

## **The complaint**

This complaint is about a secured loan Mr P took out in May 2007. The loan was originally taken out with a business I will call F, and ownership of the loan was passed to Elderbridge Limited in January 2016. Mr P is unhappy that he still owes so much on the loan.

## **What happened**

On 30 May 2007 Mr P took out a secured loan with F. He borrowed around £49,000 (which included a sum of around £8,000 for a payment protection insurance policy) over a period of 25 years.

The first payment was missed on the account in June 2008, with the account then remaining in arrears from June 2009 until October 2021.

Mr P made a claim on the linked payment protection insurance policy under which some payments were made to the loan account from January 2009.

In February 2010 F suppressed the interest on the account, at which time the balance stood at around £50,700.

In May 2010 F obtained a suspended possession order due to the level of arrears on the account. The order was that Mr P was to pay his contractual monthly instalment plus £75.18 each month. Those payments weren't met in full each month until October 2011. The last payment in that sequence was made in October 2012, with no payments being made in November or December 2012.

From January 2013 Mr P started paying £373 a month, with those payments maintained until the payment in November 2021 redeemed the main balance of the mortgage. As that had been repaid, Elderbridge moved the suppressed interest of around £23,000 across to the main account so Mr P could start making payments to that. His payments of £373 a month continued until August 2022, after which Mr P stopped making payments.

In November 2022 Mr P referred his complaint to the Financial Ombudsman Service. One of our Investigators looked at it but she didn't think the main thrust of it should be upheld, although she did feel Elderbridge should pay £200 compensation for not making things clear to Mr P. Elderbridge agreed to that. Mr P disagreed with the Investigator's findings and asked for an Ombudsman to review the complaint.

## **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.

I'm not making any findings here about the decision by F to suppress interest on the account, I'll merely be explaining how it works. I can only consider the complaint against Elderbridge in relation to what happened after it took over the loan in January 2016.

Mr P had been struggling to pay his loan. One particular thing that was done to help him was to stop adding interest onto the main loan account as otherwise he'd be paying interest on interest - known as compound interest - if he didn't keep up his payments. Instead F carried on calculating the interest in the background, as it was still due, but as it wasn't applied to the main account it didn't attract interest itself. This is known as simple interest. Overall this decision is referred to as suppressing the interest.

In effect, in order to prevent interest accruing on unpaid interest, F 'ring-fenced' the interest in a separate account, so that it didn't attract further compound interest. This also meant any payments Mr P made after that point went towards reducing his arrears, and then repaying the capital. Ultimately, it meant Mr P was charged less interest than he would have been otherwise.

That's because the interest is charged on the outstanding balance in the main account. Had the interest been accruing in the main account as it normally would (and as it was until F suppressed the interest in February 2010) the balance in Mr P's main account would only have been reducing by the difference between the monthly interest and the amount Mr P had paid that month. That means the interest calculation for the following month would be based on a higher balance. Instead, all of Mr P's payments were being used to reduce the balance in the main account so the balance in that account was reducing at a much faster rate than it normally would, meaning less interest was then charged each month going forward.

But because the interest was still due, it couldn't simply be written off or ignored, instead the interest due each month was included in a separate account (which was non-interest bearing, so interest wasn't being charged on that interest) and once the main account balance was cleared in November 2021 that sum was moved across for Mr P to start making payments towards it. No interest has been charged on that balance since November 2021, so all payments Mr P makes go towards clearing what is left of his loan (and to be clear, this sum does form part of his loan).

Mr P could never have been in the position that since February 2010 he'd have been charged absolutely no interest, so his account could never have been fully cleared in November 2021 based on the payments Mr P has made over the years.

The original loan term ran until 2032 and, based on the original contract, to repay it before then Mr P would have needed to have not had arrears over such a long term and instead to have been making overpayments. That clearly wasn't the case here. That said, by the account being changed as it was in February 2010 so the interest was accrued in the separate account, I understand Mr P was on track to repay his loan before 2032 if he'd continued to make the £373 a month payments he'd been making until August 2022. Mr P could never have been in that situation had F not taken the action it did, and so I'm satisfied the action Elderbridge took in continuing with that arrangement was fair and reasonable as it has left Mr P in a better position financially overall.

The figures on the loan agreement are based on a person paying all of the contractual monthly repayments in full and on time and no fees or charges being added. Clearly that didn't happen here as Mr P had been in arrears to the extent that F obtained a suspended possession order in 2010. The contract Mr P entered into required each contractual monthly payment to be made in full and on time in the month it was due. As interest is constantly being charged this means it's not as simple as making up a missed payment, there's also the extra interest incurred for every day that payment is overdue. This interest can add up significantly as for each delayed payment extra interest will be charged on the unpaid capital for every day it is late.

We don't provide an auditing service or carry out a forensic analysis of loan records. But I've looked at the transaction history and there's nothing on there that appears unusual or incorrect since Elderbridge took over the loan (which, as I said above, is all I'm considering here). Of course, it's open to Mr P to instruct an independent and suitably-qualified professional to audit his account, but that would have to be at his expense.

Having considered everything I'm not persuaded the decision by Elderbridge to continue to suppress the interest and then to ask Mr P to pay it was unreasonable. Ultimately, it meant Mr P was charged less interest than he would have been otherwise. And if full and clear information had been given, Mr P would have been told there was the separate suppressed interest account. He could never have been in the position where he doesn't have to repay that amount.

For the reasons I've already explained, I think the suppression of the interest meant Mr P was treated fairly, as it meant he was charged less interest than he would otherwise have been. Having reviewed the transaction history and the contact notes, I don't think Mr P would have been able to pay more than he was already paying towards his loan, so I'm not persuaded that he has been financially disadvantaged by being unaware of the suppressed interest.

But I agree with our Investigator that it would have been a shock to Mr P to find out so late on that he owed much more than he was expecting. Our Investigator has recommended that Elderbridge should pay Mr P £200 compensation in recognition of this upset. Having considered everything very carefully, I find that sum to be fair and reasonable in the circumstances of this complaint

### **My final decision**

I uphold this complaint and order Elderbridge Limited to pay £200 compensation to Mr P for his complaint about the suppressed interest.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 5 September 2023.

Julia Meadows

**Ombudsman**