



Handwritten signature: Michael Clavell-Bate

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Date 25 September 2007
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Dear Sirs

Our client: Home and County Mortgages Limited

As you know, Eversheds LLP act for Home and County Mortgages Limited ("HCML"). Mr Bowers of HCML has had communications with you in relation to your request that he attend an interview with you. In order to consider that request Mr Bowers sought further information from you as to the detail of any matters that you wish to discuss over and above the issues which were the subject of the investigation by the FSA last year. You have declined to provide that information other than to state that you wish to interview Mr Bowers in connection with the "reckless selling of sub-prime mortgages" by HCML.

As you are aware from the conversations on 21 September between Michael Clavell-Bate of this firm and Mathew Chapman, Mr Bowers and Jonathon Crook (a Partner in Eversheds who represented HCML in connection with the FSA investigation and enforcement proceedings) have offered to meet with you "on the record" to understand the issues that you wish to raise and to provide information where possible. You have declined that offer on the basis that you only wish to meet with Mr Bowers if the interview is filmed or tape-recorded.

We therefore set out below information which we believe will be of assistance to you in understanding the position further.

HCML specialises in advising Council tenants in connection with exercising their rights to purchase their council home and procuring the appropriate mortgage. Although HCML's customers are, necessarily, existing or former council house tenants, HCML's customer base is a mixture of prime and sub-prime mortgages. In the last 3 years, "sub-prime" mortgages have averaged less than 50% of HCML's mortgaging broking business. There are a number of other companies whose sub-prime business accounts for a much greater percentage of their business and who actively target such business.

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The FSA's findings following its investigation with HCML are set out at paragraph 2.3 of the Final Notice dated 6 December 2006. In relation to these (and taking into account the specific questions raised in your emails) the position is as follows:

1. The FSA's investigation concerned the period 1 November 2004 and 7 December 2005. The matters that were investigated therefore took place between 2 - 3 years ago.
2. The FSA did not allege that HCML was engaged in the "reckless selling of sub-prime mortgages" and there was no finding to that effect. Indeed there is no reference in the Final Notice to sub-prime mortgages at all. (In that regard the position of HCML/Mr Bowers is very different to, for example, Hadenglen Home Finance/Richard Hayes where the FSA did make findings of recklessness. The Final Notices in this regard were published on 6 September 2007).
3. HCML did accept the FSA's finding that it had failed to ensure that there was documentary evidence on customer files that advice given was suitable and that products recommended were affordable and appropriate to the needs of customers. In that regard HCML accepted there was a failure to ensure compliance with documented sales processes. HCML did, however, commission a skilled person to review a large number of client files. The skilled person report identified certain cases where there was evidence that the advice provided to the customer was unsuitable, but in the majority of instances there was no evidence of any customer detriment.

HCML has taken all the appropriate remedial steps to address those cases where possible customer detriment was identified.

HCML has also invested heavily in its compliance systems and controls to address deficiencies identified as part of the FSA investigation.

4. HCML also accepted as part of the investigation that it had failed to take appropriate action to prevent an advisor from placing customers at risk. HCML has now developed a formal training and compliance scheme for new and exiting advisers, all of whom are professionally qualified and who work under the supervision of an experienced sales manager. Mortgage files are reviewed prior to completion by a dedicated compliance officer to ensure they meet the required regulatory standards and that there is proper evidence of the suitability of the mortgage product that has been recommended and its affordability.
5. HCML also accepted that it failed to exercise due care and diligence that resulted in two customers being recommended and sold a mortgage with an unauthorised lender, Mr Bowers. During the course of the FSA investigation Mr Bowers explained (and this is noted at paragraph 5.9 of the Final Notice) that both

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mortgages were provided in respect of non-traditional built properties and that at the time in question, only one authorised lender was willing to offer mortgage finance for such properties. The transactions were undertaken by Mr Bowers in order to enable the customers to complete the purchase of the properties before the offers on their properties expired. (If those offers had expired then any subsequent offer would have been based on a revaluation of the properties by the relevant Council which, in both instances, would in all likelihood have resulted in a significant increase in the purchase price that would have been payable.) Both customers were subsequently remortgaged at no additional cost to them.

HCML naturally regrets the fact that action was taken against it by the FSA. However, from the outset of the investigation HCML cooperated fully with the FSA. HCML has also invested significantly in its compliance processes and procedures and is committed to ensuring that its customers receive a high level of service and the most appropriate mortgage product given their circumstances and personal needs.

We remain willing to meet with you on the basis you have outlined to discuss matters further.

Yours faithfully



Eversheds LLP