Coimisiún um Iomaíocht agus Cosaint Tomhaltóirí | Competition and Consumer Protection Commission

Central Bank of Ireland Consultation Paper CP 98
(Increased Protections for Variable Rate Mortgage Holders)

Competition and Consumer Protection Commission Submission

1. Introduction

1.1 The Competition and Consumer Protection Commission (CCPC) welcomes the opportunity to respond to the Central Bank of Ireland consultation on Increased Protections for Variable Rate Mortgage Holders (Consultation Paper CP98). In this submission, the CCPC makes some general comments and observations and then addresses each question posed in the consultation document.

2. General Observations

2.1 The CCPC recently commissioned market research[1] on the topic of mortgages and mortgage switching (referring to people who switched mortgage provider for their current home). The main results of the research are embedded at the end of this response, of which the key findings include:

- While 86% of mortgage holders are aware of their monthly repayment amount, just half (52%) are aware of the rate of interest which they pay on their mortgage.
- Only about 1 in 7 (15%) mortgage holders have actively engaged with their mortgage provider (e.g. changed timeframe/type of mortgage) or actively considered switching their mortgage in the past five years.

[1]The consumer research conducted by Behaviour and Attitudes, on behalf of the CCPC, involved both a nationally representative face to face research survey and also an online survey. Due to the very small number of actual switchers identified in the face to face research, further research was conducted via an online survey to obtain a larger number of mortgage switchers. The results included here are from the face to face survey unless otherwise indicated.

- 1 in 6 (17%) have compared mortgage offers in the past 5 years, with online searches being the most popular method of making comparisons.
- The main reasons cited for not comparing mortgages are "not thinking it would be worth their while" and "never really considered comparing mortgages" with 1 in 5 (20%) citing each. A further 11% stated that they did not know they could switch.
- From the online research conducted, variable rate mortgage holders cited clear and transparent information on the upfront costs involved in switching (64%) and a quicker, more efficient switching process (48%) as the top two suggested methods which might encourage switching.
- When looking at those who switched mortgages in the past 5 years[2], overall they found the process positive with switchers saving money. However the main problem identified was that it involved too much paperwork.

These results indicate that a greater proportion of mortgage holders would consider switching if they were more aware of the amount and interest rate they were paying versus what is available in the market. In addition the research suggests increased switching rates may be achieved if the process was made more efficient and the upfront costs were clearer, allowing for consumers to make more informed decisions.

2.2 It is therefore suggested that consideration be given to the feasibility of a standardised mortgage switching process or other similar measure which would introduce defined timelines, increase efficiency and certainty for the consumer. The CCPC considers that there would be merit in the administrative procedures of the lenders being reviewed with a view to ensuring consistency of approach, avoiding unnecessary duplication of effort and thereby increasing the ease of switching mortgage providers from a consumer's perspective. The CCPC's recent mortgage research found that

[2] The research achieved a sample of 40 respondents who had switched their mortgage. Although small in quantitative terms, considering the low levels of actual mortgage switching activity, the CCPC considered that it was useful to provide an insight into their experience of the switching process.

over 2 in 5 respondents said that "a quicker more efficient switching process" was a factor that would encourage them to consider switching their mortgage. The CCPC would welcome the opportunity to further engage with the Central Bank in considering those aspects of the mortgage process, perceived and real, that discourage switching[3].

Responses to Questions raised in the Consultation.

3. What are your views on the proposals (that Lenders will have to prepare and publish a summary variable rate policy statement)? (Question 1)

In general any proposals which increase transparency are welcome. However, until the level of detail that will be required is decided upon, the CCPC is not in a position to comment on the impact or otherwise that this may have on the level of competition or rate of switching in the Irish mortgage market.

4. Do you have any suggestions in relation to the format of the summary statement or the level of detail which should be contained in the statement? (Questions 2)

The CCPC encourages the use of Plain English and documentation that is easy for consumers to understand. Once the Central Bank prescribes the proposed format, the CCPC would welcome the opportunity to review and comment on it.

5. Do you have any views on the proposal that the Central Bank would prescribe the format and content of the information to be provided in the summary statement? (Question 3)

[3] It is worth noting that there is also the potential for an enhanced consumer experience, for those who are moving house and getting a new mortgage (rather than switching lender for a current property) with the future introduction of an electronic conveyancing system and the possibility of a new profession of conveyancer (the latter to be examined by the soon to be established Legal Services Regulatory Authority).

Should the proposal of publishing the banks' variable rate policy statement be implemented, the CCPC supports the concept that the Central Bank would prescribe the format and content of the information that mortgage providers offer to ensure consistency between providers and ease of comparison for consumers. From the research conducted, 3 in 10 (31%) consumers indicated that standardised comparable offers from providers would encourage them to consider switching their mortgage. The CCPC considers it important that the policy statements are clear on how often they might be subject to revision and the minimum period of time they apply for (e.g. 5 years). It would also be important for adherence to the policy to be reviewed by the banks, via internal audit mechanisms, for example.

6. Do you have any views on the proposals that the lender will be required to give variable rate mortgage holders information on alternative options? (Questions 4)

The CCPC agrees with the proposal that information on alternative mortgage options offered by the lender are provided. Once again this information must be in plain English, it should be clear and brief and should be given annually and at the notification of any variable rate increase. The CCPC would recommend a review at regular intervals of the possible impact of such measures being introduced, in order to monitor for any possible unintended negative consequences (such as a potential disincentive for the lenders to offer more options).

The CCPC agrees with the proposal that lenders will be required to provide the borrower with details of where the borrower can obtain further information on other mortgage products in the market and to include a link to the mortgage switching section on the CCPC's website (www.consumerhelp.ie). The CCPC would be happy to supply the wording for this inclusion. It is worth noting, from the aforementioned research, that 33% of consumers said 'a website that provides information on potential savings from switching' would encourage them to consider switching.

7. **Do you have any views on the proposal to increase the notification period? (Question 5)**

The CCPC agrees with the suggestion of increasing the notification period, but only for interest rate increases. It should be clear that decreases can take immediate effect as they do not cause harm (in the form of increased costs) to consumers. Increasing the notice period allows additional time for consumers to consider alternatives, and this may provide the motivation to borrowers to investigate switching. (Please refer to comment 2.2 above). Further, the notification could include information such as 'that the consumer can reject the increase by moving to another lender if they can / wish'. Consumers should be afforded the opportunity to indicate that they wish to move (for example by calling a specific number by a given date) and that this indication would trigger the sending of a switching pack or information to assist in that process.

8. **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? (Question 6)**

The notice period needs to be sufficiently long to allow for adequate consideration of switching options and the actual switching process itself. The aforementioned research, conducted on behalf of the CCPC, found that 35% of switchers estimated that the switching process took between one and two months and 24% of switchers estimated that the process took longer than two months. Accordingly, a notice period of two/three months might be appropriate. The CCPC considers that data on switching, including the time period it took to switch, should be published to increase transparency and potentially encourage switching rates and improvements in efficiency.

9. Do you have any views on the proposal to require the lender to include the reason for the change in the rate in the notification of an increase in a variable interest rate? (Question 7)

The CCPC considers that there is merit in this proposal and is of the view that the reason should tie in with and make specific reference to the lender's variable rate policy statement, should the Central Bank decide to proceed with that proposal.

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