

The complaint

Mr and Mrs S' complaint is about a secured loan they have with Blemain Finance Limited trading as Together. Mr and Mrs S complained to Blemain that they hadn't been made aware earlier that their monthly payments wouldn't clear the balance of the loan by the end of the term. Following Blemain explaining to them why the balance of the account was higher than would have been expected at this point, they told us they don't feel they have been treated fairly. This is because they believe the higher balance is because of additional interest that has been charged on the loan due to when in the month they make their payments.

What happened

Mr and Mrs S' secured loan with Blemain started in June 2007. It was set up on a repayment basis for just under £21,000 (including fees) over a term of 20 years. The interest rate payable on the loan was variable and 11.1% at the time the advance was paid out. The interest rate reduced to 10.6% in August 2020.

From the outset payments were missed or made late. Charges were added when payments were missed, and additional interest was charged on missed and late payments until the payment was made up. The additional interest and charges attracted further interest during the term. It was not until March 2009 that payments began being made regularly, although at this time the direct debit mandate was set up to collect on the 30th or last day of the month, rather than the due date of the 20th. This would have meant that the balance of the account was higher for slightly longer than it should have been, and additional interest would have been charged on the higher balance each month.

In 2017 more payments were missed. When payments started again in early 2018 Mr and Mrs S paid more than the contractual monthly payment to reduce the arrears and additional interest and charges balance. This continued thereafter and as at the time of the last annual statement sent to them in 2022, this payment was more than it confirmed they needed to be paying to clear the entire debt over the remaining term.

Blemain sent Mr and Mrs S annual statements setting out the payments that had been made and the debits made against the loan balance. The arrears, additional interest and charges balance was included in the total amount owing balance, but it was not made clear whether the payments being made would repay the total debt by the end of the term. It was not until June 2018 that this information was included in the annual statements as a separate item, which is when Blemain made it clear that Mr and Mrs S' contractual monthly payment (which is less than they were paying by that point) was not enough to pay off the entire loan balance within the term.

In 2019 Blemain explained to Mr and Mrs S that when they had changed the date they chose to pay their mortgage to a later day in the month than the due date, it had neglected to explain to them that this would mean they'd pay more interest. As such, it had decided to refund all the additional interest that had been paid because of this situation. Blemain also confirmed that it had changed its system so that if the chosen payment date was not a working day, no additional interest would be charged because the payments were collected after the payment date.

Mr and Mrs S complained in December 2020 about the balance of the loan. Blemain responded in its letter of 13 April 2022 and explained that due to how their loan had been run, there had been additional interest and charges added, which meant the total amount owing was higher than it otherwise would have been. Blemain said that it had identified some charges that it should not have applied to the loan and was going to reverse them, which meant the interest that had accrued on them would also be removed. In addition, Blemain said that its communications about the additional balance could have been clearer before June 2018, when it first told Mr and Mrs S that their loan wouldn't be cleared by the end of the term. As such, Blemain proposed to refund all of the interest that had accrued on the charges that had reasonably been applied and on missed and late payments not arising from the direct debit issue, up to June 2018. Blemain also said that it would pay Mr and Mrs S £100 for the inconvenience they had been caused because of the delay in their complaint being dealt with.

Mr and Mrs S were not happy with Blemain's response and asked this service to look into their complaint. They specifically raised the issue that they were being charged additional interest because the direct debit was collected when they got paid at the end of the month, rather than on the due date.

One of our investigators reviewed the complaint and he recommended it be upheld in part. He explained that we could only consider the charges that had been added to the loan balance in the six years before Mr and Mrs S had raised their complaint. There were five charges applied during this period which Blemain had not already refunded, and the investigator was satisfied that all had been applied fairly when no payment had been made to the loan. As such, he was satisfied that the offer in relation to the period we could consider was appropriate, as was the refunded interest on those charges. He was satisfied that the additional interest refund was sufficient to compensate Mr and Mrs S' financial loss for not having been made aware of the additional balance until 2018. However, he considered that Blemain should make an additional payment for the inconvenience Mr and Mrs S would be put to due to having less time to clear the charges and additional interest balance. He recommended Blemain pay an additional £200, on top of the amount already offered, in this regard.

Blemain accepted the investigator's opinion.

Mr and Mrs S didn't agree with the investigator. They told us that they had believed the loan had a term of ten years, rather than twenty. This had caused them to struggle financially as the twenty-year term went seven years past Mr S' state pension age, at which time he had retired. They asked that Blemain reduce the loan balance further and stop charging additional interest because of when in the month they made their payment, so that they would be able to repay the loan within the term. In addition, they felt that the £200 additional compensation was insufficient for the heartache and struggle to get a response from Blemain.

As agreement couldn't be reached, it was decided that the complaint should be referred to an ombudsman for review.

On 5 July 2023 I issued a provisional decision, which set out my conclusions and reasons for reaching them. Below is an excerpt.

