

Stepstone Mortgage Funding Limited

Response to CP 98 – variable rate mortgage consultation (this submission contains commercially sensitive information and we therefore request that this submission is treated as confidential and not to be published)

Variable rate mortgages definition: For the purposes of CP 98 - where the lender has discretion to vary the interest rate.

Tracker rate mortgages definition: No definition in CP 98.

If a Stepstone mortgage loan's interest rate is subject to regular review/change, it will invariably be one that tracks the movement of a 3 month interest rate index and, although Stepstone has the right to apply any changes of this index monthly, they have been applied on a quarterly basis since Stepstone originated such mortgages.

Stepstone currently therefore applies the Consumer Protection Code ("CPC") requirements as they relate to tracker interest rates. For example, where there is a change to 3 month index on 1 December, affected borrowers will be notified within 10 business days of 1 December of the new rate which will be applied to their accounts for 3 months (i.e. for January, February and March) from 1 January.

Affected borrowers have been sent these notifications each quarter and will therefore be familiar with them and the reasons for the rate change. They are sent regardless of whether the 3 month index rate increases or falls each quarter.

Stepstone believes its mortgages to be tracker rate mortgages. However, in accordance with its mortgage loan terms and conditions, in certain limited circumstances, how the interest rate is set, varied or applied by Stepstone may change. If the existence of this feature categorises such loans as variable interest rate mortgages, the underlying tracker nature of the rate (as described above) means that, in practice, Stepstone will be unable to provide any more notice than it does currently (i.e. in accordance with CPC 6.7 b). It will not therefore be able to comply with what is proposed for variable interest rate mortgages in this consultation.

Stepstone therefore requests a clarification of the tracker rate and variable rate definitions so that it is clear that, regardless of circumstances that may amend the determination of the interest rate, where the underlying nature evidences a tracker interest rate, the CPC requirements, which relate to tracker interest rates, are applicable.