

3 September 2010

Consumer Protection Codes Department
Financial Regulator
PO Box 9138
6-8 College Greer
Dublin 2

BY EMAIL (code@financialregulator.ie) and POST

Dear Sirs/Madam

Consultation paper on review of Code of Conduct on Mortgage Arrears (the “Consultation Paper”)

Stepstone Mortgage Funding Limited (“Stepstone”)

We refer to the Consultation Paper published by the Financial Regulator on 13 August 2010 inviting views from lenders on the proposed amendments to the Code of Conduct on Mortgage Arrears (the “CCMA”).

As you are aware Stepstone entered the mortgage market in 2007 and only originated mortgages in 2007 and 2008 and as such a very high proportion of our borrowers are in difficulties despite the original average loan level of our current portfolio of mortgages being 65% of property value. Therefore in the last 12 months the new directors have;

- appointed a specialised team based in Dublin to work with borrowers in difficulty;
- proactively attempted to contact all our borrowers to discuss their circumstances and seek to deal with each in a manner appropriate to their circumstances;
- continued our policy of not charging penalty interest rates on arrears balances;
- suspended charges for arrears management, arrears letters and visits to borrowers’ homes;
- introduced a €1,000 cap on all break funding fees when switching from fixed rate products; and
- managed to negotiate alternative repayment arrangements with approximately 50% of our borrowers in arrears.

In the round we welcome the Financial Regulator’s proposals which we believe seek to introduce many of the policies we are currently practicing. Generally, we would observe that the introduction of too prescriptive an approach would only serve to delay reaching a resolution with some borrowers, each borrower is different and one size cannot be made to fit all.

PO Box 11498, Dublin 2

Tel: 1850 200 010/01 775 3140
Fax: 01 775 3198
Email: collections@stepstonemortgages.ie
Web: www.stepstonemortgages.ie

Directors: Anthony John Brereton (British), Stuart
Ross (British), Richard Harper (British)
Registered Number: 428955
Registered Office: One Spencer Dock, Northwall
Quay, Dublin 1

We outline below Stepstone's responses to the specific issues raised by the Financial Regulator in the Consultation Paper as well as specific comments on certain paragraphs in the proposed CCMA.

1. Level of communication

It is Stepstone's policy to gauge the level of contact required based upon the individual circumstances of our borrowers. Where a borrower is having difficulty with his/her mortgage repayments we believe it is in his/her best interest to make contact as soon as possible in order for effective alternate repayment arrangements to be put in place. Contact must be established with the borrower as soon as possible because the longer the borrower ignores their arrears situation, the greater difficulty Stepstone will have trying to put in place an alternative repayment arrangement and the longer the borrower delays contacting the lender the fewer options will be available to the borrower. Once two way communication is established a period of less frequent contact may ensue dependant upon the actions being taken by the borrower.

Stepstone believes that the proposed cap of 3 unsolicited communications per month is too prescriptive and that it would be more effective to make communication with borrowers a principle of the CCMA. This would allow for the level of communication to be dependent on the circumstances of each borrower and to be appropriate to those circumstances. In respect of every communication with the borrower the lender should record the substantial details of the communication which would allow the lender to self assess their level of communication with borrower and provide the Financial Regulator with the ability to check whether the communication was excessive and/or repetitive. The Financial Regulator to determine whether the level of communication has been excessive or repetitive.

If the Financial Regulator maintains the cap of 3 unsolicited communications a month, Stepstone will require clarification as to what is categorized as 'unsolicited communication'. This clarification would benefit borrowers as much as it would benefit lenders.

2. Arrears

Stepstone notes the Financial Regulator's point that the same definition of mortgage arrears will be used in the Quarterly Report on Residential Mortgage Arrears however Stepstone believes that a distinction has to be made between the definition of arrears in respect of how borrowers are treated and the definition of arrears for reporting purposes. Stepstone regards an arrears situation arising as soon as the borrower fails to make a full mortgage repayment by the due date. As soon as the arrears situation arises Stepstone will attempt to contact the borrower to discuss the situation and will continue to engage with the borrower while the arrears situation persists. For reporting purposes Stepstone classifies arrears as when a borrower is one full month (or more) in arrears.

3. Primary Residence

Stepstone defines primary residence as the mortgaged property that was occupied by the borrowers at the time the arrears situation arose.

Stepstone's original lending was done on the basis that the mortgaged property would be the borrower's primary residence. If the property has been left unoccupied or let with the authorisation of Stepstone, Stepstone will continue to treat it as the borrower's primary residence. In the event that the property has been left unoccupied or let without the consent of Stepstone then Stepstone will no longer consider the property the primary residence of the borrower. We would note, however, that Stepstone continues to treat all borrowers in accordance with the principles of the CCMA, regardless of whether the property is or is not defined as the primary residence, until such time as all communication between Stepstone and the borrower have irreparably broken down.

4. Appeals

Stepstone believes that an external appeals process which would allow a borrower to appeal the lender's decision on an alternative repayment arrangement is not necessary. It should always be open for the borrower to complain to the lender about their treatment. However, we would consider an external appeals process to be an unnecessary constraint for both the lender and borrower in attempting to negotiate a realistic alternative repayment arrangement and unworkable in practice.

