

DÁIL ÉIREANN

AN COMHCHOISTE UM AIRGEADAS, CAITEACHAS POIBLÍ AGUS ATHCHÓIRIÚ, AGUS AN TAOISEACH

JOINT COMMITTEE ON FINANCE, PUBLIC EXPENDITURE AND REFORM, AND TAOISEACH

Déardaoin, 14 Meitheamh 2018

Thursday, 14 June 2018

Tháinig an Comhchoiste le chéile ag 9.30 a.m.

The Joint Committee met at 9.30 a.m.

Comhaltaí a bhí i láthair / Members present:

Teachtaí Dála / Deputies	Seanadóirí / Senators
Peter Burke,	Rose Conway-Walsh,
Pearse Doherty,	Gerry Horkan,
Michael McGrath,	Kieran O'Donnell.
Kate O'Connell.*	

* In éagmais / In the absence of Deputy John Deasy.

Teachta / Deputy John McGuinness sa Chathaoir / in the Chair.

Business of Joint Committee

Chairman: We will begin our meeting in public session. I propose we go into private session.

The joint committee went into private session at 9.35 a.m. and resumed in public session at 9.55 a.m.

Matters Relating to the Banking Sector: Permanent TSB

Chairman: I welcome Mr. Masding and officials from Permanent TSB to the meeting. I advise the witnesses that by virtue of section 17(2)(I) 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.

I invite Mr. Masding to make his opening statement.

Mr. Jeremy Masding: I am joined this morning by my colleagues, Mr. Eamonn Crowley, chief financial officer; Mr. Shane O’Sullivan, group director of operations; and Mr. Stephen Groarke, chief risk officer.

We welcome the opportunity to speak before the committee. Indeed, this is our third attendance before the committee this year, with our most recent meeting being just over two months ago. I understand this morning the committee will wish to discuss progress in respect of the tracker mortgage issue and the proposed sale of non-performing loans, and we look forward to answering those questions in a few moments. Perhaps I may begin by updating the committee on developments on these matters since we last met.

In January we gave the committee a detailed report on the progress we had made in respect of the tracker mortgage issue. At that time, we explained we had completed our review of mortgage accounts and we had identified 1,979 accounts that we deemed impacted and stated that all account holders had been offered redress and compensation. By the end of May, 96% of impacted customers had received their redress and compensation payments; a small number of account holders have instructed us not to make payments pending decisions they wish to make. That remains the position. However, as we have always pointed out, it is not for us to declare this exercise to be concluded. Ultimately, the Central Bank of Ireland has oversight of this redress programme in each of the participating banks. Its review of our work is ongoing

and we continue to engage with it.

At our meeting in March we gave considerable detail about the progress we had made in dealing with arrears management and non-performing loans, NPLs, at the bank since the financial crisis. We outlined how we had reached out to the owners of 35,000 properties, how we had helped the owners of almost 14,000 properties to return their loans to performing status and how we had dramatically slowed the flow of new arrears cases. In addition, we outlined the tension between long-term arrears management, as mandated by the troika in 2012, and non-performing loans management, as mandated by the European Central Bank in 2017. At our meeting in March, the committee was particularly anxious about the inclusion of long-term treatments, known as split mortgages, in the proposed Project Glas loan sale. This was as a result of their continued classification by the regulator as non-performing, and this is a real example of the tension described earlier. However, in May we announced our decision to remove these split mortgages from the Project Glas sale and we continue to review how we might approach these loans in a way that will meet the objectives of our regulators in respect of non-performing loans. Let all of us be in no doubt that split mortgages are classified as NPLs that need to be managed carefully.

A second issue discussed with the committee in May related to the steps being taken to return properties to market which had been surrendered to the bank. I am happy to confirm that so far this year, we have reached “sale agreed” in respect of 539 of these properties. We have also been in discussion with the Housing Agency on the use of properties in our possession and we have offered it 400 such properties. We have also identified approximately 500 borrowers who, we believe, may meet the necessary criteria to allow them to avail of mortgage-to-rent and we are in contact with them to see if we can progress the matter.

In the weeks since we last met there have been a number of important interventions on the issue of NPLs by the Central Bank of Ireland. It has now been made clear that banks need to move quickly to deal with the high percentage of NPLs on their balance sheets if we are to protect the banking system and the wider community from any downturn in the economy, and that the sale of NPLs to third party funds neither dilutes nor weakens the extensive protections that mortgage account holders have when it comes to their loans and their homes. I trust that these interventions will have reassured the members of the committee and the public on this issue.

I am happy to report that Permanent TSB is continuing to make progress on its recovery from the crisis. Our business and financial performance is trending positively, our lending volumes are up strongly year-on-year, and our customer deposits remain stable. We are on the way to fixing the bank which will be of enormous benefit to taxpayers, customers and thousands of PTSB staff.

That brings me to the end of my opening remarks and we look forward to answering members’ questions.

Deputy Michael McGrath: I welcome Mr. Masding and his colleagues from the bank. I thank him for completing the questionnaire in advance and for his opening statement.

Mr. Masding has set out the bank’s position on the tracker mortgage examination. From the bank’s point of view, are there no further outstanding issues? The bank has concluded considering individual cases and made the offer of redress and compensation to everyone. Most people have accepted it. Is that where the matter stands from his point of view?

Mr. Jeremy Masding: As per my opening statement, subject to independent assurance from the Central Bank of Ireland, that is correct.

Deputy Michael McGrath: On the prevailing rate issue, the customers who have been informed they are entitled to a tracker rate of the ECB rate plus 3.25%, for example, is it Mr. Masding's understanding that the Central Bank has signed off on the bank's interpretation of that issue?

Mr. Jeremy Masding: We have made our position clear to the Central Bank and we await any feedback it has.

Deputy Michael McGrath: To date the bank has not been informed that the Central Bank has a different view, different interpretation or any difficulty with Permanent TSB's approach to that issue.

Mr. Jeremy Masding: I have no formal notification that it has a different perspective.

Deputy Michael McGrath: On a related issue, I understand that some customers were offered a tracker mortgage with a 0.2 percentage point discount for year one. The issue is the rate from which that discount is made and the rate to which they reverted following the period of the discount. Is that issue concluded from the bank's point of view? Those customers had a legitimate expectation of remaining on a tracker rate, but after the period on the discounted tracker rate they were offered the ECB rate plus, in one case, 2.25% or a standard variable rate, whichever was cheaper.

Mr. Jeremy Masding: We have made our position clear as part of the assurance process. We await any feedback from the Central Bank. That is all I can say this morning.

Deputy Michael McGrath: There were just short of 2,000 impacted accounts. I wish to recap on the overall cost to the bank. There was €58 million in redress and compensation. Has that amount been paid out to date?

Mr. Stephen Groarke: The sum of €58 million is the total redress and compensation. Of that, approximately €56 million has been paid out. Approximately 2% of customers, 78 people, have not yet received their redress and compensation, although we have offered in every case. That €2 million difference between the €56 million and the €58 million is for those 78 customers.

Deputy Michael McGrath: Has the bank made further provision in the accounts for other costs?

Mr. Stephen Groarke: We have allowed in full for that €58 million. In addition, as we described at the previous meeting, we have also allowed for the cost of the programme, the cost of independent oversight and the cost of resources we have applied to the programme.

Deputy Michael McGrath: Is that in the €58 million or is it separate?

Mr. Stephen Groarke: In total, we have allowed for €145 million and the €58 million is within that. There are then programme costs and various other costs making up the difference.

Deputy Michael McGrath: How much of the €145 million has been incurred at this stage?

Mr. Stephen Groarke: Of the €145 million, €113 million had been incurred by the 2017

year end. At the end of this month, we will close the books on the first half of 2018 and we will update that provision.

Deputy Michael McGrath: Is the bank now subject to a formal enforcement investigation by the Central Bank?

Mr. Stephen Groarke: That is correct.

Deputy Michael McGrath: So that is ongoing?

Mr. Stephen Groarke: That is ongoing.

Deputy Michael McGrath: When Mr. Masding appeared before the committee last September, I asked about the bank's approach to the managed variable rate, MVR, which was a welcome initiative when it was unveiled in 2015. I highlighted that the bank only allows customers to sign up to this rate once. Even as their loan-to-value ratio improves over time with reductions in their mortgage and increases in the value of their home, they are locked into the MVR they signed up to. Many customers justifiably feel that is unfair. I have received correspondence from a number of them who feel strongly that as existing customers they are not being rewarded for their loyalty to, and support of, the bank. They feel it is unfair they are locked into an LTV band for the remainder of the duration of their mortgage which could be another 15 or 20 years. In September, Mr. Masding said that that issue would remain under consideration and that the bank would continue to examine it, which is why I am raising it. What is the current position?

Mr. Jeremy Masding: I would make three points. First, we underwrite a mortgage at a point in time based on the risk. Second, we accept that switching is part of the mortgage market. Third, a functioning mortgage market also has to have a retention element. Switching is switching. In terms of retention, I committed to looking at the fixed rates for existing customers which is a key part of our retention toolkit. That suite of products is under review. If I could just leave it there, that would be great.

Deputy Michael McGrath: To be clear, are the fixed rates offerings for existing customers under review?

Mr. Jeremy Masding: As part of our retention strategy. That is correct.

Deputy Michael McGrath: What about the specific MVR issue I have raised?

Mr. Jeremy Masding: We underwrite at a point in time. For the foreseeable future, I have no intention of changing how we do MVRs over time. Switching and retention is part of our job. My comment on retention focuses on fixed rates.

Deputy Michael McGrath: I understand that the bank underwrites at a point in time. However, the risk of those particular mortgages reduces over time as they move down the LTV band. The value of the home goes up and the mortgage is reducing, and, therefore, the risk to the bank falls and its security improves.

Mr. Jeremy Masding: That is not necessarily true if the value of properties falls. That is why banks underwrite at a point in time. For us to be a vibrant and competitive force in Irish retail banking, we need to ensure we participate in the switching market and that we have the right retention strategy. The focus of our retention strategy is on fixed rates. As I have said, we need to work harder in that domain and we will do.

