

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

22 January 2016

Dear Lord McFall

Thank you for your letter received 4 January 2016 in respect of the sales of mortgages by UK Asset Resolution and the impact on customers.

It may be helpful to put my response into context. You will recall that Northern Rock was nationalised by the Government and taken into public ownership in February 2008. The organisation was then restructured on 1st January 2010 into two separate legal entities - Northern Rock plc and Northern Rock (Asset Management) plc (NRAM) - known as NRAAM plc since 16th May 2014. Northern Rock plc was then sold in 2012 to Virgin Money. NRAAM plc remains in public ownership.

Bradford & Bingley, including its subsidiary business Mortgage Express, was nationalised on 29th September 2008. At the same time, the Bradford & Bingley savings and retail branch business was sold and transferred to Abbey (now Santander).

Following nationalisation, and in line with State Aid rules, both organisations are closed to new business. This means specifically that we are not able to offer any of our customers new mortgage deals or increase the amount lent (except in very limited circumstances where extra lending preserves our security, e.g., funding the payment of ground rent charges). Nor can we extend the term of our lending except as a forbearance measure. Under the State Aid restrictions we are also required to wind down both businesses as quickly as possible whilst ensuring the customers are treated fairly.

You are correct that many mortgage customers, not just UKAR's, are "trapped" as a consequence of house price deflation which is thankfully being ameliorated, albeit not uniformly, across the UK. Many customers also have products which are no longer available, such as interest only and self-certified loans; whilst lending into retirement now faces increased obstacles as a consequence of more stringent underwriting rules.

To answer your three points in turn:

• *What conditions does UKAR apply to the sales of mortgages to ensure that customers are treated fairly?*

When undertaking asset sales the treatment of customers is an important focus for UKAR. As a prerequisite we undertake reverse due diligence on buyers to ensure they understand and comply with mortgage regulation. The sale agreement then requires the purchaser to ensure that loans are administered in accordance with the FCA rules on Mortgages: Conduct of Business (MCOB) or 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) and applies notwithstanding any on-sale of the loan book.

Buyers of mortgage assets are also bound by the mortgage terms and conditions contracted with each customer. These cannot be changed without the prior agreement of the customer.

In both sales agreements UKAR obtained the agreement of the buyer not to change SVR for a period of 12 months unless there is a change in Bank Base Rate ("BBR"). In the case of an increase in BBR, the change in the SVR is not permitted to exceed the movement in BBR.

We have also retained, for a period, a right to undertake compliance reviews to ensure that the new legal owners are complying with their obligations under MCOB regulation, applicable law and the mortgage terms and conditions.

It is also worth mentioning that in the recent £13bn transaction the vast majority of customers are fully performing and by returning ownership to the private sector the option to be offered new deals, extra lending and fixed rates should become available to them. Irrespective of any constraints around the customers' ability to move to a new product (e.g., high LTV) these options would never have been available to them whilst in public ownership given the above mentioned State aid rules under which we operate.

In the case of this latter transaction UKAR continues servicing of the assets thus providing continuity for our customers and giving longer term job security for colleagues in West Yorkshire and Sunderland.

In the case of the £2.7bn asset sale these assets are now serviced by Pepper which is a FCA regulated mortgage servicing business which is also obligated to operate within the MCOB and CONC regulations.

• *Do you regard a change to the way a mortgage interest rate is set to introduce an explicit link to LIBOR to represent a change to the terms and conditions of the mortgage? Would this change have to be communicated*



Richard Banks  
CEO

Yours sincerely

I hope that these explanations are helpful but if you have any further questions please feel free to contact me again.

As referenced earlier, we cannot offer new fixed interest rate products to allow customers to gain certainty over their payments. However, for those customers that are able to move their mortgage we waive any Early Repayment Charges and have a 'Deal-Finder' tool on our website to help customers find a better deal.

- *What options does UKAR currently offer to its customers to allow them to gain certainty over their payments by accessing fixed rates?*

In any event BBR and LIBOR are highly correlated and changes in BBR are the primary driver of changes in LIBOR. To put this in to context UKAR has a small book of loans where the rate is expressly linked to LIBOR by the terms and conditions. The bulk of our book is priced at SVR or explicitly tracks BBR. In setting SVR, UKAR takes into account its cost of funds whereby legacy market funding is priced in relation to LIBOR and its Government Loans are priced in relation to BBR..

As noted above mortgage terms and conditions cannot be changed without the prior agreement of the customer and the securitisation prospectus explicitly says that "the Servicer must comply with the restrictions set out in the Mortgage Conditions". The mortgage terms and conditions reference the fact that the lender takes account of the cost of funding the loan in setting SVR. As the £2.7m transaction was funded by securitisation, the cost of funding is clearly linked to LIBOR and as you say this link is noted in the prospectus.

*to consumers? What proportion of UKAR mortgages currently have the mortgage rate charged determined by LIBOR?*

