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MASTER'S DISSERTATION

***Is a lack of action by the Domestic Irish Banks hindering
Ireland's Economic Recovery?***

Submitted in partial fulfilment of the requirements of a Master's Degree
(MSoc) in Finance

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Is a lack of action by the Domestic Irish Banks hindering Ireland's Economic Recovery?

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Declaration

I declare that all of the work in this dissertation, except where referenced, is entirely my own. Those referenced are listed in the bibliography section at the end of this paper. Furthermore, this work or no part of this work has been submitted for assessment to this or any other institution.

Signed: _____

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Table of Contents

IS A LACK OF ACTION BY THE DOMESTIC IRISH BANKS HINDERING IRELAND'S ECONOMIC RECOVERY?	1
DECLARATION	3
TABLE OF CONTENTS	4
ACKNOWLEDGEMENTS.....	8
ABSTRACT	9
CHAPTER 1: INTRODUCTION.....	10
INTRODUCTION.....	10
1.2 RATIONALE FOR THE RESEARCH	10
1.3 AIM AND OBJECTIVES.....	11
1.4 RESEARCH QUESTIONS	12
1.5 APPROACHES TO THE RESEARCH.....	12
1.6 SCOPE & ORGANISATION OF THE DISSERTATION.....	13
1.7 LIMITATIONS OF THE RESEARCH.....	13
CHAPTER 2: LITERATURE REVIEW	15
2.1 INTRODUCTION	15
2.2 THE SEEDS THAT GAVE RISE TO IRELAND'S PROPERTY BUBBLE.....	16
2.3 RECKLESS BANK LENDING PRACTICES & THE STATES RESPONSE	18
2.4 THE BANK GUARANTEE	20
2.5 NAMA IRELAND'S BAD BANK	21
2.6 CODE OF CONDUCT ON MORTGAGE ARREARS IRELAND'S RESPONSE TO FORBEARANCE PRACTICES	23

2.7	OVER INDEBTEDNESS & ADOPTING PERSONAL INSOLVENCY	29
2.8	SMALL TO MEDIUM ENTERPRISES (SMEs)	30
2.9	ECB LOW INTEREST RATES A FORM OF QUANTITATIVE EASING	34
2.10	STRESS TESTING	35
2.11	DIVERSIFICATION WITHIN THE CHANNELS OF FUNDING	36
CHAPTER 3: RESEARCH METHODOLOGY		38
INTRODUCTION.....		38
3.2	RESEARCH.....	38
3.3	RESEARCH METHODOLOGY	39
3.4	RESEARCH PHILOSOPHIES.....	40
3.5	RESEARCH APPROACHES - DEDUCTIVE AND INDUCTIVE THEORIES.....	41
3.6	RESEARCH STRATEGY & DESIGN.....	42
3.7	DATA COLLECTION METHOD CHOICES	43
3.8	RESEARCH TIME HORIZONS	44
3.9	DATA COLLECTION AND ANALYSIS.....	44
3.10	ETHICAL ISSUES IN DATA COLLECTION.....	46
3.11	LIMITATIONS	47
CHAPTER 4: DATA ANALYSIS & FINDINGS.....		49
INTRODUCTION.....		49
4.2	A FAILURE IN CONDUCT RISK GOVERNANCE	49
4.3	CCMA LENDER & BORROWER RELATIONSHIP - PRO CUSTOMER OR PRO PRUDENTIAL?	50
4.4	AN IMBALANCE OF POWER - SUSTAINABILITY OF REPAYMENT WHO DETERMINES?.....	51

4.5	AUSTERITY IRELAND AND PERSONAL INSOLVENCY DEBT	53
4.6	DECISIONS ON SME CREDIT LINES	54
4.7	STIMULATING THE ECONOMY.....	56
4.8	PRIMARY RESIDENTIAL AND SME NON-FIXED INTEREST RATE RESTRUCTURES	56
4.9	BANKING DIVERSIFICATION REQUIRED WITHIN THE CREDIT CHANNELS	57
4.10	THE INTERCONNECTION BETWEEN FINANCIAL ARREARS CRISIS AND MACRO-ECONOMICS	58
CHAPTER 5: CONCLUSION & RECOMMENDATIONS		60
INTRODUCTION.....		60
5.2	RESEARCH QUESTIONS	61
5.4	RECOMMENDATIONS OF THIS RESEARCH	66
BIBLIOGRAPHY		69
APPENDIXES.....		80
APPENDIX 1: SELF REFLECTION ON LEARNING & SKILLS DEVELOPMENT		81
APPENDIX 2		88
SURVEY QUESTIONNAIRE		88
APPENDIX 3		98
APPENDIX 4		103
APPENDIX 5		110
APPENDIX 6		120
APPENDIX 7		133
APPENDIX 8		148
APPENDIX 9		165

List of Tables and Figures

Index of Tables

Table 2.1: Overview of Principal Dwelling Houses seeking Mortgage Arrears Resolution Solutions	
.....	24

Index of Figures

Figure 3.1: The research 'onion'	40
Figure 6.1: Kolb's Learning Styles	81

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Abstract

The Ireland's two pillar banks AIB and Bank of Ireland have announced post provision profits on their 2014 half yearly statements. The ERSI, report that Ireland's economy is in recovery, a fragile recovery. SMEs access to credit is funnelled from the ECB to European SMEs through European banks easier access to the low interest rate Euro. However, the legacy of the banks' reckless lending is still remains. The aim of this research to ask the question - Is a lack of action by the Domestic Irish Banks hindering Ireland's Economic Recovery?

Through the method of qualitative interviews and documentary analysis the author concludes that there is no consistency in addressing consumer debt across the banking system. The SMEs are driving Ireland's economic recovery and not the banks. In order to strengthen Ireland's recovery viable and struggling SMEs with a viable core business require access to credit on an increasing and monitored foundation over the next couple of year.

However, Ireland's domestic banks are meeting the lending targets nevertheless the level of established sustainable mortgage arrears solutions is low with a number of re-defaulter accounts being estimated at 16 percent in one of the pillar banks. In order, to survive SMEs need to generate revenue from Ireland's internal market. This can only occur through the location of a new customer. Therefore, Ireland economic recovery is not only dependent on the supply of credit; it is also dependent on internal personal consumer demand for their products and services.

Chapter 1: Introduction

Introduction

The complacent Irish banking system has left an insurmountable legacy of debt with the state and ultimately the taxpayer. On the night of the infamous Irish Bank Guarantee, all of Ireland's domestic banks were insolvent, according to the commissioned reports by the Department of Finance, such as Honohan (2010), Regling and Watson (2010) and Nyberg (2011). No person had any suspicions that Ireland's economy had a prudential risk exposure or that it had been steadily materialising from the early 2000s. Without the financial support from the Irish Government and the European Central Bank (ECB), possibly all of the Irish domestic banks would have become bankrupt. Six years on from the announcement of the Bank Guarantee, the Irish Government's right sizing of the bank's 'balance sheet', Ireland's economy is in a fragile recovery.

The focus of this research is to investigate what actions are being taken by Ireland's domestic banks to address the financial arrears crisis from a personal consumer and Small to Medium Enterprise business perspective. This research will address this question from a number of perspectives; from a mortgage borrower in financial difficulties, from SMEs that are financially challenged, as a consequence of a property investment overhang and which requires additional credit to stay afloat, and, finally, from a person who is in arrears in mortgage and unsecured repayments.

1.2 Rationale for the Research

The rationale for this research is to examine the outcome of Ireland's domestic bank practices from, initially, the Celtic Tiger period of the mid-1990s to the Bank Guarantee of 2008 that prevented the collapse of the Irish banking system, right up to the commencement of the Banking Inquiry in December 2014. No research, as far as the author is aware, has been produced from an Irish perspective to investigate the actions of Ireland's domestic banks (including Ulster Bank) from the interconnections between the mortgage borrower, an indebted person and from financially strapped SMEs in an concentrated financial market.

At the end of 2014, the failed Irish domestic banks, post restructuring, are reporting a return to economic viability, post-Bank Guarantee. According to Colm McCarthy (2014) this was due to their financial bailout, which was given, 'perhaps too generously', and the Government's right sizing of their balance sheet, at an additional cost of €69 billion to the exchequer. The Irish economy appears to be no long teetering on the edge of bankruptcy and is in a state of economic recovery. Or, is it? Economist David McWilliams (2014a) prudently asserts that, what Ireland is experiencing is a 'sugar rush'. Has the Government put the right resources in place to economically and spiritually turn

Ireland's economy around? Professor Honohan, Governor of the Central Bank of Ireland, has revised the existing codes and regulations while continuing to implement new guidelines and frameworks to address the financial arrears and lending to SMEs.

The key to Ireland's recovery is not only debt management; it will also be through the development and expansion of SMEs. It is widely acknowledged that Europe's SMEs are struggling. A significant percentage of Irish SMEs are financially constrained due to their property overhang. Yves Mersch's keynote speech advocates banks and other forms of financing be utilised to support Europe's SMEs. Economic recovery brings with it increasing employment and the prospect of surplus cash for spending and investment. Arrowsmith (2013) draws attention to financing viable businesses and warns against providing scarce capital to non-viable companies, which could be detrimental to viable companies and ultimately the recovery of the economy. This is a predicament facing Ireland; if the banks lend to non-viable SMEs, their debt increases with slim economic prospects for the future. With viable SMEs, there are real challenge is to find the new customer and will they be able to meet their repayments when the Euro interest rate rises. The struggling SMEs, who are just making their repayment, hold the balance, a fragile balance that mostly depends on Ireland's indebted borrowers demand levels to increase

This dissertation is of genuine interest to the author, as she has a BSocSc (University College Cork) and works professionally in the financial industry, with a banking history of working in the Compliance and Operational Risk Management control functions. The researcher is currently employed in a financial solution department within an operations support capacity and is also completing a Graduate Diploma in Financial Services with the Institute of Banking (in partnership with University College Dublin).

The main recipients of this research will be the management of the School of Business at Dublin Business School. In addition, other primary recipients for this research, if requested, will be my employer participating interviewees, and other business and economic agencies that would benefit from the findings from this topical and timely research.

1.3 Aim and Objectives

The currently unrest in Ireland's society can be traced back to the States bailout of the Irish banking system. Research into how the Irish domestic banks assist Ireland's SMEs, the distressed residential mortgage borrowers in arrears and the customer who is financially insolvent is timely. However, the Central Bank of Ireland's generation and monitoring of the implementation of policies, by the policy makers and members of the Oireachtas Committees, is insufficient, if the regulations and codes are not being appropriately actioned by the bailed out Banks.

The aim and objective of this research is to identify if the Irish banks are hindering Ireland's economic recovery. This research is also to identify areas or make recommendations to how this could be addressed by coming to understand the regulatory guidelines, codes and framework and analysis on how they are being implemented. More importantly, this research through the interview process, will question the impacts of the bank's actions or inactions, positive and/or negative; in order to ascertain a greater awareness of what is occurring within society. The interview process and the primary data that was obtained were utilized to analysis the Joint Oireachtas Committee on Finance, Public Expenditure and Reform reports, and testimonies from the Banking sector.

1.4 Research Questions

The research question is as follows: 'Is a lack of action, by the Domestic Irish Banks, hindering Ireland's Economic Recovery?' To arrive at a conclusion for this research, a number of sub questions or hypotheses have been generated. A hypothesis is a closed predicted statement. A research question(s) takes a broader more open look at the findings and information derived from the qualitative semi-structured interviews in arriving at a conclusion.

The research questions are as follows:

Question 1: is it true that Ireland's domestic banks don't understand SMEs business and are therefore unable to make appropriate lending and loan restructuring decisions?

Question 2: Are Ireland's domestic banks respecting the spirit of the Code of Conduct on Mortgage Arrears and the Insolvency Act?

Question 3: Is it true that the Irish Government and Central Bank of Ireland have not implemented appropriate measures to address the indebtedness of SME and Primary Residential mortgage within the domestic banking system?

1.5 Approaches to the Research

This research will examine the effectiveness and quality of the actions taken by the Irish domestic banks, to implement the Central Bank of Ireland's regulations and codes and to address the financial arrears crisis. Collection of primary and secondary research methods will be adopted. The foundation for this research will be provided through secondary literature, which is freely available in the public area through various channels such as: mainstream and online news articles, RTE interviews and News updates, business and banking bulletins, Dail Eireann reports, the ERSI, Central

Bank of Ireland, and European Banking Authority (EBA) websites, the internet, television documentaries, the DBS Library, etc. Secondary information was assessed and provided the researcher with a knowledge foundation to plan and construct the semi-structured interview questionnaire employed within the primary research. The semi-structured interview enables the researcher to investigate the core topics and questions of this research, while allowing author and interviewee to move slightly around parameters in order to gain a deeper and broader understanding of banking practices and their impact on the personal consumer, the SMEs and society.

1.6 Scope & Organisation of the Dissertation

This Introductory chapter provides the reader with a general outline of the rationale as to why the researcher chose this research for her dissertation. Chapter 2 (Literature Review) examines the available information and current theories surrounding this research. Information within this chapter formed the foundational knowledge surrounding the historic and current issues facing the Irish economy. The literature review assisted in the conceptualising of the semi-structured questionnaire, which was employed to extract the research primary data from the interviewees. Chapter 3 (Research Methodology) explains the appropriate methodology process that can be employed in gathering data for this research. It also outlines the reasoning behind why the employed approaches were selected. The selected methodology was heavily influenced by Saunders et al. (2003/2009) and their 'research onion' strategy to acquire the primary data that this study uses. Chapter 4 (Data Analysis & Findings) concerns the primary data which was derived from the qualitative inductive semi-structured interviews. Here, it is taken, analysed, and coded in conjunction with the Joint Oireachtas Committee on Finance, Public Expenditure and Reform overview of the banking sector, the Joint Committee on Jobs, Enterprise and Innovation; Report on Access to Finance for Small and Medium Enterprises (English report, 2014); the Joint Committee on Jobs, Enterprise and Innovation: Report on Hearings on Matters Relating to Mortgage Arrears Resolution Process (Lynch report, 2014); and the theories identified within the literature review to form the findings of this research to answer the research questions. Chapter 5 (Conclusion) is based on the research findings provided in chapter 4. Here, the researcher's suppositions are presented. Chapter 6 (Self-reflection) presents an outline of the author's learning and development experiences in conducting this research.

1.7 Limitations of the Research

Limitations to this research project were numerous. The researcher overcame most of these. Essentially, there were four overarching limitations encountered within this research.

Access to primary information from a qualitative inductive research approach involved a very small sample frame to choose from. Ireland has four domestic banks (including Ulster Bank). Within an overly competitive and concentrate financial market, years of continuous negative media reports and ongoing Oireachtas Committee investigations, meant that access to specialised personnel experts was challenging.

The timescale for completing this research was challenging, as the researcher is in full time employment. Interviews occurred within business hours, therefore, time had to be requested in advance and sometimes this was at short notice. The researcher was obliged to return time taken off in lieu. However, the researcher greatly acknowledges the time provided to her by the interviewees in accommodating her research.

Secondary information, within the context of Ireland's economic and social reports, mostly addresses Ireland's failed banking system from the boom to bust era. Information, on how the Central Bank, Department of Finance and Ireland's domestic banks are addressing customers' financial arrears are being handled, is not readily plentiful from a literary perspective.

Ireland's financial crisis has been identified as home grown and, next to Greece, Ireland is recorded as having experienced the second largest financially assisted bailout of any other country globally. The collapse of Ireland's financial system is quite unique, as it impacted all areas of Irish society. Therefore, finding a comparison economy was not possible. Japan's prolonged recession, as opposed to Iceland's collapsed banking systems, does exhibit some comparative elements.

Chapter 2: Literature Review

2.1 Introduction

It is hard to believe that austerity in Ireland, post Troika and 6 years on from the collapse of the Irish Banking system that brought the Irish state to edge of bankruptcy, is now witnessing a continuous rise in property prices. Calls for concern are being sounded through the halls of the Oireachtas. Ireland's economy had crashed and was in free fall from 2008 to 2010, with unemployment soaring to a peak of 15.1%. Most properties, purchased in the middle of the boom, were in negative equity and the government was (and still is) borrowing to meeting its daily operations, while its banks were bust.

The Fine Gail / Labour coalition government, the Tanaiste and the Minister for Social Protection 'welcomed' the continuing decline in the November 2014 CSO Live Register figures. The overall rate of unemployment is recorded at 10.9%, the lowest level since 2009 (Department of Social Protection, 2014a). Employment levels are recorded at 1,926,900. The end of November Exchequer Returns show an increase on the tax receipt of €4,180 million on the same period for 2013 (Department of Finance, 2014a).

In addition, in Ireland's two pillar banks, Bank of Ireland and Allied Irish Banks (AIB), their half yearly interim statements, post provision, show an underlying profits before tax of €327 million and €437 million (respectively) (Department of Finance 2014b and 2014c). Both statements emphasise Ireland's pillar banks continued progress 'in reaching workable and sustainable solutions in relation to Mortgage holders and SME's in arrears'. This is Ireland's reality. The banks are still working towards finding a sustainable solution for their residential mortgage borrowers and SME's in arrears, both of which are linked to property debt.

This research investigates if the measures implemented by the reformed Central Bank of Ireland, under Governor Patrick Honohan, is addressing Ireland's financial residential mortgage arrears crisis and whether SMEs Lending are being actioned by Ireland's domestic banks. This research also incorporates personal insolvency and the interconnections between the three variables.

The following section will briefly take a look at some of the theories that lead to Ireland's prolonged recession.

2.2 The Seeds that gave rise to Ireland's Property Bubble

In the years following the Second World War, the Keynesian economic strategy, to promote growth and full employment through a mixed welfare economy (or polity), was adopted throughout western society. This introduction of the Keynesian Welfare Structure led to increasing levels of state intervention through the stimulation and regulation of interventionist policies being applied to the demand and supply sides; 'all classical "factors of production" – capital, labour, land – are no longer taken as given but developed and shaped, distributed and allocated by specific state policies' (Offe, 1984, p. 175). Hirsch (1977) contends that Keynes theory rectified and validated the Laissez-faire economic theory, allowing the individual the opportunity to pursue his own goals while being guided by the invisible hand.

The interconnections between the government, the developers, the bankers and light touch regulation have been conceptualised within Taylor's (2011) metaphor, the 'Galway Tent'. Taylor's research depicts the Fianna Fail led coalition governance strategies as asymmetrical, in favour of Ireland's economic and social progression, which led to increased employment, increased public wages, and increased corporate and commercial profits. It is Taylor's belief that the developers, the bankers and politicians mapped out Ireland's economic expansion while 'evading the prudential constraints imposed on its everyday citizenry' (Taylor, 2011, p. 596).

In addition, McCarty's (2013) article contends that Ireland's local authorities restrictive land zoning policy created an artificial scarcity of land availability. Property within the Dublin urban area was elevated to premiums of fifty to sixty percent. The Mahon Tribunal exposed the overarching interconnections between the practices of political bribery within Ireland's property construction sector, which were well underway by the mid-1990's. The Mahon Tribunal found that the former Taoiseach (Prime Minister) Bertie Ahern did not tell the truth about the source of lodgements to his bank account. Former Fianna Fail Minister, Pdraig Flynn, was found to have "corruptly" sought substantial donations for the Fianna Fail party. Also, Finbarr Hanrathan, Counsellor, and Liam Lawlow (former Fianna Fail T.D.) were found to have demanded monies in exchange for development permission rights between 1988 and 1989 (Mahon, S.C. et al., 2012).

Norris and Winston's (2011) study proposes an alternative motive was behind the changes to Ireland's unique 'socialised housing systems of home-ownership' (p. 18). Ireland's distribution of housing assets converged to our Anglo-Saxon European counterparts social model. This convergence was facilitated by the removal of direct and indirect government supports. Furthermore, the average earned income was on a par to that of the advanced technological economies. Taken in

conjunction with the introduction of the cheaper Euro¹ currency, Ireland was awash with money (McWilliams, 2013; Norris and Winston; McHale, 2012).

Anglo Irish Bank and Irish Nationwide Building Society's (INBS) relationship banking and lending models, during this time, began to concentrate their lending in financing risky property development projects. These investments, financed through the lower Euro interest rate, initially yielded higher returns for higher risks taken. The Central Bank of Ireland, according to Nyberg, (2011), misjudged the impending prudential risks. Combined with wages increases, property became regarded as a future investment (Williams, 2013).

A working paper by Whelan (2013) takes an alternate perception to the property boom, assessing the reasons behind why the Central Bank and the Irish Financial Services Regulatory Authority (CB&IFRSA) were ineffective when it came to dampening Ireland's overheated economy. Prior to 2003, Irish banks operated prudently under Taylor Rules, where loans were generally equal to deposits. Prudence was the criterion employed within the fiscal interaction between inflation. On adopting of the Euro currency in 2002, Ireland no longer had the ability to readjust the monetary policy (Howden, 2014).

Clinch et al. (2002) argue that an independent Irish Central Bank would cool down the Irish Housing Market and dampened the over-heated economy by raising interest rates in the 1990s. This implies Ireland's economy was overheating for some time before joining the Euro.

A study by Belke and Polleit² (2007), on the ECB and US Fed monetary policies reveals the ECB's monetary policy, post 2001/2002, was pro-cycle (destabilising) that did not address real-short term interest rates for the Euro member states. The ECB was following expansionary fiscal policies, as opposed to a more prudential contractual fiscal policy, indicating that the European Union was overheating. Nyberg (2014), states that Ireland's property bubble was home-grown and not the fault of the ECB. He states Ireland could have chosen to implement deflationary measures such as increased taxation to curtail the property bubble but did not (McCabe, 2014).

The CB & FSAI was enacted under Fianna Fail / Green coalition, by the then Minister for Finance, Brian Cowen, on May 1st 2003 (Kildare Street, 2006). The separation of Regulator's functions from the Central Bank of Ireland was the first step in introducing New Right³ market philosophies of the free market (Taylor, 2011; Honohan, 2010; Lounsbury; Hirsch, 2010). These New Right philosophies inevitably led to a conflict of interests and moral hazard, as the same banks,

¹ The average mortgage interest rates were reduced from an average of 10% to 5%.

² Belke and Polleit (2007) incorporate the 'output gap' and 'inflation' when setting the interest rates within monetary policy.

³ The New Right or Light Touch regulation is similar in orientation to Alan Greenspan's, Governor the US Federal Reserve, neo classical ideologies.

authorised to approve investments were also responsible for weighing the associated potential losses against the financial entities risk appetite. The US Financial sector changed into a self-regulating system, which resulted in disorderly book-keeping, poor investment decisions and the creation of sub-prime lending (Johnson, 2011), a system the Honohan (2010) report confirmed the CB & FSAI had adopted.

Ireland's crisis was the result of a simple property bubble that was allowed to manifest unmonitored under the Fianna Fail and Green coalition. Honohan's (2010) commission report identified the existence of two annual pre-budget letters issued by the Central Bank to the Minister of Finance in 2003 and 2004, warning of the continued rising price of housing where the out-put of new houses was almost double to housing demand. This presented 'macroeconomic as well as financial stability risks' for the Irish economy. The Central Bank, in 2004, proposed to the Minister of Finance that Fiscal policy could be utilised to curtail speculative purchases.

The Fianna Fail and Green party coalition government's ideology was that Ireland's exit from the property bubble would be soft. A subdued IMF (2004) report did warn that the Irish Banks were highly geared to an overly concentrated construction sector. However, the IMF report concluded and reiterated that exiting the property bubble would be soft. Concerns surrounding the increasing levels of deserted housing ghost estates by McWilliams (2006) and Morgan Kelly's 'Opus' (2007) study, which predicted that Irish domestic banks were insolvent and that Ireland would enter into an extended recession, was received by the Fianna Fail / Green coalition with revulsion. Taoiseach Bertie Ahern's infamous national statement described such prudential commentators as '[s]itting on the side lines, cribbing and moaning is a lost opportunity. I don't know how people who engage in that don't commit suicide because frankly the only thing that motivates me is being able to actively change something' (RTE News, 2007).

The next section looks at the unfolding of Ireland domestic banks reckless lending practices within the property sector.

2.3 Reckless Bank lending practices & the States Response

Ireland's economy, and other European economies, were overly concentrated within the property construction sector, as property was considered less risky, with a ten percent applied average risk weighting in comparison to security funds that had an economic capital weighted average of fifty percent (Clarke et al., 2012).

Following the Government's Bank Guarantee, made on the 29th and 30th September 2008, questions surrounding how the CB&IFSRA were both taken by surprise as to how Ireland's domestic

banks were insolvent. The then Minister for Finance, Brian Lenihan, T.D., commissioned three independent reports into the Irish Banking crisis. Professor Patrick Honohan's investigation into Central Bank and Financial Regulations, from the formation of CB&IFSRA to 30th September 2008, in order to 'arrive at a fuller understanding of the root causes of the systematic failures that led to the need for extraordinary support from the domestic system' (Honohan, 2010, p. 1). Secondly, the Regling and Watson report (2010) was mandated, to conceptualise the roles of the markets, policies and institutions played in contributing to Ireland's Banking crisis. This report sought to identify policy lessons that could be learned from the crisis and to identify areas for planned Commission of Investigation to follow-up on. Finally, the Nyberg (2011) report was mandated to identify the root causes of the systematic misjudging of risk across the banking system.

All three reports predominately identified that Ireland's failed banking system was not a result of the global financial crisis but rather, a consequence of an extended plain vanilla property bubble and the CB&IFSRA's failure to both regulate the banks and implement adequate macro-economic prudential policies from 2003 to 2008. A paper by McCarthy (2009) adds that Ireland experienced two bubbles, a housing property bubble and a public expenditure bubble. The property and public bubbles, taken in conjunction with the unprecedented macroeconomic contraction from internal and external influences (global financial crisis), resulted in Ireland's stark fiscal deficit.

Nyberg's (2011) report identified the practice of 'Herding' as being a direct root cause lying behind the systematic failure of the failed Irish Banking system. Herding is defined as a condition whereby social and economic forces influence decision making practices (Baddeley et al., 2010). According to Nyberg (2011), the motivation identified for this herding practice, within the domestic market, was the generation of profit. Bank personnel were expected to process loan applications and not question the applicant's ability to sustain future repayments. Bank staff that raised concerns were sanctioned. In order for this practice to remain viable, loan volumes had to increase exponentially and the borrowers had to meet their repayments. Ultimately, Ireland's bank lending practices turned into a frenzy as they 'herd copied' each other (Nyberg, 2011). This is also echoed by Lucey et al. (2013) who state that the Irish domestic banks were destroying wealth, not creating it.

Butler and Flynn's (2013) research into the lending behavioural practices not only illustrates accounting weaknesses within the IAS standards but also shows that the banks did not need to report their potential unrealised losses. This study also highlights the suboptimal credit lending assessment practices and a failure to address risky credit lending practices. This failure within Ireland's banking system is attributed to the Banks' Operational Risk and Compliance departments, according to Butler and Flynn.

Irish Domestic Banks, in order to gain a competitive advantage, differentiated themselves from their competition, by introducing lower marginal interest rates and increasing their time efficiencies in turning around an application. Anglo Irish Bank, according to McWilliams (2013), was

correctly singled out for instigating the crisis. However, this bank did not act alone, as profits in AIB and Bank of Ireland double from 2003 to 2006. It is reported that it took BOI over a century to accumulate €69 billion in their loan book.