Deputy Michael McGrath: I heard Mr. Masding's comments on fixed rates. However, his answer on the MVR issue is not good enough. The fact of the matter is that those customers are being unfairly locked into a particular LTV band even though their actual band has improved over time. This is unfair to customers who are willing to go the expense of getting an up-to-date valuation and submitting it to the bank. We have people who took out mortgages of €200,000 when the houses they bought might have been worth €250,000. Now, those houses could be worth €300,000 and their mortgages could be down to €100,000. However, the bank is not allowing them to revise the LTV band. Such a revision can make a significant difference. This is unfair on those customers. From what Mr. Masding said, the bank has no plans to do anything about that issue.

Mr. Jeremy Masding: I heard the Deputy's point and I have tried to answer it.

Deputy Michael McGrath: I welcome the fact that the bank is reviewing the issue concerning fixed rates. I hope it will lead to a decision and action. It is discriminatory. The best fixed rate the bank will offer its existing customers is 4.2%, whereas a new customer can potentially get a rate as low as 3.2%. If a new customer has a low LTV and signs up to a three-year new business rate, it will be as low as 2.95%. The bank is taking advantage of customers who are trapped and benefiting from their inertia. I have consistently made that point to Mr. Masding. It is a fundamental problem with the bank's business model. It might be that the bank cannot afford to treat those customers fairly. If that is the case, then there is an even bigger problem. If one goes back to question 9 on page 5, which Mr. Masding answered, it is an issue I raised before. The bank has 57,000 customers on a standard variable rate, SVR, of 4.5%. What is the blended cost of funds for the bank currently?

Mr. Jeremy Masding: We cannot mix two things up. The Deputy is making three points. First, I have assured the Deputy this morning that the fixed rate for existing customers is under review. Second, as we have said in our more recent visits to the committee, our SVR is not a live rate *per se* in terms of new business. We give all our customers access to MVR. As per every public forum, I encourage customers who have SVRs to engage with us and take advantage of the MVR offer.

In terms of the blended costs of funds, the chief financial officer will answer that question specifically. I refer the Deputy to page 12, question 35, which relates to the cost of mortgage rates to consumers. The chief financial officer will give the committee a blended cost of funds and *prima facie* that will be a low number. However, we do not price a mortgage just off the cost of funds as we have debated before. Unfortunately, on average, the regulatory costs, the credit risk costs, the liquidity costs, and, in particular, the capital costs in Ireland are higher. In terms of capital cost and the risk-weighted assets, RWA, the intensity we put against mortgages is much higher than it is in other European countries. It is all of those blended inputs which create the price of the mortgage, not just the cost of funds.

Mr. Eamonn Crowley: The blended cost of funds is 46 basis points.

Deputy Michael McGrath: On that table in question 9, if one takes the SVR, why is the number of accounts significantly less than the number of customers? Normally, the number of accounts would be greater. Is it that in the case of a joint mortgage the bank counts two customers?

Mr. Jeremy Masding: That would be one of the reasons.

Deputy Michael McGrath: Accordingly, a joint mortgage in the name of two people will comprise two customers.

Mr. Jeremy Masding: In the spirit of how we work together, that occurred to me this morning as well. Can I get somebody to text me to confirm this?

Deputy Michael McGrath: I know it is a technical question. However, normally the number of accounts is greater than the number of customers.

Mr. Stephen Groarke: The main driver is the fact that if we have a joint account, which is pretty typical in a mortgage underwrite, that accounts for two customers in this table. That would drive the number of customers to be higher in general.

Deputy Michael McGrath: Again, to put on the record as we did the last time, all of those 46,700 mortgage accounts on a SVR of 4.5% can get a reduction immediately by moving on to the MVR. The reduction is a minimum 0.2% or 20 basis points. Many of them actually have a low enough LTV but never bothered to avail of the MVR about which the bank wrote to them.

Mr. Jeremy Masding: That is correct.

Deputy Michael McGrath: The bank wrote to them several times and it is on their annual mortgage statements. We need to bring this to people's attention because a significant number of mortgage holders are paying more than they need to. I would argue that they should be paying an awful lot less than they are at 4.5%. Even without switching bank, they can get an immediate reduction in their mortgage. Is the bank still paying for valuations for people who are moving to the MVR for the first time?

Mr. Jeremy Masding: That is correct.

Deputy Michael McGrath: The bank has eight accounts paying a rate of 9.1%. That is a fixed mortgage rate into which these customers would have entered some years ago. The rate is from a point in time but it would be nearly criminal at this stage. In terms of the breakage costs and in line with European changes, could such customers break out of that rate without incurring a significant penalty under the new rules around calculating breakage costs?

Mr. Jeremy Masding: The bank works within the regulatory or legislative boundaries it is given. We would calculate the break fee within those boundaries and the calculation would be there. I cannot comment specifically on the Deputy's request as I need to work it out. One can break from a fixed-rate mortgage

Deputy Michael McGrath: Let us talk straight. Those paying that kind of rate - it is a crazy rate - signed up to it at a particular point in time and the terms and conditions were clear. Changes have been introduced in how breakage fees are calculated, however. In practice, has that made a difference? Are people able to break out of fixed rates without incurring significant penalties?

Mr. Jeremy Masding: That is a difficult question for me to answer because "significant" is pejorative term. There is a calculation that one can break out of a fixed rate. As the Deputy said, the rate was agreed at a point in time. It comes back to our obligation in terms of being competitive that the existing customer fixed rates are competitive. They are under review as we speak.

Deputy Michael McGrath: I welcome the decision to remove the 4,300 homes with split

mortgages from Project Glas. Is the bank looking at a securitisation option? From reading his commentary at the time when he made an announcement on 16 May on this, it looks to me that it will likely be a securitisation option. Can this be executed? In that scenario, at what form of securitisation is the bank looking? Is it looking at a scenario where the bank remains in control of those loans? Will the bank remain the legal owner or the beneficial owner? Will it continue to be the contact point? Will the bank be the one making the decisions in respect of these loans? I welcome the removal of those loans from Project Glas. People still have questions and concerns as to what the final outcome will be for them - particularly if a securitisation option is put into effect.

Mr. Jeremy Masding: I hope we were clear, during our last appearance on the debate on Project Glas and split mortgages, that the choices available to us then were unclear. We had no formal notification, for example, of the emerging view from the European Central Bank and how that would work. Today we have choices. We are evaluating those, as the committee would expect us to do. When we have all the information to make that choice, we will do that in a professional manner, as we always do. I not want to comment on the questions I have been asked this morning because we do not yet have the details. We are working through the alternatives and the capital markets alternative is one we are looking at.

Deputy Michael McGrath: Does the commitment that they are to be removed stand?

Mr. Jeremy Masding: That is correct.

Deputy Pearse Doherty: Cuirim fáilte roimh na finnétithe chuig an gcoiste. I want to pick up on that point. I had extensive engagement with Mr. Masding on this issue the last time he was before the committee. I could not, for the life of me, understand then how Permanent TSB had structured its split mortgages in such a way, as Mr. Masding stated very clearly to this committee, that under the ECB rules they would be defined as non-performing unless they returned to the original contract. Will he clarify that statement?

Mr. Jeremy Masding: The statement I made?

Deputy Pearse Doherty: Yes, that statement.

Mr. Jeremy Masding: It still stands.

Deputy Pearse Doherty: Does it still stand?

Mr. Jeremy Masding: Yes, it does.

Deputy Pearse Doherty: Does that mean split mortgages will always be defined as non-performing?

Mr. Jeremy Masding: Permanent TSB's split mortgages are non-performing as of today and, as per my answer to Deputy Michael McGrath, we are looking at different alternatives to derecognise them as non-performing loans. Those alternatives, as I confirmed to Deputy Michael McGrath, include a capital market solution. It is, however, early days in our thinking. I have not got any more information.

Deputy Pearse Doherty: Is it not the case that while Permanent TSB's split mortgages are defined as non-performing, split mortgages in themselves do not necessarily mean they are non-performing until they return to their original contract?

Mr. Stephen Groarke: I will pick up on the discussion we had at the last meeting. The question arose then as to how AIB was able to represent that its split mortgages were not non-performing. They were classified as performing whereas ours ended up being non-performing. It is true to say that banks have structured their split mortgages in different ways. One of Deputy Pearse Doherty's colleagues in the European Parliament received a detailed response from Ms Danièle Nouy in April. That was a clarification of the interpretation of the regulations and that confirmed the position that Mr. Masding has outlined. Our split mortgages today are classified as non-performing. It is also clear that when we structured our split mortgage in 2012 and 2013, we could not possibly have anticipated how the Single Supervisory Mechanism, SSM, would clarify the regulations a number of years later.

There is a distinction between the economics of the split mortgage for us and the economics of the split mortgage for AIB. Split mortgages make up about one sixth of our forbearance treatments. In AIB, they make up about 6% of its overall forbearance treatments. It is a much more prevalent treatment for us. The key distinction is that the level of the warehouse we offered is much higher than it is in AIB. As we understand it, the size of the warehouse in AIB is typically less than 20%. We have been, as we described, more generous on the level of warehouses we have been willing to offer. We have gone as high as 80%. Almost all of our splits are between 20% and 80%. That is critical to how non-performing loans are judged because there is a 20% threshold within the regulations on how defaulted loans are classified as NPLs. There are distinctions and they are very important. We needed the SSM to clarify the regulations, in the way it did, to us and to the Deputy's colleague in the European Parliament in April to be clear on that.

Deputy Pearse Doherty: There were 4,600 split mortgages in the Project Glas portfolio. My concern is that Permanent TSB - with all of the expertise it has, all of the money it spends on its advisers and legal fees and all of the salaries enjoyed at board level - has obviously considered this issue and decided to plough ahead with the sale of 4,600 split mortgage performing loans. As Mr. Groarke rightly said, we did get a response from the ECB. That was because we recognised that something was wrong. We are not involved in banking but we are people who hold financial institutions to account in this committee. AIB could do it and Bank of Ireland could do it, so why could Permanent TSB not do it? Ms Nouy confirmed to Mr. Matt Carthy, MEP, that - in contrast to what was said by Mr. Masding and Mr. Groarke - a senior loan resulting from a split mortgage restructure can return to being classified as performing. She also confirmed that it can be considered a sustainable long-term method of restructuring retail mortgages, provided that the restructuring complies with all the conditions established under European laws.

