

# DÁIL ÉIREANN

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## AN COISTE UM THITHÍOCHT AGUS EASPA DÍDINE

### COMMITTEE ON HOUSING AND HOMELESSNESS

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*Déardaoin, 5 Bealtaine 2016*

*Thursday, 5 May 2016*

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The Select Committee met at 10.30 a.m.

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#### MEMBERS PRESENT:

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| Deputy John Brassil,+<br>Deputy Mary Butler,<br>Deputy Catherine Byrne,<br>Deputy Ruth Coppinger,<br>Deputy Barry Cowen,<br>Deputy Bernard J. Durkan,<br>Deputy Kathleen Funchion,<br>Deputy Michael Harty,<br>Deputy Michael Noonan (Minister for Finance), | Deputy Eoin Ó Broin,<br>Deputy Fergus O'Dowd,<br>Deputy Maureen O'Sullivan,<br>Deputy Maurice Quinlivan,+<br>Deputy Anne Rabbitte,+<br>Deputy Brendan Ryan,<br>Deputy Mick Wallace. |
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+ In the absence of Deputies Barry Cowen, Kathleen Funchion and Mary Butler, respectively, for part of meeting.

DEPUTY JOHN CURRAN IN THE CHAIR.

**Business of Select Committee**

**Chairman:** Apologies have been received from Deputy Kathleen Funchion. I ask members to turn off their mobile phones or put them into flight mode as they interfere with the recording and broadcasting services. In accordance with the standard procedures agreed by the Committee on Procedure and Privileges for paperless committees, all documentation for the meeting has been circulated to members on the document database. I propose we go into private session to deal with correspondence and certain other matters. Is that agreed? Agreed.

*The committee went into private session at 10.32 a.m. and resumed in public session at 10.35 a.m.*

**Minister for Finance**

**Chairman:** I welcome the Minister and his team. Before the meeting commences, I draw his attention to the fact that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the Chairman to cease giving evidence on a particular matter and they continue to do so, they are entitled thereafter only to a qualified privilege in respect of their evidence. Witnesses are directed that only evidence connected with the subject matter of these proceedings is to be given and are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person or entity by name or in such a way as to make him, her or it identifiable. The opening statements submitted to the committee will be published on the committee website after the meeting. Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the House or an official either by name or in such a way as to make him or her identifiable.

I appreciate the Minister attending when the talks on Government formation are going on. I ask the Minister to make his opening statement following which we will take questions and comments from the members.

**Minister for Finance (Deputy Michael Noonan):** I thank the Chairman. I thank the committee members for inviting me to discuss the important challenges this country must address as regards housing and homelessness.

I also want to wish the committee well in its work. I hope that its work will stimulate debate on further actions that may be warranted to address the constraints impeding the housing sector. Indeed, these issues were an important priority for the outgoing Government. However, success in overcoming these problems has been slower than all of us would have liked. The findings of this committee will, I am sure, provide a new impetus.

I will introduce my officials: Mr. John McCarthy, chief economist in the Department; Mr. John Hogan, assistant secretary, banking division; Mr. Gary Tobin, assistant secretary, tax policy; Mr. Declan Reid, specialist in the Department's shareholding management unit; Mr. David Hegarty, principal officer in the economics and budget division; Mr. Gerry Kenny, principal officer in the tax division; and Mr. Seamus Milne, principal officer in the tax division.

To begin, I would like to outline my analysis of the current problems facing the housing

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market. Ireland is in the midst of a significant housing shortage which is forecast to persist for the next number of years. The shortage is particularly pronounced in Dublin and in the other main urban areas. From an economic and societal point of view, the continuation of this housing shortage is of concern. Unless addressed, it could pose a serious threat to the competitiveness of the economy. The housing shortage is also giving rise to major social issues including rising homelessness, driven by pressures in the rental market.

It is clear that one of the problems we are faced with is primarily on the supply side. Thus, policy needs to focus on supply-side factors such as building regulations, the planning process, development levies, infrastructural constraints and construction costs. As regards the demand side, various factors, including the macroprudential rules, have better aligned purchasers' borrowing capacity with income levels and it would appear to have had a dampening effect on house prices.

In tackling these problems, primary responsibility for housing policy lies with the Minister for the Environment, Community and Local Government. However, home building is a complex process that involves the land, construction, property and finance markets, as well as the tax, social welfare and legal systems. Therefore, there is a need for a holistic, cross-government approach.

For my part, as Minister for Finance, the Department of Finance and I have proactively addressed those issues that fall under our remit. We continue to engage with other relevant Departments and we worked closely with the Minister for the Environment, Community and Local Government and his Department on the stabilising rents and boosting supply package unveiled in November last.

I will now outline activity under way in my Department to address some of the key issues. The requirement to develop a sustainable financing model for the property sector is one that has received much attention. There is a growing acceptance in the sector that sustainable financing for development requires a mix of equity and debt financing appropriate to the risk of the project. This is a departure from the 100% debt financing model that contributed to the crisis. The transition to a new equity-based financing model is under way but will take time given the changes in behaviour required. This new financing model will help ensure a productive and efficient construction and development sector and reduce the risks of a re-emergence of a credit bubble.

My Department has worked to help smooth this transition. For example, last year we organised a conference on development finance options that brought together developers with various bank and equity finance providers. In addition, the officials in the Department of Finance have worked with the Ireland Strategic Investment Fund, ISIF, and the commercial banks - with the banks partnering with providers of mezzanine debt - to ensure financing is available for development projects. For example, the Ireland Strategic Investment Fund launched a new €500 million joint venture, Activate Capital, to make funding available to the house building sector and support the construction of more than 11,000 new homes. This fund will address a gap in the financing market as it will provide up to 90% of the financing requirement of these projects.

Turning to mortgage holders, I have taken steps to ensure the banks provide options for standard variable rate, SVR, mortgage holders to reduce their monthly repayments. In 2015, I requested a report from the Central Bank on the topic which was subsequently published on my Department's website. I also met the six main mortgage lenders at this time and outlined my view that the standard variable rate being charged to Irish customers was too high. The banks

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agreed to review their rates and products and to have simple options in place to allow reductions in monthly mortgage payments for SVR customers.

More recently, the increasing competitive dynamics evident in the market are benefitting borrowers. In this regard, the Central Bank noted in its recent statistical release that all mortgage rates declined in the fourth quarter of 2015, with variable mortgage rates for primary dwelling houses falling by 44 basis points to 3.76% over the year.

As regards taxation, there are growing demands for the use of the taxation system to support the development of the property market. The committee need not be reminded of Ireland's poor experience with property-related tax incentives in the past. Care needs to be taken with any fiscal incentive designed to stimulate the housing market, no matter how laudable the objective.

Indeed, to complement the Department's own analysis, the ESRI was commissioned to analyse the possible role of tax breaks in stimulating housing supply last year. Given prevailing supply constraints, the report found that tax incentives aimed at developers would be unlikely to have much effect on supply. It also noted that tax incentives targeted at home buyers, such as mortgage interest relief, would increase house prices with a limited increase in supply.

That said, I have been open to selective interventions in the property market where targeted action can be justified. For example, Deputies will be aware of the increased deduction for mortgage interest relief that I introduced in the recent Finance Act for landlords who commit to the provision of rental accommodation for a minimum three-year period for tenants receiving social housing supports.

Another example concerns the private rental market where there is a clear need to professionalise the sector in order to better serve tenants. For this reason, I introduced the real estate investment trusts, REITs, tax regime in the Finance Act 2013. This intervention has been successful in encouraging large scale investment into the commercial and residential property markets. There are currently three REITs operating in Ireland - Green REIT plc, I-RES REIT plc and Hibernia REIT plc. With subsequent rounds of capital raising since flotation, it is estimated that the market capitalisation of the three REITs is now approximately €2.3 billion. I-RES REIT plc, which is purely focused on the residential market, has a property portfolio consisting of 2,087 apartments. The properties are based in 17 apartment complexes in Dublin county and city. The company has the ability to develop 600 to 650 apartments at existing complexes subject to planning permission and other approvals.

Other measures I introduced include the Living City initiative, in respect of which I admit the initial take-up has been slower than anticipated. However, the home renovation incentive, HRI, has been very successful. This incentive generates employment in the tax-compliant construction sector, increases sales and provides support for homeowners and landlords for building works. As of 1 April 2016, works on over 37,500 properties have been notified to Revenue's HRI online system. This represents more than €845 million worth of works involving some 7,500 contractors. The potential total cost to the Exchequer in respect of these properties is approximately €59 million.

NAMA is frequently suggested as a one-stop solution to housing issues. Let me be clear: NAMA has a commercial mandate to achieve maximum return to the State. That said, NAMA has utilised this commercial remit to contribute to housing supply in a number of ways. For example, NAMA will fund development or completion of housing units on sites securing its loans where this is proven to increase the ultimate return. NAMA has also innovated so as to

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combine its commercial priorities with due consideration of ancillary social contribution, and has played a very important role in facilitating, on a commercial basis, the supply of social housing. Following a review last year, NAMA concluded that the value-maximising strategy for some sites under its control was to fund, on a purely commercial basis, the delivery of up to 20,000 residential units by the end of 2020. This activity will mainly focus on starter homes, reflecting consumer demand and viability. Separately, NAMA, again on a commercial basis, offered just over 6,600 residential units to local authorities for social housing, of which demand was confirmed for about 2,500, and over 2,000 have been delivered. Therefore, it is clear that NAMA has played and, I am sure, will continue to play an important role in addressing our housing needs while fulfilling its commercial mandate.

There is a need for continued improvement in the supply of housing as it is vital for the economy's performance and to address social problems, including homelessness. As I have outlined, the outgoing Government has played its part through the policy actions I have highlighted above and others. For example, the recent package, Stabilising Rents, Boosting Supply, includes targeted development contribution rebates for starter homes in Dublin and Cork, while new flexible apartment planning guidelines will reduce apartment construction costs by €20,000 per unit. It is important to bear in mind that these measures were introduced quite recently and that it will take time for the full effects to be realised. Moreover, there is no quick fix to the housing shortage.

In designing appropriate policy responses, I stress that there is a need to be careful of the unintended consequences of any intervention, however well-intentioned. For example, I would have concerns about the plethora of proposed demand-side interventions. International evidence indicates that such policies are not appropriate and unlikely to be effective in alleviating the current supply shortage. I urge the committee to bear this in mind. I thank the members and look forward to their discussion. I hope to be in a position to answer their questions with the help of my officials. With the permission of the Chairman, I will call on my officials to address the members directly on certain questions.

**Chairman:** Absolutely. I thank the Minister. We will proceed directly to questions, beginning with Deputy Mary Butler.

**Deputy Mary Butler:** I thank the Minister for his report and I thank him and his officials for attending.

Many of the submissions we have already received from various organisations whose representatives have been before us, especially those from the Construction Industry Federation, have stated that the VAT rate of 13.5% should be reduced in some instances to 9% - and perhaps even to 0% - to try to stimulate the construction industry. What is the Minister's thinking on that? I understand 36% of the cost of building a house goes directly to the Exchequer. What are the Minister's thoughts on that? Would a reduction there stimulate more house buying?

My second question is on the Living City initiative. Why has the take-up on that been slow and is there any way we could fast-track it? My third question is whether the Minister considers that local authorities have a greater role to play in supplying social and affordable housing. Representatives from the city and county councils group stated that they are not developers or builders and would only ever supply between 10% and 15% of the amount of housing needed in any event. Does the Minister feel they should play a greater role to stimulate the housing industry?

**Deputy Michael Noonan:** I thank the Deputy. VAT is something we will look at. A document was published earlier in our discussions on forming a Government where we signalled this area as one in which a possible initiative would be taken. We were in government six weeks in 2011 when we reduced the VAT on the tourism industry from 13.5% to 9%. The tourism industry attributes to that the lifting of the industry off the floor at a very early stage and turning it into the fine and viable industry we have now. As such, it is worth looking at. There are other considerations to take into account, however. If we were to reduce VAT from 13.5% to 9% in the next budget, the cost would be €210 million. We could use that €210 million to provide extra capital for social housing. Given the way the fiscal rules operate, one can account for capital in consuming fiscal space over a four-year period. Therefore, one gets a bigger bang for one's buck if one puts it into capital. In gross terms, one could generate approximately €800 million of activity for the same €200 million while having a much smaller impact from an accounting point of view on the resources available to us. That is worth consideration as well.

The other point I wish to note is one on which we have not yet made a decision. I am giving my thoughts as we move towards the budget when we probably will make a decision. With all due respect to the Construction Industry Federation, its submissions are in the interests of builders. That is its job. It represents the industry, not the purchasers, and it is important to remember that. If I could give a tax break which would put money in the pockets of purchasers rather than of builders, I would be more favourably disposed to it. As such, we are looking, first, at the marginal advantage in using the same amount of money for capital as against tax breaks and, second, at whether there is a mechanism for directing the money to purchasers. The model I am looking at is the very successful tax break for home extensions. I have given the committee the statistics. It generated an enormous amount of activity at a very low cost. The numbers were €59 million with 7,500 contractors working on 30,000 homes. The model is that Revenue has a unit and one applies online if one is doing a home extension. It is the person who gets the home extension who gets the money back through the tax system. We are looking at a model like that. While no decision has been made, it is under active consideration in the talks that are taking place elsewhere as well as in my Department. Would the Deputy remind me of her second question?

**Deputy Mary Butler:** It was on the Living City initiative. The Minister said the take-up was not great and I wonder if there is any way to revamp it.

**Deputy Michael Noonan:** The take-up is very slow. Much of that is to do with the building industry being on the ground anyway and people not going into it. It was largely directed at disused Georgian houses, especially in Limerick and parts of Dublin. Given the many planning constraints on the development of such houses, they are probably more expensive to renovate. We confined the tax break to owner-occupiers rather than developers. It is early days. Many of these schemes start slowly and are actively taken up as the economy lifts.

**Deputy Mary Butler:** Would many of these houses also be subject to preservation orders?

**Deputy Michael Noonan:** Yes, and this makes it more expensive to deal with them. The Chairman knows my approach to these matters. One does something and hopes it works but if it does not work, one tries something else or modifies what one did. We keep it under review. If there is no take-up, we will have to revisit it. I am reluctant to extend the benefits to developers rather than owner-occupiers. We tried all that before and while we got the activity, we also got many problems. I welcome the committee's recommendations on it and we will provide all the statistics. The Deputy is correct. The take-up has been disappointing. However, there has been some take-up and, as the economy strengthens, I hope there will be more.

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**Deputy Mary Butler:** I thank the Minister. My third question is on the role of city and county councils. Does the Minister feel they have a greater role to play in providing social and affordable housing?

**Deputy Michael Noonan:** There was a major change around 2004 in the role of local authorities in the provision of social housing. The movement was away from the councils constructing what we used to call council houses to having money to purchase them on the market. Although it was introduced by a Fianna Fáil Minister, I was one of the strong supporters of the new policy. I agreed with the arguments about social mix and not developing ghettos of local authority houses. By purchasing in private estates, a social mix could be achieved. It worked. However, now there is a housing supply problem and there are not houses available for the purchasing model to succeed.

It is time for the local authorities to get more directly involved again. They have been given several billion euro for social housing for the next five years. While they should have organisational units for the building of houses, much of the construction could take place under the auspices of the voluntary housing agencies, which are still in the construction business and have the capacity to do it.

The other problem is that there seems to be a difficulty in getting clearance from the Department of the Environment, Community and Local Government through to local authorities for building houses. Somebody told me local authorities have to get over eight jumps before they get full clearance. I do not know whether it is correct. It would be national policy to reduce this. While there must be some authority in the Department of the Environment, Community and Local Government or a new housing Department, we should remove the unnecessary red tape and allow it to move forward more quickly, given that we are in a crisis. Local authorities have discretion, under their own authority, to have developments up to a value of approximately €3 million. This ceiling should be increased, perhaps up to €5 million. They need greater discretion to act autonomously.

If we are successful at forming a new Government, we will have a large policy section on housing and homelessness. I would not like to close the door on it and pretend that those who will form a Government have a monopoly of knowledge in the area. We will put doors into our new policy to specify that it will take into account the recommendations of the Committee on Housing and Homelessness to allow for easy feedback in so we can adopt new proposals. If I understand new politics, this is how we should work. We should address problems and see if we can come up with solutions with the best thinking available.

**Chairman:** Before I take the next two questions, the Minister mentioned that the VAT element had an annual cost of €200 million. That is in a no change scenario. Obviously, if output increases, it could be cost neutral or the Exchequer could benefit. We need to bear that in mind.

The Minister also commented that he wanted to put money in the pocket of the purchaser. The committee is looking at this slightly differently as we are trying to bring the cost of houses down to enable people to meet the Central Bank guidelines. This is the balancing act. The cost of homes is beyond the reach of many people under these guidelines. That is the way we are looking at it.

**Deputy Michael Noonan:** The Chairman's first point is that if taxes are reduced, they will pay for themselves.

**Chairman:** Only if it results in an increase in output.

**Deputy Michael Noonan:** I have been around for a good while and I have been looking for a self-financing tax break for years but I have not yet found one. While I agree with the Chairman that the gross cost might not be the gross figure, there is no self-financing tax break that I know of. There is always a cost to the Exchequer for any tax break. People looking for tax breaks always say, "This will pay for itself", as the opening position. We will give the committee the best data possible when it is assessing this but tax breaks are not self-financing; there is always a cost. We hope output will increase.

I refer to how to model this to bring the price of houses down. One of the fundamental problems over the past few years is that the replacement cost of a house for a builder was below the market price. Who would build if the house next door was available cheaper second hand? Now those pressures have increased and there is a supply shortage. There is a demand driver again and I understand that the replacement cost of a house and the purchase price of a new house are close enough at this stage. There is evidence of that on the market. In Dublin, since Christmas - do not pin me to the accuracy of this number, which is a ballpark one - approximately 80 new sites have opened up for residential homes. Some have 15 houses while more have 80 houses. A number of the larger developments are at planning stage. The largest property developer in the world out of Texas, Hines, has bought Cherrywood where there is potential for approximately 4,800 units. The company has a different model again under which it sub-lets to small builders and so on. Cairn Homes bought the Ulster Bank land bank stretching from west Dublin to Portmarnock as well as other sites scattered across the country. The land bank is mostly in Dublin. The advantage with the big players is they can raise money on the market and, therefore, they do not get into the same trap as the small builder of having to pay 14% for an equity stake. They can raise money at 2%. The market is correcting itself but it needs interventions as well in order that it corrects itself more rapidly. There is a range of other issues such as regulation, planning, bureaucratic delays and finance. However, the market is correcting but too slowly from our point of view and, I am sure, from the committee's point of view as well.

**Deputy John Brassil:** I thank the Minister and his officials for attending. Previously, I raised the issue of the different dynamic at play in different parts of the country. There is a supply issue in Dublin whereas in Kerry, where I am from, there is a significant number of empty properties. Reference was made to the Living City initiative. I believe one in three properties is vacant in most towns and villages in rural Ireland because parents have passed on and family members are living elsewhere. These properties are lying vacant and there is no incentive to do anything with them. I made a proposal that it might be appropriate to make available a grant to the homeowner to do up a property to an acceptable standard and that the payback or condition of payment of the grant would be that the house would be made available to the local authority on a long-term lease. Again, I believe something like that would have a significant take-up because the benefits are self-explanatory. I do not know if the Minister's proposal is on these lines, but if not, he has said he will work to improve it. If a homeowner is incentivised to do up a property, with a guaranteed income at the end of it through a local authority rental, it would be a real win-win. I would like this proposal to be considered.

I have had significant interaction with the members of the Irish League of Credit Unions who believe credit unions have a strong and active role to play, if they are allowed to play it, but they make the point to me that they are more or less hamstrung in their lending abilities. They would like to play a role, particularly for the single homeowner, but they believe they are unable

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to do so. They have made proposals which I am sure the Minister has seen and I would like to know what his thoughts are. Can we have the credit unions come to the committee in order that they can play an active role to add benefit and help to resolve some part of the crisis?

The publication of the census results will provide us with very important information which we will need to take on board very quickly, in particular, on empty properties. We need to know whether it is actual or just anecdotal.

In his last paragraph the Minister expressed concern about “proposed demand-side interventions.” He might explain this for my benefit as I do not understand to what it refers.

**Chairman:** To clarify, representatives of the Irish League of Credit Unions will be attending this afternoon. The Deputy might like to continue his line of questioning then.

**Deputy John Brassil:** They will be delighted that I raised the issue on their behalf.

**Deputy Bernard J. Durkan:** Apologies for my late entry. In fact, I was meeting representatives of a lending institution with a constituent to discuss the issue of mortgage arrears. It is one of many issues.

