

The complaint

Ms B complains that UK Mortgage Lending Ltd, trading as Pepper Money, treated her poorly and didn't offer her appropriate support with her second charge mortgage (secured loan) when she was in financial difficulty.

What happened

Ms B and her husband took out a second charge loan with Optimum Credit Limited in 2018. The loan is now with Pepper Money. I understand Ms B and her husband are separated, and Mr B has moved out of the mortgaged property. Ms B has brought this complaint about the way Pepper Money has treated her.

In September 2021 a loan payment was missed, and Ms B told Pepper Money that she was struggling financially, having separated from her husband. She has found it difficult to maintain the payments to the loan since then, and a significant amount of arrears has built up.

In May 2024 Ms B made a complaint to Pepper Money. She felt that it hadn't done enough to support her and help her with the loan payments, it had caused unreasonable delays with her Support for Mortgage Interest (SMI) application, and it had added unreasonable fees and charges to the loan.

Pepper Money said it had tried to help Ms B, but the information she had provided about her income and expenditure indicated she could afford to make the loan payments. It also said it hadn't added any fees to the loan other than interest, and it had applied interest in line with the loan terms. It apologised for not dealing with Ms B's SMI application as quickly as it should have done, and offered her £75 compensation.

Ms B referred her complaint to the Financial Ombudsman Service. Our Investigator found that there had been some shortcomings in Pepper Money's communication with Ms B, and she recommended that it increase its offer of compensation to £200.

Pepper Money accepted the Investigator's recommendation but Ms B did not. She didn't think the offer of compensation was enough. She also provided copies of some of her emails with Pepper Money's field agent in 2022 and 2024.

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.

Pepper Money should treat borrowers who are experiencing financial difficulty fairly; that includes considering whether there are any appropriate forbearance measures it can offer. What is appropriate will depend on the borrower's particular circumstances. I've looked carefully at Pepper Money's communication with Ms B over the last few years and the history of the loan, as well as what Ms B has told us. Having done so, while I realise Ms B

will be disappointed, I've reached the same overall conclusion as the Investigator did about how this complaint should fairly be resolved.

Pepper Money agreed an arrangement to repay the loan arrears with Ms B in September 2021. It then wanted to understand Ms B's situation before seeing whether it could offer her further concessions, such as arrangements for reduced payments to be made. I think that was reasonable, and Pepper Money considered the income and expenditure information Ms B provided in January and November 2022. It also then explained to her why it wouldn't accept her payment proposals: its review of her income and expenditure indicated she could afford to pay much more towards the loan than she had offered.

I don't think that was an unreasonable conclusion for Pepper Money to have reached, based on the information Ms B gave to it. It appears that Ms B wanted to continue paying her unsecured creditors and take a payment holiday on the secured loan. I wouldn't expect Pepper Money to have accepted that proposal – a mortgage would generally be considered a priority debt since it's secured on the borrower's home.

Pepper Money's records show that it tried regularly to contact Ms B to discuss the growing arrears. Ms B told it and the field agent at various times that she would be starting new employment, taking in a lodger, and that she wanted to wait for the outcome of possession proceedings taken by the first charge mortgage lender before resuming payments to the second charge loan.

In the circumstances, I think it's difficult to see what more Pepper Money could have done to support Ms B. Forbearance measures are generally for the short term, to give the borrower time to consider their options and try to get their finances back on track. I consider that Pepper Money looked into short-term solutions based on Ms B's circumstances, and had good reasons not to agree reduced payment plans – which it explained to Ms B at the time. I also note that it hasn't added any fees to the loan other than interest, despite the loan arrears and field agent visits.

The loan interest rate has increased significantly since 2022. The interest rate is a variable rate of 3.8% above the lender's base rate (which is the same as Bank of England base rate). Base rate increases in recent years have therefore been reflected in the interest rate on Ms B's and her husband's loan. Pepper Money's records indicate that it gave notice of these changes, and I don't think I can fairly conclude that it has applied more interest to the loan than it was entitled to.

I think that Pepper Money did cause some delay, in not dealing as quickly as it should have done with Ms B's SMI application. It took just over a month to contact Ms B about her application in 2023. However, I don't think this means I can fairly require Pepper Money to refund any interest charged pending the approval of Ms B's application. Interest would have been charged in any event, and I would generally expect a successful SMI claim to be backdated if a claimant chooses. Pepper Money has apologised for its delay, and I share our Investigator's view that compensation of £200 is fair in recognition of the upset and inconvenience Ms B was caused at an already difficult time.

I recognise that Ms B is in a very difficult situation, and I encourage her to discuss her current circumstances with Pepper Money to see whether there is anything it can now do to support her with the loan and to discuss the next steps if the arrears continue.

My final decision

My final decision is that UK Mortgage Lending Ltd, trading as Pepper Money, should pay Ms B £200 compensation. I make no other order or award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms B to accept or reject my decision before 11 February 2025.

Janet Millington
Ombudsman