The complaint

Ms M and Mr M are unhappy with how Pepper (UK) Limited trading as Engage Credit have treated them in relation to their mortgage. They believe the interest Engage Credit has charged has been too high and that it should have done more to support them when they were experiencing financial difficulties.

What happened

The background to this complaint is well known to both parties, so I will focus here on what I consider to be the key facts and timeline.

Ms M and Mr M originally took out a mortgage with a lender in 2007. The original mortgage borrowing was for around £225,000 over a 23 year term on a repayment basis. The mortgage was initially on a fixed interest rate of 5.79% for around two years, after which it was to revert to the lender's Standard Variable Rate (SVR), less a loyalty discount.

I can see the current mortgage is on interest only terms and it appears the switch in repayment method happened not long after the mortgage began.

Engage Credit is now administering the mortgage on behalf of a different lender which took over the mortgage, and is responsible for dealing with the complaint.

The key issues in this case surround the arrears that have grown on the account coinciding with the increase in the interest rate charged on the mortgage since 2022.

Engage Credit's contact notes show that, during this period, it agreed a number of concessions with Ms M and Mr M, reflecting difficulties they were having making full repayments.

In June 2023 Engage Credit told Ms M that it could consider a rate reduction, but would need updated income and expenditure information first. The contact notes indicate that Ms M provided this shortly after. I then can't see that Engage Credit went back to Ms M about this.

The next time Engage Credit was considering an interest rate reduction was in early 2024. It wrote to Ms M at the end of March 2024 to say it would not be providing an interest rate reduction.

In May 2024, Ms M complained to Engage Credit that it wasn't doing more to help given her circumstances, including the arrears on the account. Ms M said she was a mortgage prisoner and was being forced to sell the property. Ms M also raised concerns about how she'd been spoken to by one of Engage Credit's agents.

Engage Credit didn't uphold the complaint. In summary, it said it had provided Ms M and Mr M with appropriate support during their financial difficulties. It said that Ms M and Mr M weren't mortgage prisoners and that it thought its agent had acted appropriately during the relevant phone call.

Ms M and Mr M remained unhappy and referred their concerns about the interest charged and the lack of support provided by Engage Credit, to the Financial Ombudsman Service.

An Investigator here issued an assessment on the complaint. They said we could consider the interest rate charged and the level of support provided by Engage Credit in the six years leading up to the complaint.

The Investigator thought the interest charged by Engage Credit had been fair and in line with the mortgage terms. They thought that in general Engage Credit had provided Ms M and Mr M with appropriate forbearance and didn't think it had been unfair in not agreeing an interest rate reduction.

However, the Investigator awarded £200 in compensation for Engage Credit mismanaging Ms M's expectations in 2023 about the possibility of agreeing an interest rate reduction and the distress and inconvenience caused by Engage Credit not always communicating as clearly as it should about the next steps on the account.

Ms M and Mr M didn't agree and so the case has been passed to me 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.

Having done so, I'm sorry to disappoint Ms M and Mr M but I've reached the same overall outcome as the Investigator and for broadly the same reasons.

Before I explain why, I want to set out the purpose of my role. It isn't to address every single point that's been made to date. Instead, it's to decide what's fair and reasonable given the circumstances of this complaint. And for that reason, I'm only going to refer to what I think are the most salient points when I set out my conclusions and my reasons for reaching them. But, having considered all of the submissions from both sides in full, I will continue to keep in mind all of the points that have been made, insofar as they relate to this complaint.

I can see that Ms M has told us that the overall situation has caused her a lot of stress and upset. I am genuinely sorry to hear this and appreciate that the outcome I've reached is not the one she was hoping for.

The focus of Ms M and Mr M's concerns are the interest rate rises that have taken place relatively recently, the impact of these rises and the way in which Engage Credit has responded to this. For completeness, I agree with the Investigator that we have the power to consider the relevant issues in the six years leading up to when Ms M and Mr M made their complaint.

Ms M says that when the monthly repayment amount was around £800 before the interest rate rises, she was already having some difficulty making the repayments. As such, she doesn't think it was reasonable for Engage Credit to increase the interest rate on the mortgage, given the impact this would have in terms of the likelihood of growing arrears.

