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Dear *Andrew*

UKAR's 'Right to Consolidate' clause

Thank you for your letter dated 17 January 2017.

We are committed to ensuring that all customers of UKAR companies are treated fairly, in line with FCA principles, whilst upholding the mandate set out in our Framework Agreement with UKFI to operate in the context of protecting and creating value for the taxpayer. The approach we take to the 'right to consolidate' is consistent with these objectives.

In response to the questions you raised: in total Bradford & Bingley, Mortgage Express and NRAM hold 158,915 buy-to-let mortgages. These are split: 1,556 Bradford & Bingley, 139,052 Mortgage Express and 18,307 NRAM.

We have a total of 23,686 customers who currently own more than one buy-to-let property mortgaged to UKAR companies. Of these, the average number of properties mortgaged to portfolio landlords is currently 7.5.

With regards the criteria used to invoke the 'right to consolidate' clause, I would firstly like to clarify that consolidation rights only apply in respect of buy-to-let properties mortgaged to Bradford & Bingley or Mortgage Express. They do not apply to customers of NRAM. Most NRAM buy-to-let mortgages are subject to an 'all monies charge', which means that each property stands as security for all debts owed to NRAM. This wide form of security is extremely common in the commercial banking sector and we understand that many lenders' buy-to-let mortgage conditions include an 'all monies charge'.

The 'right to consolidate' forms part of the mortgage conditions to which customers agreed when taking the original loan (usually with the benefit of legal advice) and we have subsequently reminded portfolio landlords of this right

As you note there are two scenarios where consolidation rights are relevant.

The first is where a surplus arises following sale of a property by Bradford & Bingley, Mortgage Express or by a receiver. In these circumstances, any surplus is only retained to apply against other mortgage debts owed by the customer to the same lender (i.e. Mortgage Express or Bradford & Bingley as the case may be) where those debts have fallen due and remain unpaid. In this situation, consolidation reduces the customer's overdue debts and can lead to an improvement in their credit file. Where a portfolio customer's other accounts are performing and the customer is not bankrupt or deceased, the surplus will be returned to the customer (subject to any second charges etc. in favour of other lenders).

As you have identified, the second scenario arises where a customer seeks the redemption of one mortgage within their Bradford & Bingley or Mortgage Express portfolio. In this situation we do have the right to require redemption of the entire portfolio. However, in practice our approach is to require that some or all of any surplus is used to pay down other mortgages with the same lender where the customer has other mortgage debts which are overdue or mortgages where the security cover is below current market parameters for standard buy-to-let properties. We would request payment only of such portion of the surplus required to address the overdue debt or the equity risk. The use of consolidation thus reduces the risk that the customer will, in future, suffer a shortfall for which they would remain liable and subject to other debt recovery processes.

We do recognise that landlords should be able to manage their portfolios as they see fit and our approach seeks to minimise the level of interference. If a customer asks us to consider derogating from our standard approach in line with our Treating Customers Fairly principles we will always consider the individual circumstances and we frequently agree to enter into alternative arrangements which better suit a particular customer's circumstances.

Finally, I would like to point out that the purpose of rights such as the 'right to consolidate' and the 'all monies charge', both of which are commonly found in mortgage documentation, is to minimise the risk of losses and bad debts, in the interests of both lender and customer. In our case this means prudently managing the risk of future losses to the taxpayer whilst ensuring that customers are treated fairly.

I trust this letter provides the information that you were looking for but should you require any further clarification please do not hesitate to contact me.

Yours sincerely



Ian Hares
Chief Executive Officer