The point I made to Mr. Groarke at the last meeting was that Permanent TSB structured its split mortgages in such a way that they are now classified as non-performing. What Permanent TSB needed to do, however, and what it still needs to do, is to restructure them and bring them into line with what AIB and Bank of Ireland have done instead of selling them to vulture funds. I welcome the fact that since that last meeting, Permanent TSB has decided not to include those 4,600 loans in Project Glas. To me, however, that does not get to the core of it. It is a welcome development because Permanent TSB's decision had caused much stress to those 4,600 mortgage holders and their families. I just see incompetence here. I do not mean that personally but that is what I see. Permanent TSB was marching ahead in this direction until we challenged it at the last meeting. It figured out then that there was a different way and that it was not necessary to do what it was going to do.

Mr. Stephen Groarke: I have some comments. We went into this in great detail in the last meeting. Although our representations to the SSM are public, we have been making similar representations to the SSM since January 2017. We only got an answer in April this year, at the same time as Deputy Pearse Doherty's colleague in the European Parliament. We did not take this lightly. There was no other choice until that point and until these capital market options emerged. They were classified as NPLs. The only way at that time for us to deal with one sixth of our NPLs, which is what split mortgages represent, was to sell them. It is only since then that clarification has come from the regulator and the capital markets options have emerged.

Deputy Pearse Doherty: With respect, the clarification came after the last meeting. I told the witnesses at that meeting exactly what the ECB has confirmed. I ask Mr. Groarke to talk to people in the industry, to legal advisers providing advice to banks and to other bankers. I am sure there are conversations at different events. The witnesses will recognise that what happened was that Permanent TSB constructed a split mortgage in a way that fell foul of the laws that exist today. The split mortgages of Permanent TSB's competitors, however, did not fall foul of the laws. Some of the issues that the witnesses identified on the proportion of warehousing are a part of that but only a part.

I did not need the ECB to tell me that. The problem was that Permanent TSB was marching ahead and selling all these loans to the vulture funds. Permanent TSB has a duty of care to people who pay their mortgages every single month. These 4,600 did that. Permanent TSB completely abdicated that duty of care. It was a bit too tricky or difficult for Permanent TSB, so it announced, in the absence of any clarification from the ECB, that it was selling the whole lot. That is wrong on all levels. Permanent TSB has now done the right thing in pulling them from Project Glas, but that decision, taken at board level by the bank, was wrong. The board did not have the information. If the bank needed clarification, it should have waited for that and it should have taken the right decision, which it is now doing. I want to tease out exactly what that decision is. Can Mr. Masding acknowledge that the decision taken by his board at that time to announce the sale of those 4,600 split mortgages, which are performing, was wrong and that he should have waited until he had full clarity from the ECB on its definition of the bank's split mortgages?

Mr. Jeremy Masding: Absolutely not. I sat here before the Deputy at the last visit. I explained to him in detail the relationship with the ECB in terms of Permanent TSB having one of the highest NPL ratios in Europe. I explained to him that we are under advisement to reduce that ratio to the European average, which is 5%. I explained the composition of our NPLs to him at the time, I explained that our splits were NPLs and I explained that based on the information we had at that moment, we had no other choice but to continue. I sit before him now to explain that between our last appearance and today we received new information which meant that we could look at alternative options. To answer the Deputy's question, I absolutely do not acknowledge that.

Deputy Pearse Doherty: I would not expect anything less from Mr. Masding. What he explained to me last time was this: Permanent TSB's split mortgages could not be defined as performing unless they returned to the original contract. That is wrong, because now he has confirmation that split mortgages can be defined as performing loans. I put the practice of AIB and Bank of Ireland to him and he said he did not have a clue how they could do it. Mr. Masding also told us at that time that he was waiting for clarification, and that he had received no response to the numerous submissions that had been made to the ECB. However, Permanent TSB decided as a board, and Mr Masding decided as the chief of that board, to sell these loans

regardless.

Mr. Jeremy Masding: Our NPL ratio is 26%. That means that in our relationship with the regulator, we are seen as one of the banks that involves much oversight. Our job on behalf of Ireland is to get Permanent TSB to a place where it is more stable and safe and that is what we are trying to do.

Deputy Pearse Doherty: Mr. Masding took the easy option to sell off performing loans which were deemed non-performing, instead of doing the hard work, which we as Irish taxpayers who funded his bank expect him to do, namely to find a way to make them perform. That is what the ECB has now engaged with Permanent TSB to do. At the last meeting, I put this to Mr. Masding. However, he took the easy road. I do not expect him to acknowledge it, because that is his form.

Mr. Masding replied to Deputy Michael McGrath about the structure of these 4,600 loans, or proposals that are under consideration in respect of the securitisation of these loans. When does he expect that the bank will make a decision on the future of these performing split mortgages?

Mr. Jeremy Masding: I will allow Mr. Crowley to answer that. I wish to respond to Deputy Doherty's comment: "I do not expect him to acknowledge it, because that is his form". I have been in this job for six and half years. I suspect I have been in front of this committee on more than a dozen occasions. If the Deputy feels that I have obfuscated answers, then I apologise to him. I have never come here to obfuscate. I am a guest in Ireland. I came here under advisement to try to help and to try to fix Permanent TSB. If I have obfuscated, I apologise to the Deputy as an individual. Those are not my values. I try to answer his questions to the best of my ability. I will leave it at that.

Mr. Eamonn Crowley: The split mortgages equate to 4,300 properties, that is, residential primary dwelling homes. We are looking at options, as the CEO has mentioned. Decisions will be made during this year. However, those decisions will be subject to regulatory approval and will be required to go through extensive discussions with the regulator.

Deputy Pearse Doherty: This year?

Mr. Eamonn Crowley: This year, yes.

Deputy Pearse Doherty: I may come back to the sale to vulture funds in a minute, but I want to move. To be clear, I do not believe that Mr. Masding obfuscated. He answered the question. He defended the bank, his decision and the board's decision. That is what I mean when I say that I believe that is his form. It is not that he did not answer the question. The expected response from him is what I got, which was not acknowledging that the decision was wrong.

I refer to the question that I have posed repeatedly to Mr. Masding and to his colleagues who hold senior positions within the banks on how all of this happened. Has he figured out who was responsible within the bank? I refer to the sum of €58 million, more than €40 million of which was taken wrongly from customers' accounts.

Mr. Jeremy Masding: The answer is the same as I have given the Deputy thus far. In the work that has been undertaken thus far, both internally and by the Central Bank, there has been no individual whom we can see has been part of a conscious choice or decision on the tracker mortgages. My answer as per previous visits to the committee stands.

Deputy Pearse Doherty: Was Mr. Masding's bank involved in mismanagement?

Mr. Jeremy Masding: There is probably a general answer to that question. When we all got together in 2012, it would be fair to say that the bank had real issues and needed fixing. I refer to operational fixes, strategic fixes and finance fixes. It is a turnaround story. If the Deputy's definition of "mismanagement" is having areas which need fixing, then I suppose one could use that. We were asked to fix an institution which the vast majority of commentators felt was a zombie bank and had no chance of surviving. The bank had serious issues, which we have tried to fix.

Deputy Pearse Doherty: I understand the bank had serious issues. We all know that. The Government at the time pumped quite significant taxpayer resources into the bank. Was the bank involved in serious operational mismanagement in the tracker mortgage scandal?

Mr. Jeremy Masding: There were operational errors and, therefore, one could determine that as a weakness in the operational running of the bank. I will just leave it there.

Deputy Pearse Doherty: I will ask this question again. In Mr. Masding's view, under his definition and not mine, does he believe his bank involved in serious operational mismanagement?

Mr. Jeremy Masding: The approach to running the operations of the bank could have been to a higher standard. "Mismanagement" has a level of pejorative interpretation that I would not want to get myself into, because the tracker mortgage examination is still being assured by the Central Bank.

Deputy Pearse Doherty: Is that a "Yes" or a "No"?

Mr. Jeremy Masding: It is neither.

Deputy Pearse Doherty: It is neither. When was the last time that the Minister for Finance held a meeting with Mr. Masding?

Mr. Jeremy Masding: It was a few weeks ago.

Deputy Pearse Doherty: Mr. Masding and the Minister also had a meeting in late 2017.

Mr. Jeremy Masding: Correct.

Deputy Pearse Doherty: Can I read the minutes from that meeting to Mr. Masding?

Mr. Jeremy Masding: Yes.

Deputy Pearse Doherty: These are minutes from the Department of Finance. They are private and confidential. I am not sure if Mr. Masding has a copy of them.

They state:

When asked about causation, Jeremy Masding commented that he had no evidence of collusion or willful complicity, and noted that no personal sanctions had arisen from the Springboard enforcement. He stated that there was strong evidence of operational mismanagement.

I have asked Mr. Masding three times whether there was operational mismanagement and he

could not tell me. That is his form.

Mr. Jeremy Masding: My form is to allow the tracker review to be assured by the Central Bank. Given that we are in enforcement, I am very wary of making any statements which conflict with that review. If I made that comment about Springboard, then it would be true. Of course, Springboard is just a small area. My interpretation of the question the Deputy asked was to refer to Permanent TSB because that is where I naturally default to. We are still having enforcement conversations with that bank. I do not believe that, in a legal sense, I have perjured myself in any way, shape or form. The comments I made were about Springboard.

Deputy Pearse Doherty: The comments are not about Springboard. The question was about causation in the context of Permanent TSB. The meeting was about Permanent TSB, but Mr. Masding mentioned that there were no personal sanctions arising in the context of Springboard. He went on to state that there was strong evidence of operational mismanagement. Will he accept that there was operational mismanagement in Springboard?

Mr. Jeremy Masding: Yes, I accept that because the enforcement actions showed that there was.

Deputy Pearse Doherty: Who were the managers responsible for that mismanagement? Has Mr. Masding determined the persons responsible for mismanagement in that bank?

Mr. Jeremy Masding: The enforcement action with the Central Bank of Ireland regarding Springboard has concluded and the matter is closed. I am in the middle of an enforcement investigation with the Central Bank in respect of what has been, as we all know, a serious financial services issue for Ireland. I hope the Deputy can respect that. I do not want to compromise that investigation.

Deputy Pearse Doherty: Mr. Masding, in his position as CEO, also does not want to state that his bank was involved in mismanagement, which would lead to a huge issue. It would allow for many individuals to take stronger legal cases against the bank. Let us deal with the Springboard case. That case is closed, so Mr. Masding can talk about it. He cannot rely on the excuse that he is in the middle of enforcement procedures with Springboard.

