Rt Hon Nicky Morgan MP
Chair of the Treasury Committee
House of Commons
Committee Office
London
SW1A 0AA

6 June 2019

Dear Mrs Morgan

Tulip Mortgages Limited (“Tulip”)

Thank you for your letter of 22 May 2019 which raised some queries in respect of our administration of mortgages on behalf of Tulip Mortgages Ltd (“Tulip”). We thought it might be helpful if we provided some context and explanation before answering your specific questions.

As the administrator of Tulip mortgages, Pepper (UK) Limited (“Pepper”) (trading as Engage Credit) services the Tulip book of mortgages under the terms of an administration agreement. One of our responsibilities under the administration agreement is communicating to customers any changes to the interest rate applicable to their loan and the consequential changes to their monthly payments and when these take effect. The administration agreement provides a specific formula for us to apply to determine if there is any change to the Tulip standard variable rate (“SVR”). The formula Tulip has instructed us to apply calculates this by reference to changes in the London Interbank Offered Rate (“LIBOR”) which we understand they have determined reflects their cost of funding. As administrator, we have no discretion or control as to when or how Tulip’s SVR changes. Our responsibility is to communicate such changes and their effect to those customers whose interest rate is calculated by reference to the Tulip SVR and, subsequently, to collect the revised payments on the lender’s behalf.

Unfortunately, the SVR rate change letter sent in 2019 to Tulip customers whose loans were linked to Tulip’s SVR (following a change in that SVR) used terminology to refer to the underlying rate that we have since recognised could have caused confusion. We referred to the rate change being caused by a change in the “underlying base rate”, rather than the SVR. This was not intended to refer to a change in the Bank of England base rate (as you have noted, no such change occurred in this publicly available rate in early 2019) but, was meant to refer to the Tulip SVR. We accept this terminology could have been improved. We regret any confusion this may have caused customers. The information we provided in this letter to customers on their new rate, their resultant new monthly payment and the date the change took effect were all accurate and clearly set out. Customers will therefore have understood the impact the change would have to their payments and a contact number was provided if they had any questions or wanted to discuss the increase. However, we do recognise that the terminology we used to describe the applicable underlying interest rate may have confused them, so we are conducting a further communication exercise, firstly to clarify to customers that their underlying interest rate is the lender SVR and not the Bank of England base rate (and that it was a change in the SVR that prompted the change in their mortgage interest rate), and secondly to invite them to contact us to discuss if they need any further explanation or have suffered any loss as a consequence of the original communication.
We note that your letter asks these questions in the context of the TSC’s ongoing interest in the industry issue of “mortgage prisoners”. We fully support the work being done in this area and we are part of the UK Finance closed book working group, preparing a response to the amendments that FCA has proposed to its rules in CP 19/14, intended to address the issue. While Tulip customers are not able to switch to another Tulip product (as it is not authorised as a lender), as administrator we are committed to facilitating the movement of any customer to a new more affordable mortgage where they are able to find a willing new lender (whether under the current rules or in future). To date, during 2019 686 Tulip mortgages were redeemed, and since we commenced servicing these mortgages, the redemptions exceed 9,000. Tulip does not take any action or impose any penalties (other than a small administration charge to cover costs) which places any barriers on a customer remortgaging with a willing lender.

We are also aware that you have written to Tulip, with whom we have discussed and shared information to ensure the completeness of each of our responses.

To answer your specific questions:

- **How many mortgage customers Engage Credit manage on behalf of Tulip Mortgages Ltd.**

As at 30 April 2019, Engage Credit serviced 9,261 live mortgage accounts on behalf of Tulip.

- **How many mortgage customers Engage Credit manage on behalf of Tulip Mortgages Ltd that fit into the category of 'mortgage prisoner'.**

Noting that there are varying descriptions and definitions relating to what constitutes a ‘mortgage prisoner’, we provide below relevant information on the Tulip book.

As at the 30 April 2019 8,649 Tulip accounts were up to date. As Tulip is not authorised as a lender, it does not offer customers the opportunity to switch products. As administrator, we do not possess the information on each customer’s needs or circumstances that would allow us to determine whether they are unable to remortgage with other lenders due to not meeting the affordability assessments such lenders carry out in line with their interpretation of the FCA’s rules. As noted above (and detailed below) we do not consider that the administrative fees that we charge customers at exit act as any form of deterrent to customers seeking to remortgage. If any customers contact us to discuss remortgaging, we encourage them to seek independent financial advice to ascertain what options may be available to them in the marketplace. As you are aware, it is an industry wide issue that lenders often consider themselves unable to offer remortgage options to customers (even on cheaper terms than their existing deal) in a manner that complies with the FCA’s rules on affordability assessments. We welcome FCA’s efforts to remedy this problem and, as administrator, will continue to facilitate the remortgage of any customer who is able to find a suitable deal.