I welcome the Minister and his officials for whom I have three questions. First, there is the urgent, emergency problem, namely, the large number of families in emergency accommodation. The local authorities have insufficient accommodation available and have a huge number of people on various housing lists. For example, the number in my local authority area is growing and moving towards 8,000. The number of bank repossession further adds to the problem and there is deep concern among the people directly affected.

What steps could be taken by the Department of Finance immediately? As the Minister knows, I have raised this issue on numerous occasions and made various proposals during the years. As he also knows, I am not one of the supporters of the voluntary housing agencies, but that is my problem. How do we deal with the urgent problem of what some call homelessness in the short term?

There is also the question of the degree to which funding can be obtained by bodies which are willing to assist the local authorities and that can be registered as being off the Government’s balance sheet. I have made a number of submissions on this point. That is the nub of the problem with which we have been confronted. While we know that there are constraints on Governments, we have a problem in this country that many other countries do not have.

How do we address this issue in the short term? It is socially and economically unacceptable that we have a large and growing number of people becoming homeless, with nowhere to go, and the social and economic damage of this to the economy will appreciate with the passage of time. Therefore, I again suggest the notion of a Government bond to fund directly a local authority building programme. I know the Minister has said - and correctly so - that a large amount of money has been made available - €3.8 billion already - to the local authorities, but we need to deal in the first instance with the immediacy of the problem. In six months’ or a year’s time, in case some people think that it will be acceptable to have people still homeless and living in emergency accommodation, with whole families living in one room, it will not be acceptable, nor will it be possible to achieve social stability if this is allowed to continue.

Lastly, the Government, as we know and as the Minister has said, can borrow money very cheaply. Is there any way that money borrowed by the Government can be made available to

the local authorities through a medium, of which a number have presented themselves, in order to enable them to get involved directly in the building programme?

Those are the three issues, as far as I am concerned, dealing with my constituents, and this problem is getting worse by the hour.

**Chairman:** The Minister has a range of questions.

**Deputy Michael Noonan:** I thank Deputy Brassil for his questions. His country is like my country. I know his part of Kerry. It is not so different from west Limerick, where I came from originally.

Deputy Brassil is right in that there are a lot of unused property in small towns and villages, but much of this is for social reasons as much as economic reasons. It is the ambition of every young working couple not to live in the village but to build on half an acre on the approach roads to the village. What has happened, as that has developed as the model over the last 30 years, is that the villages and small towns are becoming the residential areas for those in social housing. That then has its own economic effect on the villages because the purchasing power of those benefiting from social housing is obviously lower. The shops close down and so on while the people living on the approach roads get into their cars and drive to the Aldis or Lidl's or the various big supermarkets and shop anywhere, even 20 miles from home. We need to come up with a way of encouraging young couples to live inside the speed limits rather than out in the countryside. I will not get into the environmental advantages that might have but if one looks at it purely as a model of development and wants to encourage that kind of a model then it would have to be done through grant schemes, as the Deputy suggests, rather than tax breaks. Tax breaks work at the marginal rate of tax, and a young person starting out and acquiring a home is probably paying tax at the lower rate, 20%. A tax break provides a big advantage if one is paying tax at the higher marginal rate, but a lot of the people who are paying tax at that rate have long since provided themselves with a decent home. It might be considered whether there is a way to tip the economic balance. A grant could be provided inside the speed limits of small villages and towns of a certain size, and perhaps we could figure out the level at which that grant should be pitched and whether it should act as an incentive. There is something in what the Deputy says.

I am not sure whether that would then be extended to original owners. There are cases where parents die, the owner is in Dublin, he or she has the shop closed down and there is a residential area overhead. I would be open to the suggestion of that happening with the intention of leasing the property to the local authorities for social housing. I think that is the Deputy's idea. There is a housing crisis, but there is also the crisis of the declining village and small town. In solving one, perhaps we could solve the other. We need fresh thinking, which is why we have this special committee. I am very open to this.

I met the credit unions on several occasions and told them we would like to expand their activities into the provision of assisting in housing development. We must remember the credit unions are regulated by the Central Bank. The credit union regulator is a senior Central Bank official. They are independent in how they are regulated. The primary concern of the Central Bank in dealing with credit unions is to protect those with savings in them. The only money credit unions have is that from small savers throughout the country. The Central Bank will not allow the credit unions to get involved in speculative activity that would put those savings at risk in any way. This is not to say they are not putting some money into house building. My officials are speaking to them and we are working on it. I see an initial role for the credit unions

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as being in a position to supplement the purchase of houses and the type of thing we used to do previously. If they cannot contribute to a loan for the purchase of a house, they might be able to give a small loan for the kitchen, equipment or furniture. The committee might check it out with the credit unions this afternoon in order to discover what their current thinking on the matter is.

A difficulty I have is that when I speak to individual credit unions, they do not seem to have a unified approach. They come up with different proposals. In dealing with the Central Bank, there needs to be a general mandate on which the latter will agree. We spoke to the Ireland Strategic Investment Fund, ISIF, and the National Pensions Reserve Fund, which have quite a lot of money. This is for SME lending rather than lending for the purchase of houses. They are developing a programme whereby they will use credit unions and post offices as a platform for interfacing with small firms so they can lend to them. The actual analysis of the loan application will be done by the bodies themselves but the interface will be at credit union level. There is much happening and we want viable suggestions. The bottom line for the bank and for me is that whatever the credit unions become involved in, they cannot put at risk the savings entrusted to them by advancing money in respect of investments that would be regarded as overly speculative. The Deputy would agree on that point.

In every economic activity, there is a supply and demand side. The analysis of the housing issue at present is that there is just a shortage of houses and we need to build and provide more houses. Giving grants, for example, is on the demand side as is giving tax breaks to purchasers. Trying to reduce the price of houses could increase demand. There are two sides to it.

Deputy Durkan spoke about emergency accommodation. I am not the Minister with responsibility for the environment or housing, and initiatives on emergency accommodation come from the Department of the Environment, Community and Local Government. The Deputy is aware of them. Like many things in life, there is a supply-and-demand problem and, to return to the equation, there is a tipping point whereby 1,000 houses short or 1,000 extra houses can drive one from crisis to surplus. I examined the figures for Dublin and while approximately 5,000 people are homeless, the average seems to be approximately five per family. If we had more than 1,000 housing units in Dublin now, we would solve much of the problem. It is a tipping point situation. Some of the analysis being done does not contemplate the basic economic difficulty or address this issue. If we could provide 1,500 additional units in Dublin, we would not have a homelessness or a tipping crisis. We are not talking about the need for hundreds of thousands of houses. Members will be aware of other initiatives, including the construction of modular homes in Finglas and the return to use by the Dublin local authorities of many voids. The councils are now doing much better in that regard. When a private landlord rents a property and it is wrecked by bad tenants, it will be ready to rent again within one month or six weeks because he or she is dependent on the income flow from it. In the case of a local authority property that is wrecked that process often takes up to two years. We see this happening all over the country. One of the interventions in emergency accommodation provision - this has been done successfully in Dublin - is to ensure that as a matter of policy local authority managers return voids to use within two months rather than two years. As I said, the turnaround time in the case of private accommodation is much quicker because the landlord needs the income flow to service the loan.

There are many small, as well as big, things that could be done. I am not prescribing to the committee or suggesting I have the solutions as this is not my area. I am speaking more as a constituency Deputy rather than as Minister for Finance. There must be a fast-track ap-

proach to the supply of the 1,200 to 1,500 houses required in Dublin. Fewer units are required in other areas. For example, while there is a homelessness problem in Limerick, it is not of the same magnitude and does not require the provision of 1,000 houses. The provision of several hundred houses would solve the problem in Cork. We have a tipping point economic problem such that on one side of the tipping point we have an emergency, while on the other we do not. Addressing that space is one of the issues I have been examining.

On off-balance sheet issues, the opening position is that we are bound by fiscal rules of the European Union. Following the passing of the referendum in 2012-13 European fiscal rules are matters of Irish constitutional law. We do not have a shortage of money. We have almost balanced the budget and can borrow money. Three weeks ago the National Treasury Management Agency, NTMA, borrowed €500 million at a rate of 0.81%. That is cheap money and it is ten-year money. It is the capacity to spend money that constrains us until we balance the budget. What we need to do in the intervening period is, as suggested by Deputy Bernard J. Durkan, to try to secure expenditure that is not on balance sheet in order that it will not impinge on the fiscal rules and not take up the notorious fiscal space. The reason I push the National Asset Management Agency, NAMA, a lot is the 20,000 houses which it has committed will be provided off-balance sheet. We must be careful not to lead NAMA into State aid difficulties. If it does something that is competitively not commercial, private interests in the construction will complain. Some private interests have already made complaints to the European Union. If it had to be on balance sheet, the option of using NAMA as a vehicle for increasing supply would disappear. Currently, it is off-balance sheet and NAMA is committed to providing 20,000 houses.

Public private partnerships, PPPs, too, are off-balance sheet, if engineered properly. There are many schools being built around the country using the public private partnership model. As members will be aware, work is done on bundles of school projects rather than single schools. For example, seven or eight school projects are put out to tender and the bundle can be off-balance sheet because of the way in which it is engineered.

There is another area which I would like to track, and the committee might track it too. Somebody told me last week that the French Government had done a deal with the European Investment Bank for approximately €3 billion to channel through its local authorities for social housing. This was off-balance sheet. Perhaps somebody told me a tall story but I wish to check it out. It is interesting if that can be done because the Department of the Environment, Community and Local Government has been looking at ways of trying to get local authority houses off-balance sheet. That is what I have been told but it might not be simple. One often hears travellers' tales and when one checks the detail, they are partially true but not applicable to Ireland. However, when looking at NAMA and PPPs, the committee should take a look at the European Investment Bank and see if it can be used to fund PPPs where the local authority would be the central agent and if that could go off-balance sheet. If that were to happen, it would relieve a huge financial bottleneck and would get the process moving for social housing.

There is no problem with having a Government bond and calling it a Government housing bond. We would get the money at less than 1% for ten years. If it went out to 20 years, we would still get it at 110, 120 or something similar. I say 20 years because that would be the lifetime or model of a house paying for itself. The trouble is that it would all be on-balance sheet. The key problem is not a shortage of money. We can raise the money. The NTMA can raise money for us, it can go into the Exchequer and it can be used for house building. The problem is that it goes on the balance sheet and then we break the fiscal rules and the expenditure ceilings.

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There is some relief down the line. Our model shows us balancing the budget in 2018 and once we balance the budget, we have more scope. Again, and not to be too technical, up to now we have been spending money, if we can, on reducing taxes a little, increasing expenditure across the key Departments and reducing the deficit. Once one balances the budget, the money is only going two ways - either reducing taxes or increasing expenditure. There is then much more scope. We have already committed to reviewing the capital programme in 2018 because we will have balanced the budget, so we will have extra resources. In reviewing the capital programme, obviously extra money will go towards housing. I am only giving the committee background for its work.

**Chairman:** I wish to raise a technical point about the off-balance sheet issue. The voluntary housing sector says it gets a grant of 30% and borrows 70%. Is the 30% it gets from the State on-balance sheet and the 70% it borrows off-balance sheet?

**Deputy Michael Noonan:** It depends on the model it uses. One of the officials will respond.

**Mr. John Hogan:** The 70% you refer to is the funding from the Housing Finance Agency and the funding of that agency is on the State's balance sheet. It is guaranteed by the Minister, so it is on the State balance sheet.

**Chairman:** To clarify for the committee, the funding, whether it is through the voluntary sector or the local authorities, is reflected the same way from the point of view of the balance sheet.

**Mr. John Hogan:** Yes, that is our understanding.

**Deputy Michael Noonan:** That is unless a PPP model can be devised. The Department of the Environment, Community and Local Government has been examining this for quite a while and it has not yet proposed a model to me that is off-balance sheet.

**Chairman:** Thank you. I call Deputy O'Dowd.

**Deputy Fergus O'Dowd:** I thank the Minister for the frankness of his views. His opening comments were welcome and my questions take them on board. Many first-time buyers find it impossible to get into the market. One of the reasons is that they cannot come up with the 10% deposit. At the same time, there is much land in infill sites owned by local authorities and banks of land owned by State organisations. Is there a possibility of using the Ireland Strategic Investment Fund, which has a large amount of money and is off-balance sheet, to invest at a commercial level to fund the development or the infrastructure of these sites? The qualifying people would be first-time buyers or proposals for social housing. Could such investment be fast-tracked? Given that the State owns these lands and has access to finance, why can they not be serviced to cater for this group?

Will the Minister review the room to rent scheme, under which people may earn up to €12,000 per year tax free in renting out a room? I understand rooms may be rented to only one person and that he or she may also avail of a tax break on the rent paid. Will the Minister vary the qualifying conditions with a view to increasing the number of people offering to rent accommodation under the scheme? I refer, in particular, to measures targeting so-called empty nesters and others who have significant space available in their homes.

The Minister referred briefly to developing accommodation in space available above shops.

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Hundreds of people lived in Drogheda town centre 70 or 80 years ago but no one lives in it now. Will the Minister introduce measures to incentivise the owners of town centre premises to provide modern accommodation that meets fire safety and other requirements?

Is a fast-track mechanism available to encourage development, given that water and sewerage infrastructure, shops and so forth are in place? The provision of incentives in this area could quickly deliver significant results for people on the housing list.

**Deputy Maureen O'Sullivan:** On the vacant site levy, I am aware that for legal reasons the Minister was precluded from commencing this measure before 2018. Why was a levy in excess of 3% of the value of the property not considered? Some people have been sitting on vacant sites for long periods.

Pressure must be put on the National Asset Management Agency to provide more social housing units because more social housing is required. Given that the 10% social housing requirement under Part V will not meet current needs, will consideration be given to increasing it?

If land banks are identified as belonging to the State, how quickly can they be transferred and used for housing?

The Minister has indicated that the Living City initiative is geared towards work done by owner occupiers. For how long must those who avail of the initiative remain the owner occupier of the premises in question? In Dublin people with large houses are converting them into unsuitable accommodation, namely, tiny box rooms, because there is a demand for a certain type of housing.

On first-time buyers, potential buyers are paying more in rent than they would pay if they had a mortgage.

**Deputy Michael Noonan:** To respond first to Deputy Fergus O'Dowd, I indicated that the Ireland Strategic Investment Fund, ISIF, under the auspices of the National Treasury Management Agency, was providing funding to increase the supply of housing. For example, the ISIF is now in partnership with the private equity firm KKR to support the construction of 11,000 new homes. This €500 million fund, known as Active Capital, consists of an investment of €325 million from the ISIF, with KKR investing the remainder. The ISIF is certainly playing a strong role in this regard.

Deputy Fergus O'Dowd asked about the room to rent scheme. In the previous budget I increased the tax relief available under the scheme from €10,000 to €12,000. I was trying to move to a position where a homeowner, for example, a person living alone who had lost his or her partner, could rent two rooms and gain the benefit for so doing. I take advice on where we could pitch the scheme, but changes would be marginal because we cannot provide a massive tax break. The kind of people who would be inclined to rent a room in their house are not very high-income people. It stands to reason that one's income limits what one can gain from a tax break. If one does not have a taxable income, one will not benefit from a tax break, so there is not much of a margin there. I would not be averse to moving it up another bit if it was considered that another €1,000 or €2,000 would incentivise the rent of a second room in the house. We would be in trouble then with the people with the app one uses if one wants a room in Paris for the weekend.

**Chairman:** Airbnb.

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**Deputy Michael Noonan:** Airbnb is looking for a tax break also and wants the room to rent to apply to it. One can see the reasons we will not concede on that issue. The room to rent is for the home owners. It has some potential but not an awful lot.

On the question of land, there is land in public ownership and there is land owned by various State agencies and so on. I am disposed to put a fund in place of, maybe, €100 million or so to fund the opening up of land which is inaccessible. This would be for service roads and primary utilities. Obviously, not all land is ready to build on. Local authorities must open up land. The committee might develop that idea and give me advice on it as to its potential.

Deputy O'Sullivan raised the vacant sites levy. That is an issue for the Department of the Environment, Community and Local Government. I understand it had to defer it on legal advice. The constitutional position is very strong on property rights. The Department had to have a long lead-in time to avoid a challenge. The 3% levy was guided by that. Given the strong property rights, it had to impose the levy that was proportionate. It would be open to challenge if it had imposed a higher levy. I was not the decision-maker on that issue but the problem was in that space and that was the reason it landed there. It does not incentivise anybody at the moment but I think it will as we get nearer to the implementation date. I would hope that land which would be subject to it in the future will come back into the market and be used for the building of houses. That is the intention.

Part V is 10% for social housing and 10% for affordable housing, so the full piece is 20%. I think members know the arguments from their constituencies. If the percentage is increased too much, private purchasers will not buy the other houses, therefore, it is a question of balancing the two. It is more of a market problem and a social problem rather than a legislative problem. It has worked to a certain extent but now that housing is in short supply, it is working less well.

**Deputy Maureen O'Sullivan:** Yes.

**Deputy Michael Noonan:** Is the arrangement still in place in local authorities where builders can give money instead of an allocation of houses? Is that gone?

**Deputy Maureen O'Sullivan:** Yes.

**Deputy Michael Noonan:** It is gone completely.

The Deputy asked about the Living City initiative and how long one has to stay in the house. The tax break is over ten years. If one purchases and refurbishes the house at a cost of €100,000, one can write it off against tax at €10,000 a year for ten years. There is no obligation to stay but if one moves, one will lose one's benefit. The tendency, if it was working properly, would be to stay for the full life of the tax break, ten years.

**Deputy Maureen O'Sullivan:** Is there monitoring of the grant to ensure it is not abused?

**Deputy Michael Noonan:** That is the job of the Revenue Commissioners.

On a point of clarification, the Part V provision is only 10% as it was reduced from the original 20% provided for in the Planning and Development Act in order to reduce construction costs. I said 20%, but that was the historic figure.

**Chairman:** Before we move to the next questions, I would like to comment on the vacant site levy. The Minister said the advice to the Government was there should be a long lead-in time and a lower rate to avoid a court challenge. To date, that advice has been sustained and

there has not been a court challenge. However, I do not believe a court challenge would necessarily have been a bad result, in the sense that it might have brought a greater degree of clarity, because the levy and the lead-in time were conservative in order to avoid a challenge, rather than the outcome of a challenge.

**Deputy Maurice Quinlivan:** I welcome the Minister, who is my constituency colleague. He started by saying progress has been slower than we would have liked and we would all agree with that. He also said the crisis in housing is not the same Limerick as it is nationally. I agree, but there is a crisis in Limerick, where there are 5,000 people on the social housing list. We could probably multiply that number by five to get the number of people who are looking for housing. We probably need 1,000 social housing units to solve most of the problems.

The Government social housing strategy 2020 provides for €3.8 billion over the next six years, but I do not believe that is enough. Based on that strategy, the outgoing Government would need to deliver 80% of the 100,000 houses needed through the private sector. I doubt anybody on this committee believes that strategy will succeed.

We often hear that we are restricted in what we can spend by EU fiscal laws. Perhaps the Minister can clarify that by answering the following questions. Ireland has the youngest population in Europe and is expected to be the fastest growing population over the next 30 years. Despite this, we have the second lowest level of public capital expenditure in the Union. Given that there is the possibility to push for greater flexibility at European level on EU fiscal rules to support long-term investment programmes, has the Government asked for additional leeway to allow us to invest sufficiently in housing? If it has not done so to date, why not? Will it consider doing so?

The scale of the housing crisis was highlighted yesterday at the launch of the Mercy Law Resource Centre's paper on policy. The centre pointed out there has been a 43% increase in homelessness from 2014 to 2015, with 3,930 homeless adults and 1,181 children in emergency accommodation. It highlights the urgent need for investment. Does the Minister think it is wise to progress with cuts to the USC with this problem facing us?

My second concern is the issue of mortgages. While there is a crisis in regard to mortgages currently, this is only going to get worse. At a recent meeting of the committee, Conor Skehan, chairman of the Housing Agency, said:

This is a nettle that must be grasped by the incoming Government. The arrears will peak, so to speak. The numbers are enormous and they will dwarf all other matters we are discussing, such as emergency accommodation and other things. It is uncomfortable; the bullet will have to be bitten - whatever clichés one wants to use. We urge the committee to get the Government to give its highest priority to addressing this issue. It will not go away. As we get closer to negative equity going away, we will see banks tempted to realise their assets. We must act urgently and the committee must use its voice to make this urgent issue known to Government.

This is an issue we are dealing with daily in our constituency offices.

We know many buy-to-let units are in serious problems and that sales have forced many tenants from those properties. What action is the Government going to take on buy-to-let and other mortgages in distress? In particular, what action is it going to take to regulate vulture funds? How does the Minister propose to amend the code of practice on mortgage arrears and

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will the Minister meet colleagues in the Department of Justice and Equality and come up with a cross-departmental report to address the Land and Conveyancing Law Reform Act, which people refer to as the “eviction Act”, effectively an insolvency service which clearly contributes to families losing their homes.

