

The complaint

Mr and Mrs T complain that Step One Finance Limited told them they would have to re-finance their second charge mortgage (secured loan), and take further borrowing, to access a new interest rate.

What happened

In 2014, Mr and Mrs T took a secured loan with Step One. The loan was on a variable interest rate.

In 2019, Mr and Mrs T asked Step One whether they could switch from the variable rate to a lower fixed interest rate. Step One said that it didn't offer rate switches, and the existing loan would have to remain on the variable rate. But it said that Mr and Mrs T could instead apply to re-finance the loan by replacing it with a new, different, loan at a fixed rate – subject to them meeting lending criteria for a new loan.

Mr and Mrs T say that Step One told them they could only do this if they also took further borrowing; they wouldn't be able swap one loan for another on a like for like basis. Mr and Mrs T say they reluctantly agreed to do this, and applied for a new loan with further borrowing of around £5,000. They used this sum to repay credit card debt. The new loan was at a fixed rate of interest for five years, followed by a variable rate.

Towards the end of the new fixed rate period, Mr and Mrs T asked Step One about switching to another fixed rate rather than reverting to the variable rate. Again, they said Step One said this wouldn't be possible but it would consider an application to re-finance to another new loan – but only with further borrowing.

Mr and Mrs T complained. They said they felt there was no way out – they couldn't go to another lender, they were paying higher rates of interest, and the only way to reduce what they were paying was to borrow yet more money.

Step One said that in 2019 it considered Mr and Mrs T's application to re-finance their existing loan. The new loan was affordable for them and both reduced the interest rate they were paying and allowed to reduce other outgoings by consolidating credit card debt. It said that it would consider an application to re-finance the 2019 loan again now, and that there was no requirement for further borrowing to do so. But it couldn't change the interest rate on their existing loan.

Our investigator didn't think Step One had done anything wrong in 2019. But he said that Step One had told Mr and Mrs T that they would need to take further borrowing to re-finance again in late 2023, when that was no longer the case. Although Step One had later corrected that in its final response to their complaint, he said that the delay in confirming their options had caused them distress, for which it should compensate them by paying £300. Step One accepted that, but Mr and Mrs T didn't. They said that was insulting, and if they had been allowed to take a new interest rate without further borrowing in 2019 their situation now would be much better. As no agreement could be reached, the case comes to me for 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 have to disappoint Mr and Mrs T again, but I agree with our investigator about the fair way to resolve this complaint.

When Mr and Mrs T first took their loan out in 2014, it was on a variable interest rate, then 12.9%.

Step One doesn't offer new interest rates on existing loans. This isn't unusual – most second charge lenders (unlike most first charge lenders) don't. So by remaining on the variable rate, the loan was operating as it should. In order to access a new interest rate, Mr and Mrs T would need to take out a whole new loan – not simply change the interest rate on their existing loan.

Although they took further borrowing to access a new rate in 2019 – in line with Step One's policy at the time – I'm not persuaded that this means the new loan was mis-sold to them. Mr and Mrs T had the option of remaining on their old 2014 loan at the old interest rate. But the new loan was on a fixed rate of 7.9% for five years, which therefore made their existing borrowing much cheaper. Although they also borrowed a further £5,000, they used most of this to pay off a credit card at a high rate of interest, which also resulted in a saving to them.

Mr and Mrs T say that the loan shouldn't have been sold to them because they'd been in arrears. They weren't in arrears at the time of their application for a new loan in 2019, but it seems that they had been not long before. That might be a reason not to offer them a wholly new loan, but in essentially replacing their existing loan (increasing the balance from around £45,000 to around £50,000) Step One made their borrowing significantly cheaper – which reduced the risk of Mr and Mrs T falling back into arrears. I understand they've not been in arrears since the 2019 loan was taken out, which supports my conclusion that replacing the 2014 loan with the 2019 one made Mr and Mrs T's situation better overall.

More recently, the five year fixed rate has come to an end and the loan has moved onto a more expensive variable rate. Mr and Mrs T asked about taking a new fixed rate. Step One told them it doesn't offer rate switches – which is correct. And, as I've said, it doesn't have to – and in allowing the loan to continue on the variable rate, it would be operating it in line with the terms and conditions.

However, Step One could replace the 2019 loan with a new loan at current rates – some of its current loans include fixed rates, so Mr and Mrs T could take a new loan with a new fixed rate to replace this one.

Step One initially told Mr and Mrs T they would have to take further borrowing to access a new loan. That wasn't correct; it's confirmed it has changed its policy since 2019 and further borrowing is no longer required to re-finance. While it corrected that when it dealt with their complaint, it's now agreed to pay them £300 compensation for the confusion caused. I think that's fair. If Mr and Mrs T want to ask Step One to consider re-financing their loan onto a new fixed rate loan, they'll be able to ask Step One about that now this complaint is over.

My final decision

My final decision is that Step One Finance Limited should pay Mr and Mrs T £300 compensation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs T and Mr T to accept or reject my decision before 7 January 2025.

Simon Pugh
Ombudsman