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Jane Kelly, Paul Lyons, Eoghan O'Brien & Jonathan Rice

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Jane Kelly, Paul Lyons, Eoghan O'Brien & Jonathan Rice[1]

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Abstract

In response to the COVID-19 pandemic, credit institutions in Ireland provided payment breaks to alleviate borrower's short-term liquidity constraints. Some borrowers received just one payment break, while others received an extension to their original payment break. The differentiating characteristics of these borrower groups, along with the financial position of those who required further support upon expiration of their payment break, is the focus of this Note. Borrowers with a payment break extension were more likely to have existing or historic forbearance measures in place, were less likely to be in long-term arrears (>1 year) and were more likely to have had their employment prospects negatively affected by the pandemic. The Note further identifies the cohort of borrowers that required a restructuring solution following the expiration of their payment break. Reduced monthly repayments or deferred payment options were the preferred restructuring types offered to the cohort of borrowers upon expiry of their payment break.

1 Introduction

A payment break (also referred to as a "payment moratorium") is an agreement between a borrower and lender to suspend repayments of principal and/or interest on loans for a specified period. In light of COVID-19, payment moratoria were introduced in many countries. In Europe, the European Banking Authority (EBA) issued guidelines on the application of these moratoria in Q1 2020 (EBA, 2020). Introduced in Ireland in March 2020, COVID-19 payments breaks helped alleviate short-term liquidity constraints faced by borrowers experiencing financial difficulties due to the impact of the pandemic.

The COVID-19 payment break programme in Ireland was non-legislative and consisted of payment break agreements between lenders and borrowers for mortgage, consumer and business loans, whereas in some countries moratoria were legislative (ESRB (2021) and Drabanz et al. (2021)). The banking industry body, the Banking and Payment Federation of Ireland (BPFI), facilitated the programme in Ireland. The programme provided support to borrowers and was implemented by Irish retail banks and non-bank entities.[2] Mortgage, consumer and business borrowers could avail of payment breaks up to an initial term of three months, and could extend this to six months as long as their request was received before end-September 2020. Subsequently, payment breaks were extended again, however, this was on a case-by-case basis as opposed to the earlier 'system-wide' (COVID-19 payment break) approach. This case-by-case approach facilitates direct engagement with borrowers and allows for early identification of financial distress that might persist longer than the COVID-19 economic restrictions. The Central Bank of Ireland communicated its expectations

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[1] Macro-Financial Division. For correspondence contact paul.lyons@centralbank.ie. With thanks to Fergal McCann, Aisling Menton, Michael Smyth, Seán Fitzpatrick, Vasileios Madouras & other Central Bank colleagues for comments and assistance when preparing this Note. All views expressed in this paper are those of the authors alone and do not represent the views of the Central Bank of Ireland.

[2] Non-bank entities comprise of Retail Credit Firms and Credit Servicing Firms per classification here

to lenders in dealing with borrowers experiencing financial difficulties because of COVID-19 in two 'Dear CEO' letters issued in June and November 2020. [3]

From a financial stability, household distress, and banking supervision perspective, it is important to understand the make-up of borrower groups that requested payment break extensions and those that requested further support. These borrowers are currently experiencing the greatest difficulties in navigating the pandemic-related economic shock. Information on their repayment capacity and the way in which banks have handled their requests for support provide important insights into how borrowers and lenders are managing the COVID-19 shock. This may become even more critical if a larger group of borrowers require further support at a future point in time.

In this FS Note, we explore how payment breaks on Irish mortgages for primary dwelling homes (PDH) have evolved since their introduction. Previous work (Gaffney & Greaney, 2020) identified the characteristics of PDH borrowers on payment breaks as at May 2020. We use updated information to examine if those characteristics continue to hold true for borrowers who received payment break extensions. Specifically, our analysis examines the status of PDH payment breaks at October 2020 while also looking at the characteristics of those PDH borrowers who availed of a payment break extension. By combining multiple granular data sources, we also add early insights on those borrowers that requested a restructuring arrangement at the end of their payment break agreement. Our key findings are:

Payment Break Extensions:

- Of those PDH mortgage borrowers who availed of a payment break in 2020, half went on to extend their initial payment break.
- Borrowers receiving payment break extensions were more likely to have existing or historic forbearance measures in place[4], less likely to be in long-term arrears (>1 year) and more likely to reside in counties where the labour force had a more subdued recovery following the onset of the COVID-19 shock. Borrowers who received a payment break extension had, on average, somewhat higher origination loan-to-incomes than those receiving one payment break only.
- There were a larger share of payment breaks and payment break extensions for loans originated in the years leading up to the Global Financial Crisis (2003-2008).

Payment Break Expirations:

- While the majority of PDH borrowers have returned to paying full capital and interest following their payment break, a small cohort requested further restructuring solutions. By December 2020, 2.2 per cent of those receiving a single payment break submitted a Standard Financial Statement form (SFS) to their bank.[5] This share increases to 5.4 per cent for those in receipt of a payment break extension.
- Of those borrowers who submitted an SFS form seeking further restructuring, the median borrower in receipt of a payment break was making repayments in full in the three months

[3] Available on the Central Bank of Ireland COVID-19 hub here

[4] The most common types of forbearance for these borrowers are arrears capitalisation, split mortgage solutions and term extensions. See Central Bank of Ireland Mortgage Arrears Statistics for latest data on arrears and restructuring arrangements.

[5] An SFS is the document, which a lender must use to obtain financial information from a borrower in order to complete an assessment of that borrower's case. Some borrowers have also agreed temporary alternative repayment arrangements with their lenders without going through the SFS process under Provision 38 of the Code of Conduct on Mortgage Arrears (CCMA).

prior to the pandemic, suggesting that the pandemic was the root cause of financial distress amongst this payment break group.

- Reduced monthly repayments or deferred payment options were the preferred restructuring types offered to this cohort of borrowers upon expiry of a payment break. The solutions agreed appear to vary with borrower financial distress (i.e. lower repayments for those with lower incomes and larger monthly financial deficits).

Policy considerations:

- Most mortgage borrowers who availed of a COVID-19 payment break have since returned to paying full capital and interest repayments. However, as government supports, including direct income supports, are tapered, it is possible that some borrowers could require further lender support. For these cases, lenders should seek to determine if an appropriate and long-term sustainable solution is available to address the borrower's new financial circumstances.

- Despite returning to paying full capital and interest, payment break borrowers represent a vulnerable group - they are the borrowers most affected by the pandemic. However, other borrowers who have not availed of payment breaks, perhaps due to benefitting from direct or indirect government supports may be vulnerable also if such supports were withdrawn too quickly or the economic recovery fails to take hold as expected. Recent research by the Central Bank of Ireland (Box E, Quarterly Bulletin 3, 2021) highlighted that government wage supports for workers were effective in preventing sharper declines in income amongst workers in sectors that have been most negatively impacted by the pandemic. As such, the tapering of supports in a gradual, measured and informed manner, linked to the economic reopening will support the near term repayment capacity of these borrowers - (see also a recent Blog (July, 2021) by Central Bank of Ireland Governor, Mr. Gabriel Makhlouf for an outlook on Irish economy as restrictions are gradually eased)

- Upon expiry of payment breaks, for those borrowers who have engaged with their lender regarding their current financial difficulties, the evidence available suggests that lenders have agreed mainly short-term restructuring arrangements. Depending on how the economic recovery and incomes evolve, some borrowers may need further adjustments. Longer-term solutions will be required and should be considered where more permanent income shocks are apparent (e.g. for borrowers in certain sectors).

