

The complaint

Mr and Mrs W complain about a second charge loan they have with Central Trust Limited. They're unhappy about the amount they have been charged in interest on the loan and they believe they should have been charged a lower rate.

A separate Ombudsman's decision has been issued relating to our rules and what our service can and can't consider. The Ombudsman found that our service can only consider part of this complaint and that is the complaint about the application of interest from August 2013.

My decision here will therefore only comment on the aspects of the complaint that relate to the events that occurred from August 2013.

What happened

I have only briefly summarised the events and submissions from the parties here. But I'd like to reassure Mr and Mrs W that I have considered all that has been provided and where I haven't referred to something specifically it's not because I've ignored it, it's because I don't think it's material to the outcome of the complaint.

Mr and Mrs W took out a £20,000 loan in 2007 with Central Trust. The loan was secured on their property, was to be repaid over a 12 year term and had a variable interest rate. Mr and Mrs W are unhappy with the way they have been treated by Central Trust and believe they have paid too much interest on the loan.

After complaining to Central Trust Mr and Mrs W referred their complaint to our service. After determining that we could consider some of Mr and Mrs W's complaint the investigator explained that they didn't believe Mr and Mrs W had been treated fairly when considering the application of interest on their specific mortgage account. As a result, Central Trust made an offer to reduce the interest rate applied to Mr and Mrs W's loan to 9.0% from August 2013, which is six years before the complaint was made. Additional interest of 8% simple per year would also be added to each over payment. Central Trust also explained that the interest rate on Mr and Mrs W's account had been set at 0% (zero) from December 2019, because Central Trust's policy is not to charge interest on loans that go beyond the end of the original term.

The investigator felt this offer was fair and explained this to Mr and Mrs W. Mr and Mrs W didn't agree so the complaint has been referred to me to make a decision as the last stage in our process.

What I've decided – and why

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

Having done so, I think the offer that Central Trust has made in this case is fair and reasonable and I do not consider there to be grounds to instruct Central Trust to do anything more than it has already offered.

Central Trust has now offered to reduce the amount owed on Mr and Mrs W's loan by recalculating the interest that has been applied between August 2013 and August 2019. The rate applied will be reduced to 9%. It says it has done this after considering Mr and Mrs W's particular circumstances. The reasoning behind this has been shared with Mr and Mrs W and I'm satisfied the explanation is sufficient to demonstrate what factors have been included and considered in the calculation. The calculation essentially means a lower rate of interest has been applied to the account from August 2013 to August 2019, when the rate was reduced further to zero.

I appreciate Mr and Mrs W remain unhappy with this offer but having considered the specific circumstances of their complaint I'm satisfied it is reasonable. The reduced rate of 9% would I understand be lower than the rate that would apply if Mr and Mrs W's interest rate had followed the changes in Central Trust's cost of funding. And would also be lower than the rate that would have applied had Mr and Mrs W's interest rate followed the changes in BoEbr, up to August 2019, when their rate was reduced to 0%. I appreciate Mr & Mrs W would prefer that a lower rate is applied to their account, but I'm not persuaded in the circumstances here there are grounds to instruct Central Trust to do this.

Mr and Mrs W's loan balance has received a 0% interest rate since August 2019 and I understand this will continue moving forward as the original loan term has passed and Central Trust has explained it doesn't charge interest on outstanding balances that have passed the original loan end date. This seems reasonable in my view.

Should Mr and Mrs W accept my decision and the offer from Central Trust, the amount calculated will then be applied to the outstanding account balance to reduce the overall amount owed. Should this clear the outstanding balance any remaining amounts will be paid directly to Mr and Mrs W.

If the above recalculation results in a remaining outstanding balance, given Mr and Mrs W's financial circumstances, they may want to discuss an affordable repayment plan with Central Trust. I remind Central Trust that they have an obligation to treat customers in financial difficulty with due consideration and forbearance.

My final decision

I appreciate that Mr and Mrs W will likely remain unhappy with the outcome here, but my final decision is that Central Trust's offer is fair and reasonable. I direct Central Trust to:

- Recalculate the interest applied to the account assuming a rate of 9.00% per annum is applied from August 2013 to December 2019;
- Add simple interest at 8% a year to any overpayments from the date that they were made until the date they are applied to the account*;
- Apply any overpayments and interest against the outstanding balance;
- Continue to apply a 0% rate of interest from December 2019, as they've already agreed to do;
- If after the adjustment the account is fully settled any remaining sums should be paid directly to Mr and Mrs W.

*HM Revenue and Customs may require that Central Trust deduct tax from any interest paid. Should Mr and Mrs W request it, Central Trust should give them a certificate showing how much tax has been taken off so that they may reclaim it if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W and Mrs W to accept or reject my decision before 18 July 2022.

Mark Hollands
Ombudsman