

The complaint

Mr and Mrs W complain about the balance of their second charge mortgage (secured loan) with Blemain Finance Limited trading as Together. In particular, they're concerned that Together has told them their loan isn't on track to be repaid by the end of the term even though Mr and Mrs W have been paying more than the contractual monthly payment.

What happened

Mr and Mrs W took their loan out in February 2006. They borrowed £23,000, including insurance and fees, over a term of 25 years. The loan was secured over their property and charged at a variable interest rate, initially 13.3%.

By the end of 2006 Mr and Mrs W were in arrears. They cleared the arrears at the start of 2008, but were back in arrears by 2009. The loan was in arrears for most of the period between then and 2013. Because of the missed payments, extra interest was charged on the higher balance that resulted. And Together added fees and charges to the balance too.

By the time the arrears were cleared in October 2013, the balance had increased to over £39,000 as a result of the additional interest and charges.

Mr and Mrs W maintained their payments for some time, but the loan fell back into arrears in 2014. Again, this resulted in additional interest, fees and charges. By the time the arrears were cleared in April 2016 the balance had reached almost £45,000.

This meant that ten years after they'd taken the loan out Mr and Mrs W now owed almost twice as much as they'd borrowed, with ten years less to pay it off.

From April 2016 Mr and Mrs W resumed making their payments regularly, though they often made them later than the due date – which also meant more interest was added.

By this time, because of the increased balance, the interest charged each month was around £530, but Mr and Mrs W's contractual monthly payment was only £285. So even though Mr and Mrs W were now making their payments the amount they were paying was less than the interest charged each month, which meant the balance continued to grow.

By 2022, when Mr and Mrs W first made their complaint, the balance had grown to around £58,000. Together told Mr and Mrs W that if things continued as they were, by the end of the term the balance would be £91,000. In order to pay the loan off by the end of the term Mr and Mrs W would need to pay £760 per month. Together said that if Mr and Mrs W couldn't afford that they might want to consider other options, such as selling their property to repay the loan.

Mr and Mrs W said they couldn't afford to pay £760 per month. They complained that it wasn't fair that they had reached this position and that Together wasn't willing to offer further help. They say they've already paid double what they borrowed but the balance just keeps going up.

Separately, Mr and Mrs W have a further loan with Together. They took this loan out later in 2006, borrowing £5,000 over a ten year term. For the same reasons, this loan wasn't paid off by the end of the term in 2016 and Mr and Mrs W continue to pay £90 per month to reduce the balance.

Together said that in considering Mr and Mrs W's complaint it had reviewed the whole history of the loan. It had identified some fees and charges added to the balances of the two loans it no longer thought were justified. Together with interest added on them, this amounted to a balance reduction of around £9,200 on the larger loan and £2,000 on the smaller loan.

Together said it had regularly told Mr and Mrs W that their balance was increasing and wasn't on track to be repaid. It accepted that before 2018, when it made changes to its annual statements, it hadn't made this as clear as it might have done but it said that it didn't think Mr and Mrs W would have been able to pay more in any case – and since 2018 it had clearly explained the position on their loan. It said it had also told them the consequences of making their monthly payments late and changing the due date to later in the month.

I've previously issued a jurisdiction decision, in which I said we could consider how Together had managed the loan since 11 March 2016, which was six years before Mr and Mrs W first complained.

Our investigator then considered the merits of the complaint. He said that by 2016 it was clear that Mr and Mrs W weren't able to manage the loan, and the balance was growing even though they were making the monthly payments required. He said that Together ought to have considered what could have been done to get things back on track and see whether Mr and Mrs W would be able to repay the loan. He said it should have frozen interest in 2016 to allow Mr and Mrs W to start repaying the outstanding balance. He said it should pay them £1,000 compensation.

Mr and Mrs W agreed that interest should be frozen, but they didn't think £1,000 was enough compensation. Together didn't agree with the investigator's view. It said it had made many attempts to contact Mr and Mrs W and discuss the outstanding balance since 2016, without success. It was only in March 2022 that it was able to make contact, and at that point it tried to agree a payment arrangement, but Mr and Mrs W didn't provide details of their financial situation – choosing instead to make a complaint.

Together offered instead to freeze interest on the off-schedule part of the total balance – that is, the extra balance due to fees, charges and additional interest – from March 2016 but not the main balance. It said that would result in a balance reduction to around £31,000. It also agreed to pay Mr and Mrs W £1,000 compensation.

I thought that was a fair offer, so I issued a provisional decision explaining why and inviting the parties to make any further arguments, or provide any further evidence, they wanted me to take into account in making a final decision.

My provisional decision

I said:

“I'm sorry to hear of all the difficulties Mr and Mrs W have faced over the years. I can see things haven't been easy for them and, especially before 2016, they struggled to keep up with their loans.

The smaller loan came to the end of its term in 2016. Together has not charged

interest since then and has agreed a payment arrangement for Mr and Mrs W to pay around £90 per month until the balance is cleared.