'Ireland's systematic banking crisis would have been impossible without a widespread suspension of prudence and care of those responsible for bank management as well as by those charged with ensuring responsible financial conduct' (Nyberg, 2011, p. 95). The Irish Regulator adopted a monitory role of verifying their regulated entities risk models, as opposed to carrying out intrusive stress tests. The Honohan (2010) report identified that, when the regulating authorities were in doubt, they relied on their regulated entities models to ensure proper macroeconomic prudential frameworks were in place at a micro level. This implies a macro-economic prudential model providing oversight of the interdependencies between the banks was not in place.

Honohan (2010), attributes the Regulators and the Central Bank's failure to identify and address emerging prudential stability issues to its staff's inadequate understanding of the CRD III and other European Directives requirements. This was combined with their over reliance on the Basel I Tier 1 capital adequacy reporting obligations. The Central Bank's Financial Stability Policy was overly concentrated on monitoring the banks' capital adequacy ratios. A study by Woods and O'Connell (2012) compared Ireland's collapsed banking system to the Japanese financial crisis and identified that if lessons learned, from Japan's financial crisis, had been adopted, then Ireland's credit risk default exposure would have been detected earlier.

The next section is going to briefly discuss the Bank Guarantee, the Irish Government's first action in dealing with the Irish Financial Crisis.

2.4 The Bank Guarantee

On 30th September 2008, the then government announced that all existing and future liabilities of Ireland's domestic banks would be covered by the State. The introduction of the blanket guarantee, according to then late Minister of Finance, Brian Lenihan, 'had its central objective the removal of any uncertainty on the part of counter parties and customers, and give absolute comfort to depositors and investors that they have the full protection of the State' (Murphy et al., 2014, p.15).

The Irish Blanket Guarantee was the underwriting of the Irish banking system's liabilities as an attempt to stabilise the Irish banking crisis. The Credit Institutions (Financial Support) Scheme (CIFS) was extended to include all existing corporate deposits with a three month maturity turn-a-

round for borrowings. The Extended Liability Guarantee (ELG)⁴ was signed in December 2008. On the introduction of the ELA, according to McHale (2012), the banks liabilities became the liabilities of the Irish State. In addition, Whelan (2013) is of the belief that the ECB insisted that all senior bond creditors, secured and unsecured, were to be repaid in full in exchange for the ELG funding.

The Bank Guarantee, according to Honohan, 'weakened the Irish Government's legal and political ability to leverage a greater degree of burden-sharing from banks and creditors and from official European partners' (Murphy et al., 2014, p.65). Without the guarantee, and within the global liquidity crisis, he believes the payments systems would have disrupted some of the main Irish banks.

Advice provided, which reported that the banks had sufficient capital to absorb future losses, was now uncertain and their ability to recover losses was being questioned by the markets. A newspaper article by Kearney (2010) draws attention to the fact that the Irish domestic banks external auditors and PriceWaterhouseCooper and the regulated entities failed to provide an accurate account of the banks losses in the time after the Bank Guarantee.

Hoshi's (2011) work identifies the necessity for the National Supervisors to be able to distinguish between individual financial institutions, that are healthy and those that are not, is a prerequisite for maintaining a viable financial banking system. In the event of a non-viable bank, Hoshi recommends that the Government assumes temporary ownership to facilitate an orderly wind-down. An orderly wind-down of Anglo Irish Bank and the INBS should have commenced years earlier, according to Nyberg (2014). Guaranteeing the banks was the best of the worst options open to the government (McCabe, 2014).

Following Ireland's failed ECB financial stress tests (McHale, 2012), a recapitalisation infusion of €70.3 billion occurred. The two largest shortfalls were €29.3 billion for Anglo Irish Bank and €20.5 billion for AIB (Coffey in Lucey et al., 2012).

2.5 NAMA Ireland's Bad Bank

The Bank Guarantee did not address the banks insolvency issue (Honohan, 2009). Investment of significant capital into the Irish Domestic banks was the criterion to prevent the banking system from collapsing. Late in 2009, the then Fianna Fail / Green coalition announced the government's intention to purchase toxic assets in an attempt to clean-up (right size) the Irish banks balance sheets. The

⁴ ELG losses that occur through regular Euro system loans i.e. those backed by ECB are shared among participating Euro area central banks. The difference between Euro system loans and emergency liquidity assistance (ELA) borrowing is that losses arising from ELA fall only on the providing national central bank. The Irish Government guaranteed the ELA loans would be paid back. This in effect resulted in the Irish taxpayer having to take on the cost of banking operations.

Bank's toxic assets were discounted to an estimated market value (an average of fifty-eight percent was imposed) and the recovery of the loans was to be managed centrally through NAMA³ (National Asset Management Agency) (McHale, 2012).

NAMA crystallised the enormous bank losses and removed the toxic assets from the Irish domestic banks balance sheets, however, this stroke of a pen prompted the likely bankruptcy of the Irish State. The creation of the bad bank, with no enactment of a special resolution regime (SRR), and coupled with the ECB's opposition to Ireland defaulting on Anglo Irish Banks and the INBS unguaranteed bondholders (McHale, 2012), resulted in the Central Bank of Ireland having to seek financial assistance from EC, ECB and IMF (the Troika) (Honohan in Murphy et al., 2014). A letter from Jean-Claude Trichet has subsequently been published by leading Irish newspapers such as the Irish Times.

NAMA's Annual Report and Financial Statements (2013) records that, from its inception to end of 2014q1, the redemption of €14.7 billion on Senior Bonds (€4.2 billion related to sale of IBRIC). Mike Aynsley, former Chief Executive of IBRIC informs that Anglo was solvent and compliant with its capital requirement and considered by the Board of Directors as a going concern at the appointment of the Joint Special Liquidators. In his interview, Aynsley clarified IBRIC client list consisted of clients who are not in distress and had performing loans; secondly, clients at the other end of the spectrum who are extremely distressed with no likelihood of repaying their debt and finally there were clients at varying stages of distress that required a loan restructure. Clients were defined as being both co-operative and uncooperative.

In a radio interview, Colm McCarthy, clarified, that when the Irish Banks went bust three things happened: the banks were recapitalised with equity to cover their 'dodgy assets', some banks were nationalised and the taxpayer guaranteed their deposit and bond liabilities, 'too generously perhaps'. Finally, NAMA, the bad bank, was set-up to purchase the banks' dodgy assets. This should not have occurred when the banks were recapitalised and their liabilities were guaranteed (RTE News, 2014a).

To off-set the collapse of the Irish Banking systems and State, the Fianna Fail / Green coalition signed a €85 billion EU-ECB-IMF (the Trioka). In an interview, Keiser (2013) strongly asserts the Irish economy had the potential to manage its way out of economic recession without the introduction of the austerity budgets if it had not committed to 'absorbing the Irish Domestic banks financial losses'. Ireland's deficit was 32% of their GDP.

In the next section, I will address the implementation of the Central Bank's Code of Conduct in Mortgage Arrears, as a mechanism to address the rising levels of primary residential mortgage arrears.

2.6 Code of Conduct on Mortgage Arrears Ireland's response to Forbearance practices

In February 2009, Mary O'Dea, the then Acting Chief Executive introduced the Code of Conduct on Mortgage Arrears⁵ (CCMA). The Mortgage Arrears and Personal Debt Working Group (Cooney Group) recommended that the CCMA 2009 should be enhanced to include Advanced Forbearance⁶ products, to address the needs of low income households experiencing financial distress. The Inter-Departmental Mortgage Arrears Working Group, following considerations from consulted parties, integrated a cohesive package of consumer protection measures for financially distressed borrowers facing, or in mortgage arrears, however, voluntary surrender was acknowledged as being the option in some cases (Inter-departmental Mortgage Arrears Working, 2011).

On 1st July 2013, the revised Code of Conduct on Mortgage Arrears came into effect. The Central Bank of Ireland also announced a quantitative target for Irish Mortgage lenders to resolve ninety percent of arrears cases, Mortgage Arrears Resolution Target (MART), with sustainable solutions. The CCMA (2013), according to Honohan (2014), is designed to act as a protective arm to ensure all lending financial institutes under the governance of the Central Bank of Ireland abide its regulatory guidelines when dealing with borrowers in financial arrears. Secondly, the CCMA contains the prudential requirements to ensure 'a sufficient flow of liquidity and a credible recapitalisation' in response to the banks inadequate handling of the mortgage arrears situation.

FLAC⁷ estimate that MART will not be achieved by the Irish domestic mortgage banks. This, they attribute to the revised CCMA being focused on facilitating the financial industry and not the distressed borrower. The revised Code has resulted in distress borrowers being placed in a more vulnerable position to the lenders, initiating legal proceeding to repossess the family residency. The lender, under the revised Code, is not obliged to offer an alternate resolution arrangement if they cannot identify a sustainable repayment solution (FLAC, 2013).

⁵ The Code was imposed under Section 117 of The Central Bank Act (1989) and was built on the Irish Banking Federation's Voluntary Code of Practice on Mortgage Arrears. The CCMA was introduced for all mortgage lenders and stipulated that lenders could only apply to the courts to commence Legal Repossession proceeding six months from the date the arrears first arose.

⁶ Forbearance is a short term solution for borrowers in financial arrears. Forbearance techniques benefit the borrowers during financial difficulties while maximising recoveries for banks (Verma, 2013).

⁷ FLAC (Free Legal Advice Centres) are a non-government and human rights organisation which exists to promote equal access to justice for all. FLAC offers basis legal information and advice through a network of media sources and volunteer evening advice centres.

The Consumer Protection Code (CPC) (2006 and 2012) was introduced to govern the relationship between the retail credit firms and their consumers. Under the new revised CCMA (2013), the lender is obliged to ensure that communications are 'proportionate and not excessive' and to ensure that frequent, unnecessary, aggressive and intimidating calls are not made (FLAC, 2013 and Spooner, 2013).

Table 2.1: Overview of Principal Dwelling Houses seeking Mortgage Arrears Resolution Solutions

Summary of Mortgages	Total End Q3 2013	Total End Q4 2013	Total End Q1 2014	Total End Q2 2014	Total End Q3 2014
Total mortgage accounts	698,809	697,046	695,515	694,656	691,434
Total mortgage accounts not in arrears	580,371	582,125	584,449	591,417	595,319
Total mortgage accounts in arrears (all arrears from 1 day past due)	118,438	114,921	111,066	103,239	96,115
Total mortgage accounts in arrears greater than 90 days	81,156	79,782	78,435	72,897	67,854
Total mortgage accounts in arrears of 90 days or less	37,282	35,139	32,631	30,342	28,261
In arrears greater than 90 days – not in restructure	62,643	59,226	57,926	52,053	48,043
Total Mortgage Restructures: Permanent	45,177	51,188	62,065	72,819	83,588

Source: Department of Finance, June, 2014d and November, 2014e

The Department of Finance, Mortgage Restructures Data, as illustrated in table 2.1, represents the six main banks operating in Ireland and their progress in implementing mortgage arrears resolutions – AIB, Bank of Ireland, PTSB, ACC, KBC Ireland, and Ulster Bank. Table 2.1 highlights the total mortgage accounts in arrears 2013q3 (118,438) to 2014q3 (96,115) has been slowly but steadily falling. The number of un-restructured PDH accounts in arrears has reduced by 13,302 (16.3%). The number of Split Mortgage⁸ loan restructures has increased by 363%. Split Mortgages represent 2.4% of the overall solutions agreements established.

⁸ A Split mortgage is 'where a lender agrees to split a borrower's mortgage loan into an affordable mortgage loan, which the borrower continues to repay, and a remaining balance, which is set aside or 'warehoused' to a later date (Central bank of Ireland, 2013, p. 5).

2.6.1 Adoption of Mortgage Arrears Resolution Programme

The Mortgage Arrears Resolution Programme (MARP) is a guideline that sets out the steps that mortgage lenders must follow when dealing with borrowers in financial arrears (Honohan, 2014, p. 13). A number of milestones were introduced by the Central Bank of Ireland to encourage lenders and borrowers in financial distress to proactively find an amicable resolution. Regulatory 'levers' implemented by the Central Bank to include the revised CCMA (2013) guidelines, the Sustainability Guidelines (2012) and the MART (2013) framework, were introduced to progress the MARS (2012) programme, etc.

The Report on Hearings on Matters Relating to Mortgage Arrears Resolution was chaired by Ciaran Lynch, T.D. (the Lynch report), with testimonies provided by Professor Honohan, Governor of the Central Bank of Ireland, CEOs from the four main financial institutions, representatives from non-banking organisations and from the Insolvency Services of Ireland. The report identified the need to address the level of inconsistencies that exist across the Irish domestic banks to ensure borrowers are treated fairly and receive equal treatment within the financial system.

2.6.2 Lenders' Relationship with Borrowers

Fundamental to the success of MARP, is the level of interaction between the borrower and lender. A survey initiated by MABS⁹ (2012) highlighted a number of constructive criticisms in borrowers' experiences when completing the SFS¹⁰ (Standard Financial Statement). It was found that due to psycho-social issues, such as illiteracy, depression, etc., some financially distressed borrowers may require substantial support when completing the SFS form. Moreover, the IMHO pilot scheme results reveal that 43% of their 1,330 financially distressed customers required assistance in completing the SFS form (IMHO, 2014).

⁹ In light of escalating authority budgetary cuts, increased health levies, the introduction of property tax, and high levels of unemployment MABS (Money Advice and Budgeting Service) have extended their Mission Statement to include 'to protect where possible, the family home and to ensure that the client is empowered to take control of their finances and to budget responsibly so that they can continue to participate in Irish society' (Bennett, 2013 p 4).

¹⁰ The Standard Financial Statement is a document created by the lender which the lender 'must use to obtain financial information from a borrower in order to complete an assessment of that borrower's case'. The borrower is obliged to complete the SFS form within a reasonable timeframe (Central Bank of Ireland, 2013, p. 5).

2.6.3 Not Cooperating Relationships

Under the revised CCMA (2013), lenders have the discretion to classify borrowers in arrears as ‘not cooperating’ if they do not fully engage with their mortgage lender during the SFS assessment process. The lender is obliged to notify the borrower that he or she is being classified as not cooperating at least twenty business days prior to commencing legal proceedings. Once deemed by the credit lender as ‘not cooperating’, the borrower is no longer under the protection of MARP. The lender, under provision 48, is obliged to make known to the borrower that there are other solutions available and the consequences that each option may pertain, for example, an anticipated impact on the borrower’s ICB record on non-payment (Central Bank of Ireland, 2013b and 2011).

However, David Hall, IMHO Director, states that seizing the debtor assets will only pay for the cost of sales and collection costs. Provision of a restructured residential mortgage solution is based on the borrower’s ability to sustain their future repayments (Reilly, 2014). In the first year of the pilot scheme, 30% of homeowners facing repossession had had their outcome amended to a long term sustainable solution. In 8% (80) of cases, a voluntary sale for loss of a primary residency was agreed (IMHO, 2014).

2.6.3 Voluntary Sale for Loss is another word for Repossession

Honohan (2014), clarifies that while each arrears application, under CCMA, is being processed, the borrower is under the protection of the Central Bank and the lender can only initiate legal proceedings under certain circumstances, such as, in the case of not cooperating.

CCMA (2013) describes ‘repossession’ as any situation where a lender takes possession of a property including, without limitation, by way of voluntary agreement with the borrower, through abandonment of the property by the borrower without notifying the lender, or by Court Order. The Lynch report (2014) acknowledges the introduction of MART has witnessed an increase in the number of people having their family home repossessed. Initiating legal repossession of a residential property was perceived as being a ‘readily pursued’ option for lenders’ to meet the MART targets. Borrowers in arrears over 90 days are in positive equity, according to the Report lenders, and are more likely to be recommended a VSFL¹¹ solution, as opposed to a Split Mortgage (SMP) restructures.

¹¹ Voluntary Sale means the voluntary sale by the borrower of the primary residence (at a loss) in order to repay part, or all, of the mortgage loan.

MABS (2012) and Fitzgibbon (2012) both criticise the revised CCMA (2013) as disproportionately favouring the credit lender. According to the Joint Oireachtas Committees on Finance, Public Expenditure and Reform reviews, held in November 2014, the number of repossessions is increasing year on year. From January to September 2014, Bank of Ireland, Ulster Bank and Permanent tsb top management have identified that, where the customer is 'not cooperating', legal repossession proceedings will commence. Ulster Bank noted that 40 to 45 percent of the 1500 to 2000 legal repossession of the primary residency will result in re-negotiations. Legal repossession proceedings cease on commencement of negotiations. According to AIB, the vast majority of repossessions were voluntary surrender or by abandonment; 436 (Owner occupier) and 64 (buy to lets) (Dail Eireann, 2014b, 2014c, 2014d, and 2014e).

Joseph Spooner's (2013) report draws attention to the Land and Conveyancing Law Reform Bill (2013) where a cooperating borrower in mortgage arrears for six months should be eligible to apply for PIA (Personal Insolvency Agent). Spooner argues the Bill allows for 'non co-operating' customers to apply for PIA under court ruling. In addition, under CCMA, repossession of a primary residency can only occur where no other alternate sustainable arrangement is available. Borrowers served with Repossession court order have successfully challenged their lender's proceeding whereby the court had ruled that non-cooperation on the part of the borrower does provide grounds for repossessing a personal dwelling house.

The Report on Hearings on Matters Relating to Mortgage Arrears Resolution Process discloses an inconsistency in the writing-off or a reduction in the amount of equity (residual debt) to be paid back to the bank. This varies; Permanent tsb (80%), Ulster Bank (100% if the borrower is eligible for local authority housing), with AIB the levels of write-off varies from case to case (Dail Eireann, 2014c, 2014d, and 2014e). In comparison, Bank of Ireland's Chief Executive, Richie Boucher's statement to the Oireachtas Finance Committee, where mortgage restructuring deals involving debt write-off, where the borrower is not (or in the process of being) declared bankrupt or insolvent, will be vetoed by the bank (Murphy, 2014).

The distinction between Ireland's forbearance and the United States solution arrangements are striking; Layton's (2014) article records, under a US\$13 billion settlement, J.P. Morgan Chase and the Federal authorities, in 2013, commenced a mortgage security settlement under the governance of the North Carolina regulator. Of J.P. Morgan's 100 cases reviewed, assessed and submitted to the regulator's office, 50% had their interest completely written off. Citigroup were ordered to pay \$2.5 billion to assist struggling homeowners and low income tenants. Both J.P. Morgan and Citigroup complied with their Federal Authority's request (Layton, 2014).

2.6.4 Nominated Third Party Alliances

'Only one in 10 of distressed mortgage holders will qualify for the split mortgage solution to include a significant write-down', according to David Hall, Head of the Irish Mortgage Holders Organisation¹² (IMHO, 2014) (Walsh, 2014). The IMHO have contractual agreements in place with KBC, AIB and EBS (Haven) to assist borrowers in the SFS assessment and, where possible, to establish Split mortgages forbearance agreements. A mortgage debt write-off, according to Hall, is determined on the borrower affordability (Weston, July 2014a). The IMHO AIB pilot scheme has assisted 1,330 distressed homeowners reach long term sustainable solutions within their first year of operation (IMHO, 2014).

In the Mortgage-To-Rent (MTR) scheme, local authorities (County Councils) purchase a family residence, under certain conditions; to be included, Dublin properties must be bought for less than €220,000 and for €180,000 outside of Dublin. The County Council rent (at the market rate) the property to the borrower (Cooney Report, 2010). According to the IMHO, credit lenders have nominated 2,458 cases; of these, only forty have been completed by end of June 2014. According to David Hall, 'you know when something is failing when it's cheaper for a bank to repossess a house than it is to participate in the mortgage-to-rent scheme (Hall, 2014b).'

New Beginning¹³ is proposing the introduction of a new mortgage-to-lease-scheme as a credible alternative to the IMHO Split Mortgages and the MTR. This new venture, currently in project stage, proposes to give primary residential borrowers the option to rent-lease their homes, in time. According to Fiona Dillon's (2014) online article, mortgagors would have the right to repurchase their property.

In contrast, both Permanent TSB and Ulster Bank have developed and sold their non-performing real estate loan portfolios (Wallace, 2014; Dail Eireann, 2014d; RTE News, 2014b).

2.6.5 Tracker Mortgages

Banks can't increase interest rates on tracker mortgages, as they are linked to the ECB base rate. This has lead Cooper (2013) to question how the banks can mitigate their acute interest rate risk, as the ECB continues to lower the Euro interest rates. The current tracker mortgage, spread between short term and long term debt obligations, is negatively impacting the bank's profit margins.

¹² The IMHO is an independent third party, not for profit organisation, for borrowers in financial difficulties to find a solution and move forward by dealing directly with the creditors.

¹³ New Beginnings Personal Insolvency and Bankruptcy was set-up in 2010 for debt and mortgage crisis. New Beginning has 4 separate divisions-Investment team, Personal insolvency, Bankruptcy, and Principle and private residence team.

Fitzgibbon's (2012) response to the revised CCMA (2013) draws attention to where a lender is now permitted, in certain circumstances, to take borrowers off a contractual tracker mortgage. A lender can switch a tracker mortgage borrower to another mortgage type if there no other appropriate long term sustainable solution available other than repossession. The Lynch report (2014), in contrast, welcomes the solution for Tracker Mortgage holders to be able to trade up or trade-down, with an additional 1% prefixed premium above the Euro Interest rate (Kennedy, 2014). Increases in standard variable rates have been acknowledged within the Lynch Report (2014) as having the potential to result in an increased likelihood of mortgagors falling into arrears. Dr. Alan Ahearne, former economist advisor to the late Brian Lenihan, argues that Tracker mortgages should be taxed, as they are 'mostly lossmaking as the interest charged is less than the banks' cost of funding' (O'Brien, 2013)

2.7 Over indebtedness & Adopting Personal Insolvency

Kilborn (2012) proposed the adoption of a consumer led Insolvency legislation, which should be based on Continental European law and experiences, as opposed to bringing Irish law into parity with our neighbouring country, the United Kingdom. In enacting legislation that does not address the epidemic of excessive and crushing debt, the State's cure could be worse than the untreated disease. Ireland's Personal Insolvency Act (2012) defines "insolvent" as a case where the debtor is unable to pay his or her debts in full. If the loan is unsecured, then under the Personal Insolvency Act (2012), the borrower is liable for any remaining debt owed.

Honohan's opening address to the Oireachtas Committee (2013) states that the Personal Insolvency Bill provides a mechanism for distressed mortgage borrowers, in which multiple sources of indebtedness can be addressed. He also stressed the importance of lending banks to arrive at a solution prior to the untested Insolvency process and affirmed the Central Bank's 'intensive step-by-step' supervision engagement with the banks until 'sufficient policies and procedures in place' (Honohan, 2013).

A newspaper article by Reilly (2014b) notes that the Head of Insolvency Services Ireland defended the slow rate of write downs of 46 protective services, five debt settlements, three personal insolvencies and forty-one bankruptcy arrangements completions in its first seven months. A study conducted by Mitchell O'Brien, comprised of twenty-five personal bankruptcy adjudications derived from Form 23s (High Court Summary Statement of Affairs), found that, as a consequence of the bank's official rejection of their clients Personal Insolvency Agreements, they had lost €5 million (O'Brien, 2014; Campus, 2014).

Joseph Spooner (2013) goes further, stating that policymakers have deliberately not devised nor implemented a suitable structured system for resolving mortgage distress and SME insolvency due to fear. Such regulation (legislation), will result in further financial damage and loss to the economy. According to Spooner, these potential damaging losses are already lost.

In a recent paper, Lucey argues that delaying the treatment of non-performing loans only increases the duration and severity of property in negative equity. He advocates social and economic debt forgiveness as the only option to take Ireland out of the economic recession (Lucey, 2013; Gurdgiev and Lucey, 2013).

2.8 Small to Medium Enterprises (SMEs)

Banking credit finance from 2000 to 2007 rose sharply 'to a high point of credit to GDP of 106 percent in 2008' (Lawless et al., 2014a, p.3), which signified a high level of transactions within this property construction sector. The consequence of this economic activity within the real economy is two-fold. Firstly, other market industries, such as agriculture and manufacturing, were crowded out and were under invested. Secondly, in the time after the Bank Guarantee, the property-construction sectors have witnessed five years of deleveraging. This section addresses some of the impacts of the collapse of the Irish Banking systems has had on SMEs, with an outline of the actions taken to finance SMEs in Ireland's economic recovery.

Keynesian theory supports, that in a recessionary economy, where government policy is to increase revenue through increasing tax and interest rates, people tend to save. The offset of which, is that demand for goods and services fall, as people with debt try to repay their debt sooner. In 2009, the savings disposable ratio rose from 6 to 16 percent. This ratio in 2014 has subsequently reduced to 9.4 percent (McWilliams, 2014). This shows that the Irish consumer is still saving and therefore not excessively spending.

Continental Europe is currently facing two major challenges according to Yves Mersch¹⁴ (2013). Firstly, it is a bank based economy, where small businesses depend on banks for financing. It is estimated that 99.7% of all business in the EU are SMEs and that these firms employ approximately 70% of the European labour force. Secondly, firms, due to a lack of being able to access credit finance are being forced to shut down. In response, the ECB Executive Board has recommended that other forms of financial resources, complementary to the banking industry, be adopted to strengthen Europe's capital market and securitisation for Europe's SMEs. According to

¹⁴ Yves Mersch is Member of the Executive Board of the ECB and EIB.

InterTradeIreland (2013), there are roughly 300,000 SMEs active in Ireland and Northern Ireland, who employ 1.4 million people. SMEs represent 99% of Ireland's home based business (Kelpie, 2014) which mirrors the European Union (Mersch, 2013). Evidence suggests '[p]oor access to credit continues to stall recovery' in Ireland (ISME, 2014a).

2.8.1 Loan Arrears

A report conducted, into the Medium and long-term developments, challenges and risk facing the OECD countries in 2011, found that implementation of swift consolidation of debt is required in order to avoid unsustainable fiscal imbalances and the risk of stagflation as a direct consequence of not addressing non-performing bank loans (OECD, 2011). The OECD report states that, the longer an economy takes to implement the necessary measures to deal with financial arrears, the more the level of demand further deteriorates. The Advisory Group for Small Business (2011) report acknowledged that, in austerity, Ireland's small firms are living day-to-day and reported that they're 'often afraid to admit to the seriousness of the situation ... (and) they don't have the confidence to see their way out of the problem' (p. iv).

The Central Bank of Ireland's 'SMEs Market report H1 2014' informs us that the level of outstanding SME balance is steadily falling across all sectors. An ERSI research by McCann and McIndoe-Calder (2014) records the loan level data for SME property value stock; at the end of 2013, it was €21 billion. Research highlights that 40% of the weight average balance of SME borrowings relate to buy-to-lets (BTLs) investments. The default rate for SMEs with investment residential properties are almost double the exposure rate to SMEs with property exposures. SME default rate exposure is estimated at 43 percent, when weighted by the SME loan balance. This research highlights the correlation between SMEs default exposure to property and the detrimental impact BTLs have on an SMEs' working capital.

The banking practice of loan forbearance is perceived as a double edged sword. On the one hand, if forbearance is not supported by the banking industry, SMEs will continue to struggle and encounter barriers that limit their survival. Investment, through providing finance to strong marketable and resilient SMEs, will expand and create employment and ultimately lead to increased consumer spending (McWilliams, 2012). On the other side, if banks are forced to channel scarce capital into failing firms, that do not have a viable future, it would create monetary and financial stability implications (Arrowsmith et al., 2013).

