DRN-4102964

The complaint

Mr and Mrs B have complained about a mortgage they hold with Topaz Finance Limited trading as Melanite Mortgages. Their complaint can be summarised into the following points:

- The information Melanite reported to the credit reference agencies about the status of the mortgage account between January and June 2021.
- The increase in Mr and Mrs B's monthly payments.
- The level of support Melanite has offered to Mr and Mrs B.

What happened

Mr and Mrs B took out this mortgage in 2009 through a mortgage broker. They borrowed £240,000 (plus £7,555 fees) over a 32-year term on an interest-only basis.

The interest rate was explained in the mortgage offer as *"A Variable Rate which tracks 3 month sterling LIBOR, currently 1.30%, plus a margin of 3.30% to give a current rate payable of 4.60%. The rate will track 3 months sterling LIBOR until the loan is redeemed in full, or until the term of the loan has expired (whichever event occurs first)."*

And *"If LIBOR changes (before or after the loan) you will be notified of the change in Interest Rate and the corresponding change in your Monthly Payment.*
LIBOR (London Interbank Offered Rate) is based on 3 Month Sterling LIBOR and is set quarterly with effect from 1st March, 1st June, 1st September and 1st December each year."

In January 2021 Mrs B phoned Melanite to ask for a payment holiday due to Mr B's ill health meaning he wasn't currently working. Melanite said it was unable to offer payment holidays, but it could look into a payment concession; that is, Mr and Mrs B would make a reduced monthly payment for a set period of time and it would be reported as an arrangement on their credit files rather than arrears. It also meant they wouldn't incur arrears fees and collections activity. There was a discussion about the fact it would impact Mr and Mrs B's credit files, and Mrs B said that was the least of her worries, and also said they were in a debt management plan for their unsecured debts. It was agreed that for January and February 2021 Mr and Mrs B would pay £80 a month rather than their contractual monthly payment ("CMP") of around £700.

A letter was issued on 12 January 2021 confirming the arrangement.

In March 2021 Mrs B phoned Melanite as Mr B was still receiving treatment and wasn't likely to be back at work until June 2021. It was agreed that Mr and Mrs B would carry on paying £80 a month for March, April and May 2021. The impact on their credit files was again discussed, and a complaint was raised about the fact Covid-19 payment holidays didn't need income and expenditure checks and didn't impact people's credit files, but this would even though it was due to Mr B's serious ill health.

A letter was issued on 5 March 2021 confirming the arrangement.

The complaint was responded to on 10 March 2021. Melanite explained that the Covid-19 payment holidays Mr and Mrs B had taken from April to June 2020 were a Government announcement so it was unable to comment on the fairness of those being available to all. But in terms of what was happening now it said, the issue wasn't Covid, rather it was Mr B's ill-health, and the regulator requires lenders to fully consider a customer's financial circumstances, and it had a duty to report information to the credit reference agencies to reflect the status of the account. It acknowledged the current situation wasn't Mr and Mrs B's choice, but as it affected their ability to meet their monthly mortgage payments that needed to be reflected on their credit files.

In June 2021 Mrs B called Melanite. She said whilst Mr B had returned to work and they could meet the full CMP that month, they weren't in a position yet to address the arrears. The call handler confirmed the arrears balance as just over £3,000 and it was agreed that the situation would be reviewed again in July.

On 30 June 2021 the full CMP of around £700 was collected by direct debit, and then on 5 July 2021 Mr and Mrs C cleared the outstanding arrears.

In the meantime, on 12 April 2021, Melanite had written to Mr and Mrs B about the interest rate on their account. That letter said:

> *"We are writing to tell you about a change that may affect your mortgage later this year.*
>
> *You have a mortgage where the interest rate that you currently pay or, if you are currently on a fixed rate, will pay once that fixed rate ends, is calculated by reference to the London Interbank Offered Rate (LIBOR). Our regulator, the Financial Conduct Authority (FCA), has stated that the way in which LIBOR is currently calculated will not continue to be sustainable after the end of the year. The FCA has asked firms to consider what they could do to ensure that customers are not negatively impacted by this.*
>
> *We are currently reviewing the information provided by the FCA and other industry groups to consider what options may be available to you. This letter is for information purposes only; we will be in touch in the coming months setting out more detail once this is known to us."*

The frequently asked questions enclosed with that letter provided further information.