The third issue I want to raise concerns NAMA. When NAMA was established, its terms of reference included a social clause. I do not believe that has been delivered either. While Mr. Eugene Cummins from the County and City Management Association stated that NAMA delivered 2,000 social housing units by the end of last year, I understand that only 1,400 were delivered. The Minister also gave a figure of 2,000 this morning but he might have been talking about the period up to yesterday or whatever. That might be clarified. I believe that only 1,400 were delivered and that there are still no tenants in some of them.

The Minister, Deputy Kelly, said that the outgoing Government was not in favour of rent certainty and claimed that the Department of Finance opposed it. Would the Minister, Deputy Noonan, consider legislation to create a compulsory code of conduct for banks and funds selling buy-to-let properties that are rented? The code of conduct should give sitting tenants an extended notice-to-quit period of up to 12 months and also first option on becoming tenants if the property is bought by a new landlord. There is also a need for legislative change in respect of the mortgage-to-rent scheme in order to make it easy for local authorities and housing associations to keep people in family homes that are facing repossession by banks and property funds. Would the Minister consider that?

**Chairman:** I will take one other contribution.

**Deputy Michael Noonan:** There are so many questions there that I had better reply to them.

**Chairman:** The Minister may reply. I remind the Deputies that while whatever detail the Minister has on NAMA is welcome, we will also have a session with NAMA.

**Deputy Ruth Coppinger:** May I clarify if there are many more questioners? I have to go to the Chamber to speak.

**Chairman:** There are three more speakers before the Deputy. What time is she due to speak?

**Deputy Ruth Coppinger:** Is it okay if I go now and come back?

**Chairman:** If we are still in session.

**Deputy Ruth Coppinger:** Three more people are due to speak after this.

**Chairman:** Correct.

**Deputy Michael Noonan:** I welcome Deputy Quinlivan. It is nice to see a fellow Limerick man on this committee. When I referred to the issue relating to Limerick being of a lesser magnitude than that which relates to Dublin, I was not talking about the local authority lists for social housing. I was specifically talking about homelessness. I think the Deputy would agree that while there is a homelessness problem in Limerick, it is not of the same magnitude as the problem in Dublin. As a consequence, it could be remediated more easily.

The answer to the question about extra capital for local authorities is “Yes”. However, they

have not spent their allocation of capital for 2016 and are not on target to spend it. There are other problems in the relationship between the Department of the Environment, Community and Local Government and the local authorities, as well as in the capacity of the local authorities to use the funds they are given. There will be a review of the capital programme in 2018. It may even take place in 2017 with the way things are going. At present, it looks as if there will be extra capital to be allocated over the five-year period of the capital programme. Social housing would be very important of course.

On the flexibility clause in the European rules, it is there and we have talked about it in Europe and pushed very hard. Currently, however, we do not meet the criteria for applying, particularly in light of the economic cycle and other factors. As stated previously, investment can be smoothed out over four years. The fiscal rule that applies to capital is taken over a four-year cycle, so €1 million can be €4 million when it is put across the four-year cycle. I will ask the chief economist, Mr. John McCarthy, to comment on the flexibility issue when I have dealt with Deputy Quinlivan's other questions.

The Government is committed, as it always was, to reducing and eventually phasing out the USC. It was introduced as an emergency tax and, in our agreement with Fianna Fáil on its support for a minority Government, we have agreed that the emphasis will be on reductions in USC for low and middle-income people in particular but not exclusively. That is our position on the issue. It comes back to a very simple point. When we were kids, we all learned the story of killing the goose that lays the golden egg. If we kill the economic goose that is laying the resources for all of our social and economic objectives, we will have no golden egg and will be able to do nothing. The USC is for people at work. They are paying too much in personal taxes. We must progressively encourage working people and give them extra spending power through the tax system and wage increases. Through this, the economy can continue to grow at a projected rate of 5% this year and nearly 4% next year. There must, however, be a balance. The Government cannot simply spend on social programmes and state to the taxpayer, "You are going to pay for this now, lads. Keep working. We admire the way you work and would like to compliment you on your hard work." We have to keep a balance in the economy whereby working people can see the value of their work in their pay packages. That is why we are committed to a reduction in USC. Now that we are out of the main crisis that nearly bankrupt the country, we can agree that social programmes have to be repaired. Of the money available to us, we will spend a much bigger proportion on the expenditure side than in providing for tax cuts, but we will still have some tax cuts in any budget in order that working people can benefit from their hard work, as well as from the improvement in social services. That is wise.

The level of mortgage arrears is a big problem, but the measures that were put in place have worked in that there has been a very big decline in the number of people in arrears. It has fallen well below 50% of the number who were affected when the crisis commenced. This is due to two reasons: the measures introduced and their implementation by the banks; and people going back to work. People are again in a position to service their mortgages. Many people are picking up where they left off in their payments, or making reduced payments, simply as a result of being back at work or their partner being back at work. It is self-correcting. We are now in a position where just north of 30,000 people with mortgages have a particular difficulty. There is a hardcore who are finding it very difficult to cope. In the programme for Government we are designing a new set of initiatives to deal with that cohort. We will see the programme in the next 24 or 48 hours. I do not wish to breach confidence, but it is not just a couple of make-weight measures added to what is in place. This is a major departure to deal specifically with that cohort which is not being reached by existing measures.

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NAMA is fulfilling its social mandate by providing houses. The figures I gave the committee are the ones we received from NAMA which has provided well in excess of 4,000 houses, but the local authorities do not take all of them for a variety of reasons. I am not always sure what the reasons are, but they are to do with local authority policy. It is not a failing on NAMA's side. It states 2,000 houses have been given and taken by local authorities.

Another way NAMA is fulfilling its social mandate is through the use of its cash flow and available resources to build 20,000 affordable houses in the next five years. That is a huge commitment to social policy because we all agree that there is a problem on the housing supply side. NAMA can do it off balance sheet. All over the country there are examples of it selling playing pitches to sports clubs and accommodation of various kinds at cost price. I am sure different Deputies would be able to give examples from their constituencies. NAMA is strongly fulfilling its social mandate.

The other thing Deputies who have been here a while know is that NAMA has an e-mail and a telephone helpline for Deputies. While a Deputy cannot legally make representations to NAMA on a commercial issue, he or she is legally entitled to seek any information he or she requires from NAMA on its social programmes, policies or sales programmes. This can be done by telephone or e-mail. A Deputy is not committing any offence or putting himself or herself at ethical risk, as long as he or she stops short of lobbying for a commercial reason when engaging with NAMA.

The last point concerned rent certainty, which we think could be counterproductive. I remember the housing crisis of the 1990s, which led eventually to the bust. There were three reports by Dr. Bacon calling for intervention in the market. Intervening in the market can be quite tricky and many of the interventions of that time caused more trouble than solutions. One needs to be very careful. It is very easy to say we want to have rent certainty and not allow rents to rise but who will get involved in investing in rental property in that case? Unless a landlord in the private sector can generate an income from investing in a block of apartments, or a house which he converts into two apartments, he will not do it. If one interferes with the market to the extent that normal commercial activity does not proceed, one will not fix it; it actually causes the problem. When I received proposals from the Department of the Environment, Community and Local Government about rent certainty my advice was that some of the proposals could cause difficulty. We agreed with certain things but not with others. One has to be very careful because most of the housing market is supplied by the private sector. Affordable houses are supplied by private vendors and rental accommodation is provided by private landlords. One can intervene to increase supply but if one intervenes in a way in which the consequences are to restrict supply, the situation might be improved for a cohort of tenants on a temporary basis but it would lock everybody else out of the market. It is very tricky and I do not claim a monopoly of knowledge. Maybe there are measures around rent certainty that would work but not the ones that were proposed to me by the Department of the Environment, Community and Local Government. That is the reason we did not go down that road.

I will finish where I started. There is a supply side problem which needs to be fixed very quickly. Part of it is a funding problem and there is also a financial problem. I am absolutely delighted that the first serious action of this Parliament will be this committee addressing these issues and bringing forward a report, after due analysis, which can be turned into policy to help resolve the situation. Mr. McCarthy will comment on the question of flexibility.

**Mr. John McCarthy:** At the beginning of last year, the Commission introduced the investment clause in the Stability and Growth Pact, which was designed to promote investment. The

problem is that the eligibility criteria for member states to qualify for the clause were set at very strict levels. It was done unilaterally by the Commission without any input from member states. The criteria are quite technical but two of them are worth mentioning. A member state needs to have a negative output gap - a very poor performing economy - but we have a positive gap and that restricts our ability to apply for the clause. The other is that all member states are supposed to be close to a balanced budget in structural terms but we are too far away from that position at the moment to be able to apply. However, as the Minister said, the so-called expenditure benchmark smooths investment over four years so for each X one puts in, one gets four times X in year one and that gives some flexibility on that front.

**Chairman:** A number of other members wish to speak.

**Deputy Catherine Byrne:** I have only two questions but a number of observations. My first question is about NAMA and the fact that, despite its having 6,600 units, only 2,000 have been delivered into social housing. What is happening to the other 4,600? The witnesses may not be able to answer but we might get an answer from NAMA.

**Chairman:** We will be speaking to NAMA.

**Deputy Catherine Byrne:** I want to raise two issues with the Minister. As he knows well, I was reared in the inner city surrounded by Dublin City Council housing developments and flat complexes in Ballyfermot, Inchicore, Crumlin and Drimnagh. It always astonished me that the city council was unable to continue the building system it operated in terms of local authority housing. If we are serious about supplying social housing or other forms of housing, we need to look back to the local authorities and perhaps restart investment in local authorities to allow them build. I was born and reared in a Dublin City Council house and the normal practice was that most of the maintenance of the house was done by the council, but that no longer happens because of the reduction in staff. That is leading to many properties falling into a very bad state of disrepair and ending up back with the council, and it takes a long time to bring them back into suitable condition to allow them be put back on the market. If there is any way this committee can encourage a policy on local authorities taking up the mantle and building houses again, that is something I would like to see happen.

I am glad the Minister raised the question about homelessness and housing because last week I raised with Mr. Dick Brady, the city manager, the 5,801 people who are homeless. I broke down the figure, as they did, for the number of adults and children and asked if he could give me a figure for the number of those who are family units. He came back with a figure of 790. Yesterday, I received the report before me - I was not at the launch but I read it last night - from the Mercy Law Resource Centre, which is in my constituency. Since 2014-15 there has been a 43% increase in homelessness and in terms of the breakdown for adults and children, the centre comes up with a figure of 912 homeless families. What the Minister said is true. If we were to house those who are homeless now, all we would need, according to this report, is 912 houses and we would be laughing.

The other question I asked Mr. Brady was whether the figures from the housing authorities across the city could be broken down to show the number of people being rehoused, the number on a transfer list and the number on a long-term list because part of the problem to do with homelessness is what we as a Government did in the past two years, particularly in 2014 and 2015 when we declared homelessness as a priority. I could outline for the Minister some serious cases I dealt with where people handed back their keys to go on the homeless list and live in a hostel or hotel because they believe that if they are on the homeless list they will be made

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a priority.

In my short career in politics and my other career working voluntarily in the community, I dealt with families and children on a daily basis and I believe that in many ways the councils' figures are not the true figures for the number of units needed in the coming years. If we were to build thousands of houses based on some of the reports, I can guarantee we would have many houses lying idle in Dublin because they are not needed. We need exact figures from the local authorities on the number of family housing units that are needed. It is clear in this report that if we decided tomorrow to deal with the homeless crisis in this city and built 912 houses, we would address it. We need to nail the local authorities, so to speak, on the housing supply and the number of family units needed.

I am dealing with people now who have been on a transfer list for 12 or 13 years. They are accommodated by the city council but they are in units that are inadequate for the size of their growing families. One family has four grown-up children living in a two-bedroom maisonette. That family should have been housed ten years ago but because of the homeless crisis and the increasing demand that the homeless should be a priority, many of those people will continue on that list and never rise to the top of it. I did not ask many questions but the way to go is as the Minister said, namely, give the local authorities the power to facilitate and supply social housing.

The number of houses bought for the tenants in St. Teresa's Gardens, Fatima Mansions and Dolphin House is huge. The council has done a considerable job on the ground locally trying to buy houses through the funding from the Department of the Environment, Community and Local Government, and also in filling many of the voids that were left there. In that sense, the local authorities are doing their job. However, we need to go back to them to get exact figures for how many homeless families we need to house.

**Chairman:** Some of those questions are probably more relevant to the Department of the Environment, Community and Local Government than to the Minister for Finance.

**Deputy Catherine Byrne:** I was agreeing with the Minister's analysis.

**Chairman:** I am not disagreeing with Deputy Catherine Byrne. In trying to elicit the information she is looking for, it might be more appropriate to ask the Department of the Environment, Community and Local Government rather than the Minister for Finance. I would say to the other remaining members with questions that they should direct them specifically to the Minister for Finance.

**Deputy Brendan Ryan:** Over the past couple of years organisations with capital and expertise in delivering homes have appeared and I have met one or two of them. These organisations were interested in delivering a substantial number of homes to the State, but for a return to themselves over a mortgage-type period. The model would also have included the homes coming into State ownership at the end of a fixed period, such as 20 or 25 years. Has that model been put to the Minister? It seems to be an attractive proposition. Was the problem that the payments to these organisations would be on balance sheet? Would there be any scope that such a model might comply with fiscal rules?

**Chairman:** Does the Minister want to address those? I have two final questioners then.

**Deputy Michael Noonan:** Yes. First, in reply to Deputy Catherine Byrne's questions, NAMA identified by the end of March 2016 some 6,637 houses that it could transfer to local

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authorities. The local authorities confirmed that they had demand for 2,540 of these houses and 2,042 were delivered by the end of March. There are approximately 500 that are not yet delivered but they are agreed by both sides as suitable and wanted by the local authorities.

I am not sure why the local authorities did not take up all 6,000 of them. Among the reasons is local authority housing policy regarding the proportions of local authority houses and private houses in the one estate. If NAMA has a whole estate of 60 or 70 houses, the local authority will not take the full amount; it will take a proportion of them. I refer to what they describe as concentration issues where there are too many social housing units too close together. Then there are houses in some areas where there is not a demand for them.

However, NAMA continues to do its best. It will work with the local authorities. I was talking to the chairman of NAMA yesterday and he committed to doing another search and providing extra houses to the local authorities within the next couple of months.

I welcome Deputy Catherine Byrne's explanation statistically of the supply situation in Dublin in respect of homelessness and how less than 1,000 units would fulfil the demand and solve the homelessness problem on the basis of the information provided by the local authorities in Dublin. It comes back to my point that there is a tipping point issue which needs to be addressed quickly.

In answer to Deputy Brendan Ryan, the voluntary housing organisations are active in providing houses. Private sector organisations come up with schemes at times but they would go to the Department of the Environment, Community and Local Government rather than to me, and I do not have a lot of information on them. Mr. John McCarthy, the economist with the Department of Finance, may have some information of a cross-Department nature.

**Mr. John McCarthy:** From our side, Deputy Brendan Ryan asked if it could be accommodated within the fiscal rules. It all comes back to whether such funding is on or off the balance sheet. If it is included on the balance sheet, then the expenditure will need to be met by reductions elsewhere or by higher taxation and so forth. The fiscal rules are absolutely clear on this. If it is off the balance sheet, it can proceed.

Approximately two weeks ago, with the AIB transfer and so forth, we saw that EUROSTAT is becoming increasingly intrusive in terms of the on and off balance sheet types of classifications. There have obviously been some issues in that regard in the past, not just in Ireland but in every country. It is a difficulty. As I say, EUROSTAT is becoming very intrusive. Moving expenditure off the balance sheet is becoming an issue increasingly for all member states.

**Chairman:** The final two members presenting are Deputy Wallace and Deputy Coppinger.

**Deputy Mick Wallace:** Most people would agree that all is not well in how we go about supplying housing in Ireland. It did not start with the current Government because it has been like this for a long time. I am very much aware that much of this does not actually come under the remit of the current Minister for Finance, Deputy Michael Noonan. I do not know whether there is any merit in having a separate housing Department given that there are so many different strands to the issue. There probably is given that there are so many issues in which the Department is involved and so many others in which it is not involved.

The Minister began by saying this is very much a supply-side problem. There is a supply problem but there was no supply problem ten years ago and yet there was still a problem. There were plenty of units but they were not affordable. Surely affordability is at the heart of the

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problem associated with supply, whether one is trying to rent or buy a unit or whether one is just trying to get one from the State because one cannot afford either of the first two options. We have reached a stage at which, if one has a job, the proportion of one's take-home pay required to keep a roof over one's head is greater in Ireland than in most countries. It is a big problem that has not really been addressed. There are many dimensions to it.

On 15 January 2015, the Minister and I had a discussion on REITs. At that time, I was warning that this could distort the rental market in Dublin. The Minister replied that only two REITs had been established by then and that both were capitalised at approximately €400 million. I was told two REITs with a total investment of around €400 million will not distort any market or give anybody control. The Minister said, "The REIT system will raise standards and if something goes wrong I will move to correct it, but so far it is moving in the right direction as intended." The Minister told us today that the figure has moved to approximately €2.2 billion and that it is rising and will continue to rise. People in Ireland did not have access to finance and the Minister is now eager to bring in foreign money so they will have money to purchase. Units were bought by REITs at fire-sale prices with powerful tax incentives built into the structure of the vehicle. The REITs now control a very important chunk of the rental market. It has led to circumstances that I have referred to a few times. Apartments I happen to have built in Dominick Street that were €900 per month three and a half years ago are now €1,500 per month. It has become very difficult to rent an apartment in Dublin city centre. Dominick Street is not Ballsbridge, by any means. Some people would still be afraid to walk up there at night-time. Does the Minister believe there will be a time at which brakes should be put on this? How far does it go? I have heard the Minister speak about the idea, of which he is very fond, of professional landlords. That is all very well but if people cannot afford to rent from such landlords, it creates a bigger problem.

On NAMA and the 20,000 units, the Minister referred to the fear of state aid rules and developers who have appealed to Europe about the matter. The vast majority of people in Ireland who have a problem renting or buying a house could not possibly afford to pay €300,000 for a unit. The Minister says NAMA is obliged to make a commercial profit from its activities. Given that it owns the land, would it be possible for the State to put in place some sort of arrangement if NAMA cannot do so? Clearly, 20,000 is a large number of units. Surely a minimum of one third of these would have to be made available to those who cannot afford to pay €300,000. The land already belongs to the State and it does not cost more than €150,000 to build a 1,000 sq. ft. house. The average house in Dublin is under 1,000 sq. ft. in size. Is there some way for the State to engage in supplying at least one third of those units to people who cannot afford to pay €300,000?

The vacant site levy was mentioned. While it is under the remit of the Department of the Environment, Community and Local Government, there is a tax issue in respect of sites and land-banking which has never been dealt with by the State. Given that I am younger than him, the Minister is probably more familiar with the Kenny report, which was published in 1974, than I have ever been. Without a shadow of a doubt, the biggest single problem around the affordability of housing in Ireland is linked to land-banking. That is not changing. We have investment funds, including the likes of Hines and Kennedy Wilson, coming in and they have not only bought units but development land. Some ten or 15 years ago, 90% of the banked land in the greater Dublin area was controlled by 26 people. We now have foreign investors coming in and taking more or less the same control over that area. It is not rocket science to see that this will be problematic down the road. Is this going to be dealt with?

The issue of the powerful right to property overriding the rights of the individual in our Constitution is also problematic. For the life of me, I cannot understand why no Government has dealt with this matter. Does the Minister consider that there is a need to address that issue in the Constitution so that we have greater flexibility in the area and can stop the cancer of land-banking in this country?

**Chairman:** In a bid to be helpful, I note to the Deputy that the committee will deal specifically with the issue relating to the Constitution when we have a session on legal issues. The Deputy is entitled to ask the Minister the question, but I ask him to note that we will try to investigate the matter a bit further.

**Deputy Mick Wallace:** The Minister was talking about void houses. Again, that is very much a matter for the Department of the Environment, Community and Local Government. The Minister said it takes the private sector four to six weeks to turn around a void house, which is correct, and that the local authorities take two years to do it. I accept that the Minister has responsibility for finance and not local government or the environment. Does he agree, however, that if there is such a problem with local authorities, the answer is to strengthen rather than undermine them? If the local authorities are not delivering as they should be, perhaps they need far more support from central government. During the past 30 or 40 years we have no longer had good local authorities, compared to our counterparts elsewhere in Europe. This is a major problem and I would like to hear the Minister's ideas on it. Given that local authorities are totally dependent on central government for funding, we do not have local government but weak, underfinanced local administration. What does the Minister think about strengthening local authorities?

