

# DÁIL ÉIREANN

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

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

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*Déardaoin, 11 Deireadh Fómhair 2018*

*Thursday, 11 October 2018*

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The Joint Committee met at 11.30 a.m.

#### MEMBERS PRESENT:

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|-------------------------|----------------------------|
| Deputy Joan Burton,     | Senator Paddy Burke,       |
| Deputy Pearse Doherty,  | Senator Rose Conway-Walsh, |
| Deputy Michael McGrath, | Senator Gerry Horkan,      |
|                         | Senator Kieran O'Donnell.  |

DEPUTY JOHN MCGUINNESS IN THE CHAIR.

## Scrutiny of EU Legislative Proposals

**Chairman:** We are dealing with No. 9, scrutiny of the public record. Earlier we dealt with schedule B items for COM (2018) 357, COM (2018) 444, COM (2018) 486, COM (2018) 509, COM (2018) 535, COM (2018) 539, COM (2018) 599 and COM (2018) 605. The decision of the committee was that these do not warrant further scrutiny. Full details will be published on our website.

### Sale of Property Loans (Project Glas) By Permanent TSB: Discussion

**Chairman:** I welcome Mr. Masding and his colleagues. I wish to advise them that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to do so, they are entitled thereafter only to a qualified privilege in respect of your 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 thank the Chairman and the committee for the invitation to attend. I am joined by my colleagues, Eamonn Crowley, group chief financial officer, and Shane O'Sullivan, group director of operations.

I wish to set out my views on Project Glas in four sections. The first is the question of why we have performed this transaction. Permanent TSB is a regulated entity. We are required to follow the rules and directions of our regulator. On the subject of non-performing loans the direction is very clear in that we must reduce the ratio of non-performing loans on our balance sheet from 25% in a relatively short timeframe. This transaction is a critical part of our strategy to do so. Even without any regulatory requirement, reducing the non-performing loans ratio is the correct strategy to pursue. Non-performing loans make the bank less secure, less able to compete, less able to grow or prosper and less able to lend to new customers. No bank can continue indefinitely with an elevated non-performing loan ratio because to do so would run undue risk for it, its customers and the taxpayer. Permanent TSB is conscious of this and has therefore reduced the value of non-performing loans on its balance sheet by almost €4 billion, or 42%, since 2013. Loans linked to over 13,800 homes have been restored to performing status thanks to the hard work of the relevant customers and the bank.

Permanent TSB's non-performing loan ratio remains elevated, however. Ten years on from the start of the financial crisis - many commentators say that we are closer to the start of the next one than to the end of the last one - the Single Supervisory Mechanism, SSM, requires urgent action from banks across Europe to reduce non-performing loan levels, including within Permanent TSB and other Irish banks. In this context, the European Commission, the SSM and the Central Bank of Ireland have all said that loan sales constitute a legitimate tool for banks to

use to reduce non-performing loan ratios. This tool is being used by Permanent TSB, by other Irish banks and by NAMA. It is worth noting that key external observers have welcomed this transaction. Earlier this month, Moody's upgraded a range of key ratings and assessments for Permanent TSB. It highlighted the Project Glas loan sale and noted "the Bank's improved asset risk profile following a decrease in its stock of problem loans."

The second question we must ask is what are the alternatives. If we accept that the answer to the first question rules out continuing as we are as a viable option, we are saying that the main alternatives to loan sales are debt forgiveness, individual deal arrangements, a provide-and-derecognise approach and scale repossessions. I will look at each of these four options in turn. It is important to distinguish between debt forgiveness and debt write-off as the two terms are often incorrectly used interchangeably. Permanent TSB agreed to write off debt owed by over 2,000 buy-to-let customers on the condition that they surrendered their investment properties for sale. The key is that the customer agreed to forfeit the property that had secured the mortgage. The proponents of debt forgiveness want a bank to forget a part of a customer's debt, or perhaps all of it, without the customer having to surrender the underlying security in return. As the Governor of the Central Bank told this committee last week, if Ireland is to have a functioning secured lending market, security must mean something when borrowers default. The intolerable situation created by debt forgiveness means that a bank must, in effect, choose who among similar customers it should favour and should penalise.

I will give an example to emphasise the point I am making. Customer A and customer B are two neighbours who have similar mortgages with the same bank. Customer A continues to meet his repayments despite great challenges and hardship. Despite customer B's best efforts, he cannot meet his repayments and, as a consequence, has built up arrears. Those who advocate the debt forgiveness approach suggest we should reduce the mortgage owed by customer B to a more affordable amount while maintaining the mortgage of customer A as it is. In effect, this is a relative punishment for customer A for keeping his repayments up to date. While it is accepted that customer B deserves help and protection in finding a sustainable solution, no bank should want to have the power or responsibility to decide who to reward and who to punish in these circumstances. The same problem - that all customers will not be treated equally - arises in respect of individual deal arrangements. It is a real moral hazard. We have not pursued a provide and derecognise approach because questions remain about whether we could derecognise the non-performing loans set against the increased provisions, and indeed the cost to the taxpayer. As the system has spent ten years avoiding the scale repossessions approach, I do not believe it warrants further consideration. This leaves loan sale as the least worst alternative.

The third question we must ask is what a loan sale transaction means for a customer. I will seek to clarify the situation of customers whose loans are included in such transactions. Such customers have been poorly served by inflammatory and inaccurate commentary around loan sale transactions. They deserve to be treated with respect and care by Permanent TSB and by commentators, consumer advocates and other influencers whose opinions command attention. The Governor of the Central Bank has stated, clearly and explicitly - including to this committee - that the protections which a mortgage customer enjoys with one institution remain when his or her loan is sold to a different institution. The only thing that changes is the owner of the loan. Unfortunately, this reassuring message is ignored by many commentators, ultimately to the detriment of customers. The views of the Governor of the Central Bank are supported by evidence. Project Glas is one of numerous loan sales which have taken place in this country in recent years. Where is the so-called tsunami of repossessions which have been forecast with such certainty by certain commentators? Where are the thousands of customers who have

found that their terms were altered after their loans were sold? Where are the examples of the courts allowing new owners to renege on pre-existing contractual commitments?

The final aspect of this matter I would like to focus on is the transaction itself. Project Glas was launched to the market in February. Binding legal contracts were signed on 31 July. The transaction will close before the end of the year. For the sake of informed debate, it is worth clarifying exactly what loans were included and excluded from Project Glas, and why they were so included or excluded. Permanent TSB originally identified approximately €4.8 billion of non-performing loans for potential inclusion in the sale. A rigorous set of principles was developed to ensure a fair and consistent process was followed. This included the application of a specific set of exclusion criteria. As a result, approximately €2.6 billion of loans, or 48% of the total, were excluded from the sale. The categories of loans - as they stood at the cut-off date for the transaction on 31 March last - which were excluded in this way were: private dwelling home split mortgages which were performing to their restructured terms and were not connected to other non-performing loans; private dwelling home loans that were identified as meeting the terms of their agreed repayment arrangements, were on a path to performing status within 12 months and were not connected to other non-performing loan accounts; loans that had cured from non-performing loan status prior to the cut-off date; and operational exclusions, for example in cases of personal insolvency arrangements, bankruptcy, voluntary surrender, tracker mortgage examination loans and mortgage-to-rent loans.

I reiterate that €2.6 billion of loans, or 48% of the total, were excluded from the original perimeter of this transaction. I emphasise that these exclusions include private dwelling home loans that were identified at the time of the cut-off as being on a path to performing status. Accordingly, the final Project Glas perimeter had a notional balance of approximately €2.1 billion. The categories of loans - again by reference to their status on 31 March last - which were included in this transaction were all buy-to-let or buy-to-let-linked non-performing loans; private dwelling home loans in respect of which customers had failed to operate in line with agreed treatments or had refused forbearance offers; private dwelling home loans that were deemed not to be co-operating; private dwelling home loans that were deemed to be unsustainable following an assessment of customers' circumstances and in respect of which no formal restructure offer could be made; and private dwelling home loans in long-term arrears.

I want to make two important points about these inclusions. First, while the status of the loan at the cut-off date is key, we continue to work with individual customers after that cut-off date because it is the right thing to do. However, any treatments or restructures which are agreed now will transfer with the accounts when the transaction completes. Second, a great deal of attention has been paid to the inclusion of what people have called performing split mortgages. If any such loans have been included in Project Glas, it is because of their links to other loans which are non-performing, rather than because of their status as split mortgages meeting the terms of an agreed restructure. The committee should remember that we removed thousands of stand-alone private dwelling home split mortgages from the transactions with an approximate value of €900 million where they were meeting the terms of an agreed restructure. By the same measure, therefore, if a customer had a fully performing loan and a non-performing loan, both of them would have transferred in this transaction. In deciding and applying the criteria mentioned the bank has to balance the SSM definition of what constitutes a non-performing loan against the individual customer's circumstances, while maintaining the governing objective of a meaningful reduction in the NPL ratio. The bank is satisfied it met the required tests.

To be clear, Permanent TSB does not decide unilaterally whether a loan is performing or

non-performing. It operates in a rules-based regulatory environment. We apply the rules which are strict. We assess whether an account is performing or non-performing at the end of each month. By the start of January 2021, we will be required to make the assessment each day. As to what constitutes a non-performing loan, I appreciate that this is a complex area and that it can be confusing for customers and others. It is further complicated by the fact that some people describe loans as performing if they are meeting the terms of a restructure agreement, which, of course, means that they are not performing by reference to the original loan contract. That is the critical reference point for the regulator. Ultimately, therefore, the bank's NPL strategy is about identifying individual loans which are in default in respect of the original terms of the mortgage contract; linked with other loans which are non-performing via either cross-default or cross-collateralisation; or deemed to be "unlikely to pay", that is, loans in respect of which there is no clear evidence that the borrowers are capable of honouring the terms by the end of the contract.

We are bound by the SSM definition of what constitutes a non-performing loan and by the comprehensive guidelines set down as to the factors we other banks must take into account in assessing whether an account is non-performing or performing. To date, when we have reviewed the various cases highlighted in the media on this issue, we have seen no evidence that any of the relevant loans has been incorrectly classified as non-performing on the relevant cut-off date by reference to the rules and guidelines of the regulator, the SSM. We will continue to monitor the position up to the completion of the transaction.

I should advise the committee that while we will, as always, endeavour to be as helpful as possible in responding to questions, this is a commercial agreement and that we are bound by a confidentiality clause in discussing the transaction, which will probably restrict our ability to deal with all questions. Similarly, we are not in a position to answer questions related to specific customers. This is the third time we have met the committee this year to discuss this transaction and we have always sought to be as helpful as possible, while being mindful that this was a dynamic, evolving transaction with lots of moving parts. I assure the committee, however, that we will try to be helpful in the same manner.

That brings me to the end of my opening remarks. We are happy to take questions.

**Deputy Pearse Doherty:** Fáilte chuig an choiste. Mr. Masding has talked about inflammatory comments by individuals and the care and respect that need to be shown to customers. I will put one case to him. It is the case of a loyal customer who banked with his bank for 20 years, who right throughout the recession continued to meet her mortgage repayments and who, in certain instances, went without fuel, food and all the rest to satisfy the repayments due to the bank. This year, however, she fell on harder times and had to enter into a restructuring arrangement with the bank, the terms of which she met for a period of six months. She was in the process of sending her standard financial statement to the bank when she informed it that she believed she had identified cancer cells in her body. Three days later it told her that the mortgage was being sold to a vulture fund, despite the fact that there were arrears of only €1,800 on the mortgage. Its letter to her - by this stage she was battling cancer and now had a second battle on her hands, to keep a roof over her head - stated she had to pay the full amount outstanding on the mortgage within two months if she wanted to prevent it being sold to Start Mortgages. In the context of that statement from one of his loyal customers, how can Mr. Masding sit there with a straight face and say his bank is showing respect and care to customers when clearly it is turning its back on them and selling their loans off to vulture funds?

**Mr. Jeremy Masding:** There are a number of responses I would make. First, post the crisis, in a secure lending market, one would expect many thousands of pieces of collateral to be re-

alised by the bank because it is secured lending, not just for Permanent TSB but all banks. For very good reasons, Ireland decided to avoid scale repossessions. At the time Permanent TSB engaged in a programme of long-term forbearance which kept many people in their homes, using the various tools and techniques we had designed. Second, as I mentioned in my opening remarks, ours is a regulated entity. I am bound, therefore, by the rules and regulations which enable the bank to keep its banking licence and continue to compete. I do not set the rules for what is a non-performing loan. Third, we again need to emphasise that we spent many hours trying to have the right mix of assets for project loss. That is why we have such a high level of exclusions. I cannot comment on the individual case, but I will conclude by saying my job is, was and always will be to try to do the right thing for all taxpayers. It is about trying to get all of the various dimensions in balance. Project Glas is part of that process.

**Deputy Pearse Doherty:** Does Mr. Masding think the response of his bank and his response as its CEO are respectful and caring of that individual who, for 19 years, through very hard times, continued to meet every single repayment? In the last year she fell on hard times, entered into a restructuring arrangement with the bank, the terms of which she met for six months. The bank then told her that it was selling off her mortgage and that she had to pay the outstanding amount in full within two months if she wanted to prevent that from happening, despite only being €1,800 in arrears. How can Mr. Masding say this in all sincerity? He can dress it up as a non-performing loan and all the rest, but AIB is not doing what Permanent TSB is doing; it is not selling family homes. Bank of Ireland is also not doing what it is doing and they have the exact same regulator, deal with the exact same ECB and have the exact same definition of non-performing loans. However, what Permanent TSB has done and is doing to thousands of families is causing concern.

Mr. Masding can blame others for making inflammatory statements, but let me tell him this. The most inflammatory statement the individuals in question received was in the letter received from the bank informing them that it had turned its back on them and was selling off their mortgages. Will Mr. Masding withdraw his comment that the bank is dealing with them in a caring and respectful manner because it is not? It is only looking after itself, as an institution. If he was customer focused, he would have read the letter from the woman mentioned. He would understand the trauma she is going through in her personal life. He would have looked to see that there were arrears of €1,800 and acknowledged that for 19 years, ten in a period of deep austerity, the family met everything the bank had put in front of them. He would not now be turning his back on her and her family and selling the mortgage. That is just one case. We can pull out case files over and over again to show that what Permanent TSB is doing is wrong. No other bank is doing what it is doing. It is was forced by this committee and others to deal with the issue of split mortgages, and the representatives come in as if the bank has done a great job and stripped out this and that. Its original intention, however, was to put split mortgages in. How many of the 7,400 owner-occupiers, that is, people in family homes, are meeting their restructuring arrangements or the original terms of their agreement with the bank?

**Mr. Jeremy Masding:** I will give the first answer and then I will ask Mr. O’Sullivan to continue. In my opening remarks I described Project Glas as the “least worst” alternative. The least compassion the bank could show would be to repossess the properties. As an industry, we collectively have done everything we can to avoid that.

