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Rt. Hon. Nicky Morgan MP
Chairman of the Treasury Committee
House of Commons, Committee Office
[redacted]

Dear Nicky,

Thank you for your letter of Wednesday 20 December in which you asked me to provide the following documents: a copy of the memorandum dated 9 December 2008 referred to in Paragraph 4.6 of the Clifford Chance review of GRG and the document entitled 'Just Hit Budget' referred to in the BBC News article of 20 October 2017. I am happy to provide the Committee with copies of the documents and the relevant context to their production. I will take each in turn.

9 December 2008 Memorandum

As set out in the Clifford Chance report, this internal memo was published when the Specialised Lending Services ("SLS") division was renamed the Global Restructuring Group at the end of 2008, and its contents are self-explanatory. This memo is appended separately.

'Just Hit Budget'

The document should be viewed in context: it was written in 2009 by a junior manager who is no longer employed by the bank. At no time did it form part of GRG or RBS policy. In addition, the document was not widely distributed. It was circulated within one regional office and had limited distribution within two other GRG offices (one in the UK, one overseas).

The document was identified by the bank and proactively brought to the attention of the FCA and the skilled person during the review. For the avoidance of doubt, the language used in the document was completely unacceptable and the bank does not condone it. It does not reflect bank policy or guidance, either at the time it was written or today.

We have consistently acknowledged that we should have better explained to customers any changes to the prices or complex fees we were charging and that we did not always communicate as well or as clearly as we should have done. We are committed to correcting instances where we got it wrong, and that is one of the reasons why we announced, with the agreement of the FCA, an automatic refund of complex fees that is now substantially complete, with c. £115m of refund offers made.

Furthermore, in April 2014, following publication of the Clifford Chance report, we announced that we would not charge default interest for the first 90 days after a customer defaults and would give customers 30 days' notice of any change in fees. Since then we have continued to simplify our approach to fees. Restructuring now only charges standard banking fees and any margin increases are based on front line risk models.

As you know, and as I have set out in my previous letters on this subject, we have made significant changes to deal with the issues of the past, so that they cannot happen again and to ensure the bank can better support SME customers in financial difficulty whilst also protecting the bank's capital.

The culture, structure and way RBS operates has changed fundamentally since the period under review by the skilled person. We are continuing to work hard to ensure fair outcomes for our customers who have complained about their experiences in GRG during the period 2008-13.

Yours sincerely

Ross McEwan

GLOBAL RESTRUCTURING GROUP

Following the recent announcement that SLS is to have a group wide remit across all group and commercial areas of activity, it is proposed that SLS be re-named Global Restructuring Group ("GRG") which better reflects the main thrust of activities, namely rejuvenating and restoring customers to the business rather than, as sometimes perceived, simply recovery from failed customers. GRG is able to add value to customers in restructuring their businesses as well as financial restructuring.

GRG has been tasked with managing the Group's problem and potential problem exposures. Primary responsibility for the customer including credit and relationship should be passed to GRG when business units or credit areas have concerns over the ability of a counterparty to service its obligations to the Bank.

Given the current economic outlook, it is particularly important that potential problems are identified quickly and referred to GRG, as history has shown that the sooner positive action is taken, the greater the likelihood of a successful corporate restructuring.

This note aims to set out the high level parameters for the transfer of cases to GRG. Each area of the business is to ensure that appropriate procedures are agreed with Group Credit to ensure timely transfers of responsibility for the customer to GRG.

GRG is responsible for recommending all provisions for accounts it manages and each division is to hold appropriate Provision Committee meetings. To ensure high standards of credit stewardship, a note will be provided to the Group Chief Credit Officer for any cases for which a provision is required before transfer to GRG. The same procedure will apply to customers which are in an insolvency procedure at the time of, or within a month of, transfer to GRG.

All customers graded E1/PD24 should be transferred to GRG. However, this is not the primary criteria for referral. Any material event which has a negative impact on the customer should result in a transfer to GRG. Typically this will be characterised by a significant deterioration in some aspect of the customer's activity, such as trading, where a breach of covenant is likely or where a customer has missed or is expected to, miss a contractual payment to anyone. Additionally, where discussions regarding restructuring are to take place or the bank needs to instruct professional advisers to assist with our concerns, these discussions should be managed by GRG.

To assist timely and clear transfers, the practice of shadowing cases is to be used to decide quickly whether a connection is to be transferred to GRG or not. After no more than a month, the relevant credit area will decide whether to transfer the case or leave it with the existing relationship team.