Mr. Jeremy Masding: I cannot talk about Springboard because, in any enforcement investigation, when the full and final settlement with the Central Bank is signed, a confidentiality clause applies.

Deputy Pearse Doherty: Mr. Masding told the Minister for Finance, Deputy Donohoe, Mr. Derek Moran and Mr. Des Carville that there was strong evidence of operational mismanagement. Can Mr. Masding tell those individuals things that he cannot also tell the committee?

Mr. Jeremy Masding: I have said all I am prepared to say.

Deputy Pearse Doherty: Mr. Masding should answer the question. Can he give a civil servant in the Department of Finance information that he cannot give to the elected public representatives at the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach? It relates to an enforcement procedure that is now closed.

Mr. Jeremy Masding: I have said all I am prepared to say.

Deputy Pearse Doherty: Why can Mr. Masding not tell this committee what he told others behind closed doors? He said that there was serious evidence of operational mismanagement in

Springboard. When I said that this is Mr. Masding's form, that is what I meant. This is about closing ranks and about bankers protecting bankers. It was stated in black and white. The minutes are available. Mr. Masding has not denied it. I want to discuss this issue with him because of the pain that has been occasioned as a result of that operational mismanagement. I want to discuss that with Mr. Masding, but he is telling me that he will not discuss it.

Mr. Jeremy Masding: I cannot discuss it. The statement of operational mismanagement is as far as I am able to go because of the nature of the agreement that was signed with the Central Bank. That is where we stand. In terms of Permanent TSB-----

Deputy Pearse Doherty: Has anybody in Springboard been held to account for the operational mismanagement that Mr. Masding has accepted happened within it?

Mr. Jeremy Masding: The Central Bank found no evidence that required personal sanctions.

Deputy Pearse Doherty: Does the bank have any intentions of holding anyone to account for the operational mismanagement which, Mr. Masding accepts, happened within Springboard?

Mr. Jeremy Masding: No, because the enforcement action is closed.

Deputy Pearse Doherty: This is incredible; it is masters of the universe stuff. Mr. Masding has come here and stonewalled the committee. He spoke about obfuscation. I have had to put this to him three times. He will not tell us things that he will tell civil servants behind closed doors. He tries to close down any conversation on this issue. The reality is that Mr. Masding has no intention of bringing accountability to his bank on this issue. Does he believe there is an issue in terms of the culture within his bank?

Mr. Jeremy Masding: To go back to the first question the Deputy asked, we go through a regulatory process which includes discussions around personal accountability. It is known as an enforcement action. In terms of the culture of Permanent TSB, we are working to create a vibrant and profitable bank, and that culture needs to be based on the correct outcomes for customers. Everything we are debating this morning relates to what might be termed as legacy issues. They cannot be allowed to happen in the future. We are working hard, in terms of people, processes, and structures to make sure that we build the type of institution that defaults towards the correct outcomes for customers.

Deputy Pearse Doherty: Does Mr. Masding accept that he and the board of Permanent TSB have the authority to deal with this outside of enforcement procedures? The enforcement procedures implemented by the Central Bank are very stringent. There is a high bar in terms of the type of procedures used and the evidence adduced. The bank can also hold individuals to account, like any company can. Mr. Masding is relying on the fact that the Central Bank did not hold individuals to account in terms of its thresholds. As a result, he has decided that his bank will do nothing.

Mr. Jeremy Masding: Can I ask Mr. Groarke to discuss the question of personal accountability? We went through an enforcement action. Is there anything he can say from the perspective of a chief risk officer?

Mr. Stephen Groarke: There are two dimensions at play. I was not at that meeting at the Department of Finance, but my understanding is that the context of that discussion was the examination of whether there was any conspiracy at an industry level - or indeed ill-intent - or

to discover whether there were operational issues where things had gone wrong in the operations of the bank. As I understand it, no evidence was found of a conspiracy at industry level. At bank level, no evidence of ill-intent was found. In that context, the conversation turned to operational issues. It is very clear that the bank did not have the correct standards, processes or governance in place, and much of that has had to be put in place since 2012 when the new management team was installed. It would be a very high bar indeed to assume that any individual would have recognised, in the period from 2006 to 2010, that those governance standards which are now commonplace should have been in place. They clearly were not in place in Permanent TSB. Neither were they in place in peer banking institutions. There would have been no benchmark for an individual to say that those governance standards should have been imposed because there was not sufficient realisation across the entire industry that these standards needed to be in place. That is why this is being treated as a systems and operational error as opposed to being a matter of individuals seeking to overcharge customers.

Deputy Pearse Doherty: Whatever about the original intent, I was there in the room when a relation of mine, one of the first people who took a case to the Financial Services and Pensions Ombudsman because of what Permanent TSB did, informed the bank of what it was doing. It denied my relative a tracker rate when it was in black and white in the conditions that the bank was to revert to a tracker rate. The answer coming back on the phone - coming from management down - was that my relative was not entitled to a tracker mortgage. I was there and I saw the tears. I witnessed the devastation that caused to the family, because I know them. This is not about communication. They challenged the bank and told the bank it was wrong. They referred to their contracts, where it is stated clearly, and still it went on for years. In this case, it went on for years and the damage was done over and over again to their personal finances and wider social life. It has also had an impact on their health. The bank will do what it does. It talks about systems errors and all the rest. The banks will close ranks. That is what is happening. It is my view; Mr. Groarke has a different view to which he is entitled.

Finally, why is the bank still sending out extend-and-pretend letters to customers saying it does not know if individuals are impacted? Why is that still happening? These letters are still going out to customers on a monthly basis.

Mr. Stephen Groarke: I cannot comment on an individual case in which a customer has received it. At this point we have determined the customers we believe are impacted, which is a total of 1,979 customers. If that has happened, I would need to look at the specific circumstances of the case and make a judgment about why we judged it appropriate. At this point, at one remove from the correspondence the Deputy or his constituents have, I am not able to comment.

Deputy Pearse Doherty: Mr. Groarke made a similar comment on 28 September 2017 to Deputy Sean Sherlock, who is not present, about looking at cases. The individual involved in one of those cases is still getting the monthly extend-and-pretend letter. A data request was made. Will the witnesses clarify the obligation the bank has to provide the data within 40 days? A request that was made in January still has not been fulfilled. Why not?

Mr. Stephen Groarke: It is a requirement of the Data Protection Acts in Ireland and the new GDPR that people are entitled to get their data. My understanding in that case is we have complied by providing all the data we have. I have not seen the specifics of that and how it has been handled since that meeting. I will look at the specific case if there has been further correspondence that has not been satisfactory.

Mr. Jeremy Masding: We will get in touch with the Deputy's office, as we always do, and

we will look at the individual cases.

Deputy Pearse Doherty: I brought up the non-compliance with the Data Protection Acts at the previous meeting as well. For example, people are requesting transcripts of phone calls and they are not being provided within 40 days. In this case it is more than 40 days. This request was made in January. This is a case the witnesses are familiar with. It is a case that was brought up at a committee meeting in September 2017 and it still has not been addressed.

Mr. Stephen Groarke: My colleague has just informed me we are not aware of any unfulfilled data requests and we are currently at 100% in terms of compliance. If, for whatever reason, we have not complied with that standard, we will look at that specific case.

Senator Rose Conway-Walsh: I thank Mr. Masding for his opening statement. I want to look at the deferred tax assets issue. Is €361 million the correct figure? Is that what arose due to the historical operating losses? Will the witnesses confirm that?

Mr. Eamonn Crowley: That is correct.

Senator Rose Conway-Walsh: It will take 23 years for the deferred tax assets to be utilised. Is that correct?

Mr. Eamonn Crowley: That is an estimate based on the future profitability of the bank at this moment. The profitability of the bank may increase as interest rates increase because there is a direct relationship within our balance sheet but based on current projections, that is what we are saying.

Senator Rose Conway-Walsh: Does Mr. Crowley think it is morally right considering the discussion we have just had about the bailout and Irish people paying for it? Do they not think that money that should be paid in tax constitutes a second bailout?

Mr. Eamonn Crowley: It is not necessarily a moral question because it follows the accounting rules and regulations. We have to disclose it in such a way. That is a requirement.

Senator Rose Conway-Walsh: It is clear to people that nothing has changed within the banking system. It is a case of, “We did not mean it”, where the tracker mortgages and other issues are concerned and now we are in this situation again. It seems like everyone gets off with everything and now no tax has to be paid for 23 years. It is disgraceful.

Mr. Jeremy Masding: The Senator would expect me to reply to that. By our own estimation, we have kept 30,000 people in their homes. We allowed customers to take their tracker mortgages with them on a portability basis. We gave customers with an SVR access to an MVR. We hope we are contributing to the real economy with our 40% mortgage market share. We hope we are getting a new set of young bankers and instilling in them the right values and behaviours for a banking system, which is important in Ireland. I hope these examples show there has been change. There is still more to do. If the Senator’s point is that we think we are finished, that is not the point I was making. The facts show there has been change.

Senator Rose Conway-Walsh: Some people are paying interest rates of more than 4%. When one looks at the ECB rates and one is paying more than 4% on a mortgage-----

Mr. Jeremy Masding: I have explained every time I have been here and I explained to Deputy McGrath earlier how the maths work.

Senator Rose Conway-Walsh: I know how the maths work. Mr. Masding identified NPLs as one of the reasons interest rates are so high. What is the impact of NPLs?

Mr. Jeremy Masding: It will give us much more capacity to be much more competitive with rates because NPLs are a drag on our financials.

Senator Rose Conway-Walsh: How will that be reflected in terms of the-----

Mr. Jeremy Masding: I could not say that today because one does not know the macroeconomics we will work in at a certain point in time but, all things being equal, NPLs are a drag on our ability to make a return and to be competitive so managing them down would give us more capacity to be more flexible in our propositions.

Senator Rose Conway-Walsh: The fact the bank will not have to pay corporation tax for 23 years is a drag on the Irish citizen.

Mr. Jeremy Masding: My colleagues and I have explained that we have to work within the regulatory and legal accounting framework we have. To associate PTSB solely with a deferred tax asset debate is rather unfair.