The buyers of the loans have been clear that they will continue to honour the long-term treatments as provided by Permanent TSB.

**Mr. Shane O’Sullivan:** This bank has offered a significant number of long-term treatments

- 30,000 - over the past five or six years. We have a deep level of experience, therefore, of what customers went through in that period. I have met a large number of those customers and I understand the difficulty of their circumstances.

As Mr. Masding said in his opening remarks, when the bank looked at its NPL ratio of 25%, which is much higher than the other banks to which the Deputy referred, we worked to take out a large number of cases. Mr. Masding referred to a figure of 48%, or €2.6 billion, within which were vulnerable customers who were known to us and whose loans were removed from the sales process. Once the sale happened at the end of July, we no longer had a general discretion to remove cases because they are for the new owner to decide upon. As the committee has heard, the terms and conditions do not change and nor do the regulatory environment and the legal system. The new owner has the same responsibility to vulnerable customers as we do. I imagine that is how matters developed in that case.

On the question about performing loans, our NPL ratio is 25% but this transaction will bring that down to 16%.

**Deputy Pearse Doherty:** My question was specific. How many of the 7,400 family homes the bank is selling to the vulture fund are meeting the original terms of their agreement or a restructured agreement agreed by the bank?

**Mr. Shane O'Sullivan:** If the committee will allow me to think about that for a moment, I will try to provide that figure under the confidentiality agreement that Mr. Masding mentioned in his opening remarks.

**Mr. Jeremy Masding:** It is important that we try to agree on the lexicon. Let us be clear: there are no performing loans in Project Glas. The loans are either restructured and, therefore, non-performing, by definition, or they are part of a connection, which means it is the connection that is not performing.

**Deputy Pearse Doherty:** Arrears recapitalisation is deemed as a restructured loan but if the bank is to dress that up as a non-performing loan, which is in the same category as someone who might have €100,000 of arrears with none of it paid in the past seven years, it is not fair. The bank has not provided the figure yet but it is selling off hundreds, if not thousands, of loans that are meeting the agreements and arrangements made with Permanent TSB. Is that not the reality?

**Mr. Jeremy Masding:** I have made the bank's position clear.

**Deputy Pearse Doherty:** Does Mr. Masding not have the figures? He is here to answer questions about Project Glas, and I wish to ask a simple question on behalf of the families involved. How many of those family homes is the bank selling that are currently meeting the arrangements with the bank that were agreed between the customer and the bank, whether in the original arrangements or in the restructured arrangements?

**Mr. Jeremy Masding:** As I said at the start, we entered into a commercial agreement and I am precluded from disclosing the details. I reiterate the point of principle that the loans in Project Glas are non-performing.

**Deputy Pearse Doherty:** Mr. Masding will tell us the average loan is this or the arrears are that but, since it does not suit the bank's purpose, he will not tell the public that what Permanent TSB - a State-owned bank, to which the Minister has turned a blind eye and where he

has allowed this scandal to take place on his watch - is doing is selling performing loans where people are meeting the restructured arrangement with the bank but they are being handed over to the vultures. Is that not the case?

**Mr. Jeremy Masding:** I have entered into a commercial agreement with a purchaser that precludes me from disclosing details of the agreement or the granular detail. The loans in Project Glas are non-performing loans by dint of the various criteria which I outlined.

**Deputy Pearse Doherty:** Has Mr. Masding not previously confirmed that 1,050 loans on family homes were deemed as performing or meeting the terms of the restructuring arrangements and are included in Project Glas?

**Mr. Jeremy Masding:** When I appeared here before, there were 1,050 unidentified cases to which I think the Deputy is referring. We disclosed to the market that Project Glas includes approximately 10,700 properties, comprising 3,300 buy-to-lets and 7,400 private dwelling homes, PDHs. The disclosure stated that 7,400 PDHs consisted primarily of 2,500 non-co-operating and 3,850 cases where the treatments had been refused. The remainder of the PDHs, that is, the 1,050 to which the Deputy refers, can be broken down into three categories. First are those which were originally buy-to-let but where the connection has changed to primarily PDH and is non-performing. The second category concerns PDHs that are classified as not sustainable, which means the treatment is just not possible. Third, there are PDHs that are in long-term arrears and are identified as unlikely to pay. I have provided that clarification in response to media queries and, therefore, I am happy to do it in front of this committee.

The bottom line for me is twofold. I am trying as much as I can to get the best decision for all Irish taxpayers. The pyramids include those which are defined as non-performing loans, as per the regulatory guidelines.

**Deputy Pearse Doherty:** Mr. Masding talks about the idea of punishment and forgiveness in relation to debt. How much debt forgiveness has the bank given on commercial loans over the past five years? How much debt has been written off without retrieving the assets under which it may have been secured?

**Mr. Jeremy Masding:** There was zero debt forgiveness in Permanent TSB because it is not a strategy of ours.

**Deputy Pearse Doherty:** How much was there on non-secured commercial lending?

**Mr. Shane O'Sullivan:** We distinguish between debt forgiveness and debt write-off, the latter being where the security or property has been returned. The committee will be aware of our recent buy-to-let campaign where we offered debt write-off to 2,000 customers. Of the approximately 50% of customers who took that offer, we will write off a shortfall of €125 million in total that would have been owed but which will now be written off in return for those buy-to-let customers providing us with their property.

**Deputy Pearse Doherty:** My question was about commercial lending. How much lending has the bank written off over the past number of years?

**Mr. Shane O'Sullivan:** We do not do commercial lending. Most commercial lending that we do is buy-to-let.

**Deputy Pearse Doherty:** Okay.



**Mr. Jeremy Masding:** Any commercial lending we had was part of the deleveraging we have talked about previously that we were obliged to do by the European Commission.

**Deputy Pearse Doherty:** I do not have much time but I am sure other members will continue with this matter.

On restructuring, the witnesses outlined what the bank should have done. I will tell them what the bank should have done. It should have done what the other banks are doing. I am not one to shout about the other banks, which could do much more, but what Permanent TSB is doing is simply pathetic. It is taking the easy option, selling up and turning its back on customers. It should have worked through all these arrangements with customers in a more meaningful way than it did. I have given examples and I can give many more. Of the number of solutions that are itemised under the code of conduct from A to K, how many does the bank not offer?

**Mr. Jeremy Masding:** I do not have A to K in front of me. If the Deputy does, would he be able to read them out for me?

**Deputy Pearse Doherty:** Interest-only repayments.

**Mr. Shane O'Sullivan:** Yes.

**Deputy Pearse Doherty:** Permanently reducing the interest rate on the mortgage.

**Mr. Shane O'Sullivan:** No.

**Deputy Pearse Doherty:** Temporarily reducing the interest rate on the mortgage for a specified period.

**Mr. Shane O'Sullivan:** No.

**Deputy Pearse Doherty:** An arrangement to pay interest and part of the nominal capital for a specified period.

**Mr. Shane O'Sullivan:** Yes.

**Deputy Pearse Doherty:** Deferring payment of all or part of the scheduled mortgage repayment for a specified period.

**Mr. Shane O'Sullivan:** Yes

**Deputy Pearse Doherty:** Extending the term of the mortgage.

**Mr. Shane O'Sullivan:** Yes.

**Deputy Pearse Doherty:** Changing the type of the mortgage.

**Mr. Shane O'Sullivan:** No.

**Deputy Pearse Doherty:** Adding arrears and interest to the principal amount due.

**Mr. Shane O'Sullivan:** Yes.

**Deputy Pearse Doherty:** Equity participation.

**Mr. Shane O'Sullivan:** No.

**Deputy Pearse Doherty:** Warehousing part of the mortgage, including through a split mortgage.

**Mr. Shane O’Sullivan:** Yes.

**Deputy Pearse Doherty:** Reducing the principal sum to a specified amount.

**Mr. Shane O’Sullivan:** No.

**Deputy Pearse Doherty:** These have been identified by the Central Bank as ways for a bank to work through its loan book. In his presentation, Mr. Masding seemed to be asking what the bank could do after having tried everything, but it has not. There are five options, which the bank simply will not entertain for customers, that could form part of its basket of solutions, but it has decided not to use them.

**Mr. Jeremy Masding:** They are a generic set of alternatives. The role of any bank CEO is to ensure that the bank applies the best alternative for all taxpayers. We would have gone through all of those and will apply those that meet that test.

**Mr. Shane O’Sullivan:** I am not aware of any lender that would offer all of those solutions. I should add that they are not all mutually exclusive in that there are variations on a theme in some. We have probably offered more long-term solutions to borrowers than any other bank. We have 30,000 long-term treatments in place. We are also the bank that has offered more than 40% of all split mortgages.

**Deputy Pearse Doherty:** I have a final question on this matter. I am looking for details. Mr. Masding talks in bravado terms and asks to be shown the court cases that will change these legal documents and so on, but that is not the issue. We all know what the issue is. A large number of the customers on whom Permanent TSB is now turning its back have arrangements with it and these arrangements will come up for review after a time, but the vultures do not offer the options the bank does. That is the problem. A customer may have an arrangement now that the vulture will legally be obliged to honour, but when it comes up for review, the customer will be on his or her own. That is how the bank is turning its back on these customers. Of the 7,400 owner-occupier homes that are being sold, how many have arrangements? Of those arrangements, how many will be up for review each year?

**Mr. Jeremy Masding:** I will make three responses. First, I do not accept in any way, shape or form the Deputy’s description of my opening remarks as bravado. I purposely kept my voice as level as I possibly could. I do not make a point about bravado. I merely put some facts out there to create some debate. I do not accept the Deputy’s comment.

Second, I cannot comment on the investment funds or, as the Deputy calls them, vulture funds. It is unreasonable to ask me to. I assume in the committee’s protocols that it has engagements with those who buy loans. I will leave it at that.

Third, and unless my team corrects me, we do not have an agreement with the purchaser to give that level of detail.

**Deputy Pearse Doherty:** They are the bank’s loans at the minute. I would ask the Chairman to try to pursue this matter. They are Permanent TSB’s loans at this time. The State owns them. The State owns the witnesses’ bank. We are the Oireachtas finance committee. How many of the family homes are in restructuring and at what periods are those restructures up for

review are appropriate questions that should be answered by a State-owned bank. That is the dynamite. It is when we know the vultures will prey.

**Mr. Jeremy Masding:** The contract was signed on 31 July. At that time, both parties entered into the contract as per market conventions. There is a non-disclosure agreement in that contract. I am afraid I cannot answer the Deputy's question.

**Deputy Michael McGrath:** I thank Mr. Masding and his colleagues for appearing before us. It should be said publicly that Start Mortgages was invited to attend but declined the invitation. LoanStar has refused a number of times to appear before the committee. Contrary to the suggestion that some of the concerns held by people whose loans are being sold are unfounded, the fact that we cannot get engagement from those buying the loans will raise their concerns even further. It is legitimate for us as a committee to seek to engage with those who are buying the loans and ask them questions about long-term restructurings, what they do after purchasing these mortgages, the nature of the arrangements they enter into and so on. We cannot get any of that information. That is not a matter for Permanent TSB, but it needs to be said publicly. It is deeply regrettable and disappointing that we cannot get that level of engagement. If they have nothing to hide, they have nothing to fear from attending and taking questions about how they will handle loans that are intrinsic to people's day-to-day lives.

When will this transaction be executed? The bank signed contracts on the last day of July and wrote to customers on 2 August telling them that the transfer date would not be in less than two months. The two months have now expired. When will the transaction go through?

**Mr. Eamonn Crowley:** It will be in quarter four, which we are in now, but it is in the public domain that we have said November. I expect it to happen towards the latter end of November.

**Deputy Michael McGrath:** What will be the next communication with customers and from whom will it be?

**Mr. Eamonn Crowley:** There will be two communications. One will be from us advising the customer that the relationship with Permanent TSB is ended. There will also be a communication from Start Mortgages to open up the relationship with the customer.

**Deputy Michael McGrath:** The next communication will be after the transfer date. People will be written to by Permanent TSB telling them that their loans have been transferred.

**Mr. Eamonn Crowley:** As soon as practicable. It will be within days of that date.

**Deputy Michael McGrath:** Whatever the transfer date will be, will the day-to-day relationship with the customer transfer immediately to Start Mortgages?

**Mr. Eamonn Crowley:** That transfers as well.

**Deputy Michael McGrath:** The customers will get a further letter from the purchaser giving them contact details and so on for the day-to-day management of their loans.

**Mr. Eamonn Crowley:** Exactly.

**Deputy Michael McGrath:** To cut to the chase, is there any flexibility at this stage whatsoever to remove certain loans from this transaction? I am referring to loans that have cured since the contract was signed at the end of July and are no longer non-performing. From the end of July to the end of November is four months. As I understand it, loans that have been in

arrangements for 12 months where those arrangements have been honoured can migrate from being non-performing to performing, subject to certain conditions. It is almost certainly the case that some loans that were classified as non-performing in July will be deemed to be performing come November. Is there any flexibility to remove cured loans or loans that are well on the way to being reclassified as performing?

**Mr. Jeremy Masding:** There is not. That is the best way to answer the Deputy's question. Let me provide some context. As I told Deputy Doherty, we concluded a significant exercise to try to reach the best perimeter possible. That resulted in us excluding 48% of the original perimeter. We have now entered into a commercial agreement with the purchaser that precludes us from disclosing its details. What I can confirm is that all loans at the time of signing were non-performing loans, NPLs. Post signing and subject to final reconciliation, there will be no further exclusions. This also means that there will be no further inclusions. By definition, banking is an evolving beast and there will be customers who go into NPL status between 31 July and the day of the final cash consideration. There will be no further inclusions either. That is essentially conventional market practice. Regarding the deleveraging we have done and any future capital market relationship, it is important that Permanent TSB meets the standards the capital markets expect.

**Deputy Michael McGrath:** In very simple terms, the transaction is locked in.

**Mr. Jeremy Masding:** That is correct.

**Deputy Michael McGrath:** What if Permanent TSB finds errors, or finds between now and the end of November that loans were incorrectly reclassified? We have had many interactions with bank customers who are raising all sorts of issues. If the bank finds errors, can they be rectified?

**Mr. Jeremy Masding:** Those errors will be reconciled. I am sorry, I was answering the Deputy's question at a macro level. The deal was done on 31 July. There is a commercial arrangement. We have to follow the conventions of the capital markets, which we have done. The deal will close when the cash consideration happens. There will be a reconciliation at the end.

**Mr. Eamonn Crowley:** We have been receiving information from customers since the announcement of the sale. We are looking at all that information and all our communication staff are communicating with customers as well. As mentioned by Mr. Masding, the cut-off date was 31 March. That is the perimeter within which we work. If a customer classification error is found that is not an NPL classification, we will deal with that accordingly. Indeed that is part of the communication process with the customer. That is more of a technical reconciliation which takes place up until 31 July. Other than that, it is a normal part of the final closure of any transaction.