Distressed SME property debts have been identified as being more likely to require debt financing. McWilliams, (2014b) calls for balance sheet 'right sizing' to address the Irish Banks 'balance sheet risk'; this was a successful strategy implement in Japan between in 2001 to 2002

(Hoshi and Kashyap, 2011), which is now required from Ireland's domestic bank (InterTradeIreland 2013). Banks need to be more engaged in debt restructuring, or write-off, of SMEs debt. Lucey (2014) has recommended that SMEs indebtedness could be addressed through an arbitration process to determine an appropriate adjustment to the terms of the loan agreement.

2.8.2 Lending

In January 2012, the Central Bank of Ireland's 'Code of Conduct for Business Lending to Small and Medium Enterprises (SME Lending Code) came into effect. The SME Code sets out the new framework to assist both SME's and lenders when addressing business customers in existing or emerging financial arrears. The level of new lending remains consistent, between €450 million and €750 million per quarter, since 2011. SME lending is highlighted as being around the European average. Conversely, credit declines have increased from 20% to 30%. Irish SMEs access to securing finance, through external sources, has significantly declined with the withdrawal and restructuring of foreign banks. This has resulted in a contracting of the domestic Irish banking system. This is a constraining effect and will 'lead to lower investments and potential output' (Central Bank of Ireland, 2014b).

According to The Economic Outlook (2013) report for UK SMEs, unlike larger corporate firms, SME have not diversified their risk exposures; they tend not to have strong balance sheets and are unable to raise capital through the issuing of bonds and, as a consequence, are dependent on banks for investment financing. Similar research carried out by InterTradeIreland (2013), found, unlike larger Irish corporations, SMEs find it difficult, almost impossible, to raise capital through the issuing of bonds. As a consequence, SMEs are highly dependent on banks for credit finance, the absence of which is hindering their ability to grow and ultimately create employment (ISME, 2014). Research by Ryan, O'Toole and McCann (2014) has identified a 12.4% increase in investment, 'an indicative "wedge" between the costs of internal and external financing, implying that firms ... are financially constrained' (p. 12).

'Banks are still reluctant to lend and firms slow to borrow' a recent Red C survey finding noted. The survey also reveals that that less than thirty-five percent of the 1500 business participants had applied to banks for finance; of these applications, sixty-five percent were either approved or partially approved. In Michael Noonan's, the Minister for Finance, statement records, this finding is a sign 'that confidence is growing among the SMEs and their customers' (Department of Finance, 2014f).

The Credit Review Office (CRO) was established in 2010 to review the domestic Irish banks non-sanctioning of SMEs, sole traders and farm borrowers' applications for credit. The objective of

the CRO is to carry out independent assessment into a Banks' decision to reject an SME's credit applications. In line with the CRO recommendations, €13 million in credit decisions were reversed or modified for SMEs and farmers by the end of 2012 (Department of Finance, 2013).

Overtaken, declined SME lending applications by the CRO were raised in the Joint Committee on Jobs, Enterprise and Innovation sitting on April 2014. Bank of Ireland had 70 cases overturned; however, on review, 37 cases were advanced funds of which 30 percent (11 cases) of these customers subsequently defaulted. This implies that both the CRO and banks can be incorrect in their assessments in lending to viable and non-viable business (English, 2014).

Burns and Fletcher's (2008) investigation into Swedish Credit Lending Officers' decisions to grant credit was primarily based on the SMEs past performance, their financial standing and provision of collateral. In comparison, borrowers with strong risk taking tendencies with collateral were found to be less likely to have their credit loan application sanctioned. Companies with a history of default or who had no prior loan history were unlikely to have their credit applications sanctioned.

For personal guarantees, the SME Lending code stipulates that 'a regulated entity must not impose unreasonable personal guarantee requirements on borrowers' (Central Bank of Ireland, 2012, p. 8). The Entrepreneurship Forum found that lending banks consider it good practice to secure loans with personal guarantees, according to Richie Boucher, Bank of Ireland, CEO (English, 2014). This implies non limited company loans must be secured by a personal guarantee if collateral is not provided. This practice is reflective of Burns and Fletcher's (2008) study findings.

According to InterTradeIreland (2013), the greatest issues facing Irish SMEs is no longer the supply of available finance, rather, it is the challenge of finding new customers and reducing costs. Also, concerns have been raised that, when the economy begins to rebound, will the productivity be derailed by a deficit in the supply side. Carol Bagnald's (2014) interview with a HSBC senior manager presents a more progressive interactive method for Retail Banking, which looks beyond the traditional sectors, exploring new avenues or behavioural activities that will create business opportunities. Understanding customers' business models and trade cycles, by visiting their customers' business premises, presents new business opportunities for growth and development. Taking a contrary view, the CEO of Bank of Ireland advocates against becoming too specialised but instead has generalist teams of experts in place to assist a number of different business sectors during the underwriting process (Dail Eireann, 2014a).

2.9 ECB Low interest rates a form of Quantitative Easing

During the financial crisis, the liquidity operations of Central Banks (ECB, UK, Japan, US, Sweden, Switzerland, etc.) converged and engaged in narrowing the width of interest rate corridor (between Central Banks). To mitigate counterparty risks, the central banks 'extended via open market operations and standing facilities and emergency liquidity assistance' (Pikkarainen, 2010, p. 30), through the purchasing of assets, while also introducing new security lending programmes.

In September 2014, the ECB cut interest rates to a historic low of 0.05 percent, in a move to force banks into increasing their lending levels, according to McWilliams (2014a), and unveiled plans to purchase asset backed securities¹⁵ from banks (Burke-Kennedy, 2014). Reports suggest that €500 billion will be deployed over the next three years to purchase such securities. This plan is portrayed as an alternative to Quantitative Easing programmes,¹⁶ the approach taken by the US, Japan and UK for inflating their real economies with cash. The markets initial reaction was positive and European shares jumped to a six year high.

The ECB Base variable rate, for Ireland's domestic banks, is higher due to the loss experience on their Irish mortgage books. When calculated against the banks, blended cost of funds, operating costs, and the cost of credit, in terms of remediating non performing customer loans, the blended net interest margin for Ulster Bank was 2.32%, with Bank of Ireland at 2.08%, AIB at 1.6%, and Permanent tsb at 0.88%. Ulster Bank has the highest rate, which allows for a slightly higher margin for credit risk error (Dail Eireann, 2014b, 2014c, 2014d, and 2014e).

Research conducted by McKinnon and Liu (2013) found 'zero interest rate policy ... fails to stimulate the US economy as domestic financial intermediation by banks and money markets mutual funds is undermined'. Low US Federal interest rates only stimulate the economy by creating opportunities for credit (and businesses to expand), if bank interest rates are comfortable above zero. Near zero interest rates have resulted in US Retail banks opening credit lines to non-banked customers, which will result in a destabilisation of the bank's reserves if depositors pull their deposits. Market concerns, as a consequence, require the retail banks to increase new bonds with a higher equity yields, thereby, creating small negative shocks that inevitably restrict the growth and development of retail banks.

¹⁵ An asset backed securities are pooled bank loans such as mortgage loans, credit card loans, etc. and sell them on to a third party thereby freeing up the bank's credit facility to finance new loans.

¹⁶ Quantitative easing is the creation of new money for the economy. The price of money is set by the Central Banks to regulate the economy; in the case of the Euro, the rate is set by the ECB. The interest rate impacts the cost of loans which banks charge on loans and mortgages and the return on depositors' savings. Low interest rates make money more attractive to investors, developers and SME. Correspondingly, banks find it easier to accessing funding. The objective of bringing interest rates close to zero is to minimise the cost faced by companies, individuals and household; this is referred to quantitative easing.

SME forbearance experienced in the UK economy is low according to Arrowsmith et al., 2013 and Economic Outlook 2013. UK Bank Managers' estimate that SMEs have a 50% plus chance of defaulting if interest rates were to rise by 400 basis points. Research by the Central Bank (2014c) of Ireland show interest rates are higher for NFC (non-financial corporations) in Ireland than they are in other EU countries, however, this rate difference has declined recently. Ireland's level of NFC debt was the second highest level at 190% of GDP after Luxembourg in Europe in 2013q3.

2.10 Stress Testing

The implementation of robust stress-tests is required to identify, mitigate and provide for the potential materialisation of credit and operational risks. Credit risk stress testing is a regulatory requirement under ECB Directives and the revised Framework on the International Convergence of Capital Measurements and Capital Standards (Basel II and III) to challenge the regulatory and economic requirements determined by unexpected loss calculations (Engelmann and Rauhmeier, 2006). Financial entities are directed to manage their 'interest rate risk in the banking book' (to include non-trading activities) under Internal Capital Adequacy Assessment Process. Supervisors are to employ +/- 200 basis points standard interest rate shock to potential future repayment issues (outliers) (EBA/CP/2013/23).

The Financial Measurements Programme (FMP) (2011) announced the requirement for asset sales and larger injections of capital to cover existing and future potential losses as a measure to prevent further deterioration of Ireland's economy. The Central Bank of Ireland commissioned the Blackrock¹⁷ consultants to conduct an independent loan loss assessment to inform of the capital requirements to cover loss exposure of the Irish Banks under PCAR (Prudential Capital Assessment Review) and to ensure adequate PLAR (Prudential Liquidity Review), in adherence to Basel III liquidity standards. The FMP reported that Residential Mortgages estimated that €16.9 billion at 12% (Blackrock lifetime loan losses post deleveraging) was the expected residential mortgage loss exposure. The expected SMEs lifetime credit risk loss exposure was estimated to be €6.95 billion when stress tested at 19% (NAMAWineLake, 2012).

The ECB's 2014 Comprehensive Assessment¹⁸ results for Ireland's five established financial institution was announced in October 2014. The adverse scenario, which required 5.5% common

¹⁷ The Blackrock group, a US asset management corporation, operating in the IFSC and in over 30 countries chosen by the Federal Reserve to value the assets of Bear Stearns and AIG, was contracted to carry out stress tests on Ireland's Banking sector.

¹⁸ The Comprehensive Assessment measured the strengths and weaknesses of the Irish banks financial position under the Single Supervisory Mechanism's (SSM) and an in-depth asset quality review (AQR) of the Banks' balance sheets at 31 December 2013 and the financial soundness of the financial entity in an adverse

equity tier one capital to be held, were met by AIB, Bank of Ireland, Merrill Lynch and Ulster Bank. Permanent tsb's balance sheet did not meet the adverse scenario threshold and this has been attributed to a legacy issue (Central Bank of Ireland, 2014d).

NFCs' (including SMEs) debt lies in commercial property which is: i) of low value collateral and ii) contains a high degree of impaired loans. These two macro financial components continue to inhibit lending to SMEs. One-third of SMEs have a debt-to-turnover ratio of 84 percent and are highly indebted (McCann and McIndoe-Calder, 2014). However, this cohort of SMEs are highly 'vulnerable to adverse movements in interest rates and profits which could affect their ability to service debt'. Ireland's banks, along with other major European banks, are 'stuffed to their gills with bad loans' according to White (2014).

Governor Honohan's letter, dated to the 2nd October 2014, to deputy Ciaran Lynch, T.D., informs that the banks must satisfy itself that sustainable solutions have been put in place and that 'appropriate conservatism has been applied in relation to the variable elements of the current income', and that, under the Consumer Protection Code (2012), a personal consumer's affordability assessment must take consideration of the results of test on ability to repay ... at a minimum, a 2 percentage point increase in the interest rate' (p.8 to 9).

An EY survey, conducted on the financial industry five years post the global financial recession, found boards have a 'greater focus on embedding operational risk and reputational risk is more firmly in risk appetite' (EY, 2013, p. 76). The challenge identified, which is facing financial entities, is the entrenching of stress testing into decision making. Dionne's (2013) study of risk management asserts that it was not necessarily the failure in having appropriate risk management models in place but, rather, the failure to implement and enforce internal and international governance practices.

2.11 Diversification within the channels of funding

In Ireland, 94% of all SME finance is funded through overdrafts and bank loans. Banks are identified as being very lax in disentangling themselves from short term loans. Without SMEs access to credit and investment finance, business development and growth is unachievable. IBEC proposed the establishment of a state-back investment bank which is 'financed by the European Investment Bank and the National Pensions Reserve Fund' (Irish Business and Employers Confederation, 2012, p. 3).

economic scenario such as increases or decreases in the interest rates to identify and monitor interest rate gaps.

The trajectory of concentrated lending is to continue for the foreseeable future, with the exiting of foreign bank participation within the Irish economy. McCann and McIndoe Calder's (2012) research predicts that the market power for the larger banks will be less competitive and this will lead to less lending and higher premiums, with tougher terms and conditions for repayment. McCann and McIndoe-Calder's theory was evidenced when Richie Boucher, CEO, stated that the Bank of Ireland are in the process of taking full advantage of Ireland's concentrated market. Deploying capital to the SME sector is at the heart of Bank of Ireland's strategy to utilise equity, as it is key to generating profit (English, 2014).

Microfinance Ireland, under a partnership with the Local Enterprise Offices, provides funding to small businesses with unsecured loans that have been declined by mainstream banking. Lawless et al, (2014b) recommends, in a report prepared for the Department of Finance, consideration ought to be given to increasing the €25,000 cap and extension of term length of up to seven years. In addition, interest rates should vary according to the application and by the term of the loan.

In May 2014, the Irish government announced its plan to establish a new Strategic Banking Corporation of Ireland (SBCI) to assist SMEs access credit. The SCBI is to be financed by Germany's KfW bank, the European Investment Bank, and the Ireland Strategic Investment Fund (the former National Pension Reserve Fund), to make available an additional €500 million to SMEs. According to Minister Michael Noonan, '[c]redit is the lifeblood of all businesses and SME's will now be able to access loans of greater duration, with enhanced terms and potentially at a lower cost facilitated by the SCBI' (RTE News, 2014c). The government is also in discussions with other European countries to seek additional funding (RTE News, 2014d).

In addition, a report by Lawless et al. (2014b) addresses the absence of tailored lending provisions and schemes for Irish trade export firms. This report identified that export Credit financial products are not provided through the Irish Domestic Banks and the State. Export Credit Agencies provide a varied range of products to facilitate companies that trade internationally.

Holvi, a new integrated business platform and bank account venture, currently piloting across 19 countries, is looking to adapt banking to the way society and small business work. Its aim is to consolidate 'tax management, receipts, online sales, accounting entries and banks statements'. They are an internet orientated business' that will manage your money. Ireland is currently being viewed as a possible location for setting up a base (O'Regan, 2014)

Chapter 3: Research Methodology

Introduction

The main purpose of this chapter is to describe the methodology and methods employed in this research, which are used to explore if a lack of action, by the Irish domestic banks in addressing loan arrears, is hindering Ireland's economic recovery. Firstly, the methodology and research approaches are specifically selected to answer the research questions (hypotheses) outlined in the Introduction chapter.

This chapter both briefly describes and explains the reasoning behind the author's selected research methodologies and the methods adopted to gather primary research data. Each section outlines the rationale behind the research strategy and design for each research approach that is selected for this investigation.

3.2 Research

Descriptive research seeks to depict what already exists in a situation or population. An example, of this type of research, would use a survey to describe the lifestyle of any particular subsection of the population, e.g. loan parent fathers. Such a study seeks only to describe the population of interest. Descriptive studies do not seek to measure the effect of change in a variable, by manipulating it or other variables. Descriptive research only describes the data.

Social research is defined by Bryman (2004) as measuring, describing, explaining and predicting social and economic phenomena. In relation to government policy and legislation, social research relates to policy development, implementation, delivery and an estimation of policy impacts. This research investigates the economic and social structures, social attitudes, values and behaviours surrounding the implementation of the CCMA (2013), SME Lending guidelines (2012) and the Insolvency Act (2012) by Ireland's domestic banks.

Social research also explores the economic and social phenomena in collecting information through social surveys, focus groups, in-depth interviews and case studies. This research has adopted a semi-structured, in-depth interview technique to gain a comprehensive understanding of what is occurring within the banking environment and what impact it is having on the customer and on the business. This is in order to answer the research question, which is as follows: Is a lack of action by the Domestic Irish Banks hindering Ireland's Economic Recovery? (Bryman and Bell, 2011).

3.3 Research Methodology

The methodology of a research defines the process of how material for this project was gathered to enable the author to make an informed decision. According to Bryman (2004), the research methodology is concerned with how we come to know certain facts and findings. Methodology focuses on the specific ways or methods that we can use to try to understand the world better. Research methodology is practical in nature. Epistemology is the philosophy of knowledge and how we come to know the world we live in. Epistemology and methodology are intimately related.

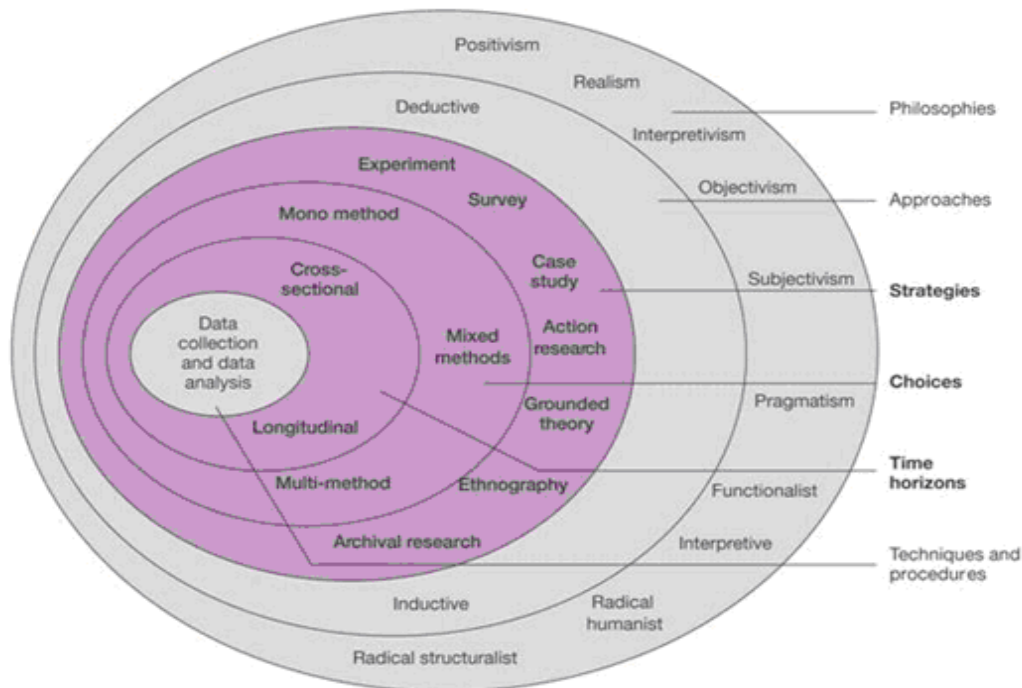
Maxwell's (1998) 'interactive model', which is comprised from research study components, 'does not presuppose any particular order for these components' (p. 215). The author perceives that it is a mistake for a research study not to follow standard procedures when collecting primary information. In addition, Maxwell's model does not incorporate 'ethics' as an essential component during the qualitative semi-structured interview process. For this reason the author adopts Saunders et al's research onion.

The methodology chosen to investigate issues within Ireland's banking system is Saunders et al. (2009) and their 'research onion' model. Through following a series of sequential steps, the researcher peels back the 'onion' layers from the outer philosophical layer and continues to the inner core, comprised of data collection and data analysis layers, to acquire the primary information in order to answer the research question or questions. An illustration of the 'research onion' of Saunders et al. (2009) is shown in Figure 3.1.

Knox's work (2004), 'A Researcher's dilemma', critiques the 'research onion' approach of Saunders et al. (2003) for presupposing that the research design and strategy of the qualitative or quantitative approaches are mutually exclusive. Methods, approaches and disciplines, taken by the researcher, are influenced by aligning philosophical orientation adopted under a mixed method approach. However, Knox's criticism of Saunders et al. and their research onion supports the author's choice of Methodological approach, as this study is concerned with Qualitative research.

An explanation of the research philosophies, research approaches, strategy choices, timeframes and techniques and tools adopted in this research follows.

Figure 3.1: The research 'onion'



Source: Saunders et al., 2009.

3.4 Research Philosophies

Several philosophical theories can be applied to the qualitative research methodology. Ontology is primarily concerned with the nature of the social entity and for investigating the social reality of the researched subjects (the interviewees) within their environment (work place). Furthermore, the ontological position will affect the research strategy and methodology selected by the researcher. Objective researchers are more likely to emphasise the formal structures of the entity (Bryman et al., 2011; Saunders et al., 2003). The banks, the Central Bank of Ireland, MABS, IHMO, etc., from an ontological perspective, exist or operate independently of the individual – the employee. The Objective philosophers believe that this is the case. Management and governance of credit and interest rate risks have different associated meanings and potential impacts for, a) the directors and top management, who set the risk appetite and who devise objective goals and strategies of the financial entity; b) the managers' experiences feeds into the development of the business strategies and into the objectives and goals of the organisation; and c) the bank officials who complete the bank's transactions.

The Philosophy of Positivism is a position that holds that the goal of knowledge is simply to describe the phenomena experienced. Researchers apply natural science methods to research in the social sciences and stick to what they can measure; observation and measurement are core to the philosophy of Positive research. Positivists believe in empiricism. Positivists believe it necessary to revise existing theories in light of research findings to better understand reality. Positivists use deductive reasoning to postulate theories to test. Based on the results of studies, positivists believe that it may be necessary to revise such theories (hypothesis) to better predict a reality in which we live (Bryman et al., 2011).

Post-positivist epistemology research is a shift away from the positivist philosophy. Post-positivists reject the central principles of positivism and believe scientific reasoning and common sense reasoning are essentially the same process. Critical realism is the popular form of post-positivism philosophy. Critical realism is applied to social research (Bryman et al., 2011).

On the other hand, the philosophy of Interpretivism recognises that knowledge obtained reflects the subject's particular goals, culture, experience and history. Interpretivism tries to make sense of the world while recognising their own inherent bias, which is based on their cultural experiences and world views. A researcher seeks to make sense of the research through the interaction of events and through the meanings that the researcher draws from these events (Bryman et al., 2011).

Elements of each philosophical discipline can be applied to this research. However, the researcher has adopted both Interpretivism and post-Positive philosophies.

3.5 Research Approaches - Deductive and Inductive Theories

There are two primary research approaches. These are the deductive and the inductive theories. Firstly, I will briefly identify the difference between both approaches from a research perspective so as to identify the most appropriate approach for this research.

The deductive theory is the cornerstone of scientific research. A scientific theory leads to the formation of a hypothesis. Data is collected, findings are established and the deduced hypothesis is either accepted or rejected. The original theory is then revised, based on the results of the research. The approach is primarily associated with quantitative surveys.

In social research, however, the research approach process often works the other way around. The researcher observes a behaviour or pattern and then possibly attempts to investigate

further by collecting appropriate data in order to form a theory. This is the inductive process. The theory is either the outcome of the research or is induced by the research.

For this research, the researcher has selected the inductive approach as the most appropriate approach, as it accommodates the in-depth, semi-structured interviews, as well as the analysis of documentation, required for this research.

3.6 Research Strategy & Design

To enable the researcher to answer the research questions and for hypotheses to meet the objectives of this study, Saunders et al.'s 'research onion' model has been selected, as it facilitates a number of research strategies-experimental, such as, survey, case study, action research, grounded theory, ethnography, and archival research. The research strategy and design of this study is aligned to the inductive approach, which facilitated the researcher's qualitative method, employed in the collection of primary data. A qualitative research can be applied to an inductive approach. It can incorporate either case study or a grounded theory approach.

Grounded theory is a strategy to predict and explain human behaviour (Glassner and Strauss, 1967). The grounded theory, according to Goulding (2002), can be applied to the business environment to identify and explore the relationship between business and management issues. '(D)ata collected starts without the formation of an internal theoretical framework. The theory is developed from data generated by a series of observations. This data leads to the generation of predictions, which are then tested in further observations (in Saunders et al, 2009, p. 149) to confirm predictions.

A researcher would apply the case study strategy to gain an understanding of why a process was ratified and how it was enacted. The case study for the exploratory research is to explain the processes that are employed and to explore the adequacy and implementation of the CCMA and SME Lending guidelines. A research investigation into a particular contemporary social phenomenon involves the use of multiple sources of evidence, including documentary analysis, in-depth semi-structured interviews, and observations (Morris and Wood, 1991).

This research explores the Irish domestic bank's implementation of the frameworks, codes and guidelines and the impact they have had, therefore, the researcher has adopted a Case Study approach for the research strategy of this study.

3.7 Data Collection Method Choices

Data collection and its processes are vital for all research projects. Collection of primary data for this research did not commence until the questions were identified and developed from the Literature Review. Secondary data was derived from previous undertaken research, such as, information derived and analysed from Central Bank of Ireland reports, newspaper articles penned by Ireland's leading economists, and from scholarly articles. Concepts and theories, drawn from the literature review, were developed, to answer the researcher's questions prior to selecting the collection methods.

The questions sought to identify if there were correlations between the mortgage arrears and market demand, the supply of credit and the creation of employment, and if there was an interconnection between the variables. In addition to this, the question was asked, of what impact this had within Ireland's economy?

There are three research method choices that the researcher could apply to this study. These are the mono-methods, the mixed methods and multi-methods. Saunders et al. (2009) defines the mono method as, the 'use of a single data collection technique and corresponding analysis procedures or procedures' (p. 595). The quantitative method is designed to collect data from the area of research by the distribution of a questionnaire and analysis of its results. The qualitative method facilitates purposeful semi-structured interviews, which enabled the author to collect and compile comprehensive information from a select group of people within Irish society.

The mixed methods approach to research is the combination of the quantitative and qualitative approaches. The mixed method is popular in business and management research. The quantitative and qualitative approaches mutually complement each other (Bryman and Bell, 2011).

The multi-method research, in comparison, involves the collection and analysis of data from multiple forms of quantitative and or qualitative research. Multiple forms of qualitative data include semi-structured interviews, legislative and regulatory documents during grounded research (Creswell and Clark, 2007). Goffman's interaction ethology, a methodological framework that investigates the natural interaction of processes, advocates that the researcher gets as close as possible to the objects of the research in order to discover sociological information. Participant observation has historic roots in anthropology, ethnology and social reform movements. Participant observation, an approach that requires detachment and personal involvement (Flick et al., 2004), was adopted in Mintzberg's (1973) analytical study of managers' actions and in actions within specific areas of an organisation. Gold's (1958) typology of participant observation roles are broken down into four categories: a) the complete participant, b) the participant-as-observer, c) observer-as-participant, and d) complete observer (in Bryman and Bell, 2011). The researcher can fulfil the participant observation role as 'complete participant', as she is in full time employment in one of Ireland domestic banks and

has years of professional risk management experience. The multi-method data collection method has been chosen for this research.

3.8 Research Time Horizons

A critical question, all researchers must ask, is what the timeline or time horizon, that the research can or should be completed within, is? Saunders et al. (2009) and their 'research onion' identifies two main Time Horizons: a.) the cross sectional and b.) the longitudinal study.