- Given that borrowers with either current or past forbearance were more likely to have taken up payment breaks and were more likely to avail of extensions, it is vitally important that lenders and borrowers engage early and meaningfully before short-term arrangements expire. Doing so, will avoid the build-up of future distress among borrowers and adding to the already sizeable number of longer-term mortgage arrears cases in the Irish market.

2 Data Description

The five main retail banks operating in Ireland reported payment break details for their residential mortgage customers as of October 2020 to the Central Bank of Ireland. This data provides an update on the payment break status and the payment break extension status of the mortgage borrowers at these banks. We match this data to a larger loan-by-loan level data set provided by the same five banks. This combined dataset provides us with a rich profile of the loan, borrower and collateral characteristics associated with these payment break loans. We additionally match a dataset of SFS information provided by the same five banks. This allows us to identify those borrowers who required additional restructuring upon expiry of their payment breaks and examine the nature of these restructuring arrangements.

While our combined datasets provide us with useful granular information for analysing customers with payment breaks, there are a number of limitations. Firstly, we collect this information only from the main Irish retail banks. As such, mortgages at non-retail credit firms and credit servicing firms are excluded from this analysis - the share of longer-term arrears is higher at these entities (Central Bank of Ireland Mortgage Arrears Statistics). Secondly, the sector of employment of borrowers is not in our dataset. It is considered likely that sector of employment and payment break take-up would be highly correlated, as certain sectors have been affected more than others due to COVID-19.

3 Payment Break Status May 2020 & October 2020

The share of active COVID-19 payments breaks fell sharply between May 2020 and October 2020, from 10.9 per cent of the total outstanding mortgage balances to 1.7 per cent (Table 1). This reflects an approximate 85 per cent reduction in the active payment break share between May and October with the majority of borrowers returning to paying full capital and interest by October 2020. Data up to the end of 2020 reveal a further reduction in active payment break share with approximately 97 per cent of all PDH mortgage accounts that availed of a COVID-19 payment break having returned to paying full capital and interest (BPFI and Central Bank of Ireland Statistics).[6]

While it is positive that so many borrowers who availed of a payment break have since returned to paying full capital and interest – especially, considering the economic restrictions that were in place in Ireland towards the end of 2020, it is nonetheless important for policy formation to understand their characteristics and whether this composition changed over time. The improvement may in part reflect borrowers opting to avail of the system wide COVID-19 payment breaks during the early payment break period as a means of insurance in case their income deteriorated further. Some borrower's repayment capacity may also have improved, including those where government supports at least partially alleviated financial distress.

Table 1 summarises the characteristics of loans and borrowers with active payment breaks at two points in time - May 2020 and October 2020. At both time points, there was a higher payment break share among second and subsequent time buyer (SSB) and buy-to-let (BTL) borrowers than for first time buyers (FTB).

Gaffney & Greaney (2020) identified that "*loans with a forbearance history are more than twice as likely to have a payment break when compared to loans that were never forborne*". The newer data confirms that this remained the case among those with active payment breaks in both May 2020 and October 2020. The May and October 2020 groups differ in terms of depth of arrears however. In May 2020, there was a higher payment break share among those borrowers in early arrears (1-90 dpd). In October 2020, of those on active payment breaks, there was a higher payment break share among deeper arrears groups (91-365 dpd and 366-720 dpd).

There was a higher share of payment breaks for loans originated before 2008 and this was also the case for those receiving a payment break extension as at October 2020. Finally, there was a higher share of payment breaks among loans in the Dublin and Mid-East regions. We examine the loan and borrower characteristics of those with a payment break extension in more detail in section 4.

[6] BPFI Payment Break Data release December 2020. Payment breaks had been approved on 151,000 accounts by 31 December 2020. Almost 74,000 of these accounts were for PDH mortgages, 36,000 were consumer credit and 33,000 were SME loans.

Table 1: Payment Break Characteristics - May 2020 & October 2020					
	Balance (€bn)	May-20		Oct-20	
		Payment Break Balance (€bn)	%	Payment Break Balance (€bn)	%
All Mortgages (PDH and BTL)					
Total	93.9	10.2	10.9	1.6	1.7
Borrower type, of which:					
FTB (%)	35.8	3.6	9.9	0.5	1.3
SSB (%)	48.3	5.6	11.7	0.9	1.9
BTL(%)	9.8	1.0	10.6	0.2	1.9
Forbearance History - PDH only					
Never Forborne	66.6	5.7	8.5	0.8	1.2
Previously Forborne	10.1	1.9	19.0	0.3	3.1
Currently Forborne	7.4	1.6	21.2	0.3	3.5
Depth of Arrears - PDH only					
0 dpd	80.2	8.7	10.8	1.3	1.6
1-90 dpd	0.9	0.2	26.0	0.0	3.6
91-365 dpd	0.7	0.1	22.4	0.0	5.2
366-720 dpd	0.4	0.1	14.5	0.0	5.6
over 720 dpd	2.1	0.1	4.9	0.0	1.8
Loan Origination Date - PDH only					
Pre 2008	40.6	5.3	13.0	0.8	1.9
2008-2015	14.2	1.3	9.4	0.2	1.5
2016 - Present	29.0	2.5	8.6	0.4	1.4
NUTS 3 Region - PDH only					
Dublin	33.1	3.7	11.1	0.7	2.0
Mid-East	15.4	1.9	12.5	0.3	1.8
South-West	10.1	1.0	9.6	0.1	1.3
Mid-West	6.0	0.6	10.0	0.1	1.4
West	5.7	0.6	10.0	0.1	1.2
South-East	5.5	0.6	10.7	0.1	1.3
Border	4.2	0.5	10.7	0.0	1.1
Midlands	3.7	0.4	10.2	0.0	1.3

Source: Central Bank of Ireland Loan Level Data as reported by the five main retail banks, May and October 2020. PDH is Primary Dwelling Home; BTL is Buy-to-Let, FTB is First time buyer while SSB is Second and Subsequent Borrower. dpd refers to days-past-due.

4 Who availed of a Payment Break Extensions

In this section, we consider those who applied for payment break extensions and whether their characteristics differ from borrowers who received just one payment break. As discussed in the previous section, borrowers were more likely to avail of a payment break extension if their repayment capacity continued to be negatively affected by COVID-19. The typical payment break extension took the form of a further three-month payment moratorium.

In Table 2, we allocate borrowers to a number of mutually exclusive and exhaustive cohorts. The cohorts are: borrowers who received payment break 1 only, borrowers who received payment break 1 and an extension, and borrowers who did not receive any payment break. Finally, the 'other' category includes borrowers whose payment break request was pending or cancelled as at October 2020, in addition to a small number of borrowers who had their payment break 1 request rejected.

