Joint Oireachtas Committee Finance, Public Expenditure + Reform and Taoiseach

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Chairman and Members of the Committee.

I am joined this afternoon by my colleague Eamonn Crowley, Permanent TSB CFO, and, by Cormac Ryan and Dermot Caden, Chief Executive and Finance Director respectively of Pepper Ireland. In a moment, Cormac will make opening remarks on behalf of Pepper. Before he does, let me make the following points.

We are here to discuss Project Glenbeigh which we concluded on this day last week.

In this regard, we recognize that NPL transactions attract considerable attention and are of real interest to this Committee. As a result, as soon as we announced this deal last Thursday, myself and Cormac wrote to you, Chairman, to offer to meet with the Committee to discuss this transaction.

We have circulated a schematic which details the key elements of this transaction.

As the Committee knows, Project Glenbeigh is the second major transaction undertaken by the Bank this year to reduce the ratio of Non-Performing Loans on its balance sheet. At the start of this year, that ratio stood at approximately 26%. Together, these two transactions will see the ratio fall to below 10%; a very significant improvement which will strengthen the Bank by enabling it to withstand future economic shock and increase its ability to compete strongly in the years ahead.

This latest transaction had been signaled by the Bank for some time. When we met with this Committee in October, we confirmed we were considering options for a substantial NPL loan portfolio and that we hoped to conclude the transaction within months.

In addition, we told the Committee that we were examining various capital market options including securitisation. And, in the end, the option we took is that of a securitisation.

The securitisation option is particularly suited, in this instance, as the portfolio is made up exclusively of borrowers whose loans are Non-Performing by reference to the guidelines and definitions set down by the regulatory authorities, but who are currently meeting the terms of restructuring arrangements which have been agreed between the account holders and the Bank. The customers are engaging, have a proven record of meeting the terms of restructuring agreements and generate a steady stream of cashflow.

In considering options for the portfolio, we had a number of priorities.

- **First**. We wanted to explore all the alternatives for the portfolio. These included (1) **a further loan sale;** and, (2) as discussed at the Bank's last appearance before the Committee, **to provide for, and then derocognise**, the loans. The loan sale option was discounted due to the characteristics of this portfolio of loans. The provide and derocognise option was discounted due to the high capital cost to the taxpayer and the question marks remaining as to whether derecognition would be forthcoming. This led us to the preferred alternative of a capital markets solution.

- **Second**. We were very mindful of our responsibilities to customers whose loans are included in this transaction so we wanted to source a capital markets solution that maintained the Long-Term Treatments they had agreed with the Bank.

  In seeking to keep as many customers in their homes as possible through the crisis, PTSB offered the Split Mortgage, and Part Capital and Interest treatments widely. By comparison, to our knowledge, Bank of Ireland did not offer the Split Mortgage treatment at all, and PTSB offered a far greater number of Split Mortgages than AIB.

According to published accounts, Split Mortgages only make up 6% of forborne loans at AIB whereas in PTSB it is 24%. In addition, PTSB has warehoused up to 80% of the debt in some cases. This is important since, in the SSM's NPL Guidance, 20% is the level above which the Warehouse and Main Mortgage are deemed to be connected thereby rendering it a Non-Performing loan.

- **Third**. We wanted to attract credible, investors who will hold the notes issued by the securitisation vehicle for the long term. We have achieved that by focusing the transaction on loans which are adhering to the terms of restructuring agreements and producing consistent, predictable cash flow. This makes the securitisation vehicle an attractive proposition for long term investors.

- **Fourth**. We wanted to ensure that the restructuring agreements, which had been agreed and overseen by Permanent TSB, would be respected under the securitisation alternative. We have achieved that by ensuring the agreed restructuring arrangements form part of the Terms and Conditions of the individual loans which are included in the transaction.

- **Fifth**. The Bank was advised that it would not be granted 'NPL Derecognition' status for these loans if it maintained the servicing relationship. Therefore, we wanted to ensure that the company appointed to service and administer the loans going forward would be credible and respected. We have achieved that with the appointment of Pepper Ireland.

I will let Cormac detail Pepper's credentials himself but, we were attracted, in particular, by the fact that Pepper is regulated and authorised by the Central Bank of Ireland, under the Central Bank Act 1997, as a retail credit firm for the provision of credit and credit servicing activities in Ireland. The company has been in Ireland since 2012, employs over 380 people in Shannon and Dublin, and, including the accounts involved in this transaction, manages some €10 billion of Irish residential mortgage loans. In short, Pepper is a well-established and important part of the financial services infrastructure in Ireland.

Sixth. We wanted to ensure that the Bank's customers understood what was happening with their loans and the implications the securitisation might have. We have achieved this by writing to all the relevant account holders, outlining answers to common questions, providing additional information online and encouraging customers to contact our support staff to discuss any issues which they may have.

Seventh. We wanted to ensure that scheduled reviews of any restructuring arrangement treated customers fairly.

Again, Cormac can outline how Pepper will approach this process but I would make the following points.

- Under the Master Servicing Agreement (or MSA), Pepper, as Master Servicer, has the full power, authority and right to undertake all activities that it reasonably considers necessary, convenient or incidental to the provision of the services under the MSA. The securitisation vehicle itself has effectively legally delegated these decision making rights to the Master Servicer as the Irish-regulated entity.

- A review mechanism is commonplace in all restructuring agreements. If the loans had remained with Permanent TSB, the Bank would undertake reviews with the same objectives Pepper will have in the future.

- If the circumstances of the borrower have not changed, there is a legal obligation to continue to comply with the terms of an existing restructured arrangement. This is an important overlay as the Bank set out to maximise customer protection.

- If the circumstances of a borrower have changed (either positively or negatively), then – as would be the case with Permanent TSB – the arrangements may be reviewed to reflect the changed circumstances of the borrower.

In this regard, it is worth bearing in mind that the restructuring arrangements in place all involve the agreed suspension of repayments on a significant amount of the money borrowed by the customer. Those “warehoused” or “bullet” amounts remain due at the maturity of the mortgage term. Therefore, it is important the arrangement is reviewed regularly to see how that amount may be reduced over time to the benefit of the borrower.

Of course, post this year’s transactions, the Bank has further work to do to lower the Bank’s NPL ratio. That said, we will continue to build on the work already done by the Bank in moving customers from non-performing to performing status with a focus on, amongst a number of initiatives Natural Cures and Mortgage-To-Rent.

Finally, to conclude, this transaction is very significant for the Bank and, given the challenge we face to tackle NPLs, I believe it is as good a solution for customers as we could deliver. It has much to commend it. It allows Permanent TSB to reduce significantly its NPL ratio. It creates a vehicle which attracts long-term, stable investors. It locks in the restructuring agreements already agreed between the borrowers and Permanent TSB. It brings on board a highly reputable and regulated loan servicer in Pepper.

That concludes my remarks and now I hand over to Cormac Ryan of Pepper Ireland.

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