



MABS Submission to:

The Central Bank of Ireland

On

Increased Protections

For

Variable Rate Mortgage Holders

Consultation Paper CP 95

February 2016

Table of Contents

1. Introduction	2
2. MABS Submission: Response to Consultation Questions	3

1. Introduction

The Money Advice and Budgeting Service (MABS) was established in 1992 to support people on low incomes to cope with debts and take control of their own finances. It is a free, confidential and independent service. It comprises 53 MABS Services, located in over 60 offices nationwide. It is funded by the Citizens Information Board.

MABS National Development Limited was established in 2004 to further develop the MABS Service in Ireland. It provides training and technical support to MABS staff nationally.

MABSndI also assists the MABS service in providing educational and informational supports as well as assisting in highlighting policy issues that arise in the course of the money advice work on behalf of clients.

MABS welcomes the opportunity to contribute to these deliberations. We share the view that there is need for greater transparency on the terms and conditions attached to most, if not all, financial products but most especially in relation to mortgages which are one of the most important contracts individuals are likely to enter during their lifetime.

2. Response to Consultation Paper CP 98 Questions

Variable Rate Policy Statement:

Question 1: What are your views on the proposals outlined above?

Answer 1: Repaying a mortgage loan is the biggest budget item that individuals or families have to meet each month. Most consumers, when looking for a mortgage, are focused on finding a suitable property and then securing the finance. The affordability of the mortgage over time and an understanding of terms and conditions attached can often be a secondary consideration. It is therefore in the interest of lender and borrower that information regarding repayment of the loan and the possibility of an interest rate increase during the life of the mortgage be clearly understood. We therefore agree that there should be a clear unambiguous explanation, in plain English, of the factors which could result in changes to the interest rate being charged.

Question 2: 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?

Answer 2: The summary will need to have a simple structure with appropriate content headings. While the amount of information contained will have to be sufficient to enable understanding it will need to be presented in clear and easily understandable language.

Question 3: 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?

Answer 3: We concur with the view that there should be a prescribed format and content of what is contained in the summary statement. Establishing a uniform format and information content will, in MABS view, enhance consumer understanding.

Question 4: Do you have any views on the proposals that the lender will be required to give variable rate mortgage holders information on alternative options?

Answer 4: We would see the proposal to require lenders to provide variable rate mortgage holders with a summary of the mortgage products provided by that lender and that may provide savings for the borrower as well as providing details of where more information on these products may be found as a requirement under the principles outlined in the Consumer Protection Code. We agree that this information should form part of the annual statement together with notification of increases in the variable interest rate.

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

Answer 5: A mortgage, for most consumers, is the biggest financial commitment they are likely to make in a lifetime. It also consumes, on average, the largest proportion of a household's monthly income. Any increase in interest rates can have a serious effect on a family's ability to budget. It is therefore important that the borrower has sufficient time and information to consider their options and/or to build the increased payment into their household budgeting plans.

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?

Answer 6: It is the MABS view that at least 30 working days (6 weeks) should be the minimum notification period. We would favour a 40 working day notice in order to give the borrower two monthly incomes to smooth the rebalancing of the household budget or to research other mortgage offers either with their existing provider or another lender.

Question 7: Do you have any views on the proposal to require the lender to include the reasons for change in the rate in the notification of an increase in a variable interest rate?

Answer 7: The reason for the change in interest rates is relevant information which the borrower should have as it may influence a decision to switch lenders or mortgage products and therefore should be provided to the borrower. Providing the rationale for such a change, if credible and properly communicated will, in MABS view, help to improve the very low level of trust of the banking sector that currently exists among many consumers.