This complaint is about the larger loan, which is still within its term. The balance has grown substantially over the years – in part because of fees and charges added, but largely because of the arrears.

If a loan operates as expected, a payment each month pays off the interest added that month and also reduces the balance. So next month the balance is lower, interest is lower, and the capital is reduced further. Over time, that means the loan will be paid off within the expected term.

However, when payments are missed, the interest for that month isn't cleared and the capital isn't reduced. That means that the balance is higher than expected – so more interest is added the next month than would have been the case if the payment was made. Even if the missed payment is later made up, the balance being higher for longer means more interest is charged overall. When, as here, a loan is in arrears for several years – even if the overall arrears balance is never very large – that means that a loan can get off track quickly and the balance start to increase.

That's what happened to Mr and Mrs W's loan. By 2016, at the start of the period I can consider, it had grown to over £45,000. Because the contractual monthly payment was calculated on the assumption the balance was much lower, it wasn't any longer enough to cover the interest being charged each month, and so the balance kept growing even though Mr and Mrs W were making payments.

I don't think it would be fair and reasonable to expect Together to remove interest altogether from that point. While doing so might sometimes be appropriate as a form of forbearance, that would generally only be where other options have been explored and there's no other prospect of the loan being brought back under control so it can be repaid by the end of the term or within a reasonable time. I can't see that Mr and Mrs W were in touch with Together to try to reach a way forward at this time.

It was only in 2022 that Mr and Mrs W first engaged with Together to understand what had happened to the loan balance and try to reach a solution. Having done so, it seems they could afford to make the contractual monthly payment and some contribution to reducing the additional balance – but not by enough to stop it continuing to increase if interest was applied to the additional balance as well as the original borrowing.

In those circumstances I think the proposal Together has made is fair. It's offered to stop charging interest on the off-schedule balance – that is, the part of the loan that's greater than it ought to have been – from March 2016. It will continue to charge Mr and Mrs W interest on the amount the balance would have been at from March 2016 had the arrears never happened. But the extra costs that have resulted from the arrears will not be subject to interest for the remainder of the term. I think this is a fair and reasonable solution that recognises that Mr and Mrs W can repay the loan as originally agreed, while giving them a way forward that stops the balance continuing to spiral out of control and allows them to start repaying the additional amount it increased by because of the historic arrears in a sustainable way.

Together has explained that, as of October 2023, this means reducing the overall balance by around £10,000 – in addition to the balance reduction of £9,000 when Mr and Mrs W first complained. And only part of the remaining balance of around £32,000 will be interest bearing from now on – interest will be frozen on the off

schedule part of £16,000 and only be charged on the remainder. I have rounded all the figures for ease.

Together has explained that this means that if Mr and Mrs W continue to pay the contractual monthly payment, the main part of their loan will be cleared by the end of the term, leaving the £16,000 off schedule element. I would hope it would then consider an arrangement to clear this part of the balance, as it has with the smaller loan. Alternatively, if Mr and Mrs W were able to increase their monthly payments to around £460, the entire loan would be cleared by the end of the term. Any additional amount they pay over the contractual monthly payment, but less than £460, would reduce the amount left by the end of the term.”

Together said it had nothing further to add. Mr and Mrs W said they accepted that the offer to freeze interest on the additional balance only was fair. But they said that they felt the compensation should be higher than £1,000 because it didn't fairly reflect the stress and ill health they had experienced over the years.

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've also considered again what I said in my provisional decision. I note that both parties agree with the substance of what I said, and so I see no reason to change my mind.

I've also thought about what Mr and Mrs W have said about fair compensation. I've taken into account everything they've said about what they've experienced over the years, and I'm sure things have been very difficult for them. But I can only make an award to reflect Together's responsibility for that.

It would be fair to require Together to compensate Mr and Mrs W for things it has unfairly done which have had an impact on them and made worse an already difficult situation. But it wouldn't be fair to require Together to compensate Mr and Mrs W for the underlying financial difficulties and health concerns which led to or contributed to the problems managing this loan, or which they would have experienced anyway.

With that in mind, and noting that £1,000 is a substantial award of compensation, I'm satisfied that Together has made a fair offer.

Putting things right

Together has made a fair and reasonable offer to resolve this complaint, and it should implement the settlement it has proposed. Once it has done so, Together should then tell Mr and Mrs W what the revised balance is in total, and what the interest bearing and non-interest bearing elements are. It should also tell Mr and Mrs W what they would need to pay, in addition to the contractual monthly payment, to clear the non-interest bearing off-schedule element by the end of the term.

My final decision

My final decision is that Blemain Finance Limited trading as Together should:

- Freeze interest on the off-schedule balance element of the loan, backdated to March 2016; and

- Pay Mr and Mrs W £1,000 (Mr and Mrs W may choose to use this sum to reduce the outstanding balance if they wish).

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr and Mrs W to accept or reject my decision before 14 February 2024.

Simon Pugh
Ombudsman