A cross sectional research is a study and collection of data relating to a particular phenomenon within a particular timeframe. The interpretive philosophical approach is applicable to the qualitative methods, as it facilitates the researcher's personal observation's gain from her working environment and the short academic timeframe to complete this research.

A longitudinal research design is the study of a number of groups of participants, at intervals over a long time period. Variables and participants that are being research do not change and they need to be monitored over an extended period of time, which may extend for years (Bryman, 2008). Due to the short timeframe, the researcher has adopted a cross-sectional time horizon method for this research.

3.9 Data Collection and Analysis

A number of interviews were established through contacts that the researcher had made prior to commencing this research. Data was collected through audio recording and note taking. All field data, including notes, comments, and all recorded materials, were taken from the interview environment, as advised by Saunders et al. (2003).

3.9.1 Sampling and collection of data

Sampling is the process of selecting units from a population central to the research topic so that some judgement or decision can be made on responses to a survey; this can then be reflective of the population as a whole (Bryman, 2004; Bryman and Bell, 2011). Within the time constraints imposed in completing this research project, mass sampling the population were rejected for the qualitative research methods. Availability of expert specialisation within the area of mortgage arrears and SME lending finance was limited. This qualitative research sample is reflective of the orientation of the Irish

domestic banks and non-banking entities, their practice and treatment of people and for businesses that are financially challenged.

Units for study were based on personal judgement and purposeful samplings. A sampling frame, according to Bryman (2004), is an itemised list of all units within the population. It is a complete list of all units within the research population, in which probability is drawn from (Saunders, 2004). The researcher has applied a sampling frame to this research. The sampling frame consisted of four domestic banks – Bank of Ireland, AIB, Permanent tsb and Ulster Bank. Two banks accommodated the authors request for an interview.

Snowballing and purposive sampling methods were employed. Purposive sampling surrounded the selection of the interviewees. Interviewees were selected on the basis of their knowledge, experience and ability to provide relevant information (Saunders et al., 2003; Byrne, 2002). Interviewees that were approached were in a position of having in-depth knowledge of not only their customer base, but their banking system, national regulatory obligations, as well as international regulations and directive impacts.

The qualitative strategy was chosen as the primary approach for this research. The qualitative semi-structured interviews were held to quantify and to elaborate on issues identified within the literature review of this research. The qualitative strategy is inductive in orientation. The semi-structured interviews have been chosen, firstly, to structure the agenda and layout of questions from:

- i) a staff and accreditation perspective,
- ii) people banking and non-banking service providers, employed within the area of Mortgage and SME arrears support,
- iii) current issues being experienced by SMEs and finally section, and
- iv) those related to financial entities risk management strategies.

Appendix 3 provides a blank copy of the semi-structured interview, while Appendices 4 to 8 contain summarised accounts of each interview.

3.9.2 Qualitative Reliability & Validity

Analysis of the qualitative data, derived from the semi-structure interviews, was subject to the researcher's weakness or strengths, to replicate the research findings free from the interviewee's and interviewer's bias. Saunders et al. (2003) recommends considerations in order to prohibit the

inclusion of bias in identifying the relationship between the interviewer and interviewee, which were adopted by the researcher. Issues surrounding instability and inconsistency, within measuring respondents' answers, will be mitigated through statistical tools and internal reliability to ensure there are no contradictions within the interviews.

Misinterpretation, misrepresentation and transparency of questions and the interviewees' responses were anticipated. During the interview process, clarification on some of the questions and answers was sought. The open and transparent interviews identified and addressed any misinterpreting of primary information.

Relating qualitative research findings to academic literature and theories demonstrated the broader significance of the research findings to existing theories and hearings from Houses of the Oireachtas Select Committees surrounding the Banking Sector. This confirmed that the research findings are both credible and objective. Copies of the interview transcripts were available for my supervisor and for the Dublin Business School (DBS) Research board on request. Guidance and confirmation of the research techniques employed were sought from my supervisor and the DBS Research board in advance of the interviews.

3.9.3 Qualitative Coding

Analysis of primary data commenced after completing the interviews. Data was be grouped around the tentative themes based on events, interaction and comments, observations, and on key words expressed by the interviewee. These themes were coded. An index of terms and codes were generated for reference purposes. Miles and Huberman's (1994) matrix format which constructs captures the frequency of themes and associated code occurrence in the data (in Saunders et al., 2003) was adopted.

3.10 Ethical issues in data collection

Ethical issues within this research were a priority for the researcher. Ethics, according to Mauthner et al. (2002) is concerned with 'the morality of human conduct ... and the moral deliberation, choice and accountability on the part of the researchers (p. 14); it is also concerned with an understanding of what is right and wrong when conducting research (Remenyi et al., 2005). This research adopted a number of ethical principles when conducting this study.

It is responsibility of a social science researcher to gain greater knowledge that will benefit the borrowers, the lenders, and Irish society. Social norms of honesty and integrity were applied by the

researcher within this study. Ethical implications were established from the outset in the data collection process. Procedures to maintain confidentiality and anonymity, as recommended by Bryman and Bell (2011), were implemented from the onset of this research.

To avoid harming the research and complying with the interview participants, an informed consent was first sought from the candidate's Human Resources Department and top senior management across Ireland's domestic banks and non-banking agencies prior to commencing the interview process. Deception and the potential likelihood to deceive the interviewees and top senior management was addressed by the provision of an abstract overview of the research project.

Anonymity was provided to all interviewees. A request to tape the interview was asked prior to commencing the interview. One candidate requested that the interview was not to be recorded. The interviewee's request was accommodated. All interviews were coded to the extent that the financial entities were referred to as 'the bank' and/or 'the organisation' (non-bank interviews); interviewee's first names were not mentioned within the interview. The interviewees were made aware of this procedure at the outset of the interview process.

Ethical issues raised by Mauthner et al. (2002), as to the intention and objectivity of the researcher for data collecting, were given consideration and embraced. While the intention and purpose of the research was transparent, research findings and outputs were also offered to the interviewees. Careful consideration and measures were established to ensure information ascertained was not or could not be utilized to work against the people, organisations, customers and interested parties for any political or other intent by the researcher that was gathered or arose during this research process.

3. 11 Limitations

There were numerous limitations in collecting information from the survey. The first limitation experienced was the length of time assigned by the college to conduct this research as a part-time student with conflicting pressures from work. In-depth interviews essentially had to be arranged according to the interviewees' diaries. Time off work taken by the researcher had to be requested at short notices and paid back to the researcher's line manager.

Due to the nature of this study, financial institution did not permit the circulation of the research questionnaire to their employed officials within the areas of arrears management and SME lending. The researcher was informed that the nature of the questions contained within the questionnaire were 'highly sensitive'. (Please refer to Appendix 2 for a copy of the survey questionnaire).

Access to specific academic references, covering Ireland's experience of residential mortgage and SME borrowers in arrears, were scarce. Academic literature, that was available, mainly concentrated on the macro-economic aspects and what gave rise to the creation and fall of the Celtic Tiger and the collapse of the Irish Banking system. Very little academic literature is available on how the banks are addressing residential mortgage arrears and SME finance.

Personal bias, not identified earlier by the researcher, did emerge within the interview process. The researcher, who has a degree in Social Science and who is gainfully employed in one of Ireland's pillar banks, found herself mentally agreeing with both sides of the debate, as opposed to being neutral as anticipated. To control against this, the researcher asked probing questions.

Chapter 4: Data Analysis & Findings

Introduction

This section of the dissertation is primarily focused on analysing the primary data, gathered through the qualitative in-depth semi-structured interviews.

The qualitative interview questions were derived from the researcher's understanding of historical events, current developments and concepts discussed within the literature review. Thematic analysis was employed to examine collected data from interviewees who were expert professionals in their field. Data was grouped around the tentative themes based on events, interactions and comments, observations, and key words expressed by the interviewees. These themes were given a coded name. An index of terms and codes was generated for reference purposes. The interviews were categorised into various sub-topics and the interview responses were collated by topic to ensure that scattered pieces of data from interviews were captured and appropriately categorised for a complete review.

Fereday and Muir-Cochrane's (2006) methodological approach integrates data codes within their inductive and deductive hybrid thematic analysis of the primary data process. The process of coding primary and secondary information requires the research to recognise and understand the subject matter and its varied sub-components, in order to identify existing themes and new emerging themes and interconnections to encode. This allows the research to capture the 'qualitative richness of the phenomenon' (p. 4).

4.2 A Failure in Conduct Risk Governance

There is a regulatory requirement for to hold a minimum competency code (MCC) when providing customer with financial advice. This research finds that there is currently no requirement for Risk Management banking professionals to possess a MCC accreditation in risk management, with the exception of Board Members, Senior Managers and staff members who hold a control function, such people are subject to Fitness & Property standards.

Conduct of business risk is the failure to proactively build compliance and operational risk monitoring procedures within the product design. Butler and Flynn (2014), attributes the systematic failure of Ireland's banking system to the failed implementation of Operational Risk and Compliance obligations and standards. The inadequate integration of conduct of business risk awareness is the

predominant root cause of conduct risk incidents. In light of interview B's account of bank professions' inability to implement an assessment tool, this resulted in inaccurate SFS assessments.

Through the interview process, analysis of the Lynch report (2014), combined with the author's observations within one of the domestic banks, both customer's personal residential properties and business loan restructures (buy-to-lets) are not being stress tested nor has a bank satisfied itself that a sustainable solution has been established to meet its future payments. According to the November 2014 Joint Oireachtas Committee review, into the Banking sector hearings, Bank of Ireland's (16 percent) and Allied Irish Banks (a couple of percent) of agreed arrears resolutions are re-defaulting.

In addition, it should be mentioned that the Financial Services Ombudsman's Bi-annual Review (2013h2) has reported 454 complaints, which were made in relation to mortgages; of these, 8 were fully upheld and 22 cases were partially upheld. These findings support the proposition of there being adequate risk management monitoring controls and operational infrastructures in place to adequately facilitate the assessment of customers SFSs.

4.3 CCMA Lender & Borrower Relationship - Pro customer or pro prudential?

Bennett's (2013) research identified customer engagement between the creditor and the borrower as being vital to identifying the appropriate resolution for the borrower. If the customer is classified as 'not cooperating', the bank, at their discretion, can initiate high court proceedings for repossession of the borrower's residential property. All top management of the four leading Irish financial banks, during the November 2014 Joint Oireachtas Committees on Finance, Public Expenditure and Reform, defined 'not cooperating' as a customer's unwillingness to communicate with their credit lender, particularly during the SFS process. This was echoed in all the banking semi-structured interviews. The non-banking interview confirmed that a small percentage of their clients engage in this practice 'as they feel they can get away with what they owe' according to candidate B.

Primary and secondary research has found non-cooperation of primarily residential mortgage borrowers can be directly related to other issues. The non-banking interview participants, from their experiences, have nominated the following reasons for mortgage borrowers' non engagement with their credit lender: In certain circumstances a borrower may be suffering from Psycho-social challenges, such as depression or illness or having numeracy difficulties. Thus, they find it difficult to interface with their creditors. Participant C was cognisant of customers' potential vulnerabilities and stressed there were strict policies in place up to and including contacting the Gardai in the event of potential suicide. Participant C's bank is fully prepared to discuss and go through such a customer's

financial circumstances on receipt of a letter or a mandated third party instruction from the borrower. Participant A, in contrast, was not aware of any borrowers suffering from psycho-social issues. Participant B expressed 'the bank doesn't really facilitate those customers ...very often the life experience and the instructions that maybe given to front line staff in how they deal with customers, we feel, very often, that the age profile experience and instructions are very inadequate and not focused'.

All non-banking interviews clarified that people are being put under enormous pressure to complete the SFS, sometimes over the phone, which raises questions over that data values being entered into the SFS form. According to candidate B, accuracy issues have been found when the borrower recompletes the SFS form with assistance. By comparison, 'values are very, very different, and the values can either show that the mortgage is not sustainable and in some instances where the value change show that the mortgage is sustainable. So really the bank is working on SFSs that are not telling of the facts as they are.'

Reports from the Department of Finance portray the level of new residential mortgage arrears crisis as having been stabilised. On reflection, all interviews cautiously agreed with the Minister for Finance that the Irish domestic banks are showing signs of not dealing with new residential mortgage holders. Nevertheless, candidates B and D viewed the Minister's statement with scepticism, as they clarified that 'new cases are slowing but longer term and more complex cases still exist'. These cases are increasing. Finally, once a PDH restructure has been identified by the lender, the mortgagor is removed from the arrears category. Candidate B defined the revised CCMA as being, 'more pro-credit and is more concerned with the liquidity of the banks as opposed to addressing the human factors. ... Targets have been set by the Central Bank of Ireland and don't appear to be concerned with the social aspects'. He attributes the decline in Department of Finance 2014q3 figures to, firstly, the economy rebounding, with people accessing gainful employment, which, in turn, increases the mortgagor's disposable income. Secondly, the Central Bank's MART has placed an obligation on the mortgage credit lenders to take action.

4.4 An Imbalance of Power - Sustainability of repayment who determines?

The primarily objective of the Inter-departmental Mortgage Arrears Working (2011) report, was that recommendations be made to keep people in their homes and to reduce the burden on home owners who are experiencing financial difficulties. MARP, under CCMA (2013), is perceived by the non-banking professionals as being more prudential orientated in favour of the banks to meet their MART targets. The non-banking participants all maintain that the focus of CCMA should be on keeping

people in their homes and more pressure should be placed on banks to be more consumer orientated.

This finding is reflective of David Hall's newspaper commentary that houses in positive equity are more likely to be repossessed than houses in negative equity (Reilly, 2014). The banking interviews, in contrast, state, holding on to negatively impaired property is not the best solution for the customer, as the mortgage interest is accruing and the market price will not return to the property bubble prices. Under the Central Bank's Sustainability Guidelines, Ireland's regulated banks are required to ensure sustainable mortgage arrears solutions are put in place. If a sustainable arrangement cannot be identified, then the credit lender can apply for legal repossession in the absence of a voluntary surrender or VSFL agreement.

In analysing CCMA (2013), and in conjunction with the five in-depth interviews, and available literature articles, there is no sustainable regulatory obligation for the Irish regulated financial entities to uphold the 'spirit of the code'. Under the Code, if a mortgagor rejects the lenders arrears resolution solution (Provision 42); or the lender declines to offer an alternative resolution agreement (Provision 45); or a borrower's proposal to voluntarily sell their primary residency the mortgagor is relocated outside of the protection of MARP and the Central Bank of Ireland. In addition, if a customer is deemed to be not co-operating, as a consequence of not or delayed completion of the SFS, then under provision 28 and 29, the bank is obliged to request information and notify the 'not cooperating' customer that non-compliance in the provision of information will result in the immediate initiation of legal repossession proceedings, with the addition that they are now outside of the protection of MARP.

Voluntary surrender, or VSFL, according to candidate D, is 'surrender really', and '(t)here's far more of them happening than there are actual repossessions. So repossessions don't necessarily give a true reflection of what's being taken back'. From documentary analysis and information derived from the semi-structured interviews, repossession mostly occurs where the customer is not communicating with the bank. In cases where properties are repossessed through the courts, the four main mortgage banks deem the mortgagor(s) liable for any residual debt. Bank of Ireland is the only domestic bank identified that does not write-off some element of a mortgage residual debt in the absence of a borrower being declared insolvent or bankrupt. In comparison, where a customer is eligible for the social housing scheme, the residual debt is not pursued by Ulster Bank.

Under the CCMA (2013), a borrower's tracker mortgage cannot be removed without all alternative solutions being addressed, with the only option left being repossession. Therefore, a mortgage lender cannot amend the mortgagor's contracted mortgage interest rate. When asked about Tracker mortgages, in relation to the banks' difficulties being experienced in short term and long term debt repayments, as published by numerous leading Irish economists, Candidate C stated 'it's fair to say that the tracker mortgages were probably the worst mistake any bank ever made in

introducing them because there was no thought as to how you would fund it long-term'. According to candidate D, banks have funding issues 'where they have to rollover books'. The cost spread between short and long term funding was recognised by candidates C, D and E as being problematic for the domestic banks. Amendments within the revised CCMA (2013) allow the lender to repossess or recommended an alternative arrangement such as a negative equity trade down or a VSFL option if a sustainable option cannot be identified, according to Kennedy (2014). Interviews B and D reveal their clients are not aware of the criteria or reasoning surrounding why one mortgage forbearance solution was offered over another.

Overall, from analysis of the literature reviews, primary data ascertain through the semi-structured interviews, and the researcher's observations and experiences from working within regulated financial entity, the borrower, in effect, appears to be in a state of powerlessness. If the borrower fails to complete the SFS or declines the lender's alternative resolution offer, then the lender can commence legal proceeding for the repossession of the residential property, as they are outside the protection of MARP. The provision of the standard and advanced forbearance mortgage products, in conjunction with the assessment of the residential mortgagor financial situation, is currently at the sole discretion of the lender.

4.5 Austerity Ireland and Personal Insolvency Debt

There is no central strategy for Personal Insolvency debt. Personal Insolvency is outside the remit of the Central Bank of Ireland's mandated authority. As a consequence the Personal Insolvency Act (2012) and the CCMA are currently operating in isolation of one another in relation to 1) debt relief notice, 2) debt settlement arrangement, and 3) personal insolvency arrangement when dealing with residential and property debt. Under CCMA (2013) a lender is only obliged to advise the borrower of the Insolvency Services of Ireland once the mortgagor is outside of the protection of MARP.

This research finds that financial institutions appear to be more inclined to engage in mortgage write-down facilities where no sustainable solution can be identified other than VSFL or voluntary surrender of a primary dwelling property with the introduction of the The Personal Insolvency Act (2012). The IMHO report some Split Mortgage solutions have received a write-down in their mortgage (Weston, 2014b). One interview participant experience of loan forgiveness is 'very few' and stated 'it needs to be higher, much higher' echoing Brian Lucey et al (2013) and Gurdgiev and Lucey (2013a).

In addition, candidate B clarified that all of his clients are not in mortgage arrears. Attention was drawn to fifty percent of his client-base were seeking advice in relation to unsecured utility and notice received from the semi-state companies Bord Gais and or ESB threatening court action and to

turn-off supply. This leads researcher to suspect financially distress households are making the choice to meet their mortgage repayments and leave other essential items unpaid until money is available. This occurrence was also sounded in Bennett's (2013) research where MABS client households are experiencing indebtedness, not only within their mortgage repayments but also in their day to day living. Outside of the semi-structure interviews, a community nurse relayed her experiences of a middle to high income family with two autistic children, the mother was diagnosed with breast cancer with and as a consequence of budgetary cuts both parents had to seek financial support from their parents in order to purchase basic essential food and petrol to enable the father to commute to work. The mother could only afford minimum health care.

4.6 Decisions on SME Credit Lines

Since the global financial crisis, the movement of money from region to region and from institution to institution has become much more regulated. The Irish economy, according to the ERSI, has entered into a fragile state of recovery. During Ireland's Celtic Tiger era, a lot of SMEs, who owned their business, borrowed to invest in property and or to expand their business. All interviews confirmed that SME debt is an overhang from the property bubble. The overhang, the cost of property and business expansion, was all identified as the attributed root cause draining a SME's available finance. This drain on the SMEs available cash is also impacting on their ability to secure working capital from banks. This finding from the three non-banking interview candidates is reflective of InterTradelreland's (2013) report and Arrowsmith et al.'s (2013) research.

Primary research reveals that traditional SME owners are becoming increasingly disenfranchised when applying for credit. It was noted from four out of five interviews that SMEs loan applications are typically for working capital, in the form of short term annual over-drafts. SMEs were portrayed as being over reliant on short term loans such as credit cards and over draft facilities. The lack of SME financial accounting awareness was identified within the primary research. According to candidate E, the use of credit card and overdraft facilities were both short term expensive forms of credit. What the traditional SMEs are missing, according to candidate E, when applying to a bank for credit, is specialised vital data information, a lack of transparency, and business plans.

Credit lending is about being able to predict the future cash flows of a company and character judgement of the entrepreneur seeking credit. To assist SMEs, with new credit loans and restructure applications, bank managers are being trained to understand and to question the customers' statements, in order, to separate property debt overhang from the core business operations. According to participant C, a bank would assess the SME's affordability to pay any shortfall and, in cases where the customer has zero affordability, the bank would probably write-off the debt, whereas a SME with a viable core business, will receive a loan restructure to include a credit top-up.

Challenged SMEs in financial arrears are required to deleverage their non-core and non-income generating assets. The reason behind the different approaches, between personal residential debt and business debt, is, according to candidate C, attributed to the State's injection of tens of billions into the Irish Banks and the European Community's emphasis on supporting SMEs.

The English report (2014) reveals Irish domestic banks are lending and in some cases surpassing their targets. All top management of the banks affirm that lending is a prerequisite to generating profit. Therefore, the banks are approving credit applications, if lending requirements conditions are met. Approval rates and equity funding drawn down for 2013 were as follows: Bank of Ireland 94% (€4b), AIB 92% (€4.3b), and Ulster Bank 85% (€1.2b). The actual number of SMEs credit applications received, approved and not drawn-down were not provided. The provision of percentage figures distort the ability to accurately identify if the banks credit approval levels have increased, decreased or are remaining relatively constant.

In contrast, the level of indebtedness of the Irish economy in comparison to the European norm is quite high. Irish SMEs in financial difficulties are paying down their existing debt as opposed to taking on new loans according to candidate E and the English Report (2014).

The practice of banks seeking personal guarantees in the absence of collateral security, which is in direct contravention of the SME Lending Code, has not abated. Brendan O'Connor, AIB Director, stated, in an Oireachtas Joint and Select Committee that the 'vast bulk' of SME debt is drawn in personal names. Examinership is not an option. A guarantee is required for non-limited company credit applications according to candidate C. Interviews confirm the current funding model involves the issuing of SME business loans, for non-limited companies and are created directly to the SME as a personnel loan. The Bank of Ireland, CEO, Richie Boucher, testified to the Joint Committee on Jobs, Enterprise and Innovation that 'equity in a transaction that de-risks the transaction from the customer's point of view and the point of view of the bank ... we can accept the risk then that equity contribution must be recognised by way of a personal guarantee' (Dail Eireann, 2014a, p. 8). Candidate C also acknowledged that this banking practice is increasing, not decreasing. The use of guarantees within the banking systems has resulted in SMEs putting up their personal property as collateral, according to candidates B and E.

During an interview with candidate E, the researcher's attention was drawn to the potential occurrence of domestic banks lending scarce financial resources to non-viable companies, which the candidate noted shouldn't 'actually shouldn't be supported'. This implies scarce credit is being misused on non-viable companies at present. The researcher's study and opinion is divided on this finding. In one of the banking interviews, the participant categorically stated that equity is not provided to SMEs that do not have the ability to make sustainable repayments on their existing loans. An analysis of the Bank of Ireland Joint Oirechtas and Select Committee from November 2014 details where the Credit Review Office represented 70 previously declined cases for reassessment. Of the

37 sanction applications by Bank of Ireland, 11 cases subsequently defaulted on their repayments. This scenario, combined with Mike Annsley's account of a middle banded customer, who is struggling to meet their loan repayments, fits the profile of candidate E's non-viable SME that may have been considered semi-viable on sanctioning the loan.

4.7 Stimulating the Economy

In an effort to stimulate the European economy, the Euro base rate is set at its lowest base rate of 0.05%, thereby creating cheap credit for European Banks to lend to European SMEs. The lowering of Euro currency interest rates is recognised as the European Central Bank's alternative measure to stimulate the European economy and increase foreign trade competition between the United States and Europe.

The cost of credit has not moved in tandem with the lowering of the Euro base rate. Interview candidate E identified Irish SMEs' cost of credit as 1% plus in excess to the European average. This according to candidate E 'definitely is a problem for SMEs' and was expressed as a concern for Ireland's economic recovery.

An examination, of the November 2014 Joint Oireachtas Committee on Finance, Public Expenditure and Reform reviews, shows that the Irish bank's variable Euro base interest rate has a premium applied as a consequence of their mortgage book losses. The four main banks net interest margin blended cost of doing business ranged from the lowest rate of 0.88 percent for Permanent tsb to a maximum of 2.32 percent for Ulster Bank.

Outside of Ireland's four domestic banks, candidate E drew attention to the possibility that potential international investors could 'turn their back on Ireland' and set-up in Manchester or Birmingham if they are unable to locate appropriate cost effective properties in Dublin or in the pharma region in Cork. The Dublin area is experiencing a supply side shortage. A pertinent question asked by candidate E was, how is NAMA going deal with all its property?

4.8 Primary residential and SME non-fixed interest rate restructures

In October 2014, the result of the ECB asset quality review, of 3 bank balance sheet assessments, revealed that both of the Pillar Banks (AIB and Bank of Ireland) passed, however, Permanent tsb failed one of the three tests and as a consequence required further recapitalisation. In light of the

historical low ECB interest rates, the question surrounding the inevitable future rise of interests and its impact on SME restructuring and new loans is being questioned as a concern by this research. It is important to note that Arrowsmith et al.'s (2013) research estimates a rise in the UK interest rate by 400 basis points; SMEs are exposed to a 50 percent plus chance of defaulting. At present, new consumer loans under the Consumer Credit Act (1995) are required to be stressed to a 2 percent increase under the CPC (2012) and in line with the European Banking Authority ITS. New SME loans or tops are stressed to take into account a future interest rate rise of 2 percent.

However, there is no specific requirement for the domestic Irish banks to stress test the MARP alternative resolution agreements. Therefore, SME's loan restructure solutions do not take into account future income shocks in the form of a rise in interest rates. All non-banking professional interviewees were of the opinion that loans are not being stress tested. According to candidates B, D and E, this is a concern. According to candidate D, the banks are not aware of medium to long term interest rate risks and SME loan restructures are not cognisant of the historical low rates, affirming that 'no wriggle room' is being left to take into account the inevitable future interest rate increase.

From an analysis of the regulatory guidelines, the lender is obliged under the Consumer Protection Code (2012) to stress test personal consumer new loans at 2 percent. There is no specific requirement for the lender to stress test alternate resolution agreements. Under the MART Guidelines, the bank is required to satisfy 'itself that the arrangement provides a sustainable solution' (Honohan, 2014a, p. 8). This finding, from this section, raises the question as to why loan restructures are not being stress tested.

4.9 Banking Diversification required within the credit channels

For Ireland's economy to recover, IBEC's forecasted projections require a sustained increase in the bank's credit lending combined with the SMEs' continued cost reductions according to Candidate E. In addition, specialisation within SME lending is encouraged to look beyond the traditional short-term loan facilities, which are mostly channelled into agriculture, the hospitality, and retails sectors to become more focused on the new developing sectors. Investment in futuristic pioneering businesses, such as the digital technological and life science sectors, together with understanding the new SMEs business models and trade cycles, presents new business opportunities for growth and development. In comparison, the CEO of Bank of Ireland advocates against becoming too specialised; instead, emphasis is placed on the formation of generalist teams of experts to assist a number of different business sectors during the underwriting process (Dail Eireann, 2014b).

The introduction of more alternate financial channels will not directly benefit SMEs, according to candidate E, as the traditional small business owner is too dependent on the banks for short-term

working capital. To the conserve available funds strong medium to large companies should be encouraged and assisted to seek funding from alternate sources, such as, through the bond markets. This according candidate E may indirectly 'free up capital in the banks for SMEs.