When asked about the issue of rent certainty and rental markets, the Minister mentioned the risk of interfering with the market. In other European countries there is stronger regulation in this area and it works for the private sector, as well as for the client. Does the Minister think we should learn from other Europeans?

My next point has been raised in different spheres today. The Minister has made the point that our adherence to the fiscal rules is enshrined in the Constitution and that we could not possibly break our own law. What would he think about appealing to the European Union to allow us breathing space? He mentioned borrowing money recently on the markets at a rate of 0.81%, which is fantastic. Anyone in business would love to be able to do this. It is unheard of in the private sector. The State could request breathing space from the European Union to tackle an emergency and a major crisis in the supply of housing in different forms. Could we appeal to the European Union to be allowed to borrow approximately €10 billion at a rate of 0.81% over ten or 20 years without being caught by the 3% rule? We would not be the first in the European Union to be given some breathing space. We have been very good boys. Does the European Union care about individual countries, especially smaller member states such as Ireland? Does the Minister think it would be a good idea to appeal for a break in this area?

**Deputy Michael Noonan:** I thank the Deputy. It is always good to hear his views on housing, given his expertise in construction. He said affordability was the issue rather than supply. However, affordability is a function of supply. If the supply of any good increases, the price tends to decrease. If the supply decreases, the price tends to increase. If supply was to increase, the price would either stabilise or tend to reduce and houses would become more affordable. It is just another word to describe the same problem, approaching it from a different point of view. Again, it comes back to asking what builder will build if the cost of constructing a house is greater than the price of the equivalent house on the market.

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There was a basic imbalance after the economic crash. Two years ago, in parts of the city, not far from the Chairman's place, one could have bought a house for €150,000, while one could not have built a house for that figure. The model was broken and builders were impaired by debt. It was not a financial proposition to build three-bedroom semi-detached houses, given that, as recently as two years ago, they were available on the market for significantly less than the price of construction. However, there is an affordability issue. It is a function of the supply side and we have to examine that as well as considering all ways of financing home purchasers.

REITs have been successful. They have increased supply because not only did they buy many apartments, which they refurbished to ensure better quality, but they are also professionalising the rental market and there is capacity to build beside many of the existing apartment blocks. The trusts have plans to construct 600 apartments in the immediate future but they are subject to the same controls, including rent controls, as everybody else. This is something we keep under review. There are three trusts on the market now and, therefore, they are not overwhelming it. The trusts are a new model and a new way of doing things, which is helping supply. It is true that they bought at the bottom of the market but the same buildings were available to everybody else. When the market goes bust, the first run of stuff is sold cheaply but many people will not buy at that time. Warren Buffett came in and invested in Bank of Ireland and he made a great deal of money. He invested in Greek banks and he lost his shirt. He thought both were a good idea at the time. That is what happens at the bottom of the market. There are various arguments about property being given away and I was asked why I did not wait and so on but unless somebody sells cheap and there is somebody to buy cheap, there is no market. It is from then on that the market builds. There is a viable market now for commercial property in Dublin but that is on the back of these initial sales which recreated the market.

With regard to landbanks, the same constraints apply to a use-it-or-lose-it tax as to a vacant site levy. I would like to have a use-it-or-lose-it tax on them. The large builders who have come in from abroad intend to build. Cairn Homes is actively developing sites and it does not seem to be hoarding. I met representatives of the company to see what they are about and I discovered they are in the business of making money from construction. They say that they are not in the business of making money through capital gains by sitting on landbanks. The same applies to the other large developer which bought Cherrywood. There will be approximately 4,800 units when it is built out with a commercial centre. The company is actively pursuing the development of Cherrywood. There are others who are sitting on land banks. For example, there are people who bought land at extravagant prices and are hoping that if they sit on it, they will at least recover their money, or that if they wait a little longer, they will generate capital gains. We are examining a use-it-or-lose-it model for landbanks but I do not have a solution yet. The committee might help us with this issue. The Chairman is correct that too few landowners control land in Dublin and if everyone holds back from the market, first, there will not be a supply coming through and, second, if the site element of the construction cost is too high, it will drive prices beyond the affordability level. It is an area that needs examination.

I would like to support local authorities but their elected members have a function and a responsibility in this as well. When I brought in the property tax, I provided for 15% discretion in setting the rate to local authorities. Most local authorities, for reasons that were never fully explained, decided - when they were skint for money - to avail of the 15% reduction. One of the Dublin local authorities not only reduced the rate by 15%, it took money from the housing budget when it made the reduction.

I want to make the point, without making it too strongly, that local authority members also

have a responsibility. There is no point in cutting their own budget, especially the housing budget, and then coming crying to central government and stating, "Give us more money." It would make anyone a little cynical about giving more powers to local authorities when that was what happened. Other local authorities were cash-rich and cut the figure by 15%, although some cut it by smaller amounts of 3%, 4% or 5%. That is fine and that is the discretion that was given. However, when there was a clear and obvious need, cutting the housing budget was less than admirable, but I will not put it any stronger than that. In general terms, I would favour supporting local authorities more and favour more autonomy for them, but, unless local authority members are prepared to take responsibility and use it in the best interests of citizens, delegation to local authorities will not work.

We are always looking for more discretion from the European Union and have been given a lot of discretion from it. The last piece was signalled before Christmas but delivered just after the general election, whereby the European Union now states that because Ireland has made significant progress, it can be considered we have balanced the budget, even if we are within a figure of 0.5%, which is €1.5 billion. The European Union has provided us with that leeway, which is one of the reasons I am signalling that we will be reviewing the capital programme in 2018. Owing to that change in the rules, we have extra flexibility and it will be quite a lot of money, including for spending purposes. My preference would be to spend it for investment purposes, in other words, increasing the capital programme, rather than on current expenditure measures. That is one example of flexibility being given by the European Union and we are working on other models.

It is true to say other countries, especially the bigger ones, take French leave - not to coin a phrase - and break the fiscal rules. When one is smaller, one has to obey the rules as best one can, but, as well as this, we have gained by being prudent in meeting the fiscal and economic rules. This is the fastest growing economy in Europe. Last year it grew by 7.8% and for this year every agency, including the Department of Finance, has marked it up. The Department puts the figure at 4.9%; the Central Bank, 5.1%; the ESRI, 5%; and the European Commission, around 5%. We are, therefore, having a very strong year again. The sustainable rate of growth in the economy for the foreseeable timeframe of five, six or ten years is about 3.25%. We are above that figure significantly this year and will be above it again next year. What is Mr. McCarthy's figure for next year?

**Mr. John McCarthy:** It is 3.9%.

**Deputy Michael Noonan:** Therefore, we are just about at the figure of 4%. There is a big advantage in staying within the fiscal rules, but they are giving us some flexibility also. I will be advising, through the Department of Finance, if I am back in it, that we use the rules cautiously and carefully in order that we can keep growing the economy at well above the average figure and then use the fruits of that growth to give us the leeway on expenditure that the Deputy is advocating.

**Deputy Mick Wallace:** The Minister can tell us about how wonderfully the economy has grown, but during the election campaign I knocked on 20,000 doors in Wexford and saw a level of deprivation that I never thought I would see in my lifetime. Sadly, the figures mentioned for the economy do not necessarily translate into a decent standard of living for many. The fiscal rules to which the Minister has referred can be curtailing and have an impact on the living standards of many ordinary people that is not always positive. What would the Minister say to that?

**Deputy Michael Noonan:** I would say first of all that the Deputy is right. Secondly, I

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would say to him that I never promised the Government would be able to fix in five years what went wrong because the country was on the verge of falling over a cliff. If one considers Greece, which got into trouble seven years ago, it is still in dreadful trouble. There is no sign of a correction in Greece at the moment because it is following a different economic model.

In this period of government, we must change the emphasis. Much of the fruits of the very strong growth have gone towards reducing the deficit and the debt. As soon as we balance the budget, that monkey is off our backs. Regardless of who is in government for this phase - it will be a different government in its formation - there is extra money for social programmes. The next thing we must do is address exactly what the Deputy identified.

What we did in the five years was that we kept the basic rate of social welfare at €188 per week. We were lucky that there was very low inflation, so the purchasing power of the social welfare payments remained nearly the same, although other bills of course went up. We must now progressively give tax breaks to people at work, increase social spending programmes, so that we have better health and education and better law and order on the streets, and address in a targeted way people who are in poverty and who, despite their best efforts, cannot come out of it. They must get direct assistance and that is the way that it will go, in my view, for however long this Government lasts and, indeed, the one after it. It is possible to correct the ills of the country in a substantial way over a ten-year cycle.

I ask Deputies to consider what has happened in the last five years as phase one, to create the engine and the vehicle again that can produce the resources. Now that we have the resources, let us direct them towards the areas of need without taking risks with the growing economy. We can talk at length on other occasions about how the details of that model might be filled out but I do not disagree with Deputy Wallace's analysis. It is the same as in my own city, and the Deputy beside him will confirm that.

**Deputy Ruth Coppinger:** I probably do not have time to ask all the questions I would like to ask of the Minister. They relate to his Department, the EU and capital spending on housing, vulture funds and real estate investment trusts, REITs, NAMA and relevant contracts tax, RCT, and the tax evasion going on in the building industry, which would fall under the Department of Finance as well.

I was a bit disappointed with the Minister's presentation. He began by saying that we need fresh thinking but in his opening comments, he never mentioned the words "housing crisis", certainly not "housing emergency". The furthest he went was "housing shortage". I did not hear anything today to suggest that he sees this as being the emergency that it is. However, there are certainly those of us who represent constituencies, Dublin West and many others, where this is the number one issue and where we have a homelessness and housing emergency. The Minister said, "Unless addressed, it could pose a serious threat to the competitiveness of the economy." That was his first point. It is a little bit crass to worry just about the competitiveness of the economy. It is the human cost that most of us are concerned about. However, he is right: the rocketing rents will drive people out of the country. They are doing so already.

Regarding capital spending and the EU fiscal rules, this committee was set up by the Dáil to come up with key solutions to the housing crisis. I was a bit bemused to see that the first point relating to the economy in the Fine Gael-Fianna Fáil deal arrived at two days ago is an agreement that they will "maintain [the] commitment to meeting in full the domestic and EU fiscal rules, as enshrined in law". These rules are preventing governments from borrowing at the current rates of well under 1%, even for long-term capital investment in housing.

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As other speakers have said, this has been a burning issue with regard to resolving the housing crisis. It seems that in their deal on the formation of a government, Fine Gael and Fianna Fáil are effectively promising to starve the country of funds which could be used for public investment. It is a slight document but this is stated. The document mentions that the delivery of social housing units would be significantly increased and expedited, barriers to private housing supply would be removed and an affordable housing scheme would be initiated. There is no mention of construction or building social housing anywhere in the document. Under the previous Government, delivery of social housing units came to mean the housing assistance payment, the rental allowance scheme and doing up voids but not building social housing. I am concerned the committee is being pre-empted by that document.

**Chairman:** To be helpful and to clarify, irrespective of the document the committee will make its own findings and recommendations. We are not limited by any document and-----

**Deputy Ruth Coppinger:** I hope not.

**Chairman:** -----this is the point of the various issues under consideration. We will-----

**Deputy Michael Noonan:** We will take the findings into account in the formation of policy.

**Deputy Ruth Coppinger:** They will be taken into account, right.

The key point raised by many Deputies is if we stick with the type of capital investment in housing we have had for the past number of years we will not solve the housing crisis. It is not possible. Current social housing construction costs of €180,000 per unit mean that over five years only 13,000 units would be built if we kept and maintained the capital spend on housing. It would not solve anywhere near what would be needed.

It is well documented that the Minister and the officials here today have met the vulture funds on a number of occasions. They now control 5.4% of all mortgages, but they control more of the rental sector because many of them are buy-to-lets with families living in them. Residents in Tyrrelstown in my constituency are finding out at great cost that they are now controlled by European Property Fund, EPF, which is a vulture fund linked to Goldman Sachs. Many of these mortgages were bought from State agencies under the Minister's watch. The IBRC sold 15,000 to Mars Capital, a vulture fund. The State-owned Permanent TSB and AIB have also sold mortgages to vulture funds, as have privately owned foreign banks such as Ulster Bank and Danske Bank. It has been Government policy to allow this to happen and sell family homes from under the feet of families to vulture funds.

The Minister met representatives of these funds eight times in 2013 and 2014 and the Department met them 65 times. What did they speak about? The Minister does not seem to see this as a problem, but these funds will quickly sell many of these properties and, as residents in Tyrrelstown and other places will find out, 90% of NAMA's sales have been to vulture funds. The Minister could have shouted "Stop" at any time but he chose not to do so. Many people have concluded that the red carpet was rolled out by the Government and the Department to these vulture funds. The Minister stated they do not operate under different rules but they get tax breaks. They are exempted from tax on rental income and capital gains tax. This is a different rule.

With regard to real estate investment trusts, REITs, I am surprised to hear the Minister state they have been a success and have professionalised the market. People studying them, such as Dr. Michael Byrne of UCD, who has done a report on them, argue they help to push up prices

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across the board by reducing the amount of land available for social and affordable housing. Rents have increased by 10% to 15% in the first half of last year, where these REITs now control a huge section of the market. The Minister stated that NAMA has a commercial brief. He can change that brief at any time. Surely as the housing crisis unfolded it was obvious that it was time for a change of policy.

According to NAMA's end-of-year review 2015 it generated €32 billion but it only spent €206 million on social housing, which is a tiny fraction of what it could have spent. Why can the Minister for Finance - we do not yet know whether Deputy Noonan will continue to be Minister for Finance - not direct NAMA to spend the €3 billion cash-in-hand which it had at its disposal at the end of last year on the construction of 16,000 social housing units rather than on commercial property in the docklands?

In regard to the Minister's reference again today to the NAMA starter homes, where are they? There are two NAMA housing estates in Dublin 15, which is in my constituency. The price of The Eagle, which is a three-bedroom property at Diswellstown Manor, has risen in the past few months from €365,000 to €395,000. In Hamilton Park, which is another NAMA estate in Carpenterstown, the smallest three-bedroom house is priced at €410,000. What starter homes is the Minister talking about? NAMA is not providing starter homes. It is building houses for commercial profit, and in areas in which the highest price can be achieved. Unless the Minister or the Government intervenes that is what it will do and only 10% of these houses will come the way of local authorities that are struggling with a housing emergency.

On the relevant contracts tax, RCTs, which is a growing sector in the construction industry, I am concerned that if construction really takes off the growth of this sector will continue. The Construction Industry Federation, CIF, appeared before this committee on Tuesday. According to its representatives, 36% of the cost of a house relates to tax to the State. That percentage is based on a highly inflated wage for a building worker. According to the CIF, the average wage of a construction employee is €47,270 per annum, which is not true because construction workers have had their wages reduced dramatically. According to the Central Statistics Office, CSO, the average yearly wage for a construction worker is €38,000. The majority of such workers earn much less, many of them far less. As such, the tax dividend from housing is not as high as indicated.

According to the Revenue Commissioners, there has been a massive increase in self-employment in the building industry. In my opinion much of this is bogus self-employment and forced self-employment. Contractors are forcing ordinary building workers into self-employment. I have heard from the many building workers to whom I have spoken that this is happening. In November last year, there were 99,741 subcontractors in the building industry. This is a joke. Of course there are not 99,000 plus subcontractors in the building industry here, 23,000 of whom are sole traders and 76,000 are companies and partnerships. Why does this matter? It matters because not only is the State being deprived of vital tax revenues in the construction sector which would allow for the construction of social housing and so on, but workers are being denied pension entitlements and protections in terms of their safety. We are all aware of the battle construction workers had to wage to ensure payment of proper stamps on their behalf to ensure they are properly protected if they have an accident on-site. Why do we now have a situation whereby 37% of all those working in the construction industry are self-employed? That is incredible. The Department of Finance does not appear to be interested in doing anything about this. The Construction Workers Alliance estimates that because of this, the State has lost €2.5 billion in taxes since 2008 and workers have been endangered. I would welcome a response

from the Minister on those issues.

**Chairman:** I wish to clarify one or two points. The Minister mentioned the €3 billion borrowed by the French Government and how it might be off-balance sheet. That is news to many members of the committee. Would officials in the Department be in a position to investigate that matter further and, in correspondence, advise the committee on it?

When commenting earlier on the capital spend in 2016 the Minister said local authorities were unlikely to draw down all that was available. What is the predicted underspend? We are discussing the supply side and there is concern and frustration among committee members. We must try to front-load. It is a little disappointing to hear that the capital funding available in the current year will not be drawn down fully. That is adding to our problem somewhat. As we will have representatives of the local authorities before the committee again, it is important for us to have that information.

Central Bank rules on lending, mortgages and so forth are set, although I realise there will be reviews and so forth. However, does the Minister have a view on first-time buyers? He is always reluctant to interfere in the marketplace, but does he have a view on saving schemes for first-time buyers such as the old special savings incentive account, SSIA, specifically to save for a mortgage with State support? Does he consider that to be a useful market intervention for such persons or does it have other negative effects on the market?

**Deputy Michael Noonan:** Out of respect for the Chairman - I am sure Deputy Ruth Coppinger will not object - I will answer his questions first.

Yes, I will ask my officials to get the details of the French scheme with the European Investment Bank. My former private secretary, Mr. John Moran, whom the Chairman will have known, is still on the board of the European Investment Bank and is the source of my information, but he did not provide me with the details. In general, the information is accurate. What we must establish is if there is anything which is French-specific and would prevent us from gaining access. I will ask the officials to check.

**Chairman:** I appreciate that.

**Deputy Michael Noonan:** Regarding the underspend by local authorities, I often say I only collect money. It was my colleague, the Minister for Public Expenditure and Reform, Deputy Brendan Howlin, and the Department of Public Expenditure and Reform who spent it. Again, it is something I have heard in the system, but we can check.

There is the idea that young couples should be assisted financially in putting together the deposit necessary to take out a loan. That is effectively the Chairman's point, but I would like to see his proposals. I would not rule it out as a matter of principle, but perhaps he might come up with some type of working model.

I apologise to Deputy Ruth Coppinger for responding to the Chairman first. Initially, she criticised me for ignoring housing and homelessness in my introductory remarks. She said I had not referred to them at all.

**Deputy Ruth Coppinger:** I did not say that.

**Deputy Michael Noonan:** In fact, my first sentence was: "I thank committee members for inviting me to discuss the important challenges this country must address as regards hous-

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ing and homelessness.” In the rest of my speech I developed that point. The Deputy also referred to the paragraph in which I said: “Unless addressed, it could pose a serious threat to the competitiveness of the economy.” She interpreted this as meaning I was only a cold-hearted economic interventionist who had no interest in people, only the economy. However, my next sentence was: “The housing shortage is also giving rise to major social issues, including rising homelessness, driven by pressures in the rental market.” It is not true, therefore, that I ignored the issues the Deputy has raised. I addressed them specifically. I then dealt with them from the perspective of the Department of Finance.

**Deputy Ruth Coppinger:** I did not use the word “ignored”. I said the Minister had characterised it as a challenge and a shortage, rather than as an emergency and a crisis.

**Deputy Michael Noonan:** When the Deputy was quoting the competitiveness sentence, in fairness she should have quoted the next sentence also in which I talked about the issues of homelessness and housing supply giving rise to major social issues, including rising homelessness. I make that point in case anyone listening to us misunderstands what I am saying.

Deputy Coppinger subsequently asked a series of questions. She also stated it would be unwise to stick rigidly to the fiscal rules, arguing that we should borrow money at the current rate of less than 1% and spend it on solving the homelessness problem. The bit she missed is that if we no longer stuck to the fiscal rules, we would not be able to borrow money at less than 1%. When my party entered government in 2011, the top rate of lending was more than 13% but this quickly settled at around 10%-11% for ten-year money. The actions of the Government in adhering to a rigid set of fiscal rules brought the interest rate to under 1%. If the Deputy would like more evidence, she should look at the model she has admired on a number of occasions in the Dáil, namely, the Greek model. Greece has been trying to correct its problems for eight years by following a different model from us. It is paying 10% for ten-year money, whereas we are paying less than 1%. It is not a question of having choices. To keep the interest available to us at current rates, we must impose fiscal discipline on ourselves. However, as we do so, the position is improving and we are getting more flexibility, which we will then use in pursuit of the objectives to which the Deputy referred.

Deputy Coppinger criticised me for not intervening with what she described as vulture funds. The investment companies in question may be colloquially known as vulture funds but it was, in the first instance, a compliment when they were so dubbed in the United States where vultures provide a very good service in the ecology through cleaning up dead animals that are littered across the landscape, especially in the prairie provinces. They were given this title as a kind of joke. Nevertheless, I will refer to them as vulture funds.