Ms M and Mr M's mortgage is not a tracker, which is to say the mortgage contract does not say that the rate will directly follow movements in the Bank of England Base Rate (BoEBR). However with that said, it is not uncommon for SVRs to move broadly in line with changes in the BoEBR. I can see that the SVR charged on Ms M and Mr M's mortgage has moved in line with the BoEBR in the period I can consider. Having reviewed the terms and conditions applying to Ms M and Mr M's mortgage, such variations are allowed for. So the start point is that there is nothing inherently unfair in the way in which Engage Credit has varied the SVR.

Ms M and Mr M believe that Engage Credit shouldn't have increased the interest rate on their mortgage, given the financial difficulties they were experiencing. Reducing the interest rate (i.e. charging less than the interest rate applying to the account) is one of a number of potential forbearance measures open to a lender when considering what might represent appropriate support for someone experiencing financial difficulties.

By its very nature, forbearance is not a 'one size fits all' approach. The question of what represents appropriate forbearance will always depend on the individual borrower's circumstances, including the status of their account.

I can see that during the relevant period, Engage Credit has requested income and expenditure information from Ms M on a number of occasions over time, to try to understand their specific financial circumstances and that Ms M provided this information. I can also see that over time Engage Credit agreed a number of concessions, including nil payments in some months and allowing Ms M and Mr M to pay less than the contractual monthly payment in others.

Whilst I appreciate that Ms M considers herself a mortgage prisoner, looking at the overall picture, I'm satisfied that Engage Credit has acted fairly in terms of the forbearance it has offered at different times.

In terms of the issue of whether Engage Credit ought to have reduced the interest rate applying to the account, in my experience this is most likely to constitute appropriate forbearance when someone is experiencing temporary financial difficulties – and where reducing the interest rate on a temporary basis will help the borrower to navigate those short term financial difficulties. It's also more likely to be appropriate where such a measure helps the borrower to avoid arrears altogether and where an interest rate reduction, perhaps combined with other measures, will mean the lower mortgage repayments will be affordable during the temporary period of financial difficulty.

When considering Ms M and Mr M's situation, including at the point Engage Credit suggested in 2023 that it would consider such an option, and when it declined Ms M and Mr M's request in early 2024, objectively the financial difficulties did not appear temporary. And whilst agreeing an interest rate reduction would've given Ms M and Mr M some temporary breathing space, it wouldn't have addressed the wider issue in terms of the mortgage not being affordable. For these reasons, I don't consider it unfair that Engage Credit didn't agree to offer a reduction to the interest rate applying to the account.

With that said, when Engage Credit told Ms M in 2023 that it was considering an interest rate reduction, it ought to have known given its own policy (which it has shared with us) that it was unlikely to agree to a reduction in the interest rate, given Ms M and Mr M's circumstances, including the arrears on the account.
I deem that this would have unfairly raised Ms M's hopes at that time that such a measure would be agreed. In the event, and after Ms M had shared income and expenditure information, an interest rate reduction wasn't agreed – although as mentioned, I can't see that Engage Credit informed Ms M of this.

And whilst in general the contact notes suggest that Engage Credit has looked to support Ms M and Mr M and explain the situation from its perspective and the next steps, they also suggest there were some occasions where Engage Credit could and should have been clearer about what the next steps would be.

Given these issues, I agree with the Investigator that a compensation award of £200 is due for the unnecessary distress and inconvenience caused to Ms M and Mr M. Such an award is in line with our general approach to compensation awards and consistent with awards made in similar circumstances.

Engage Credit must continue to support Ms M and Mr M and show appropriate forbearance.

My final decision

My final decision is that I uphold Ms M and Mr M's complaint in part and direct Pepper (UK) Limited trading as Engage Credit to pay Ms M and Mr M a total of £200 in compensation.

Ms M and Mr M must be allowed to choose whether to receive this directly, or for Engage Credit to apply it to the account to reduce the outstanding arrears.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M and Mr M to accept or reject my decision before 08 January 2025.

Ben Brewer
Ombudsman