Check Against Delivery

Jeremy Masding
Group Chief Executive
Permanent TSB Group Holdings plc

Chairman, Deputies and Senators.

Thank you for the invitation to meet with the Committee. Today, I am joined by my colleagues, Ger Mitchell and Stephen Groarke, each of whom has attended previous meetings of this Committee, together with Breege Timoney and Greg O'Leary, who are seated behind me.

***

I know that each of the various bank executives, which have met the Committee over the past two weeks, have begun with an apology and I know the Committee has found those apologies wearing thin at times but I must start in the same vein.

Nobody goes to work to do harm to customers. But real harm was caused as a result of the errors and failures that happened at our Bank and we are very, very sorry for that.

We're committed to doing better and we are working very hard to fix this situation.

***

So, let me outline the current position.

When we talk about our work in this area, we talk about three separate *but linked* work programmes; namely:

- the 2015 PTSB-specific **Mortgage Redress Programme** which focussed on specific issues and which was conducted under the supervision of the CBI;

- the programme set up under the **Product Review Group** which we launched in late 2015, initially focusing on Tracker mortgages; and,

- the CBI's industry-wide **Tracker Examination** Programme.

Each of these programmes reviewed the management and administration of different categories of mortgage accounts in respect of entitlements to Tracker mortgage products and, inevitably, the three programmes had substantial overlap.

Through these programmes we have identified **a total** of **1,979** customer accounts which have been deemed "impacted".

- **1,374** of the accounts were identified under the Mortgage Redress Programme in 2015; and

- **605 accounts** were identified under the CBI Industry Wide Tracker Mortgage Examination which included work commenced under the Product Review Group,

Of course, like every other institution, our work in this area is subject to review by the CBI and we are cooperating fully.

In the case of impacted accounts, **all** have now been offered redress and compensation. The majority have accepted and received those payments. We await acceptance of offers to complete payments for the residual customers. Where the accounts are still open, they are all now on the correct Tracker rate. The majority were redressed and compensated in the second half of 2015. The final letters were issued to the remaining impacted customers in December 2017.

We acknowledge, of course, that some customers have chosen not to accept the payments offered. However, as both the Minister for Finance and the Governor of the CBI have recently confirmed to this Committee, accepting these payments now has **no** impact whatsoever on a customer's ability to appeal or challenge the amounts offered, if they feel that is appropriate.

There is literally no downside to accepting these payments so I urge anyone who has yet to do so, to accept them now.

***

The Committee has rightly spent a lot of time trying to understand how the problems occurred.

In the case of PTSB, the core problem was that we did not provide customers with full information when they asked us to break early from an agreed Fixed-Rate…typically in 2008 and 2009.

When the customer applied to break early, we didn't tell them a consequence of that request would be the loss of an automatic entitlement to move to a Tracker at the point when the Fixed-Rate term would otherwise have concluded had the customer not requested to break early.

We have found no evidence that this information was deliberately withheld.

But, we do accept that we erred by not providing the right information. And that is why, in the Mortgage Redress Programme in 2015, we went back to each of those customers and worked out how much they would have saved had they moved to a Tracker at the relevant time. As a number of members of this Committee have said in recent days…this was their own money and we have returned it to them with compensation.

The number of customers identified through the MRP was 1,374 of the total 1,979 impacted customers across all three programmes; approximately, 70%.

***

The Bank's work on the MRP identified certain other categories of customers who, we felt, may have been disadvantaged for various, unrelated issues – typically administrative errors - and, in September 2015, the Board initiated the **Product Review Group** to review these

additional issues and, on an ongoing basis, to monitor and deal with any other legacy issues we might find. Given our experience with the Tracker issue I think this was, and continues to be, a prudent measure.

The number of impacted Tracker customers identified by the Product Review Group was 201 of the final 1,979; approximately, 10%.

As the Product Review Group began its work in late 2015, the CBI requested all banks to undertake a fuller examination of the issues around Tracker mortgages in their institutions. This required us to identify *any* mortgage account which *ever* had an entitlement to a Tracker rate or an entitlement to be offered one.

In addition, we had to consider how changes which can occur in a customer's mortgage through its duration might be related to their entitlement to a Tracker rate; for example: changes to repayment dates, the use of payment holidays, switches in or out of Fixed-Rates and so on.

This required the review of the workings of 342,000 mortgages over a 12 year period. These were reviewed according to a detailed framework required by the CBI considering both legal and regulatory requirements. This took 24 months and involved close to 200 people.