The Consumer Protection (Regulation of Credit Servicing Firms) Act, which I introduced, protects consumers whose loans are sold to previously unregulated entities, thus creating a consistent level of consumer protection for borrowers regardless of who owns their loans. Put simply, if Bank of Ireland has a mortgage, it must comply with a code of conduct and the rules under the code of conduct will have to be complied with down to the final detail by any purchaser of that mortgage. There is, therefore, no diminution of the rights of the mortgage holder when the loan is transferred.

In addition, tenants and landlords of rental properties which serve as security for loans sold by the National Asset Management Agency or any other agency have the same rights and obligations as all other tenants and landlords. The purchaser of the loan book does not shed its responsibility under the law and its obligations are carried forward to the new owner. Va-

cant possession cannot be legally sought anywhere in Ireland by any landlord without meeting specific requirements, as set out in the Residential Tenancies Act. When the mortgage book is transferred to a new owner, the obligations on that owner under the Act are not cleared but remain exactly the same as those that applied to the previous owner. If such properties are vacated legally and subsequently sold, why should the property owner not sell on the vacant property in compliance with the law if it increases supply in the market?

Certain issues arise regarding vulture funds. For example, protocols in place for dealing with mortgage arrears do not carry across. In the next period of office, I intend to enshrine in the code of conduct the principle underpinning these protocols. As such, an extended code of conduct will apply to existing and new owners. No issue arises in this regard; as a matter of fact, I expect an advantage will arise if a so-called vulture fund buys a loan book because it will do so at substantially less than its nominal value. If the nominal value is €100,000 and it buys at €80,000, the fund has more discretion than the original owner to do deals because it is still profitable if it does a deal with the 20%.

In terms of making arrangements that would involve arrears write-offs, the vulture fund has a lot more flexibility than the original mortgage owner. There are difficulties and I will address those. If new difficulties emerge and are pointed out to me, I will address those too. However, they are not the difficulties that are recited so frequently. Those difficulties are non-existent because the new owner must comply with the law in the same way as the previous owner. We legislated for that in the House approximately two years ago. As stated, there are advantages on one-to-one negotiations if people are seeking an arrangement as a result of the fact that the vulture fund has more flexibility because it bought not at the nominal rate but at a much cheaper one. Of course, the vulture fund is in it to make profit. Who in the commercial world is not in it to make a profit? The profit does not arise from selling houses out from under people - that is not the way these funds operate. Their main activity involves taking a loan book where there are many non-payers and under-payers and working their way up to try and get all the loans serviced to a payment system. That is how it makes its money; it is not by disposing of property. Ultimately, they are free to sell in the same way as every other property owner.

**Deputy Ruth Coppinger:** The difference with vulture funds is that they buy huge numbers of properties at one time and that they also sell them *en masse* in this way. That has been the experience of 40 families in one estate in Tyrrelstown. Therefore, vacant possession can be sought to sell a property in this country. That is the aspect that these funds cite. The Minister does not seem to have an understanding of the way 40 families - possibly 100 - leaving an area at the same time might constitute a problem.

**Deputy Michael Noonan:** Vulture funds must comply with the law in exactly the same way as any other owners of loan books. The same protections apply to the mortgage holders or tenants under the new arrangement as applied under the old arrangement. That is the inhibition on them. The argument I am making is that the transfer to new ownership does not disadvantage or give new rights to vulture funds. They have the same rights and the same responsibilities as the previous owners. That is my point.

I agree with the Deputy that the model on building sites is changing. The primary builder is now more correctly described as a developer. By and large, they work out the project through subcontractors. As a consequence of this, many people who are skilled in the building industry are setting themselves up as subcontractors and have their own small businesses. That is just a change in the model and that is the way the world works. It is the way construction is working in all the major cities around the world and Dublin is no exception. If one visits building sites

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which have cranes on the skyline - which I have not done - I would be surprised if the work is not being carried out by quite a large number of subcontractors who come on site when their particular skillset is required to develop out the building. There is a tax issue but the Revenue Commissioners have been working very hard to modernise the relevant contracts tax, RCT, system to counter tax avoidance and evasion. The Revenue has been rolling out a new electronic or e-RTC system. The Department of Finance and the Department of Social Protection have also been examining whether people employed in sectors such as construction should be regarded as subcontractors or employees. This is an issue that has been raised by the ICTU and it is under active consideration. There is no doubt that, as the model changes, an issue arises for Revenue. The issue in question relates to an individual working on a building site who is an employee and who decides to describe himself, with the collusion of his employer, as a subcontractor. Then he is taxed as a subcontractor rather than an employee. That is tax evasion, which is a criminal offence. Revenue is addressing this. The issue was pretty bad two years ago, although activity was low. However, the problem is being cleaned up and we are giving Revenue all the resources and support it needs to deal with the problem.

The Deputy is correct to say there is a problem, but it is not a problem we or Revenue are closing our eyes to. I assume the Chairman will invite Revenue to attend these proceedings at some stage and its representatives can provide more details on this issue. It was a significant problem, but it is a lesser problem now. It remains a problem, but it is being addressed.

I think I have dealt with all the issues raised by the Deputy.

**Deputy Ruth Coppinger:** It would be important to bring Revenue representatives before the committee and to raise this with them. It is a problem that can be easily dealt with by outlawing it. That would be very easy to do.

**Deputy Michael Noonan:** It is outlawed already, so that is not the issue. It is outlawed, because it is a criminal act to evade tax. Making sure people comply is the issue, not the need to legally outlaw the practice.

**Deputy Ruth Coppinger:** Why would any bricklayer suddenly want to become self-employed? What has been going on is obvious and I hope the committee brings in the Revenue Commissioners to discuss the issue

**Deputy Michael Noonan:** The other side of this is that if a bricklayer who is employing two further bricklayers and contracting them in to do the brick work or block work on a building is probably a legitimate subcontractor and is entitled to be taxed as a subcontractor.

**Deputy Ruth Coppinger:** The issue concerns the bricklayers who are being forced into becoming self-employed.

**Deputy Michael Noonan:** If that is the case, the Deputy should bring the issue up with Revenue and give it the information on it.

**Chairman:** Thank you. I thank the Minister and his officials for their attendance at this committee and thank him in advance for the additional information he has agreed to supply.

*Sitting suspended at 1.10 p.m and resumed at 2.10 p.m.*

**Chairman:** We will resume in public session. I ask that people turn off their mobile phones or turn them to flight mode as they interfere with the recording and broadcast of the proceedings.

I draw the attention of witnesses to the fact that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to do so, they are entitled thereafter only to a qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable. Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the House or an official either by name or in such a way as to make him or her identifiable.

The witnesses' opening statements will be published on the committee website after the meeting. I am pleased to welcome the Banking and Payments Federation Ireland, represented by Mr. Noel Brett, Mr. Maurice Crowley and Mr. Felix O'Regan. I thank our guests for attending and for submitting documentation. I invite Mr. Brett to make his opening statement.

**Mr. Noel Brett:** I thank the Chairman and members. I am very grateful for the opportunity to appear this afternoon to discuss the issue of housing and homelessness, with a particular emphasis on how obstacles that are currently impeding progress on this issue can be surmounted and the specific actions that might be needed to address the problem. The Banking and Payments Federation Ireland, BPFI, is a membership organisation which represents banks active in the domestic retail market, in the international banking sector and in the payments sector.

The housing market cannot and should not be viewed as a single, homogenous sector, but rather an amalgam of sub-sectors, including social housing, affordable housing, rented accommodation and owner-occupied or mortgaged property. The homelessness issues arising are further complicated by the fact that there are regional variations and challenges. There is, therefore, no single generic solution. The challenge for public policy is to ensure the correct alignment between the needs of individuals and their families and the supply of various housing types. Success in meeting this public policy challenge requires a co-ordinated strategic response with full participation on the part of all of the stakeholders and relevant State agencies and Government Departments. Oversight is needed at Government and Oireachtas level so that this is driven on and delivered out.

On behalf of my colleagues in the banking industry, I wish to restate our commitment to engaging fully with the committee and with the actions it recommends at the conclusion of its deliberations. We want to ensure that our sector is fully engaged and that it helps to work creatively to deliver the elements of the national response which fall within the competence and remit of its members. No one sector on its own can address this issue. Every one of us can work on and address elements of a strategy.

Any financing provided by the banking sector to address supply and demand issues in each of the housing sub-sectors I have mentioned must comply in full with the regulatory requirements of the Central Bank of Ireland and must be viable for all parties. It is essential that the public policy response to this crisis deliver quickly and have some early wins in all of the sub-sectors I have mentioned. We must have the right categories of housing stock in the correct

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locations and that policy must be sustainable in the longer term. We need to be very careful not to repeat the mistakes of the past and to learn from them in our rush to collectively address the immediate pressure of homelessness. Whatever solutions are arrived at and whatever part the sector in which I am involved can play in it, we must learn from the past.

The wider banking sector is interested in discussing how it might play a role in supporting and financing the building of housing supply and capacity in each of the sub-sectors. I am happy to take back and explore in detail with the broader banking sector any involvement the committee might consider the sector can have. That is on the basis that it will be individual member banks that will have to determine their level of involvement. Of course, it must be viable and sustainable over the lifetime of financing facilities provided for all parties to the agreements.

If we had been here some time ago, we might have been talking in a different language about mortgage supply and its availability. Thankfully, things have improved significantly and our members are fully committed to providing mortgage finance for those who require housing in that segment or sub-sector and who have the capacity to borrow and repay. However, banks must do so on a prudent basis in a competitive market. In my submission to the committee which I will not read through in detail I have provided some detail on mortgage drawdowns from the first quarter of 2014 through to data which we will be publishing after this meeting for the first quarter of 2016. At a high level we can see that €4.9 billion in total was drawn down in 2015. That was a 26% increase on the mortgage drawdown in 2014. That equates to 27,324 new mortgages. I am conscious that this addresses just one sub-sector of housing and housing demand. In graph 2 it is interesting to note that the role of the first-time buyer is now the single largest category, accounting for close to half of all mortgages drawn down.

Another graph shows the drawdown volumes by first-time buyer, mover-purchaser, rental investment or the buy-to-let sector, remortgaging or switching and top-up mortgages. I am pleased to be in a position to provide the committee with unpublished figures for the first quarter of 2016. They show that 5,446 mortgages, equating to a value of €1 billion, were drawn down in that quarter. While this might appear to represent a slight downturn on the figure in the equivalent quarter in 2015, all commentators would agree that there were specific factors that caused the figure in the first quarter of 2015 to be higher than expected. It is also interesting to see in the figures that the value of re-mortgaging, or switching, continues to increase, although from a very low level. This is one of the countries in Europe that now has a mortgage switching process. I know from talking to my colleagues at the European Banking Federation that many of them do not have that kind of formal arrangement. There is a formal switching process now in place and we can see that 392 re-mortgages took place between January and March this year to a value of €78 million. That is a 128% increase on the figure for the same period last year.

All of that lending is taking place within the context of the Central Bank's macro-prudential rules in the mortgage and housing markets. The sector and my members fully recognise the importance of ensuring the stability of the banking system and protecting households from the risks of over-indebtedness. We support the Central Bank on the need to ensure a credit-driven bubble does not take hold again in Ireland. We note and acknowledge the intention of the Central Bank to maintain these rules. However, we welcome the Governor's announcement that written submissions will be invited and considered on the calibration and application of the rules of the Central Bank. Clearly, as a sector, we will consult our members and, as we did last time round, make a written submission to the Governor for his consideration.

It is our view that the most significant impact of the Central Bank rules is the requirement for first-time buyers to save significant funds in advance of being considered for a mortgage.

This is most acutely felt in Dublin where, based on the average first-time buyer house price of €280,000, a first-time buyer needs to have a deposit of €35,000, equivalent to 12.5% of the house price. The burden to raise a deposit is greater again and is insurmountable for many of those who are currently renting given the escalation in rents, most notably in Dublin, in the past 12-18 months.

It is important to point out that a recalibration of the Central Bank rules in itself will not address all the problems faced in the housing market or the more immediate crisis of homelessness. The most fundamental problem is a shortage of suitable supply in key locations where demand is greatest. A myriad of factors put forward by commentators may be beyond the remit of banks, such as building costs, the planning process and regulations, land availability and use, and the capacity of developers to raise equity. Banks are important providers of development finance to viable construction projects but they are not, and cannot be, the providers of 100% finance and the builder needs to bring a significant element of equity to the project. That is a challenge for many builders and developers right now.

The general consensus amongst housing market stakeholders is that there is a medium- to long-term requirement to build 25,000 housing units per annum nationally and around 7,000 units in Dublin. There were approximately 8,100 commencements in 2015, representing a 5% increase nationwide over 2014, but a breakdown of the data shows that nearly 40% of these commencements were for one-off builds and only 38% were within the boundaries of Dublin local authorities where the pressure is most acute in all sectors. The ongoing shortfall in housing supply across the four subsectors is likely to further reduce the availability of housing units both for buyers and renters with increased pressure on rent levels, particularly in Dublin.

Finally, I will outline how BPFI and our member banks are working with borrowers who are struggling with mortgage and other debts. We believe that customer engagement with lenders is paramount and this is borne out by the continuing downward trend in the level of loan arrears. We consistently recommend four key actions for borrowers to follow: contact your lender as soon as possible; look at your financial situation with the help of a standard financial statement; always respond to communications from your lender; and avail of expert advice and assistance from the range of State agencies, voluntary sector bodies and professionals that are now available, in many cases free of charge. It is a daunting situation for any individual or family and it is imperative people engage and get good quality, independent advice. I know from dealing with Deputies over the past number of years that many of them are aware of the various schemes that are in place but I have added details of the schemes in the pack for information.

It is important we, and our member banks, work with trusted third parties to create a broad range of options for customers in distress to draw upon, depending on their circumstances. Many of these cases are unique and different people will require different levels of external support. I draw members' attention, in particular, to the Money Advice and Budgeting Service, which we find to be very professional and with which we have a long history of engagement. Details of a BPFI-MABS framework agreement for dealing with late-stage mortgage arrears, which is currently being finalised, are included in the pack. The BPFI-MABS protocol is already in place for dealing with unsecured debt such as personal loans, overdrafts and credit cards, as well as mortgage debt, and it is working very well.

We also work very closely with the Insolvency Service of Ireland to help overindebted customers get back on track through a range of options, such as debt relief notices, debt settlement arrangements and the personal insolvency arrangements. We do so following the changes introduced by the Oireachtas 12 months ago in terms of the new bankruptcy regime.

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The mortgage-to-rent scheme is one our members are very keen to continue to engage with and expand further if possible. To date, 156 cases have been completed and a further 637 are actively being worked on. We have had very constructive engagement from the State agencies, particular from the Housing Agency, the Department of the Environment, Community and Local Government and the Citizens Information Bureau in the context of trying to ensure that we can play a much more creative and productive role in maximising that scheme for families who meet the criteria and are in distress.

We have signed a mortgage advice protocol with a number of Departments. I have included it for members in the presentation. There is a commitment from all of the signatories to pay €250 for financial advice from an independent accountant to a borrower offered a long-term forbearance so that individual understands exactly what is being offered and is able to make the best decision for his or her family in light of his or her circumstances.

On general consumer information, in partnership with the Department of the Taoiseach and the Department of Finance we provided a leaflet recently to everybody in mortgage arrears and also to citizens information offices, libraries, every Oireachtas Member and so on. That leaflet provides plain English information and we obtained a National Adult Literacy Agency, NALA, plain English mark in respect of the accessibility of said information. The leaflet has been delivered to all those who are in distress and it sets out their options in clear, plain English and urges them to get advice and to engage. We also have a residential tenant's guide to receivership, which is actively pushed out by lenders and other entities to people who find themselves in that situation.

I and my sector recognise that we have an important role to play in supporting housing supply and in addressing the issue of homelessness. We also recognise that banks, or lenders in general, are but one part of a much bigger solution to the public policy challenge to which I referred at the outset. Our organisation's members and the industry are willing and keen to play their part in the development of a co-ordinated strategic response which delivers sustainable housing capacity across all the housing sub-sectors, not just one sub-sector. That addresses the issue of homelessness.

Our fundamental view is that what we are now facing is predominantly a supply problem in each of the four sub-sectors I mentioned. We look forward to taking questions from Deputies. If there is information I do not have to hand, I will revert to them immediately and provide it. We look forward to engaging, on receipt of the committee's report, on any individual items in respect of which it believes our sector can play a part.

**Chairman:** I thank Mr. Brett for his opening statement and the supporting documentation. A number of members will ask questions and Mr. Brett might deal with them collectively rather than individually. When doing so, he might elaborate on one item that arose. He stated that 156 cases have been completed in the mortgage-to-rent scheme, which seems a very small number in terms of the scale. In such circumstances, what are the real challenges? Everybody agrees that it has the potential to be an effective scheme but 156 cases seems to be a drop in the ocean. Mr. Brett might elaborate on how that could be developed to be more effective and meaningful. The first speaker to indicate is Deputy Durkan.

**Deputy Bernard J. Durkan:** I thank Mr. Brett and his colleagues for coming before the committee and for the useful information they have provided. I am sure the replies to the questions will be even more useful. I should mention that I have had the pleasure of meeting the witnesses' predecessors, their predecessors' predecessors and even the latter's predecessors on

the same issue.

My first question concerns the need to accommodate those in arrears who are making a valid and valiant attempt to meet their mortgage repayments and the extent to which the banks are willing to accommodate them in a particularly special way. Given that the banks were accommodated by the taxpayer and shown great compassion during the bailout, would it not be a natural expectation that the members of the public, who continue to participate in the rescue of the banking system, would be treated with some degree of compassion? We all deal with individual cases - I have dealt with scores of these cases as our visitors will know - and it is not always the fault of a borrower who allegedly did not contact his or her bank. There is a minority of those. There is also a minority who do not wish to pay and want to get a better deal, and eventually it will come to them. There is also a great majority who have made considerable efforts and sacrifices to meet their monthly payments or a portion thereof within their capacity to pay over the past number of years, and I believe that they deserve to be treated fairly and accommodated. My question is to what extent can the banks do that?

I have two or three more questions. On mortgage availability, I am aware the Chairman has dealt with scores of people. I have certainly done so. At present, the availability of mortgages is extremely difficult. Coming at the time we do, after a bubble, a crash and all that goes with it, I can understand that. However, I would have thought that where a person is renting a house and has shown that he or she has been paying the rent for the past five or six years, it should be - this relates to the Central Bank as well - an indication of his or her ability to pay. In any event, if such a person is paying a mortgage-like payment to a landlord or financial institution, I do not see how such a person will be able to raise €35,000 or €40,000 by way of savings. To what extent, in the event of the Central Bank being amenable to this, will the banking system be able to respond?

My other question is a general one on distressed mortgages. I refer to the sale of distressed mortgages to venture or vulture capitalists, whichever way one wants to see them. There is a job for Government here in ensuring that those who acquire such loans, that is, the unregulated third parties, treat the borrowers in the same way as those who are regulated. How would Banking and Payments Federation Ireland view the introduction of legislation to ensure that in the purchasing of distressed mortgages? By distressed mortgages, I mean ones that are unsustainable, not by the bank's definition but as determined by an independent arbitrary body which means that there is no chance of the borrower ever being able to make their payments. Given that only five or six years ago the same lending institutions awarded the loans in question and thought they were all right, the question is, how do we bridge that gap and how do we treat those who find themselves in a difficult position?

On the credit bubble I will wait for an official from the Central Bank to appear before the committee. However, I would caution that if the Central Bank decides to open the floodgates, we may have a repeat of the situation at the time that benchmarking was introduced. The reason benchmarking had to be introduced in this country was because workers could no longer afford to pay their mortgage and live.

On the credit ratings, when I was a Member of the House ten years ago I could still qualify for a local authority loan. I am a Member of the House for many years and I could not now afford the level of mortgage repayments, even with interest rates much lower. I refer to the amount of the repayments expected, for example, €1,500, €1,600 and €1,700, and up to €2,500. From my experience, those ones, beyond €1,400 or €1,500 a month, are the real danger areas. Can I ask what-----

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**Deputy Ruth Coppinger:** People's hearts are bleeding out there.

**Deputy Bernard J. Durkan:** I know they are. I have been at the other side of the counter dealing with all these cases for many years, including the time since this Government was formed.

**Chairman:** A question, please.

**Deputy Bernard J. Durkan:** The point I wanted to make before I was interrupted was, to what extent can people be given a credit rating on the basis of their rental record?

My last point relates to the mortgage-to-rent scheme which has already been referred to. Unfortunately, the scheme is all directed towards the voluntary housing agencies, the activities of which I have referred to on many occasions. To what extent is Banking and Payments Federation Ireland prepared to refer such cases to the local authorities which would be able to enhance their housing stock as a result if they are in a position to purchase?

