

Synthetic LIBOR Frequently Asked Questions (FAQs)

What is a reference rate?

A reference rate is the figure we use to work out the total interest rate that customers pay on their mortgage.

A reference rate can also be used to set the cap and collar of a mortgage. This applies to customers whose mortgages were taken out with Kensington Mortgages. Mortgage Agency Services Number Six Limited is the current lender. See the section "What is a cap and collar?" later in these FAQs.

What is Term SONIA?

Term SONIA stands for Sterling Overnight Index Average. It is an interest rate managed by The Bank of England (BOE). It was created to replace LIBOR.

Term SONIA is used as a reference rate in the banking industry.

How is Term SONIA Produced?



By 7AM, the Bank of England gathers data of all the transactions completed by banks from the previous day.



They check the data is correct and run checks to make sure the data they have been sent makes sense.



The Bank of England calculates and publishes the Term SONIA interest rate.



Term SONIA is then calculated and published by each Term SONIA provider.

How is Term SONIA used to calculate my interest rate?

We review your interest rate every 3 months.

When we review your interest rate, we look at what the Term SONIA rate is that day. We then apply what is called a credit adjustment spread.

An example of this can be found in the “What is a credit adjustment spread?” section.

What is LIBOR?

LIBOR stands for London Interbank Offered Rate. It was used as a measure of the interest rates banks were willing to pay each other to borrow money.

The government and Financial Conduct Authority (FCA) decided to close down LIBOR. They did this after finding out that some banks had been manipulating the rate. Banks used LIBOR as a reference rate until 31st December 2021.

What is Synthetic LIBOR?

Synthetic LIBOR was created by the FCA as a temporary reference rate until March 2024. This rate was there to help customers who were on LIBOR and had nothing to change to. LIBOR was removed from 1st December 2021.

The reference rate is used to work out the total interest rate payable on the mortgage. Without using Synthetic LIBOR, banks would not have been able to work out an interest rate to charge. Without a reference rate in these cases, the only option would be to request payment of the full mortgage balance.

How is Synthetic LIBOR produced?

Synthetic LIBOR is calculated by looking at what the interest rates were for LIBOR and Term SONIA from 2016 to 2021.

The average difference between the two rates was then worked out. This is called a credit adjustment spread (CAS).

The CAS is added to the Term SONIA rate to work out Synthetic LIBOR.

How is Synthetic LIBOR used to calculate my interest rate?

We review your interest rate every 3 months.

When we review your interest rate, we look at what the Synthetic LIBOR rate is that day.

An illustrative example of this can be found in the “What is a credit adjustment spread?” section below.

What is a cap and collar?

Some mortgages have what is called a cap and a collar. These will apply only to customers whose mortgage was taken out with Kensington Mortgages.

The cap sets the most amount of interest that can be charged and the collar sets the least.

For example, where the cap is set at the Term SONIA plus CAS rate +3%, and the Term SONIA plus CAS rate is currently 4%, this would mean your mortgage rate would not go above a total of 7%.

Where the collar is set at Term SONIA plus CAS rate + 1%, and the Term SONIA plus CAS rate is currently 4%, this would mean your mortgage rate would not go below 5%.

What is a product margin?

The product margin is normally a % above your reference rate. This will have been agreed as part of your mortgage deal.

For example, if the “Term SONIA plus CAS” rate was 4% and the product margin on your mortgage is + 0.25%, the total rate would be 4.25%.

The product margin is not the same for all customers. It depends on what mortgage deal was agreed at the time each customer took out their mortgage.

What is a credit adjustment spread (CAS)?

Your interest rate is reviewed every 3 months.

Mortgages which use Term SONIA as the reference rate have a CAS applied to the rate.

