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Variable Rate Policy Statement

Warning: We may change the interest rate on this loan. This means the cost of your monthly repayments may increase or decrease.

The purpose of this document is to summarise clearly the bank's policy for setting variable mortgage interest rates. There is no action required from you in relation to this document; it is intended for information purposes only.

The document will address the following areas:

- What do we consider when setting our variable interest rates?
- How do we make decisions when setting variable interest rates?
- Why do we have different variable interest rates?
- Could you get a different type of interest rate or a lower interest rate?

What do we consider when setting our variable interest rates?

When a bank lends money as a mortgage, the cost to the customer can be charged as a variable interest rate. There are four key factors that can influence the variable rate and these can affect each other. The factors are: ***Funding Costs; Operating Costs; Risk Costs; and Capital Costs and Business Profitability.*** If any of these factors change the variable rate may also change. Below we have outlined what each of these mean:

Funding Costs	In order to lend to customers, the bank needs to source funding (money) from both the financial markets and customer deposits. The cost of getting this money into the bank represents the bank's own cost of borrowing. **You could think of this as the cost of the bank bringing in money.**
Operating Costs	There are a number of different costs associated with running a bank. These include administrative costs, staff costs, investment costs and other expenses such as regulatory and professional fees. **You could think of this as the day-to-day cost of running the bank.**
Risk Costs	Every time the bank lends money it takes a risk that the loan may not be repaid, which could lead to the bank making losses. This cost is based on the likelihood of default (how many borrowers might not pay back their loan) and how much the bank could lose if this default occurred. When calculating interest rates the bank factors the risk cost in order to cover the overall cost of expected losses from lending. **You could think of this as the bank's risk of unpaid loans.**
Capital Costs and Business Profitability	The bank is required by regulators to set aside a specific amount of money as protection against any unexpected losses. **You could think of this as the bank's contingency fund.** The bank asks its owners (shareholders) for this money; in exchange they ask for a return on their investment. **You could think of this as the bank's need to make money as a business.**

How do we make decisions when setting variable interest rates?

The Head of Mortgages (working with other key bank Departments including Treasury, Finance and Credit) is required to bring any interest rate changes to the bank's Assets and Liabilities Committee. This committee will consider any proposal with particular regard to the factors outlined above. This committee can approve, reject or amend proposals. The Head of Mortgages will then implement any agreed changes in a manner which complies with all relevant consumer codes and regulations. The Assets and Liabilities Committee meet at least monthly and is comprised of Senior Group Executives.

Why do we have different variable interest rates?

Depending on when the product was offered, different customers can be offered different variable rate products.

As mentioned, the four cost factors considered when setting variable interest rates are: ***Funding Costs; Operating Cost; Risk Costs; and Capital Costs and Business Profitability.*** These costs can vary across different products and this affects the interest rate charged for these products. Some different variable interest rate scenarios would include:

1. **New Versus Existing Customers**

   New business customers may be able to avail of a discount period during their mortgage which may not be available to existing customers. This is due to the bank's need to attract new customers to the bank to support ***Business Profitability.***

2. **Home Loans Versus Buy-to-Let Mortgages**

   A Home Loan aims to support a personal consumer to purchase a home or to use the value (equity) in their home to make home improvements. A Buy-to-Let loan is provided to investors who wish to purchase a residential property with a view to leasing it to tenants. The ***Risk Cost*** is typically higher for a Buy-to-Let loan and therefore the variable interest rate charged may be different. In addition, Buy-to-Let borrowers resident in the State typically have a different ***Risk Cost*** than those not resident in the State and therefore may be charged a different variable interest rate.

3. **Managed Variable Rates (Based On Loan to Value) Versus Standard Variable Rates**

   Risk Cost is one of the main considerations in calculating interest rates. It is an important factor in determining the single interest rate for a Standard Variable Rate product. It is also important when calculating the interest rates on a Managed Variable Rate product, which offers different rates based on loan to value (LTV)[1] ranges. Meeting ***Capital Costs and Business Profitability*** requirements for each product type offered is another key consideration in calculating interest rates for these loan products.

Could you get a different type of interest rate or a lower interest rate?

There may be a possibility that a different or lower interest rate could be available to you. This will depend on your individual circumstance. To review your mortgage interest rate options please call us on 1890 500 121 (01 212 4101), log onto permanenttsb.ie or visit your local branch. If you have taken out your mortgage through an Intermediary and would like to review your mortgage interest rate options, please contact your Intermediary.

[1] Loan to Value is the outstanding balance of the mortgage facility calculated as a percentage of the value of the property.