

The complaint

Mr and Mrs M are unhappy that Pepper (UK) Limited will not offer them a new fixed interest rate product on their mortgage when the existing one ends in December 2024.

What happened

Mr and Mrs M took out their mortgage in 2006 on an interest-only basis over a term of 30 years. A fixed interest rate product was attached to the mortgage for the first three years, after which the mortgage reverted to a variable interest rate. In October 2021 Mr and Mrs M asked the lender, Kensington Mortgage Company Limited, for a new interest rate product to fix the rate they would be paying. They were told they were not eligible for a new product.

In 2022 the ownership of Mr and Mrs M's mortgage was transferred to Pepper. It administered the mortgage under its trading name of Engage. Mr and Mrs M complained about having been denied a new interest rate product. We upheld the complaint and concluded that Kensington should have offered Mr and Mrs M a new interest rate product in 2021. Mr and Mrs M selected a five-year fixed interest rate product from those that were available at the time and Pepper recalculated the mortgage balance based on that rate having been applied since 2021. It refunded to Mr and Mrs M the amount of overpaid interest.

As Mr and Mrs M's fixed interest rate product was approaching an end, they contacted Pepper to ask for a new one. They were told that was not possible and they complained.

Pepper responded to the complaint by explaining to Mr and Mrs M that it is unable to offer new interest rate products. Mr and Mrs M were not satisfied with the response they received and referred the complaint to this Service.

One of our Investigators considered the complaint, but he didn't recommend it be upheld. Mr and Mrs M didn't accept the Investigator's conclusions. As such, the complaint has been passed to me to consider.

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 would firstly address Mr and Mrs M's comment that my colleague's final decision earlier this year said that Pepper had to offer them a new interest rate product when the one awarded in the final decision ended. That is not the case. While Mr and Mrs M could ask for a new interest rate product to replace the one awarded by us, whether they could have another one would always be dependent on whether whoever the lender was at that time offered new products and if Mr and Mrs M qualified for one.

In this case, Pepper is Mr and Mrs M's current lender and it is what is called a closed book lender. A closed book lender is unable to offer new interest rates to any of its customers. So

all its other customers are in the same position as Mr and Mrs M, and I am satisfied they have not been treated any less fairly than any other customer.

I do understand why Mr and Mrs M want to pay interest at a lower rate than the reversionary rate they will transfer onto when the product ends, especially given the recent increases in Bank of England base rate being reflected across the industry in significant increases in interest rates generally. However, Pepper has not stood in the way of them moving their mortgage to another lender in order to benefit from a lower interest rate. While that may not be possible for Mr and Mrs M, I have seen no evidence that this is because of anything that Pepper has done.

While the reversionary rate Mr and Mrs M will go on to at the end of their current product is higher, it is comparable to the standard variable rates and reversionary rates offered by other lenders. So I don't consider that Mr and Mrs M will be being treated unfairly because of the level of interest rate they will be asked to pay going forward. As such, I can't uphold this complaint.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I am required to ask Mr and Mrs M to accept or reject my decision before 31 December 2024.

Derry Baxter
Ombudsman