HOUSES OF THE OIREACHTAS

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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 3 Meán Fómhair 2015

Thursday, 3 September 2015

The Committee met at 9.00 a.m.

MEMBERS PRESENT:

Deputy Pearse Doherty,	Senator Sean D. Barrett,
Deputy Joe Higgins,	Senator Michael D'Arcy,
Deputy Michael McGrath,	Senator Marc MacSharry,
Deputy Eoghan Murphy,	Senator Susan O'Keeffe.
Deputy Kieran O'Donnell,	
Deputy John Paul Phelan,	

DEPUTY CIARÁN LYNCH IN THE CHAIR.

Chairman: You never knew that.

Mr. Matt Moran: I heard elements in the bank that the NTMA had a low level of deposits but I don't have-----

Chairman: The NTMA had to be instructed to put money into you at one stage because they were so resistant to doing so. You were not aware of that?

Mr. Matt Moran: I ... I ... genuinely, Chairman, I didn't have any ... any activity with the NTMA. I was aware that the NTMA's deposits were low but I-----

Chairman: The Government weren't ... instructed the NTMA at one stage to put money into Anglo and the NTMA in evidence here said that they ... they ... Mr. Somers said he had to go away and get legal advice and then informed that on the foot of a ministerial direction he would actually put money in there. That was ... you were never aware of those issues, no?

Mr. Matt Moran: I don't have direct knowledge of them, Chairman.

Chairman: All right, thank you. I'm going to bring matters to conclusion, Mr. Moran. I'm to ... as with every witness, I'd like to allow you some space to maybe comment upon anything you'd like to further add. It could be ... it might even be some further detail, recommendations or any other comments that you'd like to make.

Mr. Matt Moran: Thank you, Chairman. Just, in summary, I hugely regret the outcome of the bank and the impact it had and, you know, there are significant lessons to be learned from that, clearly. And thank you for your time here today.

Chairman: Okay. Thank you. With that said, I'd like to thank Mr. Moran for his participation and for his engagement with the inquiry, to now formally excuse ... excuse you and to propose that we suspend until 16.50. Is that agreed?

Deputy Kieran O'Donnell: 16.15. Sorry, 6.15.

Chairman: 16.50.

Deputy Kieran O'Donnell: 16.50.

Chairman: Yes, thank you. Is that agreed? Agreed. Ten to five. Thank you.

Sitting suspended at 4.35 p.m. and resumed in public session at 5.04 p.m.

Irish Life and Permanent-Permanent TSB - Mr. David Went

Chairman: Okay, so I now propose that we return back into public session. Is that agreed? Agreed. In doing so we will now commence session 3 of today, or 4 of today's hearings actually, with Mr. David Went, former group chief executive ILP-Permanent TSB. The Committee of Inquiry into the Banking Crisis now resuming in public session, can I ask members and those present in the public Gallery to ensure their mobile devices are switched off.

This afternoon, the focus of the inquiry is on Irish Life and Permanent and Permanent TSB. At this session we will hear from Mr. David Went, former group chief executive of ILP-Permanent TSB. Mr. David Went was appointed managing director of Irish Life Assurance plc Dublin in 1998 and group chief executive of Irish Life and Permanent plc in 2000. Mr. Went retired in May 2007. He spent most of his career with the NatWest group, where he was chief executive of the Ulster Bank group from 1988 to 1994 and chief executive of the Coutts group from 1994 to 1997. Mr. Went, you're very welcome before the committee this evening. Thank you.

Before hearing from the witness, I wish to advise the witness that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect to their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You're directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings.

Members of the public are reminded that photography is prohibited in the committee room. Yet, to assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. Members of the public and journalists are reminded that these documents are confidential and they should not publish any of the documents so displayed.

The witness has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets of core documents. These are before the committee, will be relied upon in questioning and form part of the evidence of the inquiry. So with that said, if I can now ask the clerk to administer the affirmation to Mr. Went?

The following witness was sworn in by the Clerk to the Committee:

Mr. David Went, former Group Chief Executive, Irish Life and Permanent/Permanent TSB.

Chairman: I welcome you before the committee this evening, Mr. Went, and if I can ask you to make your opening remarks, please?

Mr. David Went: Thank you Chairman. Well, I've reviewed in detail the contents of the core books provided to me by the joint committee and while I hope to assist the committee in so far as possible, I would like it noted that much of the material provided to me in the core books relates to events which took place after my retirement from Permanent TSB, or from Irish Life and Permanent. I hope and expect to be in a position to answer any questions the committee may have from 1998 up to my retirement at May 2007; however, I may be unable to comment on matters that occurred after my retirement for obvious reasons.

I will now comment on the lines of inquiry that you asked me. First of all, the composition, skills and experience of the board members. The merger of Irish Life and Irish Permanent in April 1999 was effected by the purchase of Irish Life by Irish Permanent. Irish Permanent became the holding company for the new corporate group, as well as a licensed bank, and the merged board became not just the board of the bank but the group board of the enlarged entity. I became group chief executive of ILP in 2000. The bank chief executive became an executive director on the group board reporting directly to me. The initial ... it was recognised that the initial composition of the board would require adjustment over a two to three-year period and over the years to 2006, a non-executive nominations committee reviewed the composition, increasingly with external assistance, and directors were appointed with a wide range of skills and experience. There was always a majority of non-executive directors and my view is that we had a suitably skilled, inquisitive and challenging board, fully capable to supervise the business in a fully effective manner. Board evaluation of performance was carried out regularly with external assistance.

Quality of the business model setting: following a strategic review of the business on my appointment in 1998, the board concluded that the acquisition of a banking customer base was a strategic imperative. The merger with Irish Permanent plc followed and the opportunity arose to acquire the Trustee Savings Bank in 2001. It increased customer numbers, had a substantial deposit base and permitted ILP to become a real participant in the current account market, regarded as a core product for bank assurers. Strategic planning was carried out through a series of strategic plans, usually over three-year periods, covering a SWOT analysis review of the economic and competitive environment, potential acquisitions, costs, challenges, etc. And a detailed annual budget focused on the operational implementation of the agreed strategy. Discussion of both strategic plans and annual budgets considered the capital strength of the group and bank, with an overriding objective of maintaining at all times a buffer over minimum regulatory requirements. The board was fully involved in the process and external expertise was used better to inform the process.

ILP developed a very clear "Ireland First" strategy aimed at becoming a leading provider of personal financial services in Ireland. By the end of 2006 it consisted - with the exception of a relatively small centralised mortgage provider, CHL, in the UK - primarily on the provision of Irish house mortgages, both owner-occupier and buy-to-let, together with a significant car finance business and a commercial lending business. We did not become involved in large development or speculative property lending nor lending on raw land, due to a combination of restrained risk appetite and skill deficits in respect of those types of lending. The strategy focused on lower-risk, widely-spread portfolios of lending in an attractive home market where we had operated successfully for many years. We did not anticipate the savage downturn and the damage it would do to the chosen business model, especially when combined with the complete breakdown of funding options.

Adequacy of board oversight over internal controls - board oversight over internal controls was comprehensive and some of the regular reports that the board received are listed in my witness statement, and I will not go into them further here. There was a very detailed chief executive's report covering the performance of all business units of the group, together with the latest available financial information. All of these reports were the subject of detailed discussion at board.

The appropriateness of property-related lending strategies and risk appetite - as I've said earlier, the lending strategy was focused around house mortgages, both for residential purposes and investment, and this accounted for the bulk of the loan portfolio, 88%. In addition, about 5.5% of total lending was accounted for by commercial loans for the purchase of investment property, generally with the benefit of a long-term lease. The objective was to build up a portfolio primarily consisting of a substantial number of relatively low ticket or small ... smallish residential loans, giving a wide spread of borrowers and locations with conservative loan-to-value ratios - average 71% at inception in 2006. However, in the event, the extent of the decline in residential property prices did not protect the portfolio on the downside.

Appropriateness of credit policies, delegated authorities and exception management - credit policies were reviewed regularly and changes required approval of the board and were advised to the regulator. LTV ratios were reasonable, averaging 71% for residential home loans, although first-time buyer loan-to-values reached 87% in 2006 following the introduction of 100% mortgages in 2005. Borrowers were tested for repayment capacity, including a stressed 2% interest test. Similar policies were applied to residential investment property loans, with both LTV and rental cover ratios for interest payments. Commercial loans policies primarily consisted of loan-to-value ratios to a maximum of 75% to 80%. Instalment credit loans were automatically credit scored using industry standard scorecards with suitable controls over exception approvals. Delegated authorities were determined on a tiered basis depending on the experience of the holder. Larger loans would require reference to a central credit unit under the supervision of a very experienced retail lender. Loans in excess of this discretion were referred to a group credit committee consisting of a number of experienced lenders, including the chief risk officer, and chaired by the group finance director. Exceptions to policy were approved on a case-by-case basis, generally on a "next higher" basis. The board received monthly reports on all loans in excess of €6.35 million and, in relation to loans approved as exceptions to policy, within the delegated discretion system. Similar arrangements applied to our business in the UK - CHL.

The stress test required by the Central Bank in 2006 included a house price reduction of approximately 22% over two years, with a modest recovery in year three, together with increased unemployment rising to 9.7% over the three years of the test. Housing completions were assumed at 50,000 per annum throughout. While none of the scenarios modelled indicated serious threat to the solvency of the bank, it should be noted that the actual extent of the price declines and rise in unemployment subsequently vastly exceeded those set. However, the most significant defect in these tests lay in the absence of tests involving stress on the funding side. Perhaps this was because of the now proven to be unfounded belief in the strength and durability of the sources of funding available to banks in Ireland. There were no specific warning signs and, indeed, global capital markets had come through many periods of severe stress over the past 20 to 30 years and at this time had never appeared so accommodating to reasonably rated borrowers. However, the deterioration in sentiment towards Ireland and the Irish banks post-2006 demonstrated quite clearly that there is effectively only one counterparty in wholesale markets as Professor Nyberg perceptively remarked in his report of 2011. Failure to anticipate this truth, in common with many others, remains, in my view, the single biggest error that was committed in our business plans.

Analysis of risk concentration in the base, adverse economic scenarios and the impact on capital structures - as I said earlier, the overall portfolio was very widely spread and remained largely unchanged in terms of concentration in the years 2001 to 2006, which underlined the consistency of our strategy. I've previously referred to the results of the 2006 stress test, which appeared satisfactory in terms of a robust response to economic shocks which were considered severe at that time but clearly, with hindsight, absolutely inadequate to model the actual impacts of the recession of 2008-2010.

Adequacy of the incentive and remuneration arrangements to promote sound risk governance - all remuneration arrangements for senior executives, including myself, required the approval of the remuneration committee, consisting entirely of non-executive directors. In the case of the senior executives - myself and those reporting directly to me - the package consisted of a base salary, a bonus opportunity up to 60% of salary, access to group share options up to a maximum multiple of salary and membership of various group defined benefit pension schemes. I did not become a member of a defined benefit pension scheme as I joined Irish Life at age 51, with an anticipated retirement age of 60.