'Before I comment on the merits of this complaint, I would explain to Mr and Mrs S that a complaint only falls within our jurisdiction if the financial business it is against has had the opportunity to address it before it is referred to us. As such, if they want their concern about the term of the loan ending after Mr S' state pension age looked into, they will need to raise it with Blemain in the first instance.'

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

Mr and Mrs S are unhappy with the balance of their loan. It has been explained to them that the balance is higher than it should have been at the present time because of their payment history. This is not just the fact that since 2009 they have been paying later in the month than the contract requires, but also the missed and late payments that occurred at various times during the term, mainly before 2009. This meant that additional interest was charged on the higher balance until the payments were made up, but also charges were added. Interest was then charged on the resultant higher overall balance too.

We don't generally consider it is reasonable for a lender to add charges and fees to a mortgage or secured loan just because there are arrears on the account. However, where an account is not being maintained and this causes the lender additional cost to administer it, we wouldn't consider it unreasonable for charges to be applied.

As our investigator confirmed, our rules require a complaint to generally have been raised within six years of an event, or if later, within three years of the consumer becoming aware, or when they ought reasonably to have become aware, of the cause for complaint. In this case I agree with our investigator that, given the information provided to Mr and Mrs S at the times the charges were applied, we can only consider whether the charges added to the account in the six years before the complaint was made were added fairly.

Blemain has already reviewed the charges as part of the complaint, and it has reversed all but five of the charges applied in the relevant period. I have looked at the payment history relating to those five charges, and I consider they were fairly applied as Mr and Mrs S didn't make payments in the relevant months. As such, I won't be requiring Blemain to refund any further charges.

In relation to the additional interest that was charged because of missed or late payments. On a financial product such as the one Mr and Mrs S have with Blemain, the lender is entitled to charge interest on the outstanding balance. The balance on Mr and Mrs S' loan has been higher than it should have been throughout most of its term because they didn't make some of the payments they were meant to; at the times they were due. The charges that were added to the balance also attracted interest. There was nothing wrong with Blemain charging this interest. However, as Blemain has accepted, the format of the information it provided Mr and Mrs S before 2018 didn't highlight that there was this additional balance. This effectively meant that they were denied the opportunity to take action to ensure the loan was paid off within the term.

In light of this, Blemain reduced the loan balance by the amount of all of the additional interest charged on the charges that it was reasonable for it to have applied, and the additional interest charged on the late or missed payments from the beginning of the loan. This calculation was done to the date of the June 2018 statement when Mr and Mrs S were told they needed to pay more than the contractual payment. If Blemain had not made this offer, I would not have required it to do anything more.

In relation to the additional interest Mr and Mrs S paid on the loan from 2009 when they began to pay their loan later than the agreement said they should, Blemain highlighted this issue to Mr and Mrs S in its letter of 13 March 2019. As Mr and Mrs S had not been told about the consequences of paying later than the contract required them to at the time the direct debit mandate was set up, Blemain refunded all of the interest that had been charged because of the payments being made late. This was reasonable in the circumstances.

In total Blemain reduced the loan balance by just under £6,055.

These offers mean that as of June 2018 the additional balance associated with the loan was made up solely of the charges that had reasonably been charged. After that interest would have been added to that balance. From March 2019, additional interest was also added because Mr and Mrs S chose to continue to pay the loan around ten days later than the contract required them to do.

However, as I have said above, since early 2018 Mr and Mrs S have been paying more than the contractual monthly payment to initially clear the arrears on the account. As they have continued to do so, they will be paying more off the account balance than expected under the contract and will be saving interest because of that. I note that the latest statement Mr and Mrs S received in July 2022 they needed to make monthly payments of £238.62 each month to clear the amount owed by the end of the term. Mr and Mrs S were at that time, and have been since, paying more than that amount, and so it would appear they are already taking the action they need to repay the loan within the term, and this will likely be negating any additional interest due to them paying the loan later in the month than the due date.

As I have found that the offer for the financial losses Blemain made were reasonable in the circumstances, I have considered the matter of how much compensation Blemain should pay Mr and Mrs S. Blemain has already agreed to pay them a total of £300 for the inconvenience they suffered because of having less time to address the additional balance on the loan. It is correct that Mr and Mrs S were denied the opportunity to make additional payments to the loan from 2009 when they started making payments on a regular basis, until 2018 when they were made aware. However, given the financial difficulties they had before that, it is unclear whether they would have been in a position to make additional payments before they started to do so. As such, I consider the £300 in total recommended by our investigator is appropriate in the circumstances.'

Blemain accepted my provisional decision.

Mr and Mrs S confirmed that they had nothing further to add. In addition, they told us they'd received a recent statement that showed a balance of approximately £9,000, which they considered was a manageable amount. They thanked us for our involvement.

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 have reviewed the file again in its entirety and I have revisited my provisional decision. Having done so, and in light of both parties having accepted my conclusions, I see no reason to change them.

My final decision

My final decision is that I uphold this complaint in part. I require Blemain Finance Limited to pay Mr and Mrs S a total of £300 compensation, including the £100 it offered in its final response letter.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr and Mrs S to accept or reject my decision before 1 September 2023.

Derry Baxter
Ombudsman