Table 2: Payment break classifications

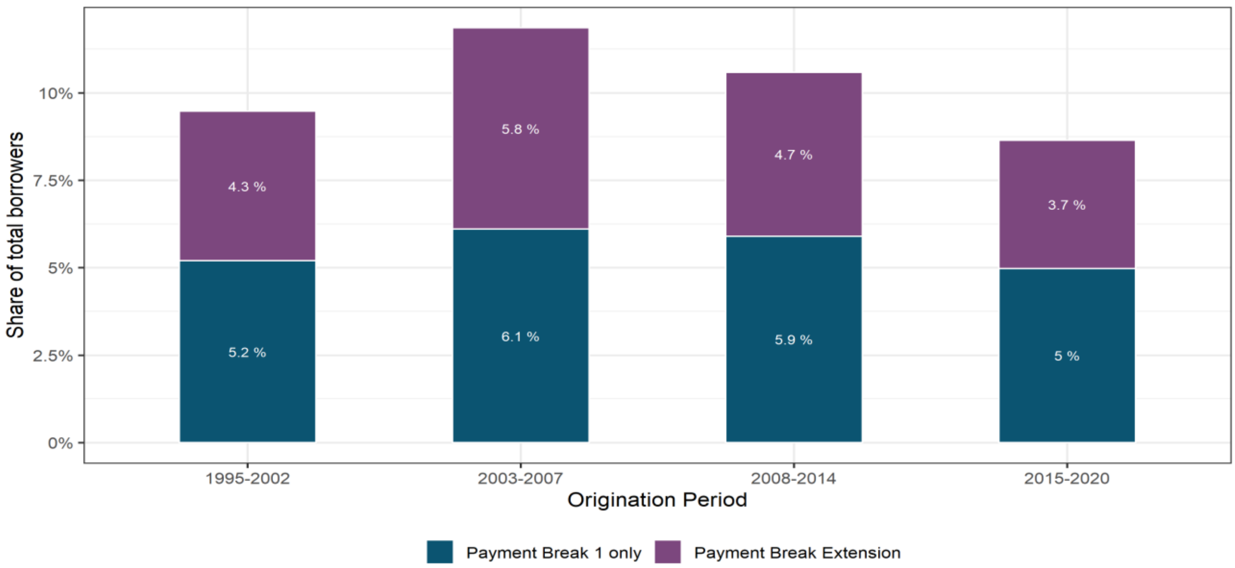
Cohort	Label	Balance (€Bn)	Balance (%)
Payment Break 1 Only	*PB1*	€5.3	6.2%
Payment Break Extension	*PB_Ext*	€5.1	6.1%
Total		**€10.4**	**12.3%**
Memo items:			
No PB Received	*No_PB*	*€73.4*	*87.2%*
Other	*Other*	€0.4	0.5 %

Note: Balance (%) is the share of each cohort of the sum total of ROI private dwelling mortgage balances as at June 2020. Source: Central Bank of Ireland collected loan level data as reported by the five main retail banks, October 2020.

Of the 12.3 per cent of borrowers (by balance) who took up a payment break (€10.4bn outstanding balance), approximately half took a payment break extension (€5.1bn). While the initial payment breaks offered (PB 1) were broadly available, banks offered payment break extensions on a case-by-case basis.

In Figure 1 below, we consider the origination period of mortgages for each cohort. The figure largely confirms the findings in (Gaffney & Greaney, 2020), in that those receiving payment breaks tended to have a greater share of originations in the lead up to the Global Financial Crisis (2003-2008), a period in which credit conditions were looser. The lowest share of payment breaks were to borrowers whose loans were originated from 2015 to 2020 - this could be indicative of an improved borrower risk profile for mortgages originating after the introduction of the mortgage measures in 2015.

Figure 1: Payment break cohorts by orgination
ROI PDH Mortgages, quantity of borrowers by origination period

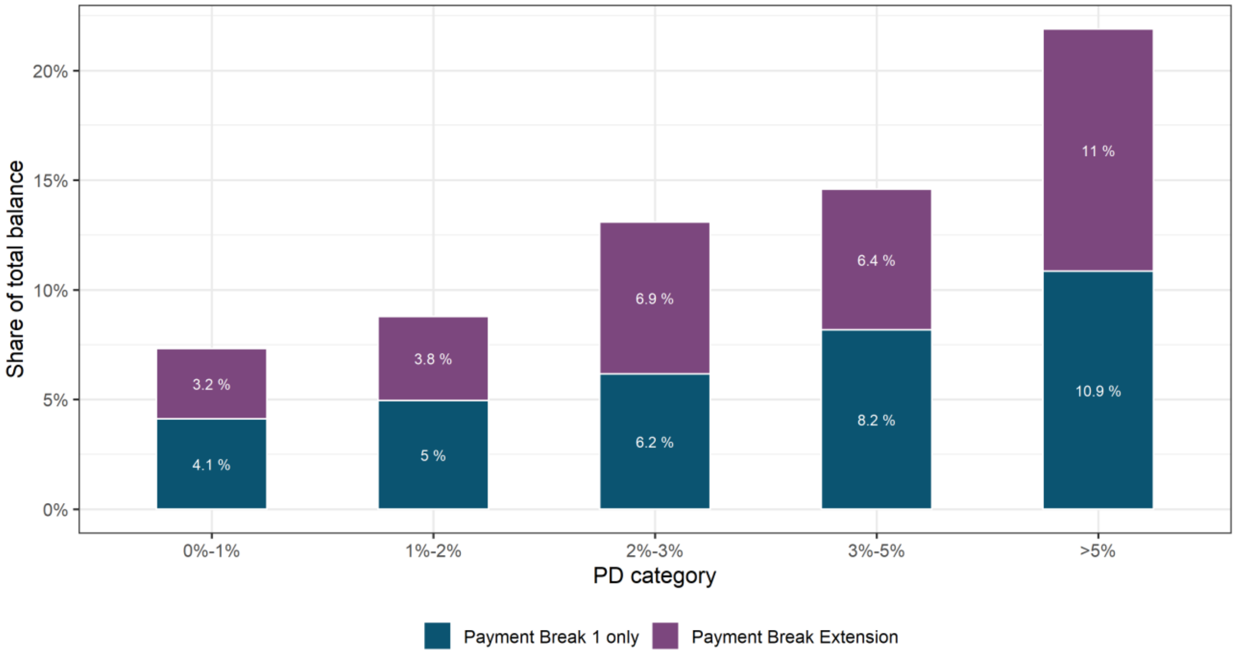


Note: Figure 1 shows the share of borrowers originating within each origination range by payment break cohort. The "No Payment Break" cohort is excluded as the categories of interest here are payment breaks, and therefore each column does not sum to 100%. Source: Central Bank of Ireland, Loan Level Database.

Next, we consider banks own internally generated measures of credit risk. Within the International Financial Reporting Standard 9 (IFRS 9) for financial instruments, which became effective on the 1 January 2018, banks are required to grade all of their loans based on their probability of default (PD) over a minimum of a future 12-month period.[7] It is worth noting that these PDs are forward looking, based on the bank's own economic forecasts and therefore are likely to take into account COVID-19 related risks within each cohort over the coming 12 months. The share of total borrowers requesting a payment break or receiving a payment break extension generally increases with PD, as measured by the banks (Figure 2).

Figure 2: Payment break cohorts by probability of default

ROI PDH Mortgages. Performing loans only, euro balance



Note: Figure 2 shows the share of total euro balance within each probability of default category split by payment break cohort. The "No Payment Break" cohort is excluded, and therefore each column does not sum to 100%. Source: Central Bank of Ireland, Loan Level Database.