Overall remuneration terms were reviewed regularly with the advice of international remuneration consultants. While at this remove total reward is substantial, it was not excessive relative to that scene in the Irish market. However, it is clear that public perception of remuneration in financial services at this time is that it was excessive and it's clear that this perception is reality for financial services executives, including myself, and I fully accept that. Bonus payments for those reporting directly to me were based on individually designed objectives agreed with the remuneration committee, reviewed at the half year, and performance overall was agreed at year end, with bonuses based on that performance. Monthly business reviews were held with those executives. I do not believe that the remuneration arrangements led to a culture of excessive risk taking, given the checks and balances within the overall credit approval system, including the group credit committee structure and the treasury policy, which I think you heard about this morning.

Impact of shareholder or lending relationships in promoting independent challenge by the board - ILP was a publicly quoted company with a very widely spread investor base, including a substantial retail element. As such, we met regularly with institutional shareholders in Ireland and overseas. These meetings involved exchanges of views on company performance, strategy, etc. While on occasion our overall performance was regarded quite unfavourably in comparison to a number of our competitors, particularly in relation to our non-involvement in large-scale property lending or lending to the SME sector, we did not change our stance on this as we lacked both risk appetite and the skills to undertake that business. We reported the feedback to the board and considered whether we should modify strategy to take account of these views. But in general terms, we maintained over this period a very consistent approach to the business in strategic terms. Because of our business model, we did not have lending relationships with borrowers of the nature that, I think, are ... is implied in this line of inquiry.

Appropriateness of the regulatory regime - the regulatory regime has been characterised as principles-based and light-touch. However, I would characterise it more as unbalanced, with a substantial, relatively well-resourced and quite intrusive, self-confident consumer focus contrasting markedly with an under-resourced and tentative low key prudential activity. This seemed to be confirmed by the *ex officio* directorship of the consumer director of the regulator in contrast to the position of the prudential director. This misallocation led to an inability of the supervisor to analyse in a meaningful way the substantial flow of information that banks provided. In addition, when on-site inspections took place - and that was rarely - there was substantial delay in furnishing reports and dealing with bank responses. Responses to the submission of requested information on particular topics were also very slow.

While there was contact between the regulator and ILP group at a variety of levels, my contact was mainly restricted to twice-yearly visits to the regulator and the prudential director to review half-yearly and annual accounts. While these meetings were businesslike and professional, they contrasted markedly with meetings I had experienced elsewhere with other regulators. Clearly, my interactions with the regulator or certainly ... I'm sorry ... Certainly, my interactions with the regulator bore no resemblance to the extremely thorough reviews with rating agencies.

The regulator appeared reluctant to use its power of moral suasion that I believed it possessed, preferring to take a very legalistic view of its power. I recall contacting the regulator regarding the introduction of 100% mortgages, which I regarded as an unnecessary and unwelcome development, but it was made clear to me that the regulator regarded itself as powerless to intervene. It's my view that the regulator failed to fulfil its prudential function. It is, obviously, primarily a failure on the part of management and boards of banks that was responsible for the crisis that emerged. However, as with all participants in the creation of the crisis, I'm sure that different decisions at different times by the regulator could have reduced the severity of events.

The nature and appropriateness of the relationship between the Central Bank, the Department of Finance and banking institutions: I have no direct knowledge of the relationship between the Central Bank and the Department of Finance and, therefore, I don't consider it appropriate for me to speculate. I can recall only a couple of occasions when I would personally have contacted the regulator on a matter of concern and only one semi-social event - an in-house lunch with my chairman at the offices of the regulator. We were members of the Irish Bankers Federation and we tended to prefer interactions on industry issues to be conducted by them. To the best of my knowledge, during this period I had no contact with the Minister for Finance, the Secretary General of the Department and other senior civil servants unless perhaps at industry gatherings - Institute of Bankers' functions, IBEC, etc.

Appropriateness of the relationships between Government, the Oireachtas, the banking sector and the property sector: The committee has heard evidence from a number of witnesses in respect of these matters. I have no direct experience of the nature or appropriateness of these relationships and, therefore, I do not believe I can usefully comment.

Conclusion: In preparing for this appearance, I have reviewed thoroughly the last accounts for which I was responsible - 31 December 2006 - together with the economic backdrop at the time in order to explain the subsequent outcomes which contributed to such negative outcomes for staff, customers, shareholders and, of course, the Irish State and its people, all of which I deeply regret. While bank margins had declined over the period due to a combination of a very competitive mortgage market, including the introduction from the UK of tracker mortgages, together with an increased use of wholesale funding to fund customer lending, bank profits had more than doubled to €202 million, while capital remained sound with a risk asset ratio at 10.4% comfortably meeting the objective of exceeding regulatory minima.

The two issues which I think best demonstrate the sharp contrast between the time of my leaving and subsequent events are the mortgage portfolio and liquidity on 31 December 2006. Mortgage quality, which was 88% of the book on December 2006: aside from apparently healthy LTV ratios, which I have illustrated in some detail in my witness statement, the arrears position was healthy. Since 2002, cases in arrears had halved, from 7.1% to 3.4% of the portfolio and case numbers had reduced despite the increase of mortgage accounts by approximately 20%. The strong consensus of economic commentary, domestically and internationally, was that despite the rapid expansion of both credit and house prices the economy was fundamentally sound – the soft landing scenario.

We now know that in the period 2008 to 2010 the economy, partly from events abroad, encountered its worst recession ever, vastly exceeding the levels for which the regulator had stress tested in 2006, and, clearly, this was in the nature of the fabled 400-year flood. The liquidity position on December 31 2006: at the end of 2006, the bank appeared to be well funded, with very easy access to a variety of apparently liquid capital market sources; long-term debt repayments were very widely spread; there was a relatively low use of securitisation; and there was a significant availability of secured repo and ECB eligible collateral together with approximately 35% customer deposits. Long-term debt, securitisation and customer deposits together provided 65% of funding. Moody's rating agency increased the financial ... the ratings strength of ILP to AAA in early 2007 while S and P maintained a rating of A+ at end 2007. Events subsequently proved this funding model absolutely inadequate. External events, together with negative views on Irish credit portfolios ensured that very rapidly all capital markets were closed to IL P with the disastrous effects that we now know. The error here was clearly failing to recognise Professor Nyberg's point that in the capital markets there is only one counterparty and, hence, if one source closes to a borrower, all will close simultaneously.

In summary, Chairman, from my perspective Irish Life and Permanent was a sound and well-run business when I retired and I was shocked and disappointed at the impact of subsequent events. I deeply regret the consequences for the staff, customers, shareholders of Irish Life and Permanent and, of course, for the Irish people. I hope my statement will assist the committee in its task.

Chairman: Thank you, Mr. Went, and thank you for taking us through your opening statement. I now invite Deputy Pearse Doherty to commence questioning. Deputy, you have 20 minutes.

Deputy Pearse Doherty: Go raibh maith agat agus fáilte. Can you comment on the reasons why, in your opinion, the chairman indicated that he would be discussing with the executive directors "how the Board might add more value to [the] business operations"? This was noted in the board minutes of the meeting dated 20 April 2004. You can find it, I think, on page 4 of the-----

Mr. David Went: No, I have the example-----

Deputy Pearse Doherty: -----core Vol. 1.

Mr. David Went: Well, there were two aspects of the ... This was ... We had had a review of the board performance and there were two aspects in relation to improvement in the board performance. One was that we ... I would bring forward proposals to progress specific actions identified by the nomination committee to further improve its effectiveness and this largely revolved around the non-executive directors wishing to have greater interaction with individual business units, to get to know the individual managements of the business units, meeting the management of those, getting to understand the business better and more intimately than perhaps they had in the past.

As far as the question you asked ... the specific question you asked, I think that was a feeling by the chairman that we had very high calibre people on the board, with a wide range of experience, and feeling that perhaps we were not making the most use of them, their experience, you know, their contacts that they might have, advice that they might like to give. That, I think, was the... was what's referred to.

Deputy Pearse Doherty: Mr. Went, on 27 July 2005, you wrote a file note in relation to the conversation you had with Brian Patterson of IFSRA and Pat Neary in relation to the 100% mortgages. What was your view on the issuance of the 100% mortgages?

Mr. David Went: Sorry, can you refer me ... just to-----

Deputy Pearse Doherty: The file memo is to be found on page 70 of core 1-----

Mr. David Went: Sorry, page what?

Deputy Pearse Doherty: Page 71.

Mr. David Went: 71. I'm sorry. I'm familiar with the note but I just wanted to ...

Deputy Pearse Doherty: The question is - what was your view to the issuance of 100% mortgages?

Mr. David Went: At the ... When I first heard about it, I was, in the common parlance, I was fit to be tied. I found the ... I felt that this was a product that was not required. The maximum LTV ratio at that stage was 92% so I did not believe that going to 100% was something that there was a crying demand for that product in the marketplace. I also felt that this introduced into the Irish market an unattractive feature which was potentially competing on credit quality, which was ... rather than on price, service, you know, all ... a number of other things, but ... things that banks had competed on for years ... but, it had not generally been the practice in the Irish market for banks to compete on credit quality and, therefore, I felt that this was a very retrograde step. I also felt that in general terms that it introduced for the first time into the Irish market, you know, a no-moral-hazard product for the mortgage customer, effectively. It had always been my view that, you know, the ... having ... customers having to demonstrate some form of saving over a period of time, having to demonstrate that they had a deposit for their house ... all of those things were good social things and good from the point of view of prudential situation.

Deputy Pearse Doherty: Are you aware of any other bank or institution that held similar views to your own and did you have any conversations with them about this?

Mr. David Went: No, I can't ... I ... I did not have conversations with them.

Deputy Pearse Doherty: Okay.

Mr. David Went: I did have the conversation with the regulator.

Deputy Pearse Doherty: Yes, can you tell us what Brian Patterson's and Patrick Neary's views were on this issue when ... in your conversations with them?

Mr. David Went: Well, may ... if I could deal first of all with my conversation with Pat Neary.

Deputy Pearse Doherty: Yes.

Mr. David Went: I think that's the ... I rang Pat and I told him ... I gave him the gist of what I've just said to you - that I thought this was a bad product, a bad idea and that in my view the regulator should seek to forbid the product. We went through a conversation about the fact that that the regulator was a principles-based regulator and therefore ... and played no part in the approval of specific products, all of those things. And I made the point to him that I thought he was taking ... I thought ... that I thought he was taking a rather legalistic view of his powers and in particular at that time I would've concluded that he did not seem to think that he could use the power of moral suasion that I believed a regulator has in relation to a regulated business. We had that discussion. I indicated to him that I thought that, for example, you know, the particular bank that had introduced this was a subsidiary of a major UK bank.

Deputy Pearse Doherty: First Active, is it?

Mr. David Went: Yes.

Deputy Pearse Doherty: Yes.

