, this suggests that capital repayments on the stock of mortgage debt at the peak have been around €30 billion in the past seven years. This represents just over a quarter of the total debt drawn down at the peak. As the interest component of the repayment falls, it is likely to be another 15 years or so until this mortgage debt is close to being repaid.

Outside of borrowers who have been making full repayments and those who can meet revised terms, there are also a substantial number of borrowers who are making no repayments on their loans. At the start of 2016, there were around 30,000 borrowers who were two years or more in arrears. Additional figures from the lenders indicate that around half of these are making zero repayments on their loans and that many have made no repayment for a number of years.

In Ireland around five per cent of mortgage borrowers are two years or more in arrears. We cannot compare this figure to other countries as accounts being two years or more in arrears is not something that would usually happen in other jurisdictions. There are two reasons why this level of arrears is tolerated in Ireland. The first is the preference of lenders to attempt to restructure the loan rather than seek to enforce their security in the courts. The second is a legal problem that arose when land and conveyancing legislation was updated in 2009. This lacuna in the legislation was identified in 2011 and meant that the security on some mortgages could not be enforced. Further legislation to remedy the situation was enacted in 2013.

Since this was done, there has been an increase in enforcement activity by lenders, and while there has been an increase, the level of court-ordered repossessions in Ireland is very low relative to the scale of the non-performing mortgages problem. There have been 1782 court-ordered repossessions in the past six years, and there are around 12,000 enforcement cases currently before the courts.

In rough terms, the aggregate data to date indicate that of these, around 45 per cent will conclude with the granting of a court order for possession and, of which again, around 40 per cent will lead to a court-ordered repossession. That suggests there are around 5500 orders for possession to come out of the courts with around 2500 court-ordered repossessions following from those.

If this is the case, then of 100,000 borrowers who have exhibited mortgage distress then around 4 per cent will end up losing the property through a court-ordered repossession. This is around two-thirds of a per cent of all borrowers. There will also be borrowers who may voluntarily surrender the property to the lender or borrowers who sell the property in order to discharge their mortgage liabilities, but in the scale of the problem in Ireland of non-performing mortgages with up to one-fifth of borrowers showing some form of repayment distress at one time, this would be a remarkable outcome.

6 Conclusion

During the 2000s, Ireland experienced a huge build-up of private sector debt. When the crisis of 2008 emerged, this left a legacy of non-performing loans for both businesses and households. The responses to these were largely in contradiction to each other. For delinquent business lending, particularly for land and real estate development, the government moved quickly to transfer these loans off the balance sheets of lenders. The lenders themselves engaged in enforcement action to take possession of property and assets used as collateral for business lending while there was significant restructuring of loans including principal write-downs.

On the household side, the reaction was pedestrian by comparison. Very little was done in the early stages of the crisis and the most common response to mortgage distress was to offer "interest-only" terms to the borrower. In time more permanent solutions were offered to borrowers including "split mortgages" and "arrears capitalisation" though the efficacy of some of these in resolving the matter remains questionable.

One of the most notable features of the mortgages arrears crisis in Ireland has been the lack of enforcement. In the six years to 2015, there were just 1783 court-ordered repossessions when almost 100,000 borrowers were in repayment difficulty. A legal lacuna prevented the security on some mortgages been enforced but this was rectified in 2013. By 2016 there were around 12,000 enforcement actions before the courts. If trends up to that point are maintained, these cases will result in a further 2500 court-ordered repossessions. The response to the mortgage arrears crisis may have been slow, but it is possible that only 4 per cent of borrowers in distress will experience a court-ordered repossession with other borrowers getting back on track or discharging their loan liabilities. The level of mortgage distress suggested that repossessions on a grand scale were possible, but this is not going to be the case now.

Notes

1. This was originally a group of six banks and comprised Allied Irish Bank (AIB), Anglo Irish Bank, Bank of Ireland, the Educational Building Society (EBS), the Irish Nationwide Building Society (INBS) and Permanent TSB. The crisis saw this number reduced to three with EBS folded into AIB and Anglo Irish Bank and INBS merged into a single entity, the Irish Bank Resolution Corporation which did not engage in new lending and whose remaining assets were put into liquidation in early 2013.

2. The Irish head of government is the Taoiseach, which would be equivalent to Prime Minister in other countries. The word is from the Irish language and means "chieftain" or "leader".

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