Senator Rose Conway-Walsh: The banks are all in it together and it applies across the board.

Mr. Jeremy Masding: It is a European banking industry issue.

Senator Rose Conway-Walsh: Why does Mr. Masding think the bank's share price declined by 20% between the end of November and the end of May?

Mr. Jeremy Masding: That is because we have a 26% confirmed NPL ratio. As a management team, when we talk to investors, we tell them we are on track in terms of current accounts, mortgage lending and unsecured lending, and our deposits are increasing. The big question mark around the value of the enterprise is the 26% NPL ratio.

Senator Rose Conway-Walsh: I want to ask about the 25 customers affected by the tracker mortgage issue who have not been contacted. Ms. Masding said everything has been done to contact them. Are there properties attached to those 25 customers? It seems strange that there are still 25 that----

Mr. Jeremy Masding: Mr. Groarke will answer that.

Mr. Stephen Groarke: There are properties attached to those customers. Internally we have tried a number of times to contact those customers both in writing and on the phone. We have also employed external trace agents. At this point, it is looking like those individuals and couples are difficult to find. We are continuing to employ trace agents. In a number of cases we believe the customers have emigrated. In the event we are not able to contact them, we will apply their redress and compensation to their mortgage accounts. At a subsequent point if we are in contact, we will then pay over the redress and compensation. It will be put on their account in the meantime.

Senator Rose Conway-Walsh: How much are we talking about for the 25 customers?

Mr. Stephen Groarke: I do not have the specific number to hand but it is in the region of €300,000 to €400,000. That is an estimate.

Senator Rose Conway-Walsh: Is it €300,000 to €400,000 spread over 25 customers?

Mr. Stephen Groarke: Yes.

Senator Rose Conway-Walsh: Do the trade agents call to the properties?

Mr. Stephen Groarke: The trade agents would call to the properties to check if customers are there. In the event of it being confirmed that they are not at the property we would continue to attempt to contact them by telephone and in writing. In general, as a bank we have been careful about door knocking. It is a very sensitive issue for people to be called directly by their bank and so we are very careful about the way in which we engage.

Senator Rose Conway-Walsh: On the independent appeals mechanism, Mr. Groarke said that 276 cases have been adjudicated on to date, 79 of which were upheld or partially upheld and 179 were not, and that 28 customers are engaged with the Financial Services Ombudsman. Was there a commonality in the 79 cases that were upheld?

Mr. Stephen Groarke: The circumstances tend to vary. In addition to the 28 cases which have not yet been adjudicated by the Financial Services Ombudsman, FSO, through mediation at the dispute resolution service of the FSO, we have been able to resolve a further 13 cases. We believe this is potentially an additional useful mechanism to the two appeals panels. In response to the Senator's question, there tends to be diverse circumstances, including personal circumstances, some of which would be non-financial, that would come out in the course of the appeals process mechanism or the FSO process, such that I could not say there was a trend in the cases mentioned.

Senator Rose Conway-Walsh: On the non-performing loans, how many are attached to farms or farm land?

Mr. Eamonn Crowley: I do not have that information.

Senator Rose Conway-Walsh: Will Mr. Crowley provide it to the committee at a later date?

Mr. Eamonn Crowley: I will, if we have it.

Mr. Stephen Groarke: If any, it would be an extremely small number because we would have underwritten the loans on the primary dwelling home, typically. Typically, we would have treated the farm as an SME business. We will come back to the committee with the exact number but I do not believe it is a prevalent cohort within this category.

Senator Rose Conway-Walsh: We would like an aggregate figure of the farms that come under that category. Am I correct that the bank has offered 400 properties to the housing agency?

Mr. Shane O'Sullivan: Yes.

Senator Rose Conway-Walsh: When did the bank offer them?

Mr. Shane O'Sullivan: In the last six weeks. We have a stock of close to 2,000 properties, many of which, as mentioned on the last occasion, were surrendered under the voluntary surrender campaign we offered to buy-to-let customers. The incentive was that in return for the property the shortfall debt is written off. This has led to the bank having a large stock of

property. We believe approximately 400 of those properties may be of interest to the housing agency and it is actively looking at them.

Senator Rose Conway-Walsh: How many vacant properties does the bank have on its books?

Mr. Shane O'Sullivan: Approximately 2,000.

Senator Rose Conway-Walsh: How many of them are vacant?

Mr. Shane O'Sullivan: Approximately 1,100 are vacant and 900 are tenanted.

Senator Rose Conway-Walsh: What is the response from the housing agency?

Mr. Shane O'Sullivan: It is interested in some of the properties. We are awaiting a final outcome. My sense is that it will be interested in 250 of the 400 properties offered.

Senator Rose Conway-Walsh: Are the 400 properties vacant?

Mr. Shane O'Sullivan: No. It is a mix of tenanted and vacant properties.

Senator Rose Conway-Walsh: In regard to sale of loans, how does the bank notify customers that their loans are to be sold?

Mr. Eamonn Crowley: The customer receives a 60 day notification of the sale of the loan.

Senator Rose Conway-Walsh: The bank sends that notification to the customers.

Mr. Eamonn Crowley: Correct.

Senator Rose Conway-Walsh: In what form is that notification issued?

Mr. Eamonn Crowley: It is a letter.

Senator Rose Conway-Walsh: Does the bank detail in that letter all of the protections that are transferred with the sale?

Mr. Eamonn Crowley: The sale has not happened. It is planned but it has not yet happened. The content of the letter has yet to be finalised. If what the Senator suggests is a necessary requirement, we will include it.

Senator Rose Conway-Walsh: Above and beyond it being a necessary requirement, does Mr. Crowley believe the bank has an obligation to do that?

Mr. Eamonn Crowley: If there is an obligation to do it, we will do so. We would want to include as much information as possible to assist customers. In some cases, customers have not been in contact or co-operated with the bank and so we are not sure how they will receive the letters. We will include as much information as is necessary with regard to the transition but it has not happened yet.

Senator Rose Conway-Walsh: This is very important. The Central Bank has told us that where a loan is sold to a vulture fund the customers' rights are transferred. Regardless of to whom the loan is sold, the bank has an obligation to provide its customers with the details of the protections that will be transferred on sale of the loan. The banks should not be issuing letters that meet only minimum requirements.

Mr. Eamonn Crowley: That is a reasonable observation. As I mentioned, we will comply with what is necessary in that communication but it has not yet been prepared. The Senator's comments are welcome and we will take them into account.

Senator Rose Conway-Walsh: Perhaps when it has been finalised Mr. Crowley would furnish a copy of it to the committee.

Mr. Stephen Groarke: If we were to list all of the rights that travel with the loan it would be an extensive list because we would have to list the contents of the code of conduct on mortgage arrears, the consumer protection code and personal insolvency legislation. It probably would not be constructive to list all of the rights because as I said in light of the regulation and legislation that exists in Ireland in this regard, it would be an extensive list. We will look at including references to those protections in the letter. As pointed out by the Central Bank, it is clear through the media and from comments made by members that the rights travel with the loan. The credit servicing firm which an acquirer would use would have to comply with the regulations with which we comply.

Senator Rose Conway-Walsh: In reality, that is not what is happening on the ground. People are only finding out that their mortgages have been sold on receipt of a letter from a vulture fund to the effect that it owns their mortgages. In regard to the loans sold to date by Permanent TSB, did it give 60 days notice of those sales?

Mr. Stephen Groarke: In terms of sales in the past, we sold two tranches of loans in the UK, which would be distinct. The previous bulk of sales by the bank were Irish commercial real estate. The anticipated sale of Project Glas, which are residential mortgages, would not be on parallel with what we have done previously.

Mr. Jeremy Masding: If we find a point of agreement, it is wholly reasonable that we should ensure it passes a plain English test. It is wholly reasonable that we are very clear about what has happened and I assure the Senator we will do that.

Senator Rose Conway-Walsh: It would be helpful to the committee if we could get a copy of the letter. On the houses offered to the housing agency, did it give any indication of when the properties in which it is interested will be taken up?

Mr. Shane O'Sullivan: We are in discussions with the agency on the issue. I do not believe it will take too long for it to conclude whether the properties are of interest or not. I expect a conclusion in the coming weeks.

Senator Rose Conway-Walsh: Why is it only 400 properties when Mr. O'Sullivan said there was a stock of more than 2,000?

Mr. Shane O'Sullivan: We believe those 400 are appropriate for the profile of properties in which the Housing Agency is interested. All the other properties are moving along in different ways. Many of them are sale agreed already, in private treaty or in auctions.

Senator Rose Conway-Walsh: If Permanent TSB were to make the 2,000 available, surely it will be for the Housing Agency to decide whether they are suitable.

Mr. Shane O'Sullivan: We have made the 400 available and the early indications are that not all of them are suitable but that up to 250 may be suitable. We will see where that figure gets to. That suggests that our sense is correct. In fact, we perhaps were more optimistic about

the number it may be interested in so we will see how that concludes. The indications are that it is interested in approximately 250 of the 400.

Mr. Eamonn Crowley: That number may grow because in terms of the properties we have received in, we continue to cover legal due diligence around title etc. We expect additional properties to be sent to the Housing Agency in due time so it may not end at that number. The agency provides us with the characteristics of the type of houses it wants. We look at our list on that basis and send it to it.

Senator Rose Conway-Walsh: Where are those properties based, in the main?

Mr. Eamonn Crowley: They are located throughout the country.

Senator Rose Conway-Walsh: It is just that we have an enormous housing crisis, much of which was created by reckless lending by banks and so on. Permanent TSB and all the other banks have an enormous obligation to make sure that every empty property, and those soon to be empty, is made available because they are part of that crisis.

Mr. Shane O'Sullivan: We do, and we take it seriously. As I said, up to 1,500 properties have been returned in recent weeks. Anyone who has sold their own property will know that it takes some time to fix up the property, make sure deeds are perfected and so forth. Approximately 800 or 900 properties are being actively progressed through that process and once we are sure they can be sold and that we are not wasting anyone's time, they will be made available again to the agency and to the public. We are fully cognisant of the need to sell those properties quickly.

Senator Rose Conway-Walsh: I ask Mr. O'Sullivan to prioritise that in light of the ever-growing homeless waiting list.