As mentioned previously, Stepstone engages with each borrower on an individual basis and suggests workable alternative repayment arrangements based on the borrower's individual circumstances. However, the alternative repayment arrangement must give the borrower the realistic opportunity to clear his/her arrears over a period of time and in certain cases it will not be possible to reach an agreement that the borrower is satisfied with. A borrower who believes they have not been treated fairly should be able to complain to the lender and their complaint should be dealt with via the normal channels which if left unresolved will ultimately result in a referral to the Financial Ombudsman.

We have the following specific comments/queries in respect of the paragraphs listed below of the proposed amended CCMA:

Paragraph 13

Stepstone agrees with the principle set out at paragraph 13 that a lender must have a dedicated section on its website for borrowers in or concerned about financial difficulties but would suggest including the wording 'where one exists' in relation to the website.

Paragraph 15

Stepstone believes that it would be difficult to proactively carry out a pre-arrears assessment of existing borrowers without having to contact those borrowers and does not believe that this type of contact would be welcomed by those borrowers.

Stepstone believes that a certain amount of responsibility needs to be taken by the borrowers to contact Stepstone if they are in any way concerned about meeting their mortgage repayments. Stepstone believes that paragraph 16 of the proposed CCMA and the sending of a periodic mailing is the most appropriate and effective manner in which to engage with all borrowers to provide them with necessary information and encourage them to contact their lender if they have any concerns.

Paragraph 20

Stepstone notes the requirements of paragraph 20 of the amended CCMA which sets out the information that must be contained in a letter to the borrower when a mortgage account first goes into arrears. However, Stepstone believes to provide all the information in each and every subsequent communication to the borrower will unnecessarily complicate the correspondence and detract from the message that the lender is sending to the borrower. Stepstone would suggest rather attaching a schedule to the letter setting out all necessary information.

Paragraph 24

Stepstone notes that paragraph 24 states that a lender must inform the borrower in writing when it intends to appoint a third party to engage with the borrower in relation to arrears. Stepstone assumes that this paragraph is meant to deal with those instances where lenders appoint specialist debt collectors or is it the Financial Regulator's intention that this should also apply to companies who have been appointed to carry out the servicing activities on behalf of the lender? If this is the intention of the Financial Regulator Stepstone would not support this amendment as outsourced mortgage service provider's act in the name of the lender and not as an independent firms. Stepstone would be grateful for clarification in respect to this paragraph.

Paragraph 36

Stepstone notes that paragraph 36 provides that where an alternative repayment arrangement is proposed, the lender should provide the borrower with an explanation of the alternative repayment arrangement in writing. It is Stepstone's experience that in the course of discussing alternative repayment arrangements with borrower a number of different alternative repayment arrangement will be proposed by both the lender and the borrower. However, it is only when an alternative repayment arrangement is substantially agreed that it is feasible for it to be confirmed in writing to the borrower and an appropriate amount of time given to the borrower to consider the alternative repayment arrangement. Stepstone believes that if each proposed alternative repayment arrangement needs to be recorded in writing this will unnecessarily extend the process with borrowers, who are already in financial difficulty, and would suggest that only a substantially agreed, rather than proposed, alternative repayment arrangement is sent to the borrower in writing for consideration.

In some instances alternative repayment arrangements are reached at the eleventh hour and the borrower needs to take quick action, perhaps making a payment under the alternative repayment arrangement to forestall some event, such as a court appearance. In those circumstances it is not possible to write as envisaged giving the borrower time to reflect upon the alternative repayment arrangement. In practice a letter can be sent, effectively after the event, and it is open to the borrower to revert if

they believe the letter doesn't reflect the alternative repayment arrangement they reached.

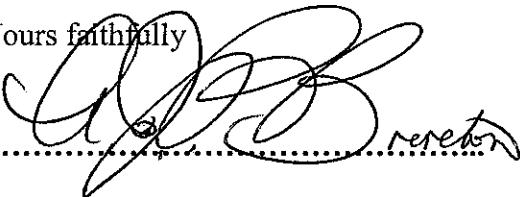
Paragraph 46

We note paragraph 46 (a)(ii) of the proposed CCMA contemplates that the twelve month period which the lender must wait before applying to the courts to commence enforcement of any legal action will commence when the borrower ceases to adhere to the terms of a revised repayment arrangement and no further arrangements are being entered into. We support the notion that a borrower should be encouraged to co-operate with lenders, as evidenced by the entry into an alternative repayment arrangement but would suggest that rather than the twelve month period commencing when the borrower ceases to adhere to the terms of the alternative repayment arrangement, rather the 'clock should be paused' when the borrower enters into an alternative repayment arrangement and should be resumed if the borrower ceases to adhere to the terms of the alternative repayment arrangement.

Our concern with the approach set out in paragraph 46(a)(ii) of the proposed CCMA is that while it would benefit the vast majority of borrowers there are inevitably those who will seek to take advantage of this by agreeing an alternative repayment arrangement towards the end of the twelve month period for the purpose of 'resetting' the clock without intending to make any further payments pursuant to that alternative repayment arrangement. We believe that this would not be in the best interests of borrowers as they will continue to incur further debt.

We appreciate the Financial Regulator's consideration of our response. The directors of Stepstone are happy to meet to discuss any of the responses set out in this letter in more detail and provide any further information required.

Yours faithfully

A handwritten signature in black ink, appearing to be 'A. B. B.', written over a horizontal dotted line. The signature is cursive and somewhat stylized.

**Director
Stepstone Mortgage Funding Limited**