EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI
President

Mr Luke Ming Flanagan
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 12 June 2018

L/MD/18/206

Re: Your letter (QZ-032)

Honourable Member of the European Parliament, dear Mr Ming Flanagan,

In your letter to Ms Danièle Nouy, Chair of the ECB's Supervisory Board, which was passed on by Mr Roberto Gualtieri, Chair of the European Parliament's Committee on Economic and Monetary Affairs, with a cover letter dated 10 April 2018, you enquired about issues beyond the scope of the ECB's supervisory tasks. Consequently, Ms Nouy forwarded your letter to me.

It should be noted that in the context of the EU/IMF adjustment programme for Ireland, staff from the European Commission, acting in liaison with the ECB, and the IMF were involved in discussions with the Irish authorities on the country's economic and financial situation, including topics such as bank recapitalisation. As I had the opportunity to discuss in previous letters of reply to your honourable colleagues, decisions in this regard were, however, taken by the Irish authorities.[1] As such, the Irish authorities were responsible for decisions to recapitalise banks. Conditionality related to bank recapitalisation was within the remit of the Central Bank of Ireland, the competent supervisory authority at that time, as these events pre-dated the establishment of the Single Supervisory Mechanism.[2]

[1] For a discussion of the ECB's involvement in the preparation of the EU/IMF adjustment programme, see, inter alia, the letter of reply to Mr Carthy dated 17 February 2015, available on the ECB's website at https://www.ecb.europa.eu/pub/pdf/other/150218letter_carthy.en.pdf

[2] The SSM Regulation has tasked the ECB with supervising credit institutions from a prudential perspective, while supervisory tasks not conferred on the ECB, including consumer protection, remain the responsibility of the national competent authorities. For more details on this, as well as for a discussion of the issue of non-performing loans and Irish banks that you mentioned in your letter, I would like to refer you to the recent letter of reply to you by Ms Nouy, dated 23 April 2018 and available at https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.mepletter180426_Flanagan.en.pdf

Let me highlight that the EU/IMF programme placed a strong emphasis on limiting the economic and social consequences of the financial crisis in Ireland, and strived to balance the interests of creditors and debtors. As also discussed in a recent ECB Opinion (CON/2018/13), the Irish authorities employed various means to alleviate suffering to households enduring financial distress during the financial crisis, particularly in relation to mortgage debt at a time of high and increasing unemployment.[3] Answering your specific question, the ECB Opinion also notes that while a partial write-down of debt can sometimes offer a solution in certain cases – where the borrower's solvency can be restored and where creditor losses can be minimised – it is important to ensure that any such measures do not result in blanket mortgage debt forgiveness. Such measures should be geared to minimising the risk of abuse and the inherent risks to social fairness and to the payment culture.

Yours sincerely,

[signed]

Mario Draghi

[3] The ECB Opinion is available on the ECB's website at: https://www.ecb.europa.eu/ecb/legal/pdf/en_con_2018_13_signed.pdf. Among the various measures employed by the Irish authorities, a code of conduct on mortgage arrears, which was binding for mortgage lenders, was put in place; consumer protection legislation was passed to protect borrowers in respect of which credit servicing firms undertake certain services; and the Irish authorities put in place various measures to assist distressed borrowers, notably the "Abhaile" scheme established to allow homeowners access to independent legal advice and support, and mortgage to rent schemes.

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