A further letter was sent on 1 November 2021, which said:

> *"We wrote to you recently to explain that the London Interbank Offered Rate (usually referred to as "LIBOR") will cease in its current form at the end of 2021.*
>
> *To avoid disruption when this happens, the Financial Conduct Authority (FCA), the financial markets regulator in the UK, requires LIBOR to continue to be published after the end of 2021 on a "synthetic" basis.*
>
> *In light of this, we expect that we will continue to calculate interest on your mortgage by reference to LIBOR beyond the end of 2021.*
>
> ***How will LIBOR change?***
>
> *LIBOR currently measures the interest rate that major banks charge each other to borrow money.*

After the end of 2021, LIBOR will be calculated by the FCA using an interest rate called Term SONIA plus a small fixed adjustment to account for the difference in the way that LIBOR and Term SONIA work.

The FCA believes that this approach is the fairest and most robust way to provide a reference interest rate that best reflects how LIBOR used to be calculated.

What else do I need to know?

There are no other changes to your mortgage. Your interest rate will continue to be calculated based on LIBOR plus your fixed product margin and we will write to you every quarter, as we do now, with your revised monthly payment.

The FCA's requirement for LIBOR to continue to be published on a synthetic basis is only temporary and, at some point in the future, the FCA is likely to discontinue LIBOR altogether. We will continue to review the information provided by the FCA and other industry groups and we will write to you well in advance of any requirement to make any changes to your mortgage.

For more information, please see the Frequently Asked Questions at the end of this letter. You can also find out more about the cessation of LIBOR on the FCA website - https://www.fca.org.uk/consumers/mortgage-interest-rates-libor

If you would like to discuss this further, please call our Customer Contact Centre on 0345 389 1672. Lines are open Monday to Friday 8:30am-5:30pm (excluding bank holidays).*

If you require any extra help to understand the detail in this letter, then please tell us as soon as possible. We have dedicated agents who can support customers who may have difficulty communicating with us about their account or who may need extra support for any reason."

The frequently asked questions document said:

"What is Synthetic LIBOR?

The FCA recognises that it may not be possible to transition all mortgage contracts that rely on LIBOR to a replacement rate by the end of the year. So, for a limited period from the end of 2021 the FCA is proposing to exercise its powers to require the continued publication of LIBOR but calculated in a different way - this is referred to by the FCA and in the press as "Synthetic LIBOR".

How will LIBOR be calculated after the end of 2021?

LIBOR will be calculated using an interest rate called 3-month Term SONIA (Term SONIA) plus a credit adjustment spread (fixed at 0.1193%) to account for the difference in the way that LIBOR and Term SON IA work.

For example, if when LIBOR is calculated Term SONIA was 0.0515%, LIBOR would be:

0.0515% + 0.1193% = 0.1708% (Term SONIA plus 0.1193%)

LIBOR is a variable interest rate to may increase or decrease based on changes to Term SONIA.

What is Term SONIA?

SONIA stands for Sterling Overnight Index Average reference rate. Term SONIA is a forward-looking rate, similar to LIBOR. It reflects the expected average SONIA rate over a given period (e.g., 3 months) and is fixed at the beginning of that period. The FCA will use 3-month Term SONIA to calculate LIBOR.

Why is the FCA adding an adjustment to Term SONIA to calculate LIBOR?

Because of the difference in the way that LIBOR and Term SONIA work, to ensure the fair conversion of existing contracts, a small adjustment is needed to account for this difference.

Can I choose a different reference rate for my account?

No. If you wish to have a mortgage linked to a different reference rate, you would need to choose one offered by another lender and re-mortgage to them.

Can I pay my mortgage early rather than have my interest rate set using LIBOR?

If you are unhappy with the change you have the right to repay your mortgage in full at any time. If you would like to close your mortgage account, please contact us to obtain a redemption figure."

On 22 February 2022 Melanite wrote to Mr and Mrs B to explain that the interest rate on their mortgage for the next quarter (from 1 March) would be 4.17%, which gave a CMP of around £870.