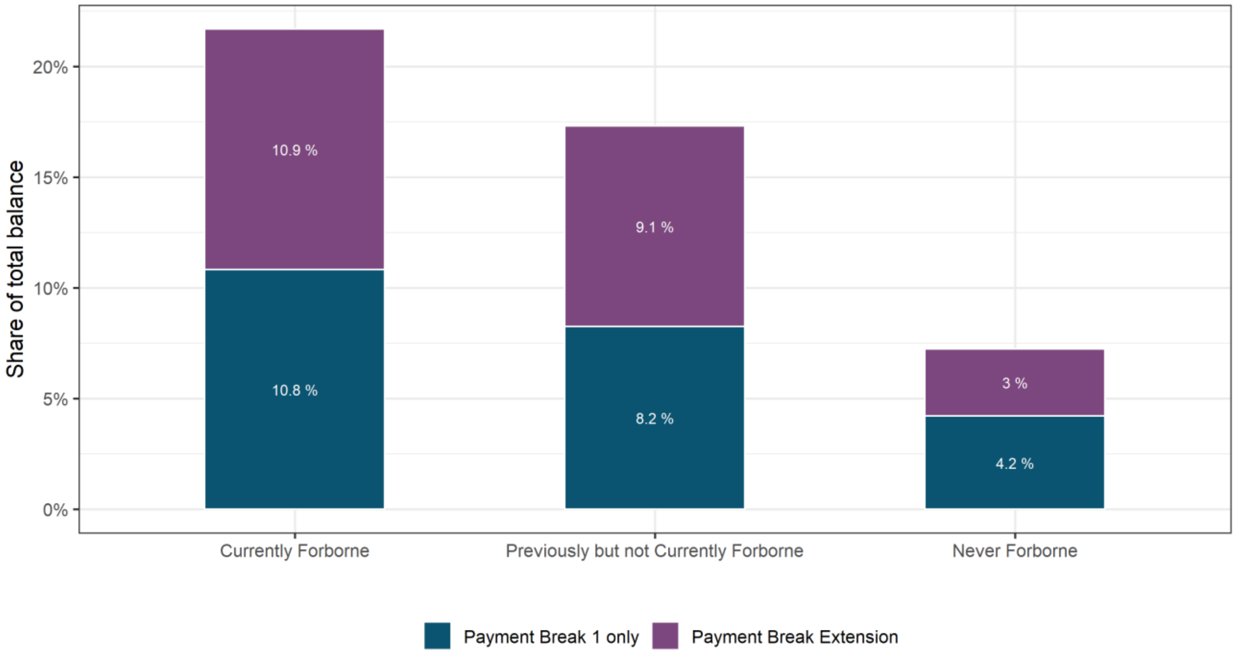
However, the relationship may not be one directional, as it may be that borrowers who got a payment break or payment break extension were subsequently judged by their bank to be riskier (as opposed to riskier borrowers being more likely to request a payment break). Among the PD categories, the share of borrowers receiving payment break 1 only and those receiving a payment break extension were broadly similar. Just over 7 per cent of total borrowers with a PD of between 0 – 1 per cent availed of a payment break while, in contrast, approximately 22 per cent of borrowers with a PD of >5 per cent availed of a payment break.

Next, we consider the share of borrowers that were either currently forborne (as at June 2020), previously forborne or never forborne by our payment break cohorts.[8] Borrowers with a current or past forbearance record were more likely to have taken up payment breaks, with 21.7 (10.9 + 10.8) and 17.3 (9.1 + 8.2) per cent respectively availing of breaks, compared to just 7.2 (3 + 4.2) per cent of all borrowers with no current or past forbearance (Figure 3). Based on the figure, it appears that borrowers who were currently or previously forborne were marginally more likely to avail of a payment break extension than avail of payment break 1 only. This finding is corroborated in regression analysis later in this section.

[7] 12 months period is estimated for all exposures, although IFRS 9 Stage 2 (loans with a significant increase in credit risk since origination) and Stage 3 (non-performing) exposures have PDs calculated on a lifetime basis.
[8] Forborne loans are loans where a forbearance measure has been granted and those where the probationary period to exit the forborne classification has not yet passed.

Figure 3: Payment break cohorts by forbearance status

ROI PDH Mortgages. Performing loans only, euro balance



Note: Figure 3 shows the share of total euro balance by forbearance status split by payment break cohort. The "No Payment Break" cohort is excluded, and therefore each column does not sum to 100%. Source: Central Bank of Ireland, Loan Level Database.

Next, we consider labour market prospects as an indicator of payment break propensity. We use the borrowers' county of residence and the share of pandemic unemployment payment (PUP) take-up per county as an indicator of borrowers' employment prospects following the Covid-19 shock. Given that we are looking solely at owner occupied housing the location of the property can be considered an accurate indicator of a borrower's county of residence.

In Figure 4 and 5 below, we compare the PUP shares by county (per cent of labour force) for March and October 2020 against the share of borrowers availing of payment break 1 only, and the share of borrowers availing of payment break 1 and an extension. It is notable that, while the relationship between the March PUP shares and the payment break 1 only cohort is strong, the relationship becomes weaker and less statistically significant when using the October PUP shares (slope decreases by half). Conversely, the relationship becomes stronger when using the October PUP data for the payment break extension cohort.

These findings suggest that borrowers residing in counties where employment prospects deteriorated (as per our PUP measure) were more likely to request a payment break extension. These findings hold in our formal logistic regression analysis (see later in this section).

Figure 4: County PUP Shares and Payment Breaks
Payment Break 1 only

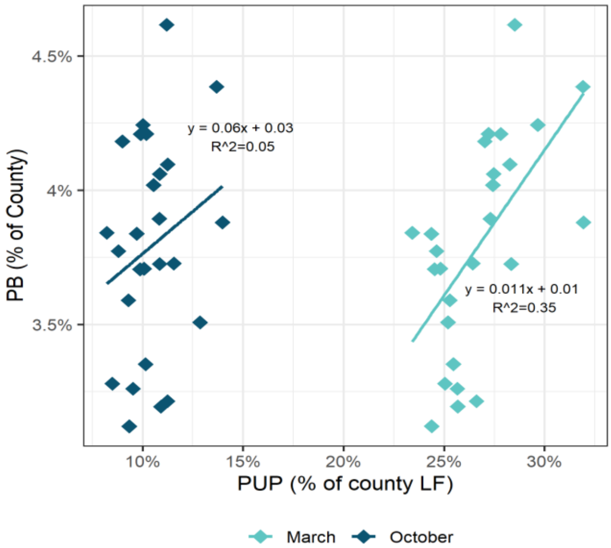
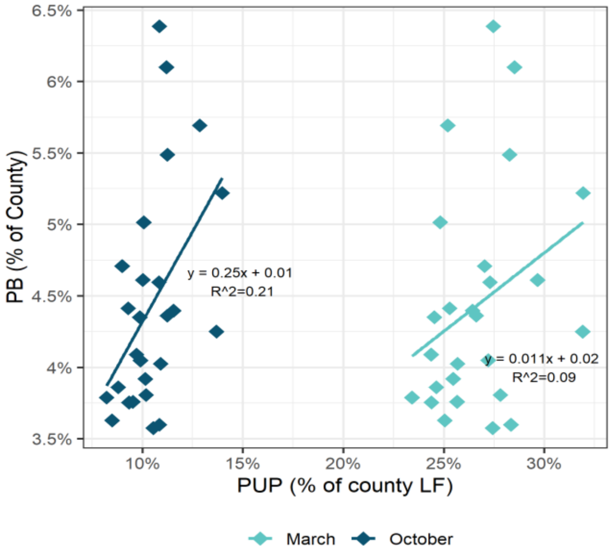