Mr. David Went: I indicated to him that I thought that, you know, if he felt, you know, that this was a bad thing, and I ... I got the impression that Mr. Neary did, and I don't want ... I would never want to put words in this mouth, but I got the impression that he was not unduly enthusiastic about it, but felt his hands were tied. I indicated that I thought that ... well, you know ... there is a college of regulators dealing with banks, where regulators exchange information on matters of concern and that if he were to ring the Bank of England and say, "Look, one of your people in Ireland is doing something which we really don't like", I felt that that was something that could've had some impact.

Deputy Pearse Doherty: In your note with ... on your conversation with Brian Patterson at the Irish Times Trust board meeting-----

Mr. David Went: No, it was the Irish Times meeting ... Irish Times Limited.

Deputy Pearse Doherty: The Irish Times board meeting, sorry, yes.

Mr. David Went: That is right, yes.

Deputy Pearse Doherty: You say that the regulator had no legal powers to prohibit particular products; they do have general prudential powers, including the threat to impose ... including the threat of the imposition of incremental capital. You go on to say what IFSRA need to do was to have the courage of their convictions on any particular issue. What do you mean by that?

Mr. David Went: Well, I'm ... it's self-evident what I mean by the general prudential powers.

Deputy Pearse Doherty: No, the powers are ... the courage of their convictions - what do you mean by that?

Mr. David Went: Well, I got the impression that they were not enthusiastic about the introduction of the product but felt that they should ... could do nothing about it, and my-----

Deputy Pearse Doherty: Did you have the courage of your own convictions when it came to your own bank and deciding whether to introduce 100% loan-to-value mortgages?

Mr. David Went: No, I had ... as I said in the ... as I think I indicated in the note ... you know, we were a bank that had for 100-plus years provided one in four mortgages, in particular to first-time buyers and this product was aimed particularly at first-time buyers. And, you know, it was ... first-time buyer mortgages would have been about a third of our residential mortgage business, roughly. And being realistic about it, if we could not provide a competitive product to potential first-time buyer customers, we would lose our business and that would be very serious for us in the long run.

Deputy Pearse Doherty: But even though you were fit to be tied, even though you thought this policy was a disaster, even though that this policy provided no risk to the customers and so on and so forth - even though you lectured the Financial Regulator with not having courage of their convictions - you went ahead and stuck your hand in the fire because First Active were ... had their hand in the fire.

Mr. David Went: Yes, we concluded, having reviewed the options and having reviewed the risks that were inherent in this, we concluded that we had no option but to proceed.

Deputy Pearse Doherty: But other banks ... did all ... did ... other banks decided not to do this. Some institutions decided not to do this.

Mr. David Went: Virtually all banks introduced some element - some form - of first-time buyer mortgage.

Deputy Pearse Doherty: But has ... is there an institution that didn't?

Mr. David Went: I can't recall specifically.

Deputy Pearse Doherty: Okay. Did Nationwide introduce a 100%-----

Mr. David Went: No, but Nationwide ... Nationwide by that stage was not making any house loans.

Deputy Pearse Doherty: In 2005.

Mr. David Went: They were not ... hardly making any house loans.

Deputy Pearse Doherty: Okay.

Mr. David Went: Nationwide at that stage was basically a commercial lender.

Deputy Pearse Doherty: Okay.

Mr. David Went: I don't want to comment on another institution-----

Deputy Pearse Doherty: I get that, okay.

Mr. David Went: -----but Irish Nationwide at that stage was basically a commercial lender and from my experience was that there were very few people took out more house mortgages from ... with Irish Nationwide.

Deputy Pearse Doherty: Okay. Do you regret the decision of not sticking to your convictions in relation to the 100% LTVs?

Mr. David Went: Yes, I regret it, but I regret it in that ... but the problem is that I can't ... I could not at that ... I can't foresee ... I can't imagine what the outcome would have been. I believed at the time and we all ... our board believed at the time that taking everything in the round, it would've been a very serious damage to our institution.

Deputy Pearse Doherty: Yes, okay. That's ... you've made that point very clear and thorough. What is your view on the facilities offered to borrowers such as interest-only repayment loans and increased loan-to-values ratios and what effect these had ... these facilities had on the property market at the time?

Mr. David Went: Well, interest-only loans were almost ... virtually, they were for house purchase ... residential house purchase ... were virtually non-existent. I ... there may well have been some people who got them, but very very limited. Investment property loans ... residential investment property loans were different because the tax treatment of interest on investment property loans was such that there was a very significant benefit in having as much interest charged on the loan as possible. And obviously it increased the risk, but our experience was, and the experience up until 2006 in any event was that there were very low levels of arrears on residential investment property loans.

Deputy Pearse Doherty: The question I'm really having is ... not that ... you know, we know right across-----

Mr. David Went: Sure.

Deputy Pearse Doherty: -----all the institutions there was a very low level of arrears.

Mr. David Went: Sure.

Deputy Pearse Doherty: There was high employment and so on. The question is: what impact did it have on the property market? Do you accept now today with hindsight, for example 100% loan-to-value ratios and interest-only loans ... did you, do you believe that they helped create a property bubble which allowed prices to spiral - some would say - out of control?

Mr. David Went: I am not sure. I am not sure that the first-time buyer mortgages had as big an impact as one ... as you might think, you know in terms of the impact on house prices. Certainly interest-only loans made it easier for people to acquire residential investment properties and clearly if there was a ready availability of credit that certainly could allow prices to increase.

Deputy Pearse Doherty: Are you aware of any loans or terms offered to borrowers, which would be considered outside the normal commercial terms available at your institution, made during the period of your tenure and, if so, can you clarify the reasons why this happened?

Mr. David Went: No, I am not.

Deputy Pearse Doherty: Okay. Were there any issues with the registration of interests - with assets taken as securities - within Permanent TSB?

Mr. David Went: Not to the best of my knowledge.

Deputy Pearse Doherty: Okay. Was the process of security registration and of security valuation reviewed by the external auditors?

Mr. David Went: Yes.

Deputy Pearse Doherty: It was. And what was their view?

Mr. David Went: They raised no queries on it so I had to assume it was satisfactory.

Deputy Pearse Doherty: Okay. Your institution showed an increased reliance on wholesale funding from 2005 to finance growth in the loan portfolio. Were you aware of the issues and did you regard this as a fundamental risk or not?

Mr. David Went: Well, we were clearly aware of the issues because we reviewed on a monthly basis the make-up of our funding portfolio. However, we had concluded that for us the primary thing that we looked at was the extent to which customer deposits, long-term debt and securitisation funded our total loan book. And that was about two thirds of it was funded through that, and these were seen as relatively stable sources of funding, and that was ... that, therefore ... and that proportion had been relatively stable over a number of years. Clearly wholesale funding was required to ... to finance growth and indeed, you know, looking back on it that was one of the, that was one of the key attractions that people saw in the introduction of the euro, as far as the Irish was concerned, because Ireland ... one of the problems that there had been in Ireland, why there had been such a wide divergence of interest rates between Irish rates and European rates, was that there was a relatively small pool of capital and once Ireland entered the euro, Irish banks, who had been somewhat constrained in terms of their access to, to funding, they were now ... they now had access to the second, or one of the two widest and deepest and most liquid markets in the world. So that was ... so that was seen as a very attractive proposition.

Deputy Pearse Doherty: KPMG were your auditors for the period 2002 to 2010, inclusive. In your opinion, could the retention of KPMG over the years affect the quality of their audit work and their independence in carrying out their duties?

Mr. David Went: No, I don't think so. The audit partners ... the audit partner for the first five or six years of my period there retired and was replaced so there was a rotation of the audit partner and you know, we had no reason to doubt KPMG's ability to audit our accounts.

Deputy Pearse Doherty: It was noted in the minute of the audit committee on 9 November 2006 that the committee was satisfied with the performance of the auditors. In hindsight would you agree with this view?

Mr. David Went: Sorry, can you give me that ... can you give me that reference please?

Deputy Pearse Doherty: There is no reference to it, it's just a note that-----

Mr. David Went: Sorry what ... what-----

Deputy Pearse Doherty: It was noted in the minute of the audit committee.

Mr. David Went: Yes, which page is it please?

Deputy Pearse Doherty: It's ... there is ... it's not in the core books. It's just a note, and if you take it that this is the case that there was-----

Mr. David Went: Okay, it's not in the core book?

Deputy Pearse Doherty: It's not in the core book, no.

Mr. David Went: Okay.

Deputy Pearse Doherty: It's a minute in the ... of the audit committee of 9 November 2006, during your tenure, that the committee was satisfied with the performance of the auditors. In hindsight would you agree with this view?

Mr. David Went: Yes I would. I mean I think you've heard from the ... all of the audit firms involved in the audit of all of the financial institutions and I believe that they have, you know, they have robustly defended the quality of their audits.

Deputy Pearse Doherty: Yes. I am more interested in your view in-----

Mr. David Went: I have no reason to doubt the quality of their audit. As I said, you know, when I look back on the position as of 31 December 2006, I, I had no reason to doubt the quality of the audit of that ... those accounts.

Deputy Pearse Doherty: Can you recall any issue which may have warranted a qualified report which the auditors discussed with you but did not feature in the management letter, the final year-end report?

Mr. David Went: It would have ... sorry, would you repeat the question?

Deputy Pearse Doherty: Can you recall any issue which may have warranted a qualified report which the auditors discussed with you but did not feature in the management letter, which was the final year-end report?

Mr. David Went: No, I cannot.

Deputy Pearse Doherty: No, you cannot. Are you aware of any key issues that should have been included in external audit but were not?

Mr. David Went: That should have been included in the external audit?

Deputy Pearse Doherty: Yes.

Mr. David Went: No, I'm not.

Deputy Pearse Doherty: Okay. Did the board fully understand the implications of the adoption of IAS 39 standard had on the financial statements of the bank?

Mr. David Went: IAS 39 ... is that, sorry I'm ... I'm ... is that IFRS?

Deputy Pearse Doherty: It's you can't book future losses.

Mr. David Went: Sorry?

Deputy Pearse Doherty: The standard that doesn't allow you to recognise-----

Mr. David Went: Yes, sorry, this is when effectively the ... the general bad debt provision was prohibited.

Deputy Pearse Doherty: Yes.

Mr. David Went: I mean that ... the general bad debt provision was clearly a potential buffer to, to problems, but that's what the accounting standards-----

Deputy Pearse Doherty: Yes, and the question is: I know that it was an accounting standard but did the board fully understand the implications of the adoption of IAS 39 standard had on the financial statements of the bank?

Mr. David Went: To the extent that this removed a buffer? Is that your question?

Deputy Pearse Doherty: Well to the extent that expected losses may not be recognised in the end of year accounts because of IAS 39 and that it could provide a comfort maybe for the board. Did they, did they ... was this explained, did they understand IAS 39?

Mr. David Went: Well they knew that unlike previously, they were not ... we were not permitted to maintain a general reserve to cover future losses.

Deputy Pearse Doherty: Okay. To the extent that you or any other board members had concerns with the adoption of IAS 39, was any concerns raised with the regulator? Was there any concerns, did you have concerns with IAS 39 or any other board member that you know of and was it ... was those concerns, if they existed, raised with the regulator or the Central Bank?