**Deputy Michael McGrath:** There is a mixed message there.

**Mr. Jeremy Masding:** I will summarise it. The message I want to get out is that the bank does not have a general discretion to remove loans from the transaction. It does not have a general discretion to include new NPLs in a transaction. Those are my first two points. The third point is that there will be a technical reconciliation before cash is exchanged. If errors are found they will be netted out of the transaction. That is the best way to summarise it.

**Mr. Eamonn Crowley:** That is specifically with regard to errors. The word is "error".

**Deputy Michael McGrath:** If Permanent TSB finds that a loan lined up for sale was not correctly classified at the end of March, can it be removed?

**Mr. Eamonn Crowley:** All loans within the perimeter at the end of March are NPLs.

**Deputy Michael McGrath:** What if Permanent TSB discovered that one or more was not?

**Mr. Eamonn Crowley:** That is not the case. It is not the case that there is a performing loan in the perimeter, except one linked to another non-performing loan by way of a package, as outlined in the communication. That would be a non-performing loan due to that status.

**Deputy Michael McGrath:** I will come to that point. What errors might the bank identify which would result in loans being removed from the sale?

**Mr. Jeremy Masding:** There are 10,700 properties. To speculate would be unfair to this team. I can assure the Deputy of three things. First, there is a line of communication into Permanent TSB. Indeed all of the committee members use it, and the team looks at every case individually. Second, if there is a genuine error, whatever that means, we of course have the right to take it out. Third, to absolutely emphasise what Mr. Crowley said, the loans in Project Glas after 31 March are NPLs. They are NPLs either by dint of the fact they are 90 days past due or because they are unlikely to pay. The phrase “unlikely to pay” includes those which might be defined as performing but which are connected to a non-performing loan. It is the connection that is defined as the NPL. Those are the rules of the game we play.

**Deputy Michael McGrath:** Is Permanent TSB agreeing any new restructures on loans that are included in the sale? Has the bank agreed any new restructures of those loans since the end of March?

**Mr. Shane O’Sullivan:** We have.

**Deputy Michael McGrath:** Can that continue?

**Mr. Shane O’Sullivan:** That will continue.

**Deputy Michael McGrath:** As such, Permanent TSB can and is willing, right up to the transfer date, to enter into new restructures with customers whose loans are being sold.

**Mr. Shane O’Sullivan:** That is right. We are making our decisions in conjunction with the new owner.

**Deputy Michael McGrath:** What does that mean?

**Mr. Shane O’Sullivan:** As we said before, the transaction was signed on 31 July. We continue to manage accounts in the same way that we have done to date and we are informing the new owner of the loans of those decisions.

**Deputy Michael McGrath:** Does Permanent TSB need the new owner’s consent?

**Mr. Shane O’Sullivan:** We agree decisions with that party, because ultimately those loans are for its account. As such, cash that comes in, or does not come in as the case may be, since the cut-off date that Mr. Crowley mentioned is for its account.

**Deputy Michael McGrath:** Is the restructure of a loan a joint decision?

**Mr. Shane O'Sullivan:** It is ultimately the new owner's decision.

**Deputy Michael McGrath:** Even now, before the transfer date?

**Mr. Shane O'Sullivan:** Yes.

**Mr. Jeremy Masding:** The contracts were exchanged on 31 July.

**Deputy Michael McGrath:** The new owner could veto any proposed restructure Permanent TSB wishes to enter into with an individual customer between now and the transfer date?

**Mr. Shane O'Sullivan:** Yes.

**Deputy Michael McGrath:** As such the new owner is in control of the portfolio now with regard to any changes to individual loans.

**Mr. Shane O'Sullivan:** When an agreement is signed, that is the intention. There are two phases to it. There is the economic phase. Once the agreement was reached at the end of July, the economic benefit was for the new owner. Then there is a period up to the end of November, as Mr. Crowley said, in which the legal transfer happens, including the due diligence and the final reconciliation.

**Deputy Michael McGrath:** In practice, are new restructures being agreed?

**Mr. Shane O'Sullivan:** They are.

**Deputy Michael McGrath:** Of what nature? Does that include the full suite of restructuring agreements?

**Mr. Shane O'Sullivan:** Broadly, yes. I am not aware of much diversion from the way Permanent TSB-----

**Mr. Jeremy Masding:** Standard practice has been observed since.

**Deputy Michael McGrath:** As such, long-term restructures are getting the sign-off from Start Mortgages?

**Mr. Shane O'Sullivan:** Yes, long-term and short term restructures are being signed off. Broadly, the business is running as it always has.

**Deputy Michael McGrath:** Restructures such as term extension and arrears capitalisation are happening with the support of Start Mortgages.

**Mr. Shane O'Sullivan:** Yes.

**Mr. Jeremy Masding:** Start Mortgages is a regulated credit service provider. Therefore it has to comply with the laws of the land.

**Deputy Michael McGrath:** Yes, but that does not oblige it to offer any particular restructure.

**Mr. Jeremy Masding:** No, it does not so oblige it. However, just as there are points the Deputy quite rightly wishes to make, it is important to note that the Governor of the Central Bank of Ireland has made it very clear that the protections travel with the loans and the regulated credit services operate within the laws of the land. That is important.

**Deputy Michael McGrath:** Yes, but equally Start Mortgages can choose not to carry out certain restructures. That is open to it. The code does not require a regulated entity to consider all restructures.

**Mr. Jeremy Masding:** That is correct.

**Deputy Michael McGrath:** It is important that we are clear about the message to the customers affected by this transaction. There is still a window in which to agree a restructure of their loan between now and the end of November. Do the witnesses wish to put out the message that they are still willing to restructure mortgages, though it has to be with the agreement of Start Mortgages?

**Mr. Shane O'Sullivan:** That is correct, and Mr. Masding referred to that explicitly in his open statement. From the point of closure, Start Mortgages will make decisions in its own right. Equally, Start Mortgages and other funds like it are known to offer solutions that traditional or high street banks do not offer.

**Deputy Michael McGrath:** Are there transactions or proposed restructures that Permanent TSB has recommended and Start Mortgages has refused to endorse?

**Mr. Shane O'Sullivan:** I am not aware of any.

**Deputy Michael McGrath:** When in advance of the announcement at the end of July was the Minister for Finance alerted to the proposed sale? When did the formal consultation take place as required under the relationship framework agreement?

**Mr. Jeremy Masding:** it was shortly beforehand. I am afraid I do not have the specific dates in front of me. Is there anything Mr. Crowley would like to add?

**Deputy Michael McGrath:** Was it in July?

**Mr. Eamonn Crowley:** Yes, before the contract was signed. The Minister's input also forms a part of the board approval process.

**Deputy Michael McGrath:** What form did it take? The bank wrote to him and he wrote back. Was that it?

**Mr. Eamonn Crowley:** Yes, that is right. Obviously this transaction was very much in the public domain as well.

**Deputy Michael McGrath:** Very well. The Minister raised no objections to the sale.

**Mr. Eamonn Crowley:** No. It is a part of the approval process that the Minister must have no objection to the sale.

**Deputy Michael McGrath:** I know it is the final decision-----

**Mr. Jeremy Masding:** There was no objection to the sale.

**Deputy Michael McGrath:** I very much welcome the removal of the split mortgages. When Permanent TSB confirmed that, it indicated it may look at a securitisation option for the 4,000-plus split mortgages. Does Mr. Masding have any update for the committee on that issue?

**Mr. Jeremy Masding:** I will say a few things which may be linked to the previous question and then move on. There has been a definite increase in engagement with the bank since the announcement of Project Glas. What has been noticeable is the number of conversations that have happened and the amount of cash that has been put to the mortgages. That is a good thing and I would encourage customers to continue to talk to us.

In terms of further plans, we have said that we are looking at all options, including capital market solutions. I am not at liberty today to give any further detail, but we are looking at all options. As soon as we are in a position to make a market announcement, we will do so. I say market announcement because market disclosures, when inappropriate, have very adverse consequences for the bank and its directors. I do not have anything further to say, save that we continue to look for further solutions. As the members have collectively said, we are at 16%, which is an NPL ratio that is just not sustainable for a financial services business.

**Deputy Michael McGrath:** People feel particularly aggrieved if their family home mortgage, which is in full compliance with the original mortgage contract, is being sold or where a restructure has been in place for a long period and they are meeting the terms of that restructure but are included in the sale by virtue of being connected to a buy-to-let loan, which may have been on interest only by agreement from the beginning of the loan for perhaps up to ten years. To clarify, those family home mortgages are correctly classified as non-performing even if a mortgage payment was never missed because the owner of that home also has a buy-to-let mortgage which is classified as non-performing.

**Mr. Jeremy Masding:** We took the whole perimeter, the €5 billion. We made every effort to get to the best combination of NPLs that would get us the best result for the taxpayer within that construct. I have talked about the exclusions. The exclusions are stand-alone private dwelling house, PDH, split mortgages. In the same way, however, a performing loan, which is either up to date or performing as the Deputy might describe it as per the terms of restructure, can still be included in Project Glas if it was part of a wider package containing an NPL or cross-collateralised with an NPL. The same is true of a split mortgage.

**Deputy Michael McGrath:** I seek clarification. Is a buy-to-let loan, which has been on interest only by agreement from the very beginning and no payment ever missed, classified as non-performing?

**Mr. Eamonn Crowley:** It depends. If it has a classification that it is unlikely to repay in the future, that is where there is a low value versus the outstanding loan, it can be classified as non-performing because of the unlikelihood to repay or indeed where by way of interaction with the customer it is deemed that they will unlikely be able to meet their responsibilities. Therefore, it is possible, yes.

**Deputy Michael McGrath:** The point is that many of these family home mortgages will be fully repaid and are essentially being sold on as part of a bundle at a discount of 38% even though they will be fully repaid. That is the cream on the top of this transaction for the buyer, Start Mortgages. The perfectly good loans will be fully redeemed, fully repaid, and a discount of 38% is being applied in the aggregate.

**Mr. Jeremy Masding:** I appreciate why the Deputy made that comment and inadvertently asked me a question. I am afraid I can only go back to my opening remarks. NPL definition is complex. We are bound by the rules of the regulator who holds our banking licence. At its simplest, a loan is an NPL if it is greater than 90 days past due or is unlikely to pay. The team



will have gone through the accounts and any account with an “unlikely to pay” code on it would be in Project Glas. If it is in Project Glas and there is a connected account, the whole connection is brought into Project Glas. I am afraid they are the rules of the game that we play.

**Deputy Michael McGrath:** What would Mr. Masding say to his loyal customers who have been making their best effort to pay their mortgage, have engaged, have entered into restructures and now find their loan sold from under their feet? They feel very aggrieved and feel it is very unfair and unnecessary. I would not understate the level of stress, anxiety and mental health issues this transaction is causing for a great many of Permanent TSB customers. Many of them have asked me if this was necessary given that their loans were well on the way to being reclassified as performing. I am not talking about mortgages where nothing has been repaid for several years. I have no sympathy with such cases. I certainly imagine this bundle contains some of them. There are, however, also many good and loyal customers doing their very best, who have made sacrifices, have engaged, have made agreements with the bank, have kept their word and are well on the way to being reclassified. Could Permanent TSB not have given those loans more time to be cured, in the technical sense, and reclassified as performing?

**Mr. Jeremy Masding:** The Deputy needs to appreciate two things. Obviously this point has come up frequently in our attendances at the committee. The Deputy can believe it or not but I do not sit in a gilded cage with a glass ceiling. I have been in front of customers all my working career and I speak to customers. From the letters I receive and from the people I talk to I am acutely conscious that some customers feel really aggrieved that despite having a loan that is meeting its restructure terms, it is included in a sale. Of course, I can understand why they might feel this way, but there are two things. First, Start Mortgages is obliged to honour that agreement at the day of transfer.

**Deputy Michael McGrath:** That is only for the duration of the agreement.

**Mr. Jeremy Masding:** Second, it is worth repeating that we spent a considerable amount of time trying to get the maximum level of exclusions that we could. Therefore, links to principal dwelling homes, which are performing in line with an agreed restructuring and not connected, are not in Project Glas. I understand why the Deputy asked me the question. Words are meaningless but let us say them anyway. I can try to empathise when I can. At the end of the day we have a non-performing loan ratio that makes the bank quite risky for Ireland, as the Governor mentioned last week. It is important for Ireland that that risk gets diluted and potentially transferred. I have a duty to all taxpayers and I am trying to balance all the different parts. I am comfortable that the team is doing that.

**Senator Rose Conway-Walsh:** I thank Mr. Masding for his opening statement. We met representatives of the ECB recently and a large part of our discussion was on non-performing loans. We wanted to understand the extent of the pressure from the ECB on Permanent TSB in terms of the sell-off. We spoke about the impact Project Glas was having. They made it abundantly clear that they were not in any way instructing the sell-off. Everyone understands the need to reduce the non-performing loans. It is astounding that Mr. Masding has this list of options and yet he has five options within that. My colleague, Deputy Pearse Doherty, pointed out all the options from A to K. Why are they there in the code of conduct if they are not being used? Is the ECB aware that Permanent TSB is using a very limited number of options?

**Mr. Jeremy Masding:** It might help the committee if I try to explain that the list of treatments read out to me by the Senator’s colleague were from the regime we were under with the Central Bank of Ireland where our governing objective was to find as many long-term treat-

ments as possible. Irrespective of whether we did them, all of those treatments would mean that those loans are still NPLs.

**Senator Rose Conway-Walsh:** Why is Permanent TSB not using everything rather than selling on?

**Mr. Jeremy Masding:** All of those treatments are NPLs. Let me answer Senator Conway-Walsh's question. The second question is around the ECB not being prescriptive in terms of what we can and cannot do. That is true. Our non-performing loan, NPL, ratio, however, is totally unsustainable and it is dangerous for Ireland. As a guest in Ireland I believe that I can say that and perhaps be a bit more objective than most. Our NPL ratio is-----

**Senator Rose Conway-Walsh:** Will Mr. Masding explain how that is dangerous for Ireland?

**Mr. Jeremy Masding:** Our NPL ratio is really, really dangerous and we need to spread that risk.

**Senator Rose Conway-Walsh:** Will Mr. Masding explain a bit further how that is dangerous for Ireland?

**Mr. Jeremy Masding:** Because of the risk of the assets. If there is another economic shock those assets are likely to be the assets that will cause us real difficulty around our capital base. Banks need to have low NPL ratios. It is a regulatory requirement for us to have ambitious and credible plans to reduce NPLs. Permanent TSB is an outlier and therefore we have to look at all alternatives. In my opening remarks I explained to the committee the different alternatives we have considered. We are very clear that a loan sale is the least worst alternative. There is one data point that I asked the team to get for me, which I thought was quite interesting. I asked the team to get the historical Irish average of bank NPL ratios in the 1990s and the 2000s in order to get a comparator at a time when we are talking about NPLs. It was less than 1%. Ours is currently at 16%. We all need to take a step back and agree what it is we are trying to do here. From my perspective, I am trying to do the right things for the taxpayer. I have a quote from last week-----

**Senator Rose Conway-Walsh:** Does Mr. Masding not think that the banks played a big part in that, banks like Permanent TSB, in reckless lending in the first instance and then when people were losing their jobs and being put into those financial situations because of the nationalising of the private debt of the banks? We have to look at the causes and ask why the level of non-performing loans is as high as it is. The banks played a very active part in that. This is what really gets to me. Now the bank comes along, it has a suite of options and it decides "Well no, we will not use five of those." That is what I have a problem with.