**Chairman:** I would remind colleagues that there is a significant number of speakers.

**Deputy Bernard J. Durkan:** I am sorry for taking so long. I was years waiting for that.

**Chairman:** Deputy Durkan has had his opportunity. To be fair to colleagues, the questions should be direct because we do have the Irish League of Credit Unions later in the afternoon.

**Deputy Eoin Ó Broin:** I thank Mr. Brett for the presentation and the supporting documentation. If this committee is to have any value, it will identify, with the help of the witnesses, I hope, things that can be done that are not currently being done to improve circumstances, particularly for those experiencing homelessness or at risk of homelessness. We are less interested in people justifying what they have done to date — I do not mean that in a negative way — than trying to fix problems that very clearly exist. The point is not to get the delegation to repeat what has happened up to now but to try to identify whether additional steps, such as changes in policy, legislation or practice, could be taken that could assist in our making of recommendations to central government.

I will outline the key issues. First, while it is true that the overall levels of mortgage distress are reducing, there is still a very large cohort, comprising in excess of 40,000 households, in long-term mortgage arrears. That is the group about which we are really concerned because many in that group are either losing the family home or becoming homeless. They may be buy-to-let landlords whose tenants are becoming homeless.

Many of us are concerned that too few among this cohort are being offered mortgage-to-rent arrangements or split mortgages. Many of the distressed mortgages are now being sold on by the federation's members to unregulated funds at significant discounts. If those significant discounts were actually offered in the first instance to the homeowners, that might make their mortgages sustainable. I am keen to know what we can do to make split mortgages or mortgage-to-rent arrangements more available, particularly to the most distressed cohort. How can we reduce the number of mortgages being sold on to unregulated vulture funds, a practice which is contributing to the homelessness crisis?

Another issue is relationship breakdown. The most recent report from the homelessness agency showed that the largest contributor to homelessness at present is relationship breakdown. Approximately 25% is the figure given. Many of the people affected are not able to gain

access to social housing supports because they are tied into a mortgage. Based on the cases I am dealing with, I note that many of the federation's members are refusing to remove the party who is leaving the family home as part of the relationship breakdown from the mortgage arrangement. How do we deal with that to try to ensure those people who come out of the family home because of a relationship breakdown are not denied access to social housing support, thus ending up homeless?

The other issue is vacant possessions. Too many of the federation's members are now seeking vacant possession on repossession, which is forcing an increasing number of rental tenants into homelessness. In some cases, the federation's members are sitting on vacant properties that they have repossessed in areas of high social housing demand and will not put them on the market because they are waiting for their values to appreciate. It might not be a statistically large number of houses statewide but in certain areas of the city, it is a large number. We need to examine this. I am interested in the witnesses' view on that.

On the supply end, representatives of the Society of Chartered Surveyors Ireland were present and said to the committee that, for them, one of the biggest problems is the high cost and difficulty for private developers of getting credit, particularly credit from banks. I am not interested in whether the federation believes that is true but wish to know how we can reduce the cost of credit to good developers who are seeking to build homes that are more affordable.

My understanding of the Central Bank's mortgage lending rules is that part of their purpose is to break the link between house price inflation and the availability of credit. Therefore, if one tries to find a way of restricting an aspect of that credit for higher-cost homes, it will eventually bring down the cost of homes, particularly first-time buyer homes. I keep hearing a figure of €280,000, which is in the federation's documentation, or €300,000, but the vast majority of first-time buyers are not buying houses valued worth anything close to those prices. They are buying or seeking to buy homes at prices below €220,000.

I am interested in knowing how many mortgage refusals or mortgages above €220,000 have been refused since the introduction of the new rules on the grounds of people not having a sufficient deposit. I am not convinced that this is actually causing the kinds of problems that arise in terms of restricting access to purchasers. I have yet to see any data. If they exist, I would be interested in seeing them.

While the Central Bank's rules clearly create difficulties for those first-time buyers who are purchasing homes valued at more than €220,000, there is a certain degree of prudence in what it is trying to do, which is to reduce the overall amount of borrowing that people require. Surely, from the banking point of view, given where we have all come from in the past 15 years, that is a prudent course of action. I am interested in knowing whether the federation agrees with that.

**Deputy Anne Rabbitte:** I thank the delegates for their presentations. I do not want to repeat any of the questions already asked. However, there is one or two questions I would like to ask. Do the delegates ever have mystery shops or encourage banks to have mystery shops whereby they would pretend they are in the role of the person in debt and try to contact his or her lender? I tried it last week, not in a personal capacity but for one of my constituents. I rang up to be told that there is no way to get through to the mortgage arrears department. One can only ring in but it cannot return a call. One cannot be put directly through but can only go through the main switch. It was one of the main banks the witnesses mentioned. I can talk to them about it later. I found it amazing that six times I tried to get through. I came at it from different angles but at no stage could I make contact.

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SFSs require people to do not just one run but numerous trial runs. Communications is poor in terms of lenders going back to the persons in question. On the voluntary sector, I think it is amazing that people in dire distress are told to go to the voluntary sector for advice. That is what I picked up. How is the federation going to accommodate and support those in arrears? The witnesses are dead right that we all have a role to play, be it Oireachtas Members, county councils, planners or banks, but I wonder is the federation going to go back to its members and tell them to bring a halt to this for the next six months and deal with the housing crisis. Will the witnesses ask the banks to please stop issuing letters and deal with what is there at the moment?

How many are three months, six months, nine months and over 12 months in arrears, respectively? How many are €5,000, €10,000, €20,000 and €30,000 in arrears, respectively? They are the people who are the pin of their collars. They are the people who are working day and night to try to make it. The person I was dealing with last week was €30,000 in arrears and was hit with a High Court summons for her property to be taken from her. I found it amazing that she was €30,000 in arrears but when she tried to make numerous phone calls, including with my help, it was to no avail.

That is my story on this. There is a lot there to be digested. The federation represents numerous banks and should have empathy. As Deputy Durkan said earlier, the banks were supported in the past and it is now time for the federation to show empathy to the householder in distress without fuelling a crisis that is already in disarray.

**Chairman:** I will take on more questioner at this stage.

**Deputy Kathleen Funchion:** A lot of the points have been made but I want to mention two things. I have a huge issue with the mortgage-to-rent scheme. It could be a very good scheme but I have come across countless cases where it is not working. It is too difficult. People are being rejected or are not given enough information. People have often been in court already and had their cases adjourned but it is only at that stage, when they contact a public representative, that they hear about the scheme. It does not appear to be actively made known to people. Of the 637 cases that are active, how long have they been worked on? I do not expect the witnesses to have the figures here but I ask that we get a breakdown of the stages they are at. In respect of the 156 cases, how long did it take for the process to happen from start to finish? While the mortgage-to-rent scheme looks good on paper, I often feel it is no more than that. It may be that it is designed to deflect from the problem in that while it looks good that a scheme exists, it is not working in reality.

Too often, I come across situations where the banks will simply not negotiate with people. They will not meet people or speak to them. They push for voluntary surrender. A lot of the mortgage crises in my constituency involve mortgages of €1,000 to €1,2000 per month. One has people saying they can pay €700 or €750 but they are still told that it is not sustainable. Surely, they should be given an opportunity to see if it is sustainable. Many people face a blank wall when they try to look into this, and it takes a great deal for someone to do that. While everyone says contacting one's lender is the thing to do, it is the very thing people are afraid of. People feel like they are putting a red circle around themselves in doing that and that things will get worse once the lender knows about them. When people actually take that step, too often they are met with a wall of silence or find that whatever the bank wants to do is pushed on them, including voluntary surrender. I do not see how that could be good scheme anyone. Realistically, if someone is struggling with a mortgage, the bank sells the property and the person still owes €100,000, the bank is never going to get the money back. Meanwhile, a house is sitting there idle. There is no sense in it. While it is easy to tell people to contact their lenders,

what attitude do the banks have when they do? Unfortunately, in my experience it has been extremely negative.

**Chairman:** A number of specific questions were posed. If Mr. Brett does not have the numbers today, he may make them available to the committee subsequently.

**Mr. Noel Brett:** The Deputy asked how many people are in arrears. Some 120,739 private dwelling houses have had restructured arrangements put in place. According to the most recent figures from the Central Bank, 86.5% of them are meeting the terms of their arrangements in full.

The Deputy asked about the mortgage-to-rent scheme, which a number of other members also highlighted. It might be interesting to ask the Department and the Housing Agency to brief the committee regarding their perspective on the scheme. Our lenders are extremely keen on the mortgage-to-rent scheme. It is a good solution for eligible families and mortgage holders, lenders and the State. It keeps families in their houses, children close to their local schools and stops people from having to move. As well as the social inclusion aspect, it makes financial sense for the lender and for the individual and their family.

We have had much engagement with the Citizens Information Board, the Department and the Housing Agency, particularly with people such as Claire Feeney, Nina Murray and Angela Black, and have ironed out many of the early problems. For example, there are difficulties with people who do not want to be in the scheme and, in the early stages, banks referred several cases which turned out to be ineligible. Although we got off to a good start with many referrals, as the system worked through them - the mortgage-to-rent scheme is run by the State - cases were terminated. Reasons for which cases were terminated included: ineligibility; a borrower who would not agree or who changed his or her mind about the process; a change in borrower circumstances; and the failure by the approved housing body and the lender to agree on price. For example, the lender and the housing body would carry out a valuation on the property and the two might be a long way apart. The lender is in a legal bind in that it is obliged to get the highest value it possibly can for the mortgage holder, given that it will hold the residual debt. There has been much progress and now there is one agreed valuation, which will speed up the process.

Lenders are very keen on the scheme, which is much more efficient. Going through the legal process and taking possession of somebody's house has to be a last resort. It is an extremely costly and protracted process, and is not the best outcome for the mortgage holder and his or her family or for the lender. We would like even more push through into the mortgage-to-rent scheme. There may be a challenge for the State in providing funding for it. The State is buying those properties at a reduced price, keeping the families in them and applying the mortgage-to-rent scheme. There may be issues for the State regarding how much funding it is prepared to put into the scheme. The lenders have moved a long way in terms of the house valuations and prices.

Some people raise issues and concerns regarding the mortgage-to-rent scheme. There is a view that people can move up a housing list by virtue of being in the scheme. This is a social policy issue, not a banking issue. We have much better processes in place in each of the individual lenders, and the latter are making referrals. It would be interesting for the members to hear the other side of the equation, namely, what the Department and the Housing Agency think. We should maximise the scheme and use it much more. It is a good scheme.

There were many teething problems around valuation and the process. The scheme is clos-

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ing its cases at a much quicker rate mainly due to better conveyancing processes at some of the banks. In the early days, there was a lot of disagreement about the value of houses. The lender had a value, the person who had the mortgage had another value in his or her mind, the AHB would be in the middle and never the twain would meet. The move to one agreed valuation clearly removes that block and that is significant. We are grateful for the engagement we have had with State agencies to move that on.

The key issue with mortgage availability has to be ability to repay and there is no point in indebting people who do not have the ability to repay. I agree a track record of paying rent clearly demonstrates a person is able to pay over a sustained period often higher amounts than a mortgage repayment for a similar property and often higher than a mortgage repayment with some stress on it, such as future interest rate increases. The key issue has to be ability to repay under stress. Bank lending rules, in as much as they can, take account of proven ability to repay. I am conscious that the Deputy said the committee would have engagement with the Central Bank and this may be an issue that should be discussed with its officials in the context of the macroprudential rules.

The sale of distressed mortgages to investors or other forms of-----

**Deputy Bernard J. Durkan:** Unregulated entities.

**Mr. Noel Brett:** We welcomed as an industry the regulation of loan servicers, which was a big step, because until recently, the lender was regulated but the loan servicer was not. Thankfully, servicers are now regulated and we have taken some of them into our membership on the basis that they are regulated entities. Clearly, it is very much within the gift of the Central Bank, as the regulator, to determine how best it wants to deal with the next step in terms of investors. We do not represent investors or speculators or others who buy in that context and, therefore, I do not have a view on what their view might be. It is very much within the gift of the regulator to determine the most appropriate policy intervention but our submission welcomes and supports the regulation of loan servicers. Clearly, that is an important part of the equation and I agree with the Deputy that there is an unregulated third element. That is perhaps something for further discussion with the Central Bank.

With regard to a credit bubble, I agree there is no point driving up house prices, thereby causing further indebtedness of individuals and families. That will not address the core issue we are discussing, which is housing and homelessness. An increase in supply is needed rather than pushing up prices and increasing indebtedness without solving the problem. A co-ordinated intervention is needed on four levels. We need a proper approach to social housing, an integrated approach to affordable housing and interventions in the private rented sector.

Finally, the element my members are predominantly involved in is the mortgage sector. I have set out mortgage levels. We are supportive of the Central Bank's intention of trying to prevent a credit driven bubble. It is important that the Governor is seeking written submissions from all stakeholders. We will submit on that basis but we are supportive of the principle of trying to avoid another credit driven bubble. We have to understand what happened last time out, not just in our sector, and we cannot repeat it. I am of the same mind as the Deputy in terms of not driving up house prices through intervention and making sure we do not force families into further indebtedness. Supply is the key issue in each of the four areas to which I referred and it will differ in various locations around the country.

Deputy Ó Broin asked about relationship breakdown. It is not an issue I have encountered.

As a federation, we do not get involved between customers and their banks but it is an issue I will discuss with lenders. I might talk to the Deputy separately to try to understand the issues. I can imagine from the lenders' point of view that they have two parties to a mortgage, which has been granted on the ability to repay. If one of the people exits, that potentially is an issue. I might talk to the committee separately about that matter, but I am willing and very keen to go back and talk to lenders about it.

In terms of vacant possession being sought, I am surprised to hear any lender would be sitting on vacant properties. Banks and lenders are not good operators of property or good at managing property as it is not their core business and all they would be doing is depreciating the value of their asset and adding cost for themselves. If it is just a localised problem, it would be useful for me to get the information and I will take up the matter with individual banks. It is not one of which I am aware across the industry and it seems to be an unusual practice. I am not saying I disagree and, if it is an issue, I will accept that it is, but I would like to go back and talk to the lenders concerned.

I have touched on the mortgage-to-rent scheme and hope I have answered the question for Deputy Eoin Ó Broin. In terms of supply, the big issue for me is equity in order that people can access appropriate housing. Clearly, we must not have a one-trick solution. The solution is not just providing loads and loads of credit and mortgages. Credit and mortgages are important for people in that sector who have the ability to repay, but that is not going to address the homelessness issue. There is a supply issue. I note with interest the other parties coming to give evidence. It is very important, whatever recommendations are brought forward by any of us coming to the table, that we realise there is no one solution and that every single solution needs to be stress-tested for unintended consequences. We must not go down the route of having just one solution.

With regard to private developers getting credit from my members, the message I have for the committee is that if lenders do not lend prudently and properly, they will not make a profit. However, they need to lend. One of the key challenges is to ensure people with enough equity come to the table to do those deals. It is interesting to talk to the Credit Review Office about those people who have been declined. The office has powers to force banks to look again at their decisions. Equity is the key issue. I believe there is a lot of credit available in the system. It is my understanding that, in many instances in the past, people used the equity from the previous development to leverage the next one. We now understand, as a country and sector, where that leads. Clearly, if people look to fund a development or business, they need to have equity. That is the challenge. The banks cannot provide 100% finance without equity. As a country, we have to find a way to plug the equity gap. There are a number of sources of funding; for example, there is straightforward bank funding, State funding, strategic investment fund money and European Investment Bank funding. The problem is equity and how we bridge the equity gap. Continuing to leverage on past performance is not the way to go. That is an important point. The role of the Credit Review Office, its findings and powers are significant in this regard. It might be interesting for the committee to even receive a written submission from the Credit Review Office on what its findings and views are on the housing sector.

With regard to the Central Bank's rules and Deputy Eoin Ó Broin's point on the rate of refusals above and below the figure of €220,000, I do not have that data available. I suspect the Central Bank would have them, but I do not receive individual data and I am not sure if my colleagues do.

**Mr. Maurice Crowley:** I am not even sure they do receive the refusal level data as that is

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done bank by bank and I am not even sure they are published. We took €280,000 as the typical price in Dublin and looked at the level of deposit a buyer would have to have and there is clearly a challenge in having a deposit of that amount. Other than that, for the bank, it comes back to the affordability discussion we have had and ability to pay. That is where the bank starts. If one looks at the two types of cap, the loan-to-value cap and the loan-to-income cap, it is the loan-to-income cap on which the banks focus the most.

**Deputy Eoin Ó Broin:** That is an important point. The sum of €280,000 is not actually the average price for a first-time buyer in Dublin and is not based on any research; it is just a guess.

**Mr. Maurice Crowley:** I do not think we are guessing, but I would have to check. I can go back and confirm from where we got the figure, but I do not believe it is a guess.

**Mr. Noel Brett:** Deputy Anne Rabbitte asked a very straight question about the difficulty in getting through to an individual lender. Before I leave, if I have the time, I might get those details from the Deputy and I will speak to the CEO of that bank this evening. That is clearly not a good situation. What I am saying to people is that they should engage with their lenders and with whatever independent advice best suits their situations. However, if they have difficulty getting through to the lender, clearly we have got something wrong and I will take that up with that individual bank CEO this evening.

**Deputy Anne Rabbitte:** I thank Mr. Brett.

**Mr. Noel Brett:** The Deputy talked about the lenders just saying, “Go and contact the voluntary sector.” We work with all of the sectors, including Money Advice & Budgeting Service, MABS, which is in the State sector, and the Insolvency Service of Ireland, ISI. Several of my member lenders funded in the millions StepChange, which is an independent, telephone-based debt advice charity, to set it up and pay in full for its operation, so it is not the case that we are saying to people, “Just go and talk to a charity.” We are recommending that people go and talk to whichever body gives the advice that best fits their situations and with which they personally, as individuals and families, are most comfortable dealing. I suspect that in many instances constituents will be coming into Deputies’ and their colleagues’ offices in the first instance and Deputies may be the gatekeepers, recommending that they go a particular route. The important thing is that there is a menu for people and that they can pick the solutions that best suit them. We are finding, for example, that there is a certain cohort of people who prefer to do this business over the telephone, through StepChange’s or MABS’s national helpline. There are other borrowers who much prefer to have a face-to-face sit-down with somebody and a proper discussion.

In addition to what we have funded and done at an industry level, I am very conscious that several of the lenders have funded and continue to fund individual arrangements themselves. If one considers this on a bank-by-bank basis, they are all signatories to the initiatives we have taken at an industry level. In addition, virtually all of them have other arrangements in place, so I certainly would not want the perception to be that we are saying to people who are in terrible distress as families and individuals, “Just phone up a charity.” What I was trying to make clear is that there is a menu of options - that is why I added them to the submission - up to and including independent private advice and professional advice. I really urge people first of all to recognise that they are in distress, to find the most appropriate level of support, to follow what we say in the leaflet and to choose the level with which they are most comfortable and the one that best meets their circumstances.

Regarding the standard financial statement, SFS, I have looked at it in detail. It is a very daunting document.

**Deputy Anne Rabbitte:** Yes.

**Mr. Noel Brett:** I suspect that if any of us around this table had to fill it in for our own personal circumstances, it would not be an easy process. That is why I urge people again to sit down with representatives from a body such as MABS or StepChange who have expertise in filling these in and who will walk through the documentation with them. I included the SFS in my pack because I wanted to show the Deputies just how complicated it is. This process is not set by the lenders. This is the process that borrowers must go through. It can be done, and there are people in the country who have a lot of expertise in assisting people. We must understand that there can be language issues, literacy issues and numeracy issues - all the more reason to engage with one of these supports and choose the one with which an individual is most comfortable.

Regarding the number of those in arrears, the Central Bank publishes this data. I have some very high-level data that I am very happy to go through. Again I am relying here on figures from the Central Bank. I am obviously precluded from reaching into individual lenders. As a federation, we are precluded on competition grounds from getting into some of these issues, so we will rely on published Central Bank figures. According to its most recent figures, as of the end of 2015 - I anticipate these figures will have improved even further - the number of mortgages in arrears continues to fall. It currently stands at 88,292, which is 11.8% of all accounts in arrears. In terms of two categories, private dwelling houses and buy-to-let properties, 61,931 accounts are 90 days or more in arrears. The category we should all be most concerned about is those who are 720 days or more in arrears. There are 36,351 accounts in that category. That number has been falling, thankfully, since 2015 and overall, as I said to the Chairman earlier, of private dwelling houses, 120,739 accounts have been restructured to date. Some 86.5% of those are meeting the arrangements in full. Of the 23,000 accounts which are more than 90 days in arrears those of most concern are the 15,064 accounts which are 720 days in arrears. I cannot state enough the importance of engagement between the borrower and the lender. It is in the interest of everybody, including the lender, to address the issue and try to resolve it. Rent receivers have been appointed to 5,967 accounts. If the committee wants more specific granularity the clerk can ring me and if I do not have it myself I will certainly try to source it from the Central Bank. The committee may choose to source the information directly as it is on the Central Bank's website. I was not expecting to get into this level of detail. I thought I might be speaking more about broader macrosocial policy. If the committee clarifies what it needs I will certainly do my best to get it.