Mrs B called Melanite on 3 March about the rate increase. She said they'd struggle to maintain that with the other cost of living increases. Melanite discussed the possibility of a further concession on the account and recommended Mr and Mrs B seek independent financial advice.

A complaint was raised in the above call which Melanite responded to on 6 April. It summarised the complaint as *"My understanding of your complaint is that you are unhappy your interest rate has increased and therefore your Contractual Monthly Payment (CMP) has increased from 1 April 2022. You feel Melanite are not doing anything to help you."* Melanite explained the rate tracked LIBOR (now SONIA) and wasn't under Melanite's control. It said it doesn't offer new products and wanted to support Mr and Mrs B. It explained it doesn't offer payment holidays but it could consider a further concession on the account and it was happy to discuss that further.

On 12 May Mrs B called Melanite. She said her credit file showed missed payments for the 2021 arrangement period, and it was preventing her from remortgaging. Mrs B was told that Melanite was obliged to report factual information to the credit reference agencies, and it was reported correctly.

On 25 May Melanite wrote to Mr and Mrs B to explain that the interest rate on their mortgage for the next quarter (from 1 June) would be 4.68%, which gave a CMP of around £980. And then on 25 August Melanite wrote to Mr and Mrs B again to explain that the interest rate on their mortgage for the next quarter (from 1 September) would be 5.65%, which gave a CMP of around £1,180.

Mrs B called Melanite on 2 September in response to the rate increase letter. She said she'd already sought independent advice and was unable to remortgage due to the adverse information that had been reported to the credit reference agencies in 2021. The call handler told Mrs B that they would contact the team that deals with credit file reporting to ensure the information that had been reported was accurate.

On 12 September Mrs B called Melanite to see if any amendments were to be made following the previous call. Mrs B was told it would be chased up and someone would call her back.

Melanite's contact notes indicate someone tried to call Mrs B in the evening of 14 September but there was no answer.

On 16 September Mrs B called Melanite and was told what the credit file reporting team had found. She was told that a concession wasn't in place in June 2021 (with the concession running from January to May), and as the total arrears (from the reduced payment arrangement) were the equivalent of four monthly payments in June that was reported to the credit reference agencies. The call handler said they were trying to see if the credit file information could be amended for June 2021 to show that there was an arrangement in that month too. There was a discussion about why June showed as a missed payment when Mr and Mrs B made their full CMP that month, and also about the rate increases and the fact Mr and Mrs B were unable to remortgage.

Mrs B made further calls on 22 September and 20 October. In the October call Mrs B said the concession had been reported as five missed payments and she'd been trying to resolve this for months. She said her credit file was showing as in arrears from January to May 2021, and she'd been given conflicting information over the past few months. The call handler apologised for any conflicting information and said they could get the credit file amended, with the arrears removed. Mrs B said that even if that was done now, she'd be unable to remortgage as rates had gone up by so much. The call handler offered to raise it as a complaint, but Mrs B said she'd rather just go straight to the directors.

On 25 October Mrs B wrote to the directors (albeit Melanite has said it has no record of receiving this). She said, in summary:

- At the start of Mr B's illness they agreed a reduced payment plan of £80 a month. Mr B returned to work a month earlier than he was advised to by the doctors because he was worried about the arrears accruing on the mortgage. One month after he returned to work they cleared the arrears in full.
- In 2022 their CMP increased from around £710 to around £1,180 in seven months. She'd phoned Melanite to ask for help and for an explanation of why the payments were increasing by so much each month, but she was told to remortgage to a new lender and wasn't given an explanation.
- She'd tried remortgaging with two different brokers and both had told her it wouldn't be possible, the main reason being that their credit files showed that the five months where they were on an agreed reduced payment plan were recorded as five missed payments.
- They'd been struggling to pay their mortgage for months, and with a further rate increase due they were worried they were going to lose their home. She explained why they felt selling their house wasn't an option, and asked why they should move away when they'd done nothing wrong.
- Mrs B said she'd been trying to sort out the credit file issue for months so they could remortgage, but every time she called she had been told something different.

Mrs B said that the help they needed was for:

- their credit files to be immediately corrected,
- a new mortgage to be granted with an affordable interest rate, and
- financial compensation for the pain and stress Melanite mortgages had caused them.

