

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ



Rt. Hon Lord McFall  
House of Lords  
London  
SW1A 0AA

*Dear Jim:*

*27th*  
January 2016

Thank you for your letter regarding the sale of mortgages by UK Asset Resolution (UKAR).

The mortgages concerned were acquired when Northern Rock was nationalised in 2008, early in the financial crisis. The then-Government was clear when it did so that Northern Rock should be returned to the private sector when market conditions made that possible. This is an approach with which this Government has always agreed and in accordance with that, Northern Rock plc was returned to the private sector at the start of 2012.

At that time, market conditions were such that it was necessary to retain the majority of Northern Rock's mortgage assets in the public sector. However, this is now changing – as the recent £1.3bn sale and the earlier £2.7bn sale demonstrate. Selling these mortgages returns them to the private sector where they originated and where, had it not been for the failure of Northern Rock, they would have always remained. It takes us a further step towards returning all of Northern Rock to the private sector, where it rightly belongs.

In your letter you asked for further information on the approach that UKAR has taken to customer treatment through these mortgage sales. This is, of course, a very important issue and I understand UKAR have written to you separately to give you a detailed answer to the questions you raise.

As that letter sets out, the treatment of customers is an important focus of UKAR and this Government. That is why reverse due diligence was undertaken on buyers and the sale agreements require the purchaser to ensure that loans are administered in accordance with Financial Conduct Authority (FCA) rules on Mortgages: Conduct of Business (MCOB) or the Consumer Credit Source Book (CONC), as applicable and in accordance with all applicable laws, regulatory requirements and guidance (including the FCA's Treating Customers Fairly outcomes).

You asked whether a requirement for the interest charged to be linked to LIBOR as a change to the mortgage terms and conditions and I understand that Richard Banks has set out a response to this.

You have also asked whether customers should be offered fixed rates in order to gain certainty over their payments. As you will know, as a result of the State Aid rules following nationalisation UKAR is unable to offer new mortgage deals to customers, this includes offering fixed rate deals to existing customers. However, customers are able to access a deal finder on the UKAR website to help them find a better deal. This is available at:

<https://nram.defaqtmortgagecalculator.com/search.aspx>  
<https://bandb.defaqtmortgagecalculator.com/search.aspx>

Thank you for taking the time to make me aware of these concerns, I hope that you found this response helpful in setting out the Government's position more fully.

*H A Bald*

HARRIETT BALDWIN