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

7 June 2019

Dear Mrs Morgan

Tulip Mortgages Limited (“Tulip”)

We refer to your letter dated 22 May 2019 relating to the above company, to which Tulip would like to respond as follows.

Tulip is a special purpose vehicle company established as part of a securitisation structure which acquired a portfolio of mortgage loans from UK Asset Realisations (“UKAR”). Those mortgage loans were originally provided by Northern Rock, Mortgage Express or Bradford & Bingley (the “Original Mortgagors”).

At the point of purchase from UKAR the majority of the loans in the Tulip mortgage portfolio had their rates set by the Standard Variable Rate of the Original Mortgagors (“SVR Loans”). Over the previous 2 to 3 years UKAR policy was to move SVR in line with movements in the Bank of England Base Rate (“BBR”) although there was no legal obligation to do so. One of the conditions of sale was that Tulip would continue to link SVR to the Bank of England Base Rate for a further 12mths but after this point Tulip as legal title holder would have had complete discretion to set the interest rate policy. Rather than retaining flexibility to set rates Tulip instead committed to move rates in line with the London Interbank Offered Rate (“LIBOR”) a widely used publicly available reference rate which has historically moved very much in line with BBR. This change was made to ensure full transparency and so that borrowers were treated consistently and fairly over the life of the mortgage and not be subject to discretionary increases in the standard variable rate.

Under the securitisation structure Tulip holds the legal title to these mortgages and collects the receivables in relation to those loans the beneficial ownership of which resides in Slate No. 1 Plc.

The servicing of the mortgages has been outsourced to the Pepper (UK) Limited - trading as Engage Credit (“Engage”), authorised and regulated by the FCA.

Neither Tulip, or any other entity in the securitisation structure, hold the necessary regulatory permissions required to enter into regulated mortgage contracts, and accordingly Tulip does not offer new products or additional lending.

The management of the mortgage portfolio is strictly governed by a series of transaction agreements.

To answer your specific questions:

1. Tulip originally acquired legal title to 18,392 mortgages under the securitisation transaction;
2. It is our understanding that the categorisation “mortgage prisoner” applies to a situation where a mortgagee is unable to secure a replacement mortgage, often by virtue of failing to meet the proposed mortgage company’s affordability criteria, and accordingly are obliged to retain their existing mortgage. As the categorisation is wholly dependent on individual borrowers’ financial circumstances it is not
possible for Tulip to know how many of the mortgages to which it holds the legal title might be categorised as mortgage prisoners. Notwithstanding this, as at 30 April 2019 8,649 Tulip accounts were up to date, 340 were in arrears of less than one month and 272 were in arrears of one month or more;
3. As at 30 April 2019 of the remaining mortgage portfolio of 9,261 loans, 272 (2.9%) were in arrears of one month or more;
4. 7,608 notices of an increase in the Standard Variable Rate ("SVR") have been issued in 2019;
5. In relation to (SVR) linked mortgages, a Semi-Annual review of SVR linked mortgages is undertaken. The three month LIBOR rate is compared to the prior rate and in the event the difference between the two rates is 10 basis points or more this triggers a requirement to change the SVR. In addition, on a quarterly basis; there would only be a change to the SVR if the difference between three month LIBOR at the time is 50 basis points or more than three month LIBOR at the time of the previous change. Other Tulip mortgages are linked to Bank of England Base rate or LIBOR linked;
6. As noted in the introductory paragraphs for 12 months after the transfer of the mortgages to Tulip, the SVR changed by reference to the SVR of the Original Mortgagors and changes in the Bank of England base rate. Since then, SVR has been linked to LIBOR and the calculation reflected in answer 5 above;
7. Tulip does not hold the regulatory permission required to enter into regulated mortgage contracts. As such, Tulip does not offer new products or additional lending. Any customers experiencing affordability issues will have their circumstances considered individually and will be offered forbearance options as appropriate. Customers are also referred to seek independent financial advice to ascertain what options may be available to them in the marketplace;
8. See answer 5 above;
9. The letter should have referred to a change in the SVR, rather than the "underlying base rate";
10. Attached is a schedule showing the changes in SVR applied to the mortgages. As you will see over the period since the portfolio was acquired the SVR applied has moved down and up in line with LIBOR, although there is a time lag between LIBOR changing and the consequential change in SVR;
11. Customers who have mortgages where the interest rate is based on the Bank of England base rate received a reduction in Q3 2016;
12. Any customers experiencing difficulties are invited to contact, our mortgage servicer, Engage. In compliance with the FCA MCOB rules on dealing with customers in payment difficulties, Engage considers each case individually, taking into account the customer's specific circumstances encompassing past performance, the current situation and future prospects. Engage will 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 a payment plan. Engage will 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;
13. Having now reviewed the increase letter in the light of your comments we can see that the terminology when referring to the rate in the rate increase letter as the "underlying base rate" instead of the SVR may have caused confusion to our customers. However, the letter was clear in respect of the amount of the rate increase, the amount of the customer's increased monthly payment and the date it took effect. In light of the risk of confusion to our customers Engage will send a letter to all impacted customers correcting the rate reference and asking them to contact Engage 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 our customers as the increase which was applied was correct, however the clarification and invite
to contact Engage should allow any confusion to be resolved and redress will be considered in the event any customers have suffered loss as a result.

We trust that the above provides the information you require but if you require any additional information or clarification on any point please let us know.

Kind regards,

[Signature]
Sue Abrahams, Director

On behalf of the board of directors
Tulip Mortgages Limited
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