Mrs B called Melanite again on 3 November and raised a complaint about what had been reported on their credit files, and that it was stopping them remortgaging. She said she'd raised a complaint but nothing was being done, and she never hears anything back. A complaint was logged on that call and was passed to Melanite's complaints team to investigate.

Melanite sent a letter to Mrs B on 7 November acknowledging the complaint and enclosing a summary document explaining the complaints process and the timescales involved.

On 14 November Mrs B contacted Topaz's Chief Commercial Officer ("CCO") via social media. She:

- summarised what had happened with Mr B's illness and the reduced payments, and said that they'd cleared the arrears in July 2021,
- said since March 2022 interest rates have been rising and so they'd tried to remortgage to a new lender, but had been told by two mortgage brokers that it wasn't possible because Melanite had registered their payment plan as being five missed payments,
- said they'd been going round in circles trying to get it resolved, and she'd written to the directors a few weeks ago without response,
- said their credit files needed to be amended immediately, and financial compensation paid for the increased payments and the stress, pain and suffering Melanite had caused.

The CCO replied to Mrs B the same day to acknowledge receipt of her message, and said he'd circulated her concerns and Melanite would be in touch with her shortly.

Meanwhile, on 24 November Melanite wrote to Mr and Mrs B to explain that the interest rate on their mortgage for the next quarter (from 1 December) would be 6.89%, which gave a CMP of around £1,440.

Melanite responded to the complaint on 28 November, saying:

- It was unable to offer new mortgage products, but it would work with Mr and Mrs B to help them maintain the mortgage.
- It had reported the mortgage as in an arrangement to pay between January and May 2021, with the level of arrears in those months not disclosed on Mr and Mrs B's credit files.
- There was no arrangement in place for June 2021, so the level of arrears was reported for that month. As the total arrears (of around £3,100) was equal to four missed payments, then the mortgage was reported as being four months in arrears in June.
- The impact of the arrangement on Mr and Mrs B's credit file was explained to Mrs B on the phone, with follow up letters sent.
- Whilst the correct information had been reported, the concession should have been extended to also cover June 2021 following the call in that month. Melanite said it would amend the information it reported to show the arrangement as also covering June.
- It apologised for the fact Mr and Mrs B had been given conflicting information when querying the credit file issue, and offered them £750 compensation for the distress, inconvenience and upset caused.

- Several letters had been sent to Mr and Mrs B to explain the increases in payments, and a previous complaint response was sent on 6 April 2022.
- The rate of interest had been applied correctly.

Mrs B sent a further email to the CCO on 3 January 2023. She said:

- She wasn't happy with the complaint response.
- The letter advising that LIBOR was being discontinued didn't provide them with any information or examples as to the implications to their monthly payments if interest rates were to rise. Previous rate rises when it was LIBOR were £20 to £50, but since the mortgage has been tracking SONIA the rate increases were around £160 to £730. And because they weren't clearly advised of the implications of the switch from LIBOR to SONIA they'd been left unprotected against rising interest rates. Mrs B said it was an utter disgrace that Melanite had done this to them, and if they'd been given transparent information about the switch from LIBOR to SONIA in November 2021, they would have remortgaged then.
- After the rate increase in March 2022 they'd contacted two mortgage brokers and were told they couldn't remortgage because of how the reduced payment arrangement had been recorded with the credit reference agencies. She said the brokers had told them the debt management plan wasn't the issue, it was definitely the mortgage, and she'd spent months trying to resolve the issue with Melanite.
- The compensation offered was an insult, and amending their credit files now is too little too late as interest rates were now too high for them to be able to remortgage. Mrs B said their credit files should have been amended in November 2021, or at the least in March 2022.
- Melanite should:
    - Reimburse the £3,400 extra that their mortgage has cost them since March 2022.
    - Pay the £750 compensation that has been offered.
    - Cover (for the next ten years) any monthly amount over and above what the monthly repayment would have been on a reasonable ten-year fixed rate mortgage that was available in November 2021.

Mrs B sent a further email on 12 January to the CEO this time.