**Mr. Jeremy Masding:** They are still NPLs and that is the point I make. I apologise if I am not making myself clear. The suite of options is for long-term treatments. If we go back in time to 2012 the troika, the Irish Government and Irish public policy decided that the banks must avoid scale repossessions. That was the policy decision then. As a consequence of that the Central Bank of Ireland asked all banks to put in place long-term treatments, which Mr. O'Sullivan has been at the vanguard of. In the world we live in, those long-term treatments are still non-performing loans. Just because they are treated does not mean they are not non-performing loans. They are still non-performing loans. With a non-performing loan ratio of 16% for a State-owned Irish bank the Governor of the central Bank has said "In terms of risk

management, the transfer of credit risk and funding risk to the investment funds that buy loan portfolios constitutes a national reduction in macro-financial risk ...". That is a really critical point. We have run out of options for reducing our NPL ratio. We have looked at all the different alternatives. As I have said, the loan sale is the least worst alternative on the basis that the protection is-----

**Senator Rose Conway-Walsh:** I do not think that Mr. Masding has looked at all the other alternatives so I do not share his opinion on that especially on enabling people to have security within their own homes, and to give people a chance.

I want to put a couple of further points to Mr. Masding and we have limited time. Did Mr. Masding speak to Start Mortgages about its non-attendance at this committee meeting today? Did Mr. Masding have any discussion about this before today and at what point did he know that Start Mortgages was not going to be here with him? For the committee to have Permanent TSB and to have Start Mortgages here would give us some reassurance, or we could have some guarantees on the public record from the organisation to which Mr. Masding is passing these loans.

**Mr. Jeremy Masding:** I have not spoken to Start Mortgages, and neither would I want to. I cannot put myself in the shoes of Start Mortgages.

**Senator Rose Conway-Walsh:** Does it concern Mr. Masding?

**Mr. Jeremy Masding:** I beg your pardon

**Senator Rose Conway-Walsh:** Does it concern Mr. Masding at all?

**Mr. Jeremy Masding:** I will make no comment on that. I looked it up this morning and I believe this is the 12th time I have appeared in front of this committee. Other than when there was a closed period when I actually could not legally come I have appeared every time I have been asked. I will continue to come before the committee because it is an important part of the process. I will not put myself in the shoes of Start Mortgages.

**Senator Rose Conway-Walsh:** Can Mr. Masding understand it from our position? We were given assurances that everything will continue the same and it is the same from the Minister for Finance - "There are no concerns here" - yet, Start Mortgages will not appear before an Oireachtas committee. What do they have to hide? This is what rings alarm bells with people and with those who have these loans, especially around how they will be treated in the future. If a company treats an Oireachtas finance committee in this way then how can we expect it to treat a homeowner with any respect? That is the question for us.

When is the last time that Mr. Masding met with the Minister for Finance?

**Mr. Jeremy Masding:** I meet with the Minister regularly because he is our largest shareholder. Obviously, I meet with him regularly to discuss issues ranging from performance, mortgage market share and NPLs. I would have met with him as part of a regular cycle maybe a month or six weeks ago.

**Senator Rose Conway-Walsh:** The Minister has no concerns whatsoever around how Permanent TSB is choosing to reduce the NPLs.

**Mr. Jeremy Masding:** I cannot comment on the Minister's perspective. I am going to bring it back to Permanent TSB. It is my job to get the best deal for all Irish taxpayers, and this is

what I continue to try to do.

**Senator Rose Conway-Walsh:** And for the people who are in their homes currently. Is Mr. Masding concerned that Smart Mortgages may decide to flip these mortgages on to somebody else, such as an unregulated entity? Has the witness discussed that within the transfer arrangements?

**Mr. Jeremy Masding:** That is a hypothesis and I will not speculate on that.

**Senator Rose Conway-Walsh:** It is basically up to Start Mortgages to do that. Really we have no guarantees because it could make that decision. There is nothing whatsoever to restrict it from making that decision to flip those loans at any time.

**Mr. Jeremy Masding:** I think that is an unfair question. I am not going to speculate on how Start Mortgages runs its business. I do know that this bank has avoided enormous numbers of repossessions. I know that this man here has spent the last six years of his career working with customers to try to find long-term solutions. I know that I am a regulated entity. I know that the ECB holds my banking licence and I know it is important that Permanent TSB competes and provides finance for the next generation of home owners. I know that we have looked at all the alternatives and I know that the loan sale is the least worst alternative. I know that the Governor has assured this committee that the protections travel with the loan. That is all I can say.

**Senator Rose Conway-Walsh:** Can Mr. Masding see it from our point of view? He is giving us assurances that homeowners are going to be protected. Really, when one scratches the surface, they are not going to be protected at all. They certainly will not be protected from the flipping over of the mortgages to somebody else, and Start Mortgages will not even come before the committee. Mr. Masding can see where our concerns are coming from.

I am really concerned about performing loans where the homeowner is paying his or her mortgage diligently. He or she may have bought another property and may have been enticed by the bank to buy another property during the boom, and then got into trouble with that mortgage. Are they two separate contracts? When a person has their home, and then he or she decides to buy another home, is that two separate contracts?

**Mr. Jeremy Masding:** I fear I am going to annoy everyone because I suspect the worst witness the committee can have is a person who just keeps repeating himself so I-----

**Senator Rose Conway-Walsh:** I know that but really, just indulge me.

**Mr. Jeremy Masding:** I just want to apologise because I am going to be a long-playing record. I do not know what else to say. This is a regulated bank. A regulated bank is defined by its banking licence. The banking licence is given and the bank has to apply the rules. The rules around NPL definition are given to us. The rules-----

**Senator Rose Conway-Walsh:** I know that. That is not the question I asked. The question I asked was in respect of the details of the contract.

**Mr. Jeremy Masding:** The rules of NPL the definition say that even if there are two separate contracts, one of which is an NPL, and they are connected through either cross-collateralisation or cross-default, where one is in default and the other is not, it is the connection that becomes the NPL. I am sorry but I do not know what else to say.

**Senator Rose Conway-Walsh:** That is grossly unfair and it puts people in a very precarious

position. They have often been enticed into investing in a separate property in the first instance rather than in a pension. Their homes are then at risk when the mortgages are being sold off.

**Mr. Jeremy Masding:** The best thing I can do is acknowledge the Senator's comments. I hope she will do the same for mine.

**Senator Rose Conway-Walsh:** I am not reassured. What has Permanent TSB done with the buy-to-let properties it has taken back?

**Mr. Jeremy Masding:** They are known as properties in possession. The bank is not a property company and has an obligation to put these properties on the market as quickly and as sensibly as it can. If he agrees that is the context, Mr. O'Sullivan might give a bit more detail.

**Mr. Shane O'Sullivan:** I agree that it is. We are actively selling those properties. To date in 2018, we have sold approximately 500 properties and have a stock of just under 1,800. Of those, 330 are at sale-agreed stage while a further 400 are for sale. We are preparing to sell a further 400. The bank is actively seeking to put those properties back into the market.

**Senator Rose Conway-Walsh:** Did the bank offer them to the Government to form part of the housing solution?

**Mr. Shane O'Sullivan:** We did. We have been speaking to the Housing Agency which is actively looking at a number of the properties.

**Senator Rose Conway-Walsh:** Has it bought any?

**Mr. Shane O'Sullivan:** Not yet. However, we are moving close, we hope, to an agreement on a portion of those properties.

**Senator Rose Conway-Walsh:** Are they being sold to Government at a discounted rate?

**Mr. Shane O'Sullivan:** We are selling them at market price. It is our obligation to secure the best price possible on behalf of the borrower to minimise any shortfall, if there is any, on sale.

**Senator Rose Conway-Walsh:** The borrower is out of the picture at this stage. The assets have been reclaimed while the bank is mostly owned by the taxpayer, which is to say by citizens and the Government.

**Mr. Shane O'Sullivan:** In totality, the 1,800 represent properties which came back through the voluntary surrender campaign and more generally. The onus on us is to secure the best return for our shareholder, which is, in large part, the State and the taxpayer. As such, we are looking to sell those properties at market rates.

**Senator Rose Conway-Walsh:** Does the bank have an obligation to contribute to solving the housing crisis given the part banks like Permanent TSB played in the crisis in the first instance?

**Mr. Shane O'Sullivan:** In practical terms, we can put the 1,800 properties we have at this stage back into the market as quickly as possible. That is something we are doing actively whether they are tenanted or vacant. If they are vacant, they tend to work for first-time buyers and those who are trading up whereas if they are tenanted, they work for people who want buy-to-let properties. That is our duty and that is what we are doing as expeditiously as possible.

**Senator Rose Conway-Walsh:** Is there any protection for people in circumstances where the bank sells a property with a tenant living in it?

**Mr. Shane O'Sullivan:** We honour the tenancy guidelines. That is our duty and we adhere to it.

**Senator Rose Conway-Walsh:** When did the bank start to offer these properties to the Government?

**Mr. Shane O'Sullivan:** From recollection, it was in March of this year, but I ask not to be held to that. It was in the early part of the year.

**Senator Rose Conway-Walsh:** None of the purchases has been completed by the Government.

**Mr. Shane O'Sullivan:** Not yet. We have a substantial number of offers which have been approved by Permanent TSB in principle. However, we are not through to execution yet.

**Senator Rose Conway-Walsh:** That is eight months. We are in a housing crisis and seven or eight months after the bank offered the houses to the Government, it has still not completed any transaction.

**Mr. Shane O'Sullivan:** That is a question for somewhere else. Our duty is to offer these properties to different interested parties and that is what we are doing.

**Senator Rose Conway-Walsh:** It is something we need to take up. It is no wonder that we have a housing emergency if it is taking seven to eight months to reach agreement on some of these properties. When we have 10,000 homeless people, it raises wider questions. I refer to the comment that rating agencies such as Moody's have welcomed the move. These are the agencies which told us Anglo Irish Bank seemed profitable in 2008 and which stated there was good credit quality supported by a rigorous lending approach. Yet, the witnesses tell us their actions are approved by Moody's. Can they see the irony of that?

**Mr. Jeremy Masding:** I cannot comment on the Senator's perception of the ratings agencies.

**Senator Rose Conway-Walsh:** It is not my perception. It is the fact of their assessment of Anglo Irish Bank.

**Mr. Jeremy Masding:** I was not here and I cannot comment. Perhaps I can provide the rationale for why I made that comment. We are trying to make the bank safer. If the bank is safer, we get access to a broader base of, probably, better value funding. If we get access to a broader base and better value funding, we can support the next generation of Irish homeowners. That is how the whole thing connects. The point of principle is around trying to make banks safer. I make no comment on the Senator's observation regarding Moody's. That is not for me to say.

**Senator Rose Conway-Walsh:** An endorsement by Moody's does not carry any weight.

**Senator Paddy Burke:** I welcome Mr. Masding and his colleagues. On the definition of an NPL, Mr. Masding says that even if one has a family home and a buy-to-let, the latter of which is in arrears, both are deemed to be in arrears. Is that the definition?

**Mr. Jeremy Masding:** They are both deemed, through the connected clause, to be non-

performing loans.

**Senator Paddy Burke:** If the performing loan is with Mr. Masding's bank and the non-performing loan is with a different institution, what does the bank do?

**Mr. Jeremy Masding:** Unless my esteemed CFO corrects me, the definition I provided is where both assets are with Permanent TSB.

**Mr. Eamonn Crowley:** If they were different banks, we would not have knowledge of the performance of the loan with the other bank. They are not connected in our eyes. It is only where the two loans are with Permanent TSB that the connection is formed. If it is two different banks, we do not know what the customer's relationship with the other bank is.

**Senator Paddy Burke:** Does the Central Bank has a different view on people who have loans in both institutions or one institution?

**Mr. Eamonn Crowley:** That is a question for the Central Bank. We can only classify our mortgages for the customers who have loans on our books.

**Senator Paddy Burke:** I see. As such, if a person has a house and the loan is performing fully, he or she is treated very unfairly by the Central Bank where he or she also has a buy-to-let loan with the same institution compared to someone who might have two loans with two separate institutions.

**Mr. Jeremy Masding:** That is a question the Senator should ask the Central Bank.

**Senator Paddy Burke:** Did the witnesses ask the Central Bank that question?

**Mr. Jeremy Masding:** I cannot comment on the Central Bank. I am sorry to be a long-playing record, but I have to come back to the rules of the game that we play. The rules are that if there are connected accounts within Permanent TSB, they are non-performing loans.

**Senator Paddy Burke:** What is the write-down of the performing loans?

**Mr. Jeremy Masding:** I cannot give that data. I go back to my original comment. We signed a contract on 31 July and within that was a non-disclosure agreement. I cannot give that information, I am afraid.

**Senator Paddy Burke:** Can Mr. Masding say that the write-down on the performing loan is different to the non-performing part?

**Mr. Jeremy Masding:** I do not want to get into a conversation which brings me to place where I might breach that confidentiality agreement. I cannot give that information. I can only assure the committee that on the day of the data tape being cut, which was 31 March, and subject to the comment we made to Deputy Michael McGrath about final technical reconciliation, the accounts were all non-performing loans.

**Senator Paddy Burke:** Deputy Michael McGrath said there was a write-down of 38%. I presume that is right across the whole portfolio.

**Deputy Michael McGrath:** The consideration in price as opposed to the book value of the loan meant a 38% discount overall.

**Mr. Jeremy Masding:** Yes.

**Senator Paddy Burke:** However, the witnesses are not at liberty to say whether the non-performing part is bigger.

**Mr. Jeremy Masding:** When a transaction like this is carried out, there are market conventions and market abuse rules. The information we can give this morning is the information we have provided to public markets. We have not provided that information and, therefore, I cannot do that under the non-disclosure-----

**Senator Paddy Burke:** What about the person involved in the sale? Is he or she notified of the amount of the write-down regarding his or her loan? If a person is involved in the sale, his or her loan is purchased or sold off to a vulture fund. Will the bank tell him or her the amount of the write-down?

**Mr. Eamonn Crowley:** No. For example, we would not know how the fund would look at each loan - that is its business - but, as Deputy Michael McGrath has outlined, we know the price for the whole book. We do not know the price by individual loan. That is the reality.

