HOW THE SHRINKING POOL OF MORTGAGE LENDERS IN IRELAND AFFECTS CONSUMERS

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TWO OVERSEAS-OWNED BANKS ARE PULLING OUT OF IRELAND. WHY ARE THEY LEAVING AND WHAT DOES IT MEAN FOR THE CONSUMER AND THE INDUSTRY? LET'S FIND OUT MORE.

Two of Ireland's biggest banks and mortgage lenders are withdrawing from the country. It leaves an already small pool of lenders for consumers to choose from even smaller.

In this article, we'll look at this news in more detail. We'll look at why these banks are leaving and its impact on consumers and mortgage brokers. We'll also look at possible solutions to the problem.

Bank Exits

In February, Ulster Bank announced it was taking its business out of Ireland after 160 years of trading. It is the third biggest mortgage lender in the country, with a 15% share of the market. It is selling €4 billion of its €20.5 billion loan book to AIB and is talking to Permanent TSB and other banking companies about further transactions. Ulster Bank is owned by UK-based NatWest.

Then, this month, Belgian-owned KBC Bank announced it is following suit. It is in advanced talks to sell its loan book to Bank Of Ireland. KBC holds a 13% share of the Irish mortgage market. It will take some years for these two banks to complete this withdrawal of business.

These overseas-owned banks are leaving Ireland because they cannot generate large enough profits to satisfy their shareholders and make trading worthwhile. It is thought that this is due to the financial regulations that operate in Ireland, but not the rest of Europe. Irish banks are required to hold three and a half times more capital in reserve than their European equivalents.

Impact on Irish banking

While there is much attention around the two banks leaving the country, there has been little focus on its impact – the consolidation and shrinking of the market. The exit of Ulster Bank and KBC leaves two giant players in the market – Bank Of Ireland and AIB, with Permanent TSB a distant third.

Effects on consumers

In every sector of the economy, competition is essential to keep all parties working in their customers' interests. The shrinking of the mortgage lending market in Ireland could lead to bad outcomes for consumers:

- Interest rates – Bank of Ireland and AIB already charged higher interest rates than Ulster Bank and KBC. KBC's variable rate for a 90% LTV was 3.3%. At Bank of Ireland, it is 4.5%. With less competition in the market, homeowners may see rate hikes. There is undoubtedly less incentive to cut rates to win customers.

- Customer service – Less competition in the market means consumers are less likely to switch if they experience bad service. Hence, there is less incentive for Bank of Ireland, AIB and PTSB to look after their customers.

- Innovation – Competition traditionally drives innovation in the market, such as new products and technological solutions. Consumers can expect a slowdown in the introduction of new ideas.

One area where the remaining giants may try to compete is with cashback offers for new mortgage customers. Unlike other countries in Europe, in Ireland, banks can offer cashback when a customer takes out a mortgage. However, they will pay a higher interest rate and a much larger multiple of this lump sum back over the life of their mortgage. KBC and Ulster bank did not offer these deals, which many experts believe is damaging for consumers. However, Bank of Ireland and PTSB may continue to provide cashback to customers and make their money back on the other side.

Mortgage brokers

As well as affecting consumers, mortgage brokers will also feel an impact from Ulster Bank and KBC leaving the market. They will have less choice and fewer deals to offer customers. They may even find their commission margins squeezed. Quite simply, the remaining banks in Ireland have gained more power than ever before.

Is there a solution?

Can anything be done to fix the Irish banking and mortgage lending situation?

A good start would be for the Government to end the requirement for banks to hold so much capital. These regulations are a hangover from the financial crisis which happened more than a decade ago. Loosening the rules could tempt more foreign-owned lenders into (or back into) the arena.

The Government could also act on the advice of consumer experts and legislate against cashback deals, as the customer ends up paying more in the long run. This means that lenders would have to compete in other areas – price, customer service and innovation.

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