Senator Kieran O'Donnell: I welcome Mr. Masding and his colleagues once again. I want to pursue a point made by Mr. Masding. He made reference to the non-performing loan ratio of 26%. What ratio are the European Central Bank, ECB, and the European authorities looking for? In terms of the value of loans and the physical number of loans, by how much will Permanent TSB be required to reduce the balance sheet to get to that figure? What is the plan around that area? I am trying to bring it down to the basics.

Mr. Jeremy Masding: To answer the Senator's first question, I understand the European average is somewhere between 5% and 6%.

Senator Kieran O'Donnell: There is €2.2 billion coming out in Project Glas. How long will it take to get to that 5% or 6% and what value of loans will the bank be required to either restructure-----

Mr. Jeremy Masding: At the risk of looking at it at a point in time, the Senator might give me a couple of seconds to answer. First, as we explained at our previous appearance, we have got to a stage where we have to have a serious and credible plan to get down to a material reduction in non-performing loans, NPLs.

Senator Kieran O'Donnell: Does Mr. Masding see the bank being required to get down to the 5% or 6%?

Mr. Jeremy Masding: I believe we have to get down to the European average over a period but I would make a couple of points on that. First, Project Glas and the other areas are those

accounts which are in long-term arrears. Many people are not engaging. Many are in long-term and large-scale arrears. That is why we moved towards that portfolio.

The second point is that the NPL ratio has a numerator and a denominator. It is also incumbent on us to grow our business in order that we can have some denominator benefit. The Senator asked why it matters. It matters for a number of reasons. First, it matters because our capital ratios are kept high and that flows through to the price of new mortgages so the broader economy pays, if I could be crude. Second, the level of management required to manage the regulator, when one has an NPL ratio of 26%, is significant. I am probably being loose in my English as by “management”, I mean-----

Senator Kieran O’Donnell: Staff.

Mr. Jeremy Masding: -----resource allocation and costs. That is why we have to work hard. At the same time, we have an obligation, and that word was used earlier, to do that in a way that treats customers in terms of getting the right outcomes. That involves the right communications and continuing to try to provide options for them. In summary, I believe it is 5% to 6%. The first stage is-----

Senator Kieran O’Donnell: In terms of Project Glas, to what percentage will the 26% figure reduce?

Mr. Eamonn Crowley: It brings it to mid-teens.

Senator Kieran O’Donnell: Are we talking about 15% or 16%?

Mr. Eamonn Crowley: In that region, yes.

Senator Kieran O’Donnell: When will the bank get to the stage where that knocks 10% off? To get to that 5%, Mr. Masding is talking about taking out another €2 billion.

Mr. Jeremy Masding: No. At its highest level, there are then two levers we pull. We have had the splits conversation; I do not want to go back there.

Senator Kieran O’Donnell: I just want-----

Mr. Jeremy Masding: The splits will then help-----

Senator Kieran O’Donnell: I am aware of that.

Mr. Jeremy Masding: -----and then it is a question of management also growing the book.

Senator Kieran O’Donnell: I know that. I am looking at it in a more linear way. I just want to get a handle on it and our role is a representational one. On the figure, am I correct in saying that approximately another €2 billion of loans will have to be dealt with by way of restructuring or sale to get to that 5%?

Mr. Eamonn Crowley: By way of mathematics, the Deputy is correct.

Senator Kieran O’Donnell: We are probably talking about approximately 10,000 additional loans involved.

Mr. Eamonn Crowley: On the basis that the Project Glas portfolio represents 11,100 properties, it is a reasonable assumption.

Senator Kieran O'Donnell: In terms of their plan, how do the witnesses propose to deal with that? They have Project Glas, and it is extremely important that mortgage holders' rights are respected, but there is a further wave to come. How will that manifest itself? Will it be about sale to funds or restructure? Is it a different profile of mortgage holder? Mr. Masding spoke about long-term arrears in terms of the profile of Project Glas. I want to look under the bonnet, so to speak, to see what is coming down the tracks in terms of getting Permanent TSB fit and well because it is extremely important that we have a third force in Irish banking. If Mr. Masding was looking at it from the outside and he saw where Permanent TSB is at now, with 26% non-performing loans and a figure of well over 60% trackers, what would be his view? I want to feed into the narrative also. Percentage wise, to what does Project Glas bring the bank's tracker loan book down? One would have to say that-----

Mr. Jeremy Masding: Our promise to the board and the regulator is a 2018 promise because we have to break the back of it. I am afraid I cannot answer the Senator's question directly this morning. Currently, all management time is focused on three things. It is on Project Glas, solving the split challenge that we have debated and, equally, trying to get the denominator up as much as we can.

Senator Kieran O'Donnell: To grow, but even with that-----

Mr. Jeremy Masding: We will take a deep breath at the end of this year and we will announce the NPL ratio with our year-end results in, I would guess, February or March.

Senator Kieran O'Donnell: Will the bank be hoping for an NPL ratio of around 15% or 16% at that time?

Mr. Jeremy Masding: If we can solve the splits as well, it will come down some more. My personal aspiration is to announce a single-digit NPL ratio to the market with the year-end results. If we could achieve that, we will have got to a point where PTSB can be seen in a different light.

Senator Kieran O'Donnell: At that point, would the bank be able to deal with the remainder of in-house-----

Mr. Jeremy Masding: I am not prepared to comment. We need to take a deep breath and see where it leaves us in our relationship with the capital markets and the regulator.

Senator Kieran O'Donnell: What is the bank's approach to the €2 billion in loans, relating to 10,000 customers, in terms of restructuring and meeting the customers to get them to bring the ratio down, in parallel with Project Glas? The devil is in the detail.

Mr. Jeremy Masding: I will ask Mr. Crowley to say whether he agrees with what I said.

Mr. Eamonn Crowley: Yes, fine. Perfect.

Mr. Jeremy Masding: Mr. O'Sullivan can talk about our ongoing arrears management.

Senator Kieran O'Donnell: I want to look at this in an integrated way. I am asking about the bank being healthy and customers' loans being brought back to being performing loans so that they can stay in their homes and there is a restructuring people can afford. The scenario is of a rising tide lifting all boats.

Mr. Shane O'Sullivan: The work we are doing in the area of collections and recoveries is

unchanged. We have not downed tools but are trying to find solutions for our customers day in, day out.

Senator Kieran O'Donnell: The bank was seen as a very aggressive institution as regards a lot of home loans. I have had cases where people called to serve papers late at night. Is the bank revising the way it deals with customers? Our role is to represent people but I want there to be a third banking force and PTSB needs to be there and to be strong.

Mr. Shane O'Sullivan: We attempt to deal with customers sympathetically and fairly and, by and large, we get it right though there are times when we do not. We have learned a lot. We have offered over 30,000 long-term solutions to customers when the alternative was repossession. Split mortgages are very attractive to customers and 43% of all the splits ever offered in Ireland came from our bank.

Mr. Jeremy Masding: We have large warehouses.

Mr. Shane O'Sullivan: They are very large and that has come to bite. It takes, on average, 24 attempts to speak to customers who are still in arrears and who do not have solutions. That arises because the phone rings out or goes to voicemail-----

Senator Kieran O'Donnell: Are those customers now in Project Glas?

Mr. Shane O'Sullivan: Yes, they are.

Senator Kieran O'Donnell: Of the 11,200 customers, how many is the bank ringing twice a month?

Mr. Shane O'Sullivan: Just shy of 2,500 properties.

Senator Kieran O'Donnell: That is about one quarter.

Mr. Shane O'Sullivan: They are not co-operating. With all our restructures we seek to re-engage with customers every three years and we are seeing hope in these cases, with arrears reducing.

Senator Kieran O'Donnell: Are all the other customers outside Project Glas engaging?

Mr. Shane O'Sullivan: Yes.

Senator Kieran O'Donnell: On the financial side, the bank is going to announce results for the December year end in March 2019. There will be a non-performing loan ratio in the single digits.

Mr. Jeremy Masding: That is my aspiration.

Senator Kieran O'Donnell: A seriously high percentage of the bank's loan book is made up of trackers, in excess of 60%. What percentage of the loan book does the bank anticipate will be made up of trackers when the bank announces its results?

Mr. Stephen Groarke: It will only marginally be reduced. There is a higher proportion of trackers in our non-performing loans because they were done at the same time as underwriting-----

Senator Kieran O'Donnell: Of the 11,200 Project Glas loans, how many are trackers?

Mr. Stephen Groarke: I do not have the exact number but it will be in the region of 80%.

Senator Kieran O'Donnell: I find that peculiar. The tracker rate should be a lower rate so it leads me to believe loans were given out to people who could not afford loans and got an artificial interest rate. Is that fair? I am surprised that 80% of Project Glas are trackers.

Mr. Stephen Groarke: On a jointly underwritten mortgage either one income was no longer available because the person became unemployed, or both incomes fell as both became unemployed.

Senator Kieran O'Donnell: When the bank was writing the loans between 2004 and 2007, were the bulk of them tracker mortgages?

Mr. Stephen Groarke: The bulk of our trackers were written in that period, when trackers were introduced in 2004 to 2008.

Senator Kieran O'Donnell: What is the age profile in the 11,200 Project Glas mortgages? Were they taken out in the 2000s or in 1999?

Mr. Stephen Groarke: The vast majority of our non-performing loans were underwritten in the period between 2004 and 2008 or 2009.

Senator Kieran O'Donnell: That tells its own story. Mr. Groarke said 80% were in Project Glas so it will not have a monumental impact.

Mr. Stephen Groarke: It might bring the total to just less than 60% from 62%, but it is not a big shift. It is also not our objective as that is to deal with non-performing loans, rather than the rate.

Senator Kieran O'Donnell: I await those results with anticipation. Can Mr. Masding tell me about growing the loan book, the profile of the growth and the number of new home loans the bank has written since January this year?

Mr. Jeremy Masding: We are up to 14% market share. When I sat here back in 2012, we think we were below 2% so we are now challenging as we should. We are seeing more confidence in the economy and our unsecured lending reflects that.

Senator Kieran O'Donnell: What would Mr. Masding define as unsecured lending? Overdraft facilities?

Mr. Jeremy Masding: No. I am referring to loans for a car or home improvements, in other words, a term loan.

Senator Kieran O'Donnell: Is the bank doing SME lending?

Mr. Jeremy Masding: Yes, we are doing that, although it is still a nascent business.