**Mr. Jeremy Masding:** We should be clear that this is the bid basis, of which we get the written bid.

**Mr. Eamonn Crowley:** That is how we receive the offer.

**Mr. Jeremy Masding:** That is how we receive the offer. We get it-----

**Mr. Eamonn Crowley:** One price.

**Mr. Jeremy Masding:** -----at one price.

**Senator Paddy Burke:** The bank gives to the people who are tendering, say, for the loan portfolio the individual amounts, how much is owed in each case and how much is owed on the property. Is that the case?

**Mr. Eamonn Crowley:** Yes, that is correct. They would have details of each loan under non-disclosure.

**Senator Paddy Burke:** They will make a bid on a global-----

**Mr. Jeremy Masding:** That is correct.

**Mr. Eamonn Crowley:** Obviously, they probably have internal analysis, but we have no access to that. It is one price for everything.

**Senator Paddy Burke:** The bank has no knowledge at all of the amount of the write-down individually.

**Mr. Eamonn Crowley:** That is correct.

**Senator Paddy Burke:** The people who are buying the loans more than likely would, though.

**Mr. Eamonn Crowley:** Naturally, I would suggest they would, but that is their business. We just get one price.

**Senator Paddy Burke:** A member of this committee wrote to Permanent TSB about a person who has a performing loan and has never missed a payment. They had another loan, a



second loan, and for some reason, which was the bank's fault, it went into arrears, which was rectified after a couple of months. This guy has been notified that his loans are being included in the sale, however, and the bank is saying it can do nothing about it. The witnesses have said here on a few occasions that the bank is still dealing with individual cases right up to the finish. The Deputy in question, who may be here later, has asked me to raise this issue and has written to the bank about it, as has the individual involved. It would seem the bank is treating everyone in a global-----

**Mr. Jeremy Masding:** As per my opening remarks, I cannot comment on any individual case. What I would say is that there is a very professional team in Permanent TSB that looks at each of the cases. Either I or one of my colleagues will come and talk to the Senator after the meeting, take the details and go and have another look - I assure him that - but I cannot comment on individual cases.

**Senator Paddy Burke:** That is fine. I thank Mr. Masding for that. He says there are 7,400 loans relating to family homes, 2,500 of which are non-performing. That means there are up to 5,000 performing loans being sold off at a discount. Is that not the case?

**Mr. Jeremy Masding:** No. They are all NPLs. Again, what have we disclosed to the market? We should start there. We disclosed to the market that Project Glas includes approximately 10,700 properties, 3,300 of which are buy-to-lets and 7,400 of which are PDHs. Then we stated that of the 7,400, 2,500 are non-co-operating and 3,850 are cases in which treatments had been refused or were no longer being adhered to. They are all NPLs. That is the breakdown.

**Senator Paddy Burke:** They have been categorised as non-performing because of other loans, though.

**Mr. Jeremy Masding:** No. They could be categorised because they are NPLs in their own right.

**Senator Paddy Burke:** There are 1,050 loans that are performing.

**Mr. Jeremy Masding:** Again, the information we have given to the market is 10,700 properties, 3,300 buy-to-lets, 7,400 PDHs. Of the 7,400 PDHs, 2,500 are non-co-operating, treatments have been refused in respect of 3,850, and this essentially leaves a "shortfall" of 1,050, which Deputy Pearse Doherty asked me about. The 1,050 were originally buy-to-lets where the connection has changed to PDHs but they are NPLs. They are classified as non-sustainable, and the average arrears in respect of them is greater than €90,000, or it is a PDH which is in long-term arrears. That is the breakdown.

**Senator Paddy Burke:** I am no different from other members of the committee. I have got several letters from people who have performing loans. Some of them may have a second property or whatever but the family home has been paid in full at all times. They are very disappointed that the latter is included. Mr. Masding says the Central Bank is the cause of that-----

**Mr. Jeremy Masding:** No. That would be a little unfair on the Central Bank. I will make two points. First, we are a regulated entity and, therefore, we have to go by the rules of the Central Bank. There is a second point, however. Let us hypothesise for a second and say there is no regulation of the banks. The board of Permanent TSB, including its chief executive, would still be trying to reduce the ratio of NPLs because, as I said in my opening remarks, a high NPL ratio is wholly unsatisfactory for Permanent TSB in the long term. Yes, there are some rules, but I do not want to get into a place where I hide behind the Central Bank. Irrespective of the

Central Bank, I would still be driving the organisation to manage down the NPL ratio.

**Senator Paddy Burke:** The bank, however, has categorised many of these loans, which are fully performing, as non-performing because of a second loan.

**Mr. Jeremy Masding:** No. In my opening remarks I was very clear - I apologise but I am going to keep saying it - that there are no performing loans in Project Glas. A performing loan is a loan which is up to date. It has no connection to another loan which is defined in relation to it. There are no-----

**Senator Paddy Burke:** Is the connection to the second loan in the Central Bank's definition?

**Mr. Jeremy Masding:** There are no performing loans in Project Glas. They are all non-performing.

**Senator Paddy Burke:** Is it the Central Bank's definition that makes them non-performing?

**Mr. Jeremy Masding:** That is correct.

**Senator Paddy Burke:** It is the Central Bank, then, that makes that decision.

**Mr. Jeremy Masding:** Correct, but even if the Central Bank were not there, I would make the same decision because if one has another loan which is non-performing, one would have to say, on the basis of probability, that all the debt would fall into the category "unlikely to pay". That is how it works.

**Senator Paddy Burke:** The bank has, however, sold off some properties - second homes - if people handed over the keys. Mr. Masding has said that. In some of these cases, where the loans are not performing or there are second homes in respect of which the loans are not performing, where they are paying in full for their primary home but they are not paying for the second one, is it a matter of their not handing back that property to the bank or is it the case that the bank has decided to lump the two together?

**Mr. Shane O'Sullivan:** The two things are separate. The voluntary surrender campaign was done in advance of the sale. We offered a large number of buy-to-let customers an opportunity to return the property and have the shortfall written off. This happened and has been completed. That is different from what Mr. Masding has just explained. Then there is what is left, and the bank is obliged to follow the rules that it is obliged to follow. Mr. Masding has explained them. Those loans, in the connection he described, make up the 25% NPL ratio, now down to 16%, that we have talked about. The bank is working through the end of that transaction, the 25% down to 16%. That is different from the voluntary surrender campaign, which has been completed.

**Senator Paddy Burke:** Has the bank engaged fully at all times with those people who had two properties, say, and where it was offering them the possibility of handing back the second one?

**Mr. Shane O'Sullivan:** We engaged with a large number of buy-to-let borrowers about their single property or, if it was appropriate, multiple properties that they had, and we offered them the opportunity to return their property for customers where we felt that this was the best outcome. Just over 50% of those borrowers accepted that proposal.

**Senator Paddy Burke:** Why does Mr. O’Sullivan think the remaining 50% will not accept the proposal?

**Mr. Shane O’Sullivan:** I do not know. I guess they felt it did not make sense to them, for whatever reason. It is their call. The offer was very simple and clear. In return for-----

**Senator Paddy Burke:** Now they find themselves included in a sale. Is that the case?

**Mr. Shane O’Sullivan:** Yes. There are customers who fall into that cohort.

**Senator Paddy Burke:** I thank Mr. O’Sullivan.

**Deputy Joan Burton:** I thank Mr. Masding for his extremely interesting statement. I have questions on some elements of his statement. Perhaps he will elaborate on some of the things he said in his statement.

On page 2 of the statement, Mr. Masding offered the example of Customer A who pays the mortgage in full and Customer B who clearly has difficulties. The latter is unable to pay the mortgage in full, on time and in accordance to the conditions. He stated:

The same problem - that all customers will not be treated equally - arises in respect of individual deal arrangements. It is a real moral hazard.

In the context of a lot of the previous discussion, it might be helpful to us if we could understand, or certainly if I could understand, the bank’s definition of a “real moral hazard”. Is it an ethical, financial or social concept? Even though today’s statement is one of the clearest statements that I have ever heard being made by a banker, which included examples of a moral hazard, I must confess that I still do not fully understand it. I ask Mr. Masding to start by defining what he and his bank mean by the term “real moral hazard”.

**Mr. Jeremy Masding:** I will do my best. Good afternoon, Deputy.

First, I wish to reiterate the difference between debt write-off and debt forgiveness. Debt write-off is what I would define as traditional banking. One lends money. If a customer finds himself or herself in payment difficulties one does all one can to try to help that customer. Sometimes that means one is unable to find a treatment or it is in a customer’s best interest that he or she returns the collateral. If, when one has got that collateral the value of that collateral is less than the loan that is outstanding, one has a shortfall. Then a bank has a choice as to whether it chases that shortfall or writes it off. In the case that Senator Paddy Burke talked about, the large buy-to-let and a voluntary surrender campaign, we determined beforehand that what we would do would be to write off the shortfall. That is what is meant by debt write-off.

Debt forgiveness is where one creates a situation where, essentially, the bank must choose between two customers about how it uses its capital. That is not for the bank to do. On the one hand, one has a customer, as I described here as Customer A, who continues to make his or her repayments. On the other hand, one has Customer B who has been unable to and, essentially, we reduce the mortgage to him or her on a unilateral basis. That has a moral hazard, I think, for two reasons. First, if the customers live next door to each other, one creates the moral hazard around the relationship between those two people because one of them is saying, “Okay, well I work really hard to pay the mortgage and yet you are in a situation where the bank has written you a cheque.” That creates a moral hazard because it creates a knock-on effect.

Second, it creates a moral hazard for the banking industry because if the bank does that for

one particular customer one then has to ask oneself the question of why would one not use capital to do that for all customers. Therefore, that takes one to the final place which is as follows. The responsibility of the management team is to use the capital that was given to us - the €4 billion by the Irish State - in a most judicious fashion. I could not countenance debt forgiveness, moral hazard and the use of that capital as something that Permanent TSB would do. That is my best effort to answer the question.

**Deputy Joan Burton:** Mr. Masding has referenced the Irish State and implied, in a certain sense, that he recognises the social dimension of moral hazard. In other words, it has an impact on the Irish State. Does he agree with me that it affects Irish society?

**Mr. Jeremy Masding:** I think I am right in saying that the Deputy, as an individual, was right in the middle of the troika negotiations and issues back in 2012. I come back to linking moral hazard to avoiding repossessions. At the time the Irish State had a choice. The choice was, from a social perspective, that all the banks avoided scare repossessions. From a social perspective, in terms of contributing to Irish society, I would argue - the Deputy may disagree with me - that the long-term treatments that have kept people in their homes have been a huge contribution to Irish society. I am not sure that the Deputy will agree with me on this but the unilateral use of capital to individual customers is not in the best interest of all Irish taxpayers. That is not something, certainly on my watch, I could countenance.

**Deputy Joan Burton:** I was not the recipient of a Jesuit education. I do not know whether some of the people on the bank's board and so on were. I did not have the benefit of that particular form of education but moral hazard is something that the Jesuits, as an order, have spoken about over a long period.

I will set out what I am trying to understand. If this is a moral hazard in Mr. Masding's construct, he has acknowledged there is a social dimension to what we are talking about in terms of impacts on society and obviously there are impacts, as he described, on the households of Customers A and B. Again, taking the broad moral hazard construct, does Mr. Masding think that the issues around the housing crisis and, for example, the consequences for people who are forced to vacate a home, constitute another type of moral hazard for Irish society? Certainly, in my constituency of Dublin West at present, where the bank has quite a lot of customers and an active banking presence, no replacement properties are available for many of the families who, in the ultimate workout, may be people affected by the bank's moral hazard construct. In a Jesuitical sense, is there also a social construct, which says that a level of debt forgiveness may be reasonable in the context of how the situation arose? Is this also the case because of the consequence for people for whom the working out of this particular doctrine may be extremely difficult, particularly if small children are involved in the family, and who have experienced a great deal of stress? I do not advocate anybody not paying their mortgage. A lot of people seated around this table have struggled to pay their mortgages and we have paid them in full. I am sure that the people on Mr. Masding's side of the table have the same framework and approach. I think that is a shared view it is likely we all have. With regard to the level of the crash, I stood in queues at one stage because I had bank accounts with Permanent TSB in Blanchardstown, as indeed I still have. Ten years ago, people were queueing up to arrange and finalise deposits on properties that their children were purchasing. These parents were doing their best. People were not advised by Permanent TSB or other banks about what they were taking on. That is their own problem, in a certain sense. I would say the banking system created quite a bit of the moral hazard, in the sense that it popped loan offers in the door, out the door or anywhere to tell people they could get loans regardless of how limited their incomes might have been. That is

what happened in the past.

I understand all the economic arguments in favour of the decision to offload all of this. In light of Mr. Masding's really strong statement about "a real moral hazard", and his implication that this is really bad for the bank, for people and for society, I am interested to know whether this means that his bank, in a moral hazard context, is under an obligation to seek to assist people. I put it to Mr. Masding that this has not happened, as my colleague has said and as I know myself. I know that many Permanent TSB staff members are distressed about this as well. People who made arrangements and agreements with the bank are in jobs and, in many cases, have faithfully worked their backs off and faced intense mental stress at various times. It is possible that this has partly contributed to family illnesses. They could be working in public service jobs, which means that continuing payments are pretty much assured as long as their health holds up. It may be the case that things have to be worked out over a longer period of time. I do not understand why the bank cannot show some compassion to those people. I understand that they are not perfect borrowers, but the crash was not a perfect crash. It crashed on top of people who may have lacked foresight or an economic education. As I have suggested, the bank threw money at them. I realise that Mr. Masding came into the bank some time afterwards.

I do not understand a moral hazard which does not have a wider social construct around it. I know this is an ethical question. I am aware of Permanent TSB's corporate and social responsibility statements. I think it seeks to have an ethical framework. What would be wrong with the bank continuing the workouts? As Mr. Masding said earlier, it is giving a discount of 38% or so to the mortgage company that it is selling on to, and ultimately to Lone Star. That is a really big discount. We can ask members of the committee to speak about the cases with which they are familiar, but in many of the cases with which I am familiar, even half of that 38% discount would obliterate the problem. In cases in which people have been really trying and are in work, why is this not possible given that the bank can see that an income is going to be coming in? Someone aged 45 has at least another 15 working years, and maybe a bit longer. A crystal ball is not needed to see that such a family is committed and is trying. Why is this not possible? Is the moral hazard argument preventing Permanent TSB from holding on to such a family? Has Permanent TSB ever written to the European Central Bank to say it cannot deal with people who never pay and make no effort and it wants to hand them on? Like others, I am talking about people who have really tried. Now they seem to have been found guilty of this real moral hazard in the bank's court of opinion. I ask Mr. Masding to enlighten us about how we should deal with such cases. How should we address them?