In addition, the adoption of the specialised SME Centres model, currently available in Switzerland and Germany, was recommended by candidate E. This model of SME specialised Centres model is believed to be critical to both promoting the understanding and financing of SMEs across the different sectors in society. As participant E states, '(i)t's not a one size fits all solution ... (to) ... solve all problems'. SMEs from different sectors and at different stages of development require different levels of funding and support. The issue of SMEs not being aware of current funding schemes currently available was raised by all non-banking participants; this is a similar finding to English (2014) and InterTradelreland (2013) research. One interview attributed this lack of awareness to the Policy Makers not being clear on what supports are available to assist and support SMEs. SME centres, if established correctly, may overcome certain barriers experienced by businesses to access finance.

4.10 The interconnection between financial arrears crisis and macro-economics

Ireland's economic recovery is still fragile and exposed to movement in the UK and US economies. In contrast to candidates A, B, C and D, candidate E recognised that both the Central Bank and the ECB are making it easier for banks to refinance themselves through the ECB lowering its interest rates to facilitate the injection of capital through the European banks. Foreign export trade is driving Ireland's economic recovery to date and the '*recovery is not really supported by bank lending*'. In order for Ireland to maintain a sustained macro-economic recovery, the demand and supply equilibrium needs to be reached and prudentially maintained. The supply side is being facilitated through the ECB's low credit and securitisation financing.

The location of new customers is the highest challenge facing Ireland's SMEs according to InterTradelreland (2013). Demand is highly correlated to consumer confidence and available surplus cash. The Irish consumer, during and after the financial crisis has remained prudent in their spending, with all surplus cash being used to reduce their personal debt. The lack of domestic consumer confidence is a 'pressing problem', according to candidate E, as demand is not growing within the Irish and European economies. Failure of the Irish domestic banks to free-up the consumers' available finances, by implementing affordable solution to Ireland's over indebtedness, is hindering Ireland's economic recovery. The interconnections between SMEs stalled national growth trade levels, innovation, and employment is significantly correlated to customers' available surplus

funds. Therefore, in order for demand to increase, Irish consumers need to have money in their pockets or comfort in accessing credit facilities to spend in the domestic economy. In order for consumers to have available funds, their debt levels need to be addressed.

Chapter 5: Conclusion & Recommendations

Introduction

The overall objective of this research was to examine if Ireland's domestic banks (including Ulster Bank) have implemented the Central Bank of Ireland's strategy codes and regulations to address the Irish financial arrears crisis. The goal of this research was also to determine the manner in which the Central Bank's CCMA and SME Lending guidance codes have been adopted by the Irish banks within Ireland's concentrated financial market, to address consumer residential and business loan arrears. This research also incorporates the Personal Insolvency Act (2012), which the researcher acknowledges is not within the Central Bank's mandated functions.

There was very little research literature available surrounding the national challenge in resolving the mortgage arrears crisis, personal debt, SMEs property debt overhang and their economic interdependencies on commencing this research outside the three commissioned reports, when initially commencing this research. According to Professor Honohan (2014a), Governor of the Central Bank of Ireland, lenders in 2014 have implemented better arrears restructure loan agreements; however, their systems, processes and, ultimately, the performances still display flaws. Therefore, access to senior banking and non-banking service professionals greatly accommodated the researcher's access to both primary and secondary information to answer the questions of this research.

This research commenced at looking at different theoretical interpretations as to how Ireland's Celtic Tiger economy moved into a plain vanilla property bubble from 2002 / 2003 and continued for an unprecedented period to 2006 / 2007. Colm McCarthy's (2009) appraisal of the Irish economy reveals Ireland had experienced both a housing property and a public expenditure bubbles. Whelan (2013), a critic of Ireland's Euro currency membership, reveals that the economic factors that drove Ireland's property bubble had played themselves out prior to the fall of Lehman Brothers. While Norris and Winston's (2011) study proposes that Ireland's socialised housing systems of home-ownership assets converged to our Anglo-Saxon European counterparts social model. The above literature demonstrates the Irish Government's unrelenting intervention in supporting a property lead economic programme for Ireland from 1994/1995 to 2008.

It is the Honohan (2010), Regling and Watson (2010) and the Nyberg (2011) commissioned investigations into the factors that lead to the collapse of the Irish banking all found the then newly established Irish Financial Services Regulatory Authority operated under a light touch self-regulating banking system and that the Central Bank failed to implement appropriate Macro-Economic prudential policies. It is in the Honohan (2010) reports that we find that, in 2003 and 2004, pre-budget letters were issued to the then Minister of Finance, advising that the economy was overheating and the

demand and supply for property was unstable. These letters also recommended the introduction of fiscal readjustment. This illustrates that Ireland's property bubble and insolvency of the domestic banks were home grown and the government was alerted to Ireland's pending property bubble.

Butler & Flynn's (2014) research found the root cause of the collapse of the Irish banks lay with their internal Operational Risk and Compliance functions that failed to implement a culture of risk management awareness. The embedding of a culture of risk management awareness needs to be addressed on a consistent basis throughout the banking system. The sole production of risk management polices is insufficient. Risk management personnel that do not possess an adequate accreditation are unable to instil a culture of risk management within an organisation.

5.2 Research Questions

The findings of this research are varied, fluid and are derived from numerous sources. The area of this research is current and exposed to the ebbs and flows of Ireland's economic position, which is in turn influenced by her next door neighbours, the UK and the US, and the wider European recovery strategy. This research sought to investigate whether a lack of action by the Irish domestic banks hindered Ireland's economic recovery. From the literature review, analysis derived from the semi-structured interview and from findings from this research, it is now possible to address the research questions / hypothesis.

Is it true that Ireland's domestic banks don't understand SMEs business and are therefore unable to make appropriate lending and loan restructuring decisions?

All interviews support that SME credit applications are for working capital. According to two of the non-banking interviews, such loans are for the survival of the business. This research finds SMEs are currently not looking to secure medium to long term finance. This indicates SMEs are not engaged in future development and expansion.

The traditional SME owners continue to apply for the most expensive sources of banking finance - short-term loans and credit cards. This business practice was defined as being culturally specific to Ireland. This leads the researcher to suspect that SMEs are unaware of their daily business cash movements. In addition, traditional SME is finding it difficult to cope with new form filling requirements and having to provide a number of Profit & Loss, Balance Sheet, Cash Flow

statements and future business plans. A difficulty in SMEs producing business plans may be indicative that SMEs are primarily focused on the present survival and not the future expansion.

The three main banks, AIB, Bank of Ireland and Ulster Bank, have met their lending targets. However, according to Lawless et al. (2014a), and interview candidate E, banks are not lending to new SME customers. Speciality of lending is occurring within the traditional market sectors such as Agriculture and some degree the digital industry. Lending needs to become specialised in the areas of technology, life sciences and international trade financing.

Primary research made reference to loans being provided to non-viable SMEs. This research, outside of interview E, has found no evidence of Ireland's domestic banks lending to non-viable SMEs. This situation is nonetheless foreseeable when analysed under the direct influence of the Credit Review Office; 11 of the 37 (55% of cases) re-assessed and sanctioned credit applications subsequently defaulted. If non-viable businesses are being granted additional funds, then this would be of concern and it calls into question how financial entities expect such loans to be repaid when their existing loan repayments are not being met. If credit finance is being provided to non-viable SMEs, that do not have the capacity to meet existing loan repayment, as indicated by candidate E, then the relevant Banks' credit policies are not being adhered to. Or, the financial entity has not established robust Credit, Operational Risk and Compliance frameworks. This later point is highly unlikely, as all regulated entities risk frameworks, policies and procedures are reviewed and approved by the Central Bank of Ireland.

More specifically, loan restructuring decisions, surrounding top-up required for existing loans or restricting a business struggling to meet the loan repayments. For SMEs, this research has shown that non-limited companies loans have either been collateralised or personally guaranteed and this practice is not likely to change in the short term. Therefore, to adequately deal with SME loan restructures, all financial connections need to be established. One bank has implemented a process whereby the SMEs personal, non-core business and core business assets are disentangled. Within the restructures, the SMEs right sizing the business balance sheet occurs where non-core non-income generating assets are deleveraged and a sustainable loan restructure is established. This leaves the researcher to conclude there is an inconsistency across the banks adoption of the SME Lending Code.

In addition, there is no black and white statement obliging the banks to conduct interest rate stress tests on restructured SME loans. With stress tests only being specified to be carried out on new loans, this supports the non-banking interviewee's belief that banks are not carrying out stress tests. This leaves restructured loans exposed to re-defaulting when the Euro based interest rate increases. This is of concern, particularly when primary mortgage restructures currently default at 16 percent for Bank of Ireland and a couple of percent for AIB.

This investigation into the SME lending, realises, the importance of credit finance is to maintain both a healthy viable business and at the same time to facilitate Ireland's economic recovery that secures current employment while germinating employment prospects. Lending targets set for AIB, Bank of Ireland, and Ulster Bank are either being met or have surpassed their identified credit parameters. The banks blended cost of funds blended net interest margin from Ulster Bank (2.32%) to Permanent tsb (0.88%). However, there is a widening gap between the Euro base rates and the SME cost of credit as highlighted in the English Report (2014). The Joint Oireachtas Committee on Finance, Public Expenditure and Reform (November 2014) reveals that Irish banks are being charged additional premiums on the Euro base interest rate.

This research shows Ireland's domestic banks are making progress in providing credit to SMEs and restructuring financially distressed business loans. However, the results from this research have also found that the implementation of the SME Lending Code is inconsistent across the domestic banks. Primary research significantly clarified that SMEs in payment difficulties are seeking financial support from Money Lenders and, as a consequence, require both a financial resolution with financial credit along with financial-administrative education training and awareness support. Research also reveals that relationship manager and credit lender need to extend more into the technical and life science sectors. Therefore, this research concludes Ireland's domestic banks need to develop a better understanding relationship with their clients.

Is it true Ireland's domestic banks respecting the spirit of the Code of Conduct on Mortgage Arrears and the Insolvency Act?

This research supports Bennett's (2013) research and identifies engagement between the financially distressed customer and their lending institution. However, the non-banking interviews clarified that only 1 to 2 percent of their clients are tactfully not cooperating with their mortgage lenders.

Evidence, from analysing the revised CCMA (2013), finds that distressed primary residential mortgage borrowers are not under the protection of the Central Bank once they are outside of MARP. Once outside, the protection MARP timescales the bank can initiate legal court proceeding for repossession. In cases where the primary residence has been repossessed, the borrower is held liable for all residual debt post sale of the asset.

The borrower has the right to appeal the banks decisions through the banks internal appeals board. The residential mortgage borrower is also provided with a number of product options such as voluntary sale for loss, negative or positive equity trade down, etc. these facilities are between the borrower and lender. These alternate, advanced forbearance products are outside of a bank's lending resolution and are therefore outside the protection of MARP.

In contrast, this research has found 3 of the 4 main mortgage banks engage in a process of writing off residual debt (to varying degrees), where the borrower and their bank relationship manager have agreed to a voluntary surrender or a voluntary sale for loss. Bank of Ireland was the only bank that does not currently engage in this practice, unless they have applied for Personal Insolvency or bankruptcy according to the November 2014 Joint Oireachtas Committee on Finance, Public Expenditure and Report reviews.

Attention is drawn to the fact that restructured agreements are experiencing a re-defaulting on payments which indicative that the solution identified was unsustainable. If the loan arrears solution is to be sustainable, it must be affordable in order to meet their borrower's economic and social needs. Stress testing loan arrears resolution agreements are not being conducted; therefore, the new agreements are exposed to future interest rate shocks. This research is concerned that the sustainable solutions are not being stress tested by the banks and therefore expects the alternate agreements to come under strain when the Euro interest rate rises in the future.

To underpin the spirit of the code, a culture of Compliance, Operational Risk and Ethics needs to be fully embedded within the domestic banks financial institutions structural frameworks and ingrained within the psyche of each bank official, whether they are in permanent or temporary employment. This research, illustrated through the non-incorporation of stress tests, the occurrence of re-defaulters, upheld fully or partially by the Financial Services Ombudsman and the reports of non-inexperienced and or non-accredited bank personnel dealing with customer SFS queries, lends to the conclusion that a robust culture of risk management and ethical awareness is not fully incorporated into the domestic banks.

Despite the progress being made on meeting MARTs and lending targets, this research concludes that domestic banks (including Ulster Bank) are for the most part operating within the MARP process but under the watchful eye of the Central Bank and the Joint Oireachtas Committee on Finance, Public Expenditure and Reform. The reviewed Code is a guideline and not a legislative requirement for the Banks to follow. This research and its findings clearly shows that some banks are more focused on meeting their mortgage arrears resolution targets and deleveraging their non performing residential mortgage loans.

This research concludes that the spirit of the revised Code of Conduct on Mortgage Arrears has not been adopted by the management of the Irish domestic banks. Research also shows that there is an inconsistency in applying the Revised CCMA programme across the Ireland's domestic banks.

Is it true that the Irish Government and Central Bank of Ireland have not implemented appropriate measures to address the indebtedness of SME and Primary Residential mortgage within the domestic banking system?

This research demonstrates that the Central Bank has implemented and continues to implement appropriate strategies, regulations and codes to address the economic developments within Ireland's fragile economic recovery. The SME Lending Code, the Code of Conduct in Mortgage Arrears cannot be viewed in isolation from the other regulations such as the Sustainability Guidelines, MART, the Mortgage Arrears Strategy, the Accounting Provisions Disclosure (2013), the Consumer Protection Code, etc. The Central Bank also fulfils a monitoring practice, on a sample basis, to ensure the regulated banks do not breach the regulations. However, the Central Bank places an onus on their regulated entities to, not only to follow their codes and regulations, but to also oblige Ireland's domestic banks to adopt 'the spirit of the codes'. Therefore, it is the responsibility of the banks to refer to the Central Bank when in doubt; for example, if a bank is unsure if they have to conduct stress tests on mortgage restructure solutions, then the query should be referred to the Central Bank for clarification.

The Irish Government, through the Department of Finance, has not overly interfered in Governor Honohan's reorganisation and administration of the Central Bank. Nevertheless, there is no central strategy for Personal Insolvency and CCMA guidelines. Kilborn (2012) proposed the adoption of a consumer lead Insolvency legislation to address Ireland's financial crisis and the indebtedness of Irish households. According to Kilborn and Marshall, the adoption of the UK orientated Personal Insolvency legislation will result in a prolonged experience of debt. Reilly's (2014) newspaper article, O'Brien's (2014) study, and the Joint Oireachtas Committee on Finance, Public Expenditure and Reform November 2014 reviews, show a very low number of customers cases are being referred to the mortgage lender by the Insolvency Services Ireland. Of such cases, approximately 50 percent of the cases are being supported by the banks and approximately one-tenth are being vetoed. The Central Bank is not mandated for Personal Insolvency cases.

An objective of this research was to analyse the interconnections between the SME Lending Code, the Code of Conduct on Mortgage Arrears and the Insolvency Act (2012) within Ireland's economy. The Insolvency Act, the SME Code and the Code of Conduct on Mortgage Arrears (2014) are operating independently of each other. A holistic overview on their implementation is not taking place. Banks have vetoed ISI recommended insolvency cases once they assess unsecured debt is being given priority over secured insolvency cases. This leaves the author to conclude that consumer debt is not being adequately addressed. In an austerity driven economy, this leaves the consumer with very little money to spend (demand) within market.

Primary and secondary research illustrates that Ireland's recovery is being driven by Ireland's SMEs competitive foreign trade and the internal demand market has begun to slowly rise. However,

the supply of low credit is driving SME supply and employment. SMEs, in order to survive, need to locate new customers both from the internal and external markets. Consumer confidence is returning to the Irish market. Ireland's economic recovery is fragile and, if not addressed and monitored prudentially, its potential complete economic recovery will not ensue.

The interconnections between creating a sustainable SME sector, implementing affordable residential mortgages, while addressing personal insolvency debt, are being addressed in isolation of each other. The domestic consumer market appetite holds a more realistic outlook on the future. Therefore, this research concludes that there is a lack of action by the banks in addressing the mortgage arrears crisis and the level of SME support is hindering Ireland's economic recovery.

5.4 Recommendations of this research

Recommendation 1:

This research recommends due consideration should be given to conducting a revision of CCMA (2013) with the aim of ensuring it is jointly pro-consumer and pro-prudential.

Recommendation 2:

The Inter-departmental Mortgage Arrears Working Report objectives and recommendations need to be reviewed with a sense of restoring a neutral balance of power between the credit lender and the borrower. In difficult cases, an independent mediator facility should be brought in to chair proceedings.

Recommendation 3:

Macro-Economic development and growth inter-connection between the SME supply side and the redress of the internal demand side should be addressed jointly. To address this phenomenon, the Minister for Finance should address the cost of credit interest rate premiums with the Head of the ECB. SMEs not only need to be able to produce their products and services at a competitive price, they also need to be able to sell their labours within the Irish market to generate profit and employment. Therefore, affordable and sustainable financial arrears solutions need to be extended out to include other consumer banking products such as overdrafts, credit cards and to incorporate non-banking non-secured debt.

Recommendation 4:

All personal consumer and SME business restructured loans should be considered as new signed loan agreements and stress tested at a minimum of 200 basis points.

Recommendation 5:

The State should consider the establishment of business administrative classes for SMEs to enable the understanding of movement of cash within their business. Book-keeping administrative programmes should be developed through a consultation process involving the CRO, MABs and Solus.

Recommendation 6:

This research strongly recommends that all banking officials employed within the risk governance function disciplines, depending on rank, at minimum, complete a professional diploma in banking risk management similar to the Professional Diploma in Compliance. In addition, line management should possess a post-graduate qualification within Credit Risk Management and Treasury, Compliance, Operations, Finance and Ethics to enable a better understanding of ethic and risk management and awareness.

Recommendation 7:

This research recommends that Local County Council should be given primary dwelling housing MTR targets. Local council ought to be provided with guidelines developed in conjunction with the Department of Finance, the Department of Social Protections and the Central Bank of Ireland. It is also strongly suggested that the Department of Social Protection monitor and track the progress of the Local County Councils.

Recommendation 8:

This research acknowledges the lack of financial competition within the market. Although the Irish economy is in a fragile recovery, this research recommends the Department of Finance should consider the creation of SME Centres, which would be similar in orientation to Germany and Switzerland.

Recommendation 9:

As a response to the Dublin property shortage this research recommends the State should take into account NAMA property stock with a view to encourage foreign investment and make available for new residential buyers.

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Appendixes

Appendix 1: Self Reflection on Learning & Skills Development

Introduction and Rationale for this research

This section of the paper is for the author to reflect upon her learning skills acquired and or enhanced by attending the Dublin Business School MSoc International Banking and Finance and completion of Dissertation. The researcher is currently employed in one of Ireland's pillar banks and has professional expertise in the Operational Risk and Compliance disciplines.

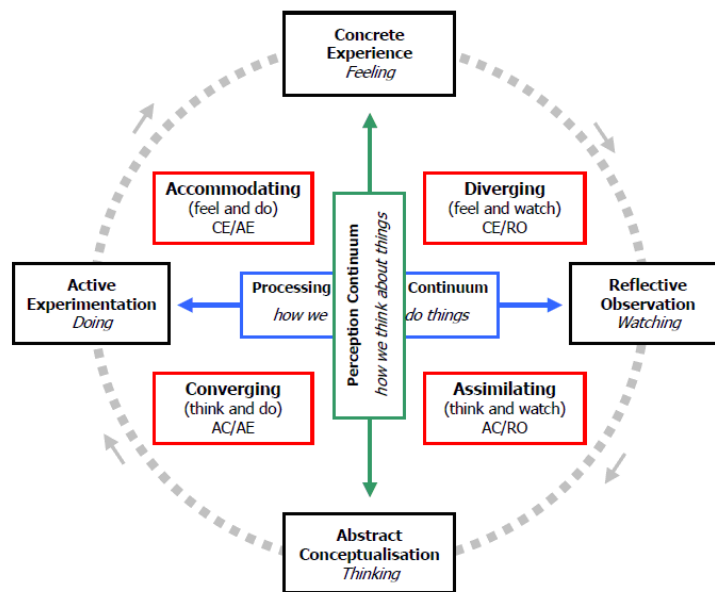
Prior to commencing the MSoc, the author was enrolled on a Post Graduate in the Financial Services Diploma; five of the six modules have been successfully completed. The final module was put on hold until completion of this Dissertation. The author has attained the Professional Diploma in Compliance and an honours Bachelors degree in Social Science, which has influenced her in selecting this research topic from an economic and social perspective.

To fully reflect her learning and development skills it is important to identify and analyse the theoretical foundations of the learning styles and how the author can relate their application within her working environment from a practical perspective.

Adult Learning Styles and their application

In 1984, Kolb, introduced the Experiential Learning Theory (ELT) as 'a holistic model of the learning process as a multi-linear model for adult development' (Kolb, 1999, p.2). Kolb's ELT model of learning suggests the learning processes involve a four stage adaptive learning modes of i) concrete experience (CE), ii) reflective observation (RO), abstract conceptualisation (AC), and active experimentation (AE). These dialectical modes are illustrated in Figure 6.1.

Figure 6.1: Kolb's Learning Styles



© concept david kolb, adaptation and design alan chapman 2005-06, based on Kolb's learning styles, 1984
Not to be sold or published. More free online training resources are at www.businessballs.com. Sole risk with user.

Source: Businessballs.com

Kolb, in 1971, originally identified four original prevalent learning styles (also known as the learning style inventory [LSI]). These are the-Diverging, Assimilating, Converting, and Accommodating styles. The LSI was developed from research and clinical observations. The following is a summarisation of Kolb LSI and ELT styles. The LSI is cyclical; therefore, a student (young or mature) can commence learning at any point.

Diverging: This learning style is dominated by the (CE/RO) experiential learning that benefits viewing a project or task from different angles. This style is good for people who like to brainstorm; such people would be well suited for a Project Management role.

Assimilating: Employees or students prefer the (RO/AC) watching and thinking styles, such people would most likely be analytical in nature and possess the ability to grasp a wide variety of information and transform it into a concise logical action plan or report.

Converging: A learning style suited to people who are thinkers (AC) and doers (AE). These people by nature are practical at finding workable solutions for something by employing their learnt theories and ideas; such people have the ability to resolve issues and work best in technical thinking environments.

Accommodating: People with this learning style mix are feeling (CE) and are doers (AE) and are content in working in groups, preferring to learn from hands on experience. They are active in nature and are not prone to analysing a situation themselves. They rely on their gut instinct and act without giving due consideration for the consequences of their actions. They are the risk takers; such people are ideal in sales and marketing roles.

(Kolb, 1984 and 1999)

First published in 1982, Honey and Mumford's adaptation of David Kolb's Learning Styles asks the question why people respond differently to learning. The answer - suitability of learning styles differs according to the person. According to Honey & Mumford, knowledge is comprised of insights, revelations and facts, which can be taught through a formal educational system setting such as lectures, books, the internet, etc. People also learn through their experiences, for example, if a child placed their hand in a fire, the experience would teach them that the outcome is painful and not to be tried again.

The key is to come to understand the learners learning style preference in which four approaches or behavioural styles have been identified, i) the Activist, ii) the Reflector, iii) Theorist, and iv) the Pragmatists. The Learning Style Questionnaire was introduced in 1982 to identify what type of learner the student/employee is and how best suited they are to education and business programmes.

The Activist is a person who initially engages fully in new learning, new innovation and new experiences without partiality. They are essentially enthusiastic about the new and tend to try something once and consider the consequences after the action. Act now and ask for forgiveness later. Activists bore quickly. They are risk takers.

A Reflector, in contrast, is an observer who prefers to watch and learn. They gather the information, reflect on the data thoroughly, arrive at a conclusion and then they engage. They are 'cautious' by nature and consider all angles of a situation past, and present. They are listeners; they ponder and tend to adopt a low profile in meetings within engagements. They work best when they are given time to assimilate information to analysis data and generate reports.

Theorists are committed to adapting and integrating their observations into complex but logically theories or reports. They tend to be perfectionists and issues are resolved logically. They are 'analytical and dedicated to rational objectivity' what does not fit into a model is rejected (Honey and Mumford, 1992, p.24).

The Pragmatists are practical and down to earth. They search and try out new ideas and techniques to resolve a situation; they are open minded people. They receive problems as a challenge and an opportunity.

On commencing the MSoc International Banking & Finance, the researcher was not aware of her learning style preference(s). The author completed the Honey and Mumford Questionnaire, which is available in Appendix 9. The author's scores are Reflector (20), Pragmatist (16), Theorist (14) and Activist (4). The author is analytical in nature and prefers to review items from different angles within an historical, present and potential future perspective.

The epistemology is concerned on how individuals come to know, how knowledge is constructed and how knowledge is evaluated. Hardy and Holhurst, (2012) contend there is no unified terminology in this field of research stereotype students into set learning styles. It is better to present information in variety of different forms to accommodate the needs according to Curry (1990) and Scott (2010).

Holtbrugge & Mohr (2010) study cites that homogeneity of cultural values exists within the individual's learning style preferences. Education management has evolved into a global phenomenon and has failed to address the mixing of cultures according to Hardy and Holhurst (2012). Their critique highlights that higher academic programme learning styles are infused in Western or Anglo-American cultural beliefs. This may impact upon students from different cultures and beliefs. The Dunn and Dunn research had found that students from different cultures prefer the Visual, Auditory and Kinesthetic (movement) (VAK) approach to learning development. Rita and Kenneth Dunn contend learning can be accelerated through the VAK sensory receivers. A study by Penger and Tekavcic (2009) tested Dunn & Dunn's and Honey & Mumford's learning style theories and found that both theories are applicable to successful students' learning styles.

Honey and Mumford's and Dunn & Dunn's learning styles can be applied to the banking business environment. In Ireland's recovering economy, taken in conjunction with the continued restructuring of the banking system, task groups are formed to deal with the ever changing environment. To implement the changing regulatory and technology environments requires representatives from each areas of the business with different business practices, experiences, cultures and leaning styles preferences to implement banking procedures within an interconnected global financial platform.

Reflections on completing the Dissertation process

Time Management

Time management is often overlooked as a skill and is the most effective devices to developing one's career. Mancini's (2003) 'Time Management' is a practical guide for efficient time management for one's own personal use and the efficient time management of others. 'Time is infinite', however, getting something or a number of things down requires a timeframe in when the task is to be accomplished.

Time management for completing this research project was required from three fronts. Time was required from i) professional working capacity, ii) an education and research capacity and iii) from a personal perspective. All fronts had little elasticity and had to be juggled from a professional employment side. Therefore, where work and education obligations overlapped, planning and negotiation was required. The author essentially learned how to use her time and other's time more effectively to meet deadlines. This involved taking time-off of work via annual leave to accommodate interviewees. However, unforeseen tragic personal events did arise and these could not be overlooked by the author.

Managing the required time for the literature review research for this research topic was challenging. Time required to summarise the specified word count was demanding. From October onwards current information and departmental reports surrounding this topic became available and was not foreseen by the author selecting this research topic.

Communication and negotiating skills

The ability to be a good communicator is essential in every sphere of life and it enhances one's career prospects and personal goals. The author came to realise that her learning styles are highly dominant within the Reflector, Pragmatists and Theorist learning styles which conflicts with the highly active business roles. From the author's educational history, she has quite a broad and in-depth risk management and awareness base which overlaps with the business and therefore tended to provide too much additional insight into the business risk exposure that both the risk management disciplines and business don't understand or could identify. Therefore, the author has learned to streamline information and identify issues while highlighting regulatory codes and identifying gaps within the banking process procedures. It is always good idea to present an issue with a solution or where one could start to address the issue(s).