Senator Kieran O'Donnell: It is what?

Mr. Jeremy Masding: It is nascent, or growing. It is a young business and we are starting to see some good deals. This week I have done pharmacy and this week we have done hotel so it is-----

Senator Kieran O'Donnell: Does Mr. Masding envisage the bank, as a banking institu-

tion, moving into direct competition with AIB and Bank of Ireland? What is the bank's profile of lending?

Mr. Jeremy Masding: In the retail and SME space.

Senator Kieran O'Donnell: Is the bank interested in building development?

Mr. Jeremy Masding: No.

Senator Kieran O'Donnell: Is the bank interested in buy-to-lets?

Mr. Jeremy Masding: One sticks to what one is good at. Buy-to-lets, yes.

Senator Kieran O'Donnell: I know where the bank is at and now I want to know about the bank's new lending.

Mr. Jeremy Masding: The majority is fixed rate. I ask my colleague, Mr. Groarke, to confirm whether the average loan-to-value, LTV, is 60% or 70%.

Mr. Stephen Groarke: It is 70%.

Senator Kieran O'Donnell: What is that for?

Mr. Jeremy Masding: New lending.

Senator Kieran O'Donnell: What about home loans?

Mr. Stephen Groarke: For home loans it is 70%, on average.

Senator Kieran O'Donnell: Is that low?

Mr. Stephen Groarke: No. We will do higher. The Central Bank's rules allow us to go to 80% for second-time buyers and 90% for first-time buyers. We will go to those levels. For first-time buyers our average is about 80% of loan-to-value, LTV. It is important that we try to support all of the segments so there is a range of risk that we take.

Senator Kieran O'Donnell: What is the maximum the bank will go to for a first-time buyer?

Mr. Stephen Groarke: We have gone as high as 90%. There has been a small number of cases where we have gone beyond 90% due to strong affordability. We are reluctant to go much beyond that because one starts to head back towards 100% LTV.

Senator Kieran O'Donnell: In terms of the profile of the customer on a ratio of 70%, are they people who bought a first home but who have moved to a second home or have they produced a substantial deposit due to getting financial support from their families?

Mr. Stephen Groarke: Typically, the second-time buyer will have built up good equity through their own savings and through their first house.

Senator Kieran O'Donnell: What about first-time buyers?

Mr. Stephen Groarke: Typically, that is a combination of their own savings and money from family.

Senator Kieran O'Donnell: What is the loan-to-value ratio for first-time buyers?

Mr. Stephen Groarke: We would go as high as 90% and then smaller.

Senator Kieran O'Donnell: What is the average percentage for that cohort?

Mr. Stephen Groarke: The average is about 80% for first-time buyers.

Senator Kieran O'Donnell: What is the value of loans that the bank has written in all of those areas? The witnesses have spoken in generalities but I want specific details about the amount of loans that the bank has written, in those areas, in the past year. How many home loans have been approved? What is the average value of the loans?

I am very interested in the SME sector. I believe a major amount of competition is required for SMEs and one cannot leave that to institutions like AIB, Bank of Ireland and Ulster Bank. The witnesses should give us a flavour of that sector. I agree with Mr. Masding that the figure below the line is extremely important but I want a breakdown of the figure.

Mr. Stephen Groarke: I will give the Senator a sense of what we did in 2017 in terms of scale. I will talk about the number of people involved rather than the money. In retail mortgages, we did just under 5,000 mortgages. That means 5,000 people were granted a mortgage and the bulk of those are for people who were moving into homes. In personal term lending, we did just over 9,000 personal term loans.

Senator Kieran O'Donnell: What were the loans for?

Mr. Stephen Groarke: Cars, home loans, holidays and consumer finance. There was a range of purposes.

Senator Kieran O'Donnell: What about college fees?

Mr. Stephen Groarke: Yes, and college fees.

As Mr. Masding has described, the SME element is more of a growing young business. We did about 300 loans, between SME mortgages, commercial mortgages and term loans. That is a much smaller number but one we would really love to grow.

Senator Kieran O'Donnell: What about the figures for 2018 to date?

Mr. Jeremy Masding: We have not disclosed that information publicly.

Senator Kieran O'Donnell: Is the bank ahead of where it was in 2017?

Mr. Jeremy Masding: Yes. We are having year-on-year growth.

Senator Kieran O'Donnell: The Permanent TSB has 14% of the market share. Does that percentage refer to the overall market share in lending?

Mr. Jeremy Masding: In residential mortgages.

Senator Kieran O'Donnell: To what sustainable percentage does Permanent TSB aspire?

Mr. Jeremy Masding: I do not have an aspiration in terms of market share. I think it is an extremely dangerous measure.

Senator Kieran O'Donnell: In summary, can Mr. Masding tell me where Permanent TSB is at, as an institution?

Mr. Jeremy Masding: It is competing, vibrant and getting itself back on its feet.

Senator Kieran O'Donnell: Where is Permanent TSB at, in terms of its balance sheet? Let us say one was an observer who wants to cast an eye over Permanent TSB.

Mr. Jeremy Masding: I suppose I would look at a number of things and I will give some examples. We had a funding gap of nearly 50% back in 2012 and were borrowing from the European Central Bank. Basically, we now have paid off the European Central Bank and our balance sheet has the right mix, I think, of retail deposits and wholesale markets. That is great.

Our loan-to-deposit ratio was, if not the highest, then one of the highest in Europe. It was at 227%, I think, and that is now down in the low hundred percents, which is great.

The Senator and I have discussed banking matters for many years so he will know that we have been loss-making-----

Senator Kieran O'Donnell: Yes.

Mr. Jeremy Masding: -----and loss-making in huge numbers. Last year, we were profitable for the first time in ten years.

Senator Kieran O'Donnell: Does Mr. Masding anticipate that his bank will be more profitable in 2018?

Mr. Jeremy Masding: At an operating level, we are making profit. Of course, at the bottom line it all depends on the whole gross thing.

We continue to be able to service customers whether it be over the telephone, online, in branch or with brokers. There is a whole multi-channel element. Thanks to Mr. Crowley's good offices, we are finding investment in digital. Our people have a renewed sense of confidence and enthusiasm.

Senator Kieran O'Donnell: Where is the bank's weakness, as an institution?

Mr. Jeremy Masding: The NPL ratio. If we can get to the end of this year, having made a material reduction, we can then concentrate as a group, in terms of being the challenging bank that I believe Ireland needs.

Senator Kieran O'Donnell: Are there constraints on new lending in terms of access to finance for the bank itself?

Mr. Jeremy Masding: No. We can meet the demand that is required, subject to credit standards, which my colleagues would emphasise.

Senator Kieran O'Donnell: How long does it take the bank to process a home loan?

Mr. Stephen Groarke: In terms of turnaround, we can grant approval, in principle, in 15 minutes. That means that when people go to look at a property they will be confident that the income and their deposit will secure them the mortgage that they need.

In terms of formal approval, our turnaround time between our branch and what we call our

retail credit centre is a maximum of three days but we often do so within a much shorter time than that.

Senator Kieran O'Donnell: Increasingly, people who rent long term must pay between €1,000 and €1,500 a month. Does the bank factor that outlay into the loan-to-deposit ratio when deciding whether to grant a mortgage?

Mr. Stephen Groarke: Again, it is not possible to do that on the loan-to-value side but it is possible to do so on the affordability side. Very clearly, if people are able to afford such rent then they are able to afford at least that portion of the mortgage. We call that proven repayment ability. The rent paid goes towards the application but on the affordability side, as opposed to the deposit side.

Senator Kieran O'Donnell: Does such a situation allow the bank to increase the loan-to-value ratio at which it will lend? Let us say someone has a cash deposit of 10%. Does the bank factor in the rent and that cash deposit into its calculations? Will the bank push the loan-to-value rate to 92% due to the amount of rent paid?

Mr. Stephen Groarke: The Central Bank regulations allow us, in terms of general lending, a 20% exception ratio and for the first-time buyers to go beyond of 90%, a 5% exception level. We have done the latter where somebody has demonstrated strong affordability. We are very careful about doing so because we do not want to return to a 100% LTV mortgages again. That is not a place to which we want to return.

Senator Kieran O'Donnell: I thank the witnesses.

Chairman: I want Mr. Masding to deal with some general queries as to the bank's response to cases. I wish to refer to Permanent TSB customers who have raised questions about their tracker mortgages back in the early 2000s when the issue started. The bank at that time, because it was early days, did not have processes in place. Therefore, when customers asked for correspondence, records of telephone calls and so on the bank told them it did not have a record of such matters. The bank persisted with its position, as did the customers with their positions. Finally, the matter petered out because of the amount of time that had elapsed and then, lo and behold, the tracker mortgage issue moved centre stage, in particular over the past two years. Have such customers an option, with the bank, to ask for their cases to be considered again? Considering the nature of the queries and how they were dealt with, given that it was early days and that the cases went through the process of the ombudsman and so on, which finished at some time in 2012, would PTSB reflect in any way on the circumstances of customers like that if their cases were put to it?

Mr. Stephen Groarke: There are probably three comments I would make. First, we have gone back over more than 300,000 mortgages that were underwritten or in existence in the period from 2004 until now. As we described, we had a comprehensive programme considering all the scenarios in which a customer could have moved away from a tracker mortgage or moved to a higher-margin tracker. That is how we have concluded on the 1,979 customers whose cases are now subject to Central Bank assurance. We believe we have done a robust job but we need to complete the process with the Central Bank.

Second, if a customer raises a new complaint with us, even if it is one we have dealt with before, it will go through our complaints process in the normal way and we will try to deal with it, including where it is renewed, as the Chairman described.

Third, if whatever is done on foot of the complaint is still not to the satisfaction of the customer, there is then the route of the Financial Services and Pensions Ombudsman. We have described that 28 customers are engaged in that process. We have been able to resolve 13 of those cases through the dispute resolution mechanism, which the ombudsman recommends.

Those three avenues are available. The complaints process with the bank and potentially the FSPO process are avenues to resolve cases.

Chairman: Will the bank engage with a customer who has been through its process and who had gone to the FSPO back as far as 2013? On the basis of the information I have seen, there are no records of telephone calls or records of letters being sent. There are comments such as the bank being unable to trace calls based on details given and comments to the effect that, as the letters were automated, copies were not kept. Now that the bank has had this experience, and in light of what is happening today, would it re-examine cases such as those to which I refer, pertaining to tracker offers in November 2006?