Mr. David Went: No, to the best of my knowledge not. I mean, you know that's a matter ... that's ... you know, this, this ... accounting standards are a matter ... are a matter like ... they're a very long way away from, from me in Ireland I can tell you.

Deputy Pearse Doherty: Okay. Do you feel that the amount provided for in the provision for bad debts was adequate and in hindsight do you feel that the amount provided should have been different?

Mr. David Went: Under IAS 39?

Deputy Pearse Doherty: No, in the ... yes, well yes. Well under ... in your report, in ... the provisions that the bank made for bad debts.

Mr. David Went: I believe that as at 31 December 2006 the provision for bad debts was properly stated.

Deputy Pearse Doherty: Okay.

Mr. David Went: Can I just make one point though that the ... there's a very large concentration always on capital, in capital, and you know Walter Bagehot, many, 200 years or so ago, said, you know, a good bank needs no capital and no amount of capital will save a bad bank. So, to some extent, you know, the argument ... the argument about the sufficiency of capital is ... is a very relevant argument, however you know, liquidity is a much more significant issue in my view.

Deputy Pearse Doherty: Okay. Mr. Went, finally can I ask you what role, if any, did you play in your institution in bringing it to a point where it needed to be rescued for the State, less than 18 months after you left your position? What decisions did you make that helped bring that about or do you completely absolve yourself from any decisions or directions that the bank took at your time that set it on this course?

Mr. David Went: No, of course I don't absolve myself from those. And, you know, I've made the point that we, we made an error in relation to, with hindsight - and you know we would not have been, we would not have been in a small crowd in relation to that sort of hindsight - with hindsight, in relation to not fully recognising the point that Professor Nyberg makes on capital markets that once ... because that ultimately goes to the question of confidence and once confidence goes in an institution the institution is doomed, you know, in the long term. So we certainly made an error in not recognising that. And we also made an error in not recognising that there was a possibility of a 50% drop in house prices. You know we ... that was far ... that would far and away have exceeded any drop in house prices - instantaneous, almost instantaneous, drop in house prices - that anybody would have foreseen. So those, those were two errors that were made and I take responsibility for that.

Chairman: Thank you very much. Deputy John Paul Phelan, 20 minutes Deputy.

Deputy John Paul Phelan: Thank you Chairman and good afternoon Mr. Went.

Mr. David Went: Good afternoon.

Deputy John Paul Phelan: First of all I'd just like to ask you did you appreciate the level of risks, or do you feel that there was an appreciation of the level of risk that was attached to the level of growth within your institution that was being achieved at the time you were chief executive of the organisation?

Mr. David Went: Could you repeat that?

Deputy John Paul Phelan: Was there an appreciation, either by yourself or at board level or at senior management level of the, the risks that were attached to the level of growth that was being achieved?

Mr. David Went: Okay. I guess we always ... we were always conscious of the risk inherent because every banking business is a risk business. I suppose we, we focused on ... there were two aspects of risk in our business. One was the, the mortgage, you know, the mortgage portfolio and the extent to which there was a cushion in there through loan-to-value ratios and we believed that with an average loan-to-value ratio of 71% at inception, there was a substantial cushion there. And equally we ... on the liquidity side we believed, looking at the way in which we looked at it, you know the two thirds of our funding came from long-term debt, customer deposits which would presume to be sticky, and securitisation which actually matched the tenor of the assets - that's two thirds of that, leaving only one third to be covered through short-term facilities - we concluded that that risk was satisfactory.

Deputy John Paul Phelan: Okay. There was another risk which subsequently transpired, which was in relation to tracker mortgages.

Mr. David Went: Yes.

Deputy John Paul Phelan: Were you aware of the extent of the tracker mortgage interest at risk and was that ever discussed at board level or senior management level within the institution?

Mr. David Went: I mean, the issue of tracker mortgages was discussed before we began to offer them. The problem with tracker mortgages is basis risk because, traditionally, mortgage products were lent on a ... on what you might call an "administered rate" basis, a standard variable rate basis. So, therefore, if interest rates went up on the deposit side, the bank had the discretion to raise the interest rates on the asset side, so there could be a pretty much immediate re-pricing of both asset and liability. However, in the UK, in particular, tracker mortgages had become a very significant feature of the market in the '80s - sorry, in the '90s - and these ... tracker mortgages are where you lend at a fixed margin over the official rate. So that introduces another rate ... another element of risk, which is basis risk, where if you, for example, are lending at 1% over the ECB rate and the ECB rate goes up by 0.25%, well, that reduces your margin to 75 basis points, so that's not a good thing.

So the ... and what ... how we analyse that risk would have been to look back over the period. I mean, we didn't have a very long period of euro rates, but we had a reasonably long period of Deutsche mark rates, which would have been a proxy for that. And when you look back over the previous 20 to 25 years, you would have seen periods where official rates diverged from market rates for periods of extreme stress. In 1987, Black Wednesday, when Gorbachev was ... or Yeltsin was kidnapped in Russia, like, there was a tremendous dislocation of markets. So individual deposits ... market deposit rates spiked and official rates didn't. But by and large, those periods were relatively short and if you had to sit and suffer, you know, a contraction of your margin over a period of time, it wasn't a bad thing.

Deputy John Paul Phelan: So I'm not trying to cut you short ... but there was a discussion but you didn't really take any action, is that right?

Mr. David Went: No, there was a ... we would have been aware of the risk but ... and that would have been factored into our, you know, our overall review of our treasury policy, etc.

Deputy John Paul Phelan: I want to ask you about another product that you entered into, or the institution entered into, in March of 2007, shortly before you left, with Merrill Lynch - the Springboard mortgages, they were termed, to cater for individuals who were experiencing difficulties in securing lending from banks by traditional methods. In ... with the benefit of hindsight, was that a good decision?

Mr. David Went: Well, Springboard was regarded when we entered into it as a relatively small diversification that could open up, potentially, another market to us, which was analogous to the market we were in but was slightly different. And it's fair to say that there was considerable discussion of that particular proposition at the board. There had been some concerns in the US over sub-prime mortgages. There was a concern that this was, you know, was a sub-prime mortgage business. That wasn't the way in which it was conceived by Irish Life and Permanent. It was conceived by Irish Life and Permanent as being a, sort of, a non-standard mortgage, not very far ... potentially quite close to a standard mortgage but certainly not sub-prime.

Deputy John Paul Phelan: But there was an element of sub-prime, wasn't there?

Mr. David Went: Oh, yes, I'm not disputing that. However, we always ... we took a very cautious approach to that. We decided that, you know, we did not have all the skills necessary to enter into that business, so we entered into a joint venture with Merrill Lynch, where the financial risk was 50:50 split.

Deputy John Paul Phelan: Can I ask ... and I know you were gone, I think, at the stage, a year later, when Merrill Lynch looked to cease their involvement. Did that raise any alarm bells for you at the time? I know it was post your time as chief executive.

Mr. David Went: Well, I ... being cynical, I'd say, "Phew, I'm glad I wasn't there then". But... no, it clearly ... a decision was made. I have no insight into that decision. But it was, I would repeat, it was a very, very small part of the Irish Life and Permanent or Permanent TSB business.

Deputy John Paul Phelan: Okay.

Mr. David Went: And one of the things that it attempted to do, it was meeting a specific need where it was very difficult .... there were very black and white rules over mortgage lending for people who had, for example, a small Circuit Court judgment or something like that. So it ... you know, you could actually find yourself cut off for a very long period of time from being able to buy a house by a relatively small indiscretion.

Deputy John Paul Phelan: Okay. I just want to change now, if I can. You've spoken in answer to Deputy Doherty in relation to the 100% mortgage issue. You're critical in your statement about the regulator, particularly about the prudential, I suppose, side of the regulator. Did you at any time voice your concerns, either internally to the board of the bank, to the bankers' federation, which you mentioned in your statement, or, indeed, did you voice your concerns to the regulator, outside of that 100% mortgages issue, about lack of sufficient prudential regulation?

Mr. David Went: Well, it's obvious that I voiced my concerns, you know, internally within the bank, because I copied the note that I did to all of the non-executive directors in relation to 100% mortgages.

Deputy John Paul Phelan: Outside of that issue? The prudential, in general, I suppose, is what I'm asking-----

Mr. David Went: No, I mean, I can't say that I did. But that ... I, you know ... that ... and I certainly didn't go along to the regulator and say, "Oh, listen, I think you're doing a very weak job". I mean, I ... that sounds to me like a very incredible scenario.

Deputy John Paul Phelan: And the bankers' federation?

Mr. David Went: The bankers' federation?

Deputy John Paul Phelan: Yes, you mentioned them ... referenced them in-----

Mr. David Went: No, I don't think that matter came up.

Deputy John Paul Phelan: Okay. So, really, your statement here ... outside of the 100% mortgage issue, is you looking back with hindsight and saying that prudential ... there was a lack of resources in the prudential end but you didn't, outside of the 100% mortgage area, raise any of those concerns?

Mr. David Went: No, I wouldn't have considered that to be my role.

Deputy John Paul Phelan: Okay, well, I just wanted to clarify that. That's fair enough. I want to then turn to page 8 of your statement where you say----

Mr. David Went: Page 8. Excuse me, just, can I just find page 8?

Deputy John Paul Phelan: Yes. Basically, the soft landing, which you referenced yourself. You spoke about the consensus that existed domestically and internationally. Was-----

Mr. David Went: Which section is this, sorry? Excuse me.

Deputy John Paul Phelan: It's under the heading "A. Mortgage Quality", on page 8 of your long ... your original statement to the inquiry.

Mr. David Went: Okay.

Deputy John Paul Phelan: There's a diagram in the middle and it's in the paragraph underneath: "[T]he strong consensus of economic commentary both domestically and internationally was that despite the rapid expansion of both credit and house prices, the economy was fundamentally sound", the "soft landing scenario" is how you termed it.

Mr. David Went: Yes.

Deputy John Paul Phelan: Were you and your institution doing any analysis of what the likely outturn for the Irish property market and, indeed, the economy was going to be?

Mr. David Went: No, I think what we sought to do was to access as many sources of information on ... you know, informed information on the Irish economy and the Irish property market and to form a view as to whether or not, you know, what the consensus was and what ... and whether or not we-----

Deputy John Paul Phelan: Would it be fair to say then that you bought into the soft landing scenario - as an institution, not you yourself personally - but Permanent TSB and Irish Life were part of the consensus?

Mr. David Went: I don't think its unfair to say that we agreed that the soft landing scenario was the most ... you know, the base case if you like.

Deputy John Paul Phelan: Now I want to turn to an item that I found online - press release from Permanent TSB on 20 September 2002:

> Permanent TSB launches country's first cheque book-based mortgage account. New facility breaks down the barriers between mortgage lending and other personal loans. Permanent TSB, the country's largest mortgage provider, has announced the launch of the first cheque book-based mortgage account in Ireland. The new facility, One Plan, would allow customers to use an ordinary cheque book to pay for items such as holidays, consumer goods, education fees and, of course, home improvements. Any funds used for such purposes will only attract mortgage rates of interest and no other form of borrowing provides such good value to customers as mortgage borrowing.