Melanite replied on 18 January. It said:

- The increase in Mr and Mrs B's payments wasn't due to the change from LIBOR to SONIA, but because the market generally had changed significantly in that period. Whilst there had been a period of stability from March 2009 to May 2022, since then global movements in interest rates meant rates returning to a level close to where they were prior to 2008.
- Whilst it had amended Mr and Mrs B's credit file information to show they were in an arrangement to pay in June 2021 that would still have a detrimental impact on their credit file which would likely have impacted on their ability to remortgage. That, combined with Mr and Mrs B's debt management plan, would contribute to a lower credit score and may result in lending being declined.
- Mr and Mrs B's mortgage was already on an interest only basis and Melanite didn't offer new mortgage products. It said it could look at options such as a longer-term concessionary arrangement, and that a call could be arranged for that to be discussed.
- It said its letter of 28 November 2022 was its final position on the complaint, and the offer of £750 was still available.

In the meantime, Mr and Mrs B had referred their complaint to our service on 20 October 2022.

Our Investigator said we couldn't consider anything covered in the 6 April 2022 final response letter because that complaint hadn't been referred to us within six months of the date of the letter. In respect of the remainder of the complaint our Investigator felt the offer of £750 was fair.

Mr and Mrs B didn't agree and following some further correspondence with our Investigator, the case was passed to me to decide.

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.

Although I've read and considered the whole file I'll keep my comments to what I think is relevant. If I don't comment on any specific point it's not because I've not considered it but because I don't think I need to comment on it in order to reach the right outcome.

I've a great deal of sympathy for the position Mr and Mrs B are in. It's clear they've gone through – and are still going through - some very difficult times, and it can't have been easy to mentally revisit those times when bringing this complaint. I've not gone into any detail about that in this decision to protect Mr and Mrs B's privacy once the decision is published. But I'd seek to reassure them that I've read and taken into account everything they've said.

The information Melanite reported to the credit reference agencies about the status of the mortgage account between January and June 2021

It isn't in dispute that the mortgage should have been reported to the credit reference agencies as in an arrangement from January to May 2021 (inclusive). I've seen a record of what Melanite reported for those months and I can confirm that it was reported correctly.

Whilst Mr and Mrs B said it had been reported as five missed payments that isn't correct, it was five months of being in a payment arrangement.

The fact a payment arrangement would impact Mr and Mrs B's credit files was discussed in the relevant phone calls, and detailed in the letters sent in January and March 2021, with those saying:

> *"As you will not be making full monthly payments, arrears will accrue on your account while the agreement is in place. If your account is already in arrears, your arrears balance will increase. At the end of this arrangement, we will review your financial circumstances again to agree the next steps to help you through your payment difficulties, with the ultimate aim of clearing your arrears and bringing your mortgage up to date."*

And:

> *"**What else do I need to consider?***
>
> *It is important to let you know that, as your account falls into arrears, interest will be added to the unpaid amount at the interest rate applicable to your loan. This will increase your balance and the amount of interest you will be required to pay overall.*
>
> *Additionally, when your account is in arrears, we are required to inform Credit Reference*

agencies. This will have a negative impact on your credit file and may make it difficult for you to borrow money in the future. If you can afford to do so, paying more than the minimum agreed during the concessionary period is a good idea as it will help to reduce any negative impact on your credit file."

It was never intended that June 2021 was to be reported as being in an arrangement. The first arrangement covered January and February, and the second covered March, April and May. However, when Mrs B phoned at the start of June she said that whilst they could make the full CMP that month, they weren't able to pay anything towards the arrears. In the circumstances it was correct that in June 2021 the account was reported as being in arrears as the account was no longer in an active arrangement.

The reason why the number '4' was reported is due to how credit files are shown. Rather than the report being what happened in that individual month, it is reported what the overall status of the account is at that time. To give a general example (not related to Mr and Mrs B's mortgage):

- In January no payment is made, so the credit file reports as '1' for that month.
- In February the full payment is made, but the credit file still reports as '1' for that month as the mortgage is still one month behind. Had no payment been made in February then it would have been reported as '2' as the account would have been two months behind.

