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Shifting Foundations: Analysing the Rise and Policy Dilemma of Non-Bank Capital in Irish Real Estate

Vassilios Papavassiliou

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Vassilios Papavassiliou[i], University College Dublin, UCD Michael Smurfit Graduate Business School and UCD Geary Institute for Public Policy

Introduction

The transformation of the Irish housing market over the last fifteen years is frequently framed around supply inelasticity, planning friction, and escalating prices. Yet, beneath these visible symptoms lies a profound structural reorganisation in how Irish residential real estate is financed. Following the 2008 economic crash and the subsequent flight of foreign international banks that operated retail branches, Ireland's domestic banking sector underwent an aggressive restructuring. Burdened by legacy non-performing loans (NPLs) and bound by stringent post-crisis European capital requirements, traditional pillar banks - principally Allied Irish Banks (AIB), Bank of Ireland (BOI), and Permanent TSB (PTSB) - sharply tightened their balance sheets and lending criteria.

Non-bank financial institutions moved in to fill this structural gap. Commonly labelled "vulture funds" in public and political debates, these entities comprise a varied mix of private equity firms, asset managers, institutional investors, and specialised retail mortgage providers. Originally entering the Irish ecosystem as bulk-purchasers of distressed bank debt, non-bank entities have evolved into cornerstone actors across both the supply side (financing construction) and the demand side (acquiring residential developments and servicing retail mortgages).

The scale of this shift has moved from a temporary post-crisis anomaly to a permanent institutional regime. So pronounced is this transformation that it became the focus of intense scrutiny within the Houses of the Oireachtas, culminating in legislative and supervisory reviews by the Joint Oireachtas Committee on Finance, Public Expenditure, and Reform[ii]. Examining this trend highlights a clear dual dynamic: non-bank lenders offer crucial, flexible funding that traditional banks lack, yet their strong market presence creates systemic risks for consumer rights, interest rate policy, and the stability of the Irish housing market.

UCD Geary Institute for Public Policy, University College Dublin, Belfield, Dublin 4, Ireland.
Phone: +353 1 716 4615 Website: https://www.ucd.ie/geary Email: geary@ucd.ie

The Capital Chasm: Why Non-Banks Captured the Market

An explanation of the widespread presence of non-bank capital in Ireland requires a close examination of the strict regulatory frameworks constraining domestic retail banks. Under the European Union's Capital Requirements Regulation (CRR) framework and the Basel III/IV accords, traditional deposit-taking banks must hold significant risk-weighted capital against their loan portfolios. In Ireland, because of the historical severity of the property crash, the risk-weights applied to residential mortgages and development loans by the Single Supervisory Mechanism (SSM) have historically been among the highest in the Eurozone.

This regulatory environment means that for every euro an Irish pillar bank lends for high-risk residential development or long-term mortgages, it must set aside substantially more regulatory capital than its European peers. The direct consequence is a compression of bank profitability and a severe restriction on aggregate credit supply.

Non-bank lenders operate under completely different financial architecture. Because they do not take retail deposits, they are not subject to the same capital adequacy regimes or risk-weight penalties as commercial banks. Instead, they fund their operations through wholesale debt markets, securitisation mechanisms, and direct equity injections from international institutional investors, such as pension funds and sovereign wealth funds.

Consequently, non-bank capital is inherently more agile, risk-tolerant, and rapid. When Irish developers needed capital to resume building following the construction paralysis of the 2010s, domestic banks largely held back. Institutional investment funds filled this gap, stepping forward to fund build-to-rent (BTR) schemes, social housing leasing arrangements, and large-scale urban regeneration projects. On the demand side, non-bank mortgage lenders (such as Avant Money or ICS Mortgages) entered the retail market, capitalising on their lower capital-reserve requirements to compete on product flexibility and speed, shaking up a historically concentrated banking sector.