How do you feel about that particular product now or do you think that it was marketed, as it was marketed at the time ... I can tell you it was marketed at the time because I was offered one myself which I, thankfully, didn't take up. Do you think that that was prudential?

Mr. David Went: Well, it wasn't ... I mean ... the one thing to remember about One Plan was that there was a very ... relatively low limit on the amount of funds that one could access through the One Plan product, in other words, the ... and, in fact, I think, that-----

Deputy John Paul Phelan: I have it here: "One Plan works by giving customers pre-approval to borrow up to 75% of the value of their homes". 75% wouldn't be characterised as a low loan.

Mr. David Went: I'm sorry, I was talking about the incremental portion of the loan. I guess you have to ... I have to acknowledge that there's probably marketing hyperbole in there.

Chairman: -----guilty of that.

Mr. David Went: Sorry-----

Chairman: Its not the first time we've seen that, Mr. Went.

Mr. David Went: That's right.

Senator Susan O'Keeffe: Absolutely, Chair.

Mr. David Went: However, the basic point ... the basic purpose of One Plan was to take a base level of mortgage loan and to allow the borrower a proportion over and above that within prudent LTV ratios. That was what the basic purpose was. So, for example, using the extension point you just made it was that, you know, you could take out a One Plan loan ... you're ... that would be ... you would have your core mortgage and then as you spent your money on the extension, you know, you could actually use ... you could actually pay for it yourself rather than having to come to the bank and ask for it.

Deputy John Paul Phelan: That's ... I don't think anybody would argue with that. I think-----

Mr. David Went: That was the basic premise of it.

Deputy John Paul Phelan: Well, the basic premise ... that was the last item listed. The first item was a holiday, the second was consumer goods. You know, there was a lot of things included there which, I think, people now looking back on would think were not suitable for that type of product, if you know what I mean, not ... whatever about extensions.

Mr. David Went: As I said, I can't disagree that it was marketing hyperbole but, you know, as long as this was within an overall envelope of a reasonable loan-to-value ratio, I do not ... I don't think it is unnecessarily imprudent.

Deputy John Paul Phelan: Okay. Again, I want to change to the issue of remuneration and, I think, on page 5 of your statement you said: "I do not believe that the remuneration arrangements led to a culture of excessive risk taking given the checks and balances with the overall credit approval system." So, were bonuses - I maybe misunderstood your statement - were bonuses paid on the basis of profits made through extra lending?

Mr. David Went: No, the bonuses at this ... the bonuses that I'm referring to here were based on a combination of group profit, business unit profit and then a number ... a small number, four or five particular objectives. They might have been the implementation of a particular project, such as the restructuring of the branch network or something like that. There was no direct correlation between the payment of a bonus and an individual loan.

Deputy John Paul Phelan: Okay, but they would-----

Mr. David Went: But there would have been targets-----

Deputy John Paul Phelan: Yes, at lower levels.

Mr. David Went: There would have been targets that people would have ... that ... where achievement of those targets would have led to the payment of a bonus.

Deputy John Paul Phelan: They weren't linked to profitability in the sense that, you know, if a mortgage is sold, which is a 30-year mortgage, there was no sense of clawback on a bonus that it wouldn't be realised in full or it could be clawed back if the product or the loan proved, ultimately, to be profitable?

Mr. David Went: No, but at this level there was a process ... I mean ... just, sorry, I'll go back. In terms of determining whether or not people were lending just for the sake of lending, there were a number of audit-type processes in relation to that. There was a credit quality process that was run by the credit group and they would go through and look at experience of individual lenders and if the experience of individual lenders were that arrears were coming up, that would be a bad thing. Equally, then, the internal audit function would have done separately, as part of their internal audit of a branch or wherever, they would have done a review of that. So, to the extent that lenders were lending just for the sake of lending, I don't believe that that would have been a serious problem, no.

Deputy John Paul Phelan: Okay. Finally, your strategy as a group was to focus on the domestic Irish mortgage market which you were ... and, I don't know, perhaps, still are one of the, you know, the largest lender. Was there ever any effort during your time as chief executive to diversify? You mentioned, I think, in your statement again that you felt you didn't have the necessary skill set to be looking to SMEs and to, maybe, "the productive sector", as it might be termed. Was there ever any discussion at senior management and board level that, perhaps, that was something that Irish Life and Permanent TSB should be looking to do?

Mr. David Went: But can I ... I'll deal with that in two parts if you like. For the first period of my time with this group, we spent our time exiting substantial investments that we had overseas that were sub-scale, relatively unprofitable and we decided that we wished to allocate that capital to Ireland where there appeared to be much better economic opportunities and where we had a really substantial market position where we felt we could make better use of that capital. So, that's a general point. The second point you make about SME lending ... I came from a background of running a retail bank, Ulster Bank, and I was fully aware of the extent to which the branch manager and the overall process by which people progress in the bank and become branch managers ... the overall point ... the overall way in which that happens and I concluded and I persuaded my colleagues on the board that it was really too big a stretch for us to, if you like, reverse engineer an SME lending capability into our branch network because I just did not believe we had the skills to do that and I believed that those - and I still believe that - that those skills were actually special skills. You know, you started off by being a clerk to a lender and then you progressed your way up, you went into an advances department, you know, all of those sort of things. I just concluded that we could not reverse engineer those without excessive risk into our branch network and, in particular, I knew from having run Ulster Bank that the clearing banks, AIB, Bank of Ireland, Ulster Bank, National Irish Bank, actually were pretty good at doing that and we would have found it very difficult to compete in that market.

Deputy John Paul Phelan: So you decided to focus on what you thought was your-----

Mr. David Went: Yes, we decided essentially to be, you know, a mortgage lender, a plain vanilla mortgage lender.

Deputy John Paul Phelan: Thank you.

Chairman: Thank you very much. I just want you ... maybe if you would clarify there, Mr. Went, just with regard to the general board composition. Did the board feel that the amount it provided for bad debts in 2006 was correct or understated and that the notes in the accounts gave the reader enough details about the potential risk involved with the commercial portfolio?

Mr. David Went: Sorry, I misheard-----

Chairman: Did the board feel that the amount provided for in bad debts in 2006 was correct or understated and if the notes in the accounts gave the reader enough detail about the potential risk involved with the commercial portfolio? You were addressing this earlier?

Mr. David Went: Well, I had-----

Chairman: This would be with regard to Deputy Doherty on IAS 39.

Mr. David Went: I can't, you know, I can't speak for the views of the board like particularly, but you know, the account ... we would not have signed off on the accounts if we had not believed that they provided a true and fair view of the state of the company at that time.

Chairman: Okay. Deputy Eoghan Murphy, ten minutes.

Deputy Eoghan Murphy: Thank you Chairman and thank you Mr. Went. You're very welcome. I want to look at the area, if I may, of the wholesale markets and wholesale funding and that strategy pursued by you when you were there. If we look at Vol. 1, page 106 of the evidence books, this is a-----

Mr. David Went: Yes.

Deputy Eoghan Murphy: Vol. 1, page 106, if you look at point 8.1 on the funding model

... you'll see it, half way down:

> The Group's lending book grew aggressively from €12.9bln in 2001 to €39.2bln in 2007. This growth was largely funded through the wholesale markets.

So, can you tell me a bit about that strategy and why you decided to pursue that?

Mr. David Went: Well as I said, the basics ... the broad strategy of the group in terms of funding was to fund through customer deposits, which were about 35%, and then to fund through long-term debt and securitisation and, you know, between the three of those, it accounted for about 65% of the total funding and we considered that the remaining 35% in short-term funding, you know, short-term funding - a variety of sources, a very wide variety of sources - we considered that that was a reasonable amount to be funding on a short-term basis. So, that was the broad thrust of the strategy and I think you may have heard that this morning-----

Deputy Eoghan Murphy: Yes, but was it intentional, though, that wholesale funding would increase as it did, aggressively, as it says here in the document but at the same time, funding sourcing from retail deposits would fall? I mean, were you intentionally changing the balance, changing the mix?

Mr. David Went: No, not particularly but it reflected, a) the level of growth to fund customer requirements and b) a very, very competitive deposit market - retail deposit market - where it was very difficult ... it was, you know, there was a tremendous amount of competition in the retail deposit market.

Deputy Eoghan Murphy: It's not indicative of you de-prioritising retail deposits.

Mr. David Went: No.

Deputy Eoghan Murphy: No, okay. In terms of the risk associated with that increased share from the wholesale market, were you aware of those risks? Were you ... is it something that would be in front of the board on a regular basis about this increase?

Mr. David Went: Well, the board received, on a half-yearly basis, a review of funding policy and the extent of funding and all that sort of stuff and that was part of the discussion. But as I said earlier ... as I said in my opening statement, you know, the ... we viewed the opportunity to fund in a variety, a wide variety of wholesale markets, as a really attractive part of joining the euro. And, you know, when we look back ... and at the time, wholesale markets, I won't say ... they almost looked invincible. Now, with hindsight, they weren't and, in particular, I come back to this point that ... and I do acknowledge that this is a significant error ... that we did not recognise the risk that, if confidence left the Irish banking system, markets would all close, just like that.

Chairman: There is phone interference, Deputy, coming near you. It's somewhere from your proximity

Deputy Eoghan Murphy: It's is not me.

Chairman: It is not always the person that's speaking; it's just people in proximity so I'd ask them really to deal with their phones. Sorry there now for disturbing you Deputy.

Deputy Eoghan Murphy: Sorry. Thank you. Just, staying on this page and just moving down in that paragraph to the sentence, ''The Group's position was highly precarious in 2008 due to its high level of short term funding and therefore its high loan to deposit ratio.'' Do you accept that? That that's why the group found itself in a precarious position in 2008?

Mr. David Went: Well, I've already said that.

Deputy Eoghan Murphy: Yes.

Mr. David Went: I've already acknowledged that.

Deputy Eoghan Murphy: Okay. And you accept ... do you accept that that happened because of this change in the mix of funding and this - what it says at the opening of the paragraph - "aggressive" move in the lending, to grow the lending book using the wholesale markets?

Mr. David Went: With hindsight, yes.

Deputy Eoghan Murphy: Okay. Thank you. Just then, related to that but slightly moving aside, is the stress testing that would have happened then, as you embark on this new strategy or you see the wholesale markets and the potential that they offer. What kind of testing were you doing against this new source of funding in case of a downturn, in case the markets were then closed to you - a particular market abroad or the Irish market here or whatever might happen?

Mr. David Went: I'm not sure whether this morning you covered that with my colleague. There was a.... there were ... there was a ...if you just bear with me for a second ... if I can find his statement ... no, I'm finding it difficult to find it.

Deputy Eoghan Murphy: Who are you referring to, sorry?

