

RT HON LORD MCFALL OF ALCLUITH

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HOUSE OF LORDS
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Dear Tracey

I am writing with regard to the sales of mortgages by UK Asset Resolution (UKAR). It is important that customers affected by these sales are offered a fair deal, protected from changes to the terms conditions of their mortgage and, along with customers remaining at UKAR, offered an opportunity to gain certainty over their mortgage payments by accessing a fixed rate.

Many of the customers of UKAR, including those affected by these sales, will be mortgage prisoners and will be unable to switch lender. This means that competition will not work to deliver good value to these customers.

When it announced the sale of £2.7 billion of mortgages to Commercial First as part of a JP Morgan led consortium UKAR stated that the sale would "not affect the terms and conditions of the mortgages". However, the prospectus for the securitisation agreement for these mortgages states that after an initial period the interest rates charged to some customers will be explicitly linked to movements in LIBOR. This seems to contradict assurances given by UKAR and raises concerns about the safeguards which will be put in place when £13 billion of UKAR mortgages are sold to Cerberus.

Given the prospect of rising interest rates it is important that all mortgage customers are given the opportunity to achieve certainty over their payments by accessing a fixed rate. I am concerned that some customers affected by these mortgage sales (and customers remaining with UKAR) will not be offered reasonable fixed mortgage rates.

With these points in mind I would be grateful if you could answer the following questions:

- What regulations apply to a company purchasing mortgages from an existing lender for securitisation?
- Does a change to the way a mortgage interest rate is set to introduce an explicit link to LIBOR represent a change to the terms and conditions of the mortgage? Would this change have to be communicated to consumers?
- Do the transitional arrangements in the Mortgage Market Review require lenders, including UKAR, Commercial First and Cerberus to offer their customers reasonable fixed rates to allow customers to gain certainty over their mortgage payments?

Yours sincerely

Rt Hon Lord McFall