I am not sure if I have covered adequately the issue raised by Deputy Funchion on people rejected from the mortgage-to-rent scheme. I have highlighted the reasons. I will admit that from our perspective in the early days of the scheme the lenders were probably so keen they referred cases which, with the benefit of hindsight, did not strictly meet the criteria. It may be interesting for the committee to get the perspective of the Department of the Environment, Community and Local Government and the Housing Agency. This is the key piece in terms of mortgage to rent. I ask the Deputy to please flag it if I have not covered an issue.

**Chairman:** A number of Deputies have indicated they have questions for Mr. Brett.

**Deputy Ruth Coppinger:** Mr. Brett said in his introduction that homelessness is largely a supply issue, but homelessness is being caused by repossession by the banks. It is not just a

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supply issue. People in houses are being put out of them, otherwise homelessness would not be increasing. It is not just supply and Mr. Brett needs to correct this. The biggest reason I see for people being made homeless now is they live in a rented property which has been repossessed by a bank. This is bar no other reason. Mr. Brett did not mention this in his introduction. Either the banks put pressure on the owner of a property to sell it or, usually, they pass it over to a receiver to do the evicting. They do not ask too many questions about who lives in the house. There is a code of conduct for people in mortgage arrears, and I am not saying it is sufficient because it is not, but there is no code to protect very vulnerable people living in private rented accommodation, which is an ever growing sector of society. They are the biggest group in poverty due to rent increases and cuts if some of them are on rent supplement.

Many families have been in emergency accommodation for up to a year because they were evicted by receivers working for the banks. There has been an increase in this area. The Government should outlaw this while there is a housing emergency, but if it fails to do so will the banks take it upon themselves voluntarily to insist that no family is put out into emergency accommodation, which is a cost to the State, if they do not have anywhere else to go? They do not have anywhere else to go, and this is reality, but I have not heard Mr. Brett say anything about this.

The banks had an immediate role in the housing crisis and there has been a huge cut in the capital budget for social housing. From 2008 to 2014, €11.4 billion was removed from the capital budget for social housing. This coincided with the bailout of the banks by taxpayers. This is why it was cut. The bailout of the banks and speculators played a role in cutting social housing spending. In 2008, €1.4 billion was spent on social housing and last year €500 million was spent on it, so it is approximately one third of what it used to be. It relates to the recession brought about by the financial sector.

With regard to people in mortgage arrears, be they buy to let owners or home owners, does Mr. Brett agree there should be a more generalised writedown on mortgage arrears at this stage? The Housing Agency provided the committee with data on restructures and so on. It is all very well for people to say there is a need for more split mortgages and so on but even the Housing Agency agrees that is only delaying the inevitable for the person unless his or her financial circumstances improve.

The banks appear to be more willing to write down the debts of developers than they are to write down mortgage debts. Between January 2014 and June 2015, Allied Irish Bank, AIB, wrote off more than €4 billion in commercial property loans but only €820 million in mortgage debt, including in respect of buy-to-let properties, despite the fact the bank's mortgage books are larger than its commercial property sector loan books. It appears to be a case of one law for developers, who obviously do not have money, and another for other people who bought houses at overly inflated prices, who also do not have money. There appears to be a generous attitude on the part of the banks towards the developers that is not replicated to home owners.

**Deputy Mick Wallace:** I will be brief. Mr. Brett spoke about the level of engagement by the banks with people. I am sure that like me other Deputies have been hearing from people from every county in Ireland that the banks are very difficult to work it and that they are inflexible and lacking in understanding and compassion. That the Irish banks would be ten thousand leagues under the sea but for the fact the taxpayer bailed them out is not lost on the people. People expected a social dividend of some sort but they did not get it.

Mr. Brett made the point that eviction is not the best outcome for the lender, which is true.

It is also not the best outcome for the tenant or mortgage holder. From an economic point of view, I would be sceptical as to whether there is much merit in the banks evicting anybody. I do not believe that is a good idea financially. It has caused untold social hardship and has driven people into poverty. I do not think it was a good business decision by the Irish banks to go down this route, irrespective of the lack of activity from the State sector. I would welcome the delegates' views on those issues.

On the commercial side, currently a person wishing to build 20 houses on a vacant site in Dublin or in any other town in Ireland would find it very difficult - almost impossible - to get money for that development from an Irish bank. We all remember a time when the banks were contacting us asking us if we wanted money. Now, it is impossible to get money. The banks in Ireland have availed of incredibly cheap money from the European Central Bank, ECB, but they have invested it elsewhere rather than in Ireland. The ECB in providing that money did so on the basis that the banks wanted to help our economy recover, in particular in light of the people having bailed them out. It appears, however, that the banks have invested that money in places where there is less risk involved. The point I am trying to make is that the people I represent are sore about the fact fairness has not been applied in terms of the incredible write-downs given to IBRC and NAMA while they find it difficult to get any write-down.

**Chairman:** Before I invite Mr. Brett to respond, I want to reiterate the point made by Deputy Coppinger in regard to landlords against whom the banks are taking action. From my perspective, in all cases the banks appear to want the houses vacant, with no tenants. We are examining a housing crisis, which many of us view as an emergency, and we are considering things that could be done as short-term solutions. We would hold local authorities to account for the voids they have and how quickly they can turn them around. Has the banking sector any idea how many properties and units of accommodation fall into this category, where the banks have taken actions against landlords who are in difficulty and the properties are now vacant when they could be tenanted? Does the banking sector have a view on the capacity that exists?

**Mr. Noel Brett:** I will deal with the Chairman's final question first. That refers to Deputy Ó Broin's question earlier about people sitting on vacant properties. I will go back and speak with members, although I am not aware of that being an issue. It would be in people's interest not to have vacant properties depreciating in value, being vandalised and so forth. I will go away and respond to that question.

To clarify for Deputy Coppinger, I am not suggesting that homelessness in the acute form we are seeing at present is purely a supply issue. What I said earlier is that there is a supply issue. In terms of broad macrosocial policy, there is a supply issue with social housing, affordable housing and rented accommodation. There is also an issue with owned or mortgaged accommodation. It is clear that there is a good supply of mortgage credit but there is not a good supply of houses for people in that category to buy. I take the Deputy's point, which is very well made, in terms of Ireland's social policy going back not just to the crash but also perhaps a little further. Decisions were taken about how social and affordable housing was provided in this country and, clearly, the country has not provided adequate social or affordable housing for quite a long period of time. That is exacerbated now due to increased rents and a shortage of homes for people to buy.

Thankfully, increasing employment is important in terms of people's ability to deal with some of the pressures they face. However, as I keep saying to the committee, we must avoid another credit bubble. We must find mechanisms to put supply in those four sub-sectors where it is needed. That is the key issue. All of these things have unintended consequences and we

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must be clear about how money transfers across the economy. An intervention in one sector costs somebody in another sector, by which I mean what a subsidy in one sector does to the availability of social housing, because this is a zero-sum game. It is very important to be clear that I am not suggesting homelessness can be sorted simply by supply. It is a far more complex issue and it cuts across many different elements of social and public policy in Ireland.

Perhaps I should have made it clearer at the outset that we, as a federation, do not get into the practices of individual banks or the competitive issues between banks. I am specifically precluded by competition law from doing that. Unfortunately, I am not in a position to tell the committee why a particular bank takes a certain line. They all must take individual business decisions. There must be a sustainable, functioning banking system for an economy to function properly and effectively for all of its citizens,. The banking system is important in an economy. Individual banks must look at the pressures they face and the business model they follow, and they must make individual decisions. I do not have control or oversight over - or even knowledge of - those individual pieces.

To respond to Deputy Wallace on the banks' compassion and the eviction rates, what we have tried to do, at a cross-industry level and in the actions individual banks have taken, is try to equip borrowers in distress with the type of support they need to level up the power imbalance that can exist when one is in distress and trying to deal with one's lender. With regard to repossession, the court statistics in Ireland show that in 2015 there were 722 repossessions on foot of court orders. An additional number of houses were voluntarily surrendered. In an Irish context, the repossession rate constitutes 0.21% of all mortgages, whereas in the United Kingdom the repossession rate, at 0.65% of mortgages, is three times higher. I am not suggesting this makes repossessions okay - it does not - but I heard the previous Governor of the Central Bank state that in a fully functioning mortgage market, one would ordinarily expect up to 2% of mortgages to default and go down that route. This does not make matters any easier.

I agree with Deputy Mick Wallace on the issue of compassion. The number of restructured mortgages and the faster rate at which they are being worked through, as well as the fact that 86.5% of the mortgage holders affected are meeting the terms of their arrangement, provide good early evidence that banks are seeking to be more compassionate. They realise it is in everyone's interest, including those of the banks and the individuals who have borrowed money, to have mortgage holders remain in their properties. This returns us to the point that interventions such as the mortgage-to-rent scheme are needed for those who cannot go down this route.

It is important to reiterate that banks must be profitable and must survive. To do this, they need to do business. I am keen to engage with the committee on how we can play a viable role in the various sub-sectors of the housing market to which we referred a number of times.

The key issue with regard to developers will be equity. While a significant level of credit is available in the economy for builders and developers, the problem is that developers who have been bruised from the previous experience may not have equity. This presents a challenge as under the current rules, no bank or lender may lend 100% on any development, nor should they. That is a big challenge. Another challenge, one for which I do not have an answer, is how to find a way to get equity into the system. Speaking from the perspective of my members, they need to lend in this sector but only to viable entities which have equity.

**Deputy Mick Wallace:** On that issue, has the Banking and Payments Federation Ireland had discussions with representatives of the State on working with it to secure some form of guarantee that would allow banks to provide loans to builders who are prepared to build houses

on sites to which they have access? Has there been engagement with the State on this issue?

**Mr. Noel Brett:** I will ask Mr. Crowley to respond.

**Mr. Maurice Crowley:** The main conversations we have, and we do not have as many as we would like, are with the Strategic Banking Corporation of Ireland, SBCI, which appears to be the appropriate model for what the Deputy is discussing. We have been engaging in discussions with the SBCI at two levels, the first of which is not necessarily in the housing space. We started discussions with it on the small and medium enterprise side, namely, on general SME lending, because we were facing the same challenges with SMEs. The balance sheets of small and medium enterprises had been hit hard by the recession and they were seeking to borrow for working capital and investment. Banks were not in a position to lend 100% and we engaged in a conversation with the Strategic Banking Corporation of Ireland on that issue.

While there have not been as many conversations on the property side at this stage, we have had a number of conversations on the issue. We discussed, for example, whether avenues are available, either using pure equity - the point made by Deputy Mick Wallace - or an enhancement to the existing credit guarantee scheme launched by the Department of Enterprise, Jobs and Innovation. Equity does not have to be cash equity. Credit guarantee schemes would have a role to play and I understand the scheme is in the process of being enhanced. These issues all have a role to play.

To answer the Deputy's question, we have had conversations. As to whether they have gone as far as we would like them to go, that is probably not the case and they probably need to continue.

**Chairman:** The committee will probably need to further examine the issue.

**Deputy Ruth Coppinger:** Will the witnesses answer my question as to whether the Banking and Payments Federation Ireland will develop a voluntary code of not evicting people, given that this is the biggest cause of homelessness?

**Mr. Noel Brett:** To respond briefly to Deputy Mick Wallace, we would welcome recommendations from the committee on the issues highlighted by Mr. Crowley, for example, the matter of plugging the gap. European Investment Bank funding is also available. While funding is available, it is loan funding, whereas what we need is equity funding. That is the challenge we face. We would love this issue to be developed further and perhaps the committee will consider it.

On the issue of a voluntary code, as a trade body, it is not within our gift to do what the Deputy asks. Certainly, I will talk to members and bring back to them several of the issues raised with me today, but it is not within my gift to say to the committee that we could do it; I do not have a mandate to do something like that.

**Deputy Ruth Coppinger:** It would be the best thing Mr. Brett could do to stop homelessness.

**Deputy Anne Rabbitte:** An issue that arose was credit ratings which leads into Deputy Mick Wallace's question. Another part of the freeing of funds is access to credit. Equity is only one part of it. A person cannot access credit if his or her credit rating has been blemished in the past because it sits with him or her for X number of years. That is an issue at which we need to look if the building industry is to move forward. Its credit ratings have been affected by not

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being in the black.

**Chairman:** Does Mr. Brett wish to respond?

**Mr. Noel Brett:** I invite Mr. Crowley to deal with that issue.

**Mr. Maurice Crowley:** It is a difficult one because a bank, in making a new loan, is going to be influenced by the experience of the past which was caused by a range of factors, not a single one. Certainly, it is something we can discuss with members. It is challenging because a lot of bank lending is based on track record and affordability, including the ability to pay rent in the past. There is no getting away from the fact that it colours the decision on credit availability.

**Deputy Anne Rabbitte:** Of course.

**Deputy Mick Wallace:** It should be pointed out that not only did the builders become developers and, for want of a better word, “fuck up”, so did the banks. The banks have been forgiven and allowed to move on.

**Chairman:** I thank the Deputy.

**Mr. Noel Brett:** I thank the committee for the invitation to appear before it. It is hugely important for the sector to state it wants to participate. We keenly await the committee's recommendations and look forward to engaging with it again at that stage. I reiterate that the key for customers in distress is getting independent advice and engaging. They should not ignore the problem, as it does not go away. If there are recommendations from the committee across the four sectors - we are not here to speak about mortgages only but also about social and affordable housing, the rented sector and the owner sector - we want to engage actively and be constructive on matters within the competence and remit of the banking sector. Clearly, whatever interventions are made need to be co-ordinated and stress-tested for unintended consequences. Many people will bring forward recommendations of all types. They all look good, but they need to be looked at in the round and stress-tested for unintended consequences. We must ensure we do not drive up house prices and the level of indebtedness as that would not serve the economy or families. We want to participate actively. I urge the committee to ensure whatever recommendations are brought forward are stress-tested and that somebody is in charge.

**Chairman:** I thank the representatives of Banking and Payments Federation Ireland, Mr. Felix O'Regan, Mr. Noel Brett and Mr. Maurice Crowley, for their attendance and the documentation provided. I also thank them for the follow-up information to be provided in due course.

*Sitting suspended at 3.27 p.m. and resumed at 3.30 p.m.*

**Irish League of Credit Unions**

**Chairman:** I am pleased to welcome from the Irish League of Credit Unions Mr. Ed Farrell and Mr. John Knox. The committee has received their documentation which has been circulated to members. I invite Mr. Farrell to make his opening statement.

**Mr. Ed Farrell:** I am grateful to the Chairman and committee members for inviting the Irish League of Credit Unions to make a presentation on its social housing funding proposal. I am joined by Mr. John Knox from our research and development department.

## IRISH LEAGUE OF CREDIT UNIONS

As members will be aware, the Irish League of Credit Unions represents 423 credit unions across the island of Ireland which have 3.4 million members, member savings of almost €13 billion and approximately €15 billion in assets. They are a voluntary, visionary movement. The members own and run credit unions. Being grassroots, not-for-profit organisations founded and run for a social purpose, credit unions are unique financial institutions. They are democratically run, volunteer led and based on helping members rather than on profiting from customers. This ethos sets us apart. The economic crash has put enormous pressure on families, but credit unions have been there for them and now we want to do more.

Focusing on the future, in a national and global financial environment which, technologically and structurally, will be radically different from what went before, our purpose is to demonstrate how credit unions can better serve communities. To that end, the Irish League of Credit Unions has in its policy platform set out six strategic steps for how, in partnership with the Government and the Central Bank, we can deliver on a range of critical issues, including social housing. One such step - micro-lending for the most vulnerable, in partnership with the Department of Social Protection - is being operated very successfully as a pilot scheme. I mention this to underline the readiness and willingness of the credit union movement to respond and take action.

On 15 October last, on International Credit Union Day, the the Irish League of Credit Unions published the detailed document before the committee on its social housing strategy. The proposal was published specifically in response to the publication in November 2014 by the Government of its social housing strategy 2020 which included the following key theme - that the State adopt a central role in the direct provision of social housing through the resumption of building on “a significant scale” and that the funding of this programme will require the development of innovative funding mechanisms that do not increase general Government debt. It is to be financial sustainable.

Our proposition is broadly as follows: that the credit union movement form a special purpose vehicle to invest in a State-owned financial vehicle which would on-lend to approved housing bodies to fund the development of social housing or to invest and on-lend directly to approved housing bodies to fund the development of social housing. The key benefit for the credit union movement from this proposition would be that it would enable the movement to put a significant portion of members’ funds of €8.5 billion, currently held in short-term investments, to a more productive and economically rewarding purpose, while at the same time addressing a key social issue that deeply affects the communities credit unions serve. This would represent an initiative that would be very closely aligned with the core values of the credit union movement - economic democracy, inclusiveness, human and social development and community focus. etc. For the State, the key benefit of this proposition is that it would enable the Government strategy of off-balance sheet sustainability to be fulfilled over short, medium and long-term horizons. The credit union sector could become a significant funder of the social housing strategy via the approved housing bodies, AHBs, and could reduce the financial commitments of the State to the social housing agenda while enabling the Government to retain complete control over social housing policy.

The mechanism developed in the league’s proposal sets out a structure by which the Irish credit union movement could fund AHBs to provide social housing. The approved housing bodies provide and manage social rented housing. They are private, not-for-profit organisations formed for the purpose of relieving housing need. There are approximately 520 of them in Ireland with a stock size of over 27,000 units. Approximately 10% of AHBs provide 80% of

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the housing supply. There is therefore a small number of well-established and financially sound AHBs which provide the vast majority of the social housing needs.

This would also have a wider economic impact. The initiation of social housing projects would create employment, generate taxes, provide stimulus to the construction sector and so on. The key benefit for the population as a whole is obvious, namely, the creation of a sustainable supply of social housing opportunities for those in need.

I want to emphasise in the context of our discussion today that credit unions responded to a call from the Government. The league's proposal has been the subject of detailed discussion between us and the Departments of Finance and the Environment, Community and Local Government as well as the Central Bank. Indeed, there have been a number of meetings at official level in the past weeks. I acknowledge the consideration given by officials and the interest and support given by all sides politically. Regrettably, however, today we are no further on; innovative funding models have not been delivered. Credit unions are willing and ready. There is a lot of genuine interest both within Government Departments and politically. There has been a lot of in-depth consideration. The next step is to bring this proposal forward, together with the Government. We remain willing partners.

**Chairman:** Thank you, Mr. Farrell. A number of people have indicated that they have questions. On one technical point, you mentioned that the funding is off balance sheet in respect of the housing bodies. I presume that if the funding were made available to local government, it would not be off balance sheet. Is that the key point?

**Deputy Bernard J. Durkan:** Except for the public-private partnership arrangement.

**Mr. Ed Farrell:** We were following through from the social housing strategy document, where the approved housing bodies were the favoured entities being empowered. I would assume that lending to an arm of the State, if it was done directly - there are indirect ways of doing it. The State financial vehicle, which was the first option in the social housing strategy paper, was to be created if it could be kept off the State balance sheet. Our understanding of late from the Department of the Environment, Community and Local Government is that they are not going to be able, or have not yet been able to construct a vehicle in such a way that it would be off balance sheet.

**Deputy Brendan Ryan:** Regarding the possibility of the credit unions getting into this area, my understanding is that the Central Bank as their regulator is a problem. When this matter was raised with the Minister for Finance earlier, he certainly referred to the Central Bank as being some form of barrier. Could Mr. Farrell tell us what discussions the league has had with the sector's regulator and what his response to that might be?

**Deputy Bernard J. Durkan:** I am sorry to hear again of the approved housing bodies. I regard them as the essential cause of the housing crisis, in the sense that reliance on the approved housing bodies is what has left local authority social housing as it is. I cannot for the life of me understand why some effort is not being made. Although I welcome the submission from the Irish League of Credit Unions, it means nothing. We are proceeding down the same course we have been on for the last ten years and it is not solving anything.

**Chairman:** You have stated that point previously, Deputy. Have you a question for us?

**Deputy Bernard J. Durkan:** I have a question. That should be obvious at this stage. This applies to all the wise people as well. To what extent has the ILCU examined the prospect of

entering into a public private partnership with the local authorities which have direct responsibility for providing local authority housing? Has the ILCU thought of the possibility of reintroducing what used to be funded by the local loan fund through the local authorities, whereby first-time buyers, such as junior civil servants, local authority workers or anybody in the public sector or private sector, was able to get a local authority loan directly and provide himself or herself with a house through his or her own means, with the help of the local authority and the ILCU? For God's sake, could we get away from this reliance on approved housing bodies? They have a speciality or a niche at which they are best. As I have often said, that is in the special housing requirement areas.