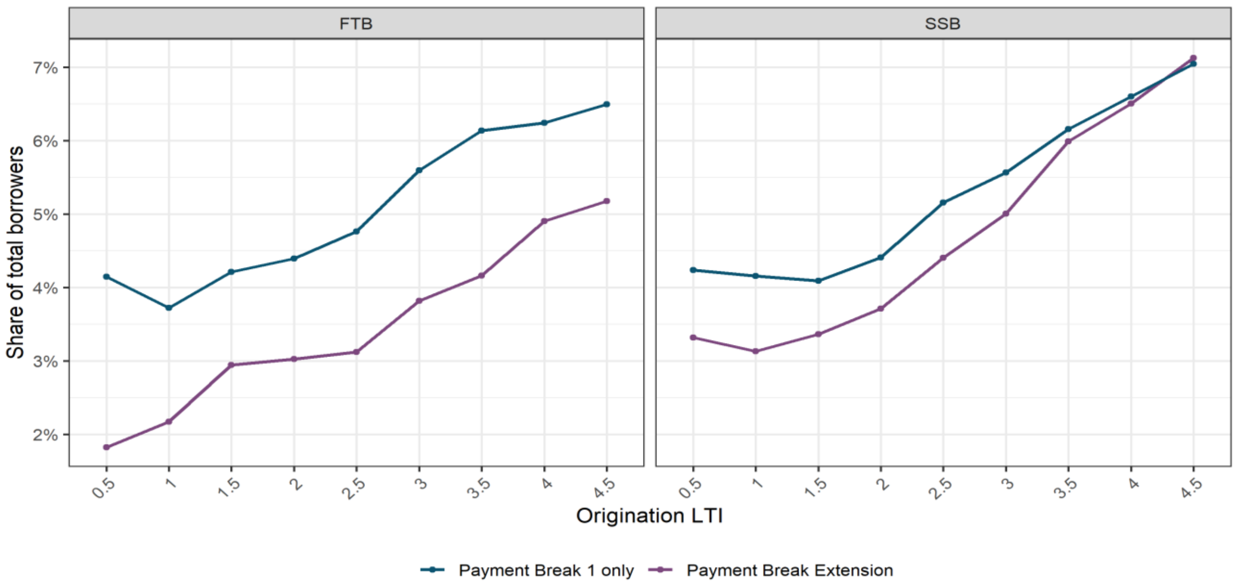
Figure 5: County PUP Shares and Payment Breaks
Payment Break extensions



Note: For each figure, the x-axis plots the share of each county's uptake of the pandemic unemployment payment (PUP) for both March and October, and the y-axis plots the share of borrowers within each referenced payment break cohort for the corresponding county. A higher number on the x-axis means that a greater share of a county's labour force availed of the governments PUP scheme. A higher number on the y-axis means that a greater share of total borrowers per county availed of the referenced payment break option (Payment Break 1 Only in Figure 4 and Payment Break Extension in Figure 5). Sources: Central Bank of Ireland, Loan Level Database & Central Statistics Office, Ireland.

Next, we consider the origination loan-to-income (OLTI) and origination loan-to-value (OLTV) by payment break cohorts. In Figure 6 below, we show the shares of each payment break cohort across origination LTI (OLTI) buckets for first time buyers (FTB) and second and subsequent buyers (SSB). Each cohort make up an increasing share across origination LTI categories indicating that those availing of payment breaks generally have higher OLTI ratios. The higher the OLTI, the greater the payment break propensity and payment break extension propensity.

Figure 6: Origination Loan to Income
ROI PDH Mortgages, quantity of borrowers by origination LTI

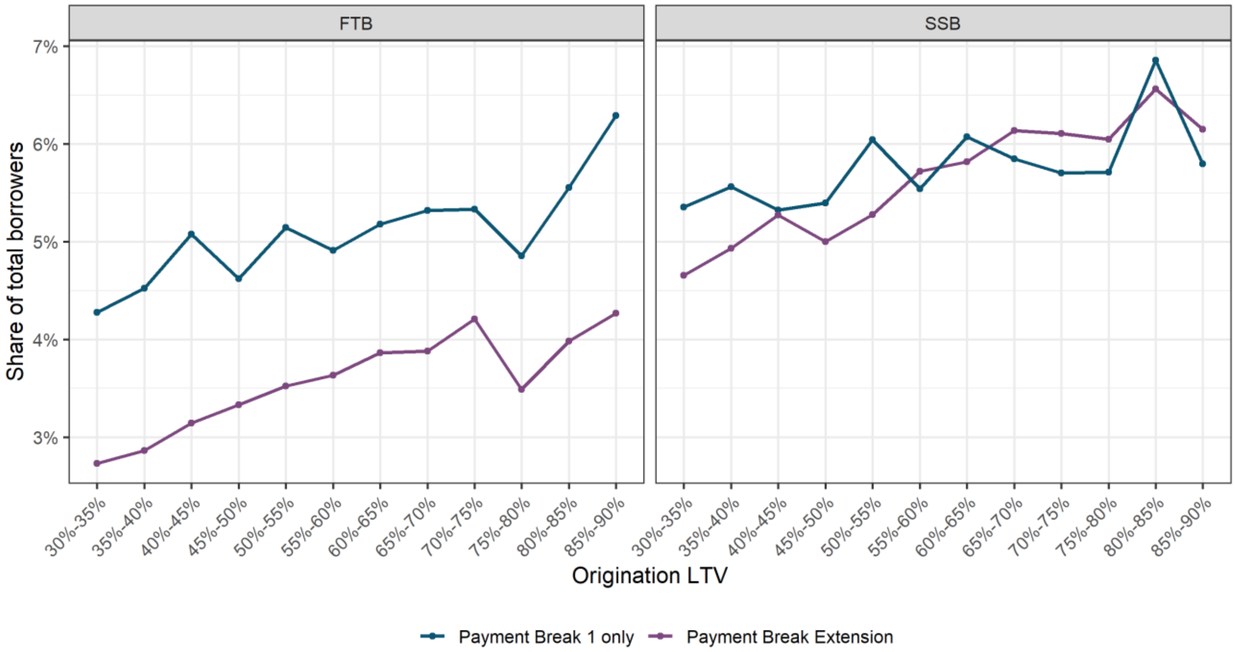


Note: Figure 6 shows the share of total borrowers split by origination LTI bucket for each of the payment break cohorts and all loans with an origination post-2015. The "No Payment Break" cohort is excluded, and therefore each point does not sum to 100%. Source: Central Bank of Ireland, Loan Level Database.

In Figure 7, we consider OLTV ratios across payment break cohorts. We find similar results to that observed for OLTI, that is, in general higher OLTVs are associated with higher payment break propensities. Interestingly, both the payment break 1 only and the payment break extension cohorts follow a similar and distinctive pattern within the FTBs and SSBs populations. The peak payment break propensity for first time buyers is in the 85-90 per cent OLTV range while the peak payment break propensity for second and subsequent borrowers is in the 80-85 per cent OLTV range. In general, there are fewer FTBs availing of payment break extensions, a finding that holds in regression analysis later in this section.