- **Of those, how many received a letter in 2019, informing them of an increase in their interest rate payable.**

Of the accounts detailed above 6,678 received a letter in 2019 informing them of an increase in their interest rate payable.
• An overview of why this change was attributed to ‘a recent change in the underlying base rate’, despite no change in the underlying base rate in Q1 this year

As noted above, the reference to the “underlying base rate” was not an attempt to attribute the change in rate to a change in the Bank of England base rate (which, as you note, did not change) but, rather, a poor choice of terminology intended to describe the SVR. We are revising these communications for issue going forward, and are writing to all customers who received the letter in question, to clarify that their mortgage interest rate is based on the lender’s SVR and to invite them to contact us with any further questions or to discuss any resulting loss that they may have suffered.

• An overview of whether customers received a reduction in interest rate payable in Q3 2016, following the Bank of England’s reduction in the base rate

In addition to the Tulip mortgages whose interest rates are linked to Tulip’s SVR, in Q3 2016 Engage administered 1561 Tulip mortgages with interest rates linked to the Bank of England base rate, the rates on all of which reduced in line with the Bank of England base rate reduction in Q3 2016. These customers have received rate change communications upon each subsequent base rate fluctuation.

• Commentary on Engage Credit’s systems and controls, and its compliance with the FCA’s ‘fair, clear and not misleading’ rule, in the context of the decision to attribute the interest rate rise to ‘a recent change in the underlying base rate’, despite no change in the underlying base rate in Q1 this year.

We have reviewed the wording that we use to communicate changes in SVR to customers and have made changes to ensure that the terminology used to describe the applicable underlying rate refers expressly to the SVR going forward, as we recognise there was a risk that the previous reference could have been confused with the Bank of England base rate. As explained above, we are satisfied that notwithstanding the terminology used to describe the underlying rate, all customers received correct and clear information regarding their new rate, their new monthly payment and the date the rate change took effect, and therefore understood the financial impact of the change on them.

• Safeguards and options available to consumers that cannot afford the increase interest rate outlined in the attached letter.

-The average increase to the monthly payment for Tulip SVR customers as a result of the 2019 rate increase was £6.57; and thus, it was unlikely that this interest rate change would have led to affordability issues. In fact, only a very small proportion of these customers are in arrears. In our interest rate notice, we ask any customers experiencing difficulties (whether as a result of an interest change or otherwise) to contact us to discuss their circumstances.

In compliance with the FCA MCOB rules on dealing with customers in payment difficulties, we consider each case individually, taking into account the customer’s specific circumstances encompassing past performance, the current situation and future prospects. We work with customers to consider payment plans, which include concessional arrangements and other forbearance solutions including to defer payment of interest or sums due, to try and resolve the arrears whilst taking into account the customer’s financial situation and ability to sustain any payment plan. We ensure that customers are proactively contacted and are kept informed of the
processes and actions being taken on their account, and that this information is communicated clearly. Signposting is also provided to external organisations that may be able to provide customers with additional support and debt advice.

- **Steps taken, if applicable, to remedy any customer harm arising from this decision.**
  As noted above, we had (and have) no role in the decision making process behind any changes to Tulip's SVR. Nonetheless, we agree that the terminology when referring to the rate in the rate increase letter as the “underlying base rate” instead of the SVR may have been improved, although customers had the correct information on the amount and impact of the increase. We are sending a letter to all recipients of the original letter, clarifying the underlying rate reference and asking them to contact us if they have any questions or would like to discuss the impact. We do not believe there will have been any financial detriment caused to customers as the increase applied was correct. We believe that the clarification and invite to contact us should resolve any confusion. Redress will be considered in the event any customers have suffered loss as a result.

- **Commentary on options that Engage Credit offer to customers wishing to port their mortgage to an alternative provider, including whether any exit fees or other penalties are charged to those seeking to switch in pursuit of a lower interest rate.**
  Customers may redeem these mortgages at any time. If a Tulip customer wishes to remortgage to another lender, the current Mortgage Exit Administration fee is £25.00. In the event that we hold their Mortgage Deeds, an additional fee of £22.50 is payable to release them. The Tulip mortgages are not subject to any other exit/re redemption charges.

- **Views on the FCA's CP19/14, and how this is likely to impact your business model.**
  As noted above, we welcome FCA’s proposals to amend its rules to resolve the “mortgage prisoner” issue for UK consumers. We are actively involved in the UK Finance closed book working group relating to 'mortgage prisoners' and are awaiting the outcome of CP19/14 process and the Policy Statement due in Q4 2019. We will of course implement processes necessary to implement any revised rules. However, as an administrator to a wide range of lenders we expect it to have limited effect on our servicing or our business model in general. We are already committed to taking the steps necessary to help customers who find new products to exit their mortgages simply and with minimal cost.

I hope the above addresses all of your queries. If you have any further questions, or would like further clarification on any of the above, please do let me know.

Kind regards

Gerald McHugh
CEO Servicing Division
Pepper (UK) Limited