The Retail Mortgage Footprint and the Arrears Crisis

The most acute point of friction regarding non-bank entities centres on the residential mortgage market. Data compiled by the Central Bank of Ireland and presented to the

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Oireachtas Committee outlines the extensive scope of this footprint. Out of approximately 700,000 primary dwelling home (PDH) residential mortgage accounts in the State, banks hold roughly 85% of the market. However, non-bank entities and non-lending credit-servicing firms command a substantial 15% share - equating to over 100,000 households.[iii]

Crucially, this portfolio is split into two distinct categories:

- *New Market Entrants*: Non-bank retail lenders who originate new mortgages, offering specialised or fixed-rate products funded by international wholesale capital.
- *Credit Servicing and Distressed Asset Firms*: Special-purpose vehicles that bulk-purchased legacy portfolios of non-performing loans sold off by mainstream banks seeking to clean up their balance sheets.

The second category forms the core of Ireland's legislative anxiety. It is estimated that over 70,000 homeowners who fell into mortgage difficulty historically had their loans sold in bulk to non-bank entities. Today, while many of those loans have been successfully restructured, non-banks still hold the vast majority of Ireland's active long-term mortgage arrears.[iv]

Because these entities do not have deposit bases to insulate their margins, their financial incentives diverge sharply from traditional commercial banks. Mainstream banks are structurally equipped to engage in long-term, low-yield restructuring arrangements to keep a borrower in their home, prioritising long-term portfolio stability and reputational capital. In contrast, non-bank funds operate on strict multi-year lifecycles, aiming to liquidate and recover maximum asset value as quickly as possible.

During the Oireachtas Committee hearings, advocacy groups like the Irish Mortgage Holders Organisation (IMHO) emphasised that individuals dealing with these funds frequently encountered rigid, adversarial loan management practices. While traditional banks expanded their alternative repayment arrangements (ARAs), non-bank entities were heavily criticised for a lack of transparency and a marked leaning toward asset liquidation or forced voluntary sales.

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The Monetary Policy Transmission Vulnerability

Beyond the microeconomic realities of individual borrowers, the rise of non-bank lenders has fundamentally altered the transmission of monetary policy in Ireland, introducing systemic economic risks. A key structural divergence between banks and non-banks lies in their funding models. Mainstream banks rely heavily on inexpensive, reliable customer deposits to back most of their loans. Non-bank lenders, conversely, are entirely reliant on wholesale funding markets and the securitisation pipeline.

This operational divergence became apparent during the European Central Bank's (ECB) aggressive interest rate tightening cycle. When the ECB raised its deposit facility rate from negative territory to historical highs, Irish pillar banks lagged significantly in passing those rate hikes onto variable rate mortgage holders. Because their vaults were flooded with domestic retail deposits costing close to zero percent, banks could afford to shield existing mortgage holders to preserve market share.

Non-bank lenders enjoyed no such buffer. As wholesale interest rates spiked globally, the cost of funding for non-banks surged almost instantly. Left with no alternative to protect their capital margins, non-bank lenders passed these rate hikes onto Irish consumers immediately and with escalating severity.

By the mid-2020s, thousands of mortgage holders whose loans had been sold to non-bank funds found themselves trapped in a financial vice[v]. While a customer at a mainstream pillar bank might have been facing a variable rate of 4% or 4.5%, borrowers trapped with non-bank funds saw their interest rates rocket to 7%, 8%, or even 9%.

These borrowers became "mortgage prisoners" - historically unable to switch back to traditional banks because of legacy arrears or modified credit scores, though emerging specialised refinancing products and restructuring pathways have recently begun to offer some target escape routes.

The Policy and Regulatory Response: Balancing Supply and Protection

Faced with public anger, Irish policymakers have been forced into a regulatory balancing act. The state cannot simply ban or overly penalise non-bank capital; doing so would trigger an immediate collapse in residential construction funding, starving

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the market of the capital required to meet the housing supply targets outlined in the government's "*Delivering Homes, Building Communities 2025-2030*" framework. Nevertheless, leaving borrowers fully exposed to wholesale market shocks is politically and socially unviable in the long term.

