

The complaint

Mr and Mrs H complain that Paragon Finance PLC lent them a second charge secured loan that was unaffordable for them. They also complain that the interest rate charged has been unfairly high, and they don't believe it's fair how much they're still having to pay for this borrowing which they say has added to their financial difficulty.

Mr and Mrs H would like Paragon to write off the remaining balance of the loan.

What happened

In 2008 Mr and Mrs H successfully applied for a secured loan of £25,000 over a 20 year term after receiving advice from a broker. They were borrowing the money for debt consolidation and to pay for their wedding. The loan was taken on a variable interest rate of 13.13% that would track the Finance House Base Rate.

The loan was transferred to Paragon in 2013.

In 2020 Mr and Mrs H complained to Paragon about the interest it was charging on the loan. They also queried where all the funds went when the loan was drawn down. The complaint wasn't upheld, and Mr and Mrs H referred it to our service. We redirected Mr and Mrs H to the original lender, who they've been trying to complain to since. They've also complained that this loan should never have been lent to them as they are going to have to repay around £75,000 in total, and they say the cost of this loan has contributed to their financial difficulties.

One of our Investigators looked into things and explained that some parts of the complaint had been made outside of the time limits our service must apply. And so, we couldn't look at Mr and Mrs H's complaint about the initial decision to lend, or the interest rate charged before 2014. But he said that as Mr and Mrs H were complaining that the lender's actions had created an unfair relationship, and the relationship was still running, we could consider that part of the complaint. And Paragon was responsible for dealing with that part of the complaint as the current owner of the loan.

The Investigator reviewed the merits of the complaint, and whilst he empathised with Mr and Mrs H's circumstances, he didn't think an unfair relationship had been created by the lender and so didn't uphold the complaint.

Mr and Mrs H asked for the complaint to be referred to an Ombudsman, so the complaint has been passed to me.

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.

Mr and Mrs H have accepted our Investigator's opinion about which parts of their complaint we can consider. Paragon said it reserved the right to make further submissions on our

service's jurisdiction to consider this complaint if necessary. I note it hasn't done so within the relevant deadline.

Nevertheless, before determining the merits of any complaint I must first decide whether it falls within the jurisdiction of our service. Having done so, I agree with the Investigator that the only parts of Mr and Mrs H's complaint that our service has the power to consider are the complaint about the interest rate charged on the loan from April 2014 onwards, and the complaint that the lender's decision to lend this loan, and the interest rate charged throughout, has created an unfair relationship between Mr and Mrs H and Paragon that Paragon has failed to put right. I'm satisfied that as the current owner of the loan, Paragon is responsible for remedying any unfairness that has arisen over the course of this loan agreement that has resulted in an unfair relationship.

Having reviewed everything provided by the parties, I'm not persuaded an unfair relationship has arisen as a result of the previous lender agreeing to lend this loan, or the interest rate charged. And so I don't think Paragon needs to do anything to put things right. I'll explain why.

The lending

This loan was sold to Mr and Mrs H by a broker. At the time this loan was agreed in 2008, it was the broker's responsibility to ensure that Mr and Mrs H were aware of the details of the loan they were agreeing to, and that it was suitable for their needs at the time. So any concerns that Mr and Mrs H have raised about them not understanding the implications of what they were signing up for would need to be re-directed to the broker, and weren't the responsibility of the lender.

However, the lender did still need to ensure that it was lending responsibly based on the information it was provided at the time. I can see that as part of the underwriting process, the lender considered what Mr and Mrs H had told the broker about their circumstances, as well as their credit files, bank statements and payslips. Mr and Mrs H did have some adverse credit history at the time, but the lender was satisfied with the explanations and additional information given about that – which involved amounts being disputed by Mr and Mrs H with the relevant creditors at the time. Based on the information the lender was provided with, I don't think that was unreasonable.

When completing its affordability assessment, the lender used a conservative amount for Mr and Mrs H's income that had been evidenced by payslips and bank statements rather than just relying on the higher amounts that had been provided at application stage. And it also took account of Mr and Mrs H's existing credit commitments. The lender concluded that Mr and Mrs H could afford the loan based on the information it had available to it at the time, and I've not seen anything to suggest that was an unreasonable assessment. As a result, I'm not persuaded the lender's decision to lend this loan to Mr and Mrs H in 2008 has resulted in an unfair relationship.

The interest rate charged

Mr and Mrs H are unhappy that they were sold a loan with such a high interest rate. Again, it was the responsibility of the broker that sold the loan to ensure that Mr and Mrs H understood what they were signing up for, and that this loan, including the interest rate chargeable, was suitable for them at the time.

I've seen a signed copy of the credit agreement and I'm satisfied that made it clear that the interest rate was variable for the term of the loan, that it was 13.13% at the time the loan was agreed, and that it was linked to the Finance House Base Rate. Mr and Mrs H agreed to take

the loan on that basis.

Having reviewed the interest rate history of this loan, I'm satisfied Mr and Mrs H have been charged interest in line with the terms and conditions they agreed to when they took out the loan in 2008. The interest rate tracked Finance House Base Rate until that ceased to be published in 2019. After that, it tracked LIBOR and then Bank of England base rate from 2021 onwards. Paragon has also said it capped Mr and Mrs H's interest rate in 2022 when it reached 9.9% and it has not increased it since despite further increases to base rate.

Whilst I appreciate Mr and Mrs H feel they've been paying too much interest for this loan, I'm satisfied they've not been charged more than the contract allowed. Paragon has also decided not to pass on some of the recent base rate rises to Mr and Mrs H's interest rate despite it being contractually entitled to do so. I think Mr and Mrs H have been treated fairly and reasonably in all the circumstances.

I am sorry to hear that Mr and Mrs H have experienced financial difficulty over the years and I encourage them to discuss their circumstances with Paragon if they feel the loan payments are unaffordable for them at the moment. But whilst I appreciate it will come as a disappointment to Mr and Mrs H, I'm not satisfied Paragon has treated them unfairly in how it's charged interest on this loan, or that it's failed to remedy an unfair relationship created by the previous lender. As such, I don't uphold this complaint.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H and Mrs H to accept or reject my decision before 11 March 2025.

Kathryn Billings
Ombudsman