Mr. Stephen Groarke: There are probably two circumstances. If the facts have not changed and we have not been able to identify any new information as part of the review we have done, the conclusion we come to would be the same. That said, in an interaction between the committee and the Central Bank, the committee posed a question to the latter on the circumstances in which the FSPO would re-examine a case. The answer was that if new circumstances that were not known to the FSPO previously became known, the ombudsman would re-examine the case.

Chairman: I am talking about PTSB. I am referring to the new circumstances, how the bank now deals with all the tracker issues and the forensic way it examines them now, which may not have been the case in 2006 or before. Forgetting about the FSPO, if someone still felt he or she had been treated incorrectly by the bank, would the bank re-examine the case in light of what has happened over the past few years?

Mr. Stephen Groarke: There are two points I would make on that. Through the programme, we have forensically considered all 300,000 mortgages that were in existence in the entire period. If the customer raises a new complaint with us, it will be dealt with through our normal complaints process.

Chairman: The issue is that they were-----

Mr. Jeremy Masding: The answer is "Yes".

Chairman: I thank Mr. Masding. At the AGM claims were made that customers were overcharged on variable rate mortgages, yet the mortgages were possibly going to be sold. There was a question mark over the interest rate. It is stated that substantive evidence now available shows that most banking institutions have overcharged on all mortgage accounts over the years, on variable and fixed rates. PTSB is obviously included in that. My understanding is that Mr. Brendan Kerin, head of retail banking for PTSB, met a particular group to discuss this and it was brought to the attention of the chairman of PTSB, Mr. Robert Elliott, at the AGM. It featured in the media. It has to do with IBIG, which offered the service, free to the bank, of forensically examining 20,000 mortgages that were being transferred. The accusation was made, the meetings I referred to were held and the matter was discussed. I would like to know the bank's response.

Mr. Jeremy Masding: At this moment in time, we have no evidence of overcharging. The matter is closed, as far as I am concerned.

Chairman: Have the Deputies who met the group been told this?

Mr. Jeremy Masding: To my knowledge, they have not. There has been no further communication.

Chairman: The answer to the first question was a “Yes”. I will pass the delegation the information in this regard before it leaves today. With regard to the second question, I will give the witnesses the email. Maybe we can get a response to it.

Does the bank work actively on insolvency proposals given to it regarding customers who come forward?

Mr. Shane O’Sullivan: We do. In our questionnaire, we gave the members a sense of the votes that took place in 2017. In 2017, we agreed with 68% of the proposals that were put our way. So far this year, that figure is a little lower, at 61%.

Chairman: When was the rate of 68%?

Mr. Shane O’Sullivan: All of 2017.

Chairman: How is it running this year?

Mr. Shane O’Sullivan: It is 61% to the end of April.

Chairman: Will the rate be the same or higher this year?

Mr. Shane O’Sullivan: I hope it will be around the same as last year.

Mr. Jeremy Masding: It is not a mathematical equation. It is a case-by-case matter.

Chairman: The evidence is that PTSB has a good success rate with these insolvency cases.

Mr. Shane O’Sullivan: We do. There are appeals in that process but the appeals rate is low. We have concluded on that figure as well. It is approximately 17%.

Chairman: How does the bank classify a loan that is interest only and fully repayable in 2021, say, and not in arrears? Are those loans considered for sale to funds? Are they considered to be performing loans?

Mr. Stephen Groarke: That can happen in two sets of circumstances. The first is where a customer comes to us with a previous mortgage, typically for a buy-to-let property, is unable to meet the repayments and goes through the SFS process. We offer what we call a long-term interest-only arrangement as a forbearance treatment. We have buy-to-let customers who are on interest-only arrangements in the Project Glas sale portfolio but they have come through a process where they are demonstrably non-performing because they are not meeting the original terms.

There is another group whose loans would have originally been underwritten on an interest-only basis, typically in the period from 2004 to 2009, as described by Senator O’Donnell. As long as they meet the terms of the interest-only contract, their loans continue to be classified as performing.

Chairman: The bank does not allow for credit union deductions when calculating the income and outgoings of a household relative to what it might owe. If the customer is also paying

a credit union loan, does the bank allow for it? I have a letter referring to this; it is not a trick question and I just want to understand this. It states: "Please note that we do not allow for credit union deductions."

Mr. Stephen Groarke: What are the circumstances in this case? Is it a new customer looking for a new mortgage or a customer in financial distress who is working through a process with our asset management unit regarding their arrears?

Chairman: They were working through proposals relating to their arrears. They were probably giving a statement of financial affairs and they were not allowed to state their credit union repayments.

Mr. Shane O'Sullivan: That does not ring true with me. I am happy to take some time at the end of the meeting and take that case away.

Chairman: Okay, I will give Mr. O'Sullivan a copy of the letter. I want clarification because people come to us to ask about it.

Where a case is sold and there is residual debt, is it always the case that Permanent TSB pursues that residual debt? Is it the case that even though the house has been repossessed, Permanent TSB will go after that debt?

Mr. Shane O'Sullivan: It is done case by case. Technically the debt is still owed but there is very little point in pursuing debt which does not exist.

Chairman: Are all those cases dealt with by Permanent TSB's central arrears unit or is it also done elsewhere?

Mr. Shane O'Sullivan: No, they are. We spoke earlier about the buy-to-let cases, the 1,500 properties we have taken in in recent weeks. In each of those cases we have agreed to write off the residual debt. That makes it attractive for that buy-to-let owner to return the property. Equally, on home loans we continue to run similar incentives on debt. It is done case by case.

Chairman: We discussed cases in March relating to the tracker issue. Are the witnesses saying that those kinds of cases have come through the system and Permanent TSB is at 100% or close to it?

Mr. Stephen Groarke: We have offered it to 100% of those customers, who number 1,979. Some 78 cases have not yet accepted the offer and put us in a position to make the payment. They include 37 cases where the customer has not accepted and, we believe, will appeal. We described earlier that 41 are customers where we are going through some form of contact process trying to trace the customer to get the acceptance.

Chairman: Where a customer has a grievance over a settlement, in cases where they have lost their house some years ago and Permanent TSB has settled with them recently, is there any recourse for them? These customers have listened to this committee's engagements with all the banks and with the Central Bank. As far as the customers are concerned, it now seems that they have settled for far less than what others are getting now. Over the years, the scene has changed considerably. There is a cohort of people who believe they settled too early.

Mr. Stephen Groarke: There will be different amounts because nobody's circumstances are the same. If one thinks about customers who lost their home as a result of errors of the bank in respect of the tracker issue, the average redress is €44,000 and the average compensa-

tion is €91,000. However, the compensation for home loans has gone as high as €146,000 with a write-off of €95,000, and in buy-to-let mortgages of €358,000 with a write-off of €350,000. That is not because we judge one customer to be more deserving than another but because the circumstances are different. The way the compensation is built up in the case of a home loan, where someone lost the home in which they lived, there is a starting point of €50,000, in the case of a buy-to-let, it is €25,000, and then we take other circumstances into account. The shortfall on the mortgage is written off and that amount will vary among different customers, depending on where they are in the mortgage, and we also pay the customer the equity gain that they missed out on because the property would typically have appreciated in price since the point of loss of ownership. Those factors go towards different results but it is not because we judge some people to be more deserving than others because the specifics are different.

We find that most customers are satisfied with the redress we have offered. There are other customers who go to an appeals process. In the case of loss of ownership customers, who appeal to the independent review panel, the average additional compensation is €40,000, and for loss of ownership cases, the average additional compensation is about €96,000. That is not a particular judgment on whether one person is more deserving than another, but rather the specific circumstances that come to light. Typically, in the appeals process, we are able to take into account circumstances that we could not see as a bank. Typically, they are non-financial factors around people's individual circumstances.

Chairman: Does Permanent TSB cover all the legal costs in relation to that, should there be any?

Mr. Stephen Groarke: One of the purposes of setting up the appeals panel was to ensure that we established a process that should be free for the customer. As part of what I described, we also make a payment of €1,250 towards adviser costs if they want to engage an adviser. That is not absolutely necessary in how the appeals process works but many customers want to have an adviser so we make that payment to ensure that is covered.

Chairman: In some cases Permanent TSB has not paid the full cost. When the customer appeals it to the board, they have agreed with the original decision. In one case I have before me, the legal costs were €40,000 but they only got €20,000.

Mr. Stephen Groarke: Is the Chairman saying that the compensation they received is €20,000 and the legal costs were €40,000?

Chairman: In how many cases would the full cost of legal advice and other advice be covered? Is it the case that the bank has covered all of the costs, or of all cases that, say, 20% got full costs and 80% did not?

Mr. Stephen Groarke: The more difficult cases, which would be anyone who has lost their home or has been involved in a legal process with us, go to the independent review panel. They will allow for the legal costs as part of that process. The intention at the outset was to focus on the redress and compensation for the customer rather than the legal or other adviser.

Chairman: I am asking about cases which went to appeals and the customer was not awarded the full cost of advice.

Mr. Stephen Groarke: I would probably have to look at this particular case to know the circumstances. I think that if it had gone to the independent review panel we would have covered it. It is possible that the case to which the Chairman referred was before the customer appeals

panel. The independent review panel sees the more difficult cases.

Chairman: Mr. Groake says that before they go to a fund Permanent TSB continues to work with individual cases to find solutions.

Mr. Stephen Groarke: Yes, we do that. The appeals process is one mechanism for finding additional compensation, if it is warranted. We also see the dispute resolution mechanism of the Financial Services Ombudsman as being very good. I mentioned that we have had 13 cases that were resolved there. There are also cases where we have met advisers directly. We are looking to ensure that we start with what we regard as a reasonable and often substantial payment of redress and compensation but these mechanisms allow the potential whereby circumstances that we were not aware of or cannot allow for initially can be taken into account.

Chairman: If I send the individual cases to which I referred to Mr. Masding, he will have them looked at.

Mr. Jeremy Masding: Yes.

Chairman: That concludes today's meeting. I thank Mr. Masding and his colleagues for attending.

The joint committee adjourned at 12 noon until 1.30 p.m. on Tuesday, 19 June 2018.