DRN-5399888

The complaint

Mr and Mrs K complain that Pepper (UK) Limited trading as Engage Credit:

1. Applied an interest rate that was too high.

2. Applied charges and additional interest that were unfair.

3. Declined their request for a new mortgage product

4. Concealed commission it paid and payment protection insurance (PPI) when they took out the mortgage.

5. Hasn't treated them fairly when they experienced financial difficulty.

What happened

In 2007 Mr and Mrs K took out a mortgage with Kensington. In 2022, Engage Credit took over ownership of the mortgage. I will refer to Engage Credit throughout this decision for ease.

I issued a decision setting out that we could consider all of the complaints Mr and Mrs K had brought to us – apart from complaint 1 in respect of events before 23 May 2022 and complaint 2 in respect of events before 7 May 2018.

The investigator did not think the complaint should be upheld. Mr and Mrs K did not accept what the investigator said.

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.

1. <u>Interest rate</u>

When Mr and Mrs K took out the mortgage they agreed to pay a fixed rate for 36 months followed by Kensington's variable rate (KVR) plus a margin of 1.05%. The terms and conditions said: "*We may change the Variable Rate at any time in our absolute discretion whenever we want…provided that the changed rate is never less than 1% or more than 3% above LIBOR Rate.*"

The interest rate that Mr and Mrs K agreed was KVR plus 1.05%. KVR could not be less than 1% below LIBOR or 3% above it.

LIBOR was phased out – and in 2021 Engage Credit used a replacement benchmark rate called Kensington Synthetic LIBOR Rate (KSLR). I am satisfied that KSLR is a reasonable replacement for LIBOR – Kensington said it was the same as the replacement rate the FCA created to replace LIBOR.

I've looked back slightly further than the investigator did to any changes in interest rate from 23 May 2022. It appears there was one additional increase in the interest rate July 2022 to 5.40%.

Looking at the changes that were made from 23 May 2022 to 1 September 2024, I am satisfied they were made fairly and in line with the terms and conditions of the mortgage, KVR has not been more than 3% above the KSLR during the time in question.

As far as I can see, Engage Credit is administering the interest rate in line with the terms and conditions that Mr and Mrs K agreed when they took out the mortgage. I appreciate the impact of the rate increase on Mr and Mrs K – but they reflect increases in interest rates across the market since 2022.

2. <u>Applied charges and additional interest that were unfair.</u>

I can consider charges and additional interest applied since 7 May 2018. I can't see that Mr and Mrs K have had any fees applied since then.

There is a small balance that is made up of fees and additional interest. Engage Credit said it was over £600 and mainly made up of additional interest on fees. There Is no evidence that the interest has not been applied correctly.

3. <u>Declined the request for a new mortgage product</u>

When Mr and Mrs K took out the mortgage they agreed to pay a fixed rate for three years followed by the variable rate as set out above. There was no contractual, legal or regulatory requirement for Engage Credit to offer them a new interest rate product. And I do not consider it acted unfairly by not offering Mr and Mrs K a new interest rate.

4. <u>Concealed commission and PPI when the mortgage was taken out</u>.

Mr and Mrs K's mortgage offer set out that the lender was paying commission of £1,771.88 to the mortgage broker, the packager and a packager alliance. Engage Credit has provided evidence of the amount in total to those parties.

I am satisfied that the lender disclosed all of the commission it was paying in respect of Mr and Mrs K's mortgage.

There is no evidence that the lender sold any PPI when the mortgage was taken. The application form said that was being arranged directly with Mr and Mrs K's broker.

5. F<u>inancial difficulty.</u>

Mr and Mrs K went into arrears in March 2020. But they have been persistently in arrears from around October 2021, after they told Engage Credit their circumstances had changed. Engage Credit was required to treat them fairly when they were in arrears. Usually that would involve obtaining details of their income and expenditure and exploring whether there were any options that could help get the mortgage back on track or were otherwise appropriate for their individual circumstances.

I can see that Engage Credit obtained details of Mr and Mrs K's income and expenditure. It is clear that their circumstances and income and expenditure has varied over the time in question. I am satisfied that Engage Credit fairly considered Mr and Mrs K's circumstances and offered appropriate concession when it could. For example, in March 2023 it agreed to switch the mortgage to interest only – and extended that by a month. At other times it declined a switch to interest only as the information Mr and Mrs K had given it did not support it was affordable. Engage Credit also agreed payment arrangements when appropriate.

Overall I am satisfied that Engage Credit has treated Mr and Mrs K fairly during the period I am considering. It has engaged with them and explored what it could do to help. Unfortunately, I can't see there were any other concessions that would have been appropriate for Mr and Mrs K's individual circumstances.

Mr and Mrs K should keep in touch with Engage Credit. Whether it can help or what it should reasonably do will depend on their current circumstances.

Lastly I note that Engage Credit paid Mr and Mrs K £75 for the service it gave. For completeness, I think that was a fair way to settle that complaint.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs K and Mr K to accept or reject my decision before 7 July 2025.

Ken Rose
Ombudsman