To put that in the context of Mr and Mrs B's mortgage. If the mortgage hadn't been in an arrangement from January to May, then the following would have been reported to the credit reference agencies (all monetary amounts are approximate):

- '0' in January 2021. That's because the CMP was £700, but the arrears were only £620. As the account was less than one month in arrears, it would be reported as up to date with the credit reference agencies.
- '1' in February 2021. That's because the CMP was £700, and the arrears were £1,240. As the account was more than one month but less than two months in arrears, it would be reported as one month in arrears with the credit reference agencies.
- '2' in March 2021. That's because the CMP was £700, and the arrears were £1,860. As the account was more than two months but less than three months in arrears, it would be reported as two months in arrears with the credit reference agencies.
- '3' in April 2021. That's because the CMP was £700, and the arrears were £2,480. As the account was more than three months but less than four months in arrears, it would be reported as three months in arrears with the credit reference agencies.
- '4' in May 2021. That's because the CMP was £700, and the arrears were £3,100. As the account was more than four months but less than five months in arrears, it would be reported as four months in arrears with the credit reference agencies.
- '4' in June 2021. That's because the CMP was £700, and the arrears remained at £3,100. As the account was more than four months but less than five months in arrears, it would be reported as four months in arrears with the credit reference agencies.

Due to the arrangement on the account Melanite just reported the arrangement from January to May, suppressing the numbers indicating the level of arrears. But as there was no arrangement for June 2021 the number was reported, which was '4' for the reason I've explained above.

It isn't in dispute that Mr and Mrs B were given conflicting information after they raised this issue in March 2022. The correct information should have been that the information had been correctly reported as an arrangement from January to May, and then four months arrears in June. That was the true representation of the account.

When this complaint was considered in November 2022 Melanite took a more holistic overview and decided to consider whether it could have reported the account as in an arrangement in June 2021 and it decided, after taking into account the conflicting information Mr and Mrs B had been given since March 2022, that it could do so. That was a fair decision for it to have made, and not something it was obliged to do.

Mr and Mrs B have said that the information that was reported to their credit files stopped them remortgaging to a different lender. Whilst I absolutely don't doubt anything Mr and Mrs B have said about what the brokers told them, without an application being attempted it is impossible for us to say that the reporting of '4' in June 2021 rather than an arrangement would have been the sole block to Mr and Mrs B remortgaging.

I say this because Mr and Mrs B would have needed to find a lender willing to lend to someone that had recently had a six-month arrangement to pay on their mortgage and that was in (or had recently been in) a debt management plan. Mr and Mrs B's mortgage is held on an interest-only basis, so that lender would have needed to have been willing to lend on that same basis, and Mr and Mrs B's repayment vehicle would have needed to have met its underwriting criteria. I understand that due to Mr B's age a switch to repayment was unlikely to have been considered affordable over the maximum term most lenders would have been willing to consider. That's before any other considerations were taken into account, such as a standard affordability check and the more general credit scoring.

As I've said, I've a great deal of sympathy for the position Mr and Mrs B have found themselves in, but I simply can't say it is more likely than not that they would have been able to obtain an alternative mortgage at an affordable rate of interest in March 2022 even if their credit files had shown the mortgage as in an arrangement in June 2021 instead of reporting as four months in arrears. For that reason, I can't make any award in respect of the higher mortgage payments Mr and Mrs B have made, or will be making in the future.

Melanite offered £750 compensation for the way the concession and Mr and Mrs B's later queries had been handled. As I've said, I don't think the credit file issue would have been the only barrier to Mr and Mrs B obtaining an affordable interest rate elsewhere so all I'm thinking about is the distress and inconvenience that was caused to them. I can't consider the impact of the higher payments, as I think those would always have been due. Having considered everything very carefully, and thinking about other awards made by this service, I consider £750 to be fair in all the circumstances.

The increase in Mr and Mrs B's monthly payments

Mr and Mrs B's mortgage is on a tracker product. When it was taken out it tracked the three months sterling LIBOR, and since that reference rate was withdrawn it has tracked SONIA.

The FCA issued guidance about what a fair replacement rate for LIBOR would be, and I'm satisfied that the replacement rate offered by Melanite is in line with that guidance. The regulator's guidance is one of the things I must take into account in deciding what in my opinion is fair and reasonable in the individual circumstances of the complaint. The changes are also in line with what other lenders have done. In view of those things, I am satisfied that Melanite acted fairly and reasonably in changing the reference rate on Mr and Mrs B's mortgage.