Mr. David Went: I am referring to Mr. Gantly's witness statement from this morning.

Deputy Eoghan Murphy: Mr. Gantly hasn't appeared yet.

Chairman: He hasn't appeared.

Mr. David Went: Oh, he has not appeared. I'm sorry. I apologise.

Deputy Eoghan Murphy: I was confused.

Chairman: We were all getting -----

Mr. David Went: I believed, obviously, in the ... hold on. If I'm allowed ... am I allowed to refer to it?

Chairman: Yes, you can indeed. Mr. Gantly will be in here anyway.

Mr. David Went: Okay. Before I respond specifically, this was not a deliberate strategy, you know, a switch from ... We did not deliberately say, "We don't want retail deposits anymore, we just want wholesale funding".

Deputy Eoghan Murphy: If it's not a deliberate strategy then does it happen by accident? Is that the implication?

Mr. David Went: No, no. It happened because we had a funding plan ... we had to have a funding plan to meet anticipated growth.

Deputy Eoghan Murphy: Okay, but the funding plan then was it a strategy, then, to-----

Mr. David Went: Oh well, if you-----

Deputy Eoghan Murphy: I mean, it was deliberate. You made these decisions.

Mr. David Went: I take that point, yes. Okay. Now, wait a second ... yes, there was a ... excuse me for reading from this, potentially ... We introduced this ... an updated liquidity policy in October 2003 and this was based on the Basel committee on banking supervisions paper, Sound Practices for Managing Liquidity in Banking Organisations, and there were three ... essentially this was looking at contingency funding and there were three specific examples. One was a moderate entity-specific crisis; in other words, this was a crisis just about us and you know, some money had gone astray or something like that. Under that ...an unexpected cash-flow problem only likely to last a few days. It was presumed under this scenario that wholesale and retail deposits, short-term paper funding programmes would remain intact and that we'd sell off liquid assets to meet the thing. A severe entity-specific crisis which affected our ratings and this would have been where we would have suffered a major downgrade - two notches on long term and one on short term - and it was assumed there that unsecured sources would be severely affected. The scenario could take weeks to possibly three months to stabilise and it was anticipated that not only would we use our liquid assets, but we would use securitisation, you know, the eligible collateral to do that. And the final one, then, was an industry-wide crisis where there are liquidity problems in the banking system as a whole causing widespread disruption to markets. The best defence is described as maximising our ability to deal with stress under scenario two. Under that scenario, we also assumed that the regulatory authorities would be aggressive in providing support to the system, making Central Bank borrowing effectively the swing factor in ensuring the survival of the institution. We implemented ... we conducted those tests using the Basel requirements every month and they were submitted to ALCO, you know, to our asset liability committee, on a monthly basis. So, this was not something that we did not consider. We did consider it.

Deputy Eoghan Murphy: Sorry, when did that work begin? The working out-----

Mr. David Went: It would have begun in 2003.

Deputy Eoghan Murphy: In 2003. And it continued right on until you left?

Mr. David Went: Right on.

Deputy Eoghan Murphy: Okay. I mean ... looking back, then, was it complex enough to deal with the actual funding mix that you had and the different types of investments and the different type of lending?

Mr. David Went: To be honest, I find it difficult to answer that question because I'm not ... I wouldn't be sufficiently familiar with the absolute ... the complete methodology. But I think that ... being truthful about it, I think that nothing would have been sufficient to deal with the actual outcome because the ... you know, the doors all just shut right away so I think nothing would have ... no amount of analysis, I believe, would have tested for that level of stress.

Deputy Eoghan Murphy: Okay, thank you. And then just in terms of the loan-to-deposit ratio of the group, you found yourself in a more difficult position or a more precarious position than other entities in the system. I mean, how does that happen for the group?

Mr. David Went: Well, obviously, it happened because, I suppose ... I wasn't around at the time so I'm ... I'm speculating to some extent ... but, no, I'm speculating to some extent. Perhaps it was because people took a more negative view of the asset portfolio of Irish Life than they did of other people's portfolios, that's one aspect of it. So, therefore, depositors wanted to withdraw their money more than they might have done with other people. Equally, because we had a very wide sort ... we had a substantial reliance on ... we had a substantial amount of short-term funding, that all just stopped straight away. Commercial paper average duration was 40 days so once the commercial paper market was shut, like, you know, that was it. So that was what ... and I'm not sure that any analysis of this, any stress testing of this would actually have taken you to where it actually went to.

Deputy Eoghan Murphy: Okay, and just to clarify, sorry, you shared your stress tests-----

Chairman: Last question now, Deputy.

Deputy Eoghan Murphy: Did you share your stress tests results with the regulator? Was this work passed to them or was it something you kept in house?

Mr. David Went: No, this was something that we were doing internally as part of our overall treasury policy and how we controlled out exposure to liquidity problems.

Deputy Eoghan Murphy: So you did say in your statement that you thought the regulator's ... was unbalanced in their approach to the banking sector.

Mr. David Went: No, I said ... what I said was that the basic defect in the stress test of 2006 was there was absolutely no view taken of liquidity.

Deputy Eoghan Murphy: Okay, thank you.

Chairman: Thank you very much, Deputy Murphy. Senator Sean Barrett. Senator, ten minutes.

Senator Sean D. Barrett: Thank you, Chairman, and welcome to Mr. Went. The ... PTSB were very active in the residential investment property market, called RIP in the era - and I think it may be a good Freudian slip. And, in terms of annual growth in this market, with a relaxing of terms and conditions, was the level of risk associated with this growth fully understood?

Mr. David Went: Well, I believe so because each ... you know, to the extent that there were, you know, changes to credit policy, they were gone through at an executive level, they were reviewed with the board and, ultimately, the changes in credit policy would have been advised to the regulator. And I think you have somewhere in these papers some examples of changes in credit policy and I presume the reason for having them in here is to show the way in which the thought process, in terms of the changes, operated. And that's, you know ... so every time there was a change in credit policy, a logical process was gone through and the decision obviously at the end was that this was a ... you know, this was not an imprudent way to go.

Senator Sean D. Barrett: But the results seem to indicate, as you were describing to Deputy Murphy, that in loan-to-deposits, loans-to-value and sectoral concentration, major policy decisions were made which ended in tears. You went the wrong way in all three of those.

Chairman: Ask a question rather than make the judgment Senator.

Mr. David Went: Repeat that, sorry.

Senator Sean D. Barrett: That ... when you were describing to Deputy Murphy, you know, what was happening in terms of loans-to-deposits, loans-to-value and sectoral concentration, we were moving ... I would put the proposition - for “Yes” or “No” – we moved in the wrong direction, I’ll put it to you, in relation to all of those and that’s why this committee is here ... this inquiry is here.

Mr. David Went: Well, in terms of sectoral concentration, I don’t believe that, you know, we moved at all, you know, from the very beginning because that was our concentration was always on ... essentially on house mortgages. So I ... I don’t accept that.

Chairman: What about volume?

Mr. David Went: Sorry?

Chairman: There is sectoral and then volume, which would be different. The volume of that that you would be doing, would you see that as being related or separate?

Mr. David Went: Sure. Well, you know, when ... the volume we did was a factor of the volume available in the market and the volume that ... and our traditional and historical market share. Our market share over these five or six-year period ... this five or six-year period, would have ranged from at the bottom 20% up to around about 23% and that was below our historical average. So, you know, we weren’t doing anything out of the ordinary as far as ... as far as market share was concerned. It wasn’t as if we had come from, you know, making one house loan in 2000 to making 15 million house loans in 2006.

Senator Sean D. Barrett: But on page 63 in the volume, January 2006 ... reporting on December, says it was up 93% on the previous December and then you go to page 89, November 2005, approvals 119% up. Now was that not bound to end? That was a bubble really - I’ll put that proposition to you.

Mr. David Went: Well, I ... certainly, with hindsight, that was a bubble. But I repeat that we were doing what we had always done which was meeting, you know, roughly 25 ... 20% to 25% of the mortgage requirements of the Irish population. That’s what we had done for 100 years.

Senator Sean D. Barrett: You said in your speech in October 2004 to the Institute of Bankers that Mr. Gordon circulated from Permanent TSB that:

> Mr. Went [said] that he was increasingly concerned at the level of criticism being made about the banking sector in Ireland. He said, “My concern is that after a period of pretty relentless criticism, we’re coming closer to a tipping point where the cumulative effect could begin to influence the attitude of international institutions towards the sector.”

Weren’t the problems the people at the dinner not the critics outside? Irish banking was brought to the present state by the people who ... at the Institute of Bankers dinner that you were addressing on that night.

Chairman: It was at a different dinner, Deputy ... just proposition, proposition, proposition.

Mr. David Went: Sorry, I don’t recall that speech but I don’t know-----

Senator Sean D. Barrett: I can give it to you if you want to remember it. I mean, wasn’t that ... something happened in Irish banking ... look to the wider one, and from your experience in Ulster Bank it was a ... you know, a conservative pillar of society and people like Colm McCarthy have raised this point and perhaps you might assist us. What happened to Irish banking? It was conservative, it lent wisely, although conservatively, the people in it were pillars of society and respected, they were valued members of society, they promoted thrift. Now we've got to a situation where Her Majesty withdrew a knighthood from a banker associated with the Ulster Bank and we can't-----

Mr. David Went: I am not associated with the Ulster Bank.

Senator Sean D. Barrett: Yes. And we can't find a jury, in the opinion of the Judiciary, which will give a banker a fair trial. Why is ... why has Irish banking, you know, incurred the €64 billion and why has it fallen so much? What might you have done, from your experience in Ulster Bank, to ... to bring it to the situation where we didn't have these bubbles and crises?

Chairman: Thank you, Senator, you're keeping me wide awake. Mr. Went.

Mr. David Went: That's a very interesting philosophical comment. First of all, I'd have to say I'm heartsick by what happened to Ulster Bank. I left Ulster Bank in 1994. It was regarded, within the NatWest Group, as a very good performer, a very sound, solid business, very strong credit culture, very ethical organisation, etc. And I'm heartsick at what happened to it and it being driven into the ground. So, you know, I ... I just ... I mean ... I ... I'm not exactly sure what you're trying to get at.

Senator Sean D. Barrett: I am trying to get at that ... that banking is ... its changes in policies have brought this country to an impasse where we had to go to the IMF.

Chairman: Can I give a summarisation of that to maybe try to assist you, Senator, in that we ... all these institutions, with maybe the exception of one, have been about since maybe God was in his short pants and they operated a business model for decades, if not centuries. And within two decades most of them, if not all of them, were wiped out. Would that be a fair reflection? What happened? What happened to ... in these institutions?

Mr. David Went: I think that, you know, the best analysis I've seen of this is in Professor Nyberg's report and I think that's ... it's a ... for anybody who's been involved in the banking business, it's a very sobering analysis, it's a very simple analysis. The analysis is that there was a ... you know, the Irish economy was seen as all-powerful and people got caught up in it, if you like, and that's how it happened. And I think that Professor Nyberg's analysis is the correct analysis. There was, you know, a herd mentality, a groupthink, etc. I think that's the analysis of it, you know.