Ethics, Corporate Governance and Corporate Social Responsibility

In today's economic climate, integrity is a prerequisite for good governance. According to Tricker (2009), integrity is the primary criterion of every company director. Integrity implies that one acts

honestly and in the best interest of the company. The board of directors are to act as the moral conscience of the company. This implies that the board of directors not only adheres to the letter of the law but are seen to be operating within the 'spirit of law'. The Financial Reporting Council (FRC) Code was introduced in March 2011 and acts as a guide to a number of key components to facilitate good board governance practices. PricewaterhouseCooper identifies Corporate Social Responsibility (CSR) as being integral to what they do. It is an inherent part of their core business.

Has the researcher's awareness of ethical implication, CSR and Corporate Governances been enhanced since starting this Master's Dissertation? The answer is an unquestionable 'yes'. This has been illustrated through the realisation that MARP has a flaw. In a nutshell, if the borrower voluntarily sells their residency or engages in a negative equity trade-down or is considered as not cooperating, then they are outside of MARP. On repossession of a non-cooperating mortgage borrower's residency, the mortgagor is liable for the residual debt unless the borrower is declared bankrupt. In a fragile recovering economy, one has to ask the question of whether this is ethical. Where is the integrity in this line of thought, especially where dependent children are involved?

Critical thinking

Critical thinking is the synthesis of a number of factors which allow the researcher or employee to analysis and evaluate events, theory and or what is being said in order to identify the gaps or flaws within something (Paul, 2003). According to Glasner, critical thinking is comprised of three elements i) an attitude or way of thinking on something that comes with a range of experiences, ii) a knowledge base that is built on the foundations of logical inquiry and 3) acquired skill to apply the methods (in Karakas, 2010).

Critical thinking, from the author's perspective, was an essential component when researching and compiling this Master's Dissertation. It is also a top requirement within the author's risk management business roles, particularly within the areas of where project/product management, operations and risk management are involved. It is vital in the financial industry to raise questions, identify problems and seek appropriate sustainable ethical solutions. This implies relevant information must be thought out formally and abstractly, gathered and assessed (tested and compared). Analysis of data and construction of reports must be purposeful and applicable to the relevant regulatory and business frameworks and standards.

The author has benefited greatly from enhancing this questioning and exploratory skill, as she finds herself questioning responses to answers provided within an interview or meeting setting.

Additional Reflections on learning and future practice

The central reason behind the choice the MSoc in International Banking and Finance was to secure an accreditation, to gain practical knowledge and solid foundation around the interconnectivities of finance, the International Market, in conjunction with national and international regulations and their associated codes. The overlapping integration of risk management awareness into the business structures cannot take place overnight or through the achievement of a level 5, 6 or 7 qualifications. A higher accreditation is required, which I believe this programme has provided me with this.

This programme has provided the author with additional knowledge surrounding the circumstances on the introduction of the Basel III and CRD IV directives and how their introduction relates practically to the overlapping of CSR, board governance, Compliance, Operational Risk, Ethics and Operations Management within the areas of Finance, International Banking & Markets, Treasury and Risk Management and Macro-Economics modules was immense.

Knowledge of both Kolb's, Honey and Mumford's and, particularly, the Dunn & Dunn's VAK enable the author to see her own strengths and weakness in learning while being able to detect strengths within her colleagues who come from different cultures and business practices and who hold different understandings to the author.

In relation to future education prospects, the author feels that this research is only beginning and needs to be expanded upon. On successful completion of this Masters, it may enable the author to identify a possible PhD research proposal.

Last but certainly not least I would also like to take this opportunity again to deeply thank the interviewees who generously afforded me their time, expertise and insights during this research to whom I am greatly appreciative. I am also indebted to my supervisor Michael Kealy and all of by lecture who assisted me on this journey. Thank you!

Appendix 2

Survey Questionnaire

A Lack of action and adoption of lesson learned from Japan & American by the Domestic Irish Banks is impeding Ireland's Economic Recovery

1) Are you a member of the banking staff?

Please tick box Yes or No

Yes

No

2) Are you an outsourced service provider?

Please tick box Yes or No

Yes

No

3) Job Description: From the following list please select the category that best describes the area where you work in.

Please tick the relevant category

Arrears Support - Customer

Arrears Support - Business (SME)

Business Operations

Commercial (SME) Lending

Corporate Lending

Retail Lending

Customer Service

SME Leading (to include Finance & Leasing)

IT

Investment (Funds)

Lending

Mortgages

Risk Management

Treasury & Financial Accounting

Sales

Other

4) How long are working in your current role?

Please enter the number of years.

5) If you are bank staff how long are working with your current bank?

Please enter the number of years.

6) If you are an agency service provider how long are working with your current bank?

Please enter the number of years.

7) Over your career history, how many years have you worked in the financial sector?

Please tick the relevant category.

0 - 4 years

5 - 10 years

11 - 17 years

18 - 25 years

18 - 25 years ____

26 years and over

8) The role that you are working in it is a good place to work in right now.

Please tick the relevant category.

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

9) You been received adequate training for your current role?

Please tick the relevant category.

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

10) What is your education attainment level?

Please tick the relevant category.

11) You been received adequate training for your current role?

Please tick the relevant category

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

Section C – If you work in the area of Arrears Support (Mortgage Arrears) please complete this section. If you work in Business Arrears Support please go to section D. Thank you.

Option 1

12) You are comfortable discussing a borrower SFS with them (the customer)?

Please tick the relevant category

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

13) In general, do the customers supply the correct facts (information)?

Please tick the relevant category.

High

Medium

Normal

Low

14) In your opinion, customers not co-operating within the assessment process is due to?

Please tick the relevant category.

a lack of understanding

assistance needed

stressed / depressed

disagrees with the process

15) If you are in banking, do you have a timeframe (in business days) to assess the proposal?

Enter the number of days.

16) If you are not in banking, what is the timeframe (in business days) a borrower has to have the SFS (Standard Financial Statement) complete the proposal?

Enter the number of days.

17) On average what is the maximum number of business days that you can assess (leave open) a borrower's SFS?

Enter the number of days.

18) Are you involved within the compromise settlement process?

Tick Y for Yes or N for NO

Yes

No

19) Who determines what Mortgage Arrears Solution is best suited for the customer?

Please tick the relevant category.

Yourself

Your manager

Senior Manager

Other

20) Are you involved in the process for identify the appropriate MARS (Mortgage Arrears Resolution Solution) process?

Please tick Yes or No

Yes

No

21) To your knowledge Is there an automated solution in place

Please tick Yes or No

Yes

No

Section D – If you work in Business Arrears support please complete the following questions. Thank you.

22) In general, do the customers supply the correct facts (information)?

Please tick the relevant category.

High

Medium

Normal

Low

23) ISME report that SMEs are not inclined to submit a credit application for fear of the application being declined. Do you agree with this statement?

Please tick the relevant category.

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

24) In your opinion (based on your experience) do you feel SME loans are being actively managed?

Please tick the relevant category

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

24) In your opinion (based on your experience) do you feel SME loans are being actively managed?

Please tick the relevant category.

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

25) Michael Noonan, in an Irish Times article (07/05/2014) 'has dismissed concerns about the level of SME debt carried by Irish businesses ... "The SMEs are being sorted out." Bank of Ireland say they have over 90 per cent of the SME debt restructured and AIB claim they have 65 per cent restructured'. In your opinion (and from your experience) do you agree that the SME debts are sorted?

Please tick the relevant category.

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

26) Professor Morgan Kelly has warned that the level of SME banking debt is a 'ticking time-bomb' (€8.6 billion loans are in 90 days arrears and ECB stress tests later this year, which would trigger widespread company failures and herald a surge in unemployment). Do you agree with the above statement?

Please tick the relevant category.

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

27) Is the number of SME declined credit applications increasing?

Please tick the relevant category.

Strongly agree

Agree

Neutral

Disagree

Strongly disagree

28) In your opinion, what is the main reason for SME credit applications?

Please tick the relevant category.

Strongly agree –Keep the business Open

Agree - Pay creditors

Neutral - Daily operations / working capital

Disagree – for investment purposes / business expansion.

Strongly disagree

Thank you for your taking the time to complete this questionnaire.

Appendix 3

Semi Structured Interview Template

'Has a Lack of action by the Domestic Irish Banks hindered Ireland's Economic Recovery?'

Interview: _____ Date: _____ Location: _____

Section I - Staff Training & Awareness

- 1) Are your staff, bank staff or agency staff?
- 2) Do your staff have experience in lending and arrears management?
- 3) What is the break down between banking and agency staff?
- 4) Are your Staff properly accredited to give advice to financially distressed borrowers?
- 5) What is the staff attrition rate?

Section II – Staff Engagement

- 6) What processes are in place to engage with the customer?
- 7) In your opinion, what defines a customer as 'not co-operating'?
- 8) According to MABS, their clients require more time and assistance in completing the application form. If requested are such customers provided with additional time and assistance?
- 9) According to MABS some customers are unable to complete the SFS form due to depression, illness or some customers maybe are illiterate. What is your experience of this to date?
- 10) In your experience how does the bank facilitate such customers?

Section III- Arrears Support (Mortgage Arrears).

- 11) Post the blanket Bank Guarantee are there area not identified by the banks and CBI that were not identified but require tighter fiscal management?
- 12) Are their issues that you are aware of that require more attention?
- 13) The PCAR Blackrock stress test on residential mortgages estimated a written off exposure of €16 billion on Irish domestic banks residential mortgages over a 3 years timeframe, with an estimated €9 billion written off by 2013. In 2014, under the current austerity environment do you think Blackrocks estimates were accurate?
- 14) In your opinion, is 'Austerity Ireland' with the increase in VAT, property tax, universal health insurance, private insurance premiums, and soon to include water charges are these impacting a customer's ability to make repayments?
- 15) Are these taken into account during assessment process?
- 16) **In general, do the customers supply the correct facts (information)?**
- 17) In relation to CCMA products, in your opinion, has the government placed realistic criterion on the bank(s) to meet in relation to CCMA products?
- If yes / no please elaborate
- 18) According to the Minister for Finance the number of mortgages in arrears are decreasing, what is your experience?
- 19) Is the best suitable product type determined manually, automatically generated, or, through both mechanisms?
- 20) In your opinion are the CCMA MARS products available suitable to meet the needs of distressed borrowers? Should they be amended to suit the borrowers' financial circumstances?
- 21) From 2012 there have only been 40 Mortgage To Rent solution implemented why is this?
- 22) If a tracker mortgage holder wants to trade up or trade down and wants to keep their tracker mortgage are they allowed to keep their tracker mortgage?
- 23) Tracker mortgage losses between short term and long term debt obligations how is this short fall being resolved?
- 24) What is the number of repossessions for bank X to date? – This question may not be applicable.
- 25) What is the breakdown between voluntary and involuntary repossessions?

26) According to David Hall sale of repossessed houses only covers the cost of the sales and fees. In your opinion, is this true?

27) In the case of Voluntary Sales for loss or repossession what happens if there is a deficit or surplus after the sale?

28) In the event of VSFL or Repossession of a family residential property is the Dept of Social Protection notified by the bank?

29) In your opinion, would it be better to wait until the property market rebounds prior initiating repossessing or VSFL process?

30) What percentage of your customers' have received a write-off to date?

31) Can the bank recouped losses going forward? - This question may not be applicable.

Section IV - SME Arrears Support.

32) In your opinion did NAMA benefit or harm the bank/economy?

33) Overall what is the main reason for SMEs credit applications?

34) Are these credit loans normally guaranteed and do they some form of collateral attached?

35) What are your thoughts on loan write offs for SMEs in financial distress?

36) When assessing credit applications for SMEs are viable business separated from a non-viable business?

37) Do you feel that the Central Bank of Ireland is not putting enough pressure on the regulated domestic banks to lend to semi / non-viable companies?

38) According to the Michael Noonan, Minister for Finance, SMEs in arrears is far down his list of priorities, should he be concerned?

39) In your opinion, is there a need for the government to take some kind of action in the increasing number of SMEs that are now in arrears?

40) According to an Inter Trade Ireland's survey the demand for credit is at its lowest level since 2010. They have identified banks as being very lax in disentangling themselves from short term financial solutions, what is your opinion on this comment?

41) Concerns have been raised (by ISME, David McWilliams, etc.) that when the economy begins to rebound productivity will be derailed by a deficit in the supply side – has this issue / concern been expressed?

42) From your experience what are the main drivers that cause the SMEs go into arrears?

- I. Trade and other receivables?
- II. Stock inventory days?
- III. Sales Revenue to Capital employed? ROA?
- IV. Gearing?
- V. Other, please elaborate

43) What types of restructure methods would be implemented?

44) Loan accounts applications in arrears are they partially sanctioned with a higher interest rate?

45) Are these accounts actively monitored by an assigned relationship manager?

46) What percentage of SME accounts have been restructured to date?

47) What percentage of these account been provisioned for?

48) What percentage or value of loans has been write-off?

49) Professor Morgan Kelly has warned that the level of SME banking debt is a ‘ticking time-bomb’ (€8.6 billion loans are in 90 days arrears and ECB stress tests later this year, which would trigger widespread company failures and herald a surge in unemployment). Do you agree with the above statement?

50) What percentage or there about is there for SMEs in loan arrears seeks additional credit?

51) Brian Lucey has recommended that an arbitration process be established, initiated by either the bank or the business and facilitated by an independent arbitrator to reach a compromised in outstanding debt. What are your thoughts on this?

52) Brian Lucey recommends that losses sustained by the banks can be credited through issuing new NAMA bonds. What are your thoughts on this suggestion?

53) Does the bank have a better solution in place?

54) Is there an area that I have not touched on that you would like to comment on?

Section V - Risk Management

55) For internal risk measurement and management processes what risk do you mostly associate with credit (and interest rate) risk?

56) How do you define the risk of loss resulting from loan defaults?

57) Is credit risk one of your top 3 most significant risk exposures?

58) In general, what would you consider to be the most prominent tail risks to credit (and interest rate) risk?

59) Are these risks related to time horizons e.g. short term debt (bond) to long term debts (borrowers) e.g. mortgages or 10 year loans?

60) Stress tests: How often are the SME and Mortgage credit portfolio stress tested?

61) Are reverse (Blackswan) stress testing employed?

62) How often is a look back test approach taken?

Thank you for time and experience it is very much appreciated!

Appendix 4

Semi Structured Interview Transcript: 1

'Has a Lack of action by the Domestic Irish Banks hindered Ireland's Economic Recover?'

Interview: 1

Date: 15th July, 2014

Location: City Centre Dublin 1

Section I - Staff Training & Awareness

Interviewer

1) Are your staff, bank staff or agency staff?

Respondent

- Bank Staff

Interviewer

2) Do your staff have experience in lending and arrears management?

Respondent

- Yes

Interviewer

3) What is the break down between banking and agency staff?

Respondent

- All bank Staff

Interviewer

4) Are your Staff properly accredited to give advice to financially distressed borrowers?

Respondent

- Majority. Where not accredited, scripting must be used

Interviewer

5) What is the staff attrition rate?

Respondent

- Steady attrition with a number of staff moving to other institutions given the demand that exists for collections staff

Section II – Staff Engagement

Interviewer

6) What processes are in place to engage with the customer?

Respondent

Customers are initially contacted by letter with follow up calls. Where we are unable to make contact, a visit can take place to property but only after all other avenues have been exhausted and before possibly classifying them as not cooperating under CCMA.

Interviewer

7) In your opinion, what defines a customer as ‘not co-operating’?

Respondent

Where a customer refuses to engage or engages but not in a meaningful way that will attempt to address the problems that exist.

Interviewer

8) According to MABS, their clients require more time and assistance in completing the application form. If requested are such customers provided with additional time and assistance?

Respondent

Yes. But it is important that issues are dealt with speedily as the arrears will continue to grow and the customer suffers.

Interviewer

9) According to MABS some customers are unable to complete the SFS form due to depression, illness or some customers maybe are illiterate. What is your experience of this to date?

Respondent

I have not come across this in my time.

Interviewer

10) In your experience how does the bank facilitate such customers?

Respondent

We have a process in place to help people who are deemed vulnerable. We can complete an SFS verbally and accept their verbal signature. We would also encourage a third party to attend to assist the customer.

Section III- Arrears Support (Mortgage Arrears).

Interviewer

11) Post the blanket Bank Guarantee were there areas identified that required tighter fiscal management? Short term and unsecured debt is a major concern and a real issue for mortgage related debt.

Interviewer

12) Are their issues that you are aware of that require more attention?

Respondent

As above.

13) The PCAR Blackrock stress test on residential mortgages estimated a written off exposure of €16 billion Interviewer on Irish domestic banks residential mortgages over a 3 years timeframe, with an estimated €9 billion written off by 2013. In 2014, under the current austerity environment do you think Blackrock's estimates were accurate?

Respondent

Unable to answer this question

Interviewer

14) In your opinion, is 'Austerity Ireland' with the increase in VAT, property tax, universal health insurance, private insurance premiums, and soon to include water charges are these impacting a customer's ability to make repayments?

Respondent

Yes without question

Interviewer

15) Are these taken into account during assessment process?

Respondent

Yes and we would look to see reference to them in the SFS

Interviewer

16) In general, do the customers supply the correct facts (information)?

Respondent

- No. It is not that they lie but may not include everything due to communication between partners, forget certain expenditure etc...
- They may just not have all expenditure documented which may have caused problem initially.

Interviewer

17) In relation to CCMA products, in your opinion, has the government placed realistic criterion on the bank(s) to meet in relation to CCMA products?

Respondent

- CCMA 2013 has been an improvement to CCMA 2011.
- SFS should be updated to make it a bit easier to complete.
- The inability to make a property visit until such time as customer may be deemed not co-operating is restrictive and should be amended.

Interviewer

18) According to the Minister for Finance the number of mortgages in arrears are decreasing, what is your experience?

Respondent

- I would agree.
- new cases are slowing but longer term and more complex cases still exist.

Interviewer

19) Is the best suitable product type determined manually, automatically generated, or, through both mechanisms?

Respondent

Both. We have a system that guides the decision making process but it only acts as a guidance and can be overridden based on individual circumstances of the borrower.

Interviewer

20) In your opinion are the MARS products suitable for your customers' circumstances? Can they be amended to suit the borrowers' financial circumstances?

Respondent

Yes. I feel we offer a wide range of products, with some very innovative products.

Interviewer

21) From 2012 there have only been 40 Split mortgages implemented why is this?

Respondent

Possibly systems issue as banks may not be able to set up deal properly. Also we have a product that could be argued is similar to Split but may do a better job

Interviewer

22) If a tracker mortgage holder wants to trade up or trade down and wants to keep their tracker mortgage are they allowed to keep their tracker mortgage?

Respondent

I am not involved in this area so cannot comment.

23) Tracker mortgage losses between short term and long term debt obligations how is this short fall being resolved?

Interviewer

24) What is the number of repossessions for bank X to date? Unable to give figure as not involved in this area.

Respondent

According to CBI statistics, there were 1014 properties in the banks possession at the beginning of Q1 2014.

Interviewer

25) What is the breakdown between voluntary and involuntary repossessions?

Respondent

Unable to answer

Interviewer

26) According to David Hall sale of repossessed houses only covers the cost of the sales and fees in your opinion is this true?

Respondent

Dependant on a number of factors but would suggest this statement could be challenged.

Interviewer

27) In the case of Voluntary Sales for loss or repossession what happens if there is a deficit or surplus after the sale?

Respondent

Borrower is liable for deficit and based on individual circumstances may be pursued for debt.

Interviewer

28) In the event of VSFL or Repossession of a family residential property is the Dept of Social Protection notified by the bank?

Respondent

Unable to answer as not involved in this area.

Interviewer

29) In your opinion, would it be better to wait until the property market rebounds prior initiating repossessing or VSFL process?

Respondent

It is very dependent on individual circumstances. This may prolong the problem and go against CBI targets of getting in place sustainable solutions.

Interviewer

30) What percentage of your bank' s customers' have received a write off to date?

Respondent

Unable to answer as not involved in this area.

Interviewer

31) Can the bank recouped going forward?

Respondent

As above.

Section V - Risk Management

Thank you for time and experience it is very much appreciated!

Appendix 5

Semi Structured Interviewer Transcript 2

'Has a Lack of action by the Domestic Irish Banks hindered Ireland's Economic Recovery?'

Interview: 2
Centre Dublin 1

Date: 17th July 2014

Location: : City

Section I - Staff Training & Awareness

Interviewer

1) Are your staff, bank staff or agency staff?

Respondent

NA

Interviewer

2) Do your staff have experience in lending and arrears management?

Respondent

NA

Interviewer

3) What is the break down between banking and agency staff?

Respondent

NA

Interviewer

4) Are your Staff properly accredited to give advice to financially distressed borrowers?

Respondent

- An accreditation process is in place.
- MABS people go to the University of Ulster.

Interviewer

5) What is the staff attrition rate?

Respondent

- Low attrition rate

Section II – Staff Engagement

Interviewer

6) What processes are in place to engage with the customer?

Respondent

- We deal with over 50,000 per year, ...
- There are 60 MABs offices nationwide.

Interviewer

7) In your opinion, what defines a customer as 'not co-operating'?

Respondent

- We have difficulties with this because some customers are not cooperating as they feel they can get away with what they owe.
- In our experiences most people who are not cooperating have difficulties may be depressed or have other numeracy difficulties,
- find it very difficult to interface with creditors.

Interviewer

8) According to MABS, their clients require more time and assistance in completing the application form. If requested are such customers provided with additional time and assistance?

Respondent

- We made it clear to the Central Bank ... the process was as important as the filling out the document
- people are being put under huge pressure to fill in an SFS sometimes over the phone

also wonder about the accuracy of the values that are entered into under those circumstances.

Interviewer

9) According to MABS some customers are unable to complete the SFS form due to depression, illness or some customers maybe are illiterate. What is your experience of this to date?

Respondent

- Absolutely! Yes, there is huge sensitivity around where the clients are relation to the Code.
- We meet people who have already completed an SFS and when we do an evaluation of their circumstances and we find that the values are very, very different
- the values can either show that the mortgage is not sustainable in some instances where the value change show that the mortgage is sustainable.
- So really the bank is working on an SFS that is not telling of the facts as they are.

Interviewer

10) In your experience how does the bank facilitate such customers?

Respondent

- the bank doesn't really facilitate those customers
- age profile experience and instructions are very inadequate and not focused
- facilitation of customer's with psycho-social issues varies from bank to bank, from individual to individual and is also depends on the life experience of the Arrears Support bank official dealing with the case.

Section III- Arrears Support (Mortgage Arrears).

Interviewer

12) Are their issues that you are aware of that require more attention?

Respondent

- We felt that the CCMA when it was changed in 2013 was more pro-bank than pro-consumer and we feel that issues require more attention.
- We know that the liquidity of the bank is important but also the psycho-social impact on people who are in mortgage difficulty must also be brought into the equation and a balance must be had between both.
- Targets have been set by the Central Bank of Ireland and don't appear to be concerned with the social aspects.

Interviewer

13) The PCAR Blackrock stress test on residential mortgages estimated a written off exposure of €16 billion on Irish domestic banks residential mortgages over a 3 years timeframe, with an estimated €9 billion written off by 2013. In 2014, under the current austerity environment do you think Blackrock's estimates were accurate?

Respondent

- There are a few issues involved
 1. the stress test draws on the liquidity of the banks and therefore the flexibility to the bank to deal with the mortgage issue maybe over a longer timeframe and with more flexibility in what products they offer.
 2. A new review should be undertaken and banks should be encouraged to do a deal.

Interviewer

14) In your opinion, is 'Austerity Ireland' with the increase in VAT, property tax, universal health insurance, private insurance premiums, and soon to include water charges are these impacting a customer's ability to make repayments?

Respondent

- Clients' no longer have the capacity to carry the burden.
- We feel that the pressures that are being put on people over the 5 or 6 years with no increase in income put more pressures on that income leaving their ability to manage even mortgage payments
- without those extra charges may have been able to have been to cope.

Interviewer

15) Are these taken into account during assessment process?

Respondent

No oversight.

Interviewer

16) In general, do the customers supply the correct facts (information)?

Respondent

- Here verification is very important. In the past I don't think there was enough at all oversight from now on verification of all facts must become part of the process and of course.
- It was lack of verification that probably that people who now find that their mortgages are unsustainable and that was part of the issue.
- Some clients are deliberately delaying the process in order to get a better deal. These people are not the majority. They are a very small percentage.
- The vast majority who supply incorrect fact do not understand the process and require extra assistance. These people want to be fully engaged with the process.

Interviewer

17) In relation to CCMA products, in your opinion, has the government placed realistic criterion on the bank(s) to meet in relation to CCMA products?

Respondent

- It is good to have a process with regard to the resolution of mortgage debt,
- I feel that it is more prudential orientated than consumer orientated and I feel that more pressure should be placed on banks to be more consumer orientated
- more focused on keeping in their own home rather than on the liquidation of asset.

Interviewer

18) According to the Minister for Finance the number of mortgages in arrears are decreasing, what is your experience?

Respondent

- From 2009 to 2012 client base has increased to 50,000, austerity budgets have lead to the increase, people that has the capacity to cope their mortgage repayments are no longer able to afford their repayment due to the austerity budgets and increased direct and indirect taxes.
- Our clients with mortgages are not all in difficulty but client with mortgage difficulties ... near 50% of our client base.
- Mortgage arrears maybe decreasing mainly because there're two factors here: (1) is the economy is increasing, and (2) people are gaining jobs and also mortgages that were in

arrears have reached agreements with their creditors and therefore it wouldn't be in the arrears slot any more.

- If numbers have decreased they have slightly decreased.

Interviewer

20 C) In your opinion, do the CCMA MARS products meet the needs of distressed borrowers? Should they be amended to suit the borrowers' financial circumstances?

Respondent

- in some instances some creditors could be more flexible in what they are offering to meet the needs of the borrowers
- mortgage to rent is something that should be looked at and also inter-generational mortgages and also the people that continue even into their retirement maybe have to pay a mortgage interest only.

Interviewer

25) What is the breakdown between voluntary and involuntary repossessions?

Respondent

- we feel that consumers are at a real loss here and that there is a huge imbalance between creditor and debtor a power balance between creditor and debtor.

Interviewer

26) According to David Hall sale of repossessed houses only covers the cost of the sales and fees in your opinion is this true?

Respondent

He is probably right! And you would wonder what is driving this train? Is it a liquidity issue or is it trying to meet the target issue from the central bank? What is driving this train?

27) In the case of Voluntary Sales for loss or repossession what happens if there is a deficit or surplus after the sale?

Interviewer

28) In the event of VSFL or Repossession of a family residential property is the Dept of Social Protection notified by the bank?

Respondent

There is no over all forum. PDH borrowers are encourage to contact the Dept of Social Protection. The banks should be focusing on the community and bringing industry into the community.

Interviewer

29) In your opinion, would it be better to wait until the property market rebounds prior initiating repossessing or VSFL process?

Respondent

- The banks should be looking at a long term solution here.
- OK, there may be some mortgages that should never have been given to anybody
- you would feel that the property market rebounding and the economy rebounding that long term options should be the ones that are given most currency.