**Mr. Jeremy Masding:** I would like to make three or four points. It would be fair to say that my experience of secured lending, or mortgages, is as I have described it to some of the Deputy's colleagues. Money is loaned at a point in time on the basis of affordability. As it is secured lending, it has a certain price. The bank engages in a relationship with the customer. If a customer unfortunately finds him or herself in a situation in which it is difficult to make repayments, the bank does all it can to try to help him or her. If the arrears reach such a level that the loan is unlikely to be repaid, the collateral is repossessed and put back on the market to be sold. That is a banking model that I would be very used to.

**Deputy Joan Burton:** If that happens in the US, which is the home of capitalism-----

**Mr. Jeremy Masding:** The mortgage-----

**Deputy Joan Burton:** -----one can leave the keys in the door and walk away from the obligation in total.

**Mr. Jeremy Masding:** Can I-----

**Deputy Joan Burton:** One loses one's home and it is dreadful, but one does not carry the debt like a hump on one's back forever after.

**Mr. Jeremy Masding:** Can I answer the Deputy's question? Mortgages in Europe are not generally designed like that, so it is a different question. There is a huge crisis in Ireland, as the Deputy is aware. We had a conversation in 2012. If the banking model I have described had been applied at that time, there would have been thousands of repossessions. The first point I would make is that Permanent TSB and all the other banks set out to avoid large-scale repossessions. I think the data would support that.

The second point I would make is that a large non-performing loan ratio has enormous impacts for banks and future customers, as I have described. If the capital markets perceive that a bank is riskier, the cost of capital to that bank becomes higher. Therefore, the next best alternative is to undertake to the best of our ability a loan sale where the protections travel with the loans and, at the time when we sell the loans, the buyer is there and there are treatments which will be maintained.

The third point I would make is that for me, debt forgiveness essentially involves having to choose between different customers. I am not in a position to do that. We might disagree about what my job entails, but as I see it my job is to get the best return on capital that I can for all Irish taxpayers. I believe that is being accomplished through the long-term treatments and the loan sale. I think the Deputy's question has some broader connotations with regard to housing supply and the role of Irish society. I cannot comment on that. I think we have done all we can within the boundaries we were given. Mr. O'Sullivan put in place many long-term treatments. Mr. Crowley designed a loan sale that was the best construct we could come up with in the context of what we had. I would summarise moral hazard as having to choose between customers when making decisions on how to use capital. Debt forgiveness forces banks to make such choices. It is not for a bank to make such a choice because all of the capital is the taxpayers' capital.

**Deputy Joan Burton:** When Mr. Masding mentioned earlier - it is on the first page of the document he furnished to the joint committee - that we are "ten years on from the start of the financial crisis", it was interesting to hear him joining many commentators in saying "we are closer to the start of the next one [the next crisis] than to the end of the last one". In other words, the bank is already envisaging the next crisis. At the moment, some of the pressure of the last crisis is being released by the capital values of the overpriced properties in respect of which Permanent TSB offered mortgages some years ago. With hindsight I suspect Mr. Masding would agree that many of the properties were heavily overpriced. The individual customer is not a market maker. The customer does not have that power in the market. If we are now closer to the next crisis, and if moral hazard is Mr. Masding's ethical framework, it is reasonable for people in the housing market - Mr. Masding has impressive statistics there about new lending of €0.5 billion plus - where interest rates are slowly but surely rising to ask what if anything he is doing to protect those people in the statistics on the total new lending? Does the bank expect interest rates to rise?

Mr. Masding said there is a next crisis. Can he fill us in on his view on that and, in particular, on people taking out loans? Does he expect interest rates to rise? That could make them just as affordable.

**Mr. Jeremy Masding:** I will make three points. I repeat what the Governor of the Central Bank of Ireland said, in terms of national risk management, that the transfer of credit risk and funding risk to investment funds constitute a national reduction in macro-financial risk. In the broadest sense, we are contributing to the diversification of that risk.

On individual customers, we, along with our colleagues across the banks, have raised underwriting standards. It is more focused on affordability as against a belief that asset prices only go one way.

On the product portfolios we have, customers can take a view on interest rates and should they choose to have a certainty of repayment, we offer fixed rate mortgages. On what we can do, we are using all the resources that we can.

**Deputy Joan Burton:** Can I ask Mr. Masding briefly-----

**Chairman:** The Deputy can briefly.

**Deputy Joan Burton:** There was a very big statement there about the next financial crisis-----

**Chairman:** I understand but the others had very big statements as well and they all got 20 minutes. The Deputy can ask just one more question then we will take with Senator O'Donnell.

**Deputy Joan Burton:** Can Mr. Masding expand on the next financial crisis? It is a striking statement, like the moral hazard.

**Mr. Jeremy Masding:** It is a function of external commentary. There is commentary across the globe on a trade war between America and China and on Brexit. They are all indicators about which one should be very conscious in that there could be a next financial crisis. Therefore, I have to bear that in mind as I run an institution which, in itself, needs to be very conscious of risk management.

**Chairman:** I thank Mr. Masding.

**Senator Kieran O'Donnell:** I have a few questions. When a loan is restructured, what is regarded as a functioning loan? Say I have a loan of €200,000, for example, and it is in arrears, and the loan is restructured, what is regarded as a restructured functioning loan?

**Mr. Shane O'Sullivan:** There are many degrees of a restructured loan. There can be a very simple restructure that is trying to address the customer's problems in the short term. There can also be very deep restructures, where it is obvious that affordability will not be present for quite some time. Some of the products and the solutions that one hears about like the split mortgage-----

**Senator Kieran O'Donnell:** It is the split mortgage that I am referring to.

**Mr. Shane O'Sullivan:** -----recognise that ten years ago Ireland was in a very difficult place, as was said, and it did not look like it was going to resolve itself any time soon. The conventional restructures that might have been in place at that point were largely irrelevant.

**Senator Kieran O'Donnell:** We went on a trip to Germany quite recently where we met officials from the ECB. We did some digging on what they regarded as restructured loans. I put it on the record that they were quite offended in that they felt they were being blamed for the

Irish banks being put under pressure to bring their non-performing loan ratio down in a rapid fashion. In fact, they took grave exception to this and were highly offended.

They told us that their definition of a restructured functioning loan was putting a loan in place after the restructure where people could meet the repayments. In the example of a €200,000 mortgage, where the individual can afford €150,000 of that but not the other €50,000, they spoke about junior and senior. The senior was the €150,000. They had no concern about the time period as long as the person could meet the repayments. On the €50,000 element, the junior side, that had to be fully provided by the bank. If a person had a €200,000 loan, and a €100,000 was sustainable, that €100,000 would be senior. It could be repayable over whatever period the individual could afford - it could be 15 or 20 years. The other €100,000 would have to be junior - fully provided and a full write-off. Is that Mr. Masding's understanding of it?

They felt that they were the fall guy or fall lady - perhaps some of my colleagues might disagree - for the banks selling to funds. They said that they are not the bad guys or bad ladies and did not wish to be treated as such. To say that they were offended would be an understatement. Could Mr. Masding deal with their point? It was a very interesting high-level meeting and they have concerns about Permanent TSB, which I expect is nothing new to Mr. Masding in terms of how they view the bank. Mr. O'Sullivan might respond on restructuring and Mr. Masding might respond on the macro side.

**Mr. Jeremy Masding:** On the macro side, I would fully understand if they were extremely irritated if that was the perception they were getting. In fact, I would be extremely disappointed if they felt that there was a relationship between my team and our regulator that had ever given that impression.

**Senator Kieran O'Donnell:** They made a point of unilaterally bringing this up at the start of the meeting. We did not ask this question - they brought it up. These were officials from the ECB in Frankfurt.

**Mr. Jeremy Masding:** I am saying that I would understand-----

**Senator Kieran O'Donnell:** They said they did not want it to be said that they were the people causing the banks to sell to the funds and to bring their non-performing loans, NPLs, down at an accelerated rate. We then got into the space about the split mortgage and the affordable and functioning mortgage. I ask Mr. Masding and Mr. O'Sullivan to address those points.

**Mr. Jeremy Masding:** Of course, Senator.

What is factually correct is that there are outlier banks which have very high non-performing loan ratios. The second fact is that Permanent TSB is one of those banks. The third fact is that absolutely correctly, the regulator has insisted that those banks provide - I think the phrase is - credible but aggressive NPL reduction plans.

**Senator Kieran O'Donnell:** Have they set targets?

**Mr. Jeremy Masding:** The next fact is that at no stage have they made any judgment or issued direction about how the bank should do that. Lastly, there are no targets.

**Senator Kieran O'Donnell:** That is a critical point. Mr. Masding has made a number of appearances before the committee. I have interpreted the reason for his actions, apart from the financial reasons of the banks, as being that the ECB, as the regulator, was putting pressure on



him to get the number of non-performing loans down expeditiously.

**Mr. Jeremy Masding:** I am under a regulatory requirement to have ambitious but credible plans to reduce the number of non-performing loans, given that, as I mentioned, we are one of the outliers. From my discussions with the ECB and the Central Bank of Ireland, as well as in reviewing-----

**Senator Kieran O'Donnell:** Is Permanent TSB regulated directly by the ECB?

**Mr. Jeremy Masding:** Yes, we are. As well as reviewing what the regulator stated, the real point is that reducing the number to the European average, whatever it is at any point in time, is the very least that is expected of a banks such as Permanent TSB.

**Senator Kieran O'Donnell:** What is the European average?

**Mr. Jeremy Masding:** It is about 3.5%. I am in a public forum and will defend the regulator. At no time has the regulator given specific instructions on how we should reduce the NPL ratio. Equally, I have to-----

**Senator Kieran O'Donnell:** Would the regulator not have insisted on selling to funds?

**Mr. Jeremy Masding:** That is correct.

**Senator Kieran O'Donnell:** Was that a decision for the board of Permanent TSB?

**Mr. Jeremy Masding:** Yes. As per my opening remarks, I hope I have explained the journey from 2012 to the least worst alternative to meet the ECB's requirement to have an ambitious and credible plan to reduce materially the number of non-performing loans - a loan sale.

**Senator Kieran O'Donnell:** What percentage of loans are non-performing?

**Mr. Jeremy Masding:** Post-Project Glas, I expect Permanent TSB to have a NPL ratio of 16%.

**Senator Kieran O'Donnell:** What is the target in the next few years?

**Mr. Jeremy Masding:** From my perspective, to try to make the banks safer, I would like, if I can, to get the ratio down to a single digit.

**Senator Kieran O'Donnell:** In what timeframe?

**Mr. Jeremy Masding:** As quickly as we possibly can.

**Senator Kieran O'Donnell:** That is a little like the ECB stating to Permanent TSB that it wants the bank to bring down the number of non-performing loan but without telling it how to do it. Mr. Masding needs to give the committee some indication because people are fearful that there will be further sales of loans to vulture funds.

**Mr. Jeremy Masding:** We are considering options to reduce the ratio of non-performing loans from 16% to a single digit. I would be in breach of disclosure requirements if I were to go any further than that.

**Senator Kieran O'Donnell:** When does Mr. Masding anticipate that he will have reduced the ratio to 8% to 9%?

**Mr. Jeremy Masding:** I would like to try to achieve it in the next three to six months.

**Senator Kieran O'Donnell:** Will Mr Masding indicate in monetary terms the value of the loans that must be sold to achieve that reduction in the NPL ratio?

**Mr. Eamonn Crowley:** It is around the level of €1.5 billion.

**Senator Kieran O'Donnell:** What is the total amount of money involved in Project Glas loans?

**Mr. Eamonn Crowley:** The total figure is €2.1 billion.

**Senator Kieran O'Donnell:** Is the bank looking to do it in the next three to six months?

**Mr. Jeremy Masding:** Yes, in a relatively short period.

**Senator Kieran O'Donnell:** How does one do that? If the bank is looking to sell loans worth €2.1 billion to a vulture fund, how can it look to reduce the value of non-performing loans by a further €1.5 billion in six months without selling the loans to a vulture fund?

**Mr. Jeremy Masding:** As I said to committee members, we are looking at all options, including potential capital market solutions. I am afraid that I cannot answer the question further.

**Senator Kieran O'Donnell:** Will Mr. Masding indicate, in layman's terms, what he means by the phrase "capital market solutions"?

**Mr. Jeremy Masding:** It could be a loan sale, securitisation, another structure or a counter-market.

**Senator Kieran O'Donnell:** Will all of those propositions involve the sale of loans?

**Mr. Jeremy Masding:** I would not rule anything in or out.

**Senator Kieran O'Donnell:** Of the measures Mr. Masding mentioned, would any of them involve the internal restructuring of loans? Everything Mr. Masding has mentioned would involve an external sale. Securitisation is a sale.

**Mr. Eamonn Crowley:** I will pick up on that point. We are working through our book. If the Senator looks at our results which we announced on 29 August, we have a €200 million portfolio that will return to being performing in the next 12 months. We have a further €160 million worth of loans to customers whom we believe fit into mortgage to rent solutions, on which we are working extensively. It is a slow process, but we have identified that cohort. There are others that we continue to work out. Some customers are part of bankruptcy arrangements and, therefore, have a natural life cycle. There are lots of cohorts.

**Senator Kieran O'Donnell:** Of the loans which are valued at €1.5 billion, with what percentage does the bank believe it cannot deal internally?

**Mr. Eamonn Crowley:** They are primarily customers with whom we have dealt already. They are part of long-term treatments, but they have and will continue to have NPL status until they finally pay off their debt.

**Senator Kieran O'Donnell:** As we have been told by the ECB, could the bank come up with a proposal to restructure the loans in order that they could become performing? Will Mr.

O'Sullivan take up that point? The ECB is only interested in finding out the percentage of a loan that could be classed as performing over ten, 15 or 20 years, to be called senior debt, with the balance that cannot be paid being classified as junior debt and warehoused and full provision made for it. I do not like to see the sale of loans to vulture funds which I do not think are structured to deal with them. I would prefer loans to be dealt with in-house. We formed the impression from what the ECB had stated that it would like to see more and more loans being restructured in-house. I felt it was frustrated at what the banks were doing and that they were not doing enough. What I hear from bank customers is that there has been non-engagement by the banks on the basis of moral hazard in being able to sell on to vulture funds. Will Mr. O'Sullivan deal with the technical point about which the ECB informed us? Can it feed back towards the non-performing loans of €1.5 billion that need to be addressed?

**Mr. Jeremy Masding:** The description the Senator has put to us is the comment I made in my opening remarks; it is known as "provide and derecognise".

**Senator Kieran O'Donnell:** Senior and junior debt.

**Mr. Jeremy Masding:** That is what I meant. At this stage we are considering all of the options, but my motivation is, was and always will be to get the right deal for all taxpayers. Therefore, I need to compare and contrast the different options.

**Senator Kieran O'Donnell:** Is there a point at which Permanent TSB will not go for restructuring? Let me take the example of a €200,000 mortgage. Is it the case that the bank will not go for restructuring below a figure of €100,000, half of the amount being deemed to be functioning on the basis that the 100% provision the bank needs on the balance sheet for junior debt is not sustainable for it?