GRG is a customer facing business whose objective is to improve our position and the financial condition of the customer. One of the key metrics for measuring the success of GRG is the return of customers to the business. Our ability to achieve success is dependent on transfer being made sufficiently early.

Just Hit Budget!

Tactics:

1. Manage expectations

- Set the tone at the handover meeting.
- Handover presentation puts a marker down in the first 10 minutes.
- Fit the solution to the problem.
- Get sanction!

2. Maintain the momentum

- follow up with handover letter, ideally with a facility letter even if only for a short period.
- The ball should hardly ever be in our court – nag sanctioners.
- Anticipate delays – credit docs turnaround, flag up key equity points before the documentation is issued.
- Leverage upsides with high initial monthly fees that substantially reduce upon completion of the upside [redacted] was £9.5K now £750 with PPAs).

The name of a business customer

3. Deliver

- **30 day's notice:** Under standard Bank terms and conditions we can change terms and conditions with 30 days' written notice – hence post-handover letter. With a fresh facility letter, no notice period is required…as long as they sign!
- Monthly fees or else!
- Record each deal on RMP. If it's not on RMP, your deal does not exist.

Tips:

- **Use facility letters:** If they sign, they can't complain. Heads of Terms cannot be enforced.
- **Basket cases:** Time consuming but remunerative.
- **Perfect deals:** they don't exist – if [redacted]'s unhappy and customer's unhappy then you probably have the balance right.
- **Deal or no deal?** No deal, no way. Missed opportunities will mean missed bonuses. You can always revisit an earlier deal.
- **Handover debt**: if you formalise the handover debt: not new money but customer likely to sign the facility letter to confirm the new limit, avoids immediate excesses and locks in immediate income.
- **Be specific**: avoid round number fees - £5,300 sounds as if you have thought about it, £5K sounds like you haven't.
- **Rope**: Sometimes you need to let customers hang themselves. You have then gained their trust and they know what's coming when they fail to deliver.
- **Never:** Issue "until further notice" overdraft letters.

The name of an RBS employee (a "Senior Manager" under the RBS grading structure, below Executive level)

16 Ways to generate income:

1. **Monthly fees**: minimum £500. Ideally on average we need c10% premium on our debt (current return will be <5%, mezz return should be about 15%). E.g. Debt £2m suggest £200K premium i.e. monthly fee £16K! They normally cannot afford this and you can then leaverage an upside. Set up recurring income action on RMP. Diary note for when they expire.
2. **Exit fees**: Normally monthly 0.5% of all the balances to drive a re-finance. Consider ratcheting. Useful for property developments.
3. **Facility fees**: Aim for 2% but if doing a restructure aim much higher although may have to add to our debt.
4. **Redemption premiums/Other upsides**: Include in new loan facilities if significant (min. 10% premium) and deferred e.g. £50K in 6 months time then record as "other upside". Use with caution.
5. **Conditional Support Fees**: E.g. equity concluded by date X or fee £Y applies – helps deliver a deal or secure income if deal falls away.
6. **Default Interest Rates**: Check each loan facility prior to handover, formal notice of default required, refer to the paragraph, change back office and register the margin enhancement. Need to allow 3 days for them to remedy the breach.
7. **IIS:** Care – no margin enhancements and no fees, but if a refinance likely then you can claim back all the IIS! ([redacted] £600K). Also turns off Bankline, practically may have to have IIS only on loans.
8. **Excess fees:** Charge for any pre-notified excess.
9. **Non-receipt of MI:** Minimum £100 per month.
10. **Margin enhancement**: Minimum margin should be as per Bank matrix unless/until you agree an upside. Claim the margin until new limits formalised.
11. **New money**: With a new money action on RMP you can claim ALL the margin on the new money
12. **Royalty fees**: If equity going to have no value, consider a percentage of turnover (formal documentation available).
13. **Service charge**: We should have everyone on standard tariff. [redacted] and [redacted] can help.
14. **RBSIF**: You can claim one off "notional income" for the margin on RBSIF facilities if they drawdown and you introduce them. E.g. RBSIF drawdown with £1m funds in use limit at 3% margin – you get £30K income.
15. **GBM**: They should email us with income elements of SWAPs etc. when they enter them and when they redeem.
16. **Security fees**: Standard pricing per item per the standard Commercial Bank tariff to apply – on taking as well as on releasing.

The name of a business customer.

The names of two RBS administrative/clerical staff.