Figure 7: Origination Loan to Value

ROI PDH Mortgages, quantity of borrowers by origination LTV



Note: Figure 7 shows the share of total borrowers split by origination LTV bucket for each of the payment break cohorts and all loans with an origination post-2015. The "No Payment Break" cohort is excluded, and therefore each point does not sum to 100%. Source: Central Bank of Ireland, Loan Level Database.

Logistic Regression Analysis

As a robustness check to our findings above, we consider two logistic regression models. We present the regression results in Appendix 1. In the first model (Table A1), we consider the likelihood of payment break 1 take-up only and in the second model (Table A2), we consider the likelihood of borrowers taking up a payment break extension, both based on borrower characteristics.

For the first regression, in Table A1, we find that borrowers were considerably more likely to take-up payment break 1 versus no payment break when they were in early stage arrears (particularly of less than 3 months), had current or previous forbearance measures in place and resided in counties with relatively large shares of pandemic unemployment payment (PUP) take-up. Borrowers were also more likely to avail of payment break 1 when they had higher LTV and LTI ratios at origination.

For the second regression, in Table A2, we again find that forbearance is a strong predictor with borrowers availing of payment break extensions being more likely than those who did not avail of a payment break to have current or previous forbearance. Payment break extension borrowers were more likely to be in early stage arrears than those that did not receive any payment break. Those receiving a payment break extension were also more likely to reside in counties with relatively large shares of pandemic unemployment payment (PUP) and reside in counties where labour market prospects remained subdued (i.e. counties with relatively poor recovery in county level PUP share from March to October 2020). In addition, those availing of payment break extensions were likely to have somewhat higher origination loan-to-income and loan-to-value than those not availing of payment breaks.

Those availing of payment break extensions were less likely to be first time buyers and less likely to be in longer term arrears than those availing of payment break 1 only.

To further contrast those availing of payment break 1 only and those availing of a payment break extensions, in Table A3, we compare the magnitude of the regression coefficients. While holding all else equal we compute each variables marginal contribution to the probability of observing the respective payment break outcome. In doing so, we can identify those characteristics that best predict payment break 1 or payment break extension take up respectively. In both cases, current forbearance and past forbearance have the largest predictive power. Focussing on payment break extensions, we find that those availing of payment break extensions were more likely to have current or previous forbearance measures (largest magnitude in Table A3), be in early stage arrears (next largest), reside in a county with a large PUP share as at March 2020 and have higher origination loan-to-incomes. Borrowers receiving a payment break extension were less likely to be in longer-term arrears than those availing of payment break 1 only.

5 Payment Break Expirations - what happens at the end of a payment break

Borrowers remaining in financial difficulty following the expiration of their COVID-19 payment break can engage with their lender through the Mortgage Arrears Resolution Process (MARP). The MARP is part of the Central Bank of Ireland's Code of Conduct on Mortgage Arrears (2013, as amended) which provides statutory safeguards for vulnerable, financially distressed borrowers in arrears or at risk of falling into arrears. The process, and a key step in MARP, involves borrowers submitting a Standard Financial Statement (SFS) to their lender, outlining their current income, expenditure and debt levels, as well as other information relating to household composition. The gathering of this specific financial information from the borrower enables the regulated entity to undertake an assessment of the borrower's case and to consider whether an alternative repayment arrangement (ARA) is appropriate and sustainable for the borrower's individual circumstances

Using data on 4,305 SFSs submitted by the five main retail banks in the period 27 March 2020 to 31 December 2020 that have resulted in a forbearance decision, we can get a more detailed profile of the financial position of borrowers in mortgage distress who have submitted an SFS during this period.[9] In this section, all borrowers are in some form of distress (or expect to be so) and thus have engaged with their lenders to seek assistance in the form of a restructure. Therefore, the distinction between those with and without a payment break differs from the earlier analysis. Previously the "No PB received" cohort included many performing loans without any financial distress, here those without a payment break are experiencing financial difficulty or expect to. This may include some borrowers in longer-term mortgage arrears as well as those who experienced financial difficulty during COVID-19 but never applied for a payment break.

Table 4 shows the value of PDH mortgages in each payment break category that submitted an SFS in our sample. 2.2 per cent of loan balances that received a single COVID-19 payment break submitted an SFS during this period, while 5.4 per cent of those in receipt of an extension sought further support though the SFS process.

[9] One caveat to our data is that we do not capture agreements where a borrower has not yet submitted an SFS but a temporary agreement has been put in place under Provision 38 of the Code of Conduct on Mortgage Arrears.

Table 4: Payment Break Status of SFS Submissions				
	No_PB	PB1	PB_Ext	Other
All PDH loans (€M)	€73,368	€5,228	€5,103	€390
Of which submitted an SFS (€M)	€336	€116	€274	€18
% submitted SFS*	0.5%	2.2%	5.4%	4.6%

Note: Refers to SFSs submitted between March 27th and Decemeber 31st, 2020.
* % of each PB category that submitted an SFS in this period.

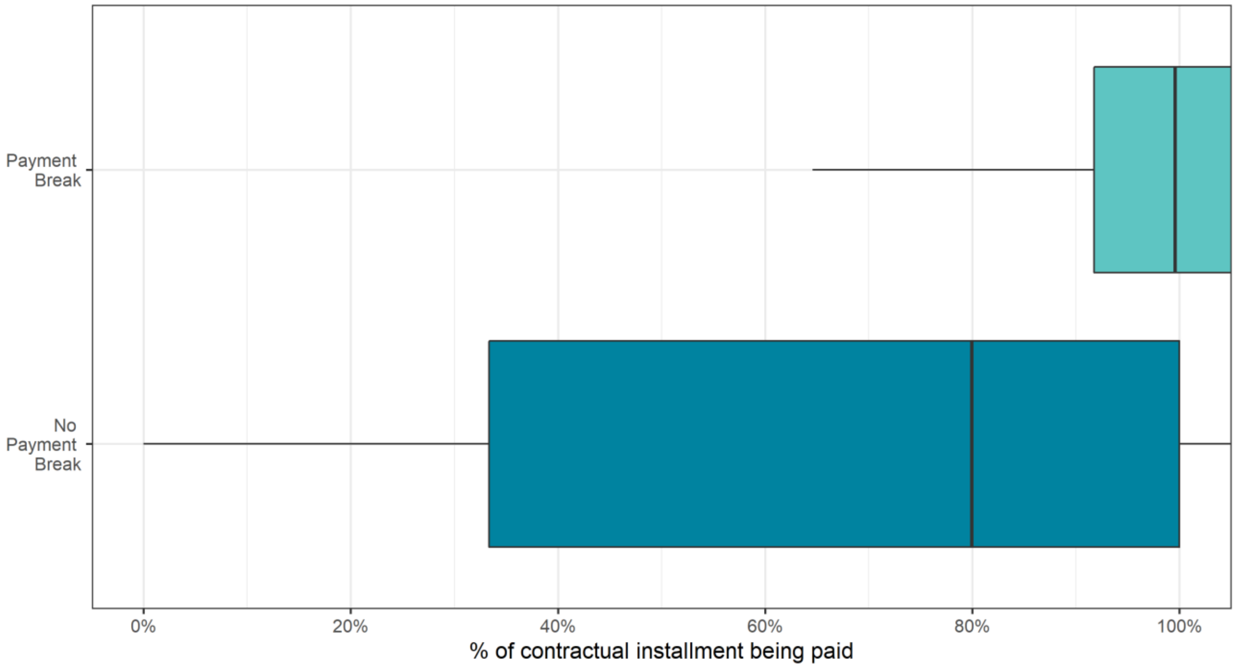
Table 5 summarises the characteristics of borrowers who submitted SFS forms based on their payment break history. On average, distressed borrowers who did not request a payment break had higher monthly repayments due, were more likely to have a history of forbearance and to be in arrears. These can be considered representative of borrowers who were experiencing financial distress for reasons other than the COVID-19 shock alone.

