

The complaint

This complaint's about an interest-only buy-to-let (BTL) mortgage held with Pepper (UK) Limited by a limited complaint I'll call M. M is represented here by its directors, Mr and Mrs W. The essence of the complaint is about how Pepper handled the attempted redemption of the mortgage in 2023. Additionally, Mr and Mrs W are unhappy with the manner in which Pepper administered the mortgage, after it was transferred from a previous lender. They've also raised further issues about how Pepper has dealt with them since bringing the complaint to this service.

What happened

By way of a provisional decision dated 4 September 2024, I set out my provisional conclusions on this complaint. The following is an extract from the provisional decision.

"I do not need to set out the full background to the complaint. This is because the history of the matter is set out in the correspondence between the parties and our service, so there is no need for me to repeat the details here. In addition, our decisions are published, so it's important I don't include any information that might lead to M. or Mr and Mrs W being identified. So for these reasons, I will instead concentrate on giving a brief summary of the complaint, followed by the reasons for my decision. If I don't mention something, it won't be because I've ignored it; rather, it'll be because I didn't think it was material to the outcome of the complaint.

By way of a decision dated 2 September 2024, I confirmed the extent of my remit to look into this complaint as being confined to the following subject matter, as summarised in my own words:

- additional interest added to arrears balances;
- the security procedures used during a phone call on 11 May 2023 and the issue of a letter containing security information;
- M has continued to receive multiple items of correspondence (what Mr W describes as "mountains of bumph") since 4 July 2023; and
- Pepper hasn't issued a redemption statement requested over a year ago.

What follows are my findings, provisional at this stage, on the merits of the above issues.

What I've provisionally found – and why

I'll start with some general observations. We're not the regulator of financial businesses, and we don't "police" their internal processes or how they operate generally. That's the job of the Financial Conduct Authority (FCA). We deal with individual disputes between businesses and their customers. In doing that, we don't replicate the work of the courts.

We're impartial, and we don't take either side's instructions on how we investigate a complaint. We conduct our investigations and reach our conclusions without

interference from anyone else. But in doing so, we have to work within the rules of the ombudsman service, and the remit those rules give us.

The first point I need to make here is the eligible complainant here isn't Mr or Mrs W; it's their company M. Mr and Mrs W present the complaint on the company's behalf. That means that when deciding how the complaint should fairly be settled, I can only take account of how Pepper's acts and/or omissions, assuming I find there have been some, have impacted on the company. I've no doubt Mr and Mrs W have found this a very irksome, and at times distressing, episode. But I can't order Pepper to compensate them for their time, trouble and upset in this regard.

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

Additional interest added to arrears balances

The starting position is that lenders generally are permitted under the mortgage terms to apply fees and charges to cover the additional cost of administering a mortgage account that is in arrears. Such charges are typically set out in a separate tariff of charges. But lenders also have a duty to treat customers fairly, and even where fees have been applied in accordance with the account terms and the tariff of charges, we'll still give separate consideration to whether they've been applied fairly.

I've no reason to find that any of the fees and charges applied to M's mortgage should be assessed as having been unfairly applied. The provision for Pepper to levy interest on arrears, and on associated fees and charges in connection with the management of those arrears, is contained in the terms and conditions of the mortgage contract. It's not inherently unfair of Pepper to implement the term. Pepper isn't, for example, singling M out for different treatment from other borrowers in similar situations.

Nor is Pepper out of step in having a mortgage contract that allows for interest to be levied on arrears, arrears fees and charges for legal work. It's standard practice for lenders across the whole sector to do so. Having such a term in a contract, and applying it consistently, doesn't of itself, amount to unfair treatment, which is the test I have to apply.

The security procedures used during a phone call on 11 May 2023 and the issue of a letter containing security information

Financial businesses are required to have such procedures by law; they're an unfortunate but necessary intrusion. It's regrettable that Mr W didn't answer enough questions correctly to pass Pepper's security procedures during the call on 11 May 2023, but I can't fairly criticise Pepper for that.

I'm not sure it was a very good idea to send M a letter in the post containing a list of the security questions and the stored answers. I've no doubt it was well-intentioned, but I can understand if Mr and Mrs W were unnerved by receiving it. As I've explained already, I can't award them compensation for this, as they personally aren't the complaining parties. The company, M, is not a person so can't feel emotions such as distress or worry. But a company can be inconvenienced, if for example the directors have felt it necessary to change the security questions. If Mr and Mrs W can show evidence that they did that, then I shall award M £50.

M has continued to receive multiple items of correspondence (what Mr W describes as “mountains of bumph”) since 4 July 2023

Here the issue is that there are four loans under the mortgage M holds. Where the original lender aggregated them into one for administration purposes, Pepper operates each loan as a discrete sub-account, and issues separate paperwork for each. I understand the directors’ frustration, but if Pepper chooses to administer the sub-accounts separately, I have no remit to tell it to do otherwise.

Pepper hasn’t issued a redemption statement requested over a year ago

Pepper issued four redemption statements; one for each sub account. Mr and Mrs W have paid off most of the debt, but tell us Pepper recently sent them what they describe as an “unitemised bill” for the residue, apparently just over £7,000. It’s not in my remit to tell, or even advise, Mr and Mrs W what to do next. But it may well be in M’s interests if they pay the sum Pepper is asking of them, if only to mitigate any ongoing financial liability.

That wouldn’t mean them having to stop disputing the validity or otherwise of the amount Peppers says M still owes it. However, it’s not the role of the Financial Ombudsman Service to audit borrowers’ account.

If Mr and Mrs W have a real and substantive belief, (as opposed to merely not being fully persuaded by what the bank has said) that the amount Peppers M still owes it is wrong, it is open to them to arrange for the mortgage account to be audited by a suitably qualified and independent party.

The evidence of the audit could then be used as the basis for a new complaint to Pepper, underpinned by the evidence of the finished audit. That would give the bank the opportunity to consider and respond to it.

M would have to meet the cost of the audit, albeit if errors were found that were to the company’s detriment, Mr and Mrs W could reasonably expect Pepper to reimburse any reasonable cost of the audit as well as taking any corrective action the audit revealed to be necessary. And if that wasn’t resolved to their satisfaction, Mr and Mrs W would still have the opportunity to refer that complaint to us.”

I gave the parties two weeks to add anything further before I finalised my decision; both have done so. Pepper didn’t believe there was any issue over the security questions, whilst Mr W’s response, on M’s behalf, didn’t contain any new points. Rather, it was simply a precis of what the complaint was about.

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.

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Mr W’s letter hasn’t given me any reason to depart from my provisional decision that, for the most part. Pepper hasn’t done anything materially wrong. On the one issue that I was minded to make a modest award in M’s favour, Mr W hasn’t provided the evidence I made clear would be required if the award was to stand.

My final decision

My final decision is that I don't uphold this complaint, or make any order or award against Pepper (UK) Limited.

My final decision concludes this service's consideration of this complaint, which means I'll not be engaging in any further consideration or discussion of the merits of it.

Under the rules of the Financial Ombudsman Service, I'm required to ask M to accept or reject my decision before 29 October 2024.

Jeff Parrington

Ombudsman