

## **The complaint**

The executor of the estate of Mrs S has complained about a lifetime mortgage Mr and Mrs S took out in 2007 with Prudential Lifetime Mortgages Limited. He has said he is shocked and appalled to see how much compound interest has accrued on the mortgage. He also said he was unhappy that interest continued to accrue after Mrs S' death, which he considers is immoral and unethical.

## **What happened**

In 2007 Mr and Mrs S were purchasing a property and needed a mortgage to do so. They were retiring and so sought assistance from a mortgage broker. The broker recommended a lifetime mortgage for £44,500 with a fixed interest rate of 7.37% per year for the entire term. No payments were required to be made by Mr and Mrs S and the interest was rolled into the mortgage debt.

Mrs S died in 2020, Mr S having pre-deceased her, and the executor contacted Prudential for a redemption statement. Following the executor becoming aware of the size of the mortgage debt, he complained.

Prudential responded to the complaint, but it didn't uphold it. It explained that like most loans the mortgage Mr and Mrs S took out continues to accrue interest until the debt is repaid. It disagreed that this was an immoral practice or that interest should be frozen at death. It also said neither involvement or consent was required from the beneficiaries of any future estates; it was solely the parties entering into the contract that need to be involved. Those parties were required to sign the mortgage deed in the presence of a solicitor; the solicitor having ensured they understood the arrangement they were entering into, including the effect on their estates. Prudential said it was up to Mr and Mrs S to decide whether they wanted to borrow money on the terms that were offered.

The executor wasn't happy with Prudential's response and asked us to look into the complaint. When doing so he explained that he had been present when the advice to take the mortgage had been given. He said the focus was on how the mortgage would allow Mr and Mrs S to buy the house they wanted and live there without having to pay anything. He said Mr and Mrs S weren't told to seek independent advice and no consideration was given to other ways of funding the shortfall in finances. The executor said he advised against the mortgage, but Mr S had been determined to take it out.

One of our investigators considered the complaint, but he didn't recommend that it be upheld. He explained that the mortgage had been sold to Mr and Mrs S by an independent mortgage broker and so Prudential wasn't responsible for its suitability; only Prudential's administration of the account. As for the amount the mortgage debt had increased to and the charging of interest until the debt was repaid, he didn't think Prudential had done anything wrong. Indeed, he pointed out that the mortgage offer Mr and Mrs S accepted included figures for the amount the debt would be after different time periods – that for 13 years detailed a debt of over £117,000 – so he was satisfied Prudential had made them aware of how much the debt could increase to. The investigator also explained why lifetime mortgages attracted higher interest rates than conventional mortgages.

The executor didn't accept the investigator's conclusions. He said that the interest rate was too high, and pointed out that Mr and Mrs S had never been offered another interest rate product during the term of the mortgage when interest rates dropped. He also remained unhappy that interest continued to be charged after Mrs S' death. He asked for a second opinion.

Our investigator confirmed that mortgage Mr and Mrs S had was arranged with a fixed interest rate throughout its term. As such, the lender wouldn't be expected to offer new interest rates during the term of the mortgage. He reiterated that he didn't think it was unreasonable for Prudential to have charged interest until the debt was repaid.

The executor maintained his request for the complaint to be assessed by someone else and so it has been passed to me to consider.

### **What I've decided – and why**

Before I comment on the merits of this complaint, I would confirm what our investigator explained to the executor of Mrs S' estate; the advice to take out the mortgage and responsibility for its suitability was the mortgage broker's. So the aspects of the complaint regarding whether the mortgage was appropriate for Mr and Mrs S, or the most suitable option for them at the time, would be rightly directed to the broker. In this decision I can only consider the information Prudential provided Mr and Mrs S with and its administration of the mortgage.

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

The executor has highlighted that the mortgage was transferred to Prudential after it was arranged. He is of the opinion that this means Prudential should have behaved differently toward the mortgage than the original lender would have. When a transfer of business takes place, the terms and conditions associated with the loan will transfer with it and are applied by the new lender.

I can understand given the interest rate associated with the loan that the executor would have liked Prudential to have changed the terms of the mortgage contract to offer a lower interest rate, but that's not something it had to do or that I can suggest it should have. If interest rates had increased during the term of the mortgage, I don't believe the executor would have approved Prudential changing the contract to change interest rates to reflect that type of change, and it's not reasonable to have expected it to do so the other way around. I would also comment that the interest rate on Mr and Mrs S' mortgage was quite typical for lifetime mortgages at the time it was taken out.

It is normal on all types of mortgage that interest continues to accrue on the debt until it is paid off. When a mortgagor dies, the debt doesn't cease, but rather the ownership of the debt is attributed to the estate of the deceased person. While the debt is still owed, it will continue to attract interest. The executor has said this is unfair as all the beneficiaries didn't sign the mortgage agreement. As our investigator pointed out, none of the beneficiaries signed the mortgage deed or were a party to the mortgage contract. Whether all, some or none of the beneficiaries were aware of or involved in the advice process, isn't relevant to this complaint – the contract was between Mr and Mrs S and Prudential. I don't find it was unreasonable for Prudential to continue to charge interest after Mrs S' death as there was a debt outstanding at the time.

### **My final decision**

My decision is that I don't uphold this complaint. Under the rules of the Financial Ombudsman Service, I am required to ask the estate of Mrs S to accept or reject my decision before 13 July 2021.

Derry Baxter  
**Ombudsman**