



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Danièle NOUY
Chair of the Supervisory Board

Mr Brian Hayes
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 02 June 2016

Re: Your letter (QZ060)

Honourable Member of the European Parliament, dear Mr Hayes,

In your letter passed on by Mr Roberto Gualtieri, Chair of the European Parliament's Committee on Economic and Monetary Affairs, to Mr Mario Draghi, President of the European Central Bank, with a cover letter dated 12 May 2016, you raised questions concerning the scope of ECB Banking Supervision. The President has therefore forwarded your letter to me.

Your letter deals with the interest rates on Irish residential mortgages, compares them with average euro area rates and inquires about possible investigative actions to be undertaken by the ECB in this regard. In particular, you note that the average standard variable mortgage rate offered by Irish banks significantly exceeds the average rate offered to new borrowers in the euro area, which you cite as demonstrating that Irish banks are overcharging their customers.

Please note that the Irish Minister of Finance has indicated in Dáil Éireann (Irish House of Representatives) that there is an obligation to consult the ECB on a draft Irish legislative proposal relating to this matter. In this respect, please note that this letter is without prejudice to any future opinion which may be adopted by the ECB Governing Council in response to any such consultation request.

An investigation by the ECB of whether banks pass on the main ECB refinancing rate to their borrowers is not foreseen as it would fall outside its mandate. To the extent that the issues raised are seen as related to sustained market-wide rent extraction, they would be a matter for competition authorities and/or market conduct authorities to investigate.

That being said, please allow me to share with you a few additional considerations from a supervisory perspective. As you know, since 4 November 2014 the ECB has been directly responsible for the supervision

of significant banking groups within the euro area. In this context, the ECB monitors closely the profitability of credit institutions, also because low profitability has been identified as a business model risk which warrants particular supervisory attention. In this respect, I would like to recall that the same Irish banks referred to in your letter charge exceptionally low interest rates to a substantial share of their mortgage borrowers, who, as tracker mortgage holders, pay an average interest rate considerably below the average rate offered to new borrowers in the euro area. All mortgage borrowers considered, the average interest rate paid in Ireland as at February 2016 is 2.63%, according to data published by the Central Bank of Ireland. This rate is very close to the euro area median.

More generally, let me note that when pricing mortgages, banks should take into account a number of factors, including their actual and future cost of funding, their expenses and overhead, their cost of capital, their volume of non-performing loans and their expected credit losses.

Yours sincerely,

[signed]

Danièle Nouy