DRN-4719420

The complaint

Mr B complains that Pepper (UK) Limited (trading as Engage Credit) have declined his requests for a lower interest rate or a more affordable repayment plan on his mortgage.

What happened

Mr B has an interest only mortgage with Engage that is due to end in 2031. In March 2023 Mr B called Engage to discuss his monthly mortgage payments as they were becoming unaffordable for him following interest rate rises and the impact of the cost of living crisis. He discussed his circumstances with Engage, and an income and expenditure assessment showed that Mr B had a deficit of over £300 each month. Engage agreed to reduce the interest rate so that Mr B would pay £500 for one month whilst he considered his re-financing options, as they said they weren't able to offer Mr B a new interest rate product that would reduce his ongoing payments.

On 6 April 2023 Mr B wrote to Engage asking them to extend the term of his mortgage until retirement and apply a reasonable fixed interest rate. He also asked to switch his mortgage to part interest only and part repayment. He said he'd looked at re-mortgaging elsewhere, but a debt charity had told him he would struggle as a result of his income. He said he was a mortgage prisoner.

Mr B also discussed his situation on the phone with Engage again, as he wanted to agree a longer term plan that would make his payments affordable for him. He didn't have a repayment strategy to repay the capital at the end of the term, and so wanted to switch as much of the mortgage to repayment as possible. He hoped that by doing that, extending the term, and reducing the interest rate, he would be able to afford the monthly payments and ensure the mortgage was repaid. Engage said they could only extend the mortgage by an additional five years, and calculated that the monthly payments would be unaffordable for Mr B. They weren't able to offer Mr B a lower interest rate as they don't offer new products to any of their customers.

Engage agreed to reduce the interest rate on Mr B's mortgage to 3.57% for one more month. They said his monthly payment for May would be £509.77. They wrote to Mr B to tell him that after the temporary reduction the interest rate would return to align with the terms and conditions of the mortgage. It also said Engage would contact Mr B before then to review his circumstances and consider next steps.

In May 2023 Mr B spoke to Engage again about his circumstances, and as the monthly payments were still unaffordable for him, he was still looking into his options to re-finance. Engage offered to reduce his interest rate for a further four months but wouldn't agree to a change over a longer period. Mr B complained. He said that Engage have offered to reduce his payments for six months on interest only at a rate of 3.57%, but they won't offer the same concession on a repayment basis for the next 15 years. He said that would allow him to repay the mortgage and Engage would still earn interest.

Engage sent their final response letter on 22 May 2023. They said Mr B's mortgage was transferred to them in March 2015. In December 2020 they sent Mr B a letter which brought to his attention that he might qualify for a cheaper mortgage elsewhere. They said that unfortunately, they're not in a position to offer Mr B a new product or comply with his request to extend his mortgage term with a reduced interest rate.

They said the option that was available to Mr B was to convert the mortgage to a repayment mortgage and extend it for a further five years with a monthly instalment of approximately £1,630, but that was unaffordable for him. The letter also said they'd reduced Mr B's interest rate for six months on a short term forbearance basis in an attempt to help him. But they were unable to offer a permanent rate reduction. They suggested Mr B contacted an organisation that provides free independent guidance on financial matters.

Mr B asked our service to look into his complaint. One of our Investigators looked into things but didn't think Engage had treated Mr B unfairly.

Mr B disagreed and explained that he was a vulnerable customer, and we had not taken on board his history and difficulties over the years. He is trapped with Engage and he can't afford to sustain the rate rises. He said Engage had not helped him in line with the Financial Conduct Authority's (FCA's) guidance. Mr B also complained about the level of the interest rate Engage had applied to his mortgage, and how the base rate increases had been passed on. That issue is being dealt with under a different complaint.

The Investigator wasn't persuaded to change her opinion and so the complaint has been passed to me to issue a 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.

Firstly, I will acknowledge that at the time of writing this decision, I'm aware Mr B has made subsequent complaints to Engage about how they've treated him in relation to his mortgage. For clarity, in this decision I will only be considering Mr B's complaint about how Engage treated him during their interactions from March 2023 until the final response letter was issued on 22 May 2023. I'm sorry to hear that Mr B is still having problems with Engage, but those issues will need to be dealt with separately.

When Mr B discussed his situation with Engage in March 2023, they did what I'd expect them to have done and assessed what Mr B was able to afford based on his income and expenditure at the time. As a result, they agreed a one-month payment arrangement to give Mr B time to assess his options and investigate refinancing. This arrangement was later extended when Mr B was still unable to resume the full payments and had been unsuccessful in his enquiries to re-mortgage.