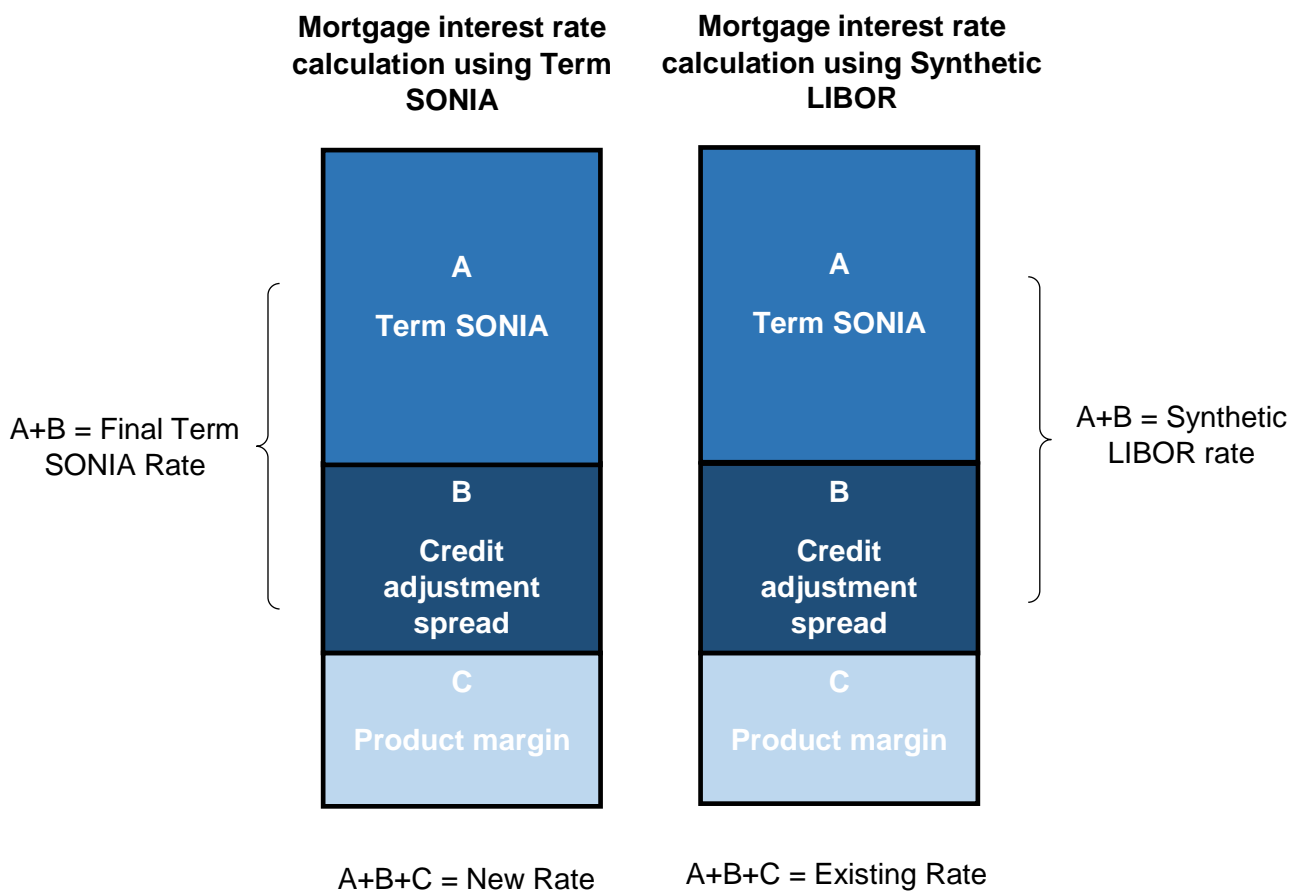
The CAS is applied to ensure that the Term SONIA rate closely reflects the rate LIBOR would have been. It is worked out by looking at what the interest rates were for LIBOR and Term SONIA between 2016 and 2021.

The average difference between the two rates was then worked out and set at 0.1193%.

This figure is the CAS.

See below as to how the credit adjustment spread is designed to work [FOR ILLUSTRATIVE PURPOSES ONLY].

The way that the interest rate for Synthetic LIBOR and Term SONIA is worked out is effectively the same.



When will my mortgage(s) move to an alternative reference rate?

The change to Term SONIA plus CAS will take place on 1st April 2024. We will get in touch with you again before we make any changes.

Synthetic LIBOR ends on 31st March 2024. We must have a replacement rate in place. If we don't no interest on your mortgage can be charged.

If you sign and return the Variation Agreement now, you will move on to Term SONIA before then.

Will my rate change?

Your mortgage rate will not change as a result of changing from Synthetic LIBOR to Term SONIA plus CAS. Your mortgage interest rate is currently variable and is reviewed every 3 months. This means that if the Synthetic LIBOR or Term SONIA rates go up or down, your mortgage rate may change in the future.

We will write to you before making any change to your payments to ensure you are aware of the impacts.

Can I repay my mortgage without paying an early repayment charge?

Your mortgage may have an early repayment charge. This will be shown in your terms and conditions or you can call us to discuss this.

Can I change to a different mortgage product?

You may be able to apply to switch to a different product, subject to criteria.

How do I make a complaint?

If you are unhappy with the changes to your mortgage and wish to make a complaint, you can do so by contacting us via:

Telephone: 0345 070 1999

Post:

Customer Response (C097), Newton House, Cheadle Road, Leek, Staffordshire
ST13 5RL

If you submit a complaint via the post, we require:

- details of what you are concerned about
- your name and address
- account number
- a daytime telephone number.

What if I am experiencing financial difficulties?

We know a change in circumstances can affect your ability to pay your mortgage.

If you are concerned about paying for your mortgage, no matter what the reason is, please contact us immediately. We can help you deal with any financial difficulties you may be experiencing.

You can speak to one of our team on **01752 236243**.

If you get in touch with us, we'll:

- never judge you or make you feel bad about your situation
- always be happy to talk to you, however big or small your problem might be
- treat you as an individual, taking the time to understand your circumstances
- try to agree a way forward that meets your needs
- let you know who else can help you.

You can also visit our money management hub on our website to learn more about the support we can offer:

<https://www.co-operativebank.co.uk/help-and-support/money-management/>

If you are currently in arrears, have already spoken with us and have a plan in place, there is no need to contact us.