I note the point that Mr and Mrs B have made that when LIBOR was the reference rate their payments were broadly stable for over ten years, with variances of up to around £50. But that reflects that interest rates generally remained historically low and stable for large parts of that time.

Since the start of 2022 interest rates globally have increased significantly, this isn't just limited to Mr and Mrs B's mortgage, Melanite or even just the UK mortgage market. It does not follow that if LIBOR had remained as the reference rate that Mr and Mrs B's payments would not also have gone up by around the same amount. I've not seen any evidence that the change to the reference rate has unfairly benefitted Melanite, or that the change from LIBOR to SONIA was the reason for the increases.

Whilst Mr and Mrs B's mortgage isn't linked to the Bank of England base rate it is a widely recognised indicator of market conditions. At the time Mr and Mrs B took out their mortgage the base rate was at 0.50%. Between then and the end of 2021 it only varied six times with base rate being 0.10% at its lowest point and 0.75% at its highest. In 2022 alone base rate varied eight times, increasing from 0.25% to 3.50%.

Having considered everything I'm satisfied Melanite has varied Mr and Mrs B's mortgage in line with their contract, and the increase in payments, whilst very unwelcome and worrying for Mr and Mrs B, are correct.

The level of support Melanite has offered to Mr and Mrs B

Melanite is a 'closed book' lender. This means it doesn't offer new interest rate products to either existing customers or new customers – and there's nothing in the rules of mortgage regulation requiring it to do so. Lenders are entitled to decide for themselves whether to offer new interest rate products. Melanite has treated all of its customers in the same way, so I don't think it has treated Mr and Mrs B any less favourably than any other of its mortgage holders.

We can't compel a lender to offer new interest rates and all we'd expect a lender to do in these circumstances is direct its customers to seek independent mortgage advice so they can explore whether it's possible to switch their mortgage to a different lender with more preferential interest rates. Melanite has done that, and I consider that is enough.

Another thing a lender can consider when a customer is struggling is whether a term extension or a temporary switch to interest only could help them. But here Mr and Mrs B's mortgage is already held on an interest only basis, and a term extension doesn't alter the monthly payments on an interest only mortgage.

From this we can see there are no amendments that can be made to the mortgage which would reduce the monthly payments. So that just leaves concessionary arrangements, which Melanite has already offered to discuss.

I understand Mr and Mrs B don't want any further impact on their credit file, but unfortunately there are no options available to them with Melanite that won't impact that.

Melanite does not offer new interest rates to any of its customers, and it isn't obliged to do so. It also can't do anything else to reduce Mr and Mrs B's monthly payments because they're already only paying the interest due, rather than making capital repayments, so there are no ways to reduce their monthly payments without them entering into a reduced payment arrangement (which will be reported to the credit reference agencies).

If Mr and Mrs B are struggling to maintain their mortgage payments then they should speak to Melanite to discuss their options, either directly or with the help of someone trained to give them debt advice - such as StepChange or Citizens Advice. I'd encourage Mr and Mrs B to contact Melanite (either directly, or via an agency as I've explained above) and have an open and honest conversation about their circumstances and worries for both now and the future. They'll need to work together and that means Mr and Mrs B will need to be frank about their situation. And Melanite will need to listen to what they have to say and, fairly and sympathetically, see if there's a way to work with them to agree a way forward.

I understand this decision will be a disappointment to Mr and Mrs B and I give them my best wishes for both now and the future. But in terms of the complaint that was brought to us, I'm satisfied Melanite has already done enough to resolve it.

My final decision

Topaz Finance Limited trading as Melanite Mortgages has already made an offer to make an amendment to its credit file reporting for June 2021 and pay £750 to settle the complaint and I think this offer is fair in all the circumstances.

So my decision is that Topaz Finance Limited trading as Melanite Mortgages should amend its credit file reporting for June 2021 to show the account as in an arrangement to pay, and pay £750 to Mr and Mrs B (if it's not already done so).

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs B to accept or reject my decision before 4 December 2023.

Julia Meadows
Ombudsman