30) What percentage of your bank' s customers' have received a write off to date?

Respondent

Very few.

Section IV - SME Arrears Support.

Interviewer

If your area of responsibilities does not include SME credit default please go to Section V – thank you.

Respondent

- Small business have gone to the wall.
- Debt were mostly personally guaranteed.

- Most SMEs do not have business management accreditation and as consequence did not separate their business debts from their daily living expenses.

Interviewer

34) Are these credit loans normally guaranteed and do they some form of collateral attached?

Respondent

- Loans being personally guaranteed.
- Parents had in the past personally guaranteed the loans.
- Inter-generational debt has been created.

38) According to the Michael Noonan, Minister for Finance, SMEs in arrears is far down his list of priorities, should he be concerned?

Respondent

Yes, possibly true as the economy is rebounding, employment is increasing, people through employment have more disposable income.

40) According to an Inter Trade Ireland's survey the demand for credit is at its lowest level since 2010. They have identified banks as being very lax in disentangling themselves from short term financial solutions, what is you opinion on this comment?

Respondent

There is more accountability for SMEs' credit. A larger number of SMEs are accessing credit through money lenders.

Interviewer

41) Concerns have been raised (by ISME, David McWilliams, etc.) that when the economy begins to rebound productivity will be derailed by a deficit in the supply side – has this issue / concern been expressed?

Respondent

Debt size is impacting SMEs' loan applications, collateral is being looked for this could derail Ireland's Economic Recovery

Interviewer

51) Brian Lucey has recommended that an arbitration process be established, initiated by either the bank or the business and facilitated by an independent arbitrator to reach a compromised in outstanding debt. What are your thoughts on this?

Respondent

Hugely important and deserves consideration.

Section V - Risk Management

60) Stress tests: How often are the SME and Mortgage credit portfolio stress tested?

Respondent

Forth coming ECB stress test is believed to be impacting the Banks ability to write-off losses. Post ECB stress test it is perceived that the banks will ease their pro-credit assessment processes and

Thank you for time and experience it is very much appreciated!

Appendix 6

Semi Structured Interviewer 3

'Is a Lack of action by the Domestic Irish Banks hindering Ireland's Economic Recovery?'

Interview: 3

Date: 18th July 2014

Location: Dublin 2

Section I - Staff Training & Awareness

Interviewer

1) Are your staff, bank staff or agency staff?

Respondent

- All my staff are bank officials but not all of them are full-time
- fixed term contractors but that's agency.
- A total of eighty people

Interviewer

2) Do your staff have experience in lending and arrears management?

Respondent

Yes

Interviewer

3) What is the break down between banking and agency staff?

Respondent

All bank Staff

Interviewer

4) Are your Staff properly accredited to give advice to financially distressed borrowers?

Respondent

They are or if they're not they're in the process of being accredited and a result of which they're being MCC supervised.

Interviewer

5) What is the staff attrition rate?

Respondent

- I have very little.
- there's spread around the country where attrition is less of an issue.
- In other teams now it would be a bigger issue particularly Dublin based teams it would very high at times
- You know, which is small relative to other teams in Dublin particularly who aren't able to hold staff.

Section II – Staff Engagement

Interviewer

6) What processes are in place to engage with the customer?

Respondent

- There's a standard process of engagement but timelines and written communication within which you get.
- They're all set in stone.
- it's very much pre-planned and everybody knows what they need to do in terms of customer engagement.

Interviewer

7) In your opinion, what defines a customer as 'not co-operating'?

Respondent

- Well what I would say is there are a couple of maybe examples of that.
- obvious one is somebody that's completely and utterly ignoring your correspondence or your attempt to talk to that. That's the obvious one.

Interviewer

8) According to MABS, their clients require more time and assistance in completing the application form. If requested are such customers provided with additional time and assistance?

Respondent

- So we know they're there as distinct forms, you know, we know the letters or whatever is getting to them but they're just ignoring us. That's the clear and obvious one.
- The other one though is more subtle in that somebody who's drip feeding you information in the clear knowledge that, ... the longer they can kind of remain without having to provide you the full information, the longer, ... we are unlikely to be able to make a decision one way or the other.

Interviewer

9) According to MABS some customers are unable to complete the SFS form due to depression, illness or some customers maybe are illiterate. What is your experience of this to date?

Respondent

- when we send out the SFS we give them twenty days to do it. Now in reality the customer base I'm dealing with are not your multi million euro borrowers.
- an SFS should be, you know, relatively straightforward to them and we actually ... simplified the document itself and you know, took on board some customer feedback in doing that.
- if somebody came back to us and look I'm having difficulty

- we obviously clearly can't really direct them in how to do it because that would be, you know, that would be wrong but we would suggest that they perhaps might get, you know, advice either from a third party or from a professional third party in doing that

Interviewer

10) In your experience how does the bank facilitate such customers?

Respondent

- Well again we would have very little do with MABS and MABS deal with a lot,
- maybe a member of a family would have come back and said that
- We have both a vulnerable customer's policy and we have a distressed customer's policy and we adhere to that very clearly. ... if we got word, for example, that somebody was suicidal, you know. We have a process we have to follow and that's up to and including potentially calling and letting the Gardai know
- if somebody is elderly or if they're suffering from any sort of disability like hearing or sight, we have a policy whereby we're require, you know, somebody of full, you know, full healthy person of their choosing to be with them when we're talking to them.
- there's no suggestion that we would ever try to, you know, get one over on a customer because of the fact that they might be either vulnerable or distressed.

Interviewer

Really answers question 10 saying that do you facilitate these customers?

Respondent

Oh Jesus, absolutely! I mean they're customers of ours and through no fault of their own they find themselves in the positions they are. We obviously have to do it and certainly our intention is not to add their woes, you know.

Section III- Arrears Support (Mortgage Arrears). Interviewer

11) Post the blanket Bank Guarantee were there areas identified that required tighter fiscal management?

Respondent

- sorry I don't work in arrears support ... whereas ... I would deal, for example, with somebody who might have a private dwelling house and two buy-to-lets or an overdraft and a branch loan and two buy-to-let properties.
- I deal with mortgages and branch debt.

Interviewer

13) The PCAR Blackrock stress test on residential mortgages estimated a written off exposure of €16 billion on Irish domestic banks residential mortgages over a 3 year timeframe, with an estimated €9 billion written off by 2013. In 2014, under the current austerity environment do you think Blackrock's estimates were accurate?

Respondent

That's one of the ones that I can't comment on ... it because that's obviously very sensitive information that some of which will come out obviously in the bank's half yearly results.

Interviewer

14) In your opinion, is 'Austerity Ireland' with the increase in VAT, property tax, universal health insurance, private insurance premiums, and soon to include water charges are these impacting a customer's ability to make repayments?

Respondent

Yes, without question. It's a personal opinion but clearly it is impacting on all of us so it clearly is impacting on the more financially stressed customer more so that perhaps somebody who has less, that has no financial problems, you know. I think it is yes.

Interviewer

Yes and would that be factored into accounts?

Respondent

- Oh yes. When we assess somebody's ability or somebody's affordability is the best way of describing it we use a thing called a Ready Recknor which is something that most banks do
- (A Ready Reckner) clearly takes into account, that's updated depending on economic circumstances. ... if there was a significant hike in taxes, well obviously people's disposal income will go down
- if somebody is coming along and they provide you then an SFS that's showing them spending four thousand a month, well then that's you're starting point where you look at well how much a person in the country should be living on? It's three thousand and you're telling us you spent four thousand. Obviously our questions will centre on what's the extra thousand being used for?
- you could find things as simple as, I mean, you know, some people consider that Sky Sports, Sky Movies and you know ... I've seen somebody in a SFS putting down dog grooming, a hundred-and-twenty-five euro a month, for example. ... your dog grooming is something that's not essential

16) In general, do the customers supply the correct facts (information)?

Respondent

- Well we look for a sworn statement of affairs. Sworn in front of the Commissioner for Oaths.
- Now that doesn't mean that the customer still doesn't tell you a lie but it does mean that if we subsequently, they're then lying under oath and if we subsequently find out that they have misled us, then all bets are off.
- Now obviously the Commission for Oaths doesn't verify the accuracy of the information. All they're verifying is, is that the person in front of them is saying this is accurate and that they are the person that they purport to be.

Interviewer

17) In relation to CCMA products, in your opinion, has the government placed realistic criterion on the bank(s) to meet in relation to CCMA products?

Respondent

- any mortgages that would fit within the CCMA are covered and obviously we have requirements in terms of contact and in terms of lets say returning a copy of the SFS to the customer ... is covered under CCMA

- its relatively onerous but do you know it's a process. So once you get a process in place to do it, its relatively straightforward but it is, its like any policy or procedure. It's probably more restrictive than one would wish but it is a policy so we adhere to it.

Interviewer

18) According to the Minister for Finance the number of mortgages in arrears are decreasing, what is your experience?

Respondent

- Again I have a feeling that that probably is sensitive information
- if you consider that question and in yesterday paper the Centre of Bank of Ireland are talking about a big bubble in the mortgage market because of all the cases that are on five years interest only and that are coming to the end of that five year period,
- they're not increasing in any shape or form at the pace they were for obvious reasons

Interviewer

As you said that will be in the half year review?

Respondent

Yes.

Interviewer

19) Is the best suitable product type determined manually, automatically generated, or, through both mechanisms?

Respondent

- In our team its by and large done manually. ...there isn't one which covers all products.
- There is one specifically for mortgage which the Arrears Support Unit use

Interviewer

20) In your opinion are the MARS products suitable for your customers' circumstances?

Respondent

Probably, I just don't know the answer

Interviewer

21) From 2012 there have only been 40 MTR mortgages implemented why is this? Possibly systems issue as banks may not be able to set up deal properly. Also we have a product that could be argued is similar to Split but may do a better job?

Respondent

I don't know

Interviewer

22) If a tracker mortgage holder wants to trade up or trade down and wants to keep their tracker mortgage are they allowed to keep their tracker mortgage?

Respondent

- I know the answer but I can't give it to you at the minute because it's a policy change
- I can say to you that there is a facility, if you have a PDH with a tracker mortgage. You are allowed change house, so trade up or trade down and retain your tracker mortgage with a one per cent premium on it.
- what we do in fact is well allow them keep the tracker for the period of the loan at one per cent.
- Other banks allow them to keep the tracker at one per cent extra for a defined period, let's say five years or whatever. Ours in Bank X2 is way better.

Interviewer

23) Tracker mortgage losses between short term and long term debt obligations how is this short fall being resolved?

Respondent

- Its, I suppose like it's fair to say that the tracker mortgages were probably the worst mistake any bank ever made in introducing them because there was no thought as to how you'd fund it long-term
- we are obliged under CCMA, for example, to retain a tracker on a PDH mortgage. So even if we extend the term on the PDH to resolve the customer's financial difficulties, they have to retain their tracker by law.
- What we can do is in terms of and that's why we extended it in terms of what I answered you in question 22 around but that's still restricted on retaining the house.
- we've introduced obviously the opportunity now to trade up or down and retain the mortgage with a one per cent premium on top of it.
- What is more important? Is it more important to solve the customers long-term financial issues or should we break the tracker if we want to extend, you know, a non PDH debt and I think that's what it's going to come down to.
- you going to suffer a loss for a long-time but get all your money back, essentially all your capital back or are you going break the contract because the customer hasn't met the terms and conditions and up your rate to a standard variable

Interviewer

- **It seems to be dependent on the case?**

Respondent

- that's the whole point of having a standardised kind of principles and rules based approach to doing all this customer treatment irrespective of how much you owe the bank and where you owe it, you will get treated exactly the same and so it takes the subjectivity out of an individual and it makes it much more objective as a result.

Interviewer

24) What is the number of repossessions for bank X to date?

Respondent

- I don't know the answer.

Interviewer

25) What is the breakdown between voluntary and involuntary repossessions?

Respondent

- I don't know

Interviewer

26) According to David Hall sale of repossessed houses only covers the cost of the sales and fees in your opinion is this true?

Respondent

- We're certainly not selling any repossessed houses and only covering the cost of our sales and fees in them.
- what's the point in doing it otherwise. ... there must be a fairly significant chunk of the debt being cleared as well and that will vary depending on where it is located and the debt becomes a property from day one

Interviewer

27) In the case of Voluntary Sales for loss or repossession what happens if there is a deficit or surplus after the sale?

Respondent

- Borrower is liable for deficit and based on individual circumstances may be pursued for debt.
- There is actually a stated policy on voluntary sale for loss for both PDHs and buy-to-let

Interviewer

28) In the event of VSFL or repossession of a family residential property is the Dept of Social Protection notified by the bank?

Respondent

- I'll give you my own opinion now. I'm not aware that that is the case. And I'm not aware there's an obligation either but it is my own opinion.

Interviewer

29) In your opinion, would it be better to wait until the property market rebounds prior initiating repossession or VSFL process?

Respondent

- That kind of, you know, that's like if we had a crystal ball we could answer that question, you know, the market will never get back to the peak it was at.
- I think everyone acknowledges that so anyone that bought at the peak, you know, will never or should never expect to get back to the peak so in real terms ... it's quite a subjective
- it pretty much depends on when is the right time ... and that's affected by factors such as geography and demand.
- But holding it isn't always the right thing to do because the holding costs, you know, the additional interest costs are often not matched by the increase in the value that you expected to gain in that period of time that you're waiting.

Interviewer

30) What percentage of your bank's customers' have received a write off to date?

Respondent

- I couldn't answer it, no, sorry.

Interviewer

31) Can the bank recouped going forward?

- **If yes, how?**

Respondent

- In some instances what we do is in all of those trailer cases we would assess the affordability of the customer to pay any shortfall and in some cases the customer has zero affordability and in that case, then in real terms we'll probably shake hands with them and say thank you and we write it off.

- In other cases customers may have affordability for some element of it and in that case we may put some element of it over maybe seven years and the rest of it we write off
- in other cases they might have potentially have affordability for the loss and they pay that over a period of time.
- So like very much depends on the affordability of the customer.

Section IV - SME Arrears Support.

Interviewer

32) In your opinion did NAMA benefit or harm the bank/economy?

Respondent

- I think it accelerated what and it's my opinion
- I think, it put a structure in place which would appear to certainly have worked to the benefit of the economy.
- if you're only getting sixty cent on the euro on day one for something, you know, you immediately have a write-off ... and that's certain.
- There were pros and cons for it. Perhaps the pros outweighed the cons and that's my opinion now.

Interviewer

33) Overall what is the main reason for SMEs credit applications?

Respondent

- Well, you know, working capital, its equipment purchase. It's fixed asset purchase. So I mean essentially anyone of those three
- Primarily working capital and equipment purchase I'd imagine.

Interviewer

34) Are these credit loans normally guaranteed and do they some form of collateral attached?

Respondent

there will be many guaranteed. Depending if it's a limited company it will be guaranteed. If they're in their personal there's an automatically liability so credit loans, you know, not every SME loan is issued to a limited company and in fact I'd image that there are far more issued directly to the person themselves. So they're not, they wouldn't be guaranteed but and in many instances there would be collateral put in. Equally we would have lots of cases where there wouldn't be collateral. ... we would certainly have a mixture of both.

Interviewer

35) What are your thoughts on loan write offs for SMEs in financial distress?

Respondent

Well my opinion is that which is a bank policy here, ... our priority here is to protect employment. We have been capitalised very significantly by the Department of Finance and there's a clear marker there, that we are to protect SMEs and ultimately protect employment in this country. If we have an SME which is completely over extended financially, what we need to do is to right size the level of debt with a view to protecting the employment. That in affect means a write off in some cases. So if that's the right the decision, then that's the right decision, you know, and that's the banks position on it.

Interviewer

36) When assessing credit applications for SMEs are viable business separated from a non-viable business?

Respondent

... for obvious reasons non-viable businesses are highly unlikely to get credit sanctioned for them because they can't afford to payback what they currently have.

Thank you for time and experience it is very much appreciated!

Appendix 7

Semi Structured Interviewer Transcript: 4

'Has a Lack of action by the Domestic Irish Banks hindered Ireland's Economic Recovery?'

Interview: 4

Date: 7th August 2014

Location: City Centre Dublin 1

Section I - Staff Training & Awareness

Interviewer

1) Are your staff, bank staff or agency staff?

Respondent

They're all our own staff.

Interviewer

2) Do your staff have experience in lending and arrears management?

Respondent

There is three in mortgage arrears and lending.

Okay, that's quite a long-time.

Interviewer

3) What is the break down between banking and agency staff?

Respondent

Not applicable

Interviewer

4) Are your Staff properly accredited to give advice to financially distressed borrowers?

Respondent

Yes, they're all QFA and they all have their CPD up-to-date.

Interviewer

5) What is the staff attrition rate?

Respondent

We've never had anyone leave so I suppose we've a low attrition rate.

Interviewer

6) What processes are in place to engage with the customer?

Respondent

Our engagement with customer's engagement would be by phone, email and in face-to-face meetings. Anyone who asks for a meeting gets one..

Section II – Staff Engagement

Interviewer

7) In your opinion, what defines a customer as 'not co-operating'?

I think that people think that if they're talking to the bank they're co-operating. I think there's an awful lot of misinformation about what actually constitutes not co-operation.

Interviewer

8) According to MABS, their clients require more time and assistance in completing the application form. If requested are such customers provided with additional time and assistance?

Respondent

Yes all the time.

Interviewer

9) According to MABS some customers are unable to complete the SFS form due to depression, illness or some customers maybe are illiterate. What is your experience of this to date?

Yeah.

Interviewer

You have. Okay. Would it be many of your cases?

Respondent

- I wouldn't have a percentage that I could give you
- We've had people with various different mental health issues and suicide risks because they'd be stressed due to debt.

Interviewer

And if you came across this, do you relay this back? Is taken into account when you mention that the person has psychosocial needs at all, you know, are they cognisant of that, you know, being vulnerable or anything like that?

Respondent

- I think they do insofar as a bank can.
- They'd certainly allow medical costs and things like that allowed in addition people's living standards they're aware of the issue but it doesn't a form a huge basis of their decision-making. The decision-making is based on a process.

Interviewer

10) In your experience how does the bank facilitate such customers?

Respondent

Yeah.

Section III- Arrears Support (Mortgage Arrears).

Interviewer

11) Post the blanket Bank Guarantee are there area not identified by the banks and CBI that were not identified but require tighter fiscal management?

Respondent

Yeah.

Interview

But are there any, is there anything outside of that that perhaps hasn't been identified that should be taken on board?

Respondent

In the arrears management.

Interview

In the arrears?

Respondent

I mean the targets are there. My manager says it's a box ticking exercise.

Interviewer

Okay.

Respondent

Now does it need tighter management of it? Yeah it probably does.

Are the targets the right way to manage it? Probably not and the Central Bank I don't think do enough to manage it properly.

Interviewer

12) Are their issues that you are aware of that require more attention?

Respondent

- I think what happens to property prices has a huge impact on the what the provision levels are going to be in relation to the stress test.
- I saw recently forty-four houses were now out of negative equity. That's good news for the bank.
- If it was down to just repayment capacity alone I think the banks would have a problem.

Interviewer

14) In your opinion, is 'Austerity Ireland' with the increase in VAT, property tax, universal health insurance, private insurance premiums, and soon to include water charges are these impacting a customer's ability to make repayments?

Respondent

- They have hugely. Water charges, especially civil servants who have seen their pay cut probably, civil servants have seen a big cut to their net pay in various things like the pension levy.
- we've seen a huge cut in terms of just general pay cuts or people loosing their jobs.
- while they're outgoings are going up, incomes are going down.

Interviewer

15) Are these taken into account during assessment process?

Respondent

No, not really. I mean service issues guidelines but they'd be really living expenses.

Interviewer

16) In general, do the customers supply the correct facts (information)?

Respondent

if anything customers they underestimate how much they, they try to make themselves look poorer than they are, not poorer but more frugal than they actually find it possible to be and they tend to show they're doing everything they can in my general experience.

Interviewer

Do you feel that they are being genuine or that they're trying to deceive the process? What is your experience?

Respondent

- I invariably believe that they're trying to deceive the process.
- You'll always get people who are trying to pull a stroke over you. So they'd be in the one or two per cent. ... it's a very, very low amount of people.
- But most people are trying to do what they can.

Interviewer

17) In relation to CCMA products, in your opinion, has the government placed realistic criterion on the bank(s) to meet in relation to CCMA products?

- **If yes / no please elaborate**

Respondent

CCMA is completely wrong. If you don't want CCMA and in turn it's offering products, they should be made to at least offer, because the more you can offer in the circumstances when a product is being sold certainty is given.

Interviewer

18) According to the Minister for Finance the number of mortgages in arrears are decreasing, what is your experience?

Respondent

- Yeah they are but if you look the current and the long-term restructures that are being agreed; and capitalisation of arrears you'd question.

- The capitalisation of arrears is being used and it's showing the arrears loan. Is that really sustainable? Default rates they're not the majority but the default rates restructured are significant or real default rates they're mortgages that are restructured.
- while yes they are decreasing I don't think the system is particularly well geared.

Interviewer

20) In your opinion are the CCMA MARS products available suitable to meet the needs of distressed borrowers? Should they be amended to suit the borrowers' financial circumstances?

Respondent

Well they don't really. Really they're mandatory. If they were a mandatory product yeah they probably would.

Interviewer

But would you thinking here in the area of consistency across the bank?

Respondent

Yeah.

Interviewer

21) From 2012 there have only been 40 Mortgage To Rent solution implemented why is this?

Respondent

- Completely dysfunctional system, everything about it is dysfunctional and the only funding that's now is the allocation probably was a complete mess.
- The whole system is a mess from beginning to end.

Interviewer

Michelle Norris in her study mentioned that from the mid-nineties the previous government had rolled back on their housing distribution policy. Do you have any thoughts which might tie into that policy or that blend of thinking?

Respondent

- Yeah, I think you can mainly blame the politicians and the mechanics that's operating the scheme doesn't work
- the funding situation doesn't seem to be operational and they're now telling us they can't get money to buy houses.

Interviewer

22) If a tracker mortgage holder wants to trade up or trade down and wants to keep their tracker mortgage are they allowed to keep their tracker mortgage?

Respondent

It depends on the bank. Some of them do, yeah. Definitely some of them don't.

Interviewer

In your experience does the premiums that they're now imposing on the tracker mortgages impacting the customer?

Respondent

- It's definitely, there's an impact there.
- It's obviously makes borrowing more expensive which reduces their ability to borrow but again some of these are trackers are at very, very low level relative to standard variable rates.
- I don't know if the bank should be expected to lend money at a rate below its cost of funding on new lend basis. Fair enough the old one.

Interviewer

If a customer had a trade-down to the negative equity products would they be impacted...?

Respondent

My experience would be to trade-down negative equity; trade-ups they're very, very few and far between.

Interviewer

23) Tracker mortgage losses between short term and long term debt obligations how is this short fall being resolved?

Respondent

How do you mean now? Funding?

Interviewer

This is about funding.

Respondent

- Some of them they are funding issues ... where they have to rollover books
- many of the books they haven't for don't have long-term funding in place. A big problem.

Interviewer

24) What is the number of repossessions to date?

Respondent

Don't know. For the bank I don't know.

Interviewer

25) What is the breakdown between voluntary and involuntary repossessions?

Respondent

Voluntary repossessions, I mean, its surrender really. There's far more of them happening than they are actual repossessions. So repossessions don't necessarily give a true reflection of what's being taken back.

Interviewer

26) According to David Hall sale of repossessed houses only covers the cost of the sales and fees. In your opinion, is this true?

Respondent

- It depends on the bank.

- Because certain banks will deal with it. AIB and EBS for example will deal with it. Other banks will say no your liable for the whole lot and proceed
- we don't recommend anyone sell ... a property without a suitable arrangement with .

Interviewer

27) In the case of Voluntary Sales for loss or repossession what happens if there is a deficit or surplus after the sale?

Respondents:

- It would in that there's a likelihood that they will not be residual.
- They would in that it would give the person more time in the property.
- wouldn't in that it doesn't give anyone any certainty.
- Who decides that?
- I'm sure the banks are doing it. Ulster Bank in particular are going into properties ... and appointing rental receivers selling them it doesn't give anyone any certainty.

Interviewer

Can I skip number 30?

Interviewer

30) What percentage of your customers' have received a write-off to date?

Respondent

A very low percentage. It needs to be higher, much higher.

Section IV - SME Arrears Support.

Respondent

SME credit is a big issue and I don't think particularly being dealt with although some banks are dealing with it ...

Interviewer

Is there any of these questions here that you would like to answer?

Respondent

I think personally its going to happen before or after they're driven these businesses out of business, number 35.

Interviewer

35) What are your thoughts on loan write offs for SMEs in financial distress? Would many SMEs be coming into you?

Yeah loads of them.

Interviewer

A significant number, increasing or decreasing?

Oh increasing all the time.

Interviewer

Increasing all the time, okay and do you feel there that they're not being dealt with until they're actually bought to the brink of going into bankruptcy or out of business?

Respondent

- Some of these businesses were not viable anyway to general economic conditions ...
- Some businesses still are trading okay but the business or the owner of the business is left with a massive debt overhanging them that they have to try to service which straggles a little bit. It's a bit of both to be honest.

Interview

You could have one that's non-viable and you could have one that's in the middle?

Respondent

I guess the way banks look at it is how much ability does the business have to repay them and to throw up cash. If it has an ability great, and if it doesn't well then they usually just look to.

Interviewer

In saying that would you think, or do you feel, the banks are looking more towards recouping their funds or are they looking to ... ?

Respondent

Oh they're in recoup mode.

Interviewer

42) From your experience what are the main drivers that cause the SMEs go into arrears?

- I. Trade and other receivables?
- II. Stock inventory days?
- III. Sales Revenue to Capital employed? ROA?
- IV. Gearing?
- V. Other, please elaborate

Respondent

I think its gearing.

Interviewer

Can I bring you back up to question number 38?

38) According to the Michael Noonan, Minister for Finance, SMEs in arrears is far down his list of priorities, should he be concerned?

Respondent

- Well he should ... SMEs employ, I think is it over half the people in Ireland so it's a significant amount of employment, if a significant amount of SMEs go the wall. It will have a huge impact on unemployment
- if he's trying to encourage other people to setup SMEs, ... its actually not encouraging to people when they see a Minister for Finance who says I don't really care.

Interviewer

Would SMEs' have mentioned to you that they feel isolated and that the Department of Finance is not assisting them?

Respondent

- Well a lot of people who have their own businesses feel that there's nothing there for them and that they're sort of being thrown to the wolves ...

Interviewer

Thank you. Is there any other ones now from question 43 onwards that...?

No, they're all kind of banking stuff.

Interviewer

49) Professor Morgan Kelly has warned that the level of SME banking debt is a 'ticking time-bomb' (€8.6 billion loans are in 90 days arrears and ECB stress tests later this year, which would trigger widespread company failures and herald a surge in unemployment). Do you agree with the above statement?

Respondent

I would agree.

Interviewer

51) Brian Lucey has recommended that an arbitration process be established, initiated by either the bank or the business and facilitated by an independent arbitrator to reach a compromised in outstanding debt. What are your thoughts on this?

Respondent

- I think that's not a good idea. I think it's a good idea, I think to do.
- I think, if you were to have an independent arbitrator you need to have at binding ...
- I don't know if the financial institutions would agree to binding arbitrators.

