Dear Nicky Morgan

Thank you for your letter dated 18 December. I can confirm that we are currently engaged in a confidential process aimed at selling the remainder of NRAM Limited's ("NRAM") residential mortgage and unsecured personal loans.

In his letter to the Treasury Committee dated 12 November 2018, in respect of "mortgage prisoners", the Economic Secretary to the Treasury ("EST") set out the approach to customer treatment that UKAR takes in all asset sales, whereby bidders are required to agree to a pre-determined package of customer protection conditions in order for their bid to be considered. This is a strict condition, not open to negotiation by bidders, and UKAR considers whether it is met before we assess bids on price.

The EST also noted the State Aid constraints under which we operate and the goal of returning Bradford & Bingley and NRAM's assets to the private sector which is the "overarching" objective in the Framework Agreement with UK Government Investments Limited ("UKGI") that governs our activities.

We can only launch and execute a transaction if we are confident that, having safeguarded customer treatment, we can achieve value for money for the taxpayer. In considering whether a transaction will be value for money for the taxpayer we apply a framework with three stages:

- An evaluation of whether it is a "good time to sell" which involves taking our own views on market conditions, advice from advisors and the views of UKGI and HM Treasury;

- On the basis that we conclude that it is a good time to sell, testing ourselves on whether the sale process selected will drive enough competitive tension to achieve value for money (and demonstrate that it has been achieved); and

- A theoretical valuation framework that uses observable inputs such as economic drivers of the potential cash flows from the assets and market costs of debt and equity to determine a range of potential prices that a reasonable private sector investor would be prepared to pay.
Before launching the current confidential sale process, we considered the FCA’s Mortgage Market Study and whether, unlike previous transactions, the process should be limited to “active” lenders only. UKAR, UKGI and our respective advisors used publicly available information and the feedback provided by “active” lenders during previous UKAR transactions to assess whether it would be feasible to run a competitive process on this basis.

Collectively, we concluded that a sales process targeted only at “active” lenders would not generate sufficient interest to enable a competitive process to take place and would thus fail the second test in the value for money framework above. As we are only mandated to dispose of assets at a price which we believe represents value for money, we therefore concluded that an “active” lender only process was not feasible. Sale price implications, to which you referred in your letter, were not a consideration in coming to this conclusion.

Having reached that conclusion we launched the current process which, as with previous sales, was open to both “active” lenders and other potential buyers. We asked our advisors to contact pro-actively the top 25 “active” lenders to invite them to participate in the process.

In the first round of the process, only one “active” lender submitted an indicative bid. This bid was for only approximately half of the assets being sold and the bidder indicated that only a relatively small minority of the customers were expected to benefit from new products. This bid was also at a price substantially below the absolute level that we and our advisors considered represents value for money for the taxpayer taking account of an active lender’s costs of debt and equity (and therefore was not acceptable under the third limb of the framework set out above). A number of other “active” lenders who declined to bid indicated that the book was outside their risk appetite.

Given we had determined that an “active” lender only process was not feasible, before launch we decided that we should enhance the customer protection conditions that all bidders would be required to accept before their offer could be considered. In developing the conditions, our express intention was to ensure that customers would continue to enjoy the same protections in the future for the lifetime of their mortgages as they do under UKAR’s ownership today, specifically noting that, as explained in the EST’s letter, access to new products from their current lender is not something that is available to our borrowers.

The key changes compared to previous transactions are as follows:

- Legal title to regulated mortgage contracts will always be held by a regulated entity in addition to the existing regulatory requirement that they are serviced by a regulated entity, thus ensuring continued FCA oversight and access by customers to the Financial Ombudsman Scheme (“FOS”);

- The legal title holder will provide loan level reporting to the FCA at all times, facilitating the FCA’s oversight;
• For the life of the mortgage contract, no financial barriers (e.g. Early Repayment Charges) are placed in the way of customers seeking to re-finance with an alternative provider;

• For the life of the mortgage loans a mechanism will be established that links the Standard Variable Rate ("SVR") to SVRs set by a basket of regulated "active" lenders that, as far as is practicable, replicates our approach to SVR setting today;

• An unregulated beneficial owner will not be able to influence the legal title holder or servicer to frustrate these conditions and we will obtain undertakings from the relevant parties to this effect; and

• The arrangements will be “future proofed” by putting UKAR in a position to enforce the customer protection conditions and take action for any breach thereof.

All the bidders in the process have accepted these conditions.

In addition to the customer protection conditions and regulatory oversight that ensues, we also carry out due diligence on prospective buyers, servicers and legal title holders with a view to assessing whether potential owners have appropriate policies and procedures in place for proper treatment of customers.

I trust this letter helps you to understand our approach to balancing our various objectives and ensuring that our customers will not receive any detrimental treatment, or deterioration in terms and conditions, as a result of this transaction. This will also mean that they are able take advantage of any initiatives resulting from the work outlined in the EST’s letter.

I am copying this letter to the EST for information.

Yours sincerely

[Signature]

Ian Hares
Chief Executive Officer