Chairman: Senator.

Senator Sean D. Barrett: You said in that speech that you referred to, "There can be no place in banking or financial services for people with low standards of ethics."

Mr. David Went: Ah, yes, I now remember.

Senator Sean D. Barrett: Were you concerned at that time?

Mr. David Went: I now remember.

Senator Sean D. Barrett: Yes.

Mr. David Went: I now remember the speech.

Chairman: Be very careful now.

Senator Sean D. Barrett: Yes.

Mr. David Went: I now remember the speech. No, no. The speech ... from memory, there had been a number of incidents where banks maybe had fallen short of what you might regard as proper standards but, sort of extrapolating from that, there had been a considerable amount of public comment on the fact that all bankers were dishonest, you know, etc., etc., etc., and my view was that that was not the case. I mean, you know, you go back to the – and I won't debate this philosophically too much – but you go back to the point you made about, you know, Ulster Bank being a very sound, solid bank and everything else. If you also go back to that time, the one consistent thread of political comment on banking was that banks weren't actually sufficiently in tune with the requirements of their customers. They should do more to support their customers. I mean, you know, you can't have it both ways.

Senator Sean D. Barrett: Well, I mean, what would you ... do you think we should go back to the first way then, to have solvent banks which would have a standing-----

Mr. David Went: Of course we-----

Senator Sean D. Barrett: -----in society compared to what's happening now.

Mr. David Went: Of course, we should have solvent banks but every developed economy requires, you know, a vibrant banking industry that meets the needs of its customers. But what it does ... but what it also requires is a banking industry that retains the confidence of its customers.

Senator Sean D. Barrett: Why do you think auditors missed so much in auditing Irish banks?

Mr. David Went: I think that ... I think we're back to the issue of, you know, a consensus on likely outcomes because that's what, you know, that's the ... one of the big issues for an auditor is to, you know, the forward ... forward-looking estimates. So, I guess, the consensus on that. That, I would think ... and maybe every ... maybe they had the same, you know, they came ... they came to the same conclusions as everybody else did.

Senator Sean D. Barrett: Thanks. My time's up, Chairman. I just want to reassure Mr. Went, I like the banks the way they used to be. If you've any influence, please-----

Chairman: Thank you very much, Senator.

Mr. David Went: Well, I liked the banks the way they were.

Chairman: I'm going to move promptly on. Deputy Higgins. Ten minutes, Deputy.

Deputy Joe Higgins: Mr. Went, just to continue the theme, since you mentioned philosophical, etc., could I ask you if you maybe might ... if the situation could be summed up as follows, that your group lending grew aggressively, according to a PTSB report which is in our documents, from €12.9 billion - "lending grew aggressively from €12.9bln in 2001 to €39.2bln in 2007" - and, in that same time, customer accounts grew from €9.5 billion to €13.6 billion? The point being made then that short-term funding became a huge need for your organisation. And is it the case that that happened, that you went beyond the bounds, because as ... a number of contributors here have given evidence of cut-throat competition between the banks for profit maximisation, and that blinded you to the dangers? Would that be true or-----

Mr. David Went: Profit maximisation, in what respect?

Deputy Joe Higgins: In the banks. The witness from ... a senior witness from Allied Irish Banks, for example, gave evidence of being under severe pressure to emulate Anglo's profits and some of its methods.

Mr. David Went: But that, with respect now, was in relation to its lending activities, nothing to do with its funding model.

Deputy Joe Higgins: Yes, but the point is your lending grew exponentially-----

Mr. David Went: Yes.

Deputy Joe Higgins: -----in a short period of time.

Mr. David Went: Yes.

Deputy Joe Higgins: I mean, as an experienced banker, would you not have been aware of what Mr. Honohan has said in some of his learned dissertations and Mr. Black, the former regulator in the United States, said that growth over 20% or 25% is a recipe for potential catastrophe later on?

Mr. David Went: Well, as I said, I'm not sure of the connection between asset growth and funding, which I thought was what you were trying to ... what you were asking me ... the question you were asking me. I'm sorry, I'm not trying to be difficult but I just don't follow the connection.

Deputy Joe Higgins: Yes, but, well, in general, that the financial institutions, in pursuit of profits and aware of the competition with their competitors, were growing their ... various elements of the business far too fast.

Mr. David Went: All I can say is that for, as far as Permanent TSB was concerned, we stuck to what we had always done, which was providing house loans for people. That is what we had done in all of our previous manifestations for over 100 years. That was our primary business. We did not get involved ... you know, no matter how sexy or how exciting the spectre of development lending, you know, lending for raw land, anything like that, we did not do that. We stuck to what we knew and we stuck to what we knew and we stuck to it in a way in which we felt that ... you know, the average loan-to-value ratio of our entire mortgage portfolio was 71%, so that meant there was 29% of equity in the portfolio. That's a very substantial amount of equity to start with.

Deputy Joe Higgins: But, Mr. Went, did you ... and if I refer to Vol 1, page 37 to 42 or so, in sticking to that, did you not at the same time loosen up considerably the criteria and did you not loosen your credit standards in such a way that gave rise subsequently to serious problems? For example, in the buy-to-lets, in reducing ... or in one situation where, if a proposal for a buy-to-let essentially is not self-financing on a stand-alone basis, the applicant's net disposable income is assessed to establish if the deal is affordable and you reduced the income for a single person to €40,000 and then other ... some other changes that you made at that time. I mean, wasn't ... I agree with you, you didn't go into the wild speculation that we have heard about in other areas of ... that left us with ghost estates, etc., but within the area that you were working in, did you not, kind of, emulate what was happening elsewhere in a different way?

Mr. David Went: Well, I'd have to say, when you look at this ... if you look at these pages and you look through the way in which it was reviewed, you know, I ... we've carefully analysed what we thought was the incremental level of risk which we were taking on and we concluded, in all good faith, that that was a reasonable level of incremental risk to take on. And in terms of the growth in the portfolio, as I said, you know, we traditionally had provided 25% of mortgages to Irish people, and through this period our market share was somewhere between 20% and 25%. So we ended up doing no more than we had done over the previous 100 and odd years.

Deputy Joe Higgins: Okay. As an aspect of that, Mr. Went, can I ask you, in relation to the price of a home ... because you were experts in this field and evidence to this inquiry show that between 1996 and 2006 the price of an ordinary home increased each year for ten years by the equivalent of the average industrial wage. And that's an astonishing, I think you will agree, perhaps, statistic.

Mr. David Went: An astonishing statistic, yes.

Deputy Joe Higgins: Was it not clear to experienced banking and experts in home mortgages, particularly like yourselves, that that was creating a ... an appalling scenario, and did you not consider ... raising alarm bells all over the place to stop that type of exponential growth in the price of an ordinary home?

Mr. David Went: Well, you know, there's nothing a bank ... there's nothing a mortgage lender can do to stop the increase in the price of a home; it's the market determines the price of a home.

Deputy Joe Higgins: But, Mr. Went, with respect, if you all join inside the market in competing with each other and so forth, are you not part of the bubble blow up?

Mr. David Went: The critical thing that, you know, we had to consider in terms of our lending policy in relation to house mortgages was how affordable were the repayments to the borrower. And when you combined, you know, when you looked at historical affordability criteria of borrowers, you know, over this period by and large despite ... despite house price increases affordability actually improved because tax rates went down, interest rates, you know, in the ... in 1987, a house mortgage cost 15% for a period of time. By the time you got to 1997 or 2005, you were talking about 5%, so the interest rate had gone down. So the overall level of affordability of monthly repayments was actually at a very high level.

Chairman: Just one minute now, Deputy.

Deputy Joe Higgins: I wish we'd more time to pursue that-----

Chairman: I'll be picking that up when we wrap up; don't worry about that.

Deputy Joe Higgins: -----because, Mr. Went, people with huge negative equity and 40-year mortgages, I think, would ... we could discuss that but because-----

Mr. David Went: Could I just make the point about ... sorry, I just ... 40-year mortgages are a very emotive way of putting it. The average life of a mortgage in Ireland is about ... certainly for the previous 40 years, is about six or seven years. So, therefore, the actual ... the initial ... no, no ... the initial term of a mortgage is, sort of, irrelevant because people change houses. They move lenders, whatever. So roughly ... so the average life of a mortgage, and you can actually see that throughout the papers here, is about six or seven years. So the initial term of the mortgage is actually, sort of, irrelevant. It doesn't really matter that much because most people move houses. They get ... they decide they'd get a better rate from a lender or whatever, so, you know, 40-year mortgage ... it's very emotive I admit that, but it actually isn't that relevant in practice.

Deputy Joe Higgins: Again I wish we had more time. Just two very final points-----

Chairman: Finish now, Deputy, if you can, please.

Deputy Joe Higgins: You know there ... many people feel we have a housing crisis now. We see evidence of it every day. The ... would you accept in any way that the buy-to-let policy of organisations such as yourself has created a part of that crisis with the foreclosing on people who can't afford, therefore, tenants being put out, etc.?

Chairman: Okay, we are moving out of terms of reference now so I need to get back to information that's relevant to Mr. Went.

Deputy Joe Higgins: Yes, well, just the effect of the policies of the bubble period being partly responsible for the housing crisis today.

Chairman: Mr. Went might deal with that in his closing remarks, if he wishes to.

Deputy Joe Higgins: Okay.

Mr. David Went: I'd prefer not to but-----

Chairman: Well, if you wish to.

Mr. David Went: No, I mean, I fail to see ... to be honest, I do not see how lending money to people to rent to other people is actually a contributory ... you know, is actually something that can ... seen as a real contributor to the housing crisis. I accept it may be due to the financial position of the owner of the house, but I don't actually see how creating more houses for rent can contribute to a housing crisis.

Deputy Joe Higgins: Mr. Went, to conclude, I'm to ask you this just very briefly.

Chairman: Thank you, Joe.

Deputy Joe Higgins: A letter from Peter Fitzpatrick who was your finance director ... group finance director-----

Chairman: This is Vol. 2, page 11.

Deputy Joe Higgins: It's on page 11, and he's complaining about the Bank of Ireland saying to other bankers etc. in ... in ... towards the end of 2007 that the issue for all Irish banks was one of survival and that Bank of Ireland is creating massive negative sentiment. Do you have any comment in relation to that, what Mr. Fitzpatrick said?

Mr. David Went: No, I've no idea, I mean I can't, you know, I left in May 2007 and I've no comment.

Deputy Joe Higgins: Okay.

Chairman: And when you left in May 2007, do you believe that the institution was in good health at that time, Mr. Went?

Mr. David Went: I said that when I ... in my initial remarks I believed it was a soundly financed and well-managed institution.