Interviewer

53) Does the bank have a better solution in place? Okay. I'd be saying here would you have a better or maybe solution?

Respondent

Yeah, us.

Section V - Risk Management

Interviewer

Now the next piece down here is in relation to banking credit risk management.

Interviewer

55) For internal risk measurement and management processes what risk do you mostly associate with credit (and interest rate) risk?

Respondent

Respondent

Well one thing I would associate with interest rate risk is that they're not aware of it. No bank restructures have taken any cognise of any decisions even though we are at historical low rate.

Interviewer

So you're saying there're eventually going to have to increase?

Respondent

- The banks take everything they can out to you at the moment so there's no wriggle room for rates to go up.
- They're betting that people circumstances will improve so they can withstand

Interviewer

60) Stress tests: How often are the SME and Mortgage credit portfolio stress tested?

Respondent

I don't know how the stress tests are going to pan out.

Interviewer

If a bank failed a stress test, do you feel that might have a knock on impact to Ireland's standing or Ireland's perceived standing in the bond markets, in the investment markets to invest in this country?

- Well no.
- I think anyone who's buying Irish bonds, trading Irish bonds or getting involved in Irish bonds are well aware of the very significant risks in the various different banks
- a bank failing a stress test, I don't know would it necessarily have a massive impact to be honest.
- I don't think from a sovereign perspective they do have the same risk, you know, the Irish government have pledged money to the bank. They've given it.

Interviewer

In relation to this and the stress test, do you think that the banks maybe 'kicking the can down the road' and are holding off on mortgage write-offs in the event of the stress test, then post the stress test, do you think that they might loosen up?

Respondent

- No I don't think they'll loosen up. I think they're holding off yeah. I think it's the natural thing to do in a rising property market. This is a property led problem in relation to that caused all the difficulties
- Why foreclose in a property if it's going to potentially be worth more in twelve months time if the borrower can pay interest?
- Certainly Ulster Bank are definitely doing this and some of the others are definitely doing this.

Thank you for time and experience it is very much appreciated!

Appendix 8

Semi Structured Interviewer Transcript 5

'Is a Lack of action by the Domestic Irish Banks hindering Ireland's Economic Recovery?'

Interview: 5

Date: 7th October 2014

Location: Dublin 2

Interviewer

The first thing is where do you feel comfortable starting off in these questions, maybe like staff training and awareness? Do you want to skip that section or...?

Respondent

I want to skip that section and also, em, let's say the section two and three. The most or the section that I feel most unhappy with is number 4.

Section IV - SME Arrears Support.

Interviewer

32) In your opinion did NAMA benefit or harm the bank/economy?

- The idea of NAMA was very good and I think also in other countries something similar was done to setup a bad bank and that's ... the not so good assets are transferred from the bank to NAMA, so in that respects I think it definitely was positive for the economy and for the banking system.
- The question is now how do they go about with all the property that they have?

- I guess that it's really definitely a dilemma because on the one side they have to make profit for the Irish people and on the other side we are seeing a huge big supply shortage ... in the Dublin area.

Interviewer

Would the supply side be from a residential housing, apartments and also from say a business commercial perspective, maybe both?

Respondent

- I think both,
- I have the feeling even more so from a commercial perspective ... that's at least the sense I get when I talk to people from Property Industry Ireland.

Interviewer

Now they were I would suspect prettily heavily bought for in the first place by the State.

Respondent

- Yeah I agree. That's definitely the side that probably doesn't work that well from NAMA
- The question is always could it mean that international investors turn their back on Ireland ... if we can't get the property now we setup our business or we setup our interests somewhere else?
- It's really a critical or its not so easy for NAMA.

Interviewer

Okay and these investors say would that, they would be looking for properties that they could establish an operation here's in Ireland? I would imagine would be particularly in Dublin as opposed to maybe Galway or Athlone or somewhere?

Respondent

- Now what I hear is that say foreign companies that come to Ireland they want to setup in business in Dublin and except maybe or there are a few exceptions maybe like pharma industry or chemical industry that cluster around Cork.
- Most of the companies like Google, Yahoo, Facebook or whatever they, they want to be in the city centre and that's where there's the lack of appropriate property.
- What the problem is that, if they don't get what they want they, turn to maybe the UK where there are cities of similar size, maybe Manchester, Birmingham or whatever and that they setup their business there or that's the fear the property industry in Ireland has.

Interviewer

33) Overall what is the main reason for SMEs credit applications?

Respondent

It's as far as I can judge its mainly working capital.

Interviewer

Working capital?

Respondent

So operational costs and it's not lesser extent its investment; in let's say that's not really investment to grow the business. It's really working capital.

Interviewer

So they're looking for investment to survive?

Respondent

Yeah.

Interviewer

34) Are these credit loans normally guaranteed and do they some form of collateral attached?

Respondent

- I think that the banks would like to have a guarantee.

- my feeling is that let's say SMEs that have a property or have let's say collateral in the form of property, em, that they do best you know.
- They are able to let's say get a credit from or a loan from the bank, or they find it easier than let's say a company that has no collateral at all, you know, no property.
- I guess that it's probably similar with the guarantees.

Interviewer

Guidelines that were issued by the Central Bank for banks not to have excessive or not to enforce an SME to have, to take on a personal guarantee, with respect to say new companies starting, from your experience or from what you may hear on the ground are they finding it very difficult at the present time to get credit from the bank?

Respondent

- I think there are really two sides to that story ...
- If I talk to the SFA, yes it's difficult to get credit or let's say loans from the bank
- Well first of all banks are more restricted and then they've got, em, much more regulations around it and much more forms and whatever that have to be presented and also they ask for let's say balance sheets and maybe business development plans and so on.
- It's much more sophisticated that's my impression I get when I talk to members from the Small Firms Association and SMEs.
- Or the traditional SMEs find it difficult probably to cope with that because in the boom times, they probably just went to the bank and said "Hey Jerry I need a loan", and the bank probably just said "Oh yeah no problem".
- The world has changed and I guess that the traditional SME owners find it difficult, em, to adapt to that.
- So the perception is that SMEs find it difficult to get credit

Interviewer

35) What are your thoughts on loan write offs for SMEs in financial distress?

Respondent

- I don't know really what the feeling is to question number 35 because, em, I haven't heard anything about that.

- my feeling is that really depends on the business and ... on the sector and that really depends on whether a loan write-off makes sense or not because I mean if the business is viable and if there's a future to it, you're probably more likely to say okay well we do a structuring and give the company a chance,

Interviewer

36) When assessing credit applications for SMEs are viable business separated from a non-viable business?

Respondent

I can't answer that. Sorry.

Interviewer

I think you kind of did in question number 35.

Respondent

Probably, yeah.

Interviewer

37) Do you feel that the Central Bank of Ireland is not putting enough pressure on the regulated domestic banks to lend to semi / non-viable companies?

Respondent

Yeah well I, em...

Interviewer

Could it be more pro-active, do you feel?

Respondent

- Well I think the Central Bank of Ireland yeah is more or less, yeah, influenced by the European Central Bank

- I think one really has to see that in conjunction with the European Central Bank and I think its really a funny situation in my eyes because, em, the banks were let's say were the bad guys because, you know, they were seen as the sector that, created the credit bubble and then there were a lot of regulations; and a whole lot of regulations were introduced to prevent the next credit bubble emerging.
- The policy makers like Central Banks and the government they are very active in saying well they just have to lend and I think, in order, to be honest I have the feeling that the ECB and also the Central Bank of Ireland are actually already providing or making it easier for banks to refinance themselves and then also to lend.
- I don't think it's a good idea to pressurise the domestic banks and say okay you have to lend because then something similar could happen as we've already seen.
- My personal feeling is that the economic situation was very fragile up to now.
- this year the signs are definitely clear that the economy is much stronger
- I think that in time banks will just become a lot more or less risk adverse than they have been.
- the positive economic situation should actually feed back into the banks
- I have the feeling okay banks are willing to lend more but I think it's also good, you know, just to be a bit careful. So in my view I think the Central Bank has really done enough, yeah.

Interviewer

Okay because they have an article out, there's an article in the newspapers this morning where they're looking to cap loans for on residential property at eighty per cent for a property?

Respondent

- I think that's also a good idea because if you see what's happening now in the Dublin property market, prices are over twenty per cent year-on-year and it it's not going to solve the problem.
- It's a supply shortage we have in Dublin in the residential property market, but I think it's a good idea just to make sure people don't take out, you know, too much loans or too many loans, you know.

Interviewer

Do you feel that when you hear the news releases that we're reverting back to where we were say in the early 2000s where there was a shortage of property in Dublin and in Cork?

Respondent

- I think yeah there definitely is a risk, but I have the feeling that the policy makers really see where the problem is; just they have reacted too late.
- after the credit bubble burst and we went into a recession, nobody wanted to build houses and but that's denying demographic trends
- let's say the population is growing and the demand for property is there regardless of what happened, you know.
- So, I guess now, they are trying to tackle that problem and but it's going to take at least two years until there's enough supply to bring down prices again.
- So yeah, I think it's a dangerous situation, yeah.

Interviewer

The reason I'm raising those questions is in relation to SMEs, particularly in relation to the Central Bank reports that come out that SME debts and arrears is coming from the property side more so than say from their business side. Do you have any thoughts on that or have you any anecdotal evidence around that?

Respondent

I think I've got anecdotal evidence that really a lot of SMEs, or some of the SMEs really have property that they use as collateral and they're naturally happy if property prices rise and that means, their negative equity becomes less or hopefully positive, you know. That's at least the sense, yeah, I get when I talk to them.

Interviewer

38) According to the Michael Noonan, Minister for Finance, SMEs in arrears is far down his list of priorities, should he be concerned?

Respondent

I think, he should be. Well maybe not the top of the list but somewhere up the list because SMEs, definitely are the provider of most jobs in Ireland and that's I think, yeah, something which shouldn't be forgotten, yeah. So that's why definitely up the list.

Interviewer

I think where he was coming from, he was thinking that they're being well catered for through the banking arrangements in the new schemes that they have out. Do you think that's a false comfort for him that he's putting together these new financial institutions?

Respondent

- I think, em, maybe it's a false comfort because what the perception we get is that a lot of SMEs don't really know what is out there.
- They don't know the programmes, the schemes and they're not aware of all these maybe headlines that the government put in place, on the other hand the government ... or let's say policy makers sometimes make it a little bit complicated to understand all the, you know, let's say the assistance and supports that are out there.
- I guess it's a false security.

Interviewer

39) In your opinion, is there a need for the government to take some kind of action in the increasing number of SMEs that are now in arrears?

Respondent

What is from short-term financial solutions that...?

Interviewer

They could be loans up to five years as opposed to ten years.

Respondent

So, okay. I can't really answer that question, em, fully but what I know is that SMEs definitely ask for very short-term loans. They're not interested in the...

Interviewer

In the long-term.

Respondent

In long-term loans.

Interviewer

Okay.

Respondent

- That's at least the perception we get from various surveys.
- SMEs use trade credit overdraft, they use credit cards and the percentage of SMEs that really take out long-term credits is very low
- if I compare it to other countries I sometimes have the feeling that the let's say the loan structure, the term structure doesn't match the investments, i.e. maybe long-term investments are financed by medium or short-term loans rather than long-term loans.

Interviewer

- Okay.

Respondent

- But it could also be because Irish SMEs at the moment are really only looking at loans, let's say a high percentage because of working capital and that's a short-term loan.

Interviewer

40) According to an Inter Trade Ireland's survey the demand for credit is at its lowest level since 2010. They have identified banks as being very lax in disentangling themselves from short term financial solutions, what is your opinion on this comment?

Respondent

It's short-term.

Interviewer

41) Concerns have been raised (by ISME, David McWilliams, etc.) that when the economy begins to rebound productivity will be derailed by a deficit in the supply side – has this issue / concern been expressed?

Respondent

- Yeah that's definitely a big concern

- at the moment, clearly, that recovery is not really supported by bank lending.
- banks lend but ... would have increase to really support, a prolonged, sustainable and strong economic growth
- Forecasts from IBEC for this year and next year is six per cent and four-and-a-half per cent and for the next years we actually also expect strong growth of around four per cent to five per cent but that's under the condition that lending, you know, starts to increase and so it really is vital.

Interviewer

Okay, so I think you're definitely in agreement there with David and Intertradelreland?

Respondent

Yeah.

Interviewer

42) From your experience what are the main drivers that cause the SMEs go into arrears?

- I. Trade and other receivables?
- II. Stock inventory days?
- III. Sales Revenue to Capital employed? ROA?
- IV. Gearing?
- V. Other, please elaborate

Respondent

- I think yeah that the second one, that they're not getting, they're more or less not being paid immediately or also very strong time lag, that's definitely one problem or I think that's actually the biggest problem.
- I think that another problem really is that, em, they also find it difficult to, find customers and that more or less feeds into lower sales so I guess that that means less revenue so I think that that definitely is also one of the pressing problems,

Interviewer

43) What types of restructure methods would be implemented?

Respondent

- I think the sort of payment timeframe. I think that's definitely vital.
- I guess maybe another suggestion would be to consider SMEs in public let's say public procurement that could help let's say the SMEs. It doesn't really solve their problems but it would definitely help the SME economy.
- its not really solving the issue of restructuring matters, no.

Interviewer

44) Loan accounts applications in arrears are they partially sanctioned with a higher interest rate?

Respondent

- What I see is that the interest rates for SMEs are actually increasing and if I compare it to let's say Germany or to the EU average,
- It's quite significant so although, Irish banks are able to refinance themselves, em, let's say to a lower interest rate, at a lower interest rate
- the interest rates that they charge on SMEs are actually rising and I think I know the answers because ... banks want to make profit and that's the answer so we see it with new business
- or interest rates on new business loans that they are increasing and yeah that definitely is a problem for SMEs,

Interviewer

If the alternative arrangements that Michael Noonan was bringing in and also trying to bring in some foreign investment banks. Do you think that could be positive?

Respondent

Do you mean the strategic banking system?

Interviewer

Yes.

Respondent

- I think that would be a positive, definitely.
- I think I have the feeling coming from Germany and being also in Switzerland
- I have the feeling that there's just a lack of competition, you know, in the Irish market.

46) What percentage of SME accounts have been restructured to date?

Respondent

- let's say anecdotal evidence I have the feeling there are probably, em, a lot have to be restructured but I can't really quantify that, you know.

Interviewer

49) Professor Morgan Kelly has warned that the level of SME banking debt is a 'ticking time-bomb' (€8.6 billion loans are in 90 days arrears and ECB stress tests later this year, which would trigger widespread company failures and herald a surge in unemployment). Do you agree with the above statement?

Respondent

- I don't know if I'm that gloomy, but I think he's definitely right
- the asset quality review or ... the stress test performed by the ECB definitely could have negative effects on the SMEs,

Interviewer

50) What percentage or there about is there for SMEs in loan arrears seeks additional credit?

Respondent

I don't know how many, no.

Interviewer

But I think you were saying that a lot of them do actually need funding for the day-to-day survival for their working capital?

Respondent

Yeah.

Interviewer

51) Brian Lucey has recommended that an arbitration process be established, initiated by either the bank or the business and facilitated by an independent arbitrator to reach a compromised in outstanding debt. What are your thoughts on this?

Respondent

- again I have the feeling it's not a one size fits all procedure so it really depends I think on the business sector.
- my fear is just that we are, let's say helping businesses and that's only related to SMEs, that's related to all over the economy that ... could be supportive which actually shouldn't be supported,
- So I think it really depends on the business and the sector and then I think it's a definitely a good idea.

Interviewer

In a side question from that do you think SMEs require assistance or some sort of training in business management in order to separate their business from their lifestyle?

Respondent

Absolutely.

Interviewer

You know that there's a perception, and it was raised by in interview that I had, that sometimes they can't separate their business expenses from their personal expenses.

Respondent

- Yeah but they definitely need training and its, you can actually see that in the surveys, em, throughout let's say Europe you see that Irish SMEs are the ones who use trade credit, credit cards, the most expensive forms of credit and I mean you know, something must be wrong there and my feeling is, my perception is that, it's really a lack of training.
- Only the culture that, em, SME owners just say "Ah well we don't need to ask the bank. We just use the credit card and then its overdraft."
- I think, definitely think they need some management training, training on how to construct a balance sheet a business plan.
- big company for instance like Ryanair or Aer Lingus ... they have financial department ... to present a balance sheet and yeah its no problem to read all the vital data
- it's a lack of information it's a lack of transparency, that's to my feeling the biggest problem that make it difficult for banks to lend to SMEs and for SMEs to get loans,

Interviewer

52) Brian Lucey recommends that losses sustained by the banks can be credited through issuing new NAMA bonds. What are your thoughts on this suggestion?

Respondent

I think it really depends ... on the businesses and the sector and how viable they are ... if we really can distinguish between viable businesses and not but definitely the idea of issuing NAMA bonds. I think would be a good idea if these questions are asked?

Interviewer

53) Does the bank have a better solution in place?

Would you think there might be a better solution or something else there that perhaps the government could maybe think about putting in place as opposed to what we've just discussed?

Respondent

- let's say there has to be a diversification of, em, finance channels and at the moment its very centred around banks and yeah there just has to be more channels available

- a small SME is not able to go to the stock market or to issue mini bonds but I think for larger companies or medium sized companies, em, maybe the availability ... to seek for money via these channels. If that was promoted then that might free up capital in the banks for SMEs.

Interviewer

- **There were articles in the paper there a couple of months ago in relation to a Finish bank to be set-up in Dublin. It particularly related to SMEs banking. Have you heard of this?**

Respondent

- No I haven't heard of that.

Interviewer

- **Okay.**

Respondent

- I know in Switzerland a bank has, em, specialised, well not really on SMEs but they have introduced SME centres in their let's say in their banking structure and ... I think that's a good idea. I think you really if you want to lend and if you want to promote or if you want to, em, lend more to SMEs you have to understand SMEs better so I think it's vital that you specialise.

Interviewer

- **That's something that Barclays are doing over in England.**

Respondent

- I think it's a good idea to specialise, to have knowledge and know how about SMEs and how they work and what are let's say on average the most pressing problems and things that can go wrong and so on,

Interviewer

54) Is there an area that I have not touched on that you would like to comment on?

No I think that's quite extensive.

Interviewer

57) Is credit risk one of you top 3 most significant risk exposures?

Respondent

- let's say definitely the payment timeframe.
- let's say demand issue more or less that sales, em, are not developing very well. That's definitely one of the risks or the biggest risk and I think maybe just the problem that its mainly short-term loans SMEs take out and instead of applying a loan structure according to the investment structure. I think that to me is definitely a risk.

Interviewer

58) In general, what would you consider to be the most prominent tail risks to credit (and interest rate) risk?

Respondent

It's very low,

Interviewer

If they were to increase and I'm saying this in light of the US who are beginning to increase their interest rates?

Respondent

- the long-term interest rates ... let's say government bond years in Germany or in Ireland, em, interest rates should have come down but they haven't or let's say the interest rates that companies have to pay.
- the monetary policy or the policy actions that have been taken of at ECB to stimulate credit and loan that doesn't really feed into interest rates that come down and that they could stay high at a higher level, that definitely is a credit or a tail risk
- another tail risk could be that the UK's economy, em, doesn't do very well and some SMEs have links so have business exposure to the UK

Interviewer

- **Okay.**

Respondent

- SMEs are very domestic demand focused, and we are seeing, we are still seeing that exports are the main pillar of Ireland's growth.
- Domestic demand is gradually picking up but especially private consumption could be stronger than it is at the moment definitely is the major risk because the surveys which are conducted by the ECB or the Central Bank, they show that the most pressing problem for SMEs is domestic demand or its demand. ... they can't find people who buy their stuff.

Interviewer

Would you link this to other issues, for example, mortgage arrears, and the price of properties, people's loans, their mortgage loans. That there's no available cash, for example, with the introduction of the water rates, their property levels and the health care level has dried up or is drying up the available cash that would have generated demands for the supply of SMEs products and services?

Respondent

- It's definitely a risk.
- I think that income perspective or prospects are better than they were let's say one or two years ago, the unemployment rate is coming down. Employment is growing, so people are more confident and are, you know, are willing to spend the money again
- I think more important, is will I have a job in the future?
- Now the job outlook and these things have improved

Thank you for time and experience it is very much appreciated!

Appendix 9

Honey and Mumford Learning Style Questionnaire



Learning Styles Questionnaire

This questionnaire is designed to find out your preferred learning style(s). Over the years you have probably developed learning "habits" that help you benefit more from some experiences than from others. Since you are probably unaware of this, this questionnaire will help you pinpoint your learning preferences so that you are in a better position to select learning experiences that suit your style and having a greater understanding of those that suit the style of others.

This is an internationally proven tool designed by Peter Honey and Alan Mumford.

There is no time limit to this questionnaire. It will probably take you 10-15 minutes. The accuracy of the results depends on how honest you can be. There are no right or wrong answers.

If you agree more than you disagree with a statement put a tick by it.

If you disagree more than you agree put a cross by it.

+50%

Be sure to mark each item with either a tick or cross.

1. I have strong beliefs about what is right and wrong, good and bad.
2. I often act without considering the possible consequences
3. I tend to solve problems using a step-by-step approach
4. I believe that formal procedures and policies restrict people
5. I have a reputation for saying what I think, simply and directly
6. I often find that actions based on feelings are as sound as those based on careful thought and analysis
7. I like the sort of work where I have time for thorough preparation and implementation
8. I regularly question people about their basic assumptions
9. What matters most is whether something works in practice
10. I actively seek out new experiences
11. When I hear about a new idea or approach I immediately start working out how to apply it in practice
12. I am keen on self discipline such as watching my diet, taking regular exercise, sticking to a fixed routine, etc.
13. I take pride in doing a thorough job
14. I get on best with logical, analytical people and less well with spontaneous, "irrational"
15. I take care over the interpretation of data available to me and avoid jumping to conclusions
16. I like to reach a decision carefully after weighing up many alternatives
17. I'm attracted more to novel, unusual ideas than to practical ones ? - 35%
18. I don't like disorganised things and prefer to fit things into a coherent pattern

- 19. I accept and stick to laid down procedures and policies so long as I regard them as an efficient way of getting the job done
- 20. I like to relate my actions to a general principle
- 21. In discussions I like to get straight to the point
- 22. I tend to have distant, rather formal relationships with people at work
- 23. I thrive on the challenge of tackling something new and different
- 24. I enjoy fun-loving, spontaneous people
- 25. I pay meticulous attention to detail before coming to a conclusion
- 26. I find it difficult to produce ideas on impulse
- 27. I believe in coming to the point immediately
- 28. I am careful not to jump to conclusions too quickly
- 29. I prefer to have as many resources of information as possible - the more data to think over the better
- 30. Flippant people who don't take things seriously enough usually irritate me
- 31. I listen to other people's points of view before putting my own forward
- 32. I tend to be open about how I'm feeling
- 33. In discussions I enjoy watching the manoeuvrings of the other participants
- 34. I prefer to respond to events on a spontaneous, flexible basis rather than plan things out in advance
- 35. I tend to be attracted to techniques such as network analysis, flow charts, branching programs, contingency planning, etc.
- 36. It worries me if I have to rush out a piece of work to meet a tight deadline
- 37. I tend to judge people's ideas on their practical merits
- 38. Quiet, thoughtful people tend to make me feel uneasy
- 39. I often get irritated by people who want to rush things
- 40. It is more important to enjoy the present moment than to think about the past or future
- 41. I think that decisions based on a thorough analysis of all the information are sounder than those based on intuition
- 42. I tend to be a perfectionist
- 43. In discussions I usually produce lots of spontaneous ideas
- 44. In meetings I put forward practical realistic ideas
- 45. More often than not, rules are there to be broken
- 46. I prefer to stand back from a situation
- 47. I can often see inconsistencies and weaknesses in other people's arguments
- 48. On balance I talk more than I listen
- 49. I can often see better, more practical ways to get things done
- 50. I think written reports should be short and to the point - *yes not in target*
- 51. I believe that rational, logical thinking should win the day

- 52. I tend to discuss specific things with people rather than engaging in social discussion
- 53. I like people who approach things realistically rather than theoretically
- 54. In discussions I get impatient with irrelevancies and digressions
- 55. If I have a report to write I tend to produce lots of drafts before settling on the final version
- 56. I am keen to try things out to see if they work in practice
- 57. I am keen to reach answers via a logical approach
- 58. I enjoy being the one that talks a lot
- ? 59. In discussions I often find I am the realist, keeping people to the point and avoiding wild speculations
- 60. I like to ponder many alternatives before making up my mind
- 61. In discussions with people I often find I am the most dispassionate and objective
- 62. In discussions I'm more likely to adopt a "low profile" than to take the lead and do most of the talking
- 63. I like to be able to relate current actions to a longer term bigger picture
- 64. When things go wrong I am happy to shrug it off and "put it down to experience"
- 65. I tend to reject wild, spontaneous ideas as being impractical ? ?
- 66. It's best to think carefully before taking action
- 67. On balance I do the listening rather than the talking
- 68. I tend to be tough on people who find it difficult to adopt a logical approach
- ? 69. Most times I believe the end justifies the means
- 70. I don't mind hurting people's feelings so long as the job gets done
- 71. I find the formality of having specific objectives and plans stifling
- 72. I'm usually one of the people who puts life into a party
- 73. I do whatever is expedient to get the job done
- 74. I quickly get bored with methodical, detailed work
- 75. I am keen on exploring the basic assumptions, principles and theories underpinning things and events
- 76. I'm always interested to find out what people think
- 77. I like meetings to be run on methodical lines, sticking to laid down agenda, etc.
- 78. I steer clear of subjective or ambiguous topics
- 79. I enjoy the drama and excitement of a crisis situation
- 80. People often find me insensitive to their feelings

Scoring And Interpreting The Learning Styles Questionnaire

The Questionnaire is scored by awarding one point for each ticked item. There are no points for crossed items. Simply indicate on the lists below which items were ticked by circling the appropriate question number.

	2	7	1	5
	4	13 \	3	9
	6	15	8	11 \
	10	16 \	12	19
	17	25	14	21
	23 \	28 \	18	27
	24 \	29	20	35
	32 \	31	22	37
	34	33 \	26	44
	38	36 \	30	49
	40	39	42	50
	43	41	47	53
	45	46 \	51 \	54
	48	52 \	57	56 \
	58	55	61	59
	64	60	63	65
	71	62	68	69
	72	66 \	75	70
	74	67	77	73
	79	76 \	78	80
TOTALS	<u>4</u>	<u>20</u>	<u>14</u>	<u>16</u>
	Activist	Reflector	Theorist	Pragmatist

Learning Styles Questionnaire Profile Based on General Norms for 1302 People

Activist	Reflector	Theorist	Pragmatist	
20	20	20	20	Very strong preference
19				
18		19	19	
17				
16		18		
15		17	18	
14				
13	18	16	17	
12	17	15	16	Strong preference
	16			
11	15	14	15	
10	14	13	14	Moderate
9	13	12	13	
8				
7	12	11	12	
6	11	10	11	Low preference
5	10	9	10	
4	9	8	9	
3	8	7	8	Very low preference
	7	6	7	
	6	5	6	
2	5	4	4	
	4	3	3	
	3			
1	2	2	2	
	1	1	1	
0	0	0	0	