Table 5: Summary of borrowers who have submitted an SFS based on payment break status				
	No_PB	PB1	PB_Ext	Other
Current outstanding balance.	€144,324	€151,843	€164,367	€160,459
Monthly mortgage payment due	€860	€728	€798	€905
Previous forbearance *	83%	74%	68%	83%
% in arrears *	64%	50%	13%	55%
Months to maturity date	156	185	183	178.5
% with other debt *	59%	50%	75%	79%
Monthly non-mortgage debt	€250	€291	€314	€257
Net monthly income	€2,744	€2,399	€2,550	€2,523
Monthly consumption expenditure	€1,861	€1,893	€2,013	€1,769
Current loan to value	0.54	0.57	0.53	0.62
Current loan to net income	4.22	5.13	5.24	5.25
Debt service to net income	0.38	0.37	0.44	0.44
Total surplus/deficit	-€192	-€374	-€554	-€498
% of instalment being paid (Dec-Feb)	80%	99%	100%	80%

Note: Total surplus/deficit = net monthly income - current expenditure – monthly debt obligations due.
* Figures refer to proportions, all other values refer to median amounts.

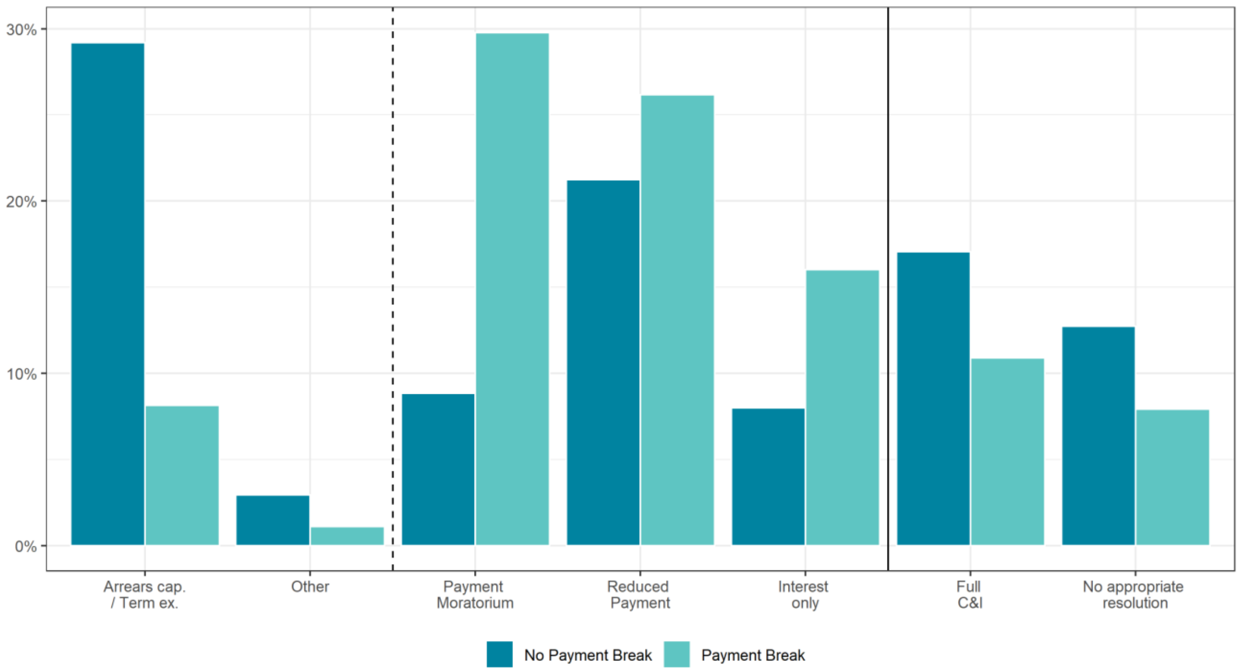
For borrowers who submitted an SFS, Figure 8 contrasts the repayment behaviour in the three-month period prior to COVID-19 of those in receipt of COVID-19 payment breaks relative to those that did not receive a payment break. The median borrower in receipt of a payment break was making repayments in full in the three months prior to the pandemic. This suggests that the shock caused by the pandemic was the main cause of financial distress amongst the payment break group. This contrasts with borrowers who did not receive a payment break, with over half of borrowers in this category paying less than their contractual instalment, even before COVID-19.

Figure 8: Percentage of monthly debt installments paid pre-pandemic
Dec, 2019 - Feb, 2020



Restructure arrangements agreed by borrowers and lenders during this period vary significantly based on whether or not a borrower had been in receipt of a payment break. Following engagement through submitting an SFS, forbearance solutions were offered to 80 per cent of borrowers who received payment breaks and 70 per cent of borrowers without payment breaks. Borrowers in receipt of a COVID-19 payment break were offered a different set of forbearance options to those engaging without a payment break in 2020, as seen in Figure 9.

Figure 9: Forbearance solutions offered
Based on whether borrower recieved a payment break