**Deputy Eoin Ó Broin:** I thank Mr. Farrell and Mr. Knox for the presentation. I wish to express some frustration, which I am sure the ILCU feels, at its having made what I thought was a really important proposal last year but we are still waiting for formal Government response. I acknowledge that and share the frustration. I have a couple of specific questions in the context of strongly welcoming the proposal that the ILCU has made.

While the ILCU has been engaged in discussions with the Department of the Environment, Community and Local Government, I wonder if it has considered or pursued the possibility of pursuing parallel discussions with local authorities and approved housing bodies to pilot the kind of scheme it is talking about. Notwithstanding Deputy Durkan's comments about approved housing bodies, there are local authorities, such as Dublin City Council and South Dublin County Council, which have very significant tracts of land but do not have the cash to build because central Government will not give it to them or will not allow them to borrow. They could bring the land to the table. The ILCU could bring the finance and an approved housing body, in conjunction with the local authority, could provide the vehicle for the ILCU to fund. We could get a significant output of houses from that. It might be a way of demonstrating to the Department of the Environment, Community and Local Government and to the Central Bank that it is a viable project. If the witnesses want a couple of suggestions of land and local authorities, I am happy to provide them after the meeting.

I know the witnesses will not be able to tell us their real thoughts on this but I am interested to know what they think the barriers are, either for the Department of the Environment, Community and Local Government officials or for the Central Bank, as to why this proposal has not gone anywhere as yet. The social housing strategy was launched the October before last. The type of proposal the ILCU is making is exactly in line with what the Government told us it was going to do. I am at a loss as to why it has not progressed but maybe the witnesses can shed some light on that.

There is a possible way of providing funding to local authorities that would be off the balance sheet. It would require the local authorities to set up housing trusts of their own. They would not be approved housing bodies. They would be municipal building corporations but they would have to be at arm's length from the local authority, such as the way local authorities run leisure centres. I believe that is another avenue worth exploring and if the ILCU has not done so yet, there are some local authorities which are interested in that and we could point the witnesses in their direction.

**Deputy Barry Cowen:** Like previous speakers, I welcome Mr. Farrell and Mr. Knox to today's meeting. I agree with the previous speaker that one simple solution would be the setting up of housing associations, whether it is by local authorities or local communities. That would get around the problem.

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I do not have a question as such but I have a statement to make. It is of great disappointment and annoyance to me that having responded positively to a call by Government when it launched its strategy almost two years ago, the ILCU proposed a means by which it could release a lot of much-needed capital into the marketplace in order to solve a social issue and yet no progress has been made by the parties that the ILCU has been in discussion and negotiation with. This is the kind of social issue for which the ILCU was set up in the first instance. It has done great work and been of great assistance when many others have not. We have been talking about a crisis that exists but it is now an emergency. In the famed documents associated with the arrangement Fianna Fáil has entered into with the lead Government party, which expects to lead a Government in the coming weeks, we have made it plain and clear that we expect and want to see a role for the credit unions in this area. We have made it clear that we expect and want to see a role for the credit unions in this area. I hope this committee reinforces that wish on behalf of those we represent. The areas on which we have relied in the past for dealing with such crises are not capable of meeting the demands that exist. Outside help and assistance are appreciated and I would hope that any barrier that exists will be taken down as soon as is humanly possible in order to allow this intervention to have the desired effect.

**Chairman:** The questions are all similar. In his opening statement Mr. Farrell indicated he had these discussions but that they were no further forward. Can he identify, in as much detail as possible, what the obstacles were and whether they were originated with the Department, the Central Bank-----

**Deputy Bernard J. Durkan:** Or the local authorities.

**Chairman:** -----or the local authorities?

**Mr. Ed Farrell:** There is a bit of history to it. Deputy Ryan asked about the Central Bank. The Central Bank lays down the rules and regulations individual credit unions must follow in the course of their business. Typically, credit unions take in money from their local membership and loan it out in small, unsecured loans for personal reasons while the other moneys would be put into investments and deposit accounts. They can only invest those moneys in government bonds and deposit accounts with the banks. In recent years, loan demand has declined so we have had a build-up of funds and a surplus above what we would wish. That is part of the story of how between €8 billion and €9 billion has not been loaned out. There is €13 billion in member savings and €4 billion has been loaned out. The other €9 billion has not been loaned out and is largely lying idle and earning very little in bank deposit accounts.

Our paper put forward two options. Option 1 was to feed into the State-owned financial vehicle envisaged under the social housing strategy of 2014. If that State-owned vehicle was a runner, in the context of the on- or off-balance sheet debate we heard earlier, our money in that vehicle would have had a State guarantee and would have been compliant with the rules and regulations. It would have been almost like a government bond but now that it has become obvious that the State-owned vehicle will not get the blessing of being declared off-balance sheet our option 2, the indirect model, has become the focus of discussion with the two Departments and the Central Bank. The fact that it is not being explicitly guaranteed by the State means it does not fulfil the current rules and regulations laid down by the Central Bank. It is not a government bond or a deposit account, although the repayment of the loan by the approved housing body to the credit unions is quasi-guaranteed because there is a lease agreement between the housing body and the local authority, which is an arm of the State. The repayment is guaranteed even if the loan is not, so we are trying to work with the Central Bank to get it to tweak the rules and regulations on our investments - which are not really investments but money parked

in deposit accounts - to allow us to move some of the money. We are not looking to move all of our members' money from current providers to a local approved housing body, we are seeking to move perhaps €1 billion of the €9 billion or €10 billion.

We have been in discussions with the Central Bank on the indirect model since the need to do so became obvious either late last year or earlier this year. To be fair to the Central Bank, it included references to social housing in its CP88 draft of the rules and regulations which did the rounds last year. After a six-month delay and a lot of toing and froing between the Central Bank and Members of the Oireachtas, it became law on 1 January last. The Central Bank suggested social housing might become part of the package of credit unions' investments but we still have to get it across the line and, like many such things, it is taking longer than we might like.

In answer to Deputy Durkan's question, we have been focused on approved housing bodies because that is where the Government strategy is focusing. It is not that we picked them because we know them or like them better. This was the call from Government. There is a history of meetings and engagements between ourselves and various people in the Department, and some of that dates back to before my tenure as chief executive officer. There has been a desire on our part to try to propose something that fits in with the Government strategy. That is the page we are on, as it were. If that one works and we get it moving, we can then look at something like the public private partnership mentioned. If this one does not get across the line we can look at that one anyway. We are not ruling anyone in or out. We are just trying to dovetail in with what was the stated aim in November 2014 of how social housing would be delivered for the period up to 2020.

**Deputy Bernard J. Durkan:** What interest rate would the ILCU charge?

**Mr. Ed Farrell:** We have speculated an interest rate of 3.5% in our proposal. I refer to the short-term deposits our credit unions are invested in. The banks are earning a rate of 1% and less, and that is getting lower by the week and month as the European Central Bank goes to zero and then goes negative. We believe the banks will be charging more than that. We are confident that we will be able to come to a middle-of-the-road position which would be better than what we are earning but which would not have to be as commercial as a profit-making bank. We are not profit-making, as it were.

Regarding the terms and conditions, we have not got there yet because we have not got the door sufficiently ajar to even go to the question of terms and conditions. This is being done for the social return and investment in the communities and parishes where the credit unions are located as much as earning a slightly better return.

**Deputy Brendan Ryan:** This relates to my question on the regulator. It would be important and worthwhile for us to invite in the credit union regulator to close off this proposal because it seems that is the barrier.

**Mr. Ed Farrell:** Deputy Ó Broin spoke about the local authorities piloting a scheme. We would be shy about doing anything unless we had the regulatory permission. It would be a big step for us, an individual credit union or a group of credit unions if they provided the money, even on a pilot basis, against the rules. Even if the rules are changed, it would be a big step. If, however, we could get an indication of the change coming from the Central Bank, we could start discussions and be ready to go.

In terms of the barriers, if it had been feasible, the State-owned financial vehicle would have

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been the quickest route to market, to use that term, for us. The other one is a slightly more roundabout model but because, ultimately, the repayment of the loans is coming from arms of the State, we do not see it as being much more risky. It is slightly riskier because there are more parties involved in the equation but it is not high-risk and we would not be here if that was the case. The Government's policy was the approved housing bodies. That is our first preferred route. We will see how that goes and we can certainly move to a second one in terms of the local authority, a public private partnership or, as the Deputy said, in the way the leisure centres are leased back. That is not off the agenda. It is just that our first cut at it is to try to dovetail in with the current policy.

**Deputy Eoin Ó Broin:** On the pilot, local authorities would not be willing to do something without departmental approval either. It is often the case, as much with the Central Bank as with the Department of the Environment, Community and Local Government, that the reluctance is when they are presented with a big, new initiative. Convincing them of the merits of that bigger initiative through the development of a pilot might be one approach to try to ease their concerns.

**Chairman:** I will come to Mr. Farrell in a moment. I will take a number of contributions.

**Deputy Ruth Coppinger:** We all had questions about approved housing bodies and I spoke to the credit unions earlier. I certainly do not see the approved housing bodies as being the solution to, or ending, the housing crisis in that they are too small-scale and the resources would be better given to local authorities but it would be a stretch to blame the approved housing bodies for causing the housing crisis. The latter is not the case at all. That was said. I give that preamble to my question because I do not want to sound like I am defending the housing bodies. To be honest, the cause of the housing crisis is quite clear. It is two successive Governments, if one wants to put it that way, rather than housing bodies. It was an ideological decision taken to pass over house building to housing bodies which I do not agree with that. The housing bodies have a minority role rather than the majority role.

I would not be opposed to the proposal in the sense that if the housing bodies will borrow from a bank, they may as well do it at a cheaper rate from the credit unions which have a better ethos in the sense of being not for profit and for the common good, and they give cheap loans to workers. I would not oppose this proposal but I would make the point that the Government has the ability to borrow at 1% and what is being proposed here is for between 3% and 4%. I have made this point to the league. We must borrow cheaply and build housing on a major scale rather than such small scales but I certainly would not stand in the way of this going ahead.

**Deputy Maureen O'Sullivan:** The Minister, Deputy Noonan, suggested that there was potential to use section 44 of the 1997 Credit Union Act to develop social housing. I wonder has Mr. Farrell thought of that provision. My second question relates to the credit unions' relationship with dormant accounts. I understand the credit unions are excluded from the Dormant Accounts Fund. Given that there could be seed capital there for social housing, does Mr. Farrell see any merit in being included in it?

**Deputy Mick Wallace:** On the issue of PPPs, the credit union interest rate of 3.5% would be attractive by comparison with 15%, which is often the rate of the PPPs. This morning, the Minister for Finance, Deputy Michael Noonan, stated that we cannot have credit unions engaging in risky lending. Whether he believes that the banks can and does not like the credit unions doing it, I wonder what the ILCU think of that. The league is facing barriers in the area of lending. I refer to how it is restricted. Does Mr. Farrell believe the credit unions are more restricted

by the Central Bank regulator or Government thinking?

**Deputy Anne Rabbitte:** I think both delegates for the presentation. As a newly elected Deputy, I find it unbelievable that we have been having this conversation since 2014 on a group who have offered funding to help us out with a housing crisis. A year and a half later, we have not squared that circle at all. It is hard to believe. Is it correct that the league is offering €8 billion towards housing? If the Chairman does not mind, I need to engage in a conversation here. Is the league offering €8 billion towards housing?

**Mr. Ed Farrell:** Not all of the €8 billion. We have €8 billion or €9 billion in surplus funds that are not loaned out. We have shown scenarios. The strategy refers to 35,000 new housing units being built with the preferred provider being the approved housing bodies. We have shown that if the approved housing bodies build one quarter, half or three quarters of them, that would mean €1 billion, €2 billion or €3 billion from us.

**Deputy Anne Rabbitte:** Is the ILCU offering money towards building houses?

**Mr. Ed Farrell:** A loan, finance that would have to be repaid.

**Deputy Anne Rabbitte:** Absolutely.

**Mr. Ed Farrell:** I think that answers Deputy Maureen O'Sullivan's question.

**Deputy Anne Rabbitte:** It is important to say that the ILCU is coming to us with funds. Is it correct that the regulatory body, the Central Bank, imposes restrictions on how credit unions may use their funds?

**Mr. Ed Farrell:** Yes. Now that it seems the preferred option, off-balance sheet, will not satisfy the people behind the Government on-balance sheet rules, we need the regulator to change the rules.

**Deputy Anne Rabbitte:** Is that so the ILCU can still invest in supporting the building of houses?

**Mr. Ed Farrell:** It is ultimately to lend to an approved housing body, which is a not-for-profit builder of social housing. A credit union is a little like a very small not-for-profit bank.

**Deputy Anne Rabbitte:** That brings me straight to my next question. I believe Mr. Farrell is hitting too many roadblocks. There has been a Government roadblock, a Central Bank roadblock, etc. In his opening statement, Mr. Farrell said the credit unions have €13 billion in savings and €15 million in assets. Is that correct? Why not grow the assets? Why not let the credit unions build the houses themselves? Can that be done?

**Mr. Ed Farrell:** Certainly not under current rules if we cannot lend to an approved housing body. When a man, woman or child walked in off the street to join a credit union and lodge his or her hard-earned earnings as savings, the union traditionally loaned out 70% or 80% of that money to meet the needs of the local people. That is why credit unions were set up in the 1950s, at which time credit was not available. Fifty years later-----

**Deputy Anne Rabbitte:** Now.

**Mr. Ed Farrell:** If the credit unions could not lend to the people in the parish, community or factory, depending on the common bond, surplus funds had to be put into the bank. When credit

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unions were well lent, at 60% and 70% of their balance sheets, the money was just put in current accounts or on deposit. The rules were tweaked and they made sure in the good times that credit unions could not take part in house-building or such activities. I am not saying we would have done so but I am just outlining where the very tight rules on other moneys come from.

**Deputy Anne Rabbitte:** When the credit unions had a large build-up of savings and went to a local bank to invest them, be it for three months, six months, 12 months or otherwise, they were allowed to invest. Was that just a cash investment or could there have been different investments, such as bond investments? A bond could have been associated with property or equities. Was the movement tied up in terms of how it was allowed to invest that money?

**Mr. Ed Farrell:** Deposits are the preference of the Central Bank but the unions are allowed to put some of the money in a bond if the bond is fully guaranteed by the bank. It is almost the same as a deposit. The unions would not have been allowed to buy the types of bonds that might not get repaid. In theory, if the banks went under, as happened, and were not guaranteed - thankfully they were - there would have been a problem. All the credit union money that was typically in the Irish banks was safe because of the guarantee. We cannot buy equities or shares in the banks. It is a question of deposits or guaranteed bonds, which are almost like deposits. They would have a fixed maturity and one is guaranteed to get one's money back. Credit unions are not designed or set up to engage in risky lending or investment decisions. We are comfortable about the fact we do not do the risky stuff but we do not count this scenario as any way risky because of the Government repayment.

**Deputy Anne Rabbitte:** Not when the credit unions have €15 billion in assets and €13 billion in savings.

**Mr. Ed Farrell:** The difference in those figures is attributable to our having built up reserves of €2 billion. We have €2 billion in retained surpluses built up as our capital so we have 15% or 16% in overall capital. It needs to be 10% under Central Bank rules but we actually have 15% or 16%. We have plenty of cushioning or buffering. Even if one of the loans did go wrong, there would be plenty of cushioning, although we do not see it as something that could go wrong given the current design determining how the social housing model works.

**Deputy Anne Rabbitte:** My last question - the real question - is what this committee can do to help the ILCU spend its money. What is the roadblock? What does Mr. Farrell recommend to this committee so the cash can be accessed and put back into the communities that have invested in the credit unions? Representatives of the Irish Banking Federation were present earlier and they did not offer us any money. Mr. Farrell, by contrast, is telling us there is a way of gaining access to funds.

**Mr. Ed Farrell:** We would like to see the two relevant Departments, namely, the Department of Finance and the Department of the Environment, Community and Local Government, and the Central Bank try to figure out quickly how this can be facilitated. We are responding to an official proposal or strategy where credit unions were mentioned on page 33. Mr. Knox would have been at more of the meetings in the Department. We were engaging with the Department of the Environment, Community and Local Government before that report came out and have had much engagement since. We were told credit unions were mentioned on page 33 to further the process and get some speed behind it and we were asked to draw up our own proper written formal proposals. There are the two options and we are surprised, or disappointed, with the approach taken by the arms of the State, including the two Departments and the Central Bank.

This is a huge problem. Maybe we were naive but we felt it would happen quicker. To be fair, we have had meetings with the Departments in the last two weeks and two months, even during the election, and we had a Central Bank meeting earlier in the year, following which we went back to it with further information. We believe they are going to get together to try to map out a roadmap for us.

**Deputy Anne Rabbitte:** Right.

**Chairman:** Mr. Farrell, other issues were raised by Deputies Maureen O'Sullivan and Mick Wallace, if you would like to refer to those.

**Mr. Ed Farrell:** Perhaps Mr. Knox might wish to contribute.

**Chairman:** That is fine.

**Mr. John Knox:** With regard to the issue of the engagement with the Departments, we had a very constructive engagement with the Department of the Environment, Community and Local Government which has confirmed that our proposal slots into an existing model that it uses. We have debated the merits of the model it uses but in terms of funding the housing bodies and private finance, the Department has confirmed that our model ticks all the boxes and fits in with its proposal.

Deputy Wallace raised the issue of risky lending, which Mr. Farrell has already touched on. We do not see this as risky lending. We would not be making this proposal if we thought it was going to put credit union funds and, more importantly, credit union members' funds at risk. The ultimate counter-party to these loans is the State. The way the housing bodies repay these loans is via a rental income stream they receive which is underwritten by the Department of the Environment, Community and Local Government. So, in terms of risky lending, we see the counter-party being the State as removing that risk.

In terms of the issue of barriers and the role of the Central Bank, its question centres on the risk and that is where the toing and froing with the Central Bank has been. In the first instance, we met with the Department of the Environment, Community and Local Government, to ensure that our proposal was accurate and fitted the policy. Once we had completed our interaction with the Department, we met with the Central Bank in January 2016. It is in the intervening months, as one would expect, that the Central Bank has stated its role as registrar of credit unions is to protect the savings of credit union members. It is focused very much on the risk. What we are trying to do is endeavour to allay any concerns it might have. Thankfully, as Mr. Farrell has outlined, the Departments have in recent meetings offered to try to meet with the Central Bank to give it any further information on how this model would work and allay any fears or concerns it may have about risk which would finally enable it to make the regulatory changes so that we can progress this once and for all.

**Mr. Ed Farrell:** Section 44 of the Act, which Deputy Maureen O'Sullivan raised, is on a fund an individual credit union can create out of its own money. It would not be a loan. It is a small fund and it can sponsor the local team or local school. It would not be a loan one would be getting back, it would be helping-the-community initiatives. It would be more like a charitable activity. On the scale of it, one is only allowed to put 2% into it. Even if one could lend it, the fund would not in any way be big enough. In any event, it is more to do with credit unions sponsoring local initiatives and bursaries.

The same aspects apply to dormant accounts which are kept for the people whose names are

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on those accounts or their next of kin. Again, it would not be meant to be used for something else. Somebody lodged that money and credit unions would make every effort to find the rightful owner or next of kin. Money in credit unions is insured. If one lodges €100 to a credit union and, God forbid, something happens, that money is generally insured with another arm of the leagues. If one had a loan and passed away, one's loan is repaid out of that insurance. Again, families and credit unions go a long way to make sure that whoever is entitled to that money, even after a death, gets it as to do otherwise would be very difficult, no matter who might be the recipient in those circumstances.

**Deputy Eoin Ó Broin:** I have a practical suggestion. There is much sympathy for the ILCU's position. The witnesses said the key problem is the Central Bank, as the regulator, and the rules it imposes on credit unions. If the witnesses have specific recommendations of changes to the investment regulations or any other aspect which they would like to submit to the committee by e-mail, it could be very helpful for us. I invite them to think about it and send us something directly.

**Mr. Ed Farrell:** We think we know the exact wording. We appreciate the committee's attention on the matter and the invitation to us. Credit unions feel strongly about it. There is a need in almost every parish and community. Credit union staff know the people who are coming in the doors every week who are challenged with paying for their homes. While we do not agree on all things, this is one initiative in which practically every credit union is happy to engage. I thank members and wish them the best of luck. They have a tough job to address an ever-increasing and complex problem.

**Chairman:** I thank Mr. Farrell and Mr. Knox for their attendance. If they could forward information on the technical issues that are causing the roadblock to the committee, it would be useful for us to consider that with future witnesses.

The committee adjourned at 4.15 p.m. until 10.30 a.m. on Tuesday, 10 May 2016.