The state's regulatory counter-offensive has proceeded along two distinct tracks: micro-prudential consumer protection and macro-prudential structural diversion. On the consumer protection front, the Central Bank of Ireland took decisive steps by significantly strengthening and modernising its Consumer Protection Code (CPC) - which officially came into effect on March 24, 2026 - integrating the previously separate Code of Conduct on Mortgage Arrears into statutory regulations.[vi]

The revised framework forces non-bank entities and credit-servicing firms to adhere to strict operational benchmarks:

- *Enhanced Transparency on ARAs*: Firms must provide granular, written justifications to a consumer explaining precisely why an Alternative Repayment Arrangement is being offered or refused, stripping away the opaque black box of underwriting methods historically utilised by distressed debt funds.
- *Standard Financial Statement (SFS) Relief*: To alleviate the administrative burden on stressed borrowers, the validity period for a completed SFS was extended to 12 months, reducing the frequency with which funds can demand financial audits from households.
- *Post-Repossession Accountability*: New rules mandate absolute transparency regarding the sale of properties post-repossession, requiring funds to provide detailed breakdowns of the final asset valuation and the exact calculation of any remaining residual debt.

Concurrently, the Oireachtas has advanced legislative measures to provide alternative financing avenues designed to bypass non-bank exposure. The introduction of the *"Housing Loans Regulations (Fresh Start - Buyout) (Amendment) Bill"* in March 2026 represents a targeted political intervention[vii]. This legislation seeks to expand the scope of the State's Local Authority Home Loan (LAHL) scheme, enabling individuals going through divorce or separation to access government-backed, fixed-rate mortgage finance to buy out a former partner's share of a family home, specifically targeting cohorts that would otherwise fall prey to high-interest non-bank lenders.

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Conclusion

The entry of non-bank lenders into the Irish housing ecosystem was initially perceived as an emergency intervention - a temporary transfusion of foreign capital to stabilise a collapsing banking system. However, the structural realities of the global financial architecture and the permanent regulatory constraints imposed on deposit-taking institutions ensure that non-bank capital is now an integral feature of the Irish state's macroeconomic framework.

Non-bank entities have proven to be a double-edged sword. Without their deployment of wholesale capital, the recovery of Ireland's housing supply would have been very difficult under the capital-starved domestic banking sector. Yet, their reliance on volatile wholesale markets and their distinct institutional motivations have fragmented the Irish housing market, exposing over a hundred thousand households to heightened interest rate risk and aggressive debt collection strategies.

As Ireland navigates the late 2020s, the primary challenge for the Department of Finance, the Central Bank, and the Oireachtas is no longer the eradication of non-bank lending, but its rigorous containment. Cultivating an environment where institutional capital can safely fund construction supply, while simultaneously insulating retail citizens from the volatility of international wholesale debt, represents the central policy challenge facing modern Irish real estate.

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[i] Dr Vassilios Papavassiliou is the Academic Programme Director of MSc in Sustainable Finance at the UCD Michael Smurfit Graduate Business School. Email: vassilios.papavassiliou@ucd.ie

[ii] Here are a few direct hyperlinks to official parliamentary proceedings, Central Bank disclosures, and legislative reviews conducted by the Joint Oireachtas Committee on Finance, Public Expenditure, Public Service Reform and Digitalisation:

https://www.oireachtas.ie/en/debates/debate/joint_committee_on_finance_public_expenditure_public_service_reform_and_digitalisation_and_taoiseach/2026-02-18/2/

https://www.oireachtas.ie/en/debates/debate/joint_committee_on_finance_public_expenditure_public_service_reform_and_digitalisation_and_taoiseach/2026-03-04/2/

https://www.centralbank.ie/news/article/speech-colm-kincaid-deputy-governor-joc-18-march-2026

[iii] For a detailed discussion see the following link:

https://www.oireachtas.ie/en/debates/debate/joint_committee_on_finance_public_expenditure_public_service_reform_and_digitalisation_and_taoiseach/2026-03-04/2/#:~:text=There%20are%20approximately%20700%2C000%20mortgages%20on%20primary,EBS%20and%20Haven%3B%20PTSB%3B%20and%20Avant%20Money.

[iv] More information is provided in the following link:

https://www.centralbank.ie/docs/default-source/statistics/data-and-analysis/credit-and-banking-statistics/mortgage-arrears/2026-q1-release.pdf?sfvrsn=2729711a_2

[v] https://www.centralbank.ie/statistics/frontierstatistics/mortgage-interest-rate-distributions

[vi] https://www.centralbank.ie/regulation/consumer-protection/consumer-protection-code

[vii] https://www.oireachtas.ie/en/bills/bill/2026/29/

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