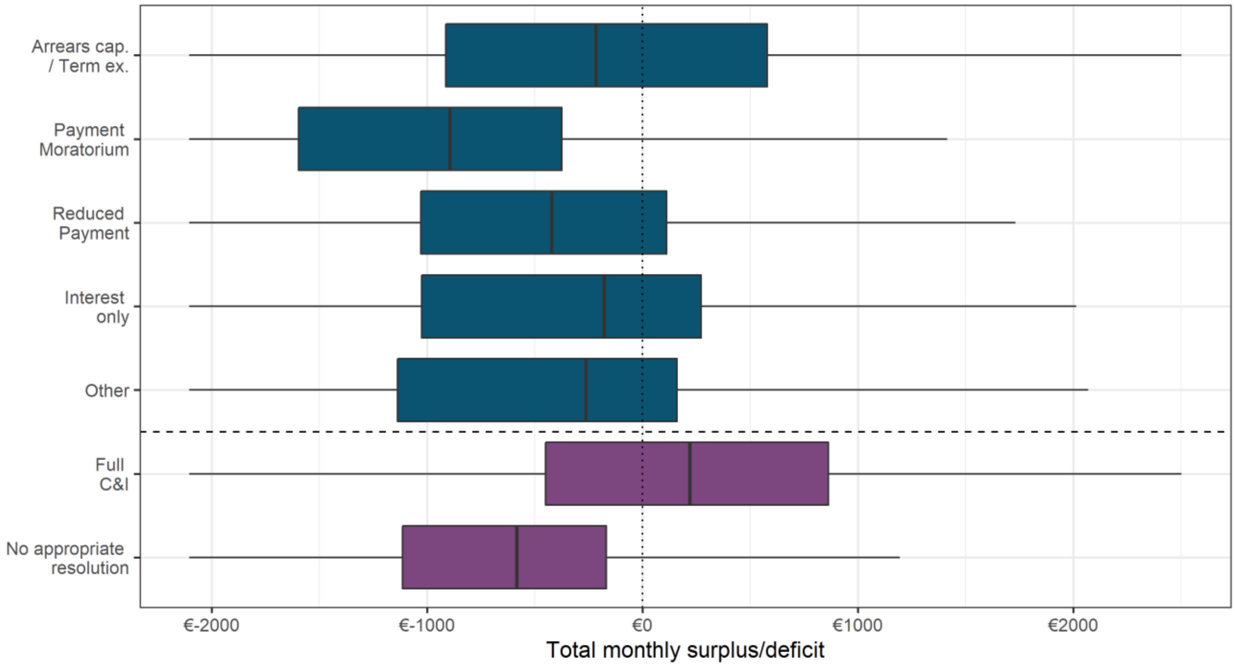


Close to 30 per cent of those who received a COVID-19 payment break were offered a further payment moratorium following engagement during this period, compared to 8.5 percent for those who did not receive a payment break. This, as well as other reduced payment and interest only arrangements were the most popular solutions for borrowers who were in receipt of a payment break. For those not in receipt of a COVID-19 payment break, an arrears capitalisation and/or term extension was the most common solution offered, in line with trends in mortgage restructuring in the years preceding the pandemic.

Similarly, borrower forbearance solutions vary based on the current monthly surplus/deficit position of the borrower, calculated based on a borrower's reported monthly income and expenditure. For borrowers who were in receipt of a COVID-19 payment break, arrears capitalisation was favoured in cases where borrowers had better monthly financial positions. Temporary forbearance solutions involving reduced payments, and further payment moratoria were employed where borrowers were in deeper monthly deficits, possibly indicative of lenders anticipating a temporary but sharp shock to incomes.

Figure 10: Total monthly surplus/deficit

Based on lender decision post-PB



6 Conclusion

Payment breaks on mortgage and other debt commitments were part of the unprecedented supports put in place in 2020 to alleviate the financial distress of borrowers affected by COVID-19. Some borrowers required just one payment break while others required an extension to their initial payment break as the economic shock caused by COVID-19 continued throughout 2020. There remains considerable uncertainty as to whether some of these borrowers will require additional support in the form of more permanent restructuring arrangements at a future date, especially as the economy re-opens and as government supports start to taper.

In this Note, we examine the characteristics of borrowers who required payment break extensions as well as the characteristics of those borrowers who formally requested additional support from their bank upon expiration of their payment break. Borrowers requesting payment break extensions were more likely to have existing or historic forbearance measures in place, less likely to be in long-term arrears (>1 year) and more likely to reside in counties where the labour force had a more subdued recovery following the onset of the Covid-19 shock. Those borrowers receiving payment break extensions had, on average, somewhat higher origination loan-to-incomes than those receiving one payment break only. There was a larger share of payment breaks and payment break extensions for loans originated prior to the Global Financial Crisis (2003-2008).

Upon expiration of their payment break, up to December 2020, a small percentage of borrowers had requested a further restructuring solution from their bank by submitting a Standard Financial Statement (SFS), detailing their income and expenditure at that time. These borrowers were generally making repayments in full in the three months prior to the pandemic, suggesting that the shock caused by the pandemic was the main cause of financial distress. In recognition of the uncertainty of the length of the COVID-19 shock and the length that it will persist for, reduced monthly repayments or deferred payment options were the preferred restructuring types offered by the banks to these early COVID-19 distressed borrowers. However, continued and meaningful engagement between lenders and borrowers will be required as the economy re-opens and further clarity emerges for the most heavily affected sectors.

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Appendix

Table A1: Model 1: Payment Break 1 Only

Model 1: Payment Break 1 Only							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Intercept	-3.67***	-3.89***	-3.99***	-3.99***	-4.01***	-5.08***	-5.03***
OLTI	0.12***	0.10***	0.04***	0.04***	0.04***	0.04***	0.04***
OLTV		0.44***	0.53***	0.52***	0.54***	0.57***	0.57***
Current FB			1.20***	1.21***	1.05***	1.04***	1.04***
Previous FB			0.71***	0.72***	0.65***	0.65***	0.65***
FTB				0.02	0.02	0.02	0.02
1-90 DPD					1.33***	1.34***	1.34***
91-365 DPD					0.88***	0.91***	0.91***
366+ DPD					0.14*	0.14*	0.14*
March PUP%						3.99***	4.05***
PUPΔ March-October							-0.11
Obs.	335,312	335,312	335,312	335,311	334,819	334,819	334,819

*** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$.

Table A2: Model 2: Payment Break Extension

Model 2: Payment Break Extension							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Intercept	-3.51***	-3.61***	-3.74***	-3.75***	-3.74***	-4.14***	-3.22***
OLTI	0.19***	0.18***	0.10***	0.10***	0.10***	0.10***	0.09***
OLTV		0.18***	0.29***	0.44***	0.45***	0.46***	0.45***
Current FB			1.30***	1.26***	1.31***	1.31***	1.34***
Previous FB			1.14***	1.09***	1.10***	1.10***	1.12***
FTB				-0.23***	-0.23***	-0.23***	-0.22***
1-90 DPD					0.78***	0.79***	0.80***
91-365 DPD					0.03	0.06	0.07
366+ DPD					-1.08***	-1.08***	-1.07***
March PUP%						1.46***	3.12***
PUPΔ March-October							-2.32***
Obs.	340,688	340,688	340,688	340,688	340,688	340,687	340,190

*** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$.

Note: Model 1 is a binary logistic regression where the dependent variable = 1 where a borrower availed of payment break 1 only and 0 where the borrower does not request a payment break. Model 2 is a binary logistic regression where the dependent variable =1 where a borrower availed of a payment break extension, and 0 where the borrower does not request any payment break. FB is forbearance and the omitted category is 'No FB'. FTB stands for first time buyer and the omitted category is second and subsequent borrower (SSB). DPD is days past due and the omitted category is '0 DPD'. March PUP% is the share of borrowers availing of the Government pandemic unemployment payment (PUP) as at March 2020. PUPΔ March-October is the change in this share between March 2020 and October 2020, where a negative value in the regression table means that for a larger recovery in the labour market between March and October 2020 the probability of a payment break extension is reduced..

Table A3

Model 1 and Model 2 Comparison

Variable	Marginal increase in probability of PB outcome with uplift		Uplift Approach
	Model 1: PB 1 Only	Model 2: PB Extension	
Origination LTI	0.1%	0.5%	+1 Std. Dev
Origination LTV	0.4%	0.4%	+1 Std. Dev
Current FB	4.9%	10.1%	0 to 1 (dummy)
Previous FB	2.5%	7.6%	0 to 1 (dummy)
FTB	NSS	-0.8%	0 to 1 (dummy)
1-90 DPD	7.3%	4.7%	0 to 1 (dummy)
91-365 DPD	4.0%	NSS	0 to 1 (dummy)
366+ DPD	0.4%	-2.7%	0 to 1 (dummy)
March PUP %	4.9%	4.7%	0 to mean
PUPΔ March-October	NSS	-3.0%	0 to mean

Note: Table 3 shows the marginal change in the probability of the dependent variable occurring for a given uplift in the respective variable, holding all other variables at their mean. NSS is not statistically significant. Refer to notes on previous page for description of variables.

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