**Mr. Shane O'Sullivan:** That is the consideration. The Senator described it extremely well in terms of senior and junior debt. The only flaw in his example of a €200,000 mortgage is where he referred to senior debt of €150,000 and junior debt of €50,000. The actual figures are senior deb of €100,000 and junior debt of €100,000.

**Senator Kieran O'Donnell:** We went down to the level of €100,000 for senior debt and €100,000 for junior debt. The ECB stated that if a loan of €100,000 was functioning, it was not interested in the period of the loan. As long as the person was in his or her 30s, the term of the loan could be 25 or 30 years. As long as the loan in the senior category was deemed to be functioning, the ECB would make provision for the junior debt. Is Mr. Masding saying Permanent TSB cannot afford that level of restructuring?

**Mr. Jeremy Masding:** I think we are at cross-purposes. If what the Senator is suggesting is a legitimate alternative for the bank, the answer is yes. However, what the bank needs to think about is that within its capital envelope and its duty to all taxpayers. We need to compare that option to others I do not yet have on the table. I can assure the committee that the board and I would make a recommendation to the Minister which would be based on the best decision for all taxpayers. That is probably all I can say.

**Senator Kieran O'Donnell:** If Permanent TSB were to warehouse a proportion of the loan in-house, there might be some possibility of getting that portion of the loan back in future years, whereas if the loan was sold to a vulture fund, there would be no such possibility.

**Mr. Jeremy Masding:** The Senator's point in isolation is correct but, proportionately, as he and I both know because we have talked to each other on many occasions, isolation does

not work. The warehouse element is deemed unlikely to pay, so therefore the loan is a non-performing loan.

**Senator Kieran O'Donnell:** Could Mr. Masding make the case that the bank's balance sheet cannot sustain the level of the very difficult cases to which I am referring?

**Mr. Jeremy Masding:** I do not think that is true. The point I am making is that my duty is to ensure that the capital we have is used in the best interests of all Irish taxpayers. That is the simple answer.

**Senator Kieran O'Donnell:** Does Mr. Masding believe he has a duty to the mortgage holder who bought at peak levels? In terms of the customer charter, surely the bank has a duty to the customer as well?

**Mr. Jeremy Masding:** I believe we have met that duty through the long-term treatments and by avoiding scale repossessions.

**Senator Kieran O'Donnell:** Mr. Masding is saying the bank has €2.1 billion in Project Glas and that he expects by the middle of next year he will have dealt with another €1.5 billion in that respect, which will be €3.6 billion in total in terms of non-performing loans, and at that point the non-performing loan ratio would be down to 8% to 9%. Is that his target?

**Mr. Jeremy Masding:** I want to be within the European average. The Senator said something that was quite interesting in his comments around that. This is an assertion but I took it to mean that Permanent TSB was referenced as one of the Irish banks very early on in his conversation on the Single Supervisory Mechanism, SSM. From my perspective, I do not want PTSB to be a bank that is known in the SSM to be at the wrong end. My duty is to try to get the bank to be safer. Second, to do that, we have an aspiration to reduce the NPL level further materially in the near term, whatever that means. That would be my answer on that one.

**Senator Kieran O'Donnell:** What features determined the loans went in under Project Glas in terms of loans of €2.1 billion and the loans of €1.5 million that are left over?

**Mr. Jeremy Masding:** I do not know if the Senator has my comments in front of him, as it would save me reading them out, but I would draw his attention to pages 7 and 8.

**Mr. Eamonn Crowley:** That might also include page 4 where a definition of what is in Project Glas is set out half way down that page.

**Senator Kieran O'Donnell:** Okay. What remains in the €1.5 billion figure?

**Mr. Eamonn Crowley:** Primarily the €1.5 billion figure comprises long-term restructures that are PDH loans, so all buy-to-lets are in the Project Glas portfolio.

**Senator Kieran O'Donnell:** How many of those does Mr. Crowley anticipate will return to performing loans within the next six months?

**Mr. Eamonn Crowley:** In which figure?

**Senator Kieran O'Donnell:** In the €1.5 billion figure.

**Mr. Eamonn Crowley:** They will not because they are long-term restructures. They will not return to performing loans for many years.

**Senator Kieran O'Donnell:** I thank Mr. Crowley.

**Chairman:** Mr. Masding opened up his remarks by saying he is following the rules and directions of the bank's regulator. This was covered to a degree by Senator Kieran O'Donnell and I want to focus on the wording Mr. Masding used. He said that the direction from the regulators was very clear, that the bank must reduce the ratio of non-performing loans on its balance sheet to the European average, which at one time was 5% and now it is 3.5%. They never told Mr. Masding that.

**Mr. Jeremy Masding:** I beg your pardon.

**Chairman:** Where did the Central Bank or the European Central Bank tell the bank that?

**Mr. Jeremy Masding:** We have communications, as other banks do, that we are required to have ambitious and credible plans to reduce NPLs.

**Chairman:** They have never said to the bank that it has to reduce them within a certain timeframe to 3.5%.

**Mr. Jeremy Masding:** If one has a ratio of-----

**Chairman:** No, do not give me ifs.

**Mr. Jeremy Masding:** If one has a ratio of 25%, I would have thought it was perfectly rational to think that ambition was pretty short-term.

**Chairman:** That is not the question. The question is when the regulators told Mr. Masding. When did they say he must have that ratio down to 3.5%?

**Mr. Eamonn Crowley:** The request was that the banks would prepare credible and aggressive plans which would reduce their NPLs over the medium term. The medium term was deemed to be three years.

**Chairman:** The ECB, the Irish Central Bank and the SSM gave the bank no such instruction and they have confirmed that to a delegation that attended. It is wrong for Mr. Masding to give the impression in his statement that he is acting under the cosh of these three different organisations. They never said it to him and they have confirmed that to us.

To move along to the 13,800 homes-----

**Mr. Jeremy Masding:** Where in my opening statement do I specify that? The words I used on the subject of NPLs are-----

**Chairman:** I want to clarify that for Mr. Masding. He asked me a question. It is in the first paragraph of his opening statement. At no stage did any of the three organisations I have mentioned ever tell Mr. Masding directly what to do in his bank relative to the 3.5% or how he could achieve it. That is the first point.

The next point is that he complimented the 13,800 homes that have been restored to performing loans. Again, that is to give the impression that those that are left in his bank are the ones that responded the least to any kind of treatment or cure. He said that selling them to the vulture funds is a legitimate tool for banks to use to reduce NPLs. He is saying again that the European Commission, the SSM and the Central Bank of Ireland have all said that loan sales are a legitimate tool to sell. It may very well be a legitimate tool but they never told Mr. Mas-

ing to sell directly to vulture funds. They just recognise that it is a legitimate tool. That is all. There are many other options, so I find that misleading.

In terms of debt forgiveness and write-offs, Mr. Masding gave us his definition of moral hazard and all the rest of it. I find that hard to take coming from a bank that led these people into the debt they are now in. He went on to mention alternatives, including to provide and derecognise loans, and he said the bank did not pursue that particular method, but there is nothing wrong with that method. He could very easily have taken that as an option. The residential mortgage backed securitisation would have allowed the bank to derecognise the loans from its balance sheet, reducing the NPL ratio and avoiding a portfolio sale. That is what would have happened. It is an accounting procedure, and the loan holder is still on the hook, yet Mr. Masding will not consider that. I find the way he has presented this to be completely offensive. He said "customers have been poorly served by inflammatory and inaccurate commentary around the transaction". Can he drop us a line and let us know specifically what he means by that? Who are the people who put out these inflammatory and inaccurate statements? Surely, we will have to hold them to account, will we not? They cannot be saying bad things about Mr. Masding's bank. If he believes this, perhaps he might write and tell us where these statements were made. I doubt if he is referring to the committee members. Is he?

**Mr. Jeremy Masding:** No.

**Chairman:** He goes on to make another comment that is accurate in part but is also inaccurate. He said that the protections follow the loan and that these vulture funds have to acknowledge the protocols that are in place. He knows damn well that is not the case. He knows the reality is that once a person's loan is transferred to a vulture fund, he or she is in trouble. That is not inflammatory or inaccurate. It is a statement of fact. In support of that statement of fact, according to the High Court lists, most of the cases before a particular Circuit Court are vulture funds, including Start Mortgages, taking cases against individual homeowners. Will Mr. Masding tell the committee the number of cases PTSB has before the courts relative to home loans, including buy-to-let and owner-occupier mortgages?

**Mr. Jeremy Masding:** I will ask Mr. O'Sullivan to respond.

**Mr. Shane O'Sullivan:** We have approximately 2,500 cases before the courts.

**Chairman:** PTSB has 2,500 cases before the courts, some of which we know involve people who are engaging with the bank. PTSB has sold on all of these loans and it is pursuing 2,500 cases through the courts.

**Mr. Shane O'Sullivan:** No. The 2,500, by and large, would be the cases that are in Project Glas.

**Chairman:** Even though PTSB has chased 2,500 individuals through the courts, justice is not going to happen for those 2,500 customers, not with PTSB because it has sold them on to the vulture funds. Does Mr. O'Sullivan think the vulture funds will remove these 2,500 cases from the courts and restructure the loans? The witnesses appear to think that the funds are a generous lot and that they do deals. Is there scope for the 2,500 homeowners involved to work with PTSB and not have their loans sold to the vulture funds?

**Mr. Shane O'Sullivan:** I heard the Deputy-----

**Chairman:** Do not mind what anyone else said and answer my question.

**Mr. Jeremy Masding:** We cannot put ourselves in the shoes in Start Mortgages.

**Chairman:** PTSB was in the shoes, but has tossed them away. When PTSB was challenging 2,500 homeowners around the country, that was the time to address it. What it is now doing is outsourcing its dirty work to a vulture fund. It is ignoring the possibility of working individually with the people we are speaking about. That is essentially what Mr. Masding's response means. It is cold comfort for the 2,500 people who were before the courts legitimately seeking justice for the predicament that they found themselves in that PTSB has pulled that legal process from under them and sold their loans to a vulture fund.

How many of the 2,500 could have been helped by, say, Mr. David Hall's agency, iCare Housing? Did PTSB run these cases by that agency?

**Mr. Shane O'Sullivan:** We did.

**Chairman:** Is Mr. Sullivan saying PTSB did so in respect of each of the 2,500 cases?

**Mr. Shane O'Sullivan:** Yes, we did. Earlier, we mentioned a large number of exclusions. One large batch of exclusions were potential mortgage-to-rent accounts, customers who we feel based on everything we can see in front of us could avail of mortgage-to-rent.

**Chairman:** Do these loans form part of the 2,500?

**Mr. Shane O'Sullivan:** Yes. Some will be and some will not, but the key point is that we excluded up to 700 loans from Project Glas because we believe that they-----

**Chairman:** Do they form part of the 2,500 cases before the courts?

**Mr. Shane O'Sullivan:** Some of them will be and some will not.

**Chairman:** I am anxious to clarify that point because I do not trust the figures provided. It was mentioned at one point that 1,050 of the cases were homeowners. Were they ever presented to the Mr. Hall's iCare Housing programme for examination, it being the only agency that comes to mind just now as being an agency that might be able to help these people?

**Mr. Shane O'Sullivan:** I will explain. We took up to 700 accounts out of the sale that we felt could qualify for mortgage-to-rent. Not only have we worked with iCare Housing, we have also worked with Home4Life and the approved housing bodies, AHBs. Currently, 300 of those 700 accounts are being progressed through the mortgage-to-rent scheme, either through the AHBs, iCare Housing or Home4Life. That is the first point.

The second point is in regard to the courts, which was raised earlier by a Deputy. In terms of what we have all been attempting to work through over the past ten years, approximately one in five mortgages has been arrears but fewer than one in 300 homes have been repossessed through the courts. It is a cliché that it is the last resort. We do not rush quickly to the courts. I have sat in many courts and watched many cases play out. The court system will give the borrower every chance it can until it can give no more chances. That is-----

**Chairman:** Why did PTSB not allow the 2,500 homeowners before the courts to exhaust that process before it sold their loans to a vulture fund?

**Mr. Shane O'Sullivan:** That is what we have been doing for up to ten years.

**Chairman:** No. PTSB has 2,500 homeowners before the courts. It has pulled the legal mat

from under these people and sold their loans to a vulture fund, so it did not give them a chance.

**Mr. Shane O’Sullivan:** Most cases these days would take up to seven years in court.

**Chairman:** That is justice.

**Mr. Shane O’Sullivan:** That is fine, but-----

**Chairman:** PTSB has taken that away from the 2,500 we are speaking about.

**Mr. Shane O’Sullivan:** At some point we have to recognise that the bank has a very significant NPL ratio that it is attempting to address for the good of the bank and ultimately the State, which is a large shareholder. The alternative is that from a customer point of view, the circumstances are unchanged and the terms and conditions, the regulatory environment and the legal system does not change. Reducing our NPL ratio strengthens the bank’s position, which is good for the State and the taxpayer, and the scenario for customers is unchanged.

**Chairman:** I do not believe that. It is a nonsense that PTSB has been peddling for some time now, supported by some commentators, but it totally untrue in reality and in practice. In regard to the 1,050 accounts, it was said in a statement from PTSB that these are attached to buy-to-let properties. Do the witnesses agree with that statement?

**Mr. Shane O’Sullivan:** I do not believe that is what was stated. My understanding is that it broke out the 1,050 and explained that some of them originally were buy-to-let properties, others were not sustainable and the remaining were a catch-all for long-term arrears. That is my recollection of what was stated. I do not believe that any statement says that those 1,050 were home loans.

**Chairman:** The statement reads: “PTSB confirm that 1,050 loans on family homes, which are performing or meeting the terms of an agreed restructuring arrangement, are included in those being sold.” In the case of these homes, again Mr. O’Sullivan mentioned three different possibilities for them. Did PTSB apply any of those possibilities for them in terms of a solution?

**Mr. Shane O’Sullivan:** Again, I will come back to Mr. Masding’s point, which Mr. Crowley confirmed, namely that every loan in the transaction is a non-performing loan. It has a non-performing status but we will continue to listen to anyone who wants to tell us there is an error there. All of the loans, as part of the Glas portfolio, are non-performing.

**Chairman:** Let me put it to Mr. O’Sullivan in a different way. A media report says that shortly after the project Glas loan sale, it emerged that 1,050 mortgages on family homes were included in the sale and were performing or were meeting the terms of their restructured arrangement. Is that true?

**Mr. Shane O’Sullivan:** I cannot say for sure but-----

**Chairman:** Why not?

**Mr. Shane O’Sullivan:** I did not produce the statement so I would need to see it. I appreciate-----

**Chairman:** It is not a statement, it is a report. Never mind where it came from but it says that 1,050 mortgages on family homes were included in the sale and were performing loans or



were meeting the terms of their agreed restructured arrangement. Is that true or false?