At all times the work and analysis was subject to oversight by an external firm.

For the sake of completeness, this last element of the three work programmes – the CBI Industry Wide Tracker Examination – identified 404 of the 1,979 impacted accounts; approximately, 20%.

***

An issue which has received a lot of attention since this exercise began is that of the "appropriate" rate. This concerns the *actual* Tracker rate which certain customers have been returned to and, in particular, the **margin** above the ECB rate which has been applied to accounts.

To step back for a moment…what we are doing, in this whole Tracker issue, is returning to people that which was theirs:

- First, the money we took from them that they wouldn't have paid if we hadn't made our errors; and,
- Secondly, the option to move to a Tracker rate that had been lost to them because of those errors.

But, the margin they could have returned to differs from account to account depending on the particular contract a customer signed when commencing their mortgage or the conditions they agreed to when commencing an agreed Fixed Rate term.

In many cases, the relevant documents set out a **specific** margin above the ECB rate that would apply to the Tracker mortgage which the account holders could avail of at a future point in time. Where that was the case, we have given all the relevant customers a Tracker with the specific margin applied.

For other account holders, however, the margin which would apply to the Tracker mortgage they could move to in the future was **not** specified in the originating documents. That is similar to what happens today regarding other mortgages. For example, customers today move to a Fixed-Rate for say, 2 or 3 or 5 years, understanding that they will move back to a Variable Rate when it ends without knowing now what that rate will be.

So, again, we have honoured this commitment to these customers in our redress and compensation programme. The Tracker rate to which they have been moved is the one which they would have been eligible for when their Fixed-Rate term reached its scheduled end.

Indeed, this is actually what was applied to customers in the same situation who did not break and who did, therefore, reach the agreed end date of their Fixed-Rate term. This is reflected in the wide range of margins, from 0.75% to 3.35% above the ECB rate. The particular margin applied to a particular account depends on the date at which the Fixed-Rate reached its scheduled conclusion.

So, our approach has ensured consistency between two customers who each had a Fixed-Rate maturing on the same date and who each had a commitment to an "appropriate" tracker.

Customer A stayed with the Fixed-Rate term to conclusion and moved on to a Tracker rate without disruption. Customer B broke early from the Fixed-Rate term and was, therefore, incorrectly denied a Tracker rate. In our response we now give Customer B the same Tracker rate as Customer A – thereby applying consistency.

***

The other issue that has been discussed in detail is the overall attitude of the Banks to Tracker mortgages after the financial crash.

Again, I can only speak for Permanent TSB, but I have seen no evidence to date to support the assertion that the Bank was deliberately acting against customers with Tracker mortgage entitlements. The following points are pertinent in this regard:

- When the Bank withdrew Tracker products for new customers in 2008, we did not prevent existing customers from moving where they were entitled to – and many customers did. By way of example, 47% of the balance sheet of the Bank was in Trackers on the day the product was withdrawn for new customers in 2008 and this grew to 54% by the end of that year as existing Fixed-Rate customers continued to mature on to Trackers.

- The Bank didn't entice or encourage customers to apply to break early from their Fixed-Rates.

- Almost half of our mortgage customers continue to have Tracker rates which have operated entirely normally.

- In 2014, before this Tracker issue had exploded, my Team spent months developing and launching an innovative new product to help account holders to ***maintain*** their Tracker

mortgage even where they sold the underlying property and began an entirely new mortgage on a new property.

- And, of course, the Bank has offered over 30,000 long term treatments to customers in mortgage difficulties; for Tracker customers, those treatments are constructed around the customer's pre-existing Tracker conditions which we have not amended or removed.

So to conclude…this issue should never have arisen. The errors and failings that lie at the heart of this mess should never have emerged to harm our customers and their families. But, they did – sometimes in very distressing ways – and we acknowledge our responsibility for that and apologise for it.

In response, we are undertaking, through the Product Review Group, a forensic review of all our products (of course, this started with the Tracker issue); we took unprecedented steps to avoid any further damage impacting on customers as a result of our failures; we resourced our redress and compensation programmes to conclude as urgently as possible; we restructured both our Management Team and Board to reflect a new focus on risk and governance; and, we continue to invest in product design and control.

Good banking should at the very heart of Irish society and we are committed to rebuilding the reputation and trust of our profession.

That brings me to the end of these opening remarks.

Thank you Chairman.