

The complaint

Mr and Mrs M complain that Pepper (UK) Limited wouldn't allow them to convert their mortgage to repayment terms. They're also unhappy with the interest rate.

What happened

In 2007 Mr and Mrs M borrowed around £125,000 over a 25 year term, on repayment terms. For the first three years the mortgage was on a fixed rate of 8.04%, which was to be followed by a reversion rate 4.24% above base rate. The mortgage wasn't owned by Pepper at that point.

Shortly after the loan was taken out Mr and Mrs M experienced some financial difficulty and the mortgage went into arrears. Around this time the mortgage was converted to interest only, it seems to reduce their payments and make it more affordable.

In 2010 the then lender agreed to capitalise the arrears and converted the mortgage to part and part – that is, part remained on interest only and part was converted back to repayment terms. The interest rate was also changed to a variable rate 4.29% above base rate at the same time.

Unfortunately Mr and Mrs M fell back into arrears. They've remained in arrears to a greater or lesser extent since then – finally clearing the arrears in 2022.

In 2015 the mortgage transferred to Pepper and Pepper has been their lender ever since. Over the years Mr and Mrs M have asked to convert the whole mortgage back to repayment terms several times, but Pepper wouldn't consider doing so while it was still in arrears. And by the time Mr and Mrs M cleared the arrears in 2022, Pepper had made the decision not to change repayment types on its mortgages anymore. So Mr and Mrs M remain on part and part.

In 2023, Mr and Mrs M complained that Pepper hadn't allowed them to convert to repayment terms. They also complained about the interest rate.

Our investigator said that we couldn't consider anything that had happened more than six years before Mr and Mrs M complained – so would only go back to April 2017. He said that we couldn't consider a complaint about the new interest rate Mr and Mrs M took in 2010, but that in the period we could consider the interest rate had operated as agreed at that time. He said that it wasn't unfair that Pepper didn't switch the mortgage to repayment while it was in arrears, as doing so would have increased the monthly payments. And while it won't switch the repayment type now, Mr and Mrs M are free to make overpayments on top of the interest and Pepper has offered to tell them how much they would need to pay to clear the balance by the end of the term. So he didn't uphold the complaint.

Mr and Mrs M didn't agree and asked for an ombudsman to make a final decision.

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 sorry to disappoint Mr and Mrs M, but I agree with our investigator about their complaint.

The rules of the Financial Ombudsman Service say that Mr and Mrs M have six years from the date of the event they're unhappy about to raise a complaint – or, if this gives them more time, three years from when they became aware (or ought reasonably to have become aware) of cause for complaint. If a complaint is made outside those time limits we can't consider it unless Pepper consents (which it doesn't), or unless there are exceptional circumstances which explain why it wasn't made in time.

The interest rate Mr and Mrs M were on was changed as part of the capitalisation of arrears in 2010. That's more than six years before they complained. And I think they ought reasonably to have been aware of cause for complaint about the interest rate they were being charged more than three years before they complained.

And in respect of their requests to convert the mortgage back to repayment terms, if Pepper refused those requests Mr and Mrs M would have known at the time that had happened and that they were unhappy about it. So any requests they made more than six years before this complaint are out of time.

I'm not aware of any exceptional circumstances that meant Mr and Mrs M couldn't have complained within the relevant deadlines. They've said they weren't aware of the time limits. But that didn't stop them complaining if they felt they had cause for complaint – as I've said they ought reasonably to have done.

I'll therefore only consider things that have happened in the six years since Mr and Mrs M first complained – that is, since April 2017.

Dealing with the interest rate first, Mr and Mrs M's mortgage has operated at the contractual interest rate of 4.29% above base rate. I appreciate they think that's a high rate, and has caused the financial difficulty, and that they've not been able to replace it with a lower rate. But Pepper doesn't have to offer customers new lower interest rates, and it's operated the mortgage in line with the interest rate agreed between Mr and Mrs M and the previous lender. So I don't think Pepper has acted unfairly in this respect. Now the mortgage has been out of arrears for a couple of years, Mr and Mrs M may be able to take independent financial advice about moving it to another lender that can offer a lower rate.

I can see Mr and Mrs M have asked about changing back to repayment terms several times over the years. I don't think it's unreasonable that Pepper refused to do so while the mortgage was still in arrears. While Mr and Mrs M were mainly reducing the arrears after April 2017, I can see that there were occasions – particularly towards the start of that period – where they did miss payments. And there were other indications of financial difficulty too. For example, returned direct debits and payments by cheque where the cheque bounced.

Converting the mortgage to repayment terms would have increased the amount Mr and Mrs M were required to pay each month. If they were already at times struggling to pay the amount required on interest only, a higher payment would only have made things worse. It would also have extended the time taken to clear the arrears, since a higher contractual payment leaves less money over to use to pay down the arrears.

For those reasons I don't think it was unfair that Pepper wouldn't consider tying Mr and

Mrs M into higher payments they would have to make each and every month until the mortgage was out of arrears and there was good evidence those higher payments would be affordable for them. Indeed, the rules of mortgage regulation require lenders to only make changes like this if it can be demonstrated that doing so is affordable.

By the time Mr and Mrs M were out of arrears Pepper had decided that it would no longer formally convert mortgages in any circumstances. I appreciate Mr and Mrs M found this frustrating. But there's no restriction on Mr and Mrs M making overpayments at any time, or of any amount. Pepper offered to tell them what they'd need to pay each month to repay the mortgage by the end of the term – that is, how much the monthly payments would be if it was converted to repayment terms. This gives Mr and Mrs M the information they need to treat it as a repayment mortgage, without permanently committing them to make those higher payments come what may. I think that's fair.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M and Mrs M to accept or reject my decision before 22 April 2024.

Simon Pugh
Ombudsman