Chairman: Okay, Mr. Went, I'm going to wrap up and I'll then invite you to make any closing comments that you want. I just ... it just, kind of, following the discussion there that you were having with Deputy Higgins, and it was, kind of, in my mind anyway, I just want to bring up two slides on the screen. I don't know if you've seen them before. It's not ... I'm not going to be asking you questions, it's just, kind of, to give a bit of context as to what was being discussed. What we have here on the first screen is two tables, one showing the ratio of average new house price to the average industrial wage and it traces a period from 1996 to 2006, and what we see there is a very, very upward trajectory over the ten-year period. In the next slide below we see a ratio of average-----

Mr. David Went: Second-hand prices.

Chairman: -----yes, and then we see an average of second-hand house prices to the average industrial wage and we also see a similar, sort of, reflection there. If I can just move on to the other slide, and what we have there is the residential house price annual, and we see it moving from 1992, the blue line being new house prices and the red line being second-hand house prices, both growing quite exponentially as well over that period. And in the slide below, we have the residential house price quarterly, and, once again, the blue line is new house prices and the red line is second-hand house prices and we see significant increases there of quarter-on-quarter, with the whole thing peaking in and around 2007, 2008, the latter part-----

Mr. David Went: Sure.

Chairman: -----of the noughties. Now, in your earlier discussion then, and we're, kind of, because we're moving to conclusion, that I would be looking, say, from witnesses as well maybe to give insights that allow us to, kind of, move towards findings and conclusions ....listening to you to this afternoon there seems to be three things, kind of, on the table with regard to the mortgage environment. There's market share, there's competition and there's volume. So market share is not necessarily a fixed thing. If there is an increasing house buying market and you've 25% of the market that's more houses that are being sold and bought, and, likewise, shrinking, so just to say that you've maintained market share over a period of time doesn't reflect the volume that was actually going on.

Mr. David Went: No, it doesn't. No, I accept that.

Chairman: So you'd accept that?

Mr. David Went: I absolutely accept that.

Chairman: That's grand. And also then there's the issue of competition that you referred to earlier where a competitor introduces a new product into the market that has, what was the term you used earlier ... that brought different types of concerns to the earlier type of concerns. One was about the, sort of, the design of the product and so forth. You were on about here the prudentialism of that product, so the competition, kind of, brings in-----

Mr. David Went: Sure.

Chairman: -----this stuff as well. So, could I put it to you, Mr. Went, that, as a proposition and to get your thoughts on it, that during the 2000s right up to the property crash, as indicated on the slides that I showed, house prices were escalating at an unprecedented level year-on-year? Average industrial wage, as Deputy Higgins would also ... that the average house price was increasing by the average industrial wage year on year. And, in these circumstances, regular and even above regular income earners should have been priced out of the market earlier in the decade because the house prices were going up.

Mr. David Went: Sure.

Chairman: They should have been priced out but they didn't become priced out because house purchasing continued right up to the peak of the crash later in the decade because the figures show us that there were even more houses being bought. It wasn't that the slide is going up in price; the consumption of houses is increasing also.

Mr. David Went: Sure.

Chairman: So, in any way, was this facilitated by the designing of mortgage products that seemed to have met the affordability criteria but, in actual effect, was camouflaging the price of the property or by extending the mortgage term? Like, so what we had here ... the design of the product was still meeting the affordability criteria but the price of the product was being camouflaged because of the product. As a proposition-----

Mr. David Went: Well, to, I mean, yes, that's a-----

Chairman: Would you care to comment on that?

Mr. David Went: No, I mean, I think that's probably true. I mean, as ... you know, there was a tremendous demand for housing, you know, amongst the entire Irish community. You know, we're a nation that wants to own their own home, and as, whether it is a first-time buyer or a second-time buyer, as they reach, if you like, the peak of what they can get as a mortgage under existing terms, that's clearly a pinch point.

Chairman: Yes.

Mr. David Went: And there were a number of ways ... factors that, in fact, led to probably, you know, the ability to borrow more than you would have been able to borrow two years ago. One would have been incomes rising. The other would have been interest rates lowering. The other would have been taxes being reduced. There would have been an extension of mortgage terms, you know, at the outset, because obviously if you ... despite the fact that your ... the average mortgage lasts for six or seven years, you know, if you price ... if you calculate something on the basis of 40 year repayments rather than 25 year repayments, that's a much lower amount of a monthly payment. So there's a whole series of things that can happen to make, you know, to give the ability to borrow more to a particular borrower.

Chairman: Okay.

Mr. David Went: And that, in fact, it's all of the above that were in existence at ... during this time.

Chairman: But as the market is changing, the product is changing-----

Mr. David Went: Sure.

Chairman: ----- to purchase. Or, sorry, the mortgage. There are two of them products.

The house is changing. And we also have the elongation of the loans, the lengthening of the loans, the mortgage terms, and interest-only, 100% and all the rest of it happening, making the affordability criteria to acquire the mortgage-----

Mr. David Went: Yes.

Chairman: -----still accessible, even though the house price-----

Mr. David Went: Absolutely right.

Chairman: -----is gone off the map.

Mr. David Went: Absolutely right, yes. Yes.

Chairman: Okay. And in-----

Mr. David Went: But is that a bad thing?

Chairman: Well, this is the proposition I want to talk out with you now, okay. And further to that then, we had a ... in the residential market. Concurrently to that we have the buy-to-let market, where there is significant mortgage interest relief for the investor. And, as you said earlier, in fact, a high level of interest on the loan is advantageous to the buy-to-let owner because they get a relief on it. This is also adding to the inflation of property-----

Mr. David Went: Sure.

Chairman: ----- prices and so forth. So, in that regard, and, kind of, coming back to my earlier proposition to you that people should have been priced out of the market earlier, in summary, did financial institutions and your own elongate the bubble through the design of these products?

Mr. David Went: That's probably a fair statement.

Chairman: So, the design of mortgage products actually suspended the crash. Is that right? Would you concur with that proposition, and that the crash could have come sooner and not have been so extreme if the mortgage products were not-----

Mr. David Went: No.

Chairman: -----designed in the way they were to elongate it?

Mr. David Went: I don't believe that the crash came because of the house mortgage market. I believe that the crash came because of the speculative development raw land market and because of external events. So, I don't believe that the house mortgage market was the proximate cause of the crash. It was one of the causes of the crash-----

Chairman: Okay.

Mr. David Went: -----but or it was a part of the crash, but it was not the proximate cause of the crash.

Chairman: Let me, sorry, let me just share for ... what's called a germane disclosure in counselling, a relevant experience that assists the client. An experience I had knocking on a door one day in Cork was to meet a couple. One was a public servant who was on a mid-income level and the other one was working in the pharmaceutical industry in Cork. Back in the day, one of them would have been able to afford a house on their own, and it was like an episode of Dan Paddy Andy. The bank manager told them that they needed to get married so they could get a mortgage. So it's like going to a matchmaker instead of going to your bank. Even with the combined incomes, they could no longer afford an entry price house and they were earning too much to qualify for affordable housing.

Mr. David Went: Local authority. Yes, sure.

Chairman: You'd be familiar with the product at the time. Now, just the basic premise of product sales and capitalism or whatever: to buy a product, somebody ... for instance, like a car ... if I go out and buy a new car tomorrow, somebody needs to buy my second-hand car off me. And that maintains the market because there's entry into the market. By 2005 and 2006, because entry into the market is becoming harder for these couples who are above average earnings, was that not a sign that the market was eventually going to collapse? Forget about land speculation. If people can't afford to buy a home, the market will collapse anyway, just like the car market will collapse if I can't sell my car second hand.

Mr. David Went: It's possible. You know, as I say, I think the ... I think it's quite instructive for me to look at the commentary on the Central Bank's latest introduction of limits on mortgages. You know, that seems to me to be a very prudent and reasonable response to, you know, what has happened in the past. And the general level of comment on that has been: what about the poor first-time buyer? You know, so, in other words, you know, we have to ... we can't have it both ways.

Chairman: And I agree with you, so this is the final part of it. Do we need a product that allows the first-time buyer to come into the market but a product that is actually prudentially safe to them over a long period of time, and was the product that was available in the 2000s not prudentially safe to first-time buyers?

Mr. David Went: Possibly, but you know, when you ... if you talk to people who bought a house 35 years ago, they will tell you about queuing outside Irish Permanent's head office in O'Connell Street in order to get an application form for a mortgage that was issued like ... that were ... and mortgage forms were only given out once a month.

Chairman: There was a bank manager quite close to me, Mr. Went, in the same county, and he was known as Johnny Five Grand because that's all he'd give you. I'm not talking about those circumstances. I am talking about a mortgage product that is sustainable in the long term; not one that you have to get down in a deferential role to a banker or not one that you're given because of competition in the market.

Mr. David Went: Well, you know, maybe there is. Maybe there is.

Deputy Joe Higgins: Can I raise the point, Mr. Went, that the home, which is a basic human necessity should not be the subject of profiteering and speculation-----

Chairman: Ah, Deputy-----

Deputy Joe Higgins: -----as it became during the bubble?

Chairman: Okay, I'm going to invite you, because I want to wrap things up, Mr. Went, by ... and I appreciate the time that you spent with us today, particularly your final engagement with myself. Is there anything further you would like to add by means of final comment or remark?

Mr. David Went: No, I just want to repeat something that I said at the beginning because, from my perspective, Irish Life and Permanent was a sound, well-run business when I retired, and I've been shocked and disappointed at the impact of the subsequent events. And I do deeply regret the consequences for the staff, the customers, the shareholders and, obviously, for the Irish State. And I hope that my statements and my interaction here today will be useful to the committee. Thank you.

Chairman: Thank you very much, Mr. Went. With that said, I'd like to thank you for your engagement and participation with the inquiry this evening and to now formally excuse you and to propose that we suspend for 15 minutes and return at 15 minutes past 7 p.m.

Sitting suspended at 7 p.m. and resumed in public session at 7.20 p.m.

Irish Life and Permanent-Permanent TSB - Mr. David Gantly

Chairman: I now call the committee back into public session. Is that agreed? Agreed. And we move on now to session 5 of today's hearings with Mr. David Gantly, former head of group treasury at ILP-Permanent TSB. The Committee of Inquiry into the Banking Crisis is now resuming in public session and can I ask members and those in the public Gallery to ensure that their mobile devices are switched off.

This evening we will focus ... the focus of the inquiry is on Irish Life and Permanent-Permanent TSB and at this session we will hear from Mr. David Gantly, former head of group treasury, Irish Life and Permanent-Permanent TSB. Mr. Gantly joined the then Irish Permanent Building Society in 1994 as chief dealer in their treasury department. He was appointed group treasurer of Irish Life and Permanent in 2000 and held the post until he left the group in early 2009. Mr. Gantly, you're very welcome before the committee this evening.

Mr. David Gantly: Thank you very much.

Chairman: Before hearing from the witness, I wish to advise the witness that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry, therefore the utmost caution must be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room and, to assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right, and members of the public and journalists are reminded that these documents are confidential and they should not publish any of the documents so displayed. The witness has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis and you have been furnished with booklets of core documents. These are before the committee and will be relied upon in questioning and form part of the evidence of the inquiry. So with that said, if I can now ask the clerk to administer the oath to Mr. Gantly please.