Whilst Engage agreed to short term forbearance to make Mr B's payments affordable for him, he wanted them to agree to longer term changes that would enable him to repay the mortgage before he retired in a way he could afford. Engage considered Mr B's request, by looking at switching the mortgage to capital and repayment and extending the term, but unfortunately those options wouldn't have made the mortgage affordable for Mr B either.

Under the regulator's rules mortgage lenders are required to treat customers fairly and offer appropriate forbearance when they are struggling to pay their mortgage. There are both short term and long term measures that lenders should consider, and they should tailor their support to meet the specific needs of the borrower's circumstances. I understand Mr B is a vulnerable customer and so I would expect Engage to have taken that into account too.

But whilst lenders are required to show reasonable forbearance, that doesn't mean they must accept any request a borrower makes. Mr B is in a very difficult situation. He has an interest only mortgage ending in seven years, with no current plan in place for how he will repay it at the end of the term. He's unable to afford the monthly payments whilst the mortgage is on interest only, and his current outgoings leave with him a significant deficit each month based on his current income. I can appreciate why he's finding it difficult to find a suitable re-mortgage option.

Unfortunately, this situation seems to have been exacerbated by the recent rises to the Bank of England base rate and the fact that all his bills, including his mortgage, have become more expensive. Given the unpredictability of future interest rates, it seems it's the long term sustainability of Mr B's mortgage that is the cause for concern here, rather than a short term issue that will be resolved in the near future. I appreciate Mr B has said it's unknown where he'll be in a year's time, for example he could have had a pay rise and interest rates may have gone down. But these are all speculative circumstances that may or may not arise.

When discussing forbearance with Mr B, Engage considered switching the mortgage to capital and repayment and extending the term. Whilst they only looked at extending the term for five years as they said that was their policy, I don't think extending the mortgage term further, up to Mr B's retirement age, would have made the monthly payments affordable for him either. Mr B wants the mortgage to be switched to repayment if possible as he has no other way of paying the mortgage capital back, so I think it was reasonable Engage assessed that option to see if it would help. But unfortunately, it didn't make the payments affordable. And extending the mortgage on interest only wouldn't have helped with the monthly payment amount either.

Mr B asked Engage to agree to a permanent reduction to the interest rate to 3.75% to make the monthly payments affordable for the rest of the term. Engage did offer to reduce the rate in line with Mr B's request, but only on a short term basis. Engage don't offer new interest rate products to any of their customers, and that's not something they have to do. So I don't think they were acting unfairly by not offering a new product to Mr B when they don't have any available. He's not being treated any less favourably than other borrowers who have their mortgage with Engage. Engage did write to Mr B in 2020 to explain that he might be able to move his mortgage elsewhere so that he could benefit from access to cheaper products, but I appreciate he's been unable to do that in practice.

Whilst Engage don't have interest rate products available to borrowers, they can make manual changes to the rate they charge borrowers individually by exception, as they've done here for Mr B. However, I don't think it's unreasonable that Engage would not agree to a permanent reduction to the interest rate on Mr B's mortgage. When Mr B agreed to this mortgage, the offer stated that after the initial fixed rate ended after three years, he would be charged a variable rate for the remaining term. So Engage are acting in line with the terms of Mr B's mortgage by applying the variable rate. Lenders generally charge a variable rate so that it can be varied in line with changes to their own costs. I don't consider it's reasonable to expect Engage to agree to a fixed interest rate over a term of seven years, especially one that's almost 50% lower than the rate they're charging all other borrowers.

Overall, whilst I appreciate Mr B is in a difficult situation, I'm satisfied that Engage have acted reasonably when considering how they can help Mr B with his mortgage. They offered appropriate short term forbearance that was affordable for Mr B whilst he sorted out his longer term plans. But unfortunately, there wasn't a reasonable way Engage could make this mortgage affordable for Mr B in the long term based on his circumstances at the time. I'm also satisfied Engage did take account of Mr B's vulnerability and his wider circumstances, and that contributed to them agreeing the arrangement to help him in the short term.

I understand further conversations have happened since May 2023, which I haven't considered in this decision. But I understand Mr B is seeking external support from third parties about his overall financial situation, and I'd encourage him to continue to communicate with Engage about his circumstances so they can offer him further support where appropriate. Engage should continue to have regard to the fact that Mr B is vulnerable, and tailor the support and forbearance they offer him appropriately.

My final decision

Considering everything, for the reasons I've explained, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 28 May 2024.

Kathryn Billings
Ombudsman