**Mr. Shane O’Sullivan:** I cannot say without seeing the statement and the detail-----

**Chairman:** This is what is being said of project Glas.

**Mr. Shane O’Sullivan:** By who?

**Chairman:** Never mind by who; is it true or false? Is the statement true or false?

**Mr. Jeremy Masding:** There are no performing loans in project Glas.

**Chairman:** There are no performing loans, so this is wrong.

**Mr. Eamonn Crowley:** The statement is inaccurate.

**Mr. Jeremy Masding:** There are no performing loans in project Glas.

**Chairman:** That is okay.

**Mr. Eamonn Crowley:** The statement is inaccurate. The breakdown of the 1,000 relates to loans that are not sustainable, where no treatment was possible or loans where there were long-term arrears or “other”. These, unfortunately, were customers who were classified as unlikely to pay in the future or to satisfy the debt. There are also some loans that were originally classified as buy-to-let but which had switched into primary dwelling houses but in effect, they are all non-performing. They are all classified as non-performing.

**Chairman:** The bank classified them as non-performing.

**Mr. Eamonn Crowley:** Yes, under European Banking Authority, EBA, guidelines.

**Chairman:** Were loans that were restructured and for which the debtors were abiding by their restructured arrangement sold?

**Mr. Eamonn Crowley:** Cases that were in arrears, where the debtors were paying something but their arrears were continuing to build were classified as non-performing loans because they are in long-term arrears or unlikely to pay. That is a classification set down by the regulator, not by us.

**Chairman:** Was there nothing that the bank could do to prevent those 1,050 loans from going from the bank to a vulture fund? Did the bank exhaust every avenue with its customers? Did it get the three different projects that-----

**Mr. Shane O’Sullivan:** We took €2.6 billion or 48%-----

**Chairman:** Can we just stick with this for a moment?

**Mr. Jeremy Masding:** I feel that we exhausted all the options.

**Mr. Shane O’Sullivan:** We did.

**Chairman:** The bank exhausted all the options. We will see about that. The witnesses have said that Start offers solutions that high street banks do not offer. What are those solutions?

**Mr. Shane O’Sullivan:** It is understood that the funds will offer some form of debt forgive-

ness or right sizing.

**Chairman:** Where did that information come from?

**Mr. Shane O'Sullivan:** That is common knowledge.

**Mr. Jeremy Masding:** That is how they work. That is market convention.

**Chairman:** What the witnesses are saying regarding the portfolio that Permanent TSB sold is that Start Mortgages may offer options that are better than those offered by Permanent TSB. They are saying that there is proof available that they offer solutions which include write offs. Is that correct?

**Mr. Shane O'Sullivan:** That is correct.

**Chairman:** That is correct.

**Mr. Jeremy Masding:** Forgiveness, not write offs

**Chairman:** Whatever way one wants to phrase it. The witnesses constantly refer to the taxpayer and the best deal for the Irish taxpayer. The bank has sold off thousands of loans and some mortgage holders may end up losing their homes. There may be a tsunami of repossessions, in spite of what the witnesses say. These very same people will then end up on housing waiting lists, looking for homes to be provided to them by the State. One is back to the question of moral hazard again and to the fact that repossessions will happen, which will cost the State. I do not take the statements regarding the Irish taxpayer very seriously. The witnesses have no interest in the Irish taxpayer; they are only interested in their bank, which is borne out by their actions.

Let us go back to Senator Conway-Walsh's question because I want to understand these figures. The bank has 1,800 houses in stock. Is that correct?

**Mr. Jeremy Masding:** Yes, that is correct.

**Chairman:** That is the total figure. Out of that 1,800, sales have been agreed on 330. Is that correct?

**Mr. Shane O'Sullivan:** Correct

**Chairman:** Reference was made to a figure of 500. To what did that relate?

**Mr. Shane O'Sullivan:** There are 405 for sale. There is an additional 408 that are being actively prepared for sale.

**Chairman:** There are 408 properties being prepared. Did the Government buy any of those 1,800 houses?

**Mr. Shane O'Sullivan:** No, not as yet.

**Chairman:** The Government has bought none of the houses in the stock to which we are referring. Is that the case?

**Mr. Shane O'Sullivan:** That is the case but it is within the for-sale figure because the Government is actively looking at properties.

**Chairman:** The Government has not looked at the 330 properties for which sales have been agreed and it has not bought properties

**Mr. Shane O’Sullivan:** No, but it is in the for-sale area.

**Chairman:** How does Mr. O’Sullivan maintain that?

**Mr. Shane O’Sullivan:** The properties are for sale and the Government agency is looking at them and has given us every indication that it is very interested in a number of them. If the properties do not sell through the agency, we will sell them in a more conventional way, as we do with all of our other properties. The properties are for sale right now.

**Chairman:** Did Senator Conway-Walsh want to come back in on this issue?

**Senator Rose Conway-Walsh:** I ask Mr. O’Sullivan to give us a geographic breakdown of the properties that are for sale. How long would it normally take the bank to sell a property that was not being sold to the Government or its agents? I find it astounding that eight months on-----

**Mr. Shane O’Sullivan:** Typically a sale would take nine to 12 months from the time that one puts a property on the market to the time that one executes. The properties themselves are spread widely and there is no particular concentration.

**Senator Rose Conway-Walsh:** Can Mr. O’Sullivan not give a geographic breakdown?

**Chairman:** Can Mr. O’Sullivan provide a breakdown of where they are located?

**Mr. Shane O’Sullivan:** Not now, no.

**Chairman:** Can one be provided later?

**Mr. Shane O’Sullivan:** Yes.

**Chairman:** I also asked a question about court cases. Can Mr. O’Sullivan give me a breakdown of where those cases are based, for example, 20 in Kilkenny and so forth?

**Mr. Shane O’Sullivan:** Yes, we can provide that data.

**Senator Rose Conway-Walsh:** I have a short “Yes” or “No” question. Can a non-performing loan be turned into a performing loan?

**Mr. Shane O’Sullivan:** Yes.

**Senator Rose Conway-Walsh:** The witnesses were implying that it could not but Mr. O’Sullivan is now saying that it can.

**Mr. Shane O’Sullivan:** It can but it depends on whether one is talking about deep restructures or not. Some loans can come out of non-performing status while others cannot.

**Senator Rose Conway-Walsh:** Does the bank have specific criteria for that to happen? What needs to happen?

**Mr. Shane O’Sullivan:** Again, it depends on the loan. For the light restructures, once the account is back up to date there is typically a 12 month probation period. Once the loan continues to be repaid as it should over that 12 month period, the loan is no longer deemed to be

non-performing.

**Mr. Jeremy Masding:** I will try to summarise for the Senator. At its simplest, it goes back to performing status if it goes back to the original terms of the contract that was signed on the first day.

**Chairman:** Not the restructured agreement?

**Mr. Jeremy Masding:** No, not the restructured agreement.

**Senator Rose Conway-Walsh:** Yes, but obviously I have it explicitly here in a document from the European Central Bank to our MEP, Mr. Matt Carthy, as to how a non-performing loan can be turned into a performing one. If someone goes into the bank today with arrears that are owed, does the bank accept those arrears? If they continue to pay the interest and the original loan over a 12-month period, they will automatically come out of the non-performing category. Is that correct?

**Mr. Shane O’Sullivan:** Broadly, yes. As Mr Masding has said, it comes back to the original contract. It depends on what is paid. Is the amount that was not paid now paid? Is the interest that was due but not paid now paid? Has the account performed as it should for 12 months? If that happens, then the account can go back to be considered performing.

For some of the deeper restructures the interest is not repaid. We heard an example earlier of where €100,000 continues to be paid, the other €100,000 is not paid and the interest is not asked for. That account will never go back to non-performing status until all the capital that is not paid and all of the interest that was not paid is paid. It is unlikely that customers with split mortgages would pay interest that they did not have to pay.

**Senator Rose Conway-Walsh:** Let us suppose someone comes in and pays the arrears or interest that is owing up to today. Then, 12 months from now, the loan should automatically become a performing loan. Is that correct?

**Mr. Shane O’Sullivan:** Broadly, but the probation period is slightly different for different types of structures. We also have to be careful that a loan is not connected or cross-collateralised with a different loan that is a non-performing loan. Once the customer can satisfy all of this then it is absolutely possible.

**Senator Rose Conway-Walsh:** It is the “broadly” part that concerns me because it creates an ambiguity. Let us suppose a customer owes €5,000 in arrears on the mortgage and goes into the bank today. Will the bank accept the sum? Does it ever refuse it?

**Mr. Shane O’Sullivan:** No.

**Senator Rose Conway-Walsh:** Permanent TSB would never refuse a borrower proposing to pay today the €5,000 that is owed on arrears. Is that correct?

**Mr. Shane O’Sullivan:** Once we are satisfied with the source of the funds, and that they are legitimate, we will accept those funds.

**Senator Rose Conway-Walsh:** What does Mr. O’Sullivan mean by saying once the bank is satisfied about where the funds have come from? Surely, it does not matter as long as it is legal. It is not the bank’s job to see where the funds have come from.

**Mr. Shane O’Sullivan:** No, but we have anti-money laundering obligations. It is a small point. We will accept arrears payments all of the time, while meeting our wider banking obligations to ensure that we understand the source of funds. The answer is “Yes”.

**Senator Rose Conway-Walsh:** The bank would never refuse a borrower coming in with an amount of money to pay the arrears unless the bank was suspicious that it had come from an illegal source. Is that correct?

**Mr. Shane O’Sullivan:** That is correct.

**Senator Rose Conway-Walsh:** It is my understanding that moneys being paid in arrears have been refused by Permanent TSB. It is interesting to have that on public record.

**Mr. Shane O’Sullivan:** Again, we are happy to speak to Deputies and Senators on individual cases outside the public session.

**Chairman:** I will give the deputation a sense of the response from the public when we do that. I will outline a case that touches on the point. I am not going into detail but I want you to understand the effect it has. A borrower who was with Permanent TSB for the past ten years got a letter from the bank at the beginning of August saying the mortgage had been transferred. The borrower fell into arrears in 2016 for six months and the amount was €3,000. The mortgage is being transferred. The borrower has outlined in detail in the letter the fact that the family are living in fear and feel they have been very badly treated by the bank. That is a letter from one of Permanent TSB’s customers.

I have highlighted another case. The writer says to me that Permanent TSB issued a response that was received a little over a week ago. The writer is not happy with the response and does not believe the bank actually looked at anything in any different way. The writer simply got holding letters. If you think that is a response in some sort of special way to a member of the committee, I do not agree with you.

Other correspondence relates to a case I raise with the bank officials. Out of courtesy, this person wrote back to give me the update. The person said there was no outcome whatsoever from Permanent TSB or even a response from Mr. Masding regarding the €60,000 overpayment. It is now one year since the query began and eight months since Mr. Masding said he would look into it and nothing constructive has happened.

I have before me another letter from an individual whose loans have been sent on to a vulture fund and sold again by that vulture fund to someone else. What struck me about it was that it started at a very low amount. There was a resolution to it. The man went into bad health and tried to deal with it as best he could. Again the response from the bank was such that he believes he got no hearing whatsoever.

These are some of the letters I wanted to refer to and say to you that the bank is not building confidence with its customers by virtue of the number of letters I receive and by your interaction with this committee. I will pass some of these letters on to you again in the hope that you will look at them in a different way. For the record, I find your approach to all of this shocking, as is what you are prepared to do for the bottom line in your bank.

Deputy Burton, do you want to ask a question before we wrap up?

**Deputy Joan Burton:** It is a brief question and follows from some of the points raised.

First, we have been advised that the average loan value in the context of our discussion today is €175,000. Second, we have been advised that the average arrears time of the loans is three and a half years. Third, we have been advised that the average arrears value is €28,800. The bank is telling us this is a management process. Many of us are struggling to understand this from the bank's perspective. Would the bank officials be kind enough to get us details on the highest-value loans in the top category? Are there people who are in arrears to the tune of more than €50,000 or €100,000? What are the lowest values?

The committee has received letters, which the Chairman has passed on to the bank officials, showing that particular loans have no arrears at all. In an earlier conversation with the Chairman and others the Permanent TSB officials said the same person may well have another loan. If someone has no loan arrears on the family home but has a business situation or a buy-to-let loan, as referenced earlier by Mr. Crowley, it is quite unfair to undermine the security of the family home that is being repaid. It is not an unreasonable tactic for a family with several loans to say they will prioritise the family home to ensure it is secure. It is reasonable to decide to repay all of that and perhaps have another loan from the bank that is related to a tracker mortgage or development land. Again, it is a question of moral hazard. The moral hazard at the moment rests with families losing homes. When a family loses the home, there are no easy alternatives in most of Ireland to replace that home and no easy alternatives in most of Ireland in terms of finding a rental property at a reasonable cost to allow a family to rent. Can the bank officials go behind the figures that have been made available on the averages? An average arrears value of €28,800 seems rather low.

**Chairman:** You might provide a spreadsheet of general information on that, if you can, Mr. Masding.

**Mr. Jeremy Masding:** We cannot provide any further information as per my previous comments. We have entered into a commercial agreement and so the information in the public domain is the only information that we will be able to provide.

**Deputy Joan Burton:** Is that by order of the Central Bank?

**Mr. Jeremy Masding:** Yes, that is the commercial agreement. It is a market norm that when a bank does a transaction like this there is a non-disclosure agreement at the point of signing. We have to abide by that.

**Chairman:** You might let us have the basis of that, Mr. Masding. What we are asking for is a generalised set of figures.

**Mr. Jeremy Masding:** Let me go back and I will-----

**Chairman:** I would appreciate if you would not mind going back.

**Mr. Jeremy Masding:** Let me see what I can and cannot provide. The general perspective-----

**Chairman:** You gave a "No" answer to most of the questions today rather than a "Yes" or rather than even being informative. I am asking you to facilitate Deputy Burton by allowing the committee the extent of the information that you can give us relative to the question that she asked. We will finish up now.

**Senator Rose Conway-Walsh:** The European Central Bank does not say that customers

have to be back paying the original terms of the mortgage. I propose that the committee should contact the ECB again after today's hearing and seek clarification on some of the points that we have not received clarity on today.

**Chairman:** We would welcome the information we have asked you for in a timely fashion, Mr. Masding, if you do not mind.

**Mr. Jeremy Masding:** Of course.

**Chairman:** I wish to make it clear for those borrowers who are caught up in this. It is my belief that the opening statement has been constructed in such a way as to almost deliberately mislead people into believing that there is regulation in this area, that it is all okay and that the bank did its best for the taxpayer. I completely reject these parts of your opening statement, Mr. Masding. They were absolutely misleading.

The joint committee adjourned at 2.50 p.m. until